

JFL/NSE-BSE/2023-24/82

October 31, 2023

BSE Ltd.
P.J. Towers, Dalal Street
Mumbai - 400001

National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra(E), Mumbai - 400051

Scrip Code: 533155

Symbol: JUBLFOOD

Sub: - Transcript of Earnings Conference Call

Ref:- Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations")

Dear Sir/ Madam,

Pursuant to Regulation 30(6) read with Part A of Schedule III of the Listing Regulations, please find enclosed herewith the Transcript of Earnings Conference Call for Analysts and Investors held on October 25, 2023, with respect to the financial performance of the Company for Q2 and H1 FY24, which is also being disseminated on the Company's website at <https://www.jubilantfoodworks.com/investors-financial-information>

This is for your information and records.

Thanking you,
For **Jubilant FoodWorks Limited**

Mona Aggarwal
Company Secretary and Compliance Officer
Investor E-mail id: investor@jublfood.com

Encl:A/a

A Jubilant Bhartia Company

Jubilant FoodWorks Limited
Corporate Office:
15th Floor, Tower-E, Skymark One,
Plot No: H-10/A, Sector-98,
Noida -201301, U.P, India
TEL: +91 120 6927500
TEL: +91 120 6935400

Registered Office:
Plot No. 1A Sector 16-A
Noida - 201 301, U.P., India
TEL: +91 120 6927500
TEL: +91 120 6935400
CIN No. : L74899UP1995PLC043677
Email : contact@jublfood.com



Q2 FY24 and H1 FY24 Earnings Conference Call Transcript

October 25, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the Jubilant FoodWorks Limited Q2 FY '24 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Deepak Jajodia, thank you, and over to you, sir.

Deepak Jajodia: Good evening, everyone, and welcome to Jubilant FoodWorks Q2FY24 and H1 FY24 Earnings Call for Investors and Analysts. 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 CEO & MD, Mr. Sameer Khetarpal; and our CFO, Mr. Ashish Goenka.

We will commence with key thoughts from Mr. Hari Bhartia. We will then turn to our CEO to share his perspective. After the prepared remarks from the management, the forum will be open for the question-and-answer session.

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 earning documents. We will share the replay of the call 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, Deepak, and good evening, everyone. Welcome to our earnings call.

The strategic direction we have taken in the current environment can be well summarize into three broad points:

Firstly, we continue to pursue order-led growth and have also further bolstered our value offerings

Secondly, we continue to improve our systems and processes to ensure that we emerge stronger in our operations as we grow our store numbers

Thirdly, we take a long-term view and continue to make investments for our future growth

We are happy to share that we are progressing well on all these three fronts.

In addition to the order-led growth for the past few quarters, we have now also arrested the yoy decline in average ticket size. The ticket size has started to grow sequentially for last two quarters.

The response to our loyalty program continues to delight us. 19.5 million customers have enrolled on Domino's Cheesy Rewards, and their order contribution in September was 50.1%.

As you may recall, we became the first QSR Company in India to launch regional menu innovation last year, starting with a dedicated East Range during the Durga Puja festival in West Bengal. This year again, Domino's introduced Kashundi Mutton and Prawns, thereby adapting to the local preference and this was again launched during Durga Puja festival.

We are continuously looking at improvements in the existing systems, processes and way of doing things. As a result, several structural interventions are being effected even within Domino's. This will transform us into an even more agile organization as we move ahead to realize our medium-term potential of more than 3,000 stores.

As shared with you earlier, we will continue to make the required long-term investments. We have started the work on the Mumbai commissary. However, after Greater Noida and Bengaluru, this will be the third mega commissary and the subsequent commissaries will be of a much lower CAPEX.

With that, I request Sameer to share the key performance highlights and progress on our initiatives.

Sameer Khetarpal: Thank you, Mr. Bhartia, and good evening, everyone. A warm welcome to our investor call today. My greetings to you and your family for the lovely festive season ahead.

I have organized my remarks to share with you four key messages from my end where I will talk about Revenue and Channel update, Network Growth, Investments to be future-ready and lastly on margins.

1. By now you would have analyzed our results. It was a soft quarter. However, given the current operating environment, and when viewed in context of our strategic response, we see a multitude of green shoots:

The top line growth at 4.5% was softer than what we internally planned. But, the encouraging part is that we were able to limit any further decline in LFL growth for Domino's which came in at -1.3%. Notably, Average Daily Sales of mature stores registered sequential growth for second consecutive quarter as it grew by 1.4% qoq. We remain focused on executing our strategy on excelling on delivery - the channel delivered positive LFL growth - providing convenience in the dine-in channel, growing the app user base and investing in teams and culture.

We are on track to achieve the target to re-image 100+ stores by end of FY24. I am happy to share with you that we have also launched our new flagship store format - ACE 2.0 - with the first inaugural store in Sector 29, Gurgaon. Similarly, we will continue to invent new formats which increase our penetration, presence and experience like we did with a container store at IIT Bombay.

2. Let me now turn towards network growth updates. We re-looked at our new store opening processes and further fortified our NSO processes by embedding even more data streams to arrive at new store locations.

For instance, we have started utilizing Out of Delivery Area pings from customers who log on to our app but are unable to identify a store nearby. This along with a series of other improvements are leading to tighter new store opening process leading to higher Week 1 and Month 1 sales than new stores opened in the prior period or when compared to stores opened two years ago.

We have opened 73 stores in Domino's in H1 and are well on track to meet our guidance of 200+ new Domino's stores in FY'24.

In Popeyes, we opened 9 stores and have entered four new cities in H1. We are on track to open 30 new Popeyes stores as guided in the current financial year. The customers are enjoying the bold cajun flavors of Popeyes and we continue to remain humbled and encouraged by the response that we are getting.

In Hong's Kitchen, all metrics continue to report an encouraging progress and are ahead of our internal targets. We have opened six new restaurants in H1

and now have a network of 18 stores across three cities.

In Dunkin', 11 out of 21 restaurants are now as per the coffee-first format.

3. Domino's is known for its strong execution and delivery experience

With nearly 1,900 stores in Domino's, the existing four regions in India were managing a very large portfolio of Domino's stores with ever growing complexity which comes with network densification.

To meet our medium-term ambition of 3,000 Domino's stores and the runway beyond, we have made adjustments to Domino's regional management structure for even sharper on-ground execution and to become even more agile as an organization. We have now invested behind three new regions to transition to a seven-region structure in Domino's. This incremental investment in the new structure will go a long way in further bolstering our key competitive advantage of best-in-class operational prowess.

The launch of custom-built dedicated app for store managers to manage their stores - This is a big thrust towards digitizing the operations which in turn is also one of the four pillars of being a data and technology forward organization. This app empowers the operations team and help everyone benefit from deeper penetration of data and technology across all layers.

The second leg of investments, as you are aware, is on building large commissaries which will help us service ever growing network in the future and drive long term growth with industry leading margins.

We recently held the ground breaking ceremony for a new state-of-the-art commissary in Mumbai.

4. Lastly, we are aware of our responsibility to manage the short-term well while not depriving the business from making timely investments for lasting long-term benefits.

While as we discussed, a number of efforts are underway to improve the organic LFL growth and in the near term we will gain on margins from the operating leverage; through Project Vijay, we are deploying multiple levers to re-look at our existing cost structures, systems and processes. This paves way for continuous improvement and innovation while yielding benefits on margins.

As you aware, we have got very good traction in our Gross Margins without effecting any price hike and were able to more than offset the impact of high inflation in vegetable.

We made a conscious choice to invest incremental operating margins this quarter in a number of areas which will improve the overall health of business in times to come. Investing in new regions, hiring more front-line team members, investing behind improving dine-in experience, continued investments in technology to improve not only consumer facing but also back of the house processes are some of the areas of investments which will put help us achieve sustained long-term growth while delivering industry leading margins.

With that, let me turn to the moderator to initiate the question-and-answer session.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Nihal Mahesh Jham from Nuvama. Please go ahead.

Nihal Mahesh Jham: Sir, 3 questions from my side. First is on the gross margin bit. You did allude to it and while it is a small improvement versus last quarter where we are seeing a contraction and it's not that any of the raw materials have seen any deflation, what are the initiatives which in a way have reversed the trend of gross margins despite the raw material inflation being elevated?

Sameer Khetarpal: I did allude to Project Vijay and while the inflationary trend continues to be elevated, we have looked at various internal efficiencies across all line items. To give a few examples, 1) We are using data and technology to sharpen our discounts, therefore leading to a better realization for the same product. 2) Again, we are using data and technology to sharpshoot our offers to improve penetration of combos which has led to an increase in average ticket size like Mr. Bhartia alluded quarter-on-quarter for 2 quarters. 3) We have looked at all commodities and all materials and found ways of better buying and also local sourcing under our sustainability agenda. For example, corn we are now sourcing locally; we were earlier importing. Without affecting any change in pricing or increase in pricing, we have looked at internal efficiency and use of data technology to improve ticket size and localize to improve gross margins.

Nihal Mahesh Jham: Any targets you all are keeping to improve either of the gross or EBITDA margin by a certain percentage under this initiative?

Sameer Khetarpal: I think I had shared this in my last earnings call that we believe the right place is to be anywhere 150 to 200 basis points higher than our current levels of EBITDA. We have held onto EBITDA levels this quarter versus last quarter; and last quarter, we improved by nearly 100 basis points. This quarter we did invest in the frontline teams. As we said, we got the money that we were chasing, but we chose to invest in Domino's for the future, especially in the frontline teams. And also, this quarter was affected by salary hikes. Despite the salary hikes and despite the investments, we have held onto the EBITDA margin, which I think is a very positive story.

Nihal Mahesh Jham: The second question was that this is the second quarter in a row where we are seeing a big divergence between Dine-in and Delivery sales. I know Dine-in was impacted by a small proportion of stores which were renovated. But what is the read-through you all have of this divergence? Because it was significantly positive in Q2 when you were seeing a Dine-in surge, but now since the last 2 quarters, Deliveries we are doing much better.

Sameer Khetarpal: Nihal, I think wherever we are investing, we are seeing the results. Let me just first assure you that. As you would recall, 3 quarters ago, we pushed on the pedal to get to 20-minute delivery. We are beginning to see results. Our store densification strategy is leading to a higher share of Delivery. And we have done several initiatives behind Delivery to get positive like-for-like growth in Delivery. Dine-in is also an important area for us. India is still very young, and I keep telling this to my team that the story is yet to even begin in India. So, improving Dine-in experiences and having more presence where customers congregate or go to, we will continue to improve on that presence. So, for Dine-in we will continue to invest on both Dine-in as we open stores and the store re-imaging is still under track. We will re-image 100+ stores this fiscal year and wherever we are re-imaging the stores, we are seeing the benefit also.

Nihal Mahesh Jham: Sure. Just the last question. We are 21 days into the World Cup. Have we seen any significant improvement in our ADS which is different from the trend that we generally see in October?

Sameer Khetarpal: It's hard to tease out pure World Cup impact, Q3 generally has a higher ADS versus Q2, and we see that during India matches and we see that during Dussehra, etc. So, still early, just few, about 3 weeks of data in Q3 and which was also a headwind of Navratra. But yes, India matches we definitely see an uptick.

Moderator: The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Just 2 questions in the beginning. We have been able to arrest further decline in LFL. Starting this month or if I look back 2 quarters, we started with the menu innovation, we started with Cheesy Rewards, and we started with analytics. Does that mean the second half would be significantly better? Because the second half of last year was very weak. Is that the LFL is in our control saying that directionally it will be in a positive territory for the second half starting from Q3?

Sameer Khetarpal: Definitely our endeavor is to have positive LFL, Shirish. I will not give guidance over here. But, what I will for sure assure you with is that many of our initiatives like zeroing on delivery, improving our delivery accuracy and convenience, investing behind stores re-imaging, Cheesy Rewards, always being ahead on the curve of technology versus the competition, those put us in good stead to be at least ahead, both in terms of same-store growth and the margins versus the competition. I would still say that not everything is also rosy because the inflation level has not come down, we were hit by vegetable prices in the last quarter. So, it is hard to still declare victory, but I am more optimistic to be very honest in the second half.

Shirish Pardeshi: My second question is on the Slide #9. You have mentioned that you have re-imaged 33 stores and you are on track to re-image 100 stores by FY24. Why this is back ended in the second half, that's one question. And to follow-up what is it that you can qualitatively give us because you have mentioned that higher LFL had significantly improved customer experience? So, in terms of quantitative, anything you can share with us?

Sameer Khetarpal: I think it's a little bit of getting organized to do this. Firstly, re-imaging a store is harder than opening a new store because you have to take an existing store, shut it down, break it, and then build it from scratch. So, it's a little more complicated than opening a new store where you get a bare shell, and the crew comes in and builds it up. Having said that, Q3 is a season where we have very big days. In fact, starting August, we start getting into season. Therefore, Q4 is the best time to kind of do this from a loss of store days' perspective, and post Diwali that we get a little bit of a window before the New Year, and then in the second half of January-February, we get a window. We have chosen so that these took the loss of store days and the impact is minimal to the business. That's the only reason. We have planned it that way.

Shirish Pardeshi: What is the difference in the ACE 2.0 stores versus ACE store?

Sameer Khetarpal: We are constantly innovating, Shirish, to make our experiences better. Let me firstly say where there is no difference. There is no difference in the area, but there is a difference in the amount of furniture or the covers we have been able to put in the same area. So, they are better ergonomically designed for Dine-in. Second, we have been able to optimize the back of the house to improve our processes. For example, as much as possible, the delivery associates don't enter from the front. They enter from the back, and they leave from the back. Similarly, we have made the point of sale or the counters more amenable, more colorful. We have a bit of private seating like a booth sitting also wherever we can. So, it is an upgraded version of ACE design. The stores have slightly more comfortable furniture, more covers in the store, back of the house is more designed to segregate delivery but have high amount of delivery also and yet the experience is very functional. I think they are more modern and contemporary. Every 4 or 5 years, the design or the palette for design changes, we are adopting to more vibrant, more colorful designs without adding to CAPEX or store sizes.

Shirish Pardeshi: My last question on Popeyes. By when you think you will be able to share some quantitative numbers on Popeyes in terms of store dynamics, its ADS and other things, we already now crossed 20.

Ashish Goenka: Shirish, I think the brand is still at a rudimentary stage. It is still early days. We will allow it to mature to some level of critical mass before we are able to start sharing the numbers.

Sameer Khetarpal: They have just completed a year and I think many of the stores have not even completed a year. But let me assure you from the opportunity of chicken and the product, the palate, the taste and our ability to now go to even the smaller cities in south. For example, Madurai, Manipal, Coimbatore. These are all massive successes for us and we remain bullish that we have at least found the right product for Indian consumers and the format also.

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

Tejash Shah: A couple of questions from my side. Sameer, store opening has definitely improved on QoQ basis, but looking at the target of 200-225, the ask rate from second half looks high. So, just wanted to know any insights you can share why we made it the second half heavy this year? And what are the chances of us meeting the upper end of the target of 225 stores?

Sameer Khetarpal: Tejash, the band is 200-225, it's hard for me to be so precise, whether we will end up at 200 or 225 and obviously, we want to open the stores in the right locations, Tejash. If you even see our historical performance, the Q1 is typically slower because we are mapping our strategies and we are building the pipeline. As I communicated in the last call that the number of '23 was an aberration because we were getting more organized. You see the pace from '23, we moved to 50. I am confident that we will definitely be closer to 200 or more than 200 or closer to 225 in that ballpark where we will end up. The more important thing over there is to open stores in the right location with high quality and we are finding enough pipeline for Domino's to do that.

Tejash Shah: Second, in Bengaluru, it has been almost 2 quarters or more than 2 quarters since we rolled out (*tees se bees*)30 to 20 min. Last quarter, you highlighted how the SSG in Bengaluru city is trending far higher than our company average. If you can share some similar numerical or qualitative insights on consumer experience or Total Promoter Score, how everything is panning out in that city?

Sameer Khetarpal: Not only that but we are also improving or marching towards 20-minutes strategy in several other places also which I had shared last time as well. So, wherever we get to a certain threshold of 65% to 70% of deliveries under 20 minutes, our like-for-like growth in those cities are positive. In fact, Tier-1 cities this quarter were positive in terms of our like-for-like growth purely on account of a very superior deliveries. Despite being the rainy seasons, we were able to deliver one of the best performances on delivery this quarter.

Tejash Shah: And last one if I may. We have opened 22 Popeyes stores over 6 cities. Just wanted to get some insight on why we are spreading the store count so thin among so many cities instead of going deeper into the existing city or state.

Sameer Khetarpal: It's not a question of choice for me, it is AND. We have invested in a commissary in Bengaluru. In Bengaluru, we have 12 stores. Wherever we are finding opportunities, take for example, when we opened in Chennai, we found opportunity in Madurai, from Bengaluru, we found opportunities in Manipal and Mysore so we are looking at all big towns to cover and completely organize in terms of our Business Development pipeline, logistics support, store teams to cover entire South India and we will be expanding beyond that too, of course. I don't think that it is like we are spreading ourselves thin and we will open stores to cover the entire cities. Wherever we find good property which suits our customer profile, we will go ahead and make that investment. The important thing to note is whether our

customers are liking our offerings and the answer to that question is yes.

Moderator: The next question is from the line of Varun Singh from ICICI Securities. Please go ahead.

Varun Singh: Sir, my first question is on like-for-like average daily sales for matured stores, which is positive, but it has come down to 1% compared to the 3% level where it was during the last quarter. Any reading out here?

Sameer Khetarpal: This quarter had a few headwinds. Other than that, there is no particular reason. I would say that it is not that we did not execute well. But I think the positive side is it is growing. It is now in 80,000, which I believe is a good benchmark for the category and the industry for the size and the footprint that we have. No particular reason to be between 3% or 1%, to be honest.

Varun Singh: Sir, my next question is on the Dine-in segment. I understand the store re-imagination and faster delivery is helping plus I think the more fine-tuned menu that you make through regionalization from kind of shifting regionalization from 4 structures to 7 structures, etc., that will help to improve SSG, but still, given a significant chunk of our revenue from delivery; one simple observation of mine was that there is a significant pressure on stores to deliver the product to customers. As a consequence, you see a significant amount of, for example, the boxes, etc., inside the store, which makes the Dine-in experience relatively not as superior compared to Pizza Hut which is also aiming to become a relevant player in the value segment where we already belong to. Other than the re-imagination plus ACE 2.0 design, regionalization of menu, I just wanted to understand that given this both delivery which is our strength but also having a cost of customer experience for the Dine-in set of cohort of customers, given this context, when do you expect meaningful recovery in Dine-in in our business? Maybe 1 or 2 quarters down the line or what should be that green shoot for you; for example, after store re-imagination of X level, or how should we read that when a positive or a significant meaningful recovery in the Dine-in business for us to happen?

Sameer Khetarpal: I wish I could mathematically tell you this quarter, this week, this day, this time. I will refrain from doing it, but more importantly, whenever we re-imagine, we get high double-digit growth in terms of Dine-in. I think some of the things that you are pointing out, we have to get sharper on correcting delivery or segregating delivery and Dine-in and this is one of the reasons for ACE 2.0 that I alluded to is to segregate even sharper. It's not something that we have learned right now. I think we are getting better with our designs in this space - 1,200 square feet - we want

to operate in. Third, I think the Dine-in also, we are looking at our processes. We have constituted a massive mystery audit exercise that we do in the teams. We have gone ahead and trained multiple of our restaurant managers and the men and women who are at the counter how to upsell, cross-sell, and also serve the customers. This is a massive process, not only store design but on multiple levels that we are fighting. I am very encouraged by the results that we are seeing by the way. While there is a general sentiment leading to lower ticket sizes, I would say we have seen the sharpest increase in ticket size actually in Dine-in. That gives me the confidence that wherever we are investing behind, we are beginning to see results. Unfortunately, it's hard for me to say it's in the next quarter or 2 quarters later, but let me assure you, it is not also a 5-year program that we are working on.

Varun Singh: And just one last question. Our pace of new city addition, that has also come down to kind of 2 or 3 cities since the last maybe 2-3 quarters. Anything to read out over here, or do you think that 15 to 16 new city addition is a normal course which may be from next quarter onwards?

Sameer Khetarpal: Firstly, we are reaching 400 cities; we are the most penetrated QSR chain. We are not slowing it down purposefully. In fact, we have always been very positively surprised by all the new stores in lower tiers, that we opened because we become, in some sense, a destination in that city to go to. As we speak over here, our teams are in the market scouting for new cities that we need to enter to. We are not discriminating against one city versus the other. Our goal remains a certain threshold of sales at CAPEX and the store economics model. If that makes sense, we will open stores. We are not shying away from opening stores in new cities.

Moderator: The next question is from the line of Robert Marshall-Lee from Cusana Capital. Please go ahead.

Robert Marshall-Lee: I am just trying to understand the labor cost dynamics as far as it can be operational deleverage that you have seen. Are you able to break down what's happened in a kind of more like-for-like labor basis and separate it out from new ventures, can you give this specific disaggregate the changes in labor cost that we have seen over the last couple of years?

Ashish Goenka: If I have got your question right, Robert, you are saying can we deleverage the labor cost?

Robert Marshall-Lee: Yes, as we have seen a lot of operational deleverage below the EBITDA line, from the payroll costs in particular and we can see why the depreciation costs have gone

up in terms of the investment you have made and so on. But in terms of breaking down the cost of the rise of your labor force, could you help to explain why that's been so steep?

Ashish Goenka: If you look at a slightly longer-term period, I mean a couple of years, then of course, there has been a structural change in our labor cost itself. They have moved to more variablized manpower costs. A part of that cost has shifted to manufacturing and other costs in the way we report. And therefore, there has been a reclass of labor cost into that. But of course, this has been a phenomenon which happened almost 6-8 quarters back. So, if you look at a more short-term phenomena, whether you are looking at it versus the last quarter or last year, then this structural change is not reflected there. What is reflecting there is, of course, the efficiency that we have been able to drive in our overall cost structures as part of the Project Vijay which Sameer was alluding to earlier. And of course, there has also been a headwind on account of the wage inflation. And the third of course, is the investment that we have made. It's part of the new structure that we talked about. I think if you were to look at it, we have headwinds on account of the fact that we have bolstered our regional structure, there is a headwind on account of wage inflation and of course, tailwind as we have driven our efficiency harder.

Robert Marshall-Lee: So, if you were to desegregate that year, what are you seeing on a like-for-like store basis in terms of labor inflation?

Ashish Goenka: See, of course the underlying increase in wage costs is in line with the minimum wages increases and the salary increases that are in there, which are typically in the range of 8% to 9%. And we have not seen any abnormality there and therefore we have been able to absorb that, as I said, partly on account of the fact that we have been driving higher efficiencies as well.

Robert Marshall-Lee: And so, what is your expectation from here so given the higher growth that you've been seeing in the personal expenses versus other areas, are you expecting that to sustain at a high level?

Ashish Goenka: I think we should be able to continue with the levels that we are. There will be some pluses and minuses, but I think by and large we will be able to land at the levels that we are currently.

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

- Percy Panthaki:** Sir, I just wanted your view on a medium term, let's say over a 5-year period averaged out, what do you think strong brand like Domino's could sort of generate as a LFL growth?
- Sameer Khetarpal:** Yes. I think it's a question that we model all the time, Percy. So, 5% to 6% growth is in the realm. That's what my belief is driven by 3 factors. One is we are multi-channel or rather Omni channel across Dine-in, carry out, aggregator, our own app and we are adding more channels like IRCTC etc. to the same store. So, there is enough headroom to grow across channels. Second piece is the use of technology mix, debottlenecking of store and with 20-minute delivery, some of these pieces also get impetus. And number three is at some point in the future, I'm not saying right now, we'll also take calculated price increases, right and therefore together with this three, I think anywhere from 5% to 6% is a good number to aspire.
- Percy Panthaki:** Right, sir. And see next quarter anyways, your base becomes favorable. So, hopefully if all goes well, your LFL on a YOY number will turn positive, but what I wanted to understand is also how this translates to overall growth because between LFL and SSSG, there may be a difference of anywhere between 2%-3% and then again what happens is that the new stores which you open at a lower throughput versus the company average. So, if you're adding number of stores in the region of about 10% to 12%, I'm saying let's say averaged over the next 5 years or so and there is a 5%-6% LFL, in my calculation that should translate to a 10% to 12% kind of an overall sales growth, so would that be sort of in the ballpark of what you also have modeled?
- Sameer Khetarpal:** Our internal push is to get closer to 15%. That's how we modeled and 5% to 6% of LFL and about 12% through network expansion which is new stores and stores not yet included in LFL base. If we can get these two, then we get closer to 15%.
- Percy Panthaki:** Right. And this would be only on Domino's and what you do on the other stores, other formats would be over and above this, right?
- Sameer Khetarpal:** Of course, that is correct.
- Percy Panthaki:** My second question is on the other brands, Hong's Kitchen and Popeyes. What would be your medium-term targets, let's say 5 years out, how many stores would you think that Hong's would have?
- Sameer Khetarpal:** So, I think I'll talk about Popeyes right where the model is internationally proven. Chicken is a large market and we have a benefit of learning from through the sharp

brand proposition and the experience of RBI, which is our partner and who owns brand Popeyes. So, therefore we have a good start. We've said that we'll get to 250 odd stores right in the medium term. On Hong's, like I did mention that it is beating all our internal targets, but I will refrain from giving any such guidance till the time I'm comfortable and I've seen the store in multiple locations at a base of 40 to 45 stores which have been operating for at least 6 months for me to give a very sharp answer on that one. So, maybe in a couple of quarters I will be able to give you a good answer on Hong's also.

Moderator: Thank you. The next question is from the line of Ashish Kanodia from Citigroup. Please go ahead.

Ashish Kanodia: Sir, just on Popeyes, right, I just wanted to understand that if you have to take this 30-store expansion in FY24 to maybe 70-80 stores in FY25 right. What is the biggest maybe bottleneck or what's the equation which you're trying to solve? Because from a real estate perspective at least my understanding is given that you have 1900 Domino's store, the understanding of real estate market is much better. You are already opening 200-220 Domino's stores. So, is it just that the demand environment is muted or is it the supply chain? What would be that equation which you need to solve if you have to surprise on Popeyes to expand in next year?

Sameer Khetarpal: I think we have a very strong project execution team which can open 100 stores in a quarter and we have delivered those numbers. So, that is not the constraint. I think the constraints are 1) the Domino's has a far higher top of the mind awareness and recall versus Popeyes, right. So, you have to open stores more in a naturally footfall congregating area, so that is one constraint. So, we're very conscious of where we open the stores. 2) As we enter the new cities, we also want to open larger flagship stores because that's how you build the brand. The best building of brand is where customers see a large frontage and they walk into the store. So, that will have to rely on that tactic. 3) The supply chain. We use fresh chicken; we do in-house marination and all of these require a strong backend food factory and logistics to supply at the right temperature. So, those are the constraints, right. I think what the good part is we have a good consumer value proposition and therefore it is a matter of time to get to the supply chain and also the right store location that's where we want to be.

Ashish Kanodia: Sure. That's helpful. And I believe the supply chain will partly get addressed through the Bangalore commissary, right, sir?

Sameer Khetarpal: For South, it will be Bangalore. Then for North, we will look at Greater Noida facility

or some other facility. So, I think it is again like Domino's network is built through support from regional commissaries. We will follow the same model and leverage the same infrastructure across brands.

Ashish Kanodia: The second bit was on the demand. So, I think during the call, you talked about 2-3 things. One is that Tier-1 cities are doing relatively better, they kind of reported positive like-for-like growth and then also on the last 20-25 days demand if I read it correctly, I think what you're saying is on some of the days when you have Dussehra or India matches, you are seeing that uptick in demand but the core underlying demand which is excluding some of these days continues to remain muted. Is that understanding correct and any other differences you see in demand that or maybe how big is the difference in demand in say Tier-1, Tier-2 cities versus smaller cities?

Sameer Khetarpal: I was more alluding to the point that we invested behind store densification, delivery infrastructure, back of the house processes to improve our delivery credentials and performance in Tier-1 cities, which led to positive growth, that was the fundamental point I was making. But I think your question is broader. How are we seeing the demand especially in light of festive season and World Cup? Like I said on days where India is playing, we do see an uptick. We also are able to go inside the stadium and actually create big opportunities for serving or taking store inside the stadium. So, those pieces are actually working quite well for us. We just got off Navratra and the last few days have been good for us. Let me just stop here and not give any more color for the current quarter.

Ashish Kanodia: Sure, sir that's helpful. And lastly, we discussed earlier on new product development in terms of adding new venues of footfalls within Domino's, while pizza is more kind of a meal, how can we add more products? So, just on the new product development, I wanted to get a sense, if there is anything in the pipeline to kind of add new footfall driver and secondly is when you look at the kitchen especially from a Domino's Pizza perspective, the kitchen is much simpler, right? So, is the existing infra of Domino's store network agile enough to add new products, that would be the last question?

Sameer Khetarpal: Yes, I call our kitchen a platform where we can launch multiple items. Our core oven and a make line is actually very versatile to handle multiple products over there, and we've shown that from the same make line and the oven we can produce choco lava cake, we can produce garlic bread or a sandwich or a pasta or a wonderfully tasting pizzas. So, I would say we are at the moment not thinking of

adding any equipment to the store. Having said that, India is a land of opportunities and customers are looking for experiences across day parts. We have a good pipeline of products internally and this quarter for the first time we launched mutton and prawns right into the pizza toppings for each. And we also had Champaran mutton, which is a dish in Bihar. So, we'll continue with our themes on many Indias or serving local taste. That is one piece. There are other opportunities that the team is very actively working on, will be launched in this quarter and in upcoming quarters, but we'll announce it once we have launched.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Asset Managers. Please go ahead.

Resham Jain: So, I have just one question on margin. So, if we look at the margins pre COVID, we used to do around 16%-17% - pre-Ind-AS-116- and you mentioned the margin, let's say in the near term you're modeling at around 15%. And I presume that this split stores which may not be a very big factor pre COVID and both Popeyes as well as Hong's Kitchen is an additional stuff. So, I think a few years back you used to mention the drag on margins because of newer additions. So, any number would you like to give on that front that how much margins is being compromised because of these new initiatives plus split stores and this gap of 200 basis points versus pre COVID levels. How should one look at it? Thanks.

Ashish Goenka: So, Resham, I think we would not like to put a number in terms of what is the investment behind the new opportunities. I think suffice to say that there is no incremental basis for an investment that is going into these new brands. And as I've said in the past as well that if that number becomes material, of course we will come back and make a disclosure, but as of now, they're pretty much in line with what we have been doing over the last 2 years. And of course, I think comparing margins pre COVID to now, I don't think would be fair because there's so much which has happened in between. I think the business structure has changed significantly. The cost lines have shifted materially. We have had an unprecedented level of inflation over the last couple of years and we are still reeling with that. It's not that it has softened. So, I think those margins are not even comparable. And of course, we have an operating deleverage in our business given the fact that we have been having negative LFL for the last couple of quarters. I think a lot has changed in the business pre-COVID to now. The good news is that of course even despite the challenges in inflation and operating deleverage, we have been able to hold on to our EBITDA margin for the last 2 quarters, at the same time growing our gross margins. So, things should only improve from here, and as

Sameer was also saying that this is despite the fact that we've also made investments for growth on our overall regional structure as well.

Moderator: Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: My first question is on Cheesy Rewards. So, it's been about 6 quarters since the launch and you have hit almost 20 million customers. What percentage of customers has actually claimed rewards by ordering more than 6 times and what is your assessment of the cost and benefits now? And do you see a need to make any adjustments to the program?

Sameer Khetarpal: Yes, there's always a room to innovate, right? I think firstly for a QSR company in India, this is a historic first that we launched a Cheesy Rewards loyalty program with full fanfare with the media campaign behind. We also celebrated one year of Cheesy Rewards this quarter with the TV campaign. And it just shows that we are invested behind this particular program in terms of what it delivers. Nearly half of the orders come from customers who have enrolled themselves to this loyalty program. And in fact, our new customer addition through the app has been the highest. And my fundamental belief is that a lot of this is also word of mouth and new customers enrolling on the Cheesy Rewards program and ordering. So, I think it's a very positive thing as we see. Customers who have gotten to 6 pies and therefore claimed one free pizza are actually the customers where stickiness is tremendously high. There will be days or occasions when our service will fail. It could be a rain delay, it could be a store shutdown, it could be an oven breakdown. There will be days when for a very high frequency customer, one in like say 100 occasions a service may not be up to the standard. Therefore, these customers who claim Cheesy reward as a benefit actually are the most loyal customers. They are more forgiving. They understand who we are and have some of the highest NPS ratings in our system. So, very satisfied with the program, we will continue to see how do we grow this and make this more meaningful to the customers and we are learning also from worldwide Domino's, which are also doubling down behind this program.

Ashish Goenka: Yes. I'm just saying that on your question on cost and benefit, I think the benefit far outweighs the cost because as Sameer was saying, we see reduced churn on account of the existing customers. We also see a much higher frequency of the customers who are enrolled into the program versus who are not. Also, there was a lot of concern when we had launched the program and I remember these earlier

calls where there was a fear that our discounts would really go up because of this program. But we've demonstrated that we've actually been able to optimize on our discount which is reflecting in the gross margin improvement while running the program and expanding the program. So, the cost benefit clearly weighs in favour of the benefit.

Sameer Khetarpal: In fact, this is the best customer to give discount to. So, you are actually sharp shooting your discount to customers who are most loyal, who come back, who want to give you a larger share of wallet. So, from that perspective, I feel this is the best laser sharp shot discount strategy.

Kunal Vora: If you can share like some insights on how many actually are able to claim because of the 20 million and that number was 7 million a year back, is it like 10%-20%, any insights which you can provide on how many are actually claiming and what kind of expense you're incurring?

Sameer Khetarpal: We will refrain from sharing the number, but let me assure you that number is significant, right? So that number is quite material and ever growing.

Kunal Vora: Understood. My second and last question is on the growth potential on a 4-year CAGR basis, store addition is about 10% like sales CAGR is about 8%, operating profit is flat. So, while the longer-term outlook, medium term outlook you mentioned like LFL growth can be 5%-6%, store additions can be strong and many of the factors which you mentioned is positive were existing even 4 years back. What's gone wrong in the last 3-4 years and what's giving confidence that in the next few years you can actually get to that 5%-6% LFL and 15% plus growth?

Sameer Khetarpal: Yes, I think it's a little bit laid out in our strategies. I will not be able to do justice to the question in this call on fully delayering what happened in last 4 years. I think we are opening stores at a faster clip in better locations with higher sales per store for the new stores. Our technology assets are beginning to give result. Our conversion, monthly app usage, Cheesy rewards program are at an all-time high. Number three, we didn't have new brands. And while I always talk about Popeyes, I don't talk about the other two for certain reasons but let me just say we have a much better portfolio of brands than what we had 4 years ago. And I think this team is far stronger, digitally savvy and operationally agile, and we have enough levers like 20 minutes to kind of grow at a much faster clip than what we have done in the past.

Kunal Vora: Thanks. Just a follow up on this. Would you think the rise of aggregators has given way for more unorganized competition and has that played a role? Is that a big

reason or you think that's not really a reason for the slow growth?

Sameer Khetarpal: No, I don't think so, to be honest. We want to serve customers wherever they go, right and that's been our strategy. And whether it's aggregator, we were one of the first ones to go on to aggregators in the Domino's system. We invested far ahead versus the competition on our own app and we are improving dine-in experiences. We are on IRCTC. So, from that perspective, I think we want to go where customers are and these are neighborhood stores which can serve all the consumer needs and that's what we are executing on. So, aggregator is a good thing for ecosystem and delivery is growing, right. At the end of the day, they've also democratized delivery. So, I'm thankful to them for their partnership.

Moderator: Thank you very much. We'll be able to take one last question. We take the last question from the line of Aditya Soman from CLSA. Please go ahead.

Aditya Soman: So, firstly, just in terms of volume growth, can you give us a sense that pre COVID to now, what would be the rough level of volume growth for the company and maybe for perspective even for the industry? And the reason I ask that is because we've had several moving parts, right. We've got some changes take place because of COVID. We've had obviously very sharp inflation and changes in pricing. So, I just wanted to understand volume growth at a system level or another way to put it if that would be better in just number of pizzas sold?

Sameer Khetarpal: We don't give that but let me give you some color. From an order standpoint, this was our best quarter ever from the order that we served. Our delivery order volume has been one of the best in this quarter in a long time, when I look back 4 or 5 quarters. So, from that perspective, it should give you color that the volume growth is real for us and we invested behind this particular growth 4 quarters ago by launching our value range of pizzas or relaunching our value range of pizzas at 49 etc. So, all of these, we are confident that along with the commissary model, we will stand for value and stand for great taste and fastest delivery when it comes to ordering at your home or your workplace, so volume growth continues to be strong.

Aditya Soman: Understand. And just to follow up on that. So, when you talk about sort of some pressure on ticket prices overall, we are not specifically for this quarter, but in general I think would it be fair to assume that part of it is just or is it people consuming smaller pizzas or lower value pizzas which is the way to think of it?

Sameer Khetarpal: So, I think ticket size is yes, customers have chosen to downgrade from a large to medium or medium to regular. We do see that trend. But volumetrically the items

or quantities per order is not degrowing, right. So, they are still consuming the same amount of number of items, but they're choosing a lower price for each item which actually works for us to be very honest in the current demand environment that at least we are retaining our customers. We're growing the customer base, and their frequency continues to grow.

Aditya Soman: Understand, very clearly. So, just to be clear, we have higher total number of orders, lower order value because people are ordering lower value pizzas, not necessarily less pizza. Would that be right?

Sameer Khetarpal: That's correct. And also like I said, the decline in ticket size has also been arrested and we have grown on the ticket size for the last 2 quarters.

Aditya Soman: Understand and would this be an industry phenomenon, or this is something that is specific to Domino's?

Sameer Khetarpal: I will wait for others to declare the result and compare notes, so we believe that it is our use of technology data and our processes, but I'll wait to for others to declare their results.

Moderator: Thank you very much. We'll take that as the last question.

Sameer Khetarpal: Thank you.

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

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