

# Jubilant FoodWorks

23 October 2019

Reuters: JUBI.BO; Bloomberg: JUBI IN

## Sequential improvement in performance; no material recovery in demand

Jubilant Foodworks' (JUBI) 2QFY20 standalone topline grew by 12.1% YoY to Rs9.9bn (our est. 9.7% growth to Rs9.7bn), led by SSG of 4.9% YoY (our est. 4%). SSG adjusted for store split was 6.5% YoY. EBITDA grew by 59.3% to Rs2.35bn (our est. 55.6% growth to Rs2.3bn). Thus, reported EBITDA margin came in at 23.8%, expanding by 700bps YoY (our est. 23.7%) while underlying margin (w/o IND AS 116) was down 30bps at 16.4%. Adj. PAT (post adjusting for exceptional item) grew by 13.9% to Rs884mn (our est. 11.5% growth to Rs866mn). Exceptional item represents 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. Normalised PAT (before one-time tax charge and exceptional item) stood at Rs961mn. JUBI picked up intensity in network expansion this quarter as it opened 40 new Dominos stores and closed 6 stores. Some of the key highlights from the earnings call were: 1) 2QFY20 saw challenging demand environment as well as inflationary pressure. There was also visible pressure on dine-in sales which continued from previous quarters as the industry continues to see the structural shift happening in favor of delivery. Significant growth in delivery (especially online) business more than compensated for slowdown in dine in; 2) Dominos store openings of 40 new stores in 2Q were highest in the last 15 quarters. It has revised its full year gross store opening target to 120+ from 100 earlier (YTD gross store additions stands at 66); 3) 2QFY20 saw sequential improvement in margins despite significant inflation in dairy (YoY and QoQ) and manpower, due to the price hike taken at the end of 1QFY20, targeted promotions, delivery efficiencies and manpower productivity; 4) Bangladesh business continues to do very well. JUBI has opened second store this quarter and sees large potential for the business. The other emerging growth - Hong's Kitchen has seen encouraging response. Company will scale the brand gradually over the next two quarters.

**Healthy SSG delivered:** JUBI reported 12.1% YoY revenue growth in 2QFY20, led by 4.9% YoY SSG on a high base of 20.5%. SSG adjusted for store split was 6.5% YoY. Strategy of fortressing markets, investment in data science to improve customer service and efficiencies, railway ordering, innovations helped JUBI to register double digit growth during the quarter. During the quarter, 40 new Domino's stores were opened whereas 6 stores were closed, taking the total number of Dominos store to 1,283 at the end of the quarter.

**Healthy margin delivery:** Gross margin expanded 70bps YoY to 75.3% in 2QFY20. The company had taken a small price hike in the latter part of the previous quarter, which is expected to have supported margin this quarter. Reported EBITDA margin expanded 700bps YoY to 23.8% while underlying margin (w/o IND AS 116) was down 30bps at 16.4% largely due to increase in manpower costs during the quarter.

**1HFY20 performance:** Sales, EBITDA and Adj. PAT growth stood at 11.1%, 56.8% and 7.1% YoY, respectively. SSSG for the period stood at 4.5% on a base of 23.2% with Like-for-like (LFL) sales growth of 6.2% YoY. Underlying EBITDA margin (w/o IND AS 116) contracted 60bps YoY to -16.1% in the same period.

**Outlook and valuation:** There is no material change to our FY20/21/22 EPS. Overall operating environment continues to be weak in near term. The company has been experiencing slowdown in dine-in business for the last few quarters now which has been to some extent compensated by good growth in the delivery business in recent times. Company's own initiatives - strategy of fortressing markets, investment in data science to improve customer service and efficiencies, railway ordering, innovations and focus on delivering value to the customer will help maintain its dominant position in the space. It is also to be noted that JUBI has been one of the biggest beneficiaries of corporate tax rate reduction which gives it room for spending on promotions to tackle competition. Further, the foray into the Chinese fast casual segment and a good response from new markets like Bangladesh presents opportunities for future growth. The stock trades at 41x FY21E EPS. We retain our BUY rating with an unchanged target price of Rs1,685 (based on P/E multiple of 45x Sep'21 EPS), implying an upside of 18% from the CMP.

## BUY

**Sector:** Quick Service Restaurant

**CMP:** Rs1,429

**Target Price:** Rs1,685

**Upside:** 18%

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### Key Data

Current Shares O/S (mn)	132.0
Mkt Cap (Rsbn/US\$bn)	189.4/2.7
52 Wk H / L (Rs)	1,530/977
Daily Vol. (3M NSE Avg.)	1,185,684

### Price Performance (%)

	1 M	6 M	1 Yr
Jubilant FoodWorks	4.0	7.8	16.2
Nifty Index	2.8	(1.4)	12.5

Source: Bloomberg

Y/E March (Rsmn)	2QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	1HFY19	2HFY20	YoY (%)
Net sales	8,814	9,401	9,882	12.1	5.1	17,364	19,283	11.1
COGS	2,238	2,307	2,444	9.2	5.9	4,416	4,751	7.6
% of sales	25.4	24.5	24.7	-0.7	0.2	25.4	24.6	-0.8
Gross margin %	74.6	75.5	75.3	70bps	(20bps)	74.6	75.4	80bps
Employee costs	1,702	1,842	1,972	15.8	7.0	3,247	3,814	17.5
% of sales	19.3	19.6	20.0	60bps	40bps	18.7	19.8	110bps
Rent	829	210	206	-75.2	-2.3	1,670	416	-75.1
% of sales	9.4	2.2	2.1	(730bps)	(20bps)	9.6	2.2	(750bps)
Other expenses	2,569	2,850	2,911	13.3	2.1	5,135	5,761	12.2
% of sales	29.1	30.3	29.5	30bps	(90bps)	29.6	29.9	30bps
EBITDA	1,475	2,191	2,350	59.3	7.3	2,896	4,541	56.8
EBITDA margin %	16.7	23.3	23.8	700bps	50bps	16.7	23.5	690bps
Depreciation	385	808	838	117.8	3.7	750	1,645	119.3
EBIT	1,091	1,383	1,512	38.6	9.4	2,146	2,895	34.9
EBIT margin %	12.4	14.7	15.3	290bps	60bps	12.4	15.0	270bps
Interest expenses	-	395	404	-	2.3	0	799	-
Other income	108	153	172	59.0	12.8	180	325	80.8
PBT	1,199	1,141	1,281	6.8	12.3	2,326	2,421	4.1
Tax	422	393	396	-6.2	0.9	802	789	-1.6
Effective tax rate %	35.2	34.4	30.9	(430bps)	(350bps)	34.5	32.6	(190bps)
PAT	777	748	884	13.9	18.3	1523	1632	7.1
PAT margin %	8.7	7.8	8.8	10bps	10bps	8.7	8.3	(40bps)
EPS	5.9	5.7	6.7	13.9	18.3	11.5	12.4	7.1

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net revenues	30,184	35,631	40,787	46,412	52,686
YoY growth (%)	16.8	18.0	14.5	13.8	13.5
EBITDA	4,401	5,997	10,057	11,296	12,665
EBITDA margin (%)	14.6	16.8	24.7	24.3	24.0
PAT	1,962	3,180	4,062	4,614	5,276
EPS (Rs)	14.9	24.1	30.8	35.0	40.0
YoY growth (%)	180.4	62.0	27.8	13.6	14.3
RoCE (%)	22.1	29.4	43.8	44.4	43.8
RoE (%)	20.3	26.6	33.8	32.8	34.2
P/E (x)	96.2	59.3	46.5	40.9	35.8
P/BV (x)	19.5	15.8	15.7	13.4	12.2
EV/EBITDA (x)	42.0	30.3	17.4	15.0	13.0

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Our estimates versus actual performance

Y/E March (Rsmn)	2QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	NBIE estimate	Variation (%)
Net sales	8,814	9,401	9,882	12.1	5.1	9,672	2%
EBITDA	1,475	2,191	2,350	59.3	7.3	2,296	2%
EBITDA margin (%)	16.7	23.3	23.8	7.0	0.5	23.7	4 bps
Adj. PAT	777	748	884	13.9	18.3	866	2%

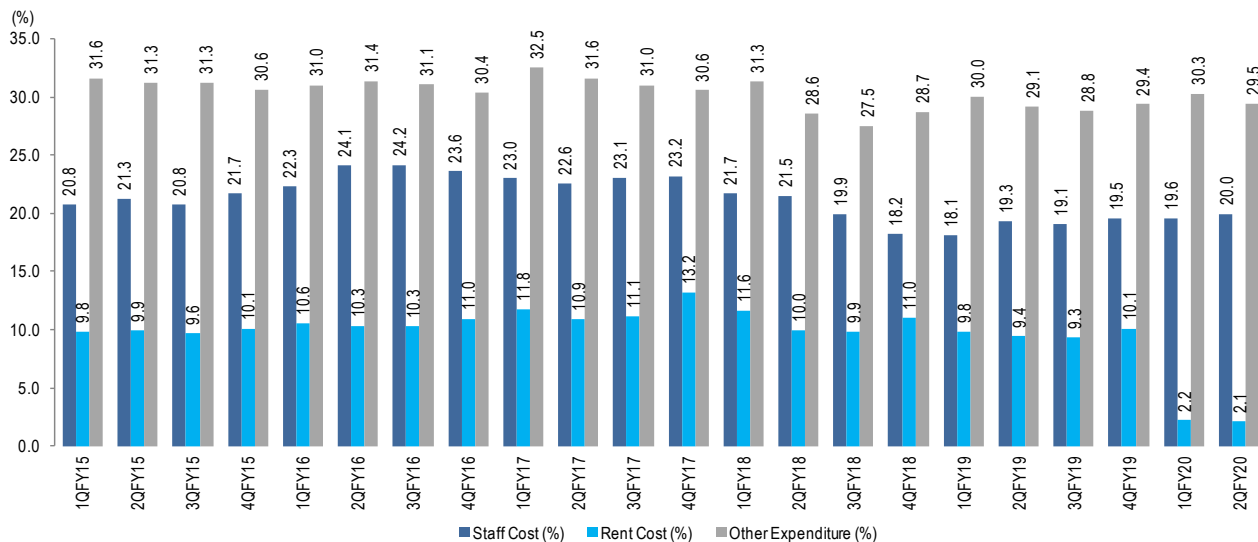
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Change in our estimates

Y/E March (Rsmn)	Old estimates			New estimates			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net sales	40,748	46,407	52,687	40,787	46,412	52,686	0	0	0
EBITDA	10,106	11,346	12,621	10,057	11,296	12,665	0	0	0
EBITDA (%)	24.8	24.4	24.0	24.7	24.3	24.0	(14bps)	(11bps)	(8bps)
Net income	4,047	4,618	5,269	4,062	4,614	5,276	0	0	0

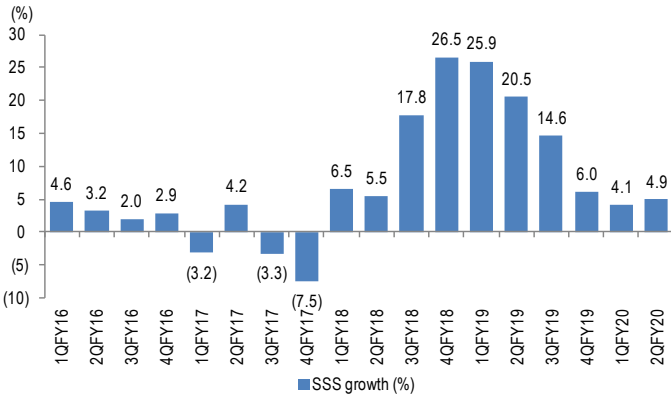
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 4: Trend in operating costs



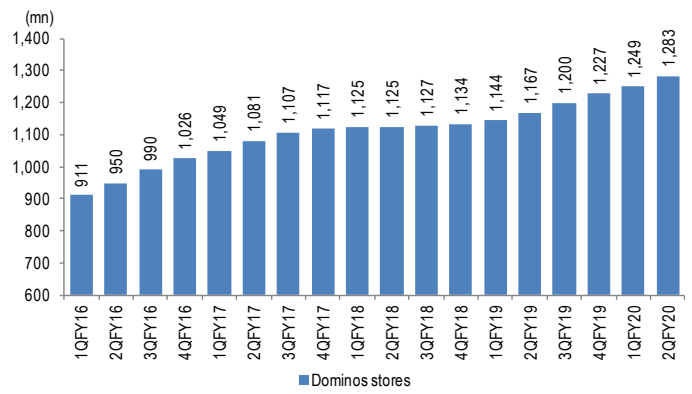
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: SSG trend**



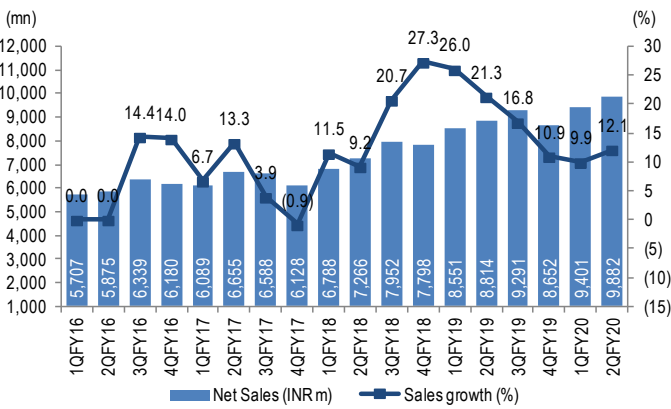
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: Dominos stores**



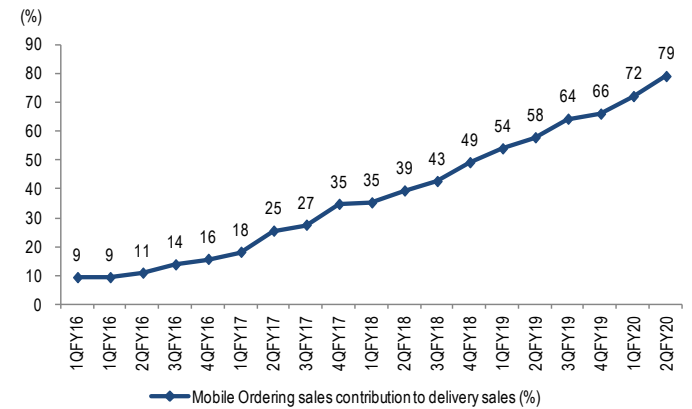
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Net Sales trend**



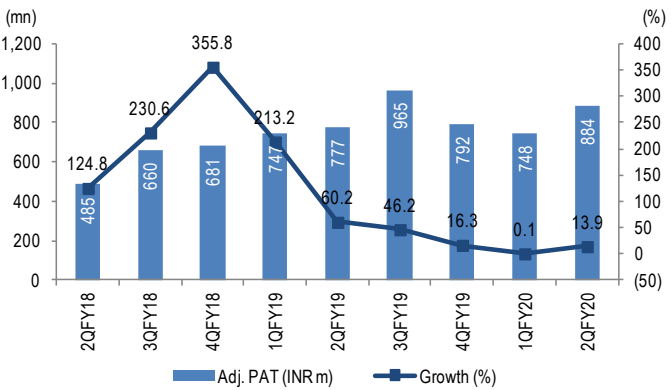
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Mobile ordering contribution to delivery sales**



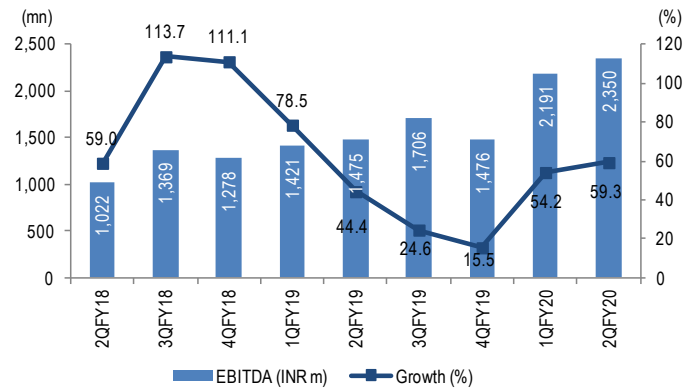
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Net Earnings**



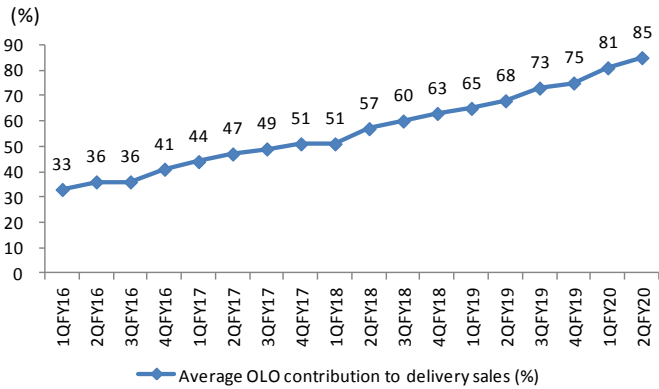
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Operating profit trend**



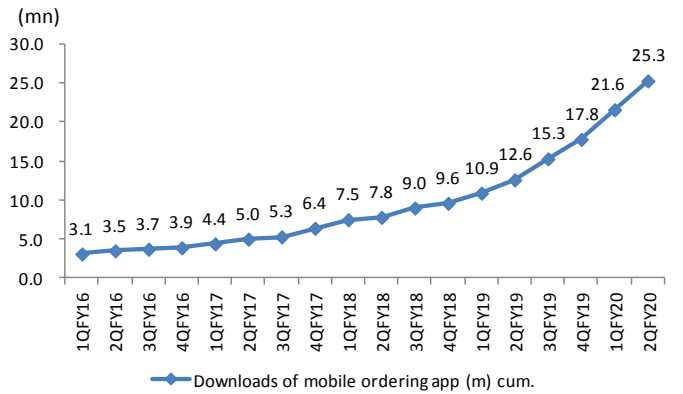
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Average Online contribution to delivery sales**



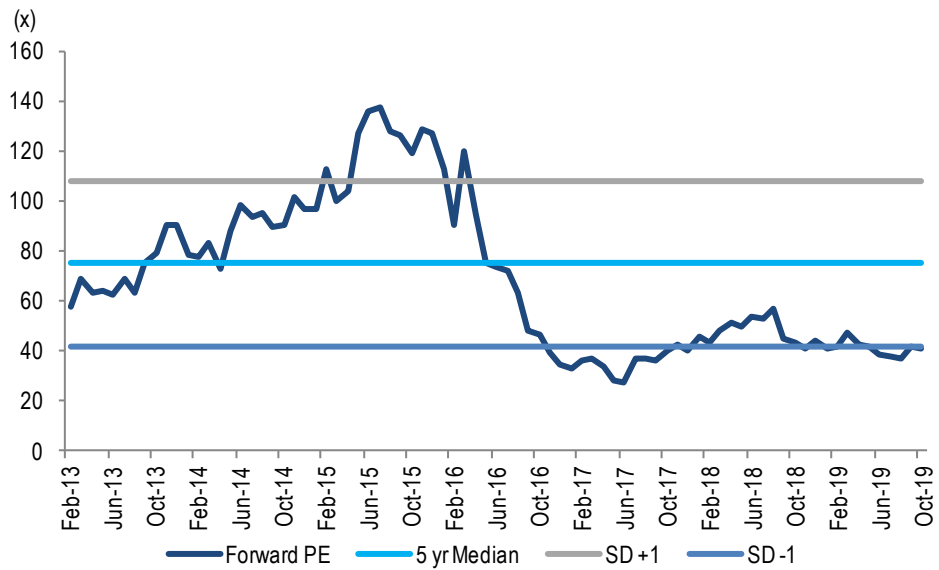
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: Downloads of mobile ordering app**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 13: One-year forward P/E**



Source: Company, Nirmal Bang Institutional Equities Research

## Financials (standalone)

### Exhibit 14: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	30,184	35,631	40,787	46,412	52,686
<b>% Growth</b>	<b>16.8</b>	<b>18.0</b>	<b>14.5</b>	<b>13.8</b>	<b>13.5</b>
COGS	7,660	8,861	10,127	11,521	13,061
Staff costs	6,140	6,818	8,081	9,144	10,783
Other expenses	11,987	13,957	12,524	14,454	16,181
Total expenses	25,783	29,634	30,730	35,116	40,021
EBITDA	4,401	5,997	10,057	11,296	12,665
<b>% growth</b>	<b>82.5</b>	<b>36.3</b>	<b>67.7</b>	<b>12.3</b>	<b>12.1</b>
<b>EBITDA margin (%)</b>	<b>14.6</b>	<b>16.8</b>	<b>24.7</b>	<b>24.3</b>	<b>24.0</b>
Other income	231	474	814	977	1,258
Interest costs	0	0	1,580	1,580	1,580
Depreciation	1,601	1,575	3,883	4,526	5,292
Profit before tax(before except.item)	3,031	4,897	5,409	6,167	7,051
Exceptional items	0	0	0	0	0
Tax	1,068	1,717	1,347	1,552	1,775
PAT (before exceptional items)	1,962	3,180	4,062	4,614	5,276
PAT	1,962	3,180	4,062	4,614	5,276
<b>PAT margin (%)</b>	<b>6.5</b>	<b>8.8</b>	<b>9.8</b>	<b>9.7</b>	<b>9.8</b>
<b>% Growth</b>	<b>180.5</b>	<b>62.0</b>	<b>27.8</b>	<b>13.6</b>	<b>14.3</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 16: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	1,320	1,320	1,320	1,320	1,320
Reserves	8,358	10,617	10,689	12,769	14,087
Net worth	9,677	11,936	12,008	14,089	15,406
Total debt	30	0	0	0	0
Deferred tax liability	550	500	500	500	500
<b>Total liabilities</b>	<b>9,708</b>	<b>11,936</b>	<b>12,008</b>	<b>14,089</b>	<b>15,406</b>
Gross block	11,748	13,512	15,791	18,369	21,571
Depreciation	3,838	5,412	9,295	13,821	19,113
Net block	7,910	8,100	6,496	4,548	2,458
Capital work-in-progress	124	152	175	201	232
Investments	2631	1808	9470	13511	14185
Inventories	642	771	888	1,042	1,181
Debtors	157	274	277	316	358
Cash	1,290	4,943	3,882	5,271	10,007
Loans & advances	104	0	0	0	0
Other current assets	333	332	13150	13150	13150
Total current assets	2,525	6,320	18,197	19,778	24,696
Creditors	3,890	4,209	4,943	5,642	6,460
Other current liabilities & provisions	820	1,227	18,588	19,714	21,334
Total current liabilities	4,710	5,435	23,531	25,355	27,794
Net current assets	-2,184	884	-5,334	-5,577	-3,098
<b>Total assets</b>	<b>9,708</b>	<b>11,936</b>	<b>12,008</b>	<b>14,090</b>	<b>15,407</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 15: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
PAT	3,031	4,897	5,409	6,167	7,051
Depreciation	1,601	1,575	3,883	4,526	5,292
Other income	120	474	814	977	1,258
(Inc./dec.) in working capital	(912)	(584)	(5,158)	(1,632)	(2,256)
<b>Cash flow from operations</b>	<b>4,091</b>	<b>4,864</b>	<b>13,868</b>	<b>11,376</b>	<b>13,147</b>
Capital expenditure (-)	(1,160)	(1,792)	(2,302)	(2,604)	(3,233)
<b>Net cash after capex</b>	<b>5,251</b>	<b>6,656</b>	<b>16,170</b>	<b>13,980</b>	<b>16,379</b>
Dividends paid (-)	(164)	(792)	(1,584)	(2,534)	(3,959)
Inc./dec.) in total borrowings	0	(30)	0	0	0
Inc./dec.) in investments and other assets	(1,695)	823	(7,662)	(4,041)	(675)
<b>Cash from financial activities</b>	<b>(2,808)</b>	<b>3</b>	<b>(11,372)</b>	<b>(5,480)</b>	<b>(2,478)</b>
Others	(393)	(393)	(1,973)	(1,973)	(1,973)
Opening cash balance	354	1,290	4,943	3,882	5,271
Closing cash balance	1,290	4,943	3,882	5,271	10,007
Change in cash balance	936	3,652	(1,061)	1,389	4,736

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 17: Key ratios

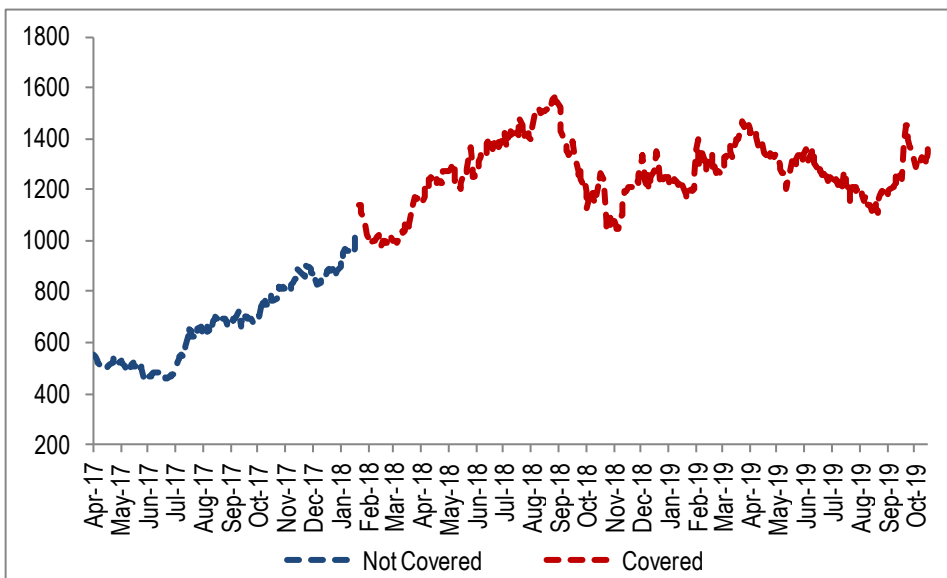
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
<b>Per share (Rs)</b>					
EPS	14.9	24.1	30.8	35.0	40.0
Book value	73.3	90.4	91.0	106.8	116.7
DPS	2.5	5.0	10.0	16.0	25.0
<b>Valuation (x)</b>					
EV/sales	6.1	5.1	4.3	3.7	3.1
EV/EBITDA	42.0	30.3	17.4	15.0	13.0
P/E	96.2	59.3	46.5	40.9	35.8
P/BV	19.5	15.8	15.7	13.4	12.2
<b>Return ratios (%)</b>					
RoCE	22.1	29.4	43.8	44.4	43.8
RoE	20.3	26.6	33.8	32.8	34.2
<b>Profitability ratios (%)</b>					
Gross margin	74.6	75.1	75.2	75.2	75.2
EBITDA margin	14.6	16.8	24.7	24.3	24.0
EBIT margin	9.3	12.4	15.1	14.6	14.0
PAT margin	6.5	8.8	9.8	9.7	9.8
<b>Liquidity ratios (%)</b>					
Current ratio	0.5	1.2	0.8	0.8	0.9
Quick ratio	0.4	1.0	0.7	0.7	0.8
<b>Solvency ratio (%)</b>					
Debt-to-equity ratio	0.0	0.0	0.0	0.0	0.0
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	3.1	3.0	3.4	3.3	3.4
Fixed asset turnover ratio (x)	3.8	4.4	6.3	10.2	21.4
Debtor days	2	2	2	2	2
Inventory days	30	29	30	31	31
Creditor days	168	167	165	168	169

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
25 October 2018	Buy	1,195	1,575
31 January 2019	Buy	1,200	1,550
9 April 2019	Buy	1,422	1,680
16 May 2019	Buy	1,242	1,620
25 July 2019	Buy	1,157	1,480
23 October 2019	Buy	1,429	1,685

## Rating track graph



## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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