

### Momentum Sustains!

JFL's Q1FY19 results beat our estimate with strong 25.9% Same Store Sales (SSSG) performance. After lackluster EBITDA outlook in 19 consecutive quarters (17.4% in Q3FY13 to 9.9% in Q4FY17), for the third consecutive quarter, the company exhibited striking operating performance with 490 bps margin expansion to 16.6%. Continuing momentum in core pizza due to product upgrade and 'Everyday Value Offer'(EDV) is driving growth. Further, better IPL season was a key driver of the growth. GST has been a boon for the company to increase profitability. Going ahead, we believe that the company would continue double digit SSSG with improved business conditions. We expect the company to report similar results in Q2FY19E, but thereafter it would have to fight against unfavorable base. Maintain **Accumulate** with a TP of ₹ 1,495 (35x FY20E CEPS).

### Operational performance was a beat

JFL's net sales grew 26.0% during Q1FY19 as SSS growth remained firm at 25.9% vs 26.5% and 6.5% in Q4FY18 and Q1FY18 respectively. We attribute the high growth in SSSG to newly launched EDV which has extended to regular size compared to mid-size earlier and exceptional IPL season this year. As expected the offer resulted in a trim in GM, but abetted growth in EBITDA margin. EBITDA jumped 78.5% YoY to ₹ 1.3bn came in line with our estimate. EBITDA margin expanded 490bps to 16.6%. Despite 180bps contraction in GM, 180/360/130bps drop in rent/employee cost/other expenses helped EBITDA margin to expand during the quarter. APAT jumped 213% YoY to ₹ 747mn.

### Pace of store additions to improve

During Q1FY19, only 10 net stores were added; JFL continues to go slow on the addition of stores compared to historical run-rate of 25-35 stores per quarter. Nevertheless, JFL plans to add 75 stores in FY19E, vindicates confidence in the improved business conditions.

### Reduction in Dunkin losses aid margin expansion

JFL's significant expansion in EBITDA margin can be attributed to few new store additions, the benefit of GST, initiation of night delivery and better volume traction. In addition, reduction in Dunkin losses to 55bps in Q1FY19 vs 143/106 bps in Q1FY18/Q4FY18 helped margins to expand. Heavy discounts, widening losses in Dunkin' and fall in demand are the key risks.

### Q1FY19 Result (₹ Mn)

Particulars	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Net Revenue	8,551	6,788	26.0	7,798	9.6
Total Expenditure	7,130	5,992	19.0	6,521	9.3
PBIDT (Excl OI)	1,421	796	78.5	1,278	11.2
Other Income	71	30	138.0	127	(44.0)
Depreciation	366	462	(20.9)	378	(3.3)
EBIT	1,126	364	209.8	1,027	9.7
PBT	1,126	364	209.8	1,027	9.7
Tax	380	125	203.4	346	9.7
Adj Net Profit	747	238	213.2	681	9.7
RPAT	739	239	208.7	694	6.5
EPS (adjusted)	5.7	1.8	213.2	5.2	9.7
			bps		bps
Gross Profit (%)	74.5	76.4	(180)	74.3	20
Employee Expenses (%)	18.1	21.7	(360)	18.2	(10)
Rent Expenses (%)	9.8	11.6	(180)	11.0	(120)
Other Expenses (%)	30.0	31.3	(130)	28.7	130
EBITDA (%)	16.6	11.7	490	16.4	20
PAT (%) Adj	8.7	3.5	520	8.7	-

CMP	₹ 1,400
Target / Upside	₹ 1,495/7%
BSE Sensex	36,858
NSE Nifty	11,132

### Script Details

Equity / FV	₹ 1,319mn/₹ 10/-
Market Cap	₹ 184bn
	USD 2.5bn
52-week High/Low	₹ 1,495/618
Avg. Volume (no)	1,284,507
NSE Symbol	JUBLFOOD
Bloomberg Code	JUBI IN

### Shareholding Pattern Jun'18 (%)

Promoters	44.9
MF/Banks/FIs	8.2
FIIIs	37.8
Public / Others	9.1

### Valuation (x)

	FY18	FY19E	FY20E
P/E	44.7	54.6	46.0
EV/EBITDA	40.3	27.5	23.3
ROE	21.9	28.0	25.8
ROCE	31.0	40.2	37.5

### Estimates (₹ mn)

	FY18	FY19E	FY20E
Net Sales	29,804	35,967	41,316
EBITDA	4,464	6,413	7,413
PAT	2,064	3,385	4,019
EPS (₹)	31.3	25.7	30.5

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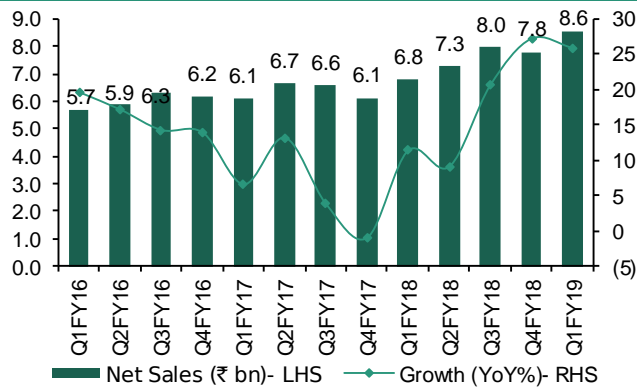
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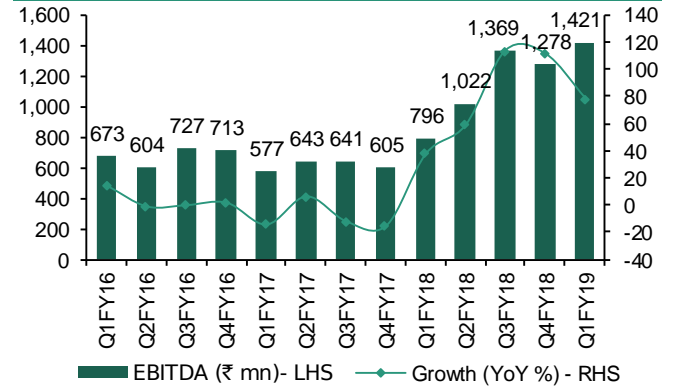
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## Q1FY19 Conference call highlights

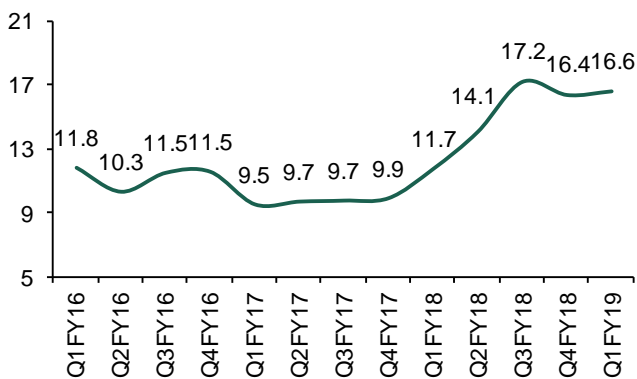
- GM contracted due to increase in contribution of EDV offer. The company witnessed benign cost environment in Dairy.
- Number of employees were 30,279 at the end of Q1FY19 from 27,539 at the end of FY18.
- Company expects margins to sustain on the basis of cost operating leverage and strong volume growth.
- The company is renegotiating rent contracts which helped control rent inflation.
- Company invested heavily in marketing during IPL. Marketing expenses would soften here on.
- Revision in GST rates to 5% provided a boost to food servicing industry.
- Capital expenditure in FY19E would be ~₹1.5bn. this would be used for adding 75 new stores. New stores would come up in existing as well as new markets.
- Capex for Q1FY19 stood at ₹ 260mn- used for new stores and maintenance capex.
- Growth in Domino's pizza business would remain key priority for the company. However, Dunkin business would not be neglected. The company would remain focused on expanding Dunkin business. The company targets to break even Dunkin business in FY19E.
- 60% stores are in metro and Tier1. Company will be opening new stores near corporate and educational institutions
- It takes 2.5-3 years for new stores to breakeven
- The company would focus on Innovation, penetration in new markets, value for money, technology and customer experience in the ensuing year to enhance growth.
- Impact of FIFA was insignificant.
- The extension of EDV to Regular Pizzas received a very good response with an increase in both new customer acquisition as well as existing customer frequency
- Domino had 1,144 stores across 268 cities in Q1FY19 with net addition of 10 stores. The company opened 1 Dunkin store and closed 1 store during the quarter. Dunkin store count remained at 37 across 10 cities.
- OLO increased to 65% in Q1FY19 compared to 51% in Q1FY18. Mobile ordering contribution has increased to 83% compared to 69% in Q1FY18.
- New Domino's Pizza app launched during Q1 with user friendly features also contributed to strong online delivery.

**Exhibit 1: Net Sales and Growth**


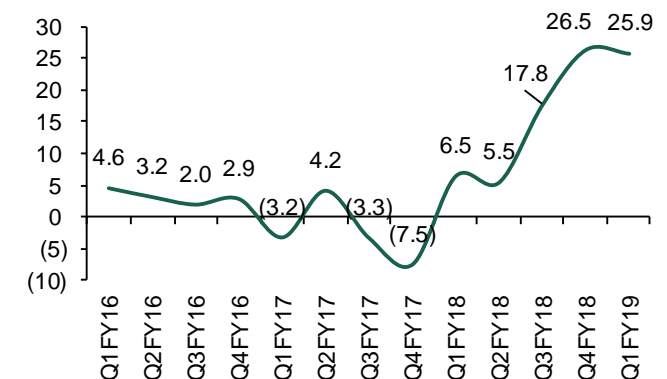
Source: Company, DART

**Exhibit 2: EBITDA and EBITDA Growth**


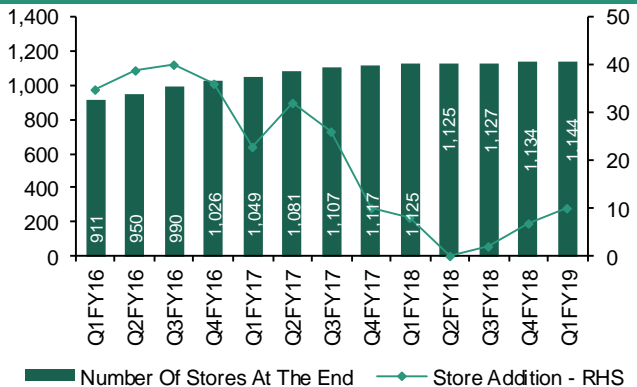
Source: Company, DART

**Exhibit 3: Trend in EBITDA Margin (%)**


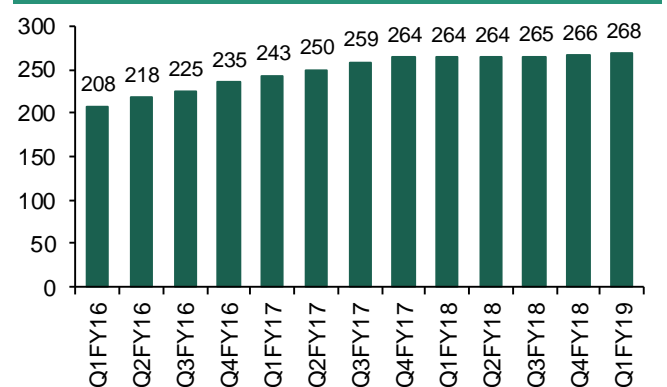
Source: Company, DART

**Exhibit 4: Trend in Same Store Sales Growth (%)**


Source: Company, DART

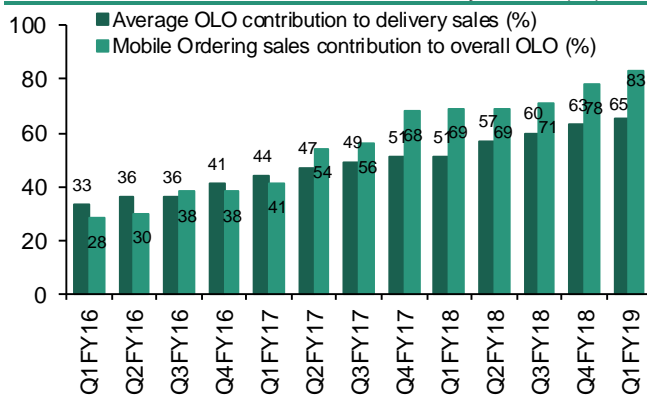
**Exhibit 5: Store Addition Trend**


Source: Company, DART

**Exhibit 6: Number of Cities Covered**


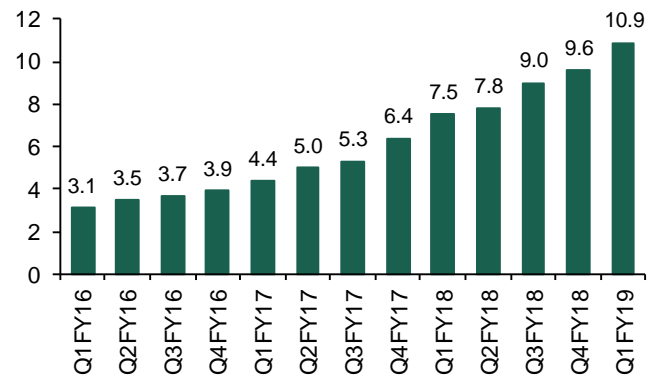
Source: Company, DART

**Exhibit 7: OLO Contribution to Delivery Sales (%)**



Source: Company, DART

**Exhibit 8: Download of Mobile Apps (mn)**



Source: Company, DART

### Income Statement (₹ mn)

Particulars	Mar17	Mar18P	Mar19E	Mar20E
<b>Net Sales</b>	<b>25,461</b>	<b>29,804</b>	<b>35,967</b>	<b>41,316</b>
Other income	141	227	275	300
Total Income	25,602	30,032	36,242	41,615
Total Expenditure	22,991	25,340	29,554	33,903
Operational / Direct exp.	6,160	7,514	9,171	10,764
Employee Expenses	5,854	6,041	6,566	7,341
Selling & Adm. Expenses	1,437	1,503	1,957	2,248
Other Expenses	9,541	10,282	11,860	13,550
<b>EBIDTA (Excl. OI)</b>	<b>2,469</b>	<b>4,464</b>	<b>6,413</b>	<b>7,413</b>
<b>EBIDTA (Incl. OI)</b>	<b>2,611</b>	<b>4,691</b>	<b>6,687</b>	<b>7,713</b>
<b>EBDT</b>	<b>2,611</b>	<b>4,691</b>	<b>6,687</b>	<b>7,713</b>
Depreciation	1,512	1,559	1,551	1,614
PBT & EO Items	1,099	3,132	5,137	6,099
Extra Ordinary Exps/(Inc.)	(122)	0	0	0
Profit Before Tax	978	3,132	5,137	6,099
Tax	305	1,068	1,752	2,080
Net Profit	673	2,064	3,385	4,019
<b>Net Profit (Adj.)</b>	<b>794</b>	<b>2,064</b>	<b>3,385</b>	<b>4,019</b>

### Balance Sheet (₹ mn)

Particulars	Mar17	Mar18P	Mar19E	Mar20E
<b>Sources of Funds</b>				
Equity Capital	660	660	1,319	1,319
Reserves	7,862	9,663	12,520	16,011
<b>Net Worth</b>	<b>8,522</b>	<b>10,322</b>	<b>13,839</b>	<b>17,330</b>
Deferred Tax Liability	693	693	693	693
<b>Total Capital Employed</b>	<b>9,215</b>	<b>11,015</b>	<b>14,532</b>	<b>18,023</b>
<b>Applications of Funds</b>				
Gross Block	10,654	11,056	12,619	14,767
Less: Accumulated Dep.	2,541	4,100	5,651	7,265
<b>Net Block</b>	<b>8,112</b>	<b>6,956</b>	<b>6,968</b>	<b>7,503</b>
Capital Work in Progress	598	598	598	598
Investments	1,680	2,180	2,680	3,180
<b>Current Assets, Loans &amp; Advances</b>				
Inventories	587	687	830	953
Sundry Debtors	156	183	221	253
Cash and Bank Balance	324	2,786	5,938	8,632
Loans and Advances	328	332	350	372
Other Current Assets	623	729	880	1,010
<i>sub total</i>	<i>2,018</i>	<i>4,718</i>	<i>8,218</i>	<i>11,221</i>
<b>Less: Current Liabilities &amp; Provisions</b>				
Current Liabilities	3,905	4,304	5,020	5,759
Provisions	201	201	201	201
<i>sub total</i>	<i>4,106</i>	<i>4,505</i>	<i>5,221</i>	<i>5,959</i>
Net Current Assets	(2,088)	213	2,997	5,262
Misc Expenses	912	1,068	1,288	1,480
<b>Total Assets</b>	<b>9,215</b>	<b>11,015</b>	<b>14,532</b>	<b>18,023</b>

E – Estimates

\*FY19E and FY20E is adjusted for bonus shares

### Cash Flow (₹ mn)

Particulars	Mar17	Mar18P	Mar19E	Mar20E
<b>Profit before tax</b>	<b>978</b>	<b>3,132</b>	<b>5,137</b>	<b>6,099</b>
Depreciation & w.o.	1,512	1,559	1,551	1,614
Direct taxes paid	(368)	(1,068)	(1,752)	(2,080)
Change in Working Capital	14	5	147	238
Non Cash	(45)	0	0	0
<b>(A) CF from Opt. Activities</b>	<b>2,091</b>	<b>3,628</b>	<b>5,082</b>	<b>5,871</b>
Capex	(1,959)	(402)	(1,563)	(2,149)
<b>Free Cash Flow</b>	<b>132</b>	<b>3,226</b>	<b>3,520</b>	<b>3,722</b>
(Inc.) / Dec. in Investments	27	(500)	(500)	(500)
<b>(B) CF from Invt. Activities</b>	<b>(1,932)</b>	<b>(902)</b>	<b>(2,063)</b>	<b>(2,649)</b>
Issue of Equity/ Preference	50	0	660	0
Dividend Paid (Incl. Tax)	(198)	(264)	(528)	(528)
<b>(C) CF from Financing</b>	<b>(148)</b>	<b>(264)</b>	<b>132</b>	<b>(528)</b>
Net Change in Cash	11	2,462	3,151	2,695
Opening Cash balances	314	324	2,786	5,938
Closing Cash balances	324	2,786	5,938	8,632

### Important Ratios

Particulars	Mar17	Mar18P	Mar19E	Mar20E
<b>(A) Measures of Performance (%)</b>				
EBIDTA Margin (excl. O.I.)	9.7	15.0	17.8	17.9
EBIDTA Margin (incl. O.I.)	10.3	15.7	18.6	18.7
EBDT Margin	10.3	15.7	18.6	18.7
Tax/PBT	31.2	34.1	34.1	34.1
Net Profit Margin	2.6	6.9	9.4	9.7
<b>(B) As Percentage of Net Sales</b>				
Raw Material	24.2	25.2	25.5	26.1
Employee Expenses	23.0	20.3	18.3	17.8
Selling & Adm. Expenses	5.6	5.0	5.4	5.4
Other Expenses	37.5	34.5	33.0	32.8
<b>(C) Measures of Financial Status</b>				
Debtors Period (days)	2.2	2.2	2.2	2.2
Closing stock (days)	8.4	8.4	8.4	8.4
Inventory Turnover Ratio (x)	43.4	43.4	43.4	43.4
Fixed Assets Turnover (x)	2.4	2.7	2.9	2.8
WC Turnover (x)	(12.2)	140.0	12.0	7.9
Non-Cash WC (₹ Mn)	(2,412)	(2,573)	(2,941)	(3,370)
<b>(D) Measures of Investment</b>				
EPS (₹)	10.2	31.3	25.7	30.5
CEPS (₹)	35.0	54.9	37.4	42.7
DPS (₹)	3.0	4.0	4.0	4.0
Dividend Payout (%)	29.5	12.8	15.6	13.1
Book Value (₹)	129.2	156.5	104.9	131.4
RoANW (%)	9.6	21.9	28.0	25.8
RoACE (%)	12.3	31.0	40.2	37.5
RoAIC (%)	12.7	36.6	61.1	67.8
<b>(E) Valuation Ratios</b>				
CMP (₹)	1,400	1,400	1,400	1,400
P/E (x)	137.3	44.7	54.6	46.0
Market Cap. (₹ Mn.)	184,660	184,660	184,660	184,660
MCap/ Sales (x)	7.3	6.2	5.1	4.5
EV (₹ Mn.)	182,655	179,693	176,042	172,847
EV/Sales (x)	7.2	6.0	4.9	4.2
EV/EBDITA (x)	74.0	40.3	27.5	23.3
P/BV (x)	10.8	8.9	13.3	10.7
Dividend Yield (%)	0.2	0.3	0.3	0.3

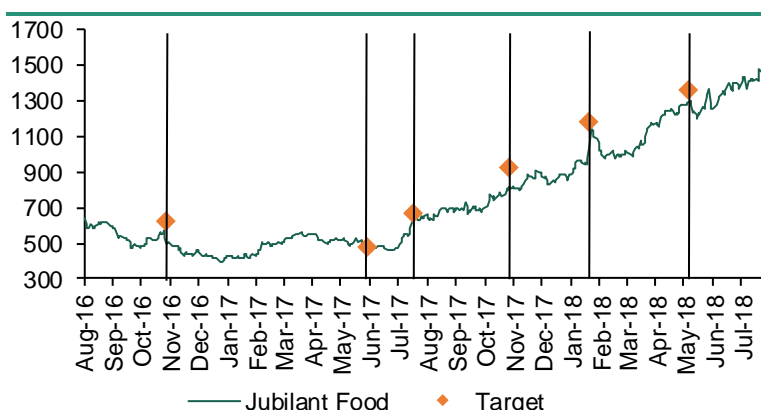
E – Estimates

## DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

## Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Oct-16	Buy	625	497
May-17	Reduce	480	469
Jul-17	Reduce	666	637
Oct-17	Accumulate	921	821
Jan-18	Accumulate	1,082	1046
May-18	Accumulate	1,365	1,283

\* Adjusted for bonus shares

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