Jubilant FoodWorks Limited Q1 FY 2023 Earnings Conference Call Transcript

July 28, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Jubilant FoodWorks Limited Q1 FY23 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 know hand the conference over to Mr. Deepak Jajodia. Thank you, and over to you, Sir.

Deepak Jajodia: Thanks. Good evening, everyone. Welcome to Jubilant FoodWorks Q1 FY23 Earnings Call for Investor and Analyst. We are joined today by senior members of the Management Team – including our Chairman – Mr. Shyam S Bhartia; our Co-Chairman – Mr. Hari S Bhartia; our CFO – Mr. Ashish Goenka; and our Group CFO – Mr. Arvind Chokhany.

We will commence with key thoughts from Mr. Hari Bhartia. Mr. Ashish welcome will follow him with his perspective on the JFL progress on the quarter ended June 30th, 2022. After the opening remarks from the management, the forum will be open for the questions 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 statement. A detailed statement in this regard is available in Jubilant FoodWorks results release and earnings presentation.

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

Hari Bhartia: Thank you, Deepak. And good evening, everyone. Welcome to our earnings call. I'm very pleased with our start of the year, the strength of our omni channel model, network expansion and disciplined cost management has helped us in delivering strong results.

Since the onset of pandemic, this was the first quarter where our stores operated without restrictions. The delivery channel registered robust growth on a strong base of last year. The marked resurgence in retail footfall also helped us deliver strong sequential growth in the dine-in channel. We opened 58 new stores for Domino's India and entered 12 new cities, thereby enhancing our reach to 349 cities. This is the highest store opening in the first quarter of any fiscal year. It has also set us firmly on the path to open around 250 Domino's stores during the year.

As you are aware, global food prices reached a historical high in March, along with a spike in crude oil and other commodity prices. This affected our domestic market prices as well. Thanks to our constant focus on driving cost efficiencies and introducing relevant product innovation, even during instances of record-inflation, we were able to deliver profitable growth while maintaining our value-for-money quotient. Notably, the Every Day Value proposition's pricing has remained the same since its launch in FY’18. This in turn gives us the required headroom to take calibrated price increase in situations like these, as a last resort. It’s important to underline, that despite calibrated price increases, we remain the most-affordable pizza brand in the country.

During the quarter, we launched our loyalty program – Domino’s Cheesy Rewards – and addressed a key whitespace in our offering. We have come up with a very simple milestone-based construct which owns the customer a free pizza after every 6th eligible order. All customers can earn points toward free pizza no matter how they choose to order, whether it's online or offline, whether they order on our assets or via other online platforms. The redemption will however, be on our assets. We believe our loyalty program will become a significant driver of growth, new customer acquisition and retention for us while growing customer lifetime value over time.

Turning to our international operations, in Sri Lanka, the political and macro-economic environment remained challenging. Thanks to the resilience shown by our team members, our operations were uninterrupted and we delivered a strong quarter. We also opened one new store each in Sri Lanka and Bangladesh. In both the markets, Online ordering Contribution to Delivery sales has been growing steadily.

In conclusion, a series of strategic interventions we have made in the past and during the pandemic have left us better positioned than ever to capture profitable growth, increasing our confidence in the future while we navigate the short-term challenges.

With that, let me turn it over to Ashish to share a detailed overview of the quarter.

Ashish Goenka: Thank you, Mr. Bhartia. And good evening, everyone. Thank you for joining the call today. Our first quarter results marked a great start to the new fiscal year. The revenue for operations of Rs. 12,403 million increased 41.1% versus the prior year and a 7.1% sequential growth over the preceding quarter. The increase in revenue was driven by like-for-like growth of 28.3%.

In Domino's, all 3 channels performed well. Delivery channels, which had a strong base last year, registered robust growth. Dine-in owing to operational restrictions last year due to second wave of COVID is not a comparable base. However, we not only registered a strong year-on year-growth, but also a strong order led sequential growth as compared to the previous quarter. Both dine-in and takeaway combined registered a robust growth.

We delivered EBITDA of Rs. 3,045 million, an increase of 44.0% versus the prior year. Despite significant cost headwinds, the EBITDA margin at 24.6% expanded by 49 bps year-on-year. Profit After Tax and before exceptional items is Rs. 1,276 million. PAT margin (before exceptional items) at 10.3%. Considering the significant changes in economic environment of Sri Lanka, we have taken an impairment charge of Rs. 266 million in the quarter. Consequently, Profit After Tax is Rs. 1,010 million. It grew by 61.4%. PAT margin at 8.1%, increased by 102 bps.

We continue to grow our network with 62 new store additions in India. We added 58 new Domino stores and entered 12 new cities during the quarter. With this, we now have 1,625 Domino stores across 349 cities. We also added 2 new stores each for Popeyes and Hong’s Kitchen. We are also continuously thinking about ways to introduce customer centric innovation and means to deliver more value to a larger set of customers. We made 2 such interventions during the quarter.

Firstly, as mentioned by Mr. Bhartia, we launched our loyalty program, Domino's Cheesy Rewards. We launched this after extensive testing and we tested 2 models at scale. The winning model is a simple milestone-based model, wherein the customer gets the pizza after every 6 eligible orders, our endeavor to further enhance value quotients and rewards the loyalty of our customers will not only help drive frequency, but also attract new customers and retain them.

Secondly, we also stepped-up menu localization by bringing a super exciting fusion of paratha and pizza, crafted for discerning Indian taste buds. We are overwhelmed by the response this has received from consumers. The paratha-pizza has value offerings, act as a product platform like how we established pizza mania or garlic bread.

We continued our strong momentum in growing our installed base. The app installs for the quarter was at 8.2 million. We continue to be the highest rated app on both iOS and Playstore, thanks to series of enhancements being done by our digital team to make the customer experience seamless and intuitive. We opened 2 new stores each in Hong's Kitchen and Popeyes. As shared with you in the previous call, in Hong's Kitchen, we're now building greater awareness with ATL campaign. Customer satisfaction scores are improving consistently. In Popeyes, we are seeing healthy repeat rates across stores and high ratings on both dine-in and delivery experience. We remain on track to open 20 to 30 stores in the year.

Let me now share key updates from our international business:

Sri Lanka, as you know, is witnessing an economic and political crisis. We continue to navigate our business well in the wake of unprecedented challenges. We delivered system sales growth of 83%. The OLO contribution to delivery sales jumped from 51% a year back to 66% during the quarter. In Bangladesh, system sales grew by 49%. The OLO contribution to delivery sales improved from 68% a year back to 72% in this quarter. In both the markets, we opened 1 store each. Sri Lanka and Bangladesh now have 36 stores and 10 stores effectively.

In closing, we continue to grow profitably with disciplined adherence to our 5-pillar strategy. We will continue to navigate the current high inflationary environment by driving productivity and efficiency across the value chain. We will continue to drive network expansion with focus on Domino's and Popeye's, and we will continue to invest behind and build our digital strength.

With that, I would like to turn to the moderator to initiate the question-and-answer session.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Vivek Maheshwari from Jefferies. Please go ahead.

Vivek Maheshwari: Hi. Good evening, everyone. My first question is, you mentioned about a strong Y-o-Y sequential growth in dine-in. Are you back to the pre pandemic level in terms of dine-in mix given that this was the first quarter where everything was fine?

Ashish Goenka: I think dine-in remains a very important channel for us. And we are seeing sustained sequential improvement in dine-in revenues and mix quarter-on-quarter, including quarter 1. And we expect dine-in recovery to sustain. I think in terms of recovery pre-COVID, I think we are very close to 100% recovery. And we are seeing sustained month-on-month and quarter-on-quarter growth in dine-in channels led both by order growth as well as improvement in our overall ticket size.

Vivek Maheshwari: And this quarter, on the delivery side, there would also be a benefit of IPL, which was not there in the base, right?

Ashish Goenka: So, Vivek, of course, there has been some impact, but not a significant one is what I would say.

Vivek Maheshwari: And second, if I look at your overall revenues and just do a, let's say, a dumb math and look at a 3-year CAGR, your revenues have compounded at about 10% CAGR, your stores have also increased around the same level, and you have taken double-digit price hike. So, basically which shows that existing stores would have seen a reasonable drop in volumes. So, what is your comment on that analysis?

Ashish Goenka: So, Vivek, while we're seeing overall system growth we have also seen a very strong like-for-like growth, both year-on-year as well as sequentially quarter-on-quarter. So, while we continue to focus on driving our network and expand the network, there is a continuous focus on driving our like-for-like growth, and we have seen a very robust growth on a like-to-like basis, both order led and even BPO-led across our existing stores as well.

Vivek Maheshwari: And any price hikes that you have taken in this quarter?

Ashish Goenka: So, we had made a pricing intervention in the first week of April and thereafter, we have not done any pricing intervention.

Vivek Maheshwari: And second, on the loyalty bit, just a couple of things. One is that the benefit is available also on Swiggy and Zomato. So, is it just to get the fair share? Wouldn't you want to divert traffic onto your own assets and therefore, just keep it exclusive to your assets? What are your thoughts on that?

Ashish Goenka: So, Vivek, our fundamental premise of launching a loyalty program is to really drive frequency increase at one level and also attract new customers on to our brands, yes? So, we are making it as an omni channel program. It is irrespective of the point of entry or a point of order of the customer, they should be able to enjoy the benefits of the loyalty program. However, the burn, as we have said, can happen only on our own assets, which will also drive more traffic on to our own assets and therefore, not only helps us build the frequency, but also drives more traffic. So, twin benefits of the program is what we are looking at.

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

Tejas Shah: A couple of questions. Sir, first, as most of the food aggregators are now making a departure from cash burn path that they had, and they are looking for profitability, are we facing any pressure on higher take rates from them in our engagement? And I'll just connect another news item that came just a couple of weeks back that we are perhaps rethinking our engagement terms with some of the food aggregator apps. So, if you can just combine and answer.

Ashish Goenka: We have a very strong engagement with both Zomato and Swiggy and we have a very strong relationship that we have built over the years. They are a very important partner and channel for us. We have not seen any pressure or increase or change in the kind of commission or commercial that we have with these platforms. And on to your second question, I think this has been a part of our concerted stated strategy that we look at always promoting and improving our own assets and migrate traffic more and more onto our own assets, which gives us better control and better profitability. So, that strategy continues. I don't think there is any change in that.

Tejas Shah: And Sir, perhaps a bit early, but government has actually started this program or this initiative called ONDC, where they are trying to democratize the digital platform. And we have also a very robust digital asset for ourselves. So, any thoughts on joining the initiative from ourselves?

Ashish Goenka: Mr. Tejas, thanks for that question. I think they are still early days. We have had engagements with ONDC through NRAI. Right now, I think it will be a bit premature to comment on that, but we will continue to evaluate all opportunities. And ONDC is also something that we are actively looking at, and we would formulate a strategy around that as we go along.

Tejas Shah: And Sir, just last one if I may. Sir Hong's Kitchen and Ekdum! we had closure of somewhere around 6 restaurants this quarter versus new opening of 2 stores. And then this is the highest in the last many quarters. So, any insights if you can share.

Ashish Goenka: So, Tejas, as we have said, we are looking at driving our unit economics and focusing on fundamentals as far as these two brands are concerned, both Hong's and Ekdum!. Yes, we did close 3 stores this quarter. To just give you a background, we had experimented with a DELCO model, wherein we had housed all these 3 brands together, Dunkin', Hong's, and Ekdum! with the objective of driving back-end synergies, reducing cost and providing more options to our customers. We opened a handful of these stores as a set of proof of concept. Some of these stores have not worked. The revenue uptake on these has been lower than anticipated. And also, we realized that the DELCO format does not allow the customer to fully experience the brand and build brand salience. So, we closed 3 such stores, which resulted in overall 9 stores closure - 3 for each brand. And these were loss-making stores without any line of sight for a turnaround in the near future.

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

Abneesh Roy: My first question is on the loyalty program. So, is there a similar program in other markets for Domino's and why not look for everyday low price? And third is, will this impact your margins because clearly, it's almost 1 on 6, almost like 15% higher value you're giving. So, any comments on this?

Ashish Goenka: So, thanks, Abneesh, for your question. I think on the first one, yes, this is a global Domino's program. Of course, we have tested it extensively in India with a few alterations to suit it to the Indian customer requirements. As you would know that we have tested a couple of models, and this one was the winning model. In terms of it impacting margins, I would say that this is a part of our discount and we would retain our overall discount levels to where we were in the past. And the basic premise of this loyalty program is to not only bring new customer on to our platform, but also drive frequency. And I think if we are able to do that, then the program more than pays for itself. So, we see this as a margin accretive program and not really margin dilutive.

Abneesh Roy: So, 2 quick follow-ups on that. One is, as you said, this is also a global program, but is it being implemented right now? So, my question is on timing because after so many years, why now? And second is, you also mentioned you are also targeting new customers through this. Now Domino's obviously has a dominant market share very well penetrated. So, are you mentioning new customers or same customers, more opportunity?

Ashish Goenka: So, let me answer both of your questions, Abneesh. I think on the first one, I think this is currently active even in the U.S. market. It's a program that they've been running for a few years, and it's a very successful program. Program is also running in Australia and a few other Domino's markets. So, yes, it is a global program**.** As you would be aware that we have been actually working on our loyalty program for quite some time. We have done extensive testing for the last few months, and we had tested 2 programs at scale. One was a cash-back-based model, which offered instant gratification and another one was a milestone-based model where the customer earns a free pizza over a period of time. Of course, the milestone-based concept has done better. And as you know, we have now rolled it out nationally. So, what we have seen during the trial phase and even post the national launch that not only it helps us drive frequency but because of the attractiveness of the program, we also see a lot of new customers who come into the category. And while we have a dominant share of the pizza market, we believe that we have only touched the tip of the iceberg. I think in terms of the category, there's a huge room for expansion and growth. So, we would want to continue to acquire a new customer and expand the category. So, I think that's going to be an ongoing journey whilst we would want new customers to come on to the category, at the same time, drive frequency of existing customers.

Abneesh Roy: Sure, that's helpful. My second question is on SSG. So, when I compare your SSG on a 3-year basis versus Westlife there is a big gap. They have grown much faster. If I see quarter-on-quarter overall revenues also, they have grown 18% while you have grown 7%. So, is this largely because they would have a much higher indexation for in-store dining while you will have much higher delivery? Is that the main reason? Is there any other promotional intensity, which is helping them?

Ashish Goenka: So, Abneesh, while we would not like to comment on competitor, I think the hypothesis that I have is that, of course, they are much more dine-in-centric business, and therefore, they would have seen a far better recovery. Also, in terms of base, I think we had recovered much faster during COVID as compared to any of our competition. So, when you look at growth over a base, I don't think they are strictly comparable.

Abneesh Roy: And one last quick question. Sri Lanka extremely challenging time for every company. So, you have taken the impairment. So, in terms of expansion, next 1 year, 2 years, are you putting it on a standstill? And how are you managing the supply chain, inflation, the depreciation, currency, all those?

Ashish Goenka: So, thanks, Abneesh for that question. I think we are facing a severe environmental challenges in Sri Lanka. And as you rightly said, we are seeing high inflation. We have seen currency depreciation. We have seen import restrictions. But however, I think despite all of that, our local teams have done an outstanding job of ensuring business continuity. And we have seen a very strong operational performance in the country. In fact, we have seen a large order-led growth despite raging inflation in the country, which gives us a lot of confidence that the long-term prospects of the Sri Lankan economy remains intact. So, at this stage, we are not making any change to our plan, even in terms of store opening. Despite the challenges in the quarter, we did open 1 store and have taken up our network count to now 36 stores.

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

Percy Panthaki: First question is on our diversification. About a year, 1.5 years, 2 years ago, I think the entire story was, not entire sorry, I mean one more angle to the entire Jubilant investment thesis was that basically, it's largely pizza or cuisine company right now. And over a period of time, it will diversify it as Chinese, it has Indian food now with Ekdum! and Popeyes, etc, Dunkin' also was there at some point of time. But the fact is now, I mean, we've tried all these formats we've been in there for about 2 - 3 years. The ramp-up is very, very slow. And it seems that there is no confidence on having got the unit economics correct, and therefore, the scale-up has been slow. So, then what happens to this entire story of having a diversified sort of food tech company. Now entire hopes are on Popeyes apart from Domino's. The other 3 formats, really, I don't know what kind of scale up you yourself are sort of factoring in over the next 3 years or so. So, what really went wrong? I mean, we are the leaders in the entire QSR space. Why is it that we have not been able to diversify effectively enough?

Ashish Goenka: Percy thanks for the question. I think we remain committed to build a multi-country, multi brand food tech powerhouse. And I don't think there is any change in our intent or strategy as of now. So, as we have said in the past, we continue to remain focused on building and creating a brand portfolio, which we are able to scale profitably. As you would know and let me talk about each one of these brands. On Hong's Kitchen, we have now 14 stores across NCR and which by no means is a small network. And we have been focusing on driving awareness, improving the overall mix in terms of our store design, menu, pricing, and I think we have done a fairly good job over the last 2-2.5 years of which almost 2 years went into COVID. Having said that, I think we are fairly confident that we'll be able to fine-tune the model in the next few quarters before we look to scale up. I see scaling up for our size and our capability, I think, is easier. I think one thing which we have remained consistent over the years is our ability to drive scale along with profitability because I think it's easier to drive scale, but it's difficult to do it in a manner which is profitable and therefore, create value for the shareholders.

Coming to Ekdum! I think again there is a lot of focus on working on fundamentals and driving the unit economics. On Dunkin', we are looking at pivoting to a coffee first strategy. I think we've made a lot of progress in that strategy. We have opened a few stores now, which are with coffee cues. We have completely rejigged the portfolio in terms of giving the coffee cues. We have launched a range of new coffees into the portfolio. We've also changed our food offering, which is now more attuned to ready-to-eat and ready-to-serve in line with the coffee philosophy. I think Dunkin' is well on its path to becoming a coffee-first brand. And once we are confident that the model is working, we will, of course, look to scale up.

Popeyes presents a huge opportunity, and we've talked about it in the past. Fried chicken is a very large category in India, almost a huge white space given that there's only one entrenched player there. We have started well in Bengaluru. We have added 2 more stores this quarter, taking our total store network to 6. And we have got very good customer feedback, both in terms of the product space, experience and we are getting very healthy levels of repeat. And as I said, we remain committed to opening 20- 30 stores this quarter. So, I think it's also about focus. So, we'll continue to focus on building and growing the store network for Domino's and Popeyes this year, while we focus on building unit economics for the other brands before we look to really scale up.

So, to summarize, I think the story remains intact, and we are not giving up on any of these brands.

Percy Panthaki: My second question is on this loyalty program since it is there in some shape or form in other countries and using their sort of experience as a starting point, what kind of sort of delta to the LFL growth, do you think the loyalty scheme can give? So, if I look at your LFL growth for this quarter, on a 3-year CAGR basis, it is somewhere in the region of about 3%. I think any QSR company, even a mature QSR company in stable state, should be having at least a 6% to 7% LFL growth, otherwise, store economics deteriorates over a period of time. So, to get from that 3% to about 6% or 7%, do you think that this loyalty scheme can sort of give that extra 300 basis points delta?

Ashish Goenka: So, Percy, while it would be difficult to put a number, I think our endeavor has been to drive LFL through a number of interventions, loyalty being one of them. So, we believe that it will drive customer stickiness, improve overall frequency, and help us generate more life cycle value of the customer. But that is not the only intervention that we are doing in terms of driving our overall LFL. I think there is a constant focus on improving product service and our service levels, and that's why there is a lot of focus on 'Tees Se Bees' program that we have talked about in the past. And we have said that now more than 70% of our pizzas get delivered in less than 20 minutes. We are also focusing on driving product innovation. We did chicken overload a couple of quarters back. We did Paratha Pizza in the last quarter where we have seen a significantly higher level of interest. There is also a lot of focus on driving and improving our customer experience on our digital assets. There's been a lot of investment that we are making behind that to make the customer experience more intuitive and frictionless, and we are also taking a lot of dine-in-specific interventions as we look at leveraging on the dine-in growth. So, I think all of this put together would drive our LFL growth. And of course, loyalty would play an important growth in that entire mix.

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

Chirag: On the multi-brand, multi-country growth approach, can you talk a little bit around how would you incrementally think of allocating capital with a 2-3 year view? And how will the Capex split between Domino's, other brands, international geographies will look like? And as an organization, do we think that we can generate similar or better ROCE's on incremental investments versus what we are generating today?

Ashish Goenka: So, thanks for that question, Chirag. I think we have a very clearly articulated strategy for growth. Our first and foremost pillar for growth is to build dominant Domino. Then we are talking about creating a portfolio of brands, grow our international footprint and continue to invest in building digital and data capabilities. So, I think our investment in capital allocation follows the same philosophy and principles, which are in line with our strategic pillars. We have a very strong balance sheet. We have adequate cash and we have zero debt on our balance sheet. So, we believe that by being very calibrated and by being very disciplined, we would continue to generate very high returns for our shareholders and stakeholders.

Chirag: Just continuing on that point. If you look at Bangladesh today, I mean, the number of stores that we have, even for the size of Bangladesh market, it looks like we are going for very calibrated expansion. So, is there a scope to at least increase the expansion and the network base in Bangladesh because after a few years of operation, it still remains very low?

Ashish Goenka: So, Chirag, I think your observation is very relevant. I think that is why one of the steps that we took in the last quarter was to increase our stake in our Bangladesh subsidiary to 100%, and that was done precisely with the intent of accelerating our store or expansion in Bangladesh. We believe now that we are building the capability to scale up much faster in the future. Also I think because of COVID in the last 2 years, there was some dent in the level at which we would have wanted to grow, and there were some operational challenges. But as I said, now that we have 100% stake, and we're also enhancing the level of management quality and building capabilities in Bangladesh, which will allow us to grow at a much faster pace.

Chirag: And just coming back on the loyalty program part, clearly, very simple thought-out strategy from a perspective of deriving long-term gains. But I'm not sure about your comment on the impact of margins in the near term, right? Because while the view is that we'll be replacing other discounts, when you see there will be no impact on margins, are you talking about percentage margins or the fact that higher frequency would drive more profitability? And also when we speak about replacing other discounts, are we talking about and reducing or scaling down the EDV program because that has been a key driver of our consumer recruitment in the past?

Ashish Goenka: Chirag, I think if I were to take a step back, I think we have also become a lot more focused in our discount strategy. Our A&I team has done an excellent job of creating a discount affinity model, which allows us to bucket consumer under various cohorts, which are high discount seeking versus low discount seeking. So, I think over a period of time, anyways, we have been able to drive a lot of return and efficiency from our overall discount spend. We believe that even after launching this loyalty with the level of discounting and earn through burn that we are anticipating, we'll be able to maintain our current discount levels without impacting our near-term or long-term operating margins. And of course, in the longer term, if the loyalty program does turn out to be as successful as we are wanting it to be, then we would see significantly improved frequency, and it should be margin accretive.

Chirag: Just 1 last question, if I may, on Hong's kitchen. You mentioned that a lot of the stores closed down were on the DELCO model. But outside of the DELCO model, do you think that the unit economics now on Hong's Kitchen is falling in place?

Ashish Goenka: So, the short answer to that question Chirag is yes. I think the progress that we have made in some of the other stores is very encouraging. A few of our stores have already turned profitable at unit store level. We've also opened a new store in Noida in Skymark, if you get a chance to you must visit, which is a full-scale model, which is a new store design and I think it's doing exceedingly well as the customers are able to experience the brand in totality.

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

Jaykumar Doshi: Now when I look back at the past 15 years for Domino's, FY '08 to FY '2013 was the phase where revenue growth was tracking significantly ahead of store growth. And FY '14 to '17 was a soft patch where revenue growth was lagging store growth. And then again, we saw revenue growth ahead of store growth. Now when I look at this quarter and compare it versus 1Q FY '20, revenue growth and store growth are broadly comparable even as price increases plus the introduction of delivery fees, overall, the combined price increase is significant. So, how should we think about the next 3 years? You are adding 250 stores this year and you may be adding a similar number over the next 1 or 2 years. Is there any chance that revenue growth may fall behind store growth?

Ashish Goenka: Jay, I think as we've always stated that while we continue to drive store growth, we remain incessantly focused on also driving the same-store growth because I think that's the mainstay of our overall effort in the organization. And as I was just mentioning, I think there are a number of steps that we continue to take to drive our LFL growth be it improving our service levels, our operating KPIs, be it introducing consumer-relevant innovations like Paratha Pizza or dine-in-specific interventions that we are making and even the launch of the loyalty program, and along with that, of course, continuous improvements on our digital platform. So, I think the combination of all of this will help us deliver more balanced growth, where it comes through a combination of driving the same-store growth as well as store led growth. So, that's the way we have constructed our growth hypothesis for going forward.

Jaykumar Doshi: Just a follow-up question there. Now when I think about the innovations, new product launches over the past few years, it's largely been within the pizza category. So, do such new product launches actually over time, help in terms of incremental value or it kind of replaces some of the older products? And if that is the case, are you exploring or considering expanding the product portfolio outside of Pizzas to be able to drive higher revenue throughput for some of the stores that may have saturated in terms of revenue throughput?

Ashish Goenka: So, Jay, I think innovation helps us do 2 things primarily. I think A, it helps us give a wider range and therefore, improved consumption for existing customers. And secondly, it also helps us recruit new customers into the category as it gets more exciting. What we have noticed is that more than cannibalization, it leads to incremental growth. And when we evaluate innovations internally, we also do it from a lens of incrementality. So, some of the innovations, as you said, have been brought in the core pizza category, whether it is Cheesilicious or Chicken Overload, but also, we have been innovating in the adjacent space. For example, we had recently launched the Red Velvet Lava Cake. And there are a number of sides where we keep innovating. Even we introduced a range of Garlic Bread, which was a stuffed Garlic Bread from Chicken to Paneer Tikka. So, I think that our innovation program looks at the 360-degree of the entire palate in terms of where there is a gap and where we should be innovating. We are also looking at a number of regional mixes. And therefore there is a continuous funnel, which is getting made, and we have line of sight and visibility to at least the next 3 - 4 quarters of the innovation that we will be rolling out.

Jaykumar Doshi: Any comments you can give on when do you intend to go ahead with national roll out of Hong's Kitchen, we were earlier expecting it to happen sometime during the course of this financial year. Is it still on track?

Ashish Goenka: As we mentioned last quarter also, Jay and I can just restate that we said we will take a pause for the next 2 - 3 quarters. I think at this stage, we remain fairly confident that we should be able to expand Hong's beyond NCR as we get into the next fiscal.

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

Vishal Gutka: Just one question on food services business. So, our deck suggested that we have started supplying buns, cookies through the HoReCa channel. Just wanted to know why you started this line of business. And any comments if you can give on the margin prospects and long-term aspiration for this business?

Ashish Goenka: See, we have a large capability that we have built at the commissary. We have a national footprint of commissary. So, the idea is to how we can leverage that strength that we have built in our commissary and the expertise that we have in manufacturing and food to create a business which could be scalable and profitable. But I think as of now, it's more at a pilot stage, and we will see how it pans out.

Vishal Gutka: And then on Dunkin' Donut front, I just saw some of the pics in the Skymark building, Noida, where I think you have opened a very large format store where interiors seems to be quite good. So, are you trying to go online or do a Starbucks because in the initial comment, you alluded that coffee is going to be the focus. So, in that case, will it require a change of name as well to what do you call it, as of now the name of Dunkin' Donuts for the brand?

Ashish Goenka: So, thanks, Vishal. But I think we're not calling it Dunkin' Donuts, we're just calling it Dunkin' and this is in line with the overall global strategy of Dunkin' where it's actually a coffee-first brand, and that's what we are trying to build now. And we have done a number of things to make it a coffee-first brand in terms of changing the beans, bringing in the new store design, bringing in new coffee machines, and making the food compatible with coffee. So, as I said earlier, I think we are very excited with this new pivot that we are doing for Dunkin'. And we really hope that this will really work and redefine Dunkin' for us and for India.

Vishal Gutka: And Sir, last question on the like-for-like growth. So, any comments on what do you call Metro Tier-1 vs Tier-2 ,Tier -3,Tier-4 cities, all it is broad-based, so it is coming from all across.

Ashish Goenka: So, we have seen growth across all town Tiers, Vishal. Of course, we have seen slightly higher growth in Tier-2, Tier-3, and Tier-4 towns versus Tier-1. But by and large, the growth has been fairly broad-based.

Moderator: The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: My question was trying to get a little more color on the delivery growth. What kind of delivery growth have you seen? Have you seen volume growth within your delivery business sequentially? That was my first question.

Ashish Goenka: So, thanks, Latika, and thanks for the question. So, as we had explained earlier in this call, we are seeing a very strong sequential dine-in recovery. But the good news is that we've also seen a very robust delivery growth and the delivery growth is largely order-led growth, and we have seen the delivery growing both sequentially and year-on-year.

Latika Chopra: But your order growth could be different from volume growth, right? Because what I mean by volume growth is your number of units that you're selling, your number of units per order could be affected. So, in that context, are you seeing a growth even in number of units? Because given the kind of price increases we have seen and the sharp recovery in dine-in, I'm just trying to understand volume numbers for delivery are holding out or they're growing or what's really happening there?

Ashish Goenka: So, Latika, you’re right, I think we did make a pricing intervention one in December earlier and then earlier this year in April. Our pricing has landed fairly well. Given the highly inflationary environment, we have seen consumers make some choices by reducing quantity per order marginally, but at an overall level, we have seen both order growth and also growth in our ticket sizes sequentially.

Latika Chopra: Alright. And my second question was in the previous call, there was lot of confidence shared on the fact that margins for the company will be maintained around 25% levels despite the stepped-up store expansion and investments in Popeyes. Is this something you still standby? Or you’re looking at the life-for-like growth levels and the inflation outlook and your sustained expansions. Do you see this margin outlook differently?

Ashish Goenka: So, Latika, I think our margin outlook remains unchanged. As we have mentioned in the past, we continue to maintain that we will deliver a healthy level of margins. Of course, this quarter, as you know, was at a very heightened level of inflation. And despite that, we have been able to deliver a very healthy margin of 24.6% growth in there. And this was delivered on the back of the price increase that we took, but more importantly, the productivity that we drove throughout the entire value chain and some of the operating leverage. So, I think some of these enablers would continue to fire, and we are confident that we should be able to maintain or deliver current levels of profitability as we go ahead.

Moderator: The next question is from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

Sheela Rathi: My first question was with respect to the dine-in recovery. I would like to understand how is the dine-in recovery as compared to the third quarter of FY '20. So, have we recovered on an absolute basis, which is comparable to that particular quarter? Or how far away we are from that unit?

Ashish Goenka: So, as I said earlier, I think we've seen a very strong recovery in dine-in. And I think we are very close to the pre-COVID level now. I wouldn't say that we have fully recovered, but I think we're very, very close now. And we are seeing sequential and month-on-month improvement in dine-in and dine-in has come back very strongly. As you've seen, the overall fears of COVID subsided. So, to again I can summarize, we have seen very strong recovery in dine-in and we are now very close to the pre-COVID levels.

Sheela Rathi: My second question is with respect to the recent announcement which came through on the 40% acquisition of Roadcast. Just wanted to understand how does that fit into your current ecosystem? I understand they provide some last-mile delivery operations, but I just wanted to get some granularity there.

Ashish Goenka: So, thanks, Sheela. So, I think our investment in Roadcast reflects our intent of making strategic investments in promising start ups, something that we have been doing since last year. Roadcast offers a SaaS-based platform for management of last mile delivery options. I think it provides end-to-end delivery management solutions to monitor and manage vehicles as well as fleet staff in real-time. And we see a number of areas of driving collaboration and synergies with Roadcast. And I think this would be a long-term strategic tie-up and an investment for us, and it should play out well in the long term.

Sheela Rathi: Just to understand this clearly, we are already doing this, right? With respect to monitoring the fleet on an ongoing basis on a live basis. So, this is an additional element to what you are already doing. As I understand Roadcast offers live monitoring of the fleet which you already have. Or is this something different from what you are already doing?

Ashish Goenka: So, Sheela, the company offers 2 kinds of solutions. So, one is, of course, delivery fleet management and the other is live vehicle tracking. So, of course, we were currently also leveraging on third-party platform as far as driver tracking is concerned. This is not something which we had built in now, and that's why we see a very high level of synergies with Roadcast because it also helps us accelerate our tech road map as far as driver tracking and e-Tech is concerned.

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

Avi Mehta: Just 2 questions. First, I just want to clarify that 6 closures on Hong's and Ekdum! are nothing but 3 stores counted doubly. Is that understanding correct? I want to just clarify that?

Ashish Goenka: That understanding is correct because these were store formats where we had housed all these three brands together, which is Dunkin', Hong's Kitchen and Ekdum!. And therefore, we have closed 3 such stores, which needs to 9 overall closure in terms of stores because one for each brand.

Avi Mehta: And Sir, the second clarification I just wanted to have was on the margin commentary. Did you maintain the guidance on EBITDA margin, which shows FY '23 margins will be similar to FY '22 or flattish to FY '22 you said last time. That is what you're maintaining, right Sir?

Ashish Goenka: I said that we'll continue to maintain it at a healthy level. Of course, it's very difficult to give out a particular number. But I think we are in the broad ballpark of 25% now, and we would want to remain at that level.

Moderator: Ladies and gentlemen, we will take the last question from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Sir, question was to understand the same store growth going ahead with Domino's being a clear leader in terms of penetration, it becomes easy for peers to open store near Domino's stores. So, do you see this impacting your expansion plans as well as filling of portfolio gaps by peers sort of remain aggressive?

Ashish Goenka: Devanshu, thanks for the question, first of all. I think we have a very clear road map in terms of network expansion. One, of course, is entering new cities. This quarter also we have entered 12 new cities, and we are now present in 349 cities. There are close to 170 plus cities where we are the only QSR. That will remain a very important vector of growth for us where we'll continue to look at entering new cities and new towns. Second vector of growth, of course, is entering white spaces in existing towns. So, 40% of the stores that we have opened in the recent past have been in white spaces in an existing towns, as we have seen the town boundaries increasing and also there are areas which we were not serving earlier. And third, of course, is our fortressing strategy, when we continue to split stores and as we've explained in the past, they do really well and pay back in the same or lesser period. So, I think a combination of all these three would be driving our network expansion strategy. And of course, we have built a lot of science and data in terms of identifying where we should be opening for and if competition comes near us, we'll welcome. We're always welcome. We are always ready to meet them eye to eye.

Devanshu Bansal: And secondly, I wanted to understand, is pricing going to be a key driver for SSG going ahead? Or you remain confident of volume growth driving the SSG given the introduction of loyalty program as well as new innovations that we have?

Ashish Goenka: So, Devanshu, I think inflation, while it remains high, we have seen some moderation and stabilization in quarter 1. So, as we stand today, we currently do not see a need for another round of price increases. We are well positioned, and we should be able to manage with the current level of pricing. Of course, we'll continue to look at pockets of opportunities without compromising on our value for money for propositions.

Devanshu Bansal: And lastly, in Sri Lanka, we saw strong growth despite challenging macros. So, I wanted to understand more on the reason behind the recognition of this impairment charge as our long-term outlook for this economy also remains unclear?

Ashish Goenka: So, Devanshu, the impairment charge is more accounting-led and this is an impairment of some of the historical investments that we have done, largely on account of a depreciating currency and steep increase in the interest rates in the economy. So, this is a non-cash charge. But as we said, we remain very positive on the overall outlook of the economy. And our plans in Sri Lanka have not really changed because of what we have seen because we are seeing a very strong operating performance in the country.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Ashish Goenka: Thank you, everyone, for joining us today evening. We request you to reach out to our IR team if there are any further queries. Wish you all the very best. Thanks a lot.

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