# Jubilant FoodWorks

7 September 2018

Reuters: JUBI.BO; Bloomberg: JUBI IN

FY18 Annual Report Analysis

## Moving Into Fast Lane

**Jubilant FoodWorks (JUBI) had seen an excellent turnaround during FY18 under the new leadership. Besides the comments made at conference calls, we have picked up the following important aspects from the company's FY18 annual report.**

**Power-packed strategy:** Product quality and affordability, customer experience, digital and cost management are the key thrust areas for JUBI. Product upgrade of core pizza portfolio along with launch of Everyday Value offer aptly addresses the product quality and affordability issues in the minds of consumers. JUBI has accelerated its investment in digital in a big way and the results were visible in the form of robust growth of delivery business, better customer experience and overall efficiency across processes. It has set up a new team which is responsible for upgrading digital assets, driving data analytics, developing restaurant technology and strenghthening digital marketing. The share of online ordering or OLO increased from 46% in FY17 to 58% in FY18 whereas the share of mobile order placement went up from 57% to 74% during the same period. With the help of automation and better staff deployment, JUBI reduced its manpower requirement by 20% at its supply chain centres. The management has also come up with new initiatives like on-the-go menu, super-value stores in small cities, night delivery etc in order to increase market penetration.

**Healthy financial performance:** JUBI delivered 14% same-store sales growth or SSG during FY18 based on strategic initiatives undertaken by the management, as discussed above. There has been a great emphasis on product quality throughout the year and we believe the same will continue. Despite substantial product upgrade, gross margin did not take a hit because of favourable cheese prices, supply chain efficiency and adoption of automation/technology across processes. JUBI's annual demand for cheese is 6,000tn, which is the key raw material forming 41% of total raw materials consumed. Among other overheads, power and advertisement expenses witnessed substantial savings on the back of various company-level initiatives including digital and automation. Working capital management of the company has been excellent during the year which has helped JUBI in reporting robust free cash flow of Rs.3,246mn. Hence, marrying its product and cost initiatives, JUBI managed to report a robust 530bps EBITDA margin expansion during the year. We believe that these are the pillars of its success and the ongoing execution will lead to sustainable double-digit earnings growth in the medium term, ahead of the industry.

**Outlook and valuation:** We believe that Rs105,000mn QSR sector in India is at an inflection point. Various industry reports indicate a 25% CAGR over the next five years. The management sounded confident about expansion after setting up the foundation in FY18.JUBI's key thrust on product quality, innovation, affordability and digital initiatives will drive overall business growth going forward. Pizza is still an underpenetrated category in India and the market leader will continue to expand the market and gain share with its focus on core strategy. We have retained Buy rating on JUBI with a revised target price of Rs1,630 (from Rs1,620 earlier) based on FY20E EPS and keeping the earnings multiple unchanged (50x), indicating an upside of 15% from the CMP.

| Y/E March (Rsmn) | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|
| Net revenues | 24,102 | 25,461 | 29,804 | 35,080 | 40,684 |
| *YoY growth (%)* | *16.2* | *5.6* | *17.1* | *17.7* | *16.0* |
| SSG | 3.2 | (2.4) | 13.9 | 13.7 | 10.0 |
| EBITDA | 2,718 | 2,466 | 4,464 | 6,279 | 7,701 |
| *EBITDA margin (%)* | *11.3* | *9.7* | *15.0* | *17.9* | *18.9* |
| PAT | 1,066 | 673 | 2,064 | 3,320 | 4,297 |
| EPS (Rs) | 8.1 | 5.1 | 15.6 | 25.2 | 32.6 |
| *YoY growth (%)* | *(13.8)* | *(37.1)* | *206.7* | *61.0* | *29.4* |
| *RoCE (%)* | *20.1* | *11.6* | *30.6* | *40.0* | *41.8* |
| *RoE (%)* | *14.5* | *8.2* | *21.8* | *28.8* | *30.5* |
| P/E (x) | 157.6 | 217.2 | 96.9 | 56.3 | 43.5 |
| P/BV (x) | 21.1 | 17.1 | 19.2 | 14.8 | 12.0 |
| EV/EBITDA (x) | 61.4 | 58.7 | 43.9 | 27.0 | 23.1 |

*Source: Company, Nirmal Bang Institutional Equities Research*

## BUY

**Sector:** QSR

**CMP:** Rs1,417

**Target Price:** Rs1,630

**Upside:** 15%

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**Key Data**

| | |
|---|---|
| Current Shares O/S (mn) | 132.0 |
| Mkt Cap (Rsbn/US$bn) | 186.9/2.6 |
| 52 Wk H / L (Rs) | 1,578/653 |
| Daily Vol. (3M NSE Avg.) | 1,530,311 |

**Price Performance (%)**

| | 1 M | 6 M | 1 Yr |
|---|---|---|---|
| Jubilant FoodWorks | (5.2) | 42.4 | 103.6 |
| Nifty Index | 1.3 | 12.6 | 16.3 |

*Source: Bloomberg*

**Exhibit 1: Core strategy of driving profitable growth**


*Source: Company, Nirmal Bang Institutional Equities Research*

## Everyday Value and product upgrade - success formula of JUBI

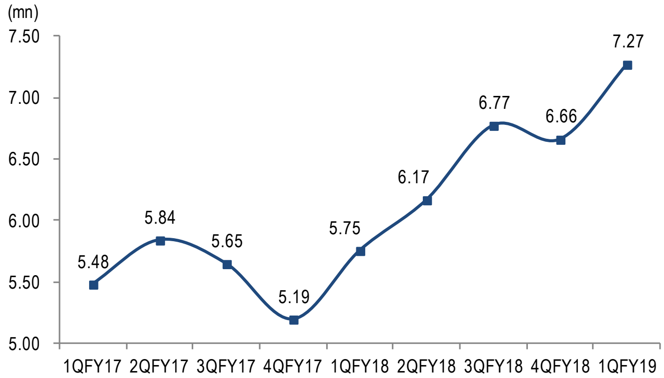
Product upgrade of core pizza portfolio along with launch of Everyday Value offer aptly addresses the product quality and affordability issues in the minds of consumers. The success of these two initiatives could be judged from the SSG growth of JUBI in the past few quarters as indicated below:

- **Innovation and reinvention:** JUBI did not compromise on investing in product quality of its core pizza portfolio which had a 200bps negative impact on gross margin. It changed the crust, wheat and dough, started importing sauces from California and seasoning them, increased the quantity and size of toppings, increased the cheese and toppings content by over 10% and improved the quality of chicken significantly. Also, the company improved its packaging for pizza, oregano and chili flakes. We witnessed a positive customer response during our store visits in Mumbai and Pune. Apart from 'All New Domino's', JUBI also introduced two new pizzas with Indian flavours (Paneer Makhni Pizza and Chicken Tikka Pizza) and an entirely new specialty chicken range.
- **Focus on value-for-money proposition:** Replacing BOGO with Everyday Value offer and strong online order platform with a presence across the country helped consumers to order food conveniently at better prices. JUBI initially had come up with the offer on medium-sized pizzas which it further extended to regular-sized pizzas from March 2018. Also, in small cities JUBI  started Super Value menu starting at Rs49 to penetrate deeper into these cities. We believe that addressing product quality and value-for-money proposition will help JUBI to achieve higher footfalls and result in double-digit SSG in the medium term.

**Exhibit 2: Quality and affordability initiatives**

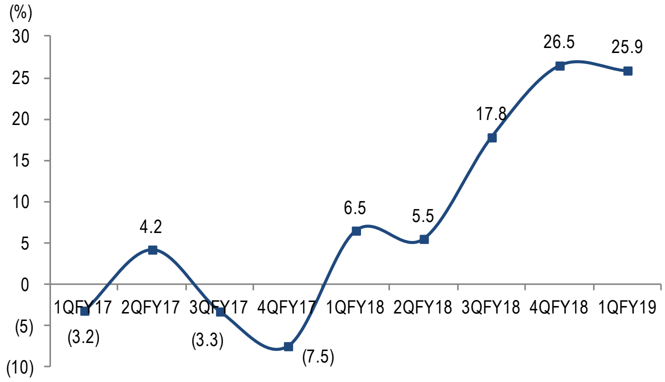

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 3: Rising revenues per store of Domino's**




*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 4: Strong SSG in recent quarters**




*Source: Company, Nirmal Bang Institutional Equities Research*

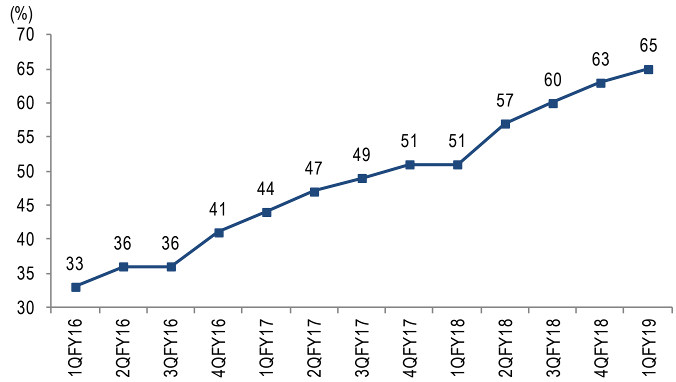
## GST rate cut will drive volumes

- Goods and Services Tax or GST rate cut from 18% to 5% for the restaurant business is a significant tailwind for the sector. As the benefits of input tax credit are no longer available, all QSR players had to pass on the burden to their consumers by increasing the base price of products.
- JUBI has only partially transferred the impact of input tax credit to its consumers by increasing the base prices by around 6%. However, for the consumers, final prices declined in the range of 1%-11% (refer our note Jubilant FoodWorks- Bite In! Its Pizza Time!), depending on the product, because of lower output tax. Focus on value-for-money preposition and product quality along with lower tax has been working really well for JUBI and we expect the benefits of this to come in the form of higher volume going forward.

## Thrust on digital

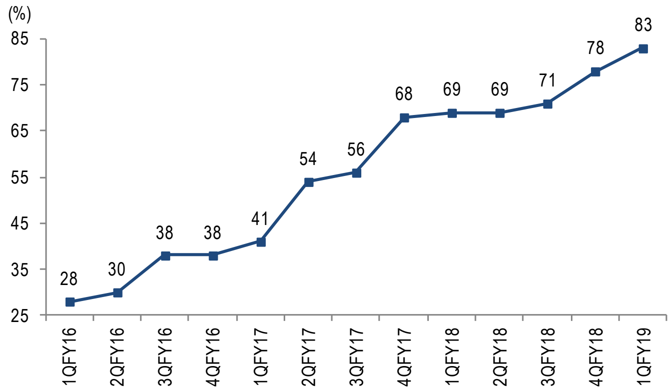
- **New digital team:** Under the new management, a new team has been set up for digital and technology to leverage its potential by way of use of artificial intelligence or AI and automation. The new team is responsible for upgrading digital assets, driving data analytics, developing restaurant technology and strenghthening digital marketing.
- **Revamped mobile app:** In QSR business, customer experience is of utmost importance and JUBI has rightfully addressed the same to improve its customer experience - both in-store and order placement through the digital route. The company has revamped its mobile app in a big way and ordering food now has become much easier. The new app comes up improved functionalities, including a more intuitive and user-friendly interface, lighter web pages for faster loading of menu and quick checkout and also an in-built digital wallet. Tie-ups with all the major payment gateways and wallets in the app makes it convenient.
- **Delivery business management with the use of technology:** Delivery has always been the core strength of JUBI. It has tied up with LogiNext for automated delivery route planning, real-time tracking of trucks, temperature monitoring etc. Restaurant managers can now track the supply trucks on the mobile platform.
- **Efficient telephonic delivery:** JUBI has set up a centrallised call centre to enhace the telephonic order placement experience of the consumers.Centralised call centre enables the restaurant team to provide uninterrupted service to customers visiting the restaurant. With this, both delivery as well as dine-in experience has improved.
- **Conclusion:** All these initiaves have yielded fantastic results in FY18 with a robust improvement in delivery-based sales and strong margin delivery. Share of online ordering or OLO increased from 46% in FY17 to 58% in FY18 whereas the share of mobile order placement went gone up from 57% to 74% during the same period.

**Exhibit 5: OLO's share is moving up rapidly**



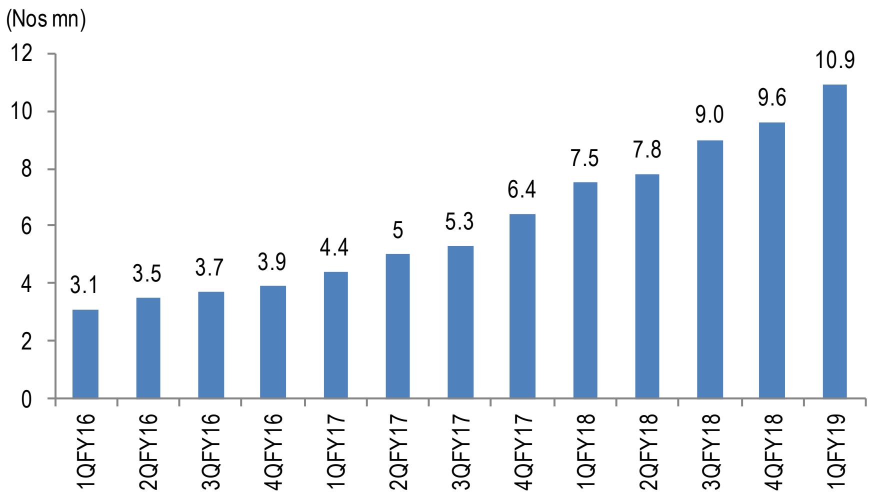

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 6: Rapid growth of mobile ordering as % of OLO**




*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 7: Robust growth in Mobile app downloads**




*Source: Company, Nirmal Bang Institutional Equities Research*

## Strenghtening the supply chain

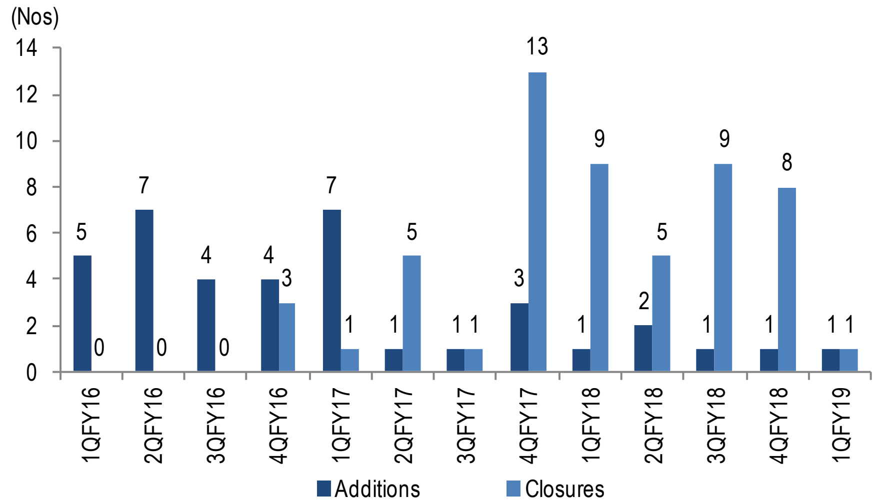
- **Strong supply chain infrastructure:** JUBI's supply capability is a definite source of strength as it has 11 commissaries/supply chain centres (SCCs) at strategic locations across India. These are manufacturing and distribution facilities for both the brands, namely Domino's and Dunkin' Donuts.
- **Focus on technology and automation:** Lean and Six Sigma techniques are being used to improve operating efficiency. During FY18, with the help of automation and better staff deployment, JUBI reduced its manpower requirement by 20% at its supply chain centres. JUBI leveraged technology throughout the processes. All the commissaries and supply chain centres use SAP which enables in understanding the demand trend, track stocks across the supply chain, a more efficient procure-to-pay process and improved supply planning capability in real time. This enabled JUBI to reduce wastage, decrease costs and improve process efficiency, thereby partially offsetting the negative impact of product upgrade on gross margin in FY18.
- **JUBI has world's largest commissary of Domino's:** JUBI also commissioned its state-of-the-art commissary in Greater Noida which is the largest facility in the entire Domino's Pizza chain worldwide. It has the capacity to supply to around 550 Domino's and 100 Dunkin Donuts (DD) restaurants, reducing the need for outsourcing.
- **Increased presence for efficiency:**JUBI's move to start two new distribution centres at Ahmedabad and Chennai in FY17 helped it to save on logistics and transportation costs. JUBI is now examining prospective locations for further expanding its presence. We believe that, going forward, efficiency in supply chain wih the use of technology will lead to further margin expansion.

## Dunkin' Donuts (DD) on track of achieving break-even

- **Change in strategy:** DD witnessed accelerated store closure in FY18. JUBI shut 31 non-performing DD stores during the year. However, the management's focus on DD brand is reflected by repositioning of the menu and stores. It has improved focus on donuts and coffee to reduce losses with the introduction of value-for-money offerings. JUBI shifted to smaller format stores for DD in the range of 300sqft-600 sqft, against 800sqft earlier, to reduce costs and improve the return on investment.
- **New product launches**:Chocotella, White Choco Cheesecake, Choco Symphony, and Coffee Toffee were the new donuts launched. The new beverages introduced were Shaken Iced Coffee, Caramel Hazelnut Latte and Tiramisu Latte. On the food side, Toasties (Chilli Cheese and Chicken) and Big Joy Mayo Burger were added to the menu. JUBI  invested in digital marketing for DD as well to increase the brand presence and salience.

The management has committed to achieve  break-even in DD at the operating level by FY19-end and we believeJUBI is on track to achieve the same as the losses were halved in FY18 compared to the previous year.

**Exhibit 8: Dunkin' Donuts aggressively closed non-viable stores in FY18**




*Source: Company, Nirmal Bang Institutional Equities Research*

### Initiatives to improve consumer experience

- **Late-night delivery gaining  traction:** JUBI had launched late-night delivery of its products at select Domino's stores last financial year to keep up pace with changing consumer lifestyle. As of 31 March 2018, this facility was available across 7 cities and 52 restaurants. This segment typically attracts young consumers and has witnessed an encouraging response so far.
- **Further scope for store re-imaging:**To ensure that ambience and infrastructure are in sync with the contemporary preferences, JUBI has tied up with a global design firm for re-imaging its old stores. We believe that there is lot of scope for improving the in-store ambience and consumer experience.
- **Efficient telephonic delivery:** JUBI has set up a centrallised call centre to enhace the telephonic order placement experience of consumers.Centralised call centre enables the restaurant team to provide uninterrupted service to customers visiting the restaurant. With this, both delivery as well as dine-in experiencehas improved.
- **On-The-Go menu:** JUBI has extended Domino's Pizza to metro stations in select cities by setting up  On-The-Go' outlets which offer curated menu on the move to consumers. Also, It has tied up with IRCTC and is keen on expanding railway stations under this initiative to 206 in FY18 from 134 in the previous year.

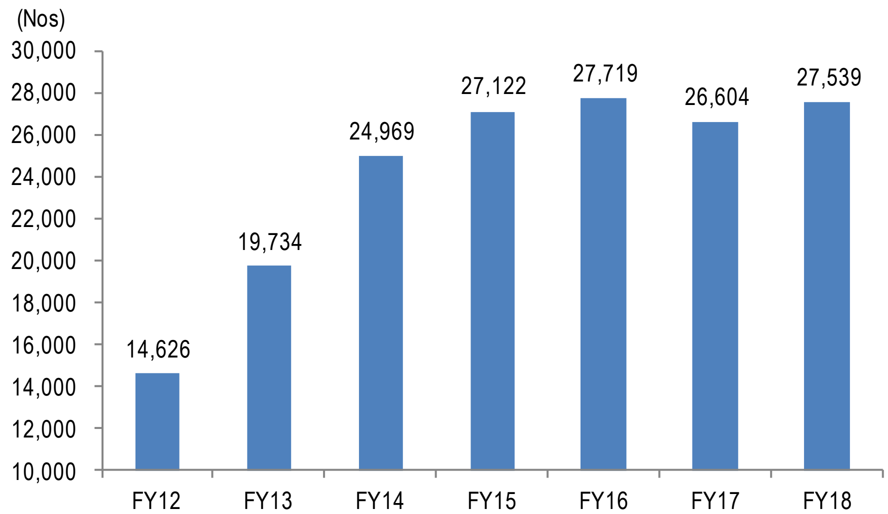
### Efficient and prudent cost management

JUBI's efforts on cost control are clearly evident from its cost structure. We believe that JUBI has worked really hard to optimise each cost line. As a result, the company witnessed 530bps operating margin expansion despite 100bps decline in gross margin.

**Favourable input prices:** Falling milk and cheese prices have really helped the company in a big way as it could maintain gross margin at the current level. Cheese is a key raw material for JUBI and accounts for around 40% of total raw materials consumed. Annual demand for cheese in case of JUBI stands at nearly 6,000tn. Mozerella cheese used by Domino's Pizza is made from 100% real milk procured from farmers. Considering the current milk price trend, we believe that JUBI will continue to be the beneficiary and new offers will not be margin-dilutive.

**Strong manpower management:** JUBI has managed to control employee costs in a big way. Employee count as of FY18-end is similar to that of FY15-end, but revenues have increased more than 50% from that level. Lean and Six Sigma techniques are being used to improve operating efficiency. In FY18, with the help of automation and better staff deployment, JUBI reduced its manpower requirement by 20% at its supply chain centres.At the store level, to some extent, delivery orders have been handled by contract workers who work on per-delivery basis. Its employee per store count reduced to 23 employees from around 27 a couple of years ago and even higher earlier. Even after factoring in 8% wage inflation, the company is in a position to register savings because of efficiency and operating leverage flowing through the system on the back of strong SSG.

**Exhibit 9: Number of employees almost similar to that of FY15**




*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 10: Staff costs trend**

| (Rsmn) | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|
| Staff costs | 2,692 | 3,369 | 4,388 | 5,684 | 5,845 | 6,041 | 6,553 | 7,367 |
| Employee per store (nos.) | 33 | 33 | 31 | 27 | 24 | 23 | 22.5 | 22 |
| Cost per employee | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 |
| *YoY growth (%)* | *4.4* | *(3.8)* | *11.8* | *23.1* | *3.8* | *3.7* | *8.0* | *8.0* |
| *% of sales* | 19.1 | 19.5 | 21.2 | 23.6 | 23.0 | 20.3 | 18.7 | 18.1 |

*Source: Company, Nirmal Bang Institutional Equities Research*

**Energy optimisation initiatives:** Power and fuel is one of the important expenses for JUBI. We have seen a number of initiatives over the past two years to reduce power costs. JUBI has entered into an agreement with Wipro to supply energy management system (EMS) across its stores. There has been a lot of focus on power saving. As on date, EMS has been installed in 425 stores. JUBI has replaced all the lights from CFL to LED at all its stores and supply chain centres whichhas resulted in substantial savings and we expect the benefits to continue. During the year, JUBI replaced old air-conditioners (AC) with invertor ACs to further reduce energy consumption. JUBI has already installed solar power plants in Nagpur, Kolkata and Mumbai supply chain centres and is also planning to install the same in its new commissary in Greater Noida. We believe these initiatives will yield sustainable results.

**Exhibit 11: Power and Fuel costs trend**

| (Rsmn) | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|
| Power and fuel | 727 | 1,023 | 1,210 | 1,368 | 1,423 | 1,566 | 1,723 | 1,944 |
| Cost per store | 1.38 | 1.53 | 1.44 | 1.35 | 1.25 | 1.33 | 1.43 | 1.51 |
| *YoY growth (%)* | *22.6* | *10.6* | *(5.9)* | *(6.2)* | *(7.4)* | *6.6* | *7* | *6* |
| *% of sales* | *5.2* | *5.9* | *5.8* | *5.7* | *5.6* | *5.3* | *4.9* | *4.8* |

*Source: Company, Nirmal Bang Institutional Equities Research*

**Closure of non-viable stores and renegotiation of rent agreements:** Rent is another area where JUBI has registered reasonable savings. Several rent agreements have been renegotiated whereas new agreements have been entered at better terms. JUBI has also closed non-viable stores during the years, especially Dunkin' Donuts stores. This has resulted in just 2% increase in rent per store in FY18 as compared to 5% on an average in the past. The benefits are likely to continue, in our opinion, even with 5% inflation rate every year as seen in the past.

**Exhibit 12: Rent expense trend**

| (Rsmn) | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|
| Rent | 1,164 | 1,549 | 2,050 | 2,539 | 2,986 | 3,157 | 3,408 | 3,809 |
| Rent per store | 2.2 | 2.3 | 2.4 | 2.5 | 2.6 | 2.7 | 2.8 | 3.0 |
| *YoY growth (%)* | *21* | *5* | *5* | *3* | *5* | *2* | *5* | *5* |
| *% of sales* | *8.3* | *9.0* | *9.9* | *10.5* | *11.7* | *10.6* | *9.7* | *9.4* |

*Source: Company, Nirmal Bang Institutional Equities Research*

**Efficient spending on media through different platforms: The** management's renegotiation of terms with media partners along with more focus on digital advertisements helped JUBI to rationalise the traditional media spending during the year. As a result, despite enough marketing activity and campaigns being carried out, media spending was flat YoY.

Similarly, JUBI tried to rationalise each and every cost item during the year. Strong SSG yielded operating leverage benefits for the company, resulting in a robust 530bps operating margin expansion despite a 100bps fall in gross margin.

**Exhibit 13: Common size statement- indicator of cost saving and operating leverage**

| (%) | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|---|
| COGS | 25.7 | 26.1 | 26.0 | 25.1 | 23.7 | 24.2 | 25.21 | 25.2 | 24.8 |
| Staff costs | 19.3 | 19.1 | 19.5 | 21.2 | 23.6 | 23.0 | 20.27 | 19.0 | 19.1 |
| Other expenses | **36.3** | **37.4** | **39.6** | **41.1** | **41.5** | **43.2** | **39.5** | **37.8** | **37.2** |
| Power & fuel costs | 4.7 | 5.2 | 5.9 | 5.8 | 5.7 | 5.6 | 5.3 | 4.9 | 4.8 |
| Rent | 7.6 | 8.3 | 9.0 | 9.9 | 10.5 | 11.7 | 10.6 | 9.7 | 9.4 |
| Advertisement & sales promotion | 4.0 | 4.5 | 5.1 | 5.5 | 5.2 | 5.6 | 4.8 | 4.8 | 4.7 |
| Repairs and maintenance | 1.4 | 1.4 | 1.6 | 1.9 | 2.2 | 2.8 | 2.6 | 2.4 | 2.4 |
| Royalty | 3.3 | 3.4 | 3.2 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 |
| Packing material consumed | 4.0 | 4.0 | 4.1 | 3.8 | 3.5 | 3.3 | 3.1 | 3.0 | 3.0 |
| Freight and forwarding | 3.3 | 3.1 | 3.0 | 2.9 | 2.7 | 3.0 | 2.8 | 2.8 | 2.8 |
| Stores, spare parts and tools consumed | 1.4 | 0.7 | 0.8 | 0.8 | 0.7 | 0.6 | 0.5 | 0.5 | 0.4 |
| Professional and legal fees | 0.6 | 0.4 | 0.4 | 0.7 | 1.0 | 0.9 | 1.2 | 1.1 | 1.1 |
| Traveling and conveyance | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 | 0.7 | 0.5 | 0.5 | 0.6 |
| Communication expenses | 0.9 | 0.9 | 0.9 | 0.9 | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 |
| Others | 4.4 | 4.9 | 4.8 | 4.8 | 4.9 | 4.5 | 4.0 | 3.9 | 3.9 |

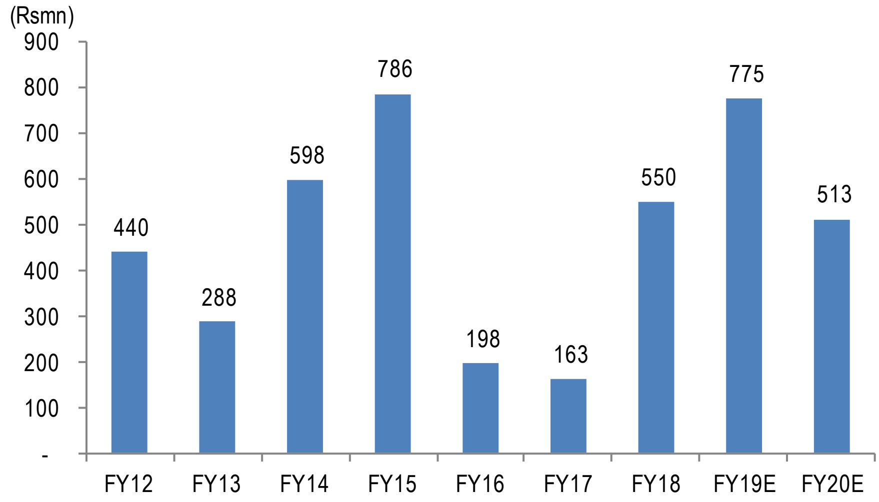
*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 14: Working capital management snapshot**

| Particulars (days) | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|---|
| Avg. inventory period | 23 | 21 | 23 | 26 | 31 | 33 | 29 | 30 | 31 |
| Avg. collection period | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 |
| Avg. payment period | 131 | 120 | 123 | 144 | 171 | 179 | 170 | 170 | 168 |
| Conversion cycle | (106) | (97) | (99) | (116) | (138) | (144) | (138) | (138) | (134) |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 15: Net change in working capital



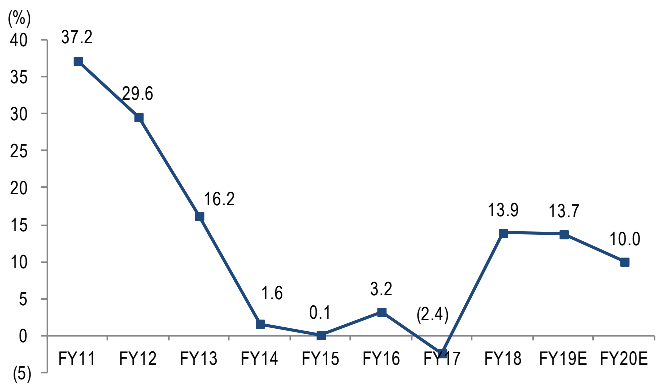

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 16: Store dynamics

| Store dynamics (nos) | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|---|
| **Domino's** | | | | | | | | | |
| Opening stores | 378 | 465 | 576 | 726 | 876 | 1,026 | 1,117 | 1,134 | 1,209 |
| Addition | 87 | 111 | 150 | 150 | 150 | 105 | 24 | 78 | 80 |
| Closure | - | - | - | - | - | 14 | 7 | 3 | - |
| Closing stores | 465 | 576 | 726 | 876 | 1,026 | 1,117 | 1,134 | 1,209 | 1,289 |
| **Revenue per store (Domino's) (Rsmn)** | **24.1** | **26.8** | **25.8** | **24.7** | **23.8** | **22.4** | **25.4** | **28.4** | **30.9** |
| ***Growth YoY %*** | ***-*** | ***11.0*** | ***(3.8)*** | ***(4.3)*** | ***(3.6)*** | ***(6.0)*** | ***13.4*** | ***12.0*** | ***9.0*** |
| **Dunkin' Donuts** | | | | | | | | | |
| Opening stores | - | - | 10 | 26 | 54 | 71 | 63 | 37 | 38 |
| Addition | - | 10 | 16 | 28 | 20 | 12 | 5 | 8 | 8 |
| Closure | - | - | - | - | 3 | 20 | 31 | 7 | 7 |
| Closing stores | - | 10 | 26 | 54 | 71 | 63 | 37 | 38 | 39 |
| **Total stores** | | | | | | | | | |
| Opening stores | 378 | 465 | 586 | 752 | 930 | 1,097 | 1,180 | 1,171 | 1,247 |
| Addition | 87 | 121 | 166 | 178 | 170 | 117 | 29 | 85 | 88 |
| Closure | - | - | - | - | 3 | 34 | 38 | 10 | 7 |
| Closing stores | 465 | 586 | 752 | 930 | 1,097 | 1,180 | 1,171 | 1,246 | 1,327 |
| ***SSG %*** | ***29.6*** | ***16.2*** | ***1.6*** | ***0.05*** | ***3.2*** | ***(2.4)*** | ***13.9*** | ***13.7*** | ***10.0*** |

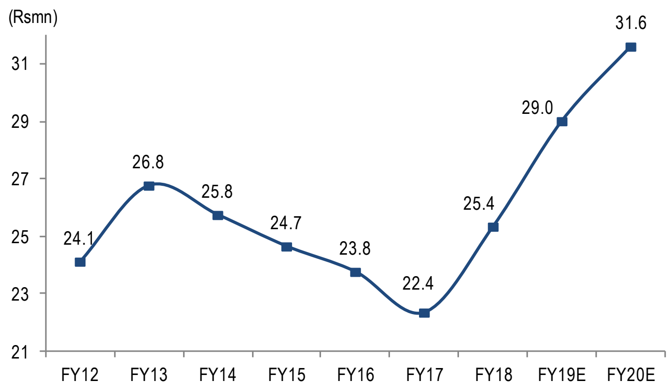
*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 17: Long-term SSG trend



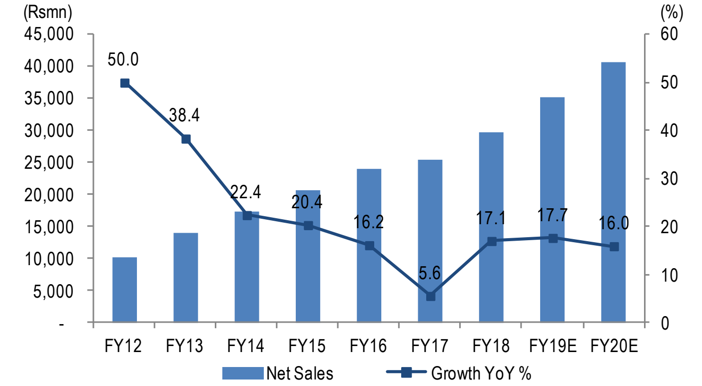

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 18: Long-term trend of revenue per store



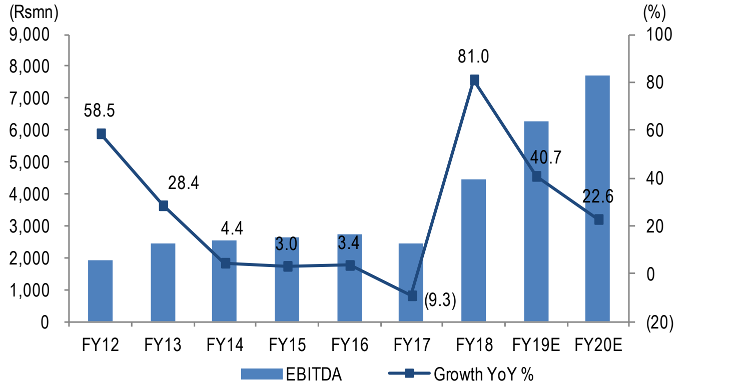

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 19: Improved top-line led by SSG**



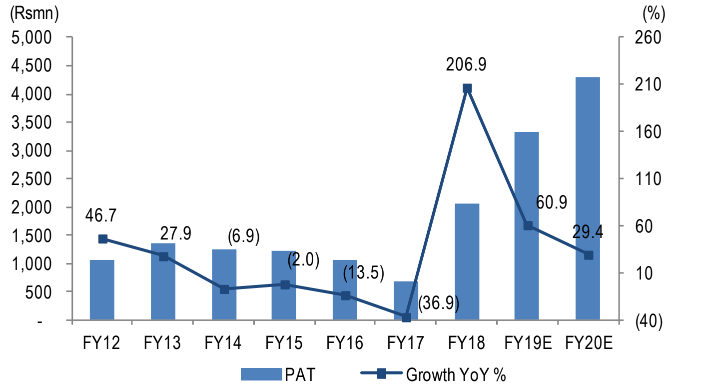

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 20: Robust improvement in operating profit**



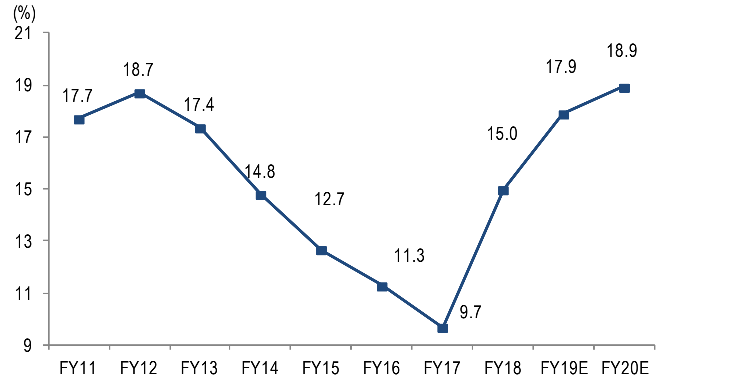

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 21: Improved profitability trend**



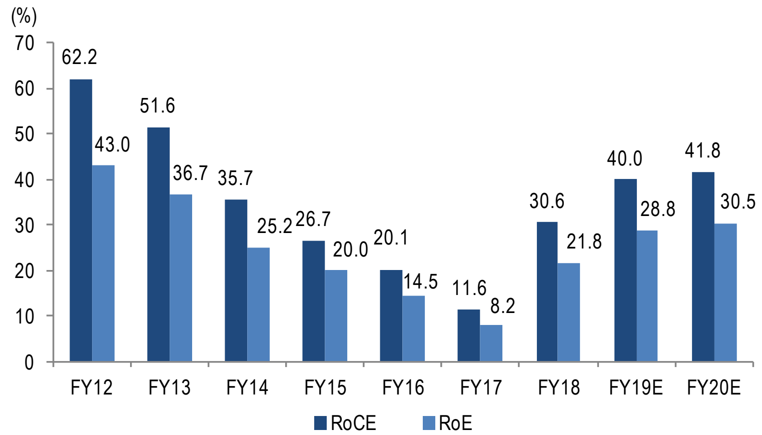

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 22:Healthy operating msargin expansion**



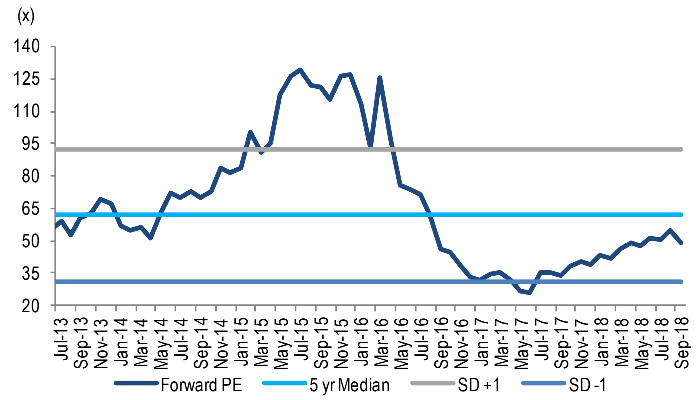

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 23: Return ratios inching upwards**



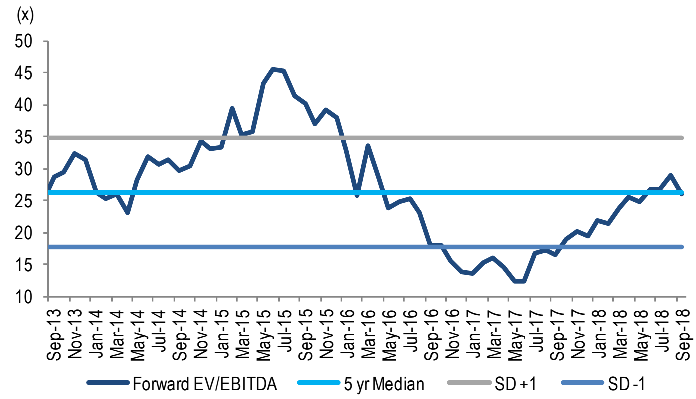

*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 24: One-year forward P/E**




*Source: Company, Nirmal Bang Institutional Equities Research*

**Exhibit 25: One-year forward EV/EBITDA**




*Source: Company, Nirmal Bang Institutional Equities Research*

## Financials (standalone)

### Exhibit 26: Income statement

| Y/E March (Rsmn) | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|
| Net sales | 24,102 | 25,461 | 29,804 | 35,080 | 40,684 |
| ***% Growth*** | ***16.2*** | ***5.6*** | ***17.1*** | ***17.7*** | ***16.0*** |
| COGS | 5,701 | 6,160 | 7,514 | 8,854 | 10,091 |
| Staff costs | 5,684 | 5,845 | 6,041 | 6,673 | 7,761 |
| Other expenses | 9,999 | 10,990 | 11,785 | 13,274 | 15,131 |
| Total expenses | 21,384 | 22,995 | 25,340 | 28,801 | 32,983 |
| EBITDA | 2,718 | 2,466 | 4,464 | 6,279 | 7,701 |
| ***% growth*** | ***3.4*** | ***(9.3)*** | ***81.0*** | ***40.7*** | ***22.6*** |
| ***EBITDA margin (%)*** | ***11.3*** | ***9.7*** | ***15.0*** | ***17.9*** | ***18.9*** |
| Other income | 113 | 145 | 227 | 372 | 527 |
| Interest costs | - | - | - | - | - |
| Depreciation | 1,243 | 1,512 | 1,559 | 1,676 | 1,814 |
| Profit before tax (before exceptional items) | 1,588 | 1,099 | 3,132 | 4,975 | 6,414 |
| Exceptional items | - | (122) | - | - | - |
| Tax | 522 | 305 | 1,068 | 1,655 | 2,116 |
| PAT (before exceptional items) | 1,066 | 794 | 2,064 | 3,320 | 4,297 |
| PAT | 1,066 | 673 | 2,064 | 3,320 | 4,297 |
| ***PAT margin (%)*** | ***4.4*** | ***2.6*** | ***6.9*** | ***9.4*** | ***10.4*** |
| ***% Growth*** | **(13.5)** | **(36.9)** | **206.9** | **60.9** | **29.4** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 28: Balance sheet

| Y/E March (Rsmn) | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|
| Share capital | 658 | 659 | 659 | 659 | 659 |
| Reserves | 7,318 | 7,862 | 9,779 | 11,934 | 14,942 |
| Net worth | 7,976 | 8,522 | 10,439 | 12,593 | 15,601 |
| Total debt | - | - | - | - | - |
| Deferred tax liability | 729 | 693 | 550 | 720 | 720 |
| **Total liabilities** | **8,706** | **9,219** | **10,994** | **13,318** | **16,326** |
| Gross block | 9,201 | 9,880 | 11,421 | 12,521 | 13,771 |
| Depreciation | 1,146 | 2,541 | 4,100 | 5,776 | 7,590 |
| Net block | 8,055 | 7,338 | 7,321 | 6,745 | 6,181 |
| Capital work-in-progress | 174 | 598 | 109 | 500 | 750 |
| Investments | 1525 | 1680 | 3453 | 3333 | 4272 |
| Inventories | 538 | 587 | 626 | 830 | 884 |
| Debtors | 125 | 156 | 151 | 234 | 435 |
| Cash | 314 | 324 | 1,285 | 4,093 | 6,456 |
| Loans & advances | 1068 | 772 | 883 | 1929 | 2238 |
| Other current assets | 164 | 331 | 320 | 351 | 407 |
| Total current assets | 2,211 | 2,335 | 5,013 | 8,138 | 11,640 |
| Creditors | 2,930 | 3,117 | 3,868 | 4,379 | 4,910 |
| Other current liabilities & provisions | 728 | 784 | 655 | 1,070 | 1,241 |
| Total current liabilities | 3,858 | 4,102 | 4,686 | 5,747 | 6,517 |
| Net current assets | (1,647) | (1,768) | 328 | 2,390 | 5,124 |
| **Total assets** | **8,677** | **9,219** | **10,994** | **13,318** | **16,326** |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 27: Cash flow

| Y/E March (Rsmn) | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|
| PAT | 1,066 | 673 | 2,064 | 3,320 | 4,297 |
| Depreciation | 1,243 | 1,512 | 1,559 | 1,676 | 1,814 |
| Other income | (113) | (145) | (227) | (372) | (527) |
| (Inc.)/dec. in working capital | 198 | 163 | 550 | 775 | 513 |
| **Cash flow from operations** | **2,393** | **2,202** | **3,946** | **5,400** | **6,097** |
| Capital expenditure (-) | (2,126) | (1,219) | (700) | (1,491) | (1,500) |
| **Net cash after capex** | **267** | **983** | **3,246** | **3,909** | **4,597** |
| Dividends paid (-) | (197) | (198) | (396) | (797) | (1,289) |
| Inc./(dec.) in total borrowings | - | - | - | - | - |
| Inc./(dec.) in investments and other assets | (389) | (476) | (1,711) | (482) | (945) |
| **Cash from financial activities** | **(153)** | **(230)** | **(538)** | **(627)** | **(1,289)** |
| Others | 285 | 83 | (121) | (257) | - |
| Opening cash balance | 304 | 314 | 324 | 1,285 | 4,093 |
| Closing cash balance | 314 | 324 | 1,285 | 4,093 | 6,456 |
| Change in cash balance | 10 | 360 | 876 | 2,543 | 2,363 |

*Source: Company, Nirmal Bang Institutional Equities Research*

### Exhibit 29: Key ratios

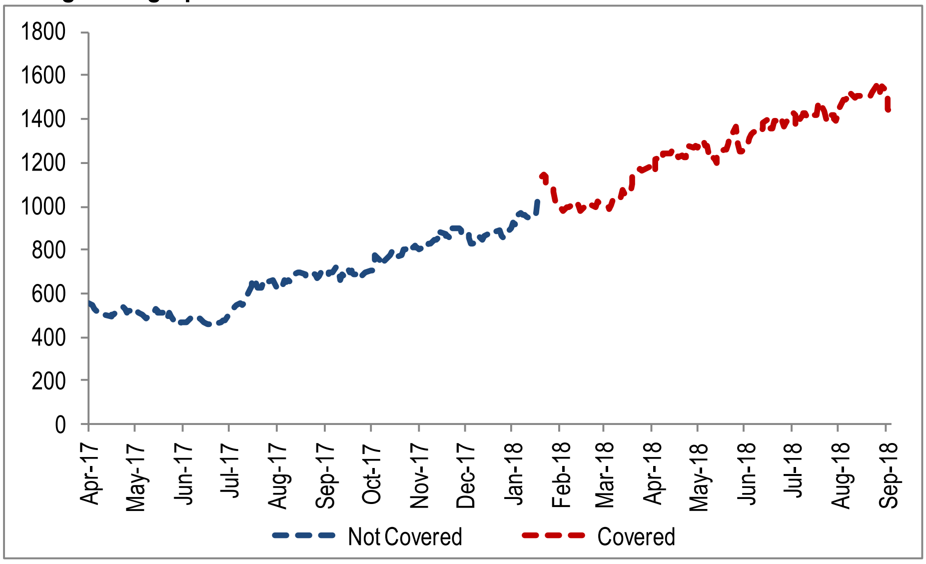
| Y/E March | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|
| **Per share (Rs)** | | | | | |
| EPS | 8.1 | 5.1 | 15.6 | 25.2 | 32.6 |
| Book value | 60.6 | 64.6 | 79.1 | 95.5 | 118.3 |
| DPS | 1.2 | 1.2 | 2.5 | 5.0 | 8.1 |
| **Valuation (x)** | | | | | |
| P/Sales | 7.0 | 5.7 | 6.3 | 5.3 | 4.6 |
| EV/sales | 6.9 | 5.7 | 6.1 | 5.2 | 4.4 |
| EV/EBITDA | 61.4 | 58.7 | 41.0 | 27.0 | 23.1 |
| P/E | 157.6 | 217.2 | 90.5 | 56.3 | 43.5 |
| P/BV | 21.1 | 17.1 | 17.9 | 14.8 | 12.0 |
| **Return ratios (%)** | | | | | |
| RoCE | 20.1 | 11.6 | 30.6 | 40.0 | 41.8 |
| RoE | 14.5 | 8.2 | 21.8 | 28.8 | 30.5 |
| **Profitability ratios (%)** | | | | | |
| Gross margin | 76.3 | 75.8 | 74.8 | 74.8 | 75.2 |
| EBITDA margin | 11.3 | 9.7 | 15.0 | 17.9 | 18.9 |
| EBIT margin | 6.1 | 3.7 | 9.7 | 13.1 | 14.5 |
| PAT margin | 4.4 | 2.6 | 6.9 | 9.4 | 10.4 |
| **Liquidity ratios (%)** | | | | | |
| Current ratio | 0.6 | 0.6 | 1.1 | 1.4 | 1.8 |
| Quick ratio | 0.4 | 0.4 | 0.9 | 1.3 | 1.7 |
| **Solvency ratio (%)** | | | | | |
| Debt-to-equity ratio | - | - | - | - | - |
| **Turnover ratios** | | | | | |
| Total asset turnover ratio (x) | 1.9 | 1.9 | 1.9 | 1.8 | 1.8 |
| Fixed asset turnover ratio (x) | 3.0 | 3.5 | 4.1 | 5.2 | 6.6 |
| Debtor days | 2 | 2 | 2 | 2 | 3 |
| Inventory days | 31 | 33 | 29 | 30 | 31 |
| Creditor days | 171 | 179 | 170 | 170 | 168 |

*Source: Company, Nirmal Bang Institutional Equities Research*

## Rating track

| Date | Rating | Market price (Rs) | Target price (Rs) |
|---|---|---|---|
| 10 December 2014 | Buy | 671 | 869 |
| 6 February 2015 | Buy | 716 | 869 |
| 23 February 2015 | Buy | 809 | 946 |
| 9 April 2015 | Buy | 803 | 946 |
| 15 May 2015 | Buy | 783 | 962 |
| 17 August 2015 | Accumulate | 916 | 930 |
| 8 September 2015 | Buy | 760 | 930 |
| November 2015 | Buy | 691 | 814 |
| 0 November 2015 | Accumulate | 759 | 814 |
| 2 February 2016 | Buy | 531 | 759 |
| 1 May 2016 | Buy | 512 | 644 |
| 7 September 2016 | Accumulate | 534 | 508 |
| 22 January 2018 | Buy | 1,047 | 1,310 |
| 9 May 2018 | Buy | 1,280 | 1,485 |
| 26 July 2018 | Buy | 1,400 | 1,620 |
| 7 September 2018 | Buy | 1,417 | 1,630 |

## Rating track graph



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BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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