

Jubilant Foodworks

BSE SENSEX	S&P CNX
38,964	11,588
Bloomberg	JUBI IN
Equity Shares (m)	132
M.Cap.(INRb)/(USDb)	188.7 / 2.7
52-Week Range (INR)	1518 / 982
1, 6, 12 Rel. Per (%)	1/7/1
12M Avg Val (INR M)	2215
Free float (%)	58.1

CMP: INR1,430 TP: INR1,720 (+20%) Upgrade to Buy

Good results, improving earnings outlook drive upgrade

- **Jubilant Foodworks' (JUBI) sales increased 12.1% YoY** to INR9.9b (in-line), with SSS growth of 4.9% YoY (our estimate: +6%). Like-for-Like growth (i.e., sales growth of stores that were not split since 1st Apr'18) stood at 6.5% YoY. EBITDA was up by 59.3% YoY to INR2.3b (our estimate: INR2.3b) and adj. PAT rose 13.9% YoY to INR884m (our estimate: INR767m). Reported PAT was impacted by one-off provision of INR125m.
- **Excluding the Ind-AS 116 impact**, underlying EBITDA was up 9.7% to INR1.6b with the margin at 16.4%.
- **Gross margin expanded by 70bp YoY to 75.3%** and EBITDA margin by 700bp YoY to 23.8%. Underlying EBITDA margin contracted 30bp YoY to 16.4%.
- **Concall highlights:** (1) Continued pressure in dine-in sales was offset by delivery buoyancy. (2) The impact from 'cloud kitchen' has not been material in the 26 cities where this model is present. (3) It opened 40 new stores – the highest in 15 quarters. (4) Hong's Kitchen attracted encouraging response; will expand stores gradually in 3Q and 4QFY20.
- **Valuation and view:** The stock has been underperforming over the 12 months. As highlighted in our [update note](#) two weeks ago, JUBI's competitive positioning will get stronger as a result of the corporate tax cuts. Moreover, the challenge of a high SSSG base eases significantly going forward and JUBI has done well in the face of 20% SSSG base in recent quarters. With demand stabilizing, discretionary players with strong brands offer high scope for upside, in our view. We expect over 25% EPS CAGR and improving RoEs over FY20-FY22. Targeting 45x Sep'21E EPS (30% discount to five-year average P/E), we derive a target price of INR 1,720, offering a 20% upside. **Upgrading to Buy.**

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	35.6	40.4	47.0
EBITDA	6.0	9.9	11.6
PAT	3.2	3.6	4.7
EPS (INR)	24.1	27.6	35.6
Gr. (%)	62.0	14.6	29.1
BV/Sh (INR)	95.4	112.1	134.9
RoE (%)	25.2	24.6	26.4
RoCE (%)	28.5	34.9	36.3
P/E (x)	59.3	51.8	40.1
P/BV (x)	15.0	12.8	10.6

Estimate change 

TP change 

Rating change 

Quarterly Standalone Perf.

Y/E March	FY19				FY20				Std. FY19	Consol. FY20E	FY20E 2QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
No of stores (Dominos)	1,144	1,167	1,200	1,227	1,249	1,283	1,313	1,343	1,227	1,343	1,274	
SSG (%)	25.9	20.5	14.6	6.0	4.1	4.9	6.0	10.0	16.4	6.3	6.0	
Net Sales	8,551	8,814	9,291	8,652	9,401	9,882	10,444	10,119	35,307	40,392	9,886	0.0%
YoY change (%)	26.0	21.3	16.8	10.9	9.9	12.1	12.4	17.0	18.5	14.4	12.2	
Gross Profit	6,373	6,575	7,019	6,581	7,093	7,439	7,839	7,595	26,548	30,363	7,425	
Gross margin (%)	74.5	74.6	75.6	76.1	75.5	75.3	75.1	75.1	75.2	75.2	75.1	
EBITDA	1,421	1,475	1,706	1,476	2,191	2,350	2,596	2,536	6,078	9,941	2,347	0.1%
EBITDA growth %	78.5	44.4	24.6	15.5	54.2	59.3	52.2	71.8	36.2	63.6	59.1	
Margins (%)	16.6	16.7	18.4	17.1	23.3	23.8	24.9	25.1	17.2	24.6	23.7	
Depreciation	366	385	373	400	808	838	939	1,008	1,523	3,964	969	
Interest					395	404	404	404		1,607	395	
Other Income	71	108	138	151	153	172	228	242	469	761	179	
PBT	1,126	1,199	1,471	1,227	1,141	1,281	1,481	1,366	5,024	5,131	1,162	10.3%
Tax	380	422	506	436	393	396	373	344	1,744	1,488	395	
Rate (%)	33.7	35.2	34.4	35.5	34.4	30.9	25.2	25.2	34.7	29.0	34.0	
Adjusted PAT	747	777	965	792	748	884	1,108	1,022	3,280	3,643	767	15.4%
YoY change (%)	213.2	60.2	46.2	16.3	0.1	13.9	14.8	29.0	58.9	11.0	-1.3	

Interim nos. are standalone while annual nos. are on consol. basis

Krishnan Sambamoorthy – Research analyst (Krishnan.Sambamoorthy@MotilalOswal.com); +91 22 6129 1545

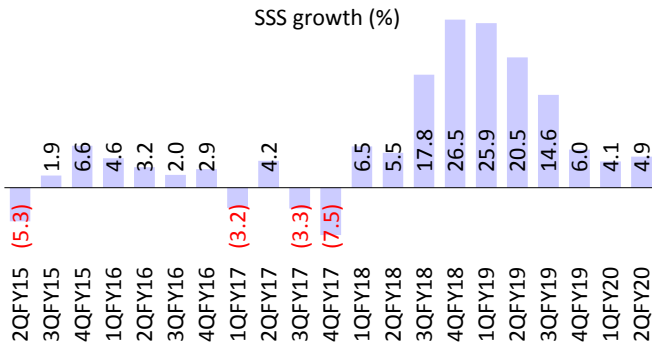
Research analyst: Dhairya Dhruv (Dhairya.Dhruv@motilalosal.com); +91 22 6129 1547 | Pooja Doshi (Pooja.Doshi@MotilalOswal.com); +91 22 5036 2689

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Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

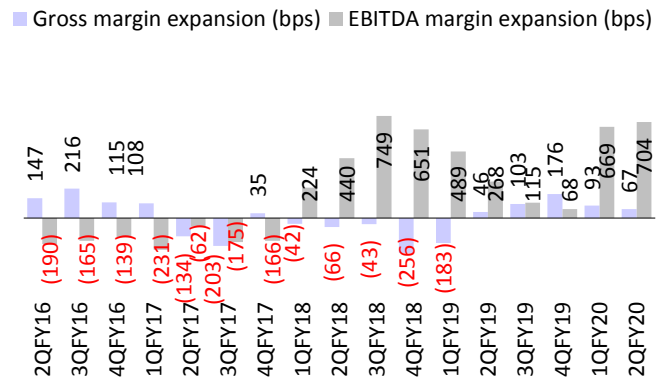
Key quarterly charts

Exhibit 1: SSS grew 4.9% YoY in 2QFY20 v/s estimate of 6%



Source: Company, MOFSL

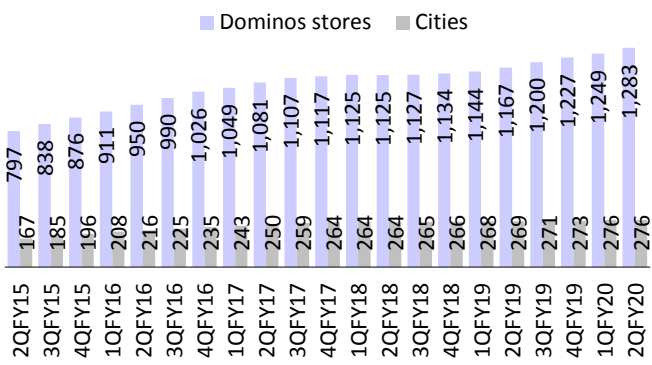
Exhibit 2: Gross margin (up 70bp YoY) and EBITDA margin (up 700bp YoY) trends



Source: Company, MOFSL

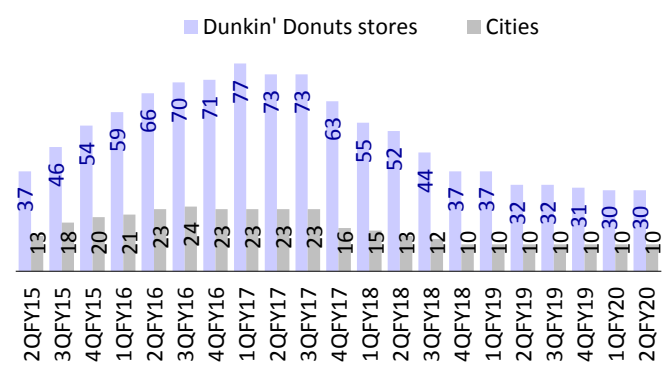
- Total Dominos store count stood at 1,283, with net additions of 34 stores (40 stores opened, 6 stores closed) in 2QFY20.

Exhibit 3: 34 net additions in Dominos in 2QFY20



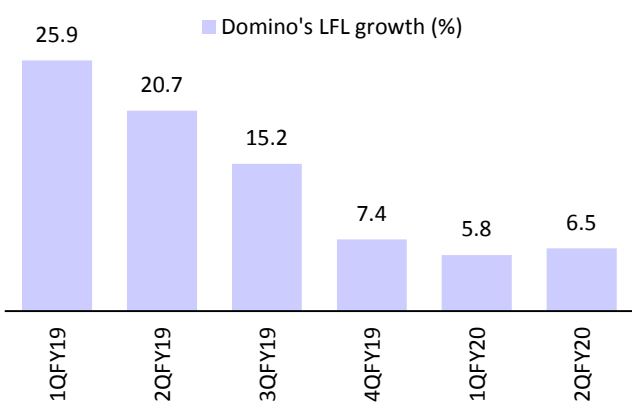
Source: Company, MOFSL

Exhibit 4: No Dunkin Donuts stores closed in 2QFY20



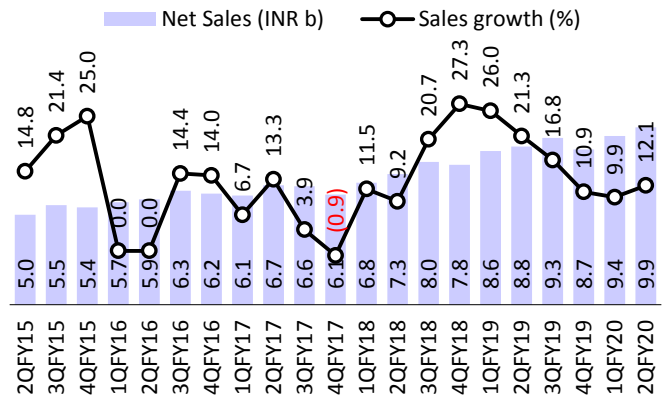
Source: Company, MOFSL

Exhibit 5: Domino's LFL growth



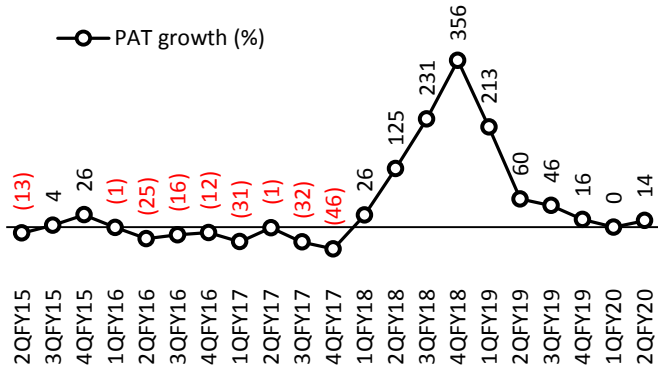
Source: Company, MOFSL

Exhibit 6: Net sales up 12.1% YoY to INR9.9b



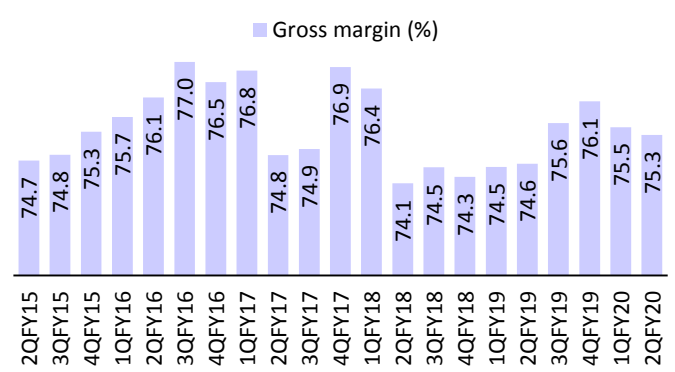
Source: Company, MOFSL

Exhibit 7: Adj. PAT growth at 13.9% YoY in 2QFY20



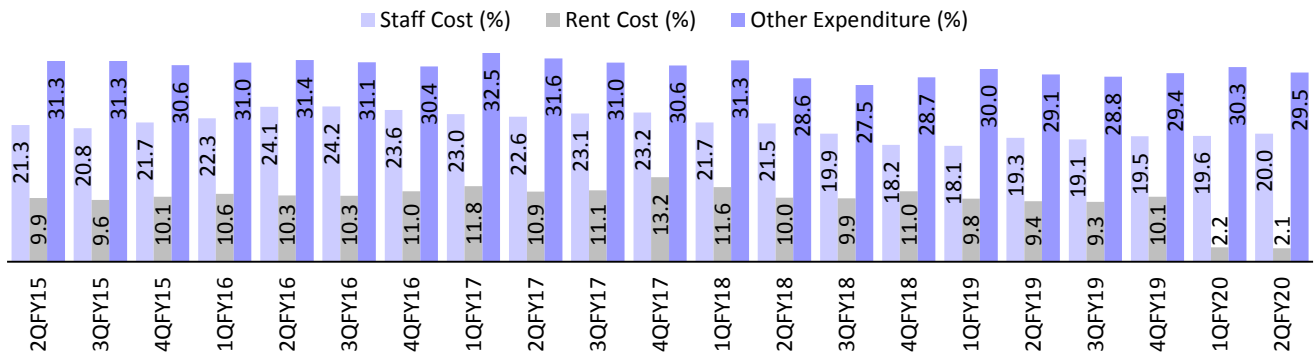
Source: MOFSL, Company

Exhibit 8: Gross margin expanded 70bp YoY to 75.3%



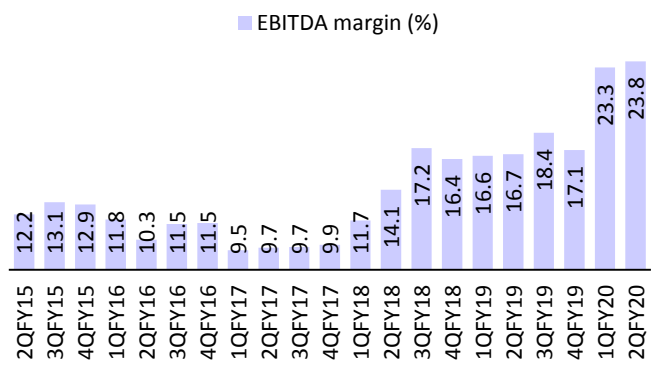
Source: MOFSL, Company

Exhibit 9: As a % of sales: Staff costs were up 60bp YoY, other expenses were up 30bp YoY, while rent costs were down 730bp YoY...



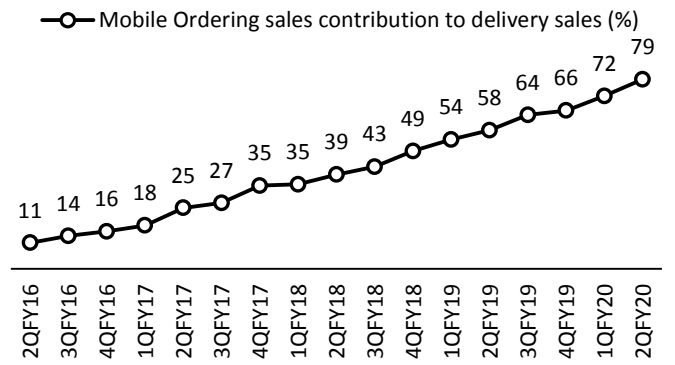
Source: Company, MOFSL

Exhibit 10: ...thus EBITDA margin was up 700bp YoY to 23.8%



Source: MOFSL, Company

Exhibit 11: Mobile ordering sales contribution to delivery sales at 79%



Source: MOFSL, Company

Conference call highlights**Macro**

- Management believes that the performance was strong in 2QFY20 given the high base and the weak operating environment.
- JUBI also saw some pressure in demand from smaller towns during the quarter. There continues to be visible pressure on dine-in sales. However, there was significant growth in online delivery, which offset the pressure in smaller towns and in dine-in.
- Dine-in pressure is structural in favor of delivery but also a reflection of consumer sentiment.

Increasing efficiencies

- What has worked for JUBI is VFM focus, improved customer experience and investment in digital and technology.
- Aided by technology and store splits, delivery time has improved. Delivery time remains a sharp area of focus. Management however declined to share average delivery time.
- Piloted 20-minute delivery in a few stores in a few markets. Will obviously not affect food quality, traffic rules and driver and passenger safety.

Store openings highest in 15 quarters

- Opened 40 new stores – the highest in 15 quarters. All new stores are as per new design. Store addition will impact near-term SSSG.

Margins improved despite ongoing food inflation

- Gross margin improved because of small price increase toward the end of 1QFY20, more targeted promotions and improved efficiencies.
- Price increase did not see any negative pushback.

New markets and initiatives

- Opened second store in Bangladesh during the quarter. Doing very well in this market. Plans to open five stores by end-FY20.
- Hong's Kitchen has received encouraging response; will expand stores gradually in 3QFY20 and 4QFY20.

Guidance

- Capex guidance INR2.0-INR2.5b for FY20.
- Tax guidance around 25% going forward.
- Management did not comment on increased dividend payout as a result of the corporate tax cuts but did indicate that there has been an effort to increase payout in recent years.

Other points

- OLO 85% of delivery sales now. App rating at 4.4 is the highest among all food tech apps.
- 66 stores opened in 1HFY20. Intends to open 30 each in the next two quarters. Thus, store addition at 116 stores for the year will be higher than guidance of 100 stores given at the beginning of the year.

- Increment cycle this time of the year and increase in minimum wages led to higher staff costs.
- Exceptional item was INR125m provision created against investments made by Jubilant FoodWorks Employee Provident Fund Trust, in the corporate bonds of DHFL, Reliance Capital and IL&FS and fully provided for on account of prevailing uncertainties.
- Distribution is not the only enabler of growth. Brand, product and innovation are helping it compete well against aggregators.
- Under 25 of the 276 towns have cloud kitchens. Have not seen any significant delta in competitive intensity in these cities.

Valuation and view

The stock has been underperforming over the 12 months. As highlighted in our [update note](#) two weeks ago, JUBI’s competitive positioning will get stronger as a result of the corporate tax cuts. Moreover, the challenge of a high SSSG base eases significantly going forward and JUBI has done well in the face of 20% SSSG base in recent quarters. With demand stabilizing, discretionary players with strong brands offer high scope for upside, in our view. We expect over 25% EPS CAGR and improving RoEs over FY20-FY22. Targeting 45x Sep’21E EPS (30% discount to five-year average P/E), we derive a target price of INR 1,720, offering a 20% upside.

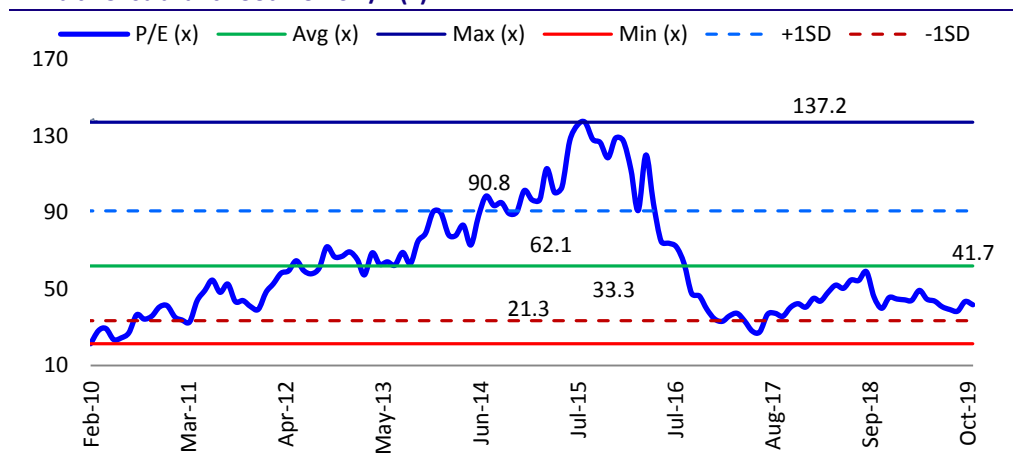
Upgrading to Buy.

Exhibit 12: There is cut of 5.9% in our EPS forecasts for FY20 and an upgrade of 7% for FY21

	New		Old		Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Sales	40,392	46,970	40,329	45,929	0.2%	2.3%
EBITDA	9,941	11,606	9,907	11,121	0.3%	4.4%
PAT	3,643	4,704	3,871	4,398	-5.9%	7.0%

Source: Company, MOFSL

Exhibit 13: Jubilant Foodworks P/E (x)



Source: Company, MOFSL

Financials and Valuations

Income Statement						(INR Million)	
Y/E March	2015	2016	2017	2018	2019	2020E	2021E
Net Sales	20,937	24,379	25,834	30,184	35,631	40,392	46,970
Change (%)	20.5	16.4	6.0	16.8	18.0	13.4	16.3
Material Consumed	5,279	5,801	6,308	7,660	8,861	10,029	11,639
Gross Profit	15,659	18,579	19,526	22,524	26,770	30,363	35,331
Gross Margin %	74.8	76.2	75.6	74.6	75.1	75.2	75.2
Operating expenses	13,098	15,942	17,115	18,123	20,773	20,423	23,725
EBITDA	2,561	2,636	2,411	4,401	5,998	9,941	11,606
Change (%)	2.2	3.0	-8.5	82.5	36.3	65.7	16.8
Margin (%)	12.2	10.8	9.3	14.6	16.8	24.6	24.7
Depreciation	1,282	1,282	1,554	1,601	1,575	3,964	4,630
Int. and Fin. Ch.	0	0	0	0	0	1,607	1,607
Other Non-recurring Inc.	65	116	147	231	474	761	918
PBT	1,344	1,470	1,004	3,031	4,897	5,131	6,287
Change (%)	-25.5	9.4	-31.7	201.7	61.6	4.8	22.5
Margin (%)	6.4	6.0	3.9	10.0	13.7	12.7	13.4
Tax	504	501	305	1,068	1,717	1,488	1,582
Tax Rate (%)	37.5	34.1	30.4	35.3	35.1	29.0	25.2
Adjusted PAT	840	968	699	1,962	3,180	3,643	4,704
Change (%)	-29.0	15.4	-27.8	180.5	62.0	14.6	29.1
Margin (%)	4.0	4.0	2.7	6.5	8.9	9.0	10.0
Non-rec. (Exp)/Inc.	0	0	-122	0	0	0	0
Reported PAT	840	968	578	1,962	3,180	3,643	4,704
Balance Sheet						(INR Million)	
Y/E March	2015	2016	2017	2018	2019	2020E	2021E
Share Capital	1,311	1,316	1,319	1,320	1,320	1,320	1,320
Reserves	5,151	6,304	6,734	8,358	11,277	13,468	16,478
Net Worth	6,462	7,620	8,053	9,677	12,596	14,788	17,798
Loans	144	17	18	30	9	0	0
Capital Employed	6,606	7,637	8,071	9,708	12,631	14,814	17,824
Gross Block	10,810	9,466	10,604	11,748	13,107	15,859	18,440
Less: Accum. Deprn.	3,438	1,181	2,603	3,838	5,007	8,971	13,602
Net Fixed Assets	7,373	8,285	8,001	7,910	8,100	6,888	4,838
Lease Deposits	1,142	1,363	1,822	1,776	2,056	1,715	1,921
Capital WIP	199	261	608	124	152	175	201
Investments	746	908	936	2,631	1,808	9,453	13,491
Deferred tax assets	-578	-729	-693	-550	-500	-500	-500
Curr. Assets, L&A	1,287	1,404	1,539	2,525	6,441	4,292	6,645
Inventory	433	552	607	642	771	879	1,052
Account Receivables	119	125	161	157	274	275	319
Cash and Bank Balance	389	332	354	1,290	4,943	2,667	4,802
Others	346	396	417	437	454	471	471
Curr. Liab. and Prov.	3,564	3,854	4,143	4,710	5,426	7,210	8,774
Other Current Liabilities	704	722	798	656	915	1,038	1,207
Creditors	2,555	2,960	3,142	3,890	4,209	4,914	5,714
Provisions	305	172	202	164	303	1,257	1,853
Net Curr. Assets	-2,276	-2,450	-2,604	-2,184	1,015	-2,917	-2,129
Appl. of Funds	6,606	7,637	8,071	9,708	12,631	14,813	17,823

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020E	2021E
Basic (INR)							
EPS	6.4	7.4	5.3	14.9	24.1	27.6	35.6
BV/Share	49.3	57.9	61.1	73.3	95.4	112.1	134.9
DPS	0.0	1.3	1.2	2.5	5.0	7.0	10.7
Payout %	0.0	17.0	23.4	16.8	20.8	25.4	30.0

Valuation (x)

P/E	223.4	194.3	269.7	96.2	59.3	51.8	40.1
EV/Sales	8.9	7.7	7.3	6.1	5.1	4.4	3.6
EV/EBITDA	72.8	70.9	77.7	42.0	30.3	17.8	14.7
P/BV	29.0	24.7	23.4	19.5	15.0	12.8	10.6

Return Ratios (%)

RoE	13.0	12.7	8.7	20.3	25.2	24.6	26.4
RoCE	13.7	13.6	8.9	22.1	28.5	34.9	36.3
RoIC	16.7	15.6	9.7	30.6	50.4	102.9	564.9

Working Capital Ratios

Debtor (Days)	2	2	2	2	3	2	2
Inventory (Days)	8	8	9	8	8	8	8
Creditor (Days)	45	44	44	47	43	44	44
Asset Turnover (x)	3.2	3.2	3.2	3.1	2.8	2.7	2.6

Leverage Ratio

Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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Cash Flow Statement

(INR Million)

Y/E March	2015	2016	2017	2018	2019	2020E	2021E
OP/(loss) before Tax	1,615	1,470	883	3,031	4,897	5,131	6,287
Int./Div. Received	1	61	-34	-120	-165	-761	-918
Depreciation & Amort.	1,011	1,282	1,554	1,601	1,575	3,964	4,630
Interest Paid	3	3	58	71	256	-1,607	-1,607
Direct Taxes Paid	352	386	366	1,262	1,779	1,488	1,582
Incr in WC	-488	308	-57	-912	14	-1,657	-1,346
CF from Operations	2,761	2,117	2,036	4,091	4,256	10,110	11,370
Incr in FA	-2,864	-2,264	-1,996	-1,160	-1,657	-2,775	-2,607
Free Cash Flow	-103	-147	40	2,931	2,600	7,335	8,763
Others	41	67	102	48	262	827	779
Pur of Investments	196	200	28	-1,695	958	-7,645	-4,038
CF from Invest.	-2,626	-1,998	-1,866	-2,808	-437	-9,593	-5,866
Issue of Shares	9	21	50	210	230	0	0
Incr in Debt	0	0	0	0	0	-9	0
Dividend Paid	0	164	165	164	329	1,109	1,694
Others	0	-33	-34	-393	-68	-1,675	-1,675
CF from Fin. Activity	9	-177	-148	-347	-167	-2,792	-3,369
Incr/Decr of Cash	143	-57	22	936	3,652	-2,275	2,135
Add: Opening Balance	246	389	332	354	1,290	4,943	2,667
Closing Balance	389	332	354	1,290	4,943	2,667	4,802

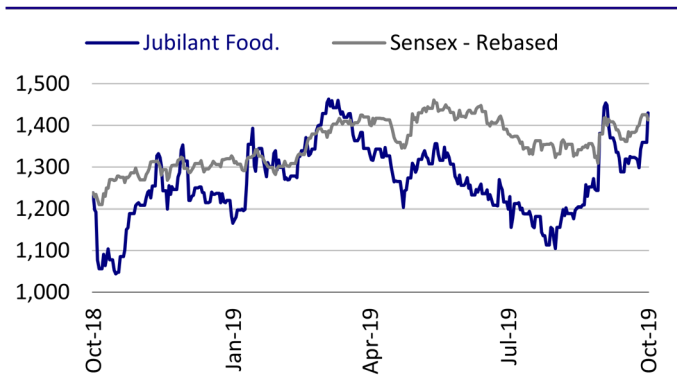
E: MOFSL Estimates

Corporate profile

Company description

Jubilant FoodWorks Limited (JFL/Company) is part of Jubilant Bhartia group and is one of India's largest food service Company, with a network of 1,200 Domino's Pizza restaurants across 271 cities (as of Dec 31, 2018). The Company & its subsidiary have the exclusive rights to develop and operate Domino's Pizza brand in India, Sri Lanka, Bangladesh and Nepal. At present it operates in India and Sri Lanka. The Company also has exclusive rights for developing and operating Dunkin' Donuts restaurants for India and has 32 Dunkin' Donuts restaurants across 10 cities in India.

Exhibit 1: Sensex rebased



Source: MOFSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-19	Jun-19	Sep-18
Promoter	41.9	41.9	44.9
DII	17.5	11.8	7.4
FII	34.7	36.1	39.5
Others	5.9	10.2	8.2

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Shyam S Bhartia	Chairman
Hari S Bhartia	Co-Chairman
Pratik Pota	Whole Time Director & CEO
Mona Aggarwal	Company Secretary

Source: Capitaline

Exhibit 6: Auditors

Name	Type
Chandrasekaran Associates	Secretarial Audit
Deloitte Haskins & Sells LLP	Statutory

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
UTI-Equity Fund	2.7
Arisaig Asia Consumer Fund Limited	2.3
Arisaig Global Emerging Markets Consumer Fund (Singapore) Pte. Ltd.	1.8
Tata Mutual Fund - Tata Equity P/E Fund	1.7
Gaoling Fund L.P.	1.7

Source: Capitaline

Exhibit 5: Directors

Name	Name
Abhay Prabhakar Havaladar	Pratik Pota
Ashwani Windlass	Deepa Misra Harris
Berjis Desai	Vikram Singh Mehta

Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY20	27.6	29.5	-6.5
FY21	35.6	35.2	1.0

Source: Bloomberg

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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