

Jubilant FoodWorks

16 May 2019

Reuters: JUBI.BO; Bloomberg: JUBI IN

Performance In Line With Expectations

Jubilant FoodWorks (JUBI) delivered another quarter of strong performance and profitability led by 6% same-store sales growth or SSG in 4QFY19. Revenue growth at 11% was in line with our expectation. The low SSG number, despite a healthy growth in revenues, could be explained by the fact that the current SSG was delivered on a high base of 25.6%, over 50% of the new stores being opened in areas where the company already has a presence and more importantly, the customer behaviour has become more centered towards delivery, exerting pressure on dine-in. The management reiterated its confidence in consistently delivering a healthy SSG. Operating earnings growth at 16% was highly encouraging and was largely as a result of JUBI's strong cost control measures which helped in controlling rent and other overheads. The company's partnership with Pepsi is yielding benefits in the form of an improved beverage portfolio and improved margins in beverages. The company has room for further margin expansion as the management indicated that it intends to deploy pricing lever later this year. JUBI opened 30 stores during the quarter, taking the total store count to 1,227. The management has given guidance of 100 new store openings in FY20. The company has made significant investment in its analytical and digital capabilities which is showing results in the form of encouraging growth in online orders, and going forward it is expected to add further momentum to online order placement on the back of real time customer insights. Some headwind in raw material cost is expected after a period of benign raw material inflation, but the management is confident that it can be taken care of through the cost efficiency programme and improving beverage margin. The company's key focus areas going forward are product innovation, delivering value for money to customers, improving customer experience and leveraging digital and analytical capabilities to drive revenue growth. We believe that the company's consistent menu innovation such as in the form of World Pizza League and focus on delivering value to the customer will help maintain its dominant position in the form of market share gain, and further the company's foray into the Chinese fast casual segment and good response from new markets like Bangladesh will present opportunities for future growth. We have retained Buy rating on JUBI after revising our earnings estimates with a revised target price of Rs1,620 (from Rs1,680 earlier), indicating an upside of 30% from the CMP, based on an unchanged multiple of 45x.

Strong SSG continues: JUBI reported 11% revenue growth in 4QFY19 led by 6% SSG. Overall strong demand, robust delivery sales, increased frequency of orders driven by EDV offer and addition of new consumers led to strong growth. Dunkin' Donuts (DD) reported second consecutive quarter of breakeven. During the quarter, 30 Domino's stores were opened whereas total 3 stores were closed.

Healthy margin delivery: EBITDA grew 16% YoY and witnessed margin expansion of 70bps. The company's strong cost control measures coupled with better beverage margin and an improved product mix led to strong operating profit during the quarter. There is further headroom for growth, given that the company is going to use pricing lever later this year.

Outlook and valuation: We believe that the company's consistent menu innovation such as in the form of World Pizza League and focus on delivering value to the customer will help maintain its dominant position in the form of market share gain, and further the foray into the Chinese fast casual segment and a good response from new markets like Bangladesh will present opportunities for future growth. We have retained Buy rating on JUBI after revising our earnings estimates with a revised target price of Rs1,620 (from Rs1,680 earlier), indicating an upside of 30% from the CMP, based on an unchanged multiple of 45x.

BUY

Sector: Quick Service Restaurant

CMP: Rs1,242

Target Price: Rs1,620

Upside: 30%

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Key Data

Current Shares O/S (mn)	132.0
Mkt Cap (Rsbn/US\$bn)	157.4/2.2
52 Wk H / L (Rs)	1,578/775
Daily Vol. (3M NSE Avg.)	1,538,081

Price Performance (%)

	1 M	6 M	1 Yr
Jubilant FoodWorks	(6.4)	(2.6)	48.2
Nifty Index	(6.8)	(3.7)	0.2

Source: Bloomberg

Y/E March (Rsmn)	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	FY18	FY19	YoY (%)
Net sales	7,798	9,291	8,652	10.9	(6.9)	29,804	35,307	18.5
COGS	2,004	2,271	2,071	3.3	(8.8)	7,514	8,759	16.6
% of sales	25.7	24.4	23.9	(180)bps	(50)bps	25.2	24.8	(40)bps
Gross margin %	74.3	75.6	76.1	180bps	50bps	74.8	75.2	40bps
Employee costs	1,421	1,771	1,689	18.9	(4.6)	6,041	6,707	11.0
% of sales	18.2	19.1	19.5	130bps	50bps	20.3	19.0	(130)bps
Rent	857	866	875	2.1	1.0	3,157	3,411	8.0
% of sales	11.0	9.3	10.1	(90)bps	(80)bps	10.6	9.7	(90)bps
Other expenses	2,239	2,676	2,541	13.5	(5.1)	8,628	10,352	20.0
% of sales	28.7	28.8	29.4	70bps	60bps	28.9	29.3	40bps
EBITDA	1,278	1,706	1,476	15.5	(13.5)	4,464	6,078	36.2
EBITDA margin %	16.4	18.4	17.1	70bps	(130)bps	15.0	17.2	220bps
Depreciation	378	373	400	5.8	7.3	1,559	1,523	(2.3)
EBIT	899	1,333	1,076	19.6	(19.3)	2,905	4,555	56.8
EBIT margin %	11.5	14.3	12.4	90bps	(190)bps	9.7	12.9	320bps
Interest expenses	-	0	0	-	-	0	0	-
Other income	127	138	151	18.8	9.7	227	469	106.5
Exceptional items	0.0	0	(79.30)	-	-	0.0	(79.3)	-
PBT	1,027	1,471	1,148	11.8	(22.0)	3,132	4,945	57.9
Tax	346	506	409	18.0	(19.3)	1,068	1,717	60.7
Effective tax rate %	33.7	34.4	35.6	190bps	120bps	34.1	34.7	60bps
PAT	681	965	739	8.6	(23.4)	2,064	3,228	56.4
PAT margin %	8.6	10.2	8.4	(20)bps	(180)bps	6.9	9.0	220bps
Adj. PAT	681	965	847	24.4	(12.2)	2,064	3,336	61.6
EPS	5.2	7.3	5.6	8.7	(23.4)	15.6	24.5	56.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net revenues	25,461	29,804	35,307	39,990	45,189
YoY growth (%)	5.6	17.1	18.5	13.3	13.0
SSG	(2.4)	13.9	16.8	8.3	9.0
EBITDA	2,466	4,464	6,078	6,958	8,167
EBITDA margin (%)	9.7	15.0	17.2	17.4	18.1
PAT	673	2,064	3,228	3,916	4,774
EPS (Rs)	5.1	15.6	24.5	29.7	36.2
YoY growth (%)	(37.1)	206.7	56.5	21.3	21.9
RoCE (%)	11.6	30.6	38.5	36.5	36.9
RoE (%)	8.2	21.8	27.3	27.1	28.0
P/E (x)	217.2	96.9	50.1	41.3	33.8
P/BV (x)	17.1	19.2	12.2	10.3	8.8
EV/EBITDA (x)	58.7	43.9	27.0	21.8	18.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Our estimates versus actual performance

Y/E March (Rsmn)	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	NBIE estimate	Variation (%)
Net sales	7,798	9,291	8,652	10.9	(6.9)	8,890	-
EBITDA	1,278	1,706	1,476	15.5	(13.5)	1,485	-
EBITDA margin (%)	16.4	18.4	17.1	0.7	(1.3)	16.7	36bps
Adj. PAT	681	965	739	8.6	(23.4)	822	(0.1)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in our estimates

Y/E March (Rsmn)	Old estimates		New estimates		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net sales	40,347	45,592	39,990	45,189	(0.9)	(0.9)
EBITDA	7,170	8,461	6,958	8,167	(3.0)	(3.5)
EBITDA (%)	17.8	18.6	17.4	18.1	(40)bps	(50)bps
Net income	4,030	4,925	3,916	4,774	(2.8)	(3.1)

Source: Company, Nirmal Bang Institutional Equities Research

Financials (standalone)
Exhibit 4: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	25,461	29,804	35,307	39,990	45,189
% Growth	5.6	17.1	18.5	13.3	13.0
COGS	6,160	7,514	8,759	9,978	11,167
Staff costs	5,845	6,041	6,707	7,577	8,529
Other expenses	10,990	11,785	13,763	15,477	17,326
Total expenses	22,995	25,340	29,229	33,032	37,022
EBITDA	2,466	4,464	6,078	6,958	8,167
% growth	(9.3)	81.0	36.2	14.5	17.4
EBITDA margin (%)	9.7	15.0	17.2	17.4	18.1
Other income	145	227	469	569	817
Interest costs	0	0	0	0	0
Depreciation	1,512	1,559	1,523	1,683	1,859
Profit before tax(before except.item)	1,099	3,132	5,024	5,845	7,126
Exceptional items	(122)	0	(79)	0	0
Tax	305	1,068	1,717	1,929	2,351
PAT (before exceptional items)	794	2,064	3,307	3,916	4,774
PAT	673	2,064	3,228	3,916	4,774
PAT margin (%)	2.6	6.9	9.0	9.7	10.4
% Growth	(36.9)	206.9	56.4	21.3	21.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	659	659	1,320	1,320	1,320
Reserves	7,862	9,779	11,917	14,370	17,139
Net worth	8,522	10,439	13,237	15,690	18,459
Total debt	0	0	0	0	0
Deferred tax liability	693	550	492	720	750
Total liabilities	9,219	10,994	13,735	16,415	19,214
Gross block	9,880	11,421	12,521	13,771	15,271
Depreciation	2,541	4,100	5,623	7,305	9,164
Net block	7,338	7,321	7,489	6,465	6,107
Capital work-in-progress	598	109	144	750	750
Investments	1680	3453	2695	4199	4745
Inventories	587	626	731	854	920
Debtors	156	151	327	331	412
Cash	324	1,285	4,891	6,816	9,274
Loans & advances	772	883	951	2000	2034
Other current assets	331	320	307	400	362
Total current assets	2,335	5,013	8,064	11,800	14,584
Creditors	3,117	3,868	4,166	5,020	4,893
Other current liabilities & provisions	784	655	993	1,220	1,401
Total current liabilities	4,102	4,686	5,404	6,599	6,746
Net current assets	-1,768	328	2,660	5,200	7,838
Total assets	9,219	10,994	13,735	16,415	19,214

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
PAT	673	2,064	3,228	3,916	4,774
Depreciation	1,512	1,559	1,523	1,683	1,859
Other income	(145)	(227)	(469)	(569)	(817)
(Inc.)/dec. in working capital	163	550	436	1,069	(2)
Cash flow from operations	2,202	3,946	4,718	6,099	5,814
Capital expenditure (-)	(1,219)	(700)	(1,135)	(1,856)	(1,500)
Net cash after capex	983	3,246	3,583	4,243	4,314
Dividends paid (-)	(198)	(396)	(775)	(1,410)	(2,005)
Inc./(dec.) in total borrowings	-	-	-	-	-
Inc./(dec.) in investments and other assets	(476)	(1,711)	1,094	(2,043)	120
Cash from financial activities	(230)	(538)	(172)	(1,182)	(1,975)
Others	83	(121)	(257)	-	-
Opening cash balance	314	324	1,285	4,891	6,816
Closing cash balance	324	1,285	4,891	6,816	9,274
Change in cash balance	360	876	4,248	1,018	2,458

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

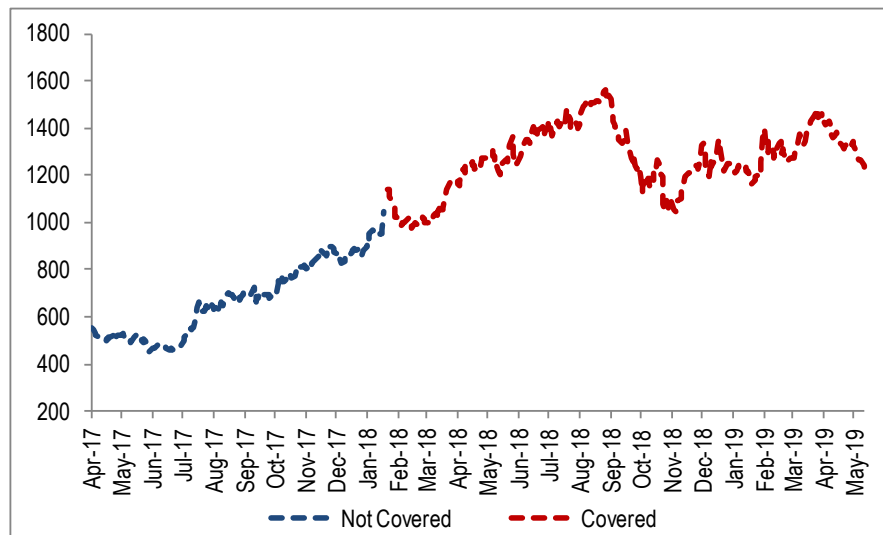
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Per share (Rs)					
EPS	5.1	15.6	24.5	29.7	36.2
Book value	64.6	79.1	100.4	119.0	139.9
DPS	1.2	2.5	4.9	8.9	12.7
Valuation (x)					
P/Sales	5.7	6.7	4.6	4.0	3.6
EV/sales	5.7	6.6	4.4	3.8	3.3
EV/EBITDA	58.7	43.9	27.0	21.8	18.3
P/E	217.2	96.9	50.1	41.3	33.8
P/BV	17.1	19.2	12.2	10.3	8.8
Return ratios (%)					
RoCE	11.6	30.6	38.5	36.5	36.9
RoE	8.2	21.8	27.3	27.1	28.0
Profitability ratios (%)					
Gross margin	75.8	74.8	75.2	75.0	75.3
EBITDA margin	9.7	15.0	17.2	17.4	18.1
EBIT margin	3.7	9.7	12.9	13.2	14.0
PAT margin	2.6	6.9	9.0	9.7	10.4
Liquidity ratios (%)					
Current ratio	0.6	1.1	1.5	1.8	2.2
Quick ratio	0.4	0.9	1.4	1.7	2.0
Solvency ratio (%)					
Debt-to-equity ratio	0.0	0.0	0.0	0.0	0.0
Turnover ratios					
Total asset turnover ratio (x)	1.9	1.9	1.8	1.7	1.7
Fixed asset turnover ratio (x)	3.5	4.1	4.7	6.2	7.4
Debtor days	2	2	2	3	3
Inventory days	33	29	28	29	29
Creditor days	179	170	167	168	162

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

Rating track graph



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