Jubilant FoodWorks' Q3 FY20 Earnings Conference Call Transcript
January 29, 2020

Call Duration : 1 hour and 5 mins

Management Speakers : Mr. Hari S Bhartia, Co-Chairman
Mr. Pratik Pota, CEO
Mr. Prakash C. Bisht, CFO

Participants who asked questions

Abhishek Joshi - CGS-CIMB Securities
Abneesh Roy – Edelweiss Securities
Aditya Soman – Goldman Sachs
Amnish Aggarwal - Prabhudas Lilladher
Arpit Shah - Stallion Asset Management
Avi Mehta – IIFL
Krishnan Sambamoorthy - Motilal Oswal Securities
Latika Chopra – JPMorgan
Manoj Bahety - Carnelian Asset Management
Manoj Gori - Equirus Securities
Manoj Menon - ICICI Securities
Prasad Deshmukh - Bank of America
Sabyasachi Mukerji - Centrum Portfolio
Sunita Sachdev – UBS
Tejash Shah - Spark Capital
Vishal Gutka - PhillipCapital

Moderator: Ladies and gentlemen, good day. And welcome to the Jubilant FoodWorks Q3 FY20 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, sir.

Nishid Solanki: Thank you. Welcome to Jubilant FoodWorks Q3 and Nine Months FY20 Earnings Conference Call for analysts and investors. Today, we are joined by senior members of the management team, including Mr. Hari Bhartia – Co-Chairman of Jubilant FoodWorks; Mr. Pratik Pota – CEO; and Mr. Prakash Bisht – CFO.

We propose to commence with perspectives from Mr. Bhartia. Thereafter, we will have Mr. Pratik Pota sharing his views on the progress JFL has made operationally, strategic imperatives that lie ahead and the outlook. After the opening remarks from the management, the forum will be open for question-and-answer session.

A cautionary note – certain statements that may be made on today's call could be forward-looking in nature, and the actual results may vary from these statements. A detailed statement in this regard is available in Jubilant FoodWorks Q3 and Nine months FY20 Results Release and Earnings Presentation, which are both available on the Company website under the Investor Relations section.

I would now like to invite Mr. Bhartia to share his perspectives with you. Thank you, and over to you, sir.

Hari Bhartia: Thank you. Good afternoon, everyone. And welcome to the Jubilant FoodWorks Q3 & Nine month earnings conference call. Faced with challenging external demand environment and pronounced cost headwinds, I believe our sharp strategy and disciplined execution allowed us, once again, to deliver a strong performance in the last quarter. We delivered a strong double-digit revenue growth and a sequential improvement in EBITDA margins.

I must highlight that dairy prices during the quarter were the highest in more than seven years. Cheese being one of our key raw materials, we have more than 220 basis points impact on account of dairy inflation.

Underlining our confidence and belief in future of the category, we stepped up the pace of new store expansion and opened 47 stores last quarter, including 44 of Domino's. Our focus in the quarter continued to be on driving product innovation, offering value for money and improving the customer experience, and strengthening our digital assets. Our OLO contribution reached 87.4% of our delivery sales in Q3, backed by sustained investments in digital marketing and improved user experience.

Domino's Pizza Bangladesh continued to do well. We opened our third store in Bangladesh. We remain excited about the potential in this market and plan to open many more stores in the future.

Hong's Kitchen did well, and we opened our second store during the quarter in Delhi.

Overall, we continue to believe in the potential of food service industry. We believe we have a right strategy for driving sustained and profitable growth in the future.

With that, I will request our CEO, Pratik Pota, to share his thoughts on the performance.

Pratik Pota: Thank you, Mr. Bhartia. A very good afternoon to everyone. And thank you for joining us on today's call. During the quarter just gone by, we faced the dual challenge of a tough demand environment, along with amongst the highest inflation in several years. Notwithstanding these, we delivered a strong all-round performance in Q3 FY20.

Our operating revenue for Q3 stood at Rs. 10,596 million, this represents a strong increase of 14.1% over the previous year. This was driven by a like-for-like sales growth of 7.2% in Domino's Pizza and a same-store sales growth of 5.9% on a high base of 14.6% last year.

We continued to see very strong growth momentum in delivery, led by the online channel. During Q3, our online sales increased further and now contribute to 87.4% of delivery sales. During the quarter, we launched a new range of Indian masala pizzas to offer a more Indianized variety to our customers. We also rolled out a new advertising campaign, "Dil, Dosti, Domino's!", with the objective of strengthening our brand and driving a greater emotional connect with consumers.

The Domino's Pizza app continued to gain traction and recorded 4.1 million downloads during the quarter. The app continues to be the highest-rated food app on the Google Play Store in India.

EBITDA for Q3 stood at Rs. 2,536 million at 23.9% of revenues. This was in the context of more than a 200 basis point impact just on account of dairy inflation. We were able to maintain our margins through a combination of better operating efficiencies and more targeted and smarter promotions. Profit after tax in Q3 FY20 came in at Rs. 1,037 million at 9.8% of revenues.

Reflecting a continued conviction in the growth potential of the business, we increased the pace of new store expansion and opened a total of 47 new stores last quarter, Of these, 44 were Domino's Pizza stores. Our Domino's restaurant count now stands at 1,325 restaurants in 282 cities. We entered one new state Mizoram, and 6 new cities during the quarter. We continued to see a very strong performance in the Bangladesh market, and we opened our third store in Dhaka during the quarter.

In Dunkin' Donuts, we opened two new stores to take our total store count to 32 restaurants across 10 cities. We opened our second store of Hong's Kitchen in Delhi and remain confident about the prospects of the brand.

I would like to conclude by underlining the following. Notwithstanding the recent slowdown, the Indian food service market presents an exciting growth opportunity with tremendous headroom for increasing penetration as well as growing frequency. As India's largest and most vibrant food service Company, JFL is best placed to harness and, indeed, drive this growth. We have the right strategy for growth that has worked for us in the recent past. We have also demonstrated consistently the ability to execute to this strategy. We are excited about the possibilities that lie ahead and are confident of driving sustained profitable growth in the future.

With this, I would like to request the moderator to open the forum for questions, please.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the questions-and-answer session. We take the first question from the line of Aditya Soman from Goldman Sachs.

Aditya Soman: Sir, two questions from my end. Firstly, can you tell us more about how you have managed gross margins in the challenging input cost scenario? And do you expect there to be a bigger hit to the gross margins, given that you haven't taken much pricing?

And the second question is, we have seen that wage cost has been growing faster than sales growth for the past four quarters. But from next quarter sales growth should affect given a pretty soft base. So do you see that equation normalizing again from next quarter?

Pratik Pota: Aditya, let me answer your first question on the gross margins and how we manage that. As we spoke about in the opening remarks, we saw an unprecedented inflationary impact in the quarter coming from two counts, one is the cheese price impact, and more towards November and December on account of the onion inflation. So there was a very clear impact on account of raw material cost increase. We mitigated that through several measures. The first one was better operating efficiencies in the store and reduction of wastage. And a reduction in discounts at the overall level, and, therefore, more targeted promotions that I spoke about in my opening remarks. We also have taken, as you would recall, a small price increase in the month of June, which also helped mitigate impact versus last year. So overall, between the raw material cost increase and the mitigation measures, we saw the net impact being about 17 basis points versus last year.

On the personnel cost increase, I think there were two or three reasons that were factors driving the cost increase, apart from the volume increase. I think there is a minimum wage increase impact that is playing out, along with the impact of annual increments. We also have made very specific investments in building skills and capabilities, including in digital and some other specific areas which are reflecting in the cost of personnel, that you see reflect here. This was mitigated partly by a very sharp focus on productivity, both inside the store and the supply chain center, and that has helped mitigate the impact of manpower inflation. Going forward, we believe that we have a lot of areas and opportunities; these are the big opportunities for driving better efficiencies and better productivity in the personnel cost, and we remain excited about doing or driving that.

Aditya Soman: Thanks, Pratik. Just one follow-up on the wage cost. One of the things we are also seeing recently is more advertisements on offering or hiring on a per-delivery basis. And we have seen that cost of per delivery or a variable cost per delivery has gone up. Would that be a right conclusion?

Pratik Pota: So Aditya, I think the one thing we feel good about is that in this context of a fierce war for delivery manpower, our attrition of delivery manpower and attrition inside the store actually went down during the quarter. We are amongst the lowest attrition levels, and we have put together a specific retention plan and delivery incentive plan, and that helped us contain attrition; number one. Number two, because of the data that we now have on tracking our deliveries and our riders, we were also able to extract efficiencies in our delivery process and delivery cost lines. So while there is an impact on account of delivery cost increasing, we are able to mitigate that through better retention and better efficiency.

Moderator: Thank you. We take the next question from the line of Prasad Deshmukh from Bank of America.

Prasad Deshmukh: Yes. So I have two questions from my side, One, after a long time I think we are opening new stores in Dunkin'. What is the positioning in your portfolio now for Dunkin' as such? Because, till now we were in a way more or less closing stores, and now suddenly this quarter we have seen two new stores being opened?

Pratik Pota: I think, Prasad, it's important for me to state the context of these two new stores that we opened. These two stores that we have opened in Dunkin' are smaller format stores, more of 100 square feet kiosk kind of stores. And the objective of these stores is to pilot and test out the effectiveness of such small format stores in Dunkin'. The store will have much lower rent, much lower CAPEX, and the objective is to also test them and see whether they pay back under 1.5 to 2 years. This is a pilot. I think it's premature to say that this is a sign of things to come, but we are testing this concept now, and we will have more data a few months from now, a quarter from now, I would imagine.

Prasad Deshmukh: Sure. And the second question on Hong's Kitchen business. I understand that you may not be wanting to share the store economics and so on. But is there now at least a plan which has been finalized in terms of how many stores we are targeting, may be in a year and two?

Pratik Pota: So Prasad, I think it's important to reiterate the potential of Chinese QSR as a segment. We have spoken more often in the past, there is a huge vacuum or gap between street side unorganized Chinese market and a fine dine premium casual dine Chinese food space. So that market is large, and it's promising. And, of course, Hong's Kitchen plays in that space, which is why we have a huge amount of confidence in the brand.

What we have seen with the first store and the early review of the second store that we have opened recently is promising. We have a very high repeat customer rate. We have good customer satisfaction. It's a good combination of dine-in and delivery. And as we go forward, we will refine the model based on the learnings and expand. Also, to your specific question, do we have a plan of expansion?, Yes, we do, and you will see that play out over the next few quarters.

Prasad Deshmukh: Actually, I was looking at a number. I mean, its fine if it is not yet cannot be shared in public domain. But I was just looking for a number as to how many stores after one year and two years.

Pratik Pota: I appreciate that, Prasad. And we would not like to share this number. But I think what you should know that there is a plan we are working towards.

Prasad Deshmukh: Sure. And just one number I missed. What was the cost inflation in the quarter?

Pratik Pota: The cost inflation only on account of cheese that we called out was almost 230 basis points, on account of dairy.

Moderator: Thank you. We take the next question from the line of Abneesh Roy from Edelweiss.

Abneesh Roy: Sir, my first question is on Dunkin' Donuts. So, there were two stores expansion happened during this quarter, after five quarters of lull, so finally expansion is happening. So my question is, are you looking to add more cities? because the number of cities has remained stagnant at 10 for many quarters.

Pratik Pota: Abneesh,On Dunkin', like I said in response to Prasad's question, this is a carefully calibrated pilot, in which we are testing a new format of stores. It is not necessarily a declaration that we are going to be opening many more Dunkin' stores. This is a test-and-see mode right now for Dunkin'. So it's two stores, we may have a couple of more stores, but it's not a significantly stepped up inhibition on Dunkin' quite yet.

Abneesh Roy: Sir, My second question is that, essentially in Q1 FY19 you had opened one store and then five quarters there was a complete lull. So my question is, this time also, based on your comment that this is a pilot project, so again, you will be testing this format, right? And what is the difference in terms of that test? Is it a smaller version and, say, may be on pricing you have become a bit lower?

Pratik Pota: I presume, Abneesh, you are talking about Hong's Kitchen?

Abneesh Roy: No, for Dunkin'.

Pratik Pota: Yes. So let me repeat what I said earlier. Yes, what we are doing by way of test is we are testing a smaller-sized store, a store which is about 100 square feet, which is significantly lower than the conventional format we have had in the past of 350 to 400 square feet, in some cases even larger. It's a small kiosk-based model, which serves a combination of beverages, doughnuts and simple food. It has lower CAPEX. It has lower rent and, hopefully, therefore, the payback will be much faster.

Hari Bhartia: See, if I add to what Pratik has said, our first objective in Dunkin' was to really correct, as you know we had incurred losses, so we corrected that first. And now we are studying opportunities of how we should build this model for growth. So some pilots are going on and, hopefully, in the next few quarters we will find the right model where we could then open more stores.

Abneesh Roy: Right. Sir, my next question is on Domino's. So one year back we had many more food tech apps, recently Uber Eats was acquired by Zomato. So now we have just two main food tech apps. Yes, Amazon may enter, but for Amazon, out of many businesses this will be one of the businesses, so it may not be core. So will the bargaining power shift against you in this part of the business or could there be some cost escalation here?

Pratik Pota: Abneesh, I think the food tech aggregator, the ones that we partner with, which is Swiggy and Zomato, I think we have a very strong positive partnership going with them, built on the principle and the philosophy of working together to grow the market. I think over the last few quarters we have engaged with them, and we have grown the pizza category. We have also grown our share on these platforms.

As you are aware, we have, in parallel, built our own digital platform very strongly. And today, like I said earlier in my opening remarks, our apps outscore the aggregator apps in terms of user rating. We believe that an important part of our marketplace is quality, credible supply. And as providers of the best brand in the country and the most spread brand in the country, it gives us tremendous negotiating power. The fact that aggregators are being now called to question on path to profitability, if anything, strengthens our hands and makes us a lot stronger vis-à-vis them. So I do not think that it will anyway compromise our negotiating power. As owners of the strongest brand in the country and the largest distributed brand, we have a partnership of equals with aggregators.

Abneesh Roy: Pratik, one follow-up on food tech app. So as per news reports, the salary of delivery people in food tech apps is down by 50% to 70%. When I see your salary cost, that is up by 17%, obviously, no benefit. So, why you are not seeing the benefit here?

Pratik Pota: So Abneesh, if I heard your question correctly, we are seeing some benefits come through in the way we work with our manpower. There are two or three ways in which we drive productivity with respect to personnel. One is, deploying the right mix of full-timers, part-timers and pay-per-delivery manpower, number one. Number two, driving more efficient delivery. As we split stores and fortress our markets, we reduce ride times and therefore we will be able to turn around more deliveries per hour. And the third, like you said that given the fact that the competitive context also has changed in terms of the payouts, we have also recalibrated some of our payout for delivery manpower in many markets to extract efficiencies.

Abneesh Roy: Sir, benefit has already come? because I can't see that in numbers, your salary cost is up 17%.

Pratik Pota: Some benefit has certainly come in this quarter, but this is an ongoing space. As the market shifts and the benchmarks shifts, we will continue to get more.

Moderator: Thank you. Next question is from the line of Manoj Menon from ICICI Securities.

Manoj Menon: Congratulations on a good performance given the context. So I just have a couple of questions on the revenue line. One, on the endeavor or the efforts which you are taking to improve the per-store throughput, if you could just specifically address that? that would be very helpful. The context of this question was with improved benchmarking of, let's say, Domino's versus a Westlife versus a Burger King sort of a thought process, given that it's a little more incremental data available about the QSRs. That's the first question.

The second one, on the new store opening, very pleasing to see 44 sort of a new store number in a quarter. Just a simple question here is, when I look at this number in conjunction with the fact that we have added just 6 new cities to 282, obviously, you are opening a lot of new stores in the current cities, in existing locations. So is there any sort of linkage of your newer stores to the aggregator opportunity that basically just want to be present in more stores in the current markets closer to the consumer?

Pratik Pota: So Manoj, let me answer your first question. I think there are several work streams that we have deployed to drive our same-store sales and our per-store throughputs. You saw some of them play out last quarter. As you saw, we had a launch of the Indian masala pizzas range, which exceeded our internal benchmarks and expectations, and that helped drive same-store revenues. Notwithstanding, the steep inflation in input costs, we held pricing, and today our pizza is even more affordable than what it was to consumer in December 2015. So the focus on value for money and making sure that there is affordability driven in this environment what helped really grow same-store sales. I think the focus on driving our online channels and, therefore, delivery, again, is one way we drove our same-store throughput. I called out in my remarks that within this 7.2% like-for-like growth, our delivery growth was significantly higher, and which is how we were able to drive higher store throughputs from existing stores. So that is an answer to your first question.

On your second part, between opening new cities and fortressing existing markets, we have a balance. And I think our first starting point was, how do we improve the customer experience in existing markets? How do we harness the untapped opportunity or the opportunity that is tad subpar, sub optimally more before we go into new towns? It is not aggregators that we are looking at as much as the consumer himself. So this is a consumer-backed strategy. Wherever we see opportunity in existing markets, we are going there, fortressing existing towns, compacting drive times, coming closer to the consumer. At the same time, we are now beginning to see the opportunity outside in new markets and new towns, and we opened six of them last quarter. So again, going forward, you will see us doing both, fortressing existing markets based on the consumer needs and opening footprint in new towns.

Manoj Menon: Understood. Pratik, if I may quickly follow up on this. When I look at the number of cities sort of coverage, 282 for you versus, let's say, in a Swiggy which they claim at 550, so only a simple question here is that, is that a long-term opportunity for you sometime into the future? Because as you mentioned a little earlier, given the symbiotic relationship, they would love to have you on their app, let's say, at an xyz location where a Domino's is not present today because you will get them that throughput. And which essentially means that in the next few years, is there a significant opportunity for you to add many number of newer cities versus the past?

Pratik Pota: Manoj, undoubtedly. And which is what gives us conviction and confidence and gives us the reason for excitement. The market for pizzas in this country is wide and it's deep. And again, I would look beyond aggregators. Of course, aggregators are going to find a town that gives us an indicator. But the real focus is again the consumer. We believe the consumer is ready, he or she is aware of the brand Domino's, aware of the pizza category. So potentially, in the longer term, we have many, many more towns where we can open up our footprint in. Absolutely right, I mean, I couldn't agree more with you.

Manoj Menon: Understood. Just last one on the outlook on pricing. And secondly, a linked question just on the quarter and the last one year. Is there also an element of the certain one-off from the Pepsi contract anniversarizing, which also had a pull down to gross margins? So, firstly, outlook on pricing ? And second, sort of a rearview mirror understanding?

Pratik Pota: So on the pricing, Manoj, we talked about the fact that we have had very high inflation, almost unprecedented inflation in the last quarter. We have our eyes very closely following commodity costs and inflationary trend. So that is the first point. The second point is that our pizzas today are more affordable than what they were four years, five years ago, which is what I called out just now. Going forward, we will monitor the commodity cost environments and then take a call few months from now. As of now, we have no specific plan to increase price or take pricing.

Manoj Menon: Understood. And on the Pepsi contract, if at all you could help on that, which is anniversarized or kind of any such impact, which definitely means it will not recur going into calendar 2020.

Pratik Pota: So Manoj, the Pepsi impact or the beverage contract impact that we derived is now sitting in the base because we moved to the new partner same time last year.

Moderator: Thank you. We take the next question from the line of Vishal Gutka from PhillipCapital.

Vishal Gutka: Yes, all my questions have been answered.

Moderator: Thank you. Next question is from the line of Latika Chopra from JPMorgan.

Latika Chopra: Just taking forward the previous question on pricing, just expanding that to the margin bit. Do you think that some of the vegetable cost inflation is moderating? And have you seen the worst on raw material inflation in Q3 and you will expect a little better trends going forward?

Pratik Pota: Latika, I would say that certainly from vegetable cost increase point of view, the worst is absolutely behind us. And what we probably saw as the inflationary push in Q3 doesn't exist in Q4 anymore. So that clearly is something that we are seeing. On dairy and on cheese, it is something that we are watching very closely, and we will have more clarity in the months to come.

Latika Chopra: In your remarks you talked about lesser discounting and, of course, you have mentioned that pricing is something that you are not looking to change. But are there any efforts or initiatives to improve the mix, play with the mix to ensure better margins?

Pratik Pota: Absolutely. I think mix management and ensuring that we have the right play between product portfolio, channel mix and different customer cohort promotions, I think that is something that we are clearly working on. We derived some benefit from that in Q3 as well, but that work stream is absolutely on. As you can imagine, the more we get digitally enabled, the more we are able to personalize both our promotions and our propositions by different customer segments and customer cohorts. And that allows us to improve our mix and, therefore, drive more profitable sales algorithm.

Latika Chopra: And just lastly, previous quarter you talked about significant slowdown in dine-in sales, a moderation in growth in Tier-2, 3 cities. Any incremental comments, any change in trends that you have seen on these two aspects? And also, you had mentioned (+120) store addition plans for Domino's, so probably we are gunning ahead of 130, 140, does it look more likely for FY20?

Pratik Pota: So Latika, on dine-in, I think the same pattern that we called out last quarter continues. We are seeing softness in dine-in and that is evident across cities and towns. And in contrast, I would like to call out delivery events, which while it is in dark, I think it's important to underline that we are seeing, of course, delivery growth being higher than dine-in and higher than our average same-store growth. This is, again, biased more towards the larger towns and the metros where we are seeing a stronger delivery growth in metros and Tier-1 towns compared to the smaller towns. And again, this growth is driven by a surge in orders. So it's an order-based growth, it's a delivery-based growth, and it's a metro and large town-centric buyer growth.

Latika Chopra: All right. Any comments on Domino's store expansion?

Pratik Pota: Yes, I think we expect to continue the pace of store expansion, give or take a few stores. So we expect to end the year between 140 to 150 stores.

Moderator: Thank you. Next question is from the line of Manoj Gori from Equirus Securities.

Manoj Gori: Sir, firstly I would like to understand, when we say dine-in has been on the weaker side versus delivery, so do you see the current slowdown actually weighing on the dine-in or this is a structural trend that the industry is witnessing?

And secondly, you mentioned in your opening remarks that we have offered lower discount because of the inflationary reasons. So what could have been the possible impact on SSG and how we are spending it out? Like how we are planning in the quarters to come, like, discounting activities?

Pratik Pota: So great questions, Manoj, both of them. Let me start with the first one. I think the pressure on dine-in that we spoke about is on account of three reasons. One of them is the overall pullback in consumer spends and discretionary spends, and that is visible in dine-in, number one. Number two, a structural shift that we are seeing partly on account of the growth of delivery, the need for greater convenience. That shift is also being aggravated a little bit and accelerated a little bit by aggregator discounts and promotions. But that is a structural shift driven by greater convenience. And the third, which impacted specifically this quarter, was some temporary disturbances that we saw in parts of the country, which led to some revenue pullback in dine-in. Those are the three reasons. One of them is structural, one of them is tied to the economy and the environment in which we operate, the third one was a passing reason.

On your question about discounts, I think what we did, and I use the word smart promotions and targeted promotions with smart discounting, I think when we work discounts and promotions, we do rigorous A/B testing before we take a call on recalibrating promotions or discounts. So the promotions and the discounts that we pulled back were done without impacting SSG adversely, number one. Number two, these promotions were recalibrated in deliveries, and we have deliveries where we have actually grown ahead. And again, within that, online has been a bigger driver of growth. So we feel good about the fact that using data, using analytics, using A/B testing, you are able to pull back costs without impacting margins or without impacting growth adversely.

Manoj Gori: Right, this is just a follow-up. So if we look at till Q1 of FY21, we will be getting some benefit of value growth coming on account of your price hikes taken in June. But post that, if we look at on the volume basis, there could be multiple challenges if the macro environment doesn't improve. So do you see anything, like, any signs of revival or things bottoming out? So how do you read this from a macro point of view?

Pratik Pota: Look, I think it's a little bit too premature to crystal ball gaze and to look at what may happen two quarters from now. I think we feel confident that we have the right strategy and the right levers for both driving growth and managing costs. This is something that we are watching, obviously, very closely. And as the situation evolves and changes, we will recalibrate our own work plan and our own interventions. But it's premature to think of what may happen two, three quarters from now.

Moderator: Thank you. Next question is from the line of Avi Mehta from IIFL.

Avi Mehta: I just had a few questions. One was on the other expenses. We saw a very sharp and relatively continued increase in that, which is beyond the high store additions that you have done. Is there any one-off over there? If you could kind of give us a sense?

Pratik Pota: Sure, Avi. So the manufacturing and other expenses increase that you see there is on account of two reasons, apart from, of course, the normal volume linked increase. The first one is an increase in delivery mix, which brings with it some additional costs. And the second one is investments in digital. As you know, and I called out earlier as well, we are strengthening our digital platform and that called us to make some investments and that is reflecting in the cost line there. And the third reason is, in the last quarter, we had a significantly stepped up marketing campaign. We launched the masala pizzas. We launched a new ad campaign, a thematic campaign of "Dil, Dosti, Domino's!", which also called for additional investments. This was partly mitigated by productivity. But what you see as increased is on account of additional delivery mix and investments in digital and marketing spends.

Avi Mehta: So as we go forward, while I understand those investments in digital and the additional delivery mix might go up and down, would you be able to kind of called out, what was the impact from marketing which are going to be temporary, just so that we can kind of better understand how this line item or this cost item is behaving?

Pratik Pota: So, Avi, marketing spends follow a pattern. In the quarter where we have specific interventions, like in innovation or like a new brand campaign, we tend to invest more. And when we don't, there is a normal marketing spend that is maintained. So that will vary from quarter to quarter. But we are not calling out manufacturing expenses as a potential hot spot in our P&L. We don't see that. We see that we have enough room for managing both our cost lines and our productivities, and we don't see this as a hotspot.

Avi Mehta: Okay. So let me rephrase it. As a percentage of sales, we saw it kind of moving up and down. Especially, the base had a very low number. So I was just trying to understand in that context, because there's a festive timing impact as well. I don't know, actually that could not be the case. I am just trying to understand what was the reason, that is where I was coming from. But fair enough, that is where.

The second bit I wanted to understand is this fortressing strategy that we have been doing, which is the store split. Now in contrast to what was highlighted earlier, I actually noticed that in terms of city addition this is the first quarter in which you have actually gone ahead and added city substantially. Does this suggest that the fortressing-related drag is kind of more or less peaked out? I mean, would it kind of now start significantly coming off as you are now exploring more and more cities? Would you be able to kind of give us some sense over there?

Pratik Pota: Avi, on the fortressing question, I think we are seeing that wherever we have gone and fortressed the market and opened up more stores in the existing micro market, we have seen growth come back even stronger. We have seen customer experience come back very strongly. And we believe, therefore, that this strategy is working for us. Are we quite done with it now? No, we are not. We have many more markets to fortress. So that will be an ongoing work area as we go forward next year and this quarter as well. In addition, as we discussed earlier, we will explore new markets where we see opportunities. So it won't be either/or, it will be possibly/ and. And what the ways would be, that remains to be seen, but we see continued opportunity in fortressing existing markets as well, even now.

Avi Mehta: Okay. So, what I was saying is this the 130 bps in a 160 bps moderation that we saw because of this splitting is slowly and steadily coming off, and that is what I was trying to get to that as most of the splits are behind us, would this drag be much lower as we go forward is, that's what I was trying to understand.

Pratik Pota: Yes. Look, Avi, I think the like-for-like is the growth of stores that we haven't split. And that is a benchmark that we use to measure non-split performance. That gap, like you said rightly, has narrowed a little bit. As to how that will play out in the quarters going forward, remains to be seen. I think it's again hard to call out which way it will go. Will it converge? It is unlikely it will converge. But whether it will diverge or remain at the same level, it remains to be seen.

Avi Mehta: Okay. And lastly, if I may, just if you could give any comment on how the underlying demand momentum is behaving? I think I missed that one. Is there any sense of a recovery, initial signs that you are witnessing or it's too late? Any comment on the same, please.

Pratik Pota: So I think we are seeing a momentum continue and, if anything, accelerate in delivery. And again, that is driven by online that is coming across top cities and towns, but certainly much more, like I said earlier, in the metros and large towns. At the same time, we are seeing continued pressure on dine-in. Now, because there's a structural shift also involved in this, it's hard to call out what is the impact of improved consumer sentiment versus change in structural mix. But we have not seen significant improvement in dine-in. And we believe that is an important bellwether indicator of consumer demand, walk-in demand. We have not seen that change too much yet.

Moderator: Thank you. Next question is from Amnish Aggarwal from Prabhudas Lilladher.

Amnish Aggarwal: Sir, my question is on the profitability and margins. Now, looking at the scenario when we still have the input cost inflation in cheese, etc. So first of all, do you think that the input cost inflation has peaked? And the kind of margin pressure we have seen in the current quarter, how confident are you of increasing the margins in the coming quarters?

Pratik Pota: I think, Amnish, on inflation, certainly, there are some parts where we see a visible easing off of the cost. So we do see that at an aggregate level the worst is behind us. I think for dairy, I think it's very important to watch the next few months and how the milk prices pan out and how the supply and the yields play out in the summer months. So that is on the inflation side. I think notwithstanding that, we believe we have enough levers for us to work with or the right EBITDA at the right profitable margin level.

Remember, we also are making investments in several areas, whether it's in technology, whether it's in improving customer experience, whether it's in driving innovations and brand building. So there are several investment ideas that we are putting money behind. At the same time, we have got a very specific work stream on driving efficiencies and productivities even as we deal with inflation that we spoke about. Between these, we feel confident that we have the right levers to deliver profitable growth in the future.

Amnish Aggarwal: Okay. Sir, my second question is on your statement a few minutes back that due to the recent disruptions in several parts of the country, the SSG was impacted. Now if you slightly deep dive into that, so then in the regions where the disturbance was less, was there a meaningful variation in SSG from the numbers overall which we have reported?

Pratik Pota: So, I mean, without going into region-wise numbers, the larger answer to your question is yes. And the way we estimated and the way we saw the impact or not, was going not just by regional, but by store-by-store, day part-by-day part to assess whether we have a genuine impact or not. So yes, we have a very granular view of stores and markets where we had an impact and that is why we called it out as an impact which hopefully is a one-off impact for the quarter.

Amnish Aggarwal: Sir, can you please quantify how much it could have impacted in terms of percentage, addition to SSG.

Pratik Pota: It would be just under 100 basis points of same-store growth.

Amnish Aggarwal: Okay. So under 100 means maybe close to 1%, we can presume?

Pratik Pota: Thereabout.

Moderator: Thank you. We take the next question from the line of Sunita Sachdev from UBS.

Sunita Sachdev: Good results in the context of the economy, nonetheless. Just one question, Any update or any color that you can provide on incremental digital efforts that you all are doing in terms of consumer mapping? And any examples that you could provide in terms of how the consumer mapping and the different cohorts that you speak about are actually working on the ground?

Pratik Pota: I think on the digital part of your question, I think we could have an extended conversation about all the work that we are doing in digital, and maybe we will off-line. But, a couple of points that I want to call out. I think a lot of investments were going on in improving the customer experience, simplifying the users journey, increasing and improving the ease of payments, ensuring post-order journey is simplified. How do we personalize the experience is a lot more on our assets. How do we segment our customers and offer them promotions, coupons and communications which are relevant for that segment. Looking at customers who are high-frequency customers, very differently from people who are first-timers. So there's a lot of work that is going on.

Let me give you two illustrations to underline the point. Last quarter, we moved towards a single-page checkout, which cuts one click in the ordering process, and that has helped improve our conversions on the app; number one. Number two, we have just implemented towards the end of last quarter 'saved card' feature. And one of the pain points that our customers had voiced was that we weren't saving credit card data. So every time you were a non-COD or prepaid payment, you had to enter the card information all over again. So we have now got a back-end where we save credit card information and that again is helping to cut the friction in the ordering process. So that is an example of what we have done as far as the ordering process goes.

There's a lot more where that came from. On the progressive web app what we have launched is a chatbot. So post orders, the most obvious and the most frequent query is order status. Even though we give the delivery tracking, customers want to know where the order is. And which is why we have now launched a chatbot, so you can actually very easily chat without any human intervention with a chatbot, and you get delivery status updated. That will go across all our assets very soon. And kind is of example of how we are moving to simplify the user experience. We are building and we are strengthening our digital team and working with partners who will help us, therefore, improve the customer experience and improve the user flow. And again, like I said, we could go on and happy to talk about that separately.

Sunita Sachdev: Right. Just a very quant question. What is the percentage of orders now from your app?

Pratik Pota: Sunita, we don't share that information. I think the one thing I do want to say is that dominant proportion of our online orders are coming from our own apps, even now. Even as we partner with aggregators and work with them and use them to collect orders, the bulk of the orders still come from our own assets. Of course, to underline that we control the delivery experience, as you are aware. And even when we take orders from aggregators, our fleet and our riders go and fulfill the order.

Moderator: Thank you. We take the next question from the line of Manoj Bahety from Carnelian Asset Management.

Manoj Bahety: Just one question. In fact, recently I have seen like a few of the large cloud kitchens, they have become very aggressive, I mean, the way they are growing in terms of number of kitchens, and even if I track their numbers, the kind of exponential growth with these guys are growing. So are you seeing some kind of an incremental threat from these new emerging players? And what's the strategy of the Company to deal with this?

Pratik Pota: Thank you, Manoj. Thank you for the questions. I think we take all competition seriously. I think competition, what it does, while it offers an alternative to consumers to Domino's, it also helps grow the category. So that is an important point to note. But yes, we track every single meaningful competitors very closely. And as aggregator platforms evolve, we are seeing local competitors emerge in many markets. We track them very closely. We are lucky to have a very, very strong brand.

And last quarter, as I spoke about in my earlier comments, we invested behind both the new innovation of masala pizzas and a new brand thematic campaign. The objective is to make sure that as marketplaces offer more choice, we continue to strengthen our brand and make our brand as the defining pizza brand in the category. So as a result of all of these efforts, we have grown our market share in the last quarter. And we have been tracking market share over the last three quarters, quarter-on-quarter sequentially, we have gained market share and, of course, at the same time last year as well. So even as these competitors grow and they offer more choice, we have gained market share, thanks to the terrific brand strength that we enjoy.

Manoj Bahety: Yes. But if I see like one of the largest cloud kitchen in the country and if I see their growth in terms of numbers, in terms of number of kitchens, they are growing at much faster, even exponential pace. So just wanted to understand like, in terms of market share gain, like how it is coming? because the other guys are growing at a much faster pace.

Pratik Pota: So Manoj, I think it's important to recognize that many of these brands are working off really small bases. And if you have a growth that is off that small base, it will obviously appear optically very, very large. That's the first point.

The second point is that as many of these brands grow, we also are cannibalizing smaller brands who don't have either the distribution width or the quality of the pizza or the product portfolio that some of these new brands have. So there is a shift of market share between the smaller, hyperlocal brands and some of these cloud kitchen brands that are emerging; number two.

Number three is that, while we called out our overall SSG, I just want to repeat that our delivery growth is much higher than our average same-store growth. And within that, online growth is even higher. And after all the growth that these people are seeing, we have still gained market share at a national level.

Of course, we look at the competitors very closely in geographical pockets as well, by town, by region. And whenever we see a need to respond, we respond. So I agree. I think there are these small brands that are growing optically very, very strong and growing exponentially, like you said, but they still remain very small in the larger scheme of the category.

Moderator: Thank you. Next question is from the line of Krishnan Sambamoorthy from Motilal Oswal Securities.

Krishnan Sambamoorthy : Yes, you mentioned about attrition being lower than the industry average, and you also hinted the fact that there have been some benefits of lower wage cost because of reduction by the aggregators. But can you just quantify in terms of your data point as to whether the overall attrition compared to 1 year, 1.5 years ago, has that come down?

Pratik Pota: The attrition compared to same time last year has indeed come down, we won't quantify it, but it has come down.

Moderator: Thank you. We take the next question from the line of Abhishek Joshi from CGS-CIMB.

Abhishek Joshi: I wanted to ask, do we have any strategy for health conscious consumers? I was asking this question because, for example, if a consumer is consuming one pizza every 15 days, if we advertise more healthy food or something, then it might increase it to maybe one per week or something. I just wanted your thought process in that direction.

Pratik Pota: Abhishek, it's a very good question. And I think we recognize the fact that there is diversity of consumers in the Indian market. Some people are seeking indulgence when they come to Domino's. Some people are looking for what they would perceive as less guilty alternatives and healthy alternatives. Certainly, we won't be a destination for healthy food, but we would want to provide consumers with alternatives that are seen to be less indulgent and less 'guilty'. Even as we speak today, we have offerings which do that. We have multigrain pizzas. We also have a thin-crust pizza, which is whole wheat. So we do provide consumers some options, people who are seeking 'healthier options'.

That said, we are watching this space very closely. And as we see this niche become larger, we will be able to provide solutions and products which meet this demand. The good part about brand Domino's in India is that we have a strong culinary team and a strong in-house development team, plus a very strong vendor network. So, as and when we see this opportunity become more mainstream, we will participate, and we will drive that. So yes, we are watching this trend very closely. We have a few options, and we will have more as the trend plays out.

Abhishek Joshi: Do we plan to run any kind of campaign in order to make our customers more aware about the healthy foods?

Pratik Pota: Abhishek, we normally don't give guidance about what kind of campaigns we plan to have. But yes, I mean, I spoke earlier about the importance of personalization. Now the fact is that we know from our data customers who order certain kind of foods and, therefore, we are able to communicate with them directly through one-on-one communication much more effectively without the need for us to go to mass media.

Moderator: Thank you. Next question is from the line of Tejash Shah from Spark Capital.

Tejash Shah: My first question is in our channel checks, especially in South India, we see a lot of refurbished stores with a very hospitable ambience. So how has been the dine-in growth in those stores which have been refurbished recently?

Pratik Pota: Was your question about refurbished stores?

Tejash Shah: Yes. So with better ambience and we picked up some of the stores in Chennai and other places. So has dine-in picked up in those stores or even there also the experience has been the same?

Pratik Pota: So, it's a great question, and I am pleased to see that you have noticed our new dining-in ambiance. And just to sort of take a step back, I think what we have done very deliberately is to improve the store ambiance, store interiors to provide a better dining experience to our customers. We also have self-ordering kiosks in these stores. They look young, they look contemporary, they look modern. Happy to report that the ceteris paribus versus controlled stores these stores are doing better in dine-in compared to the non-refurbished stores. However, the trend and the larger pattern remains that dine-in is under pressure and delivery is the one that is driving growth. But these stores are doing better vis-a-vis compared to the others. We also have a significantly better customer SAT score, NPS score.

Moderator: Thank you. Next question is from the line of Sabyasachi Mukerji from Centrum Portfolio.

Sabyasachi Mukerji: Just to understand on the store split strategy, the fortressing strategy, could you just give some light, if a store earlier used to clock Rs. 100, let's say, in the revenue, and we have split the store, is it right to conclude that now both the stores put together is clocking around probably Rs. 107, the LFL (like-for-like) growth of 7%. Is that a right conclusion?

Pratik Pota: So, Sabyasachi, without putting numbers to it, I think it's important to underline the fact that the split store strategy is working for us. Wherever we split a store, we see an incremental revenue, obviously, it is coming from the new store, but the mother store comes back to its original revenue stream depending on the store between 12 to 18 months of a store being split. That's the first point.

The second point is a customer experience improves significantly, because both of these stores service their markets faster and in a more effective manner. And number three, the combined profits of these stores are significantly higher than the mother store earlier. Our new store payback remains well under 3 years.

Moderator: Thank you. Next question is from the line of Arpit Shah from Stallion Asset Management.

Arpit Shah: Congratulations on great set of numbers. If I heard correctly, are we looking at 140-150 stores by FY20?

Pratik Pota: Yes, That's right.

Arpit Shah: Will it be a similar number for FY21 as well?

Pratik Pota: It's a little early to call out for next year, but we see the store opening momentum and the trajectory pretty much continuing. We don't have a number in mind for next year. But like I said earlier, we see the market offering tremendous potential, both in existing towns where we fortress our markets, as also in new towns. We have a customer waiting for us there. So we see store expansion being an integral part of the strategy going forward next year as well without putting a specific number to it.

Arpit Shah: In the last quarter, we had discussed about a fountain infrastructure where you could actually supply the beverage through the store without the pet bottle and everything. What would be a probable inch-up in gross margins?

Pratik Pota: So Arpit, a great question. The fountain infrastructure is being scaled up across the country as we speak. And the real impact of that will be, obviously, we felt, in summer as beverage consumption incidence increases. Of course, as you can imagine, the consumption increase, and this impact will be felt only in dine-in. Delivery will still be through the packaged bottles. So, the impact will be hard to quantify. I wouldn't like to quantify just yet. But certainly, we see that playing out very much, more so in the summer.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the floor back to the management for closing comments. Over to you all.

Pratik Pota: Thank you, everyone, for joining us on the call today. We hope that we were able to address all your queries. Let me end by saying that in the face of a challenging external environment, we are satisfied with the Q3 performance and are excited by the opportunities that lie ahead of us. Of course, if you need any more clarifications, please feel free to reach out to us or to CDR India. Thank you so much and have a great evening.

Moderator: Thank you very much. On behalf of Jubilant FoodWorks, that concludes this conference. Thank you all for joining. You may now disconnect your lines.