Jubilant FoodWorks' Q4 and FY20 Earnings Conference Call Transcript May 20, 2020

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

Moderator: Ladies and gentlemen, good day. And welcome to the Jubilant FoodWorks Q4 and FY '20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you, sir.

Siddharth Rangnekar: Thank you. Welcome to Jubilant FoodWorks Q4 and FY '20 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 key thoughts from Mr. Bhartia. Thereafter, we will have Mr. Pratik Pota sharing updates on the progress that JFL has made operationally, the impact and response to COVID-19 and the strategic imperatives that lie ahead. A request to all participants, given the disruption on account of COVID-19, members of the management are joining the call remotely, and thus, there could be some lag when responding to your queries. I urge you therefore to kindly bear with us. 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 could vary from these statements. A detailed statement in this regard is available in Jubilant FoodWorks' Q4 and FY '20 Results Release and Earnings Presentation, which are both available on the company's website under the Investor Relations section.

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

Hari Bhartia: Thank you and good evening to everyone. We are really meeting in extraordinary times. None of us could have anticipated the speed with which COVID-19 could spread and affect the health and livelihood of people, not only in India but across the world. Our government also responded to this pandemic by bringing the entire country under strict lockdown to control the spread of the virus. This certainly helped in also preparing our healthcare services for the increasing numbers in the future. As all of you know, COVID-19 is firstly a public health crisis but now with extended lockdown, it is increasingly an economic crisis. The scientists globally are trying to find a cure or a vaccine but as all of you know, the virus is known to mutate, so it's difficult to predict how long this virus will stay with us.

So while conducting our business, we definitely need to prepare our workforce for the new normal of a very heightened safety protocols and social distancing. We believe this public health crisis has large ramification on our food industry. As a delivery-focused company, we have responded fast to effectively deal with the crisis and capture the opportunities in the new normal that will emerge. Let me take some time to explain this.

Our first ramification would be concerned on safety of our employees and our customers. As all of you know, we were the first one to introduce effective safety and sanitization protocol across all our stores. Even pre-lockdown, we were the first to invest in systems for zero contact delivery. And now introducing zero contact takeaway for safety of our customers and our employees. This is helping us to reassure our customer due to the COVID situation.

Secondly, we also saw supply chain disruption across the food industry. As all of you know, we have right from the beginning invested in building a robust supply chain and food processing sector across India, what we call in our parlance, commissaries. This quickly helped us to introduce strict protocol on food safety and enable fast reopening of the stores. I think having a centralized distribution point for stores definitely helps us with a quick restart of the stores.

Thirdly, we saw during the lockdown disruption in store operations. While the Central Government had categorized food delivery as a part of essential service, we were governed mainly by local authorities at city or district level. As and when allowed, we were the fastest to reopen among all food brands. You would be glad to know that today we have opened 938 store which is covering 87% of our entire delivery area before the lockdown. We certainly hope to open 100% of the delivery area by the mid of this June.

As you know, fourthly, that during the lockdown, only delivery services were allowed. Delivery anyway has been core to our business. We have made all efforts to attract customers through zero contact delivery. You would be happy to know that we have already started to see full recovery of our delivery part of the business from many of our stores, especially in the smaller towns. As restrictions are progressively removed, we hope to recover our delivery and take away sales over the coming months in most of our cities. We are hopeful that our delivery and takeaway sales will help us partly to compensate for the drop in dine-in in some of these stores.

Since we have been restricted on dine-in, restricted seating because of social distancing will impact dine-in sales in the coming months. With the launch of Zero Contact Takeaway, we hope to start recovering some of the lost dine-in sales. Our online ordering platform will also help us to drive contact less ordering in the stores and also create options for more innovations in this area. We hope to see our stores in malls start to reopen from June, after which we will be fully operational in the second quarter.

Lastly, we have also seen increase in cost because of the additional safety protocols. During this period, we are revisiting all our cost structures and already see opportunities in improving efficiency. We are also taking several steps to conserve cash. Overall, we hope to come out of this crisis more efficient than before.

I must add again here that our continuous investment in our tech platform and our commissaries have helped us to respond fast to the new requirements of the business. As delivery experts, our own ordering platform and our own delivery infrastructure has been the biggest support in recovery during this COVID period.

As some of you may know, the company has been extending help to all possible means to the communities that we serve. The company contributed Rs. 50 million to the PM Cares Fund. And our teams are working tirelessly to reach out to all the frontline warriors like healthcare workers, policemen at service. While the interim focus maybe to prioritize more, a conservative approach for growth, but we haven't lost sight of our bigger picture.

With that, I would like to conclude that we believe in the long-term prospects of our food service industry. And we are confident that we will emerge stronger from the crisis on the basis of our safe and reliable delivery model, digital platform and a culture of strong execution.

Finally, I must let you know that all our employees, whether they are at the operations level or at supply chain level, have done outstanding work during the lockdown period to help reopen the business and maintaining business continuity during this very tough period. And I must congratulate our Management Team for their support in this entire initiative.

Now, I would request CEO – Pratik Pota, to continue this discussion by sharing his perspective.

Pratik Pota: Thank you, Mr. Bhartia. Very good evening to everyone. And thank you for joining us today. Before we start, I trust and hope that all of you and your families are safe and continue to remain so. I am happy to report that all employees of JFL and their families are safe and sound too.

I will start by speaking about our quarter four and full year performance, and the impact of COVID-19 within that. I will then share a little of how we have responded to the evolving situation and conclude by sharing my thoughts on the opportunities that lies ahead of us.

On to the fourth quarter performance:

The fourth quarter began well, coming off from strong results in the first three quarters. Our performance in January and February saw us build solid momentum with LFL growth in January being 8.4% and in February, 14.9%. SSG in these two months were 7.2% and 13.1%, respectively. We remained on track to open more than 50 stores in the quarter.

However, as we know, things began changing from mid-March onwards, especially post the Janta Curfew and the imposition of the lockdown. Dine-in and takeaway operations were stopped completely, and even delivery was impacted adversely in large parts of the country. For context, over two-thirds of the sales of Domino's comes from delivery and takeaway.

Additionally, project execution was stopped on the ground and our store opening plan had to be significantly curtailed. Given this context, we reported a reasonably good performance during the quarter, rocketing revenue for Q4 FY '20 came in at Rs. 8,979 million, 3.8% higher year-on-year. Our EBITDA came in at Rs. 1,695 million at 18.9% of revenue. The EBITDA during the quarter was significantly impacted due to lower sales, like I said in the second half of March. And continued high dairy inflation, which was offset partially by a focus on productivity.

Normalized profit after tax came in at Rs. 452 million at 5% of revenue. This includes an exceptional item of Rs. 323 million on account of,

#1. A provision for diminution in the value of investment of Rs. 200 million in the wholly-owned subsidiary Jubilant FoodWorks Lanka Private Limited; and

#2. Expenses of Rs. 123 million specifically related to COVID-19 and the sudden lockdown.

During the quarter, we saw an increase in online sales, which contributed to 89% of delivery sales. The Domino's Pizza App saw 3.8 million downloads in the quarter, and it remained the highest rated food app on the Google Play Store. We opened 13 stores during the quarter for Domino's Pizza, with 33 Domino's stores remaining under construction and which would be completed and open as soon as possible.

Turning to the full year numbers:

On a full year basis, we have reported a robust performance with operational revenues at Rs. 38,858 million, higher by 10.1% versus last year. EBITDA stood at Rs. 8,771 million at 22.6% of revenues. Normalized PAT was Rs. 3,090 million at 8% of revenues. During the year, significant inflationary headwinds, especially in dairy, and the year-end COVID-19 crisis impacted margins, which were partially offset by the strong focus on running productivity and on extracting operational efficiencies.

Our new store opening plan was on track until March, and we opened 130 new stores in FY '20. Of these, 123 were Domino's stores, and the remaining were of the of the new business unit. Our present Domino's count stands at 1,335 restaurants in 282 cities.

I will now turn to our response to the COVID-19 crisis, which was divided into three parts broadly:

Phase-1, we anticipated and prepared for the crisis.

Phase-2, we responded to unfolding events and moved quickly to restore operations with agility.

And in Phase-3, which is an ongoing phase, we are working to prepare for working in new normal post-COVID.

A little bit more of details:

In Phase-1, we anticipated that the coming crisis was round the corner, and we began preparations for it towards the end of February. All necessary PPEs, sanitizers and thermometers were sourced indeed in March. We rolled out enhanced hygienic sanitation protocols and ensured urgent training of all our store and commissary personnel in early March. As Mr. Bhatia said, we were the first brand to launch Zero Contact Delivery, which was rolled out in mid-March, and supported aggressively through our print and digital campaign.

In Phase-2, post the imposition of a national lockdown, we worked with the local administrations in the cities and in the districts and the police to reopen our stores in a phased manner. Given how quickly events were unfolding and changing, and given sometimes a differentiated interpretation of central guidelines, this called for a huge amount of effort and on-ground coordination. We also worked with our vendors and our transporters to ensure that supply was not impacted, and we had supply continuity in our stores. I am happy to share that as we speak, we have 938 stores operational, in turn covering, as Mr. Bhartia said, about 87% of our normal delivery network. In Phase-2, we also rolled out aggressive cost reduction initiatives across the board. And we also took steps to reduce cash outflow and conserve cash a lot better.

In Phase-3, we have begun working on preparing for business post-COVID for the new normal. Of course, as we know, these are early days. However, a few things are becoming increasingly clearer, and I will talk about them just now.

I think it stands to reason that the organized sector will grow faster. There will be a shrinkage of the unorganized sector. And within the organized sectors, trusted credible brands will grow faster and will gain market share. There will be, in all likelihood, a reduction in competitive intensity with many restaurants closing.

Delivery will gain in share in mix. And takeaway channel, being in India much smaller until now, will also grow much faster. Consumers will be more and more comfortable ordering online and therefore become even more important and critical for brands to have strong digital and data backbone. We believe that all of these trends will play to our strengths.

Finally, unexpected as this event was, I believe that our strategy for growth rolled out for growth in 2017, and its disciplined execution since then have in a way almost prepared us for this crisis. Our strong balance sheet, our towering strength in delivery, our continued investment in digital and technology and our lovemark brands, all place us in a unique position of strength, in which not only can they weather the storm, but actually come out from this even stronger.

Before concluding, it would be remiss of me if I didn't call out the tremendous amount of hard work, selfless service and courage of all our employees in this difficult period. Especially those of our store and supply chain center teams. They continue to persevere day after day in the duty of serving the needs of our customer and our communities. I feel truly privileged, honored and humbled to lead a team of such incredible Food Soldiers.

With this, I will stop, and I would like to request the moderator to open the forum for questions please. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the questions-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the store opening in Q4 and going ahead. In the previous quarter, we were adding around 40 stores, while this time 75 days were normal out of the 90 days, and you added around 13 stores. So was it a planned reduction because you saw COVID ballooning in February itself, or it was more of bunching up in the last 15 days of March that happened? And any insights into FY '21, do you see more cloud kitchens because people will not be coming to restaurants initially. So instead of store opening, will cloud kitchen be the future?

Pratik Pota: Thank you, Abneesh. In response to the first part of your question, I think the intention was to open more than 50 stores in the quarter. We had the stores signed up, we had the stores under construction, and we would have hit the targeted numbers had it not been for the 15 to 17 days disruption on account of COVID. It wasn't a planned slowdown, it wasn't a planned pullback. We were confident that we would have delivered the targeted store opening number.

Going forward, how do we expect the stores to change? Given that we will see a lot more of delivery and takeaway centric growth, we will expect the contribution of delivery carry out stores or DELCO stores to increase significantly. In any case, as you are aware, the Domino's store model is a very compact, very efficient one with small store sizes. Within that we will optimize it even further for delivery and carry out. I think given the evolving situation of COVID right now, and of course, also given the fact that it is impossible to execute things on the ground right now, we are taking a pause this quarter for store openings. What we will have open in quarter one and as soon as we can are the rollover stores from last quarter of which there are already about 33 as you are aware. Those stores will open as and when we get permission to execute projects on the ground. We are right now taking a pause in opening more stores for quarter one, waiting for the situation to unfold. As and when it unfolds, as and when we start opening stores, like I said, there will be even more optimized and efficient stores oriented towards delivery and carryout. I hope that answers your question, Abneesh.

Abneesh Roy: Yes. Slightly I can't understand pro-rata 50 stores versus say 13, I couldn't understand. So it was more bunching up which happened at the end of the quarter?

Pratik Pota: That's right. It was by design meant to open in the second part of March as part of our calendar.

Abneesh Roy: The 930 stores which have reopened, how has been the response past few weeks?

Pratik Pota: Okay. So, let me talk about how April and last few weeks has gone. I think it's important to recognize that in this period, our single biggest priority has been to ensure the safety and a good health of our employees and our customers. In these stores, as we have resumed them for delivery, of course, we know that dine-in has remained shut all through April post the lockdown and even now. We are seeing some encouraging signs in delivery, especially in the smaller towns many of our stores have recovered from their pre- COVID delivery sales. In many markets we have recovered the deliveries due to our strong brand, marketing & CRM and communication about zero contact delivery efforts. There is a room for us to catch up in some of the larger towns which have been severely impacted by COVID-19. But on the whole our experience is fairly encouraging.

Abneesh Roy: Right. My second and last question is on the Domino's Essentials. So how do you recognize the revenue here? And what is the revenue share? And are you working with most of the bigger companies? And all the cities are s being offered, all the cities, all the stores wherever open?

Pratik Pota: I will request Prakashji to answer the question about revenue recognition. But just to respond to your second part of the question, almost 100 cities now have Domino's Essentials live. This is a portfolio which has a number of essential products, there is atta (wheat flour), there is milk, there are spices, there is edible oil. So there is a portfolio that we have put together keeping in mind the daily need of the consumers. Prakashji, over to you.

Prakash Bisht: Abneesh, Hi. I hope you are doing well. So the revenue recognition for Essentials, it's a trading model. So we buy it from the FMCGs and then we sell it. So it is at the point of sale for us. It's our stock.

Abneesh Roy: And revenue share?

Prakash Bisht: No, not a revenue share. So it's a straight purchase. So it's a kind of a trading. So we buy it from the supplier and then we sell at MRP.

Abneesh Roy: And one follow-up here, the thought process behind this is better utilization of the delivery personnel, right?

Pratik Pota: No, Abneesh, I think the purpose behind launching Essentials was to be of additional service to our communities and our customers at a time when access to even basic essential products was difficult and hard to come by. We asked ourselves the question, how can we strengthen backend, our large store footprint, our last mile delivery capability, and of course our digital presence as well, to be able to be of service to customers. It was meant as a community service project using our legacy strengths.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: On the cost side, I wanted to understand from you what are the kind of cost levers that you have on the staff cost and rent? Especially on rent, if any kind of renegotiation at a very large scale you are being able to get? And on the staff cost side, how much of the cost can be variablized in this period of very low sales? So that was my first question.

Pratik Pota: Given the nature of the crisis, and the impact on revenue, it was imperative that we move quickly to address each and every cost and reduce the cost and variablize them as far as possible. Rent is an area where we have reached out to the landlord, explained to them the challenge that we are facing and asked for their support with rent reduction. We have invoked the force majeure clause in the contract and requested for rent reduction. We made reasonable progress depending on the region format of the stores. There is more work that remains to be done, but we have made some reasonably good progress on the rent front. Our manpower, as we talked about in the earlier earnings calls as well, manpower was a combination of full timers, part timers, and pay-per delivery. And we have often called out how we have changed the mix to drive efficiencies. I think it was critical for us to variablize even that model. So, we have moved to convert all our full timers and part timers to flexi-timers. In other words, we do not need to call them and commit to them x number of hours, either eight hours or four hours, but we can indent and call for them in incremental slabs of one hour each. So that effort is going on and we made very good progress on the ground. Most of our store manpower now have been converted from full-time or part-time to flexi timers.

We have also made good progress on reducing the G&A cost across a variety of line items. On the store operating cost, again, it was imperative that we went back and looked at all the cost lines, we made very good progress there. To illustrate and give you one example. In all our maintenance cost, we have had AMCs for efficiency, in this period given the uncertainty about the outlook, we have moved from AMCs to incident based and instance-based cost. So only when there is a breakdown would we incur the cost, and we would not incur the fixed cost of AMC. We have also had significant savings driven on logistics and warehousing. We have reduced the size of the fleet that we use. We have reduced the warehousing cost. So across a variety of areas we have actually had a relook at cost and made encouraging progress. And of course, going forward, as Mr. Bhartia said in his opening remarks, it allows us to become a much more efficient business as we revisit all the costs and look at them from a Zero-Based budgeting perspective.

Arnab Mitra: Thank, that's very helpful. My second and last question, you did share that in the smaller towns you are almost back to, in some cases, back to the pre-COVID level of delivery. So in the top 10 cities, what kind of salience of sales currently do you have? And any sense of what kind of recovery are you seeing there in the delivery part of the business?

Pratik Pota: Arnab, it's hard to give you specific numbers. But let me tell you the broad theme. Even in the large cities, it's not as if there is a common theme across, we are seeing much better pickup in some of the towns as compared to the others. To give you an example. I think we were impacted as a category by the incident in mid-April which created some headlines and news. So north has seen a slightly slower recovery, but most other markets are seeing, even the large town are seeing robust and good recovery of delivery sales.

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

Manoj Menon: It was an extremely good performance given the context. And thanks for significantly better disclosures particularly on the cost front just now. So, just one question on the consumer behavior part. I mean, while I understood the comment about the small towns back to the pre-COVID, the only question here is, if I understand correctly, probably 70% of the revenues in value terms comes actually from probably the top five, six, seven cities, so it's mostly a metro phenomenon which is COVID, so to that extent there is that bit of an exposure. But just trying to understand, what is your prognosis of how does it look? I know that it's a bit of a crystal ball gazing here, let's say, on the consumer behavior over, let's say, a six months period from where we are today.

Pratik Pota: Thanks, Manoj. I hope you are safe. Like you said, it is indeed crystal ball gazing to an extent. But we have got a series of initiatives going-on on the ground to understand the likely change in consumer behavior. And some themes are becoming fairly clear and evident even now. And some of them are reasonably obvious. I think given the growing importance of sanitization, hygiene, we will see the unorganized street-side sector shrink. People will move towards organized sector. And as they come to organized sector, they will enter in category and segments which are a combination of great quality food, safety and hygiene, and value for money. And that, of course, is the QSR category. So we believe that the QSR space will start seeing a significant growth and reap the benefit of the industry being more and more structured and more organized. That's the first point. We will see and we are beginning to see already a change in behavior where consumers seek and navigate less by discount and more by trust and more by quality and more by brand credibility and brand experience. Number two. Number three, there will be a very clear shift in channel behavior. While we believe dine-in will come back at some point of time, because the dine-in behavior of groups of people going out together to celebrate and to have a good time, that will not go away forever, it will come back. But in the near-term and in the near-future delivery will grow faster and takeaway channel will be adopted by consumers to replace part of the dine-in occasion. We also expect consumers to become more value conscious and more value focused, given the nature of this pandemic, and the anxiety around it. And then also we expect a lot more adoption, this crisis period has been almost a driver of lost consumers embracing online ordering, even for categories where they were not doing earlier, like grocery, that behavior will rub-off onto our category as well. So we will see a lot more adoption of delivery and of online ordering, even among consumer cohort who weren't doing so earlier. Those are the likely trends the way we are seeing it. And like I said earlier in my remarks, most of these trends, in fact, all of these likely trends are going to be playing to our strengths.

Hari Bhartia: If I can add, Pratik, what you have stated. See, the initial period of action by the government on lockdown is, the behavior of local authorities was different in different cities. In some places we were allowed to open till 5 o'clock, some places till 7 o'clock, some places we were allowed to open till late. And more and more, we are hoping, that there is a realization that business must continue. So, we will also see that with proper sanitization protocol, safety protocol, we would be able to operate a greater number of hours in more cities. And it is important even for the government to allow business continuity. And even though COVID situation may not go away, so to that extent the initial shock factor also will slowly die down. And that to some extent should affect the consumer behavior, because some normalization hopefully will take place. And we are seeing that in different cities.

Manoj Menon: Understood. Thank you so much for the detailed responses. If I may, just the second question here is, essentially linked to the first one, because I was trying to get it right in my head that if, let's say, the size of the delivery market in India pre-COVID was, let's say, an index of 100. I was just trying to understand that how does this 100 would look like in a year's time, not a quarter or two, because that's at least in a year's time, 12 months from today. And the context of this question was the actions by two leading delivery players, Swiggy and Zomato. And when I was reading their blog and what they are actually thinking, it seems to be what they are communicating. They seem to have a little more cautious view about the size of the delivery market in itself 12 months from today.

Pratik Pota: No, it is a fair question. And I also would not like to comment on the views professed or shared by others. I think our outlook for delivery, looking at our brand, our business model, our strength, and looking at our own consumer behavior and data, I must confess, we don't share that pessimism. We believe that for the reasons that I mentioned earlier, consumers will look for safer, healthier, high quality food. They will come to trusted brands, they will embrace alternate channels like takeaway, they may not be comfortable sitting in a store in a closed space for long in the beginning, but they will need to live life normally and they will change and alter behavior to make sure that they can they can go out, celebrate, live the normal life. Also remember the lipstick effect, that in a time of crisis people look for some markers of normalcy, some markers to tell them that life hasn't changed so much. We believe brands like Domino's which are strong, trusted brands, having here for the longest time, for 25 years plus, will offer that comfort, will offer that reassurance that all is still well. So, like I said, I don't think we are pessimistic about the recovery of delivery, the pace of recovery, your guess is as good as mine. We are seeing some good recoveries in the smaller town. So, we can debate how that recovery will play out. But we are not pessimistic.

Shyam Bhartia: I would just like to add, that for some players, the total availability of restaurants will come down because many of the restaurants will close down, which will benefit us because those people will come to us and more trusted brand.

Manoj Menon: Absolutely. Thank you so much. I was talking to this La Pinoz Pizza, their comment essentially was that, look, pizza probably as a product also because of the high temperature, making low human contact, as a product potentially could outperform significantly Good luck, Pratik and team.

Moderator: Thank you. The next question is from the line of Ruchit Mehta from SBI Mutual Fund. Please go ahead.

Ruchit Mehta: I know you commented about qualitatively on post-March how things have been behaving. Well, in line with what Domino's Global has done, could you share what has been company level trajectory on revenues or SSG even if it's just qualitatively, let's say, in February you were at 100, and in March was x, how that has progressed going forward? And secondly, in terms of store counts also, would you at some point in time need to reassess viability of some stores, whether you want to continue with the expansion given the situation currently or existing stores need to be kind of relooked at?

Pratik Pota: Thank you. Let me respond to the first part of the question. I think my response will not be different than what I shared earlier. It will be a little bit more qualitative than specific and quantitative. Like I said, through the month of April towards the end of March, our focus was on ensuring that our employees and customers were safe. And equally, we worked on the ground to restore normalcy to reopen stores, to ensure supply continually. All of those very, very important drivers of business. I think we also made sure that we maintained a communication and outreach with our customers and the consumers. I think it was important for them to know that you were around, that we are taking all necessary steps to ensure the safety, ensure we are taking even heightened protocols for that. So the entire Zero Contact Delivery campaign that we did, aggressive campaign in digital, on the ground, and thereafter in a TVC was important in that regard. And that has clearly helped us, and we have seen our customer confidence come, we have seen the momentum in many markets come back to either near pre-COVID levels, or like we said earlier, absolutely pre-COVID levels. And as the lockdown rules get more relaxed and as more activity is permitted on the ground, and our stores are allowed to open for the full duration and not for curtailed timing, we expect that it will increase even further in the month of May and June.

Ruchit Mehta: The lockdown started getting lifted partially from 21st of April. So would it be fair to assume that a pretty good part of April there was no revenues?

Pratik Pota: Like I said, I don't want to give a specific response. But our stores began reopening from April itself. We were the first QSR to reopen a store. And even as we speak today, the network that we have opened and made operational, is the highest amongst QSR. I think, given our strong on-ground presence, the fact that our store model is not-fully-mall based, our store model is a combination of high-street stores, neighborhood stores optimized for delivery, and a few stores in malls and in food-courts, I think that our robust combination allowed us to open a lot faster and a lot ahead of others.

Coming to your second question about stores and our store outlook. Like I said earlier in my response to Abneesh, we are looking at only opening the rollover stores from last year in the first few months even as we take a look and revisit our store opening plans for this year. Yes, given the nature of the business impact, there will likely be some stores where profitability will be challenged. In these stores, the first things we will do is to address and revisit all cost lines first. Starting with rent, we will go back to landlords and renegotiate rents, share with them transparently the revenues and ask for rent reductions, other operating costs, other manpower costs. So look at first all the cost items, and if we believe that the store can be made to turn around with those reduced costs and the low revenues then the store will continue. We of course also have, it goes without saying, extensive efforts made to drive revenues from these stores. So if you could convert a few dine-in only stores to dine-in plus takeaway plus delivery, that will obviously help drive revenues. Between the revenue maximization effort and the cost reduction efforts, if a store looks like it's not going to become profitable, then we will take a hard call and look at shutting the store. But there are a lot of work streams that we have access to before we take a call on store closure.

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

Avi Mehta: This was with regard to what you said in the middle of the call about the consumers trying to seek value products. Is that something that you are witnessing in your delivery sales as well? And if you could kind of highlight that. And also, if you could also highlight the share of delivery what would it be till February, because March obviously would be different.

Pratik Pota: So, Avi, on your first question, my statement was more about the likely impact of the COVID crisis on consumer behavior in the future. As people worry about their incomes, job security, and just uncertainty around the crisis, all data points that we are tracking show that consumers will become more value conscious. And we expect that to play out in the future. We believe that something that will play to our strength, because we are an extremely value driven

Avi Mehta: Sorry, Pratik, what I was trying to get to is that, April, May also may be witnessing a focus more towards value, is that also what you are seeing right now as well or no?

Pratik Pota: It would be misleading to look at April, May numbers, because these numbers are impacted a little artificially because of the lockdown, because of people being at home, large group sizes, large orders, meal replacement. And in fact, the dine-in is not open. So it could be a little misleading to look at only April or only April and May. But I think this is a trend that we can plan for in the future.

Avi Mehta: Okay. And the delivery salience till February, would you be able to share?

Pratik Pota: Look, like I said in my opening remarks, almost 70% of our sales come from delivery and takeaway.

Avi Mehta: Okay. And if with your permission, just this provision, is this more one-off, the COVID provision? Or is this likely to continue? Because I am not able to understand the nature, could explain that. That was all from my side.

Prakash Bisht: Avi, it is more of a one-off kind of a thing, because what happened was when this lockdown was announced suddenly, so all our running stores had shut down. And as you are aware that we have perishable raw material, so lot of raw material in the stores got perished and we had to write it off. So, unless otherwise there is a sudden stoppage of the entire network, this kind of one-off may not be there. But part of it is also, as Pratik was saying, towards our increased hygiene that we did during that period.

Avi Mehta: But not towards higher operating expenses, to sanitize etc. You said zero contact and that you have to invest in our employees.

Prakash Bisht: No, so mostly it is the write-off of the store which happened because of the sudden nature of stoppage of the stores.

Moderator: Thank you. The next question is from the line of Manasvi Shah from ICICI Prudential Mutual Fund. Please go ahead.

Manasvi Shah: Sir, if I see your employee costs for the year, they have actually gone up sharply around 16%, 17%. Can you throw some light on this, why is this so and what sort of trends do you expect over here for the coming one or two years?

Prakash Bisht: So, employee cost is a big line item for us. So obviously, as you are aware, that employee cost is subject to inflation, because in our case, as you are aware, that most of our employees, including the store manpower, were company employees. And part of employees were covered under minimum wages. Now, the government keeps on changing the minimum wages, when the minimum wage increases we have to give the minimum wage, we have to also give the increments. So partly this is coming mainly because of the inflation. So, that is the reason why you see the increase in the employee cost.

Manasvi Shah: Okay, fair enough. And also there is an increase in the inventory days, is this because of the Domino's Essentials portfolio?

Prakash Bisht: No, no, it's mostly because as the shutdown happened suddenly in the second half of March, and prior to that we were carrying inventory for normal operations. So when suddenly the operation did not happen and we had to close out, so that is getting reflected in the inventory. If the operations were normal, it would have been consumed.

Moderator: Thank you. The next question is from the line of Chanchal Khandelwal from Birla Mutual Fund. Please go ahead.

Chanchal Khandelwal: Just on the question which was told before, and when you highlighted that the organized industry will gain, you are sitting on a huge amount of net cast. I know people are consolidating now and people are trying to preserve cash. But if I were to look at a different way, opportunity for you to grow in different brands and use this as an opportunity to grow and prepare ourselves for next two to three years. Any thoughts on this line?

Pratik Pota: I think, Chanchal, at a time like this, it gives us rock solid comfort to have a balance sheet that we do and the cash reserves that we do. Our singular focus right now is on ensuring that we conserve cash and manage it well to tide over this crisis. So that is absolute razor sharp near term focus. In the further out future, does the same cash reserve give us opportunities for a discontinuous growth? Yes, it does. But that's further out in the future. Right now we are focused on cash conservation.

Hari Bhartia: But just to add, this is Hari Bhartia. At this period, even if we have cash reserves the focus would be really on how to bring Domino's back to its full form and growth that we used to see in the last two years. And then look at expansion into other brands or acquisition, if you really look at it that way.

Chanchal Khandelwal: Sure. Thanks. This is very clear. Secondly, on the employee cost, employees will play a critical role going forward, as we hear in Mumbai and some of the other restaurants employee has got COVID and people are ceasing to buy from those restaurants. How are you taking care of, you have highlighted a few of them, but how are you taking care that employees are in particular taking care of health when they go back and when they rejoin you. So anything you want to highlight in terms of what are the precautionary steps you are taking?

Pratik Pota: That's a really good question. And I must say that we are doing a lot of initiatives we are taking to ensure that our employees are safe. That obviously is the number one priority. In our stores and in our commissaries, all employees have been wearing masks and gloves from early March. There is a daily temperature check that gets done. All our store teams have Aarogya Setu app, and therefore there is a self-certification of their health and of their contact behavior. We moved very quickly to remove cash on delivery from our OLO app. So we only now accept the prepaid orders to further minimize the risk of contamination. And additionally, we have now introduced for all of our store employees a 100% medical checkup that's done every week. So all our store employees get checked every week by a doctor, and that is additional comfort for our employees that they are safe, and they are taken care of.

Moderator: Thank you. The next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh: Two questions, firstly on Hong's Kitchen. How was the response post COVID to this format? And does this change the expansion strategy here? Because I mean, you mentioned that in Domino's you would be looking at more cloud kitchen kind of a format. In Hong's Kitchen, does that change the strategy? That is question one. And second is, you mentioned that some of the markets have opened up and the levels of activity are back to pre-COVID levels. So could you just share some learnings from these markets? First of all, which are these markets and some learning from these markets? Thanks.

Pratik Pota: Sure, Prasad. So let me respond to the question on Hong's Kitchen first. The Chinese food segment we had talked about earlier, that was a very high opportunity market for us. If anything, the onset of this pandemic underlines the immense opportunity in the Chinese food space. There is a vast chasm between the fine dine-in and the premium casual dine-in in Chinese. Most consumers adopt the street-side Chinese consumption, between the two there is a gap. And therefore, the space of an affordable, safe, hygienic, tasty Chinese food experience, that space is waiting to be taken. And Hong's Kitchen plays fair and square in that space. We were seeing good momentum on Hong's Kitchen pre-COVID. After the hiatus in end March and early April, we have seen momentum pick up in Hong's as well.

To your question about the format in Hong's, I think given the ubiquitous nature of dine-in being under pressure, we will also have Hong's Kitchen focus more on delivery and carry out, not so much cloud kitchen, because brand significance is important for a new brand, but certainly more optimized smaller stores which are oriented towards doing delivery and carry out. So, that will be the strategy. We will be focused to begin with on the Delhi-NCR region this year, and thereafter we will expand to other markets.

Prasad Deshmukh: So, does it mean that the number of store openings will accelerate here versus what you had earlier planned?

Pratik Pota: No, I would not say that. I would say that we will remain focused on Delhi-NCR in the Chinese food space. The point I made earlier about being conservative in this quarter, and part of the next remains valid also for Hong's Kitchen.

Prasad Deshmukh: Sure. And the question was about the learnings from other markets.

Pratik Pota: Yes. I think it's a good question. I think there are many markets, like I said, in many towns where we have recovered delivery sales. These towns are towns where we were be allowed to continue uninterrupted for long stretches of time. In other words, there has not been frequent stoppages of our operation. So if consumers are aware that we are available, and we are available on a continuous basis, the learning is that they go back to their old habits and again start doing home ordering. So that is the one big learning that we have vis-à-vis markets where we haven't done as well, the recovery has been a little slower.

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

Tejas Shah: Let me start with a word of appreciation for your whole team and especially your store level staff to take so much risk at this time to provide food to customers like us. Sir, my first question is delivery of essentials. Now, is this line of business just an outcome of the crisis like what we are facing right now? Or are we seeing a long-term engagement as a vertical here? And do you think this can pivot something into like liquor delivery, as we saw last evening that couple of states have allowed food aggregators to be part of the of the supply chain here.

Pratik Pota: Thank you for the kind words, Tejas. And I must say that, I have tremendous pride in the way our store teams have responded to this crisis, and responded to the government calling it out as an essential service and ensuring that our stores stay operational and serve communities. Essentials was a step in that direction. We were seeing lots of reports about customers struggling to get pulses, rice, flour and those kinds of basic essential products. So we asked the question, how can we be of help, how can we make a difference. And from there came the Essentials project. I think the fact that we are able to turn it around in almost 48 hours span end-to-end, tells us how deep our strengths are across supply chain, across digital, across last mile delivery. The Essentials project was born out of that consumer need and the community need. It is intended to stay in operation for the duration of this pandemic and as long as we believe the community still need us. It is not envisaged right now as a long-term business opportunity.

Tejas Shah: Sir second, you touched upon that dine-in seems to be the biggest casualty of this event. Now, post the lockdown also, and whatever we are reading in other markets where COVID is subsiding, dine-in is actually not picking up. So any structural changes in terms of open kitchen or other interventions in terms of extra discount that you will have to run to give that comfort for customer to step in? Or you believe that that demand will actually be cannibalized and serviced by home deliveries?

Pratik Pota: No, I think it's a fair question. I think the point of fact on dine-in is that it's not allowed right now in any market. So it is premature right now and a little early to anticipate how consumers will respond to when dine-in opens. But again, our research shows and our consumer data shows that when dine-in opens, there will be a few things that will become really important. Like I said in my opening remarks, people would go towards hygiene and sanitation. And therefore, symbols of that would become important. So open kitchen, like you said, is going to be of super importance. And all our stores are pizza theatre store, they are open kitchen, consumer can see exactly what standards are being followed in the kitchen. We believe that is going to be something that will work to our advantage. Number one.

Number two, as Mr. Bhartia spoke about in his opening remarks, we are looking at launching a contactless dine-in proposition when dine-in is allowed in our stores. The zero contact dine-in will allow consumers to maintain social distance and to avail of a dine-in experience, order pizzas in dine-in, stay and consummate the transaction. We also have redesigned all our stores in dine-in. And changed the layout completely to make sure that there is six feet of separation between tables, we put the floor markers and stickers. So we are completely ready to hit the ground running as soon as dine-in is allowed. Dine-in will remain a challenge for some time. But like I said earlier, dine-in will come back at some point of time because people will want to go out and eat together as a group. But we are prepared to respond to the consumers' needs for a safer and more transparent dine-in experience.

Moderator: Thank you. The next question is from the line of Latika Chopra from JPMorgan. Please go ahead.

Latika Chopra: My first question was on the gross margin profit , you did mention about high dairy inflation and you did talk about lower promotion intensity and lesser competition. In this context, as we look ahead, how do you anticipate gross margin profile to look like? Is the dairy inflation abating at the margin? That's the first question.

Pratik Pota: I hope you are safe. In response to your question about inflation, you are aware that last year we saw a significant inflation in dairy and cheese, and we have called out in all our quarters the impact of that on our gross margin. Happy to report that on account of a variety of reasons, including increased supply, we are seeing the milk and cheese prices come down. That impact has not flowed into the P&L in quarter four because we are carrying inventory, but we expect to see going forward some positive rub-off on account of dairy inflation coming down.

Latika Chopra: Sure. My second question was on takeaway and carry out, you mentioned 70% of sales are delivery and takeaway. Is it possible to talk about what is the salience of takeaway? More importantly, what I wanted to understand was, what are the steps you could take to ensure higher share of takeaway?

Pratik Pota: Latika, I won't be able to share specific numbers on the takeaway contribution, but it is still small, it is not very large. And we believe that there is a huge headroom for us to grow takeaway as a channel. Takeaway will serve to the lead state and to the occasion, consumer currently right now, in place of dining-in. And that occasion will now move to takeaway increasingly. And we are very, very bullish about the prospects of this category. We are working on specific plan for driving Zero Contract Takeaway, it's ready in our stores, it's ready for consumers to come in and experience.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.

Pulkit Singhal: Very glad to know that everyone is safe in the Domino's family. A couple of questions. Number one, first question is more in terms of some data points, whatever be the new customer acquisition rate that we had prior to COVID, let's say we acquire a certain number of customers every month, has that gone up or gone down in April and May? And if you could give some percentage of how much it might have gone up or gone down?

Pratik Pota: Thank you, Pulkit. Thank you for your message and I hope you are safe too. Pulkit, we don’t share such data, as you know granularly, for the past quarters or even the current quarter. But given the circumstances, let me give you some broad trends. And I talked about it earlier also in my remarks about delivery beginning to come back. Some towns faster than the others, the same trend is reflected also in new customer acquisition. We are seeing in some markets customer acquisition come back. There was a slowdown in March and in early April. But post mid-April, we began to see some recovery in the face of customer acquisition as well. As reflected in metrics like app download and active users going up. So we are seeing those lead indicators to improve. And like I said, the trend is better in some towns as compared to the others.

Pulkit Singhal: And in terms of discounting for the year, how should we look at it? I mean, given where the situation is, is it reasonable to expect that some of the raw material benefit prices you might have to pass on to the customers for the kind of revised demand? Or, I mean, how would discounting be for the full year compared to last full year, broadly?

Pratik Pota: Thanks, Pulkit, that is another great question. So there will be two contrarian trends playing out on the discount cost line. The first one was the reduction in competitive intensity. And therefore, consumer looking more for quality and sanitation rather than discount and deals. So that will be one trend and one theme which will help us possibly contain discounts. Equally, however, there will be the consumers' need for value, and promotions and offers to come back into the category and to come back and drive consumption harder. So these two contrarian trends will play out. It's hard to sort of estimate right now where does this end up. But obviously, that time we will make sure we contain discounts as much as we can while driving growth.

Pulkit Singhal: Yes. I think the employee expense, I am just trying to understand that line item, because if e-commerce is going to pick up in a major way across different categories, I mean, in general, to deliver FMCG goods, etc., that can result in a lot of poaching, etc., for the delivery boys, right. So, I am just trying to understand, is that going to be something which will be a headwind over the next three to five years structurally versus the last three to five years?

Pratik Pota: So, Pulkit, no. Thanks for the question. We don't expect that to be a headwind or structural issue in the future for a variety of reasons. The first one is that, given that 90% of ordering now is online, and we have technology adopted in our delivery ecosystem, we have a very good idea of our delivery performance in terms of efficiency. And using data we are able to drive a lot more efficiency, and therefore a lot more orders with the same or lower manpower. That's number one. Number two, and I talked about it earlier in my response to an earlier question about the structural shift we make of moving all our store and delivery manpower from being fixed and full timers to being flexi timers. That will allow us to flex our deployment of delivery manpower in response to the demand curve. A third point, of course, we traditionally had extremely very, very powerful sourcing system for sourcing manpower from small town and from interior markets, that remains robust. And therefore all three things put together, we don't expect manpower cost to be a structural headwind for us in the business.

Hari Bhartia: And just to add, in the past if you really look at it, as a percentage of sale, we have been consistent on manpower cost.

Pulkit Singhal: Right. No, I was just checking for the future because everyone talks about delivery going up, I mean, I am just wondering how this ecosystem evolves. Thank you for your answer.

Moderator: Thank you. Gentlemen, we will be taking the last question, that is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Sir, two questions from my end. Sir firstly, we had an extra day in February, and happened to be a weekend. So how much of an impact was due to the extra day? And how much of the acceleration and what was the reason for the rest of acceleration that we saw in February in SSG or LFL?

Pratik Pota: No, the good part, Aditya, is that our momentum during the quarter four, pre-COVID, of course, was consistently improving. So even if I take out the impact of that extra day in February, the trajectory, the incline between January, February and the first half of March was consistently upwards and increasing. So yes, there was certainly some impact on account of that extra day, which fell on a weekend. But the trend without that also, notwithstanding that, was positive for us, and driven by delivery, driven by online, as has been the same in the past as well.

Aditya Soman: Fair enough. Secondly, so your personal cost is up 16% year-on-year in 4Q, now as you explained, a large part of your personal cost is variable, so it should have sort of started to fall, especially given that you started seeing momentum slowdown maybe from the middle of March itself. So one was, why was the momentum on employee cost so high Y-o-Y? And secondly, on that employee cost, do we expect any changes because of the new minimum wage regulation?

Prakash Bisht: So I just wanted to explain one point. The employee cost, you should not link it only to our store manpower cost. We must also note that we were building our digital assets also. So part of which is also an investment towards building our digital asset. So that is one factor. Other factors are, because as you know, this year again the COVID impact has impacted our sales, so when you are seeing relatively as a percentage to sales, that has also impacted the employee cost. Third point we explained earlier that is mainly because of the minimum wage has been implemented. But having said that, we always have the levers to control this cost, as Pratik was saying. Earlier, he had the lever of part-timers, pay-per delivery and full-timers, now we are also working on it to make it more efficient.

Pratik Pota: If I can just add to that, Prakashji, just one more point that you need to keep in mind, which is that, our stores, as you know, closed completely for dine-in and mostly for delivery from 22nd onwards for the month of March. All our employees, regardless of whether the stores were open or shut, the store team, the shift managers, the store managers, all got paid in the month of March. So, I think that operating deleverage that we got also is reflecting in the cost line there.

Hari Bhartia: That's what is the explanation for the fourth quarter, actually. The last 15 days, with virtually less sales or zero sales for almost during lockdown period while the employee cost was fully paid. So I think that has impacted it. Otherwise, consistently we have been, as a percentage of sales, we have been quite consistent in employee cost.

Aditya Soman: Yes, fair enough. I was just wondering about the pay-on-delivery sort of cost that you have, right, which, I am assuming you did not incur for the latter half. But fair enough. And just on that minimum wage, the new legislation on minimum wage, given that you are one of the largest companies that gets impacted by minimum wage, how do you see that progress and impact over the next year?

Pratik Pota: So Aditya, right now the intent has been put out and the details are still awaited by state. But again, like I said earlier in my earlier responses, I think we have with us the lever to drive efficiency and to reduce cost in delivery, through combination of data based efficiency, and increasingly now of variable deployment of manpower, by all to match the demand curve and the demand shape. We feel secured about our personnel and our delivery cost . Notwithstanding the changes in the minimum wages across the country. Our cost per delivery is tracked very, closely. Our cost per delivery has been coming down over quarters, further we expect to continue the trend on the back of efficiency using data and smarter manpower deployment in the stores.

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

Pratik Pota: Thank you, everyone, for joining us on the call today. We hope that we were able to address your queries. This is a difficult and unprecedented crisis, as we know, and it has really given some short-term pains. However, if we look beyond this intermediate period, we have deep conviction that we have the right strategy to ensure that not only would we navigate this crisis well, but emerge from it even stronger. Should you need any clarification, please feel free to reach out to us. Thank you so much and stay safe. Have a good evening.

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

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