Jubilant Foodworks

Accumulate

DART — DOLAT ANALYSIS & RESEARCH THEMES — IN-DEPTH•PRECISE•ACTIONABLE

Result Update

Stellar Performance Continues; Maintain Accumulate

JFL's Q3FY19 results were ahead our estimate, with a 14.6% Same Store Sales Growth (SSSG) performance. Despite a high base of 17.8% SSSG, double digit SSSG in this quarter indicates huge potential for growth. Further, operating margin expansion, despite aggressive store addition, was encouraging. Breakeven of the Dunkin operations have increased our confidence about the sustainability of margins. Continued momentum in core pizza, due to product upgrade and new product introductions, are helping the company to sustain strong growth. Going ahead, we believe that it is likely to post a high single digit to a low double digit SSSG, as the base is highly unfavorable. We believe that margins will remain high, as the negative impact of store additions would be mitigated by margin expansion in Dunkin. Maintain ACCUMULATE, with revised TP of ₹ 1,355 (40x FY21E EPS).

Results beat estimates on all fronts

JFL's net sales grew 16.8% during Q3FY19 as SSS growth remained firm at 14.6% vs 20.5% and 17.8% in Q2FY19 and Q3FY18 respectively. We attribute the high growth to new product launches and innovations in the existing product portfolios. Driven by high volumes, benign food inflation, and cost management, GM and EBITDA margin continued to expand. Besides, break even in Dunkin business further helped margin expansion. EBITDA jumped 24.6% YoY to ₹ 1.7bn, was more than our estimate. EBITDA margin expanded 110bps to 18.4%, the highest EBITDA margin in seven years. A 130bps increase in other expense, offset by 100/90/50 bps decline in RM/ employee/ rent costs, helped margin expansion. APAT jumped 46.2% YoY to ₹ 965mn, and exceeded our estimate.

Dunkin breakeven aid margin expansion

JFL's significant expansion in EBITDA margin can be attributed to soft commodity cycle, strong operating cost control, better volume traction and increased OLO contribution. In addition, Dunkin becoming profitable in the quarter supported margins in the overall business. The Dunkin business became profitable, primarily owing to strong growth in core portfolio and controlled cost management. The company continued to discontinue loss making operations in the business (31 stores closed in FY18 & 6 in 9MFY19).

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	9,291	7,952	16.8	8,814	5.4
Total Expense	7,585	6,583	15.2	7,338	3.4
EBITDA	1,706	1,369	24.6	1,475	15.6
Depreciation	373	393	(5.2)	385	(3.1)
EBIT	1,333	976	36.6	1,091	22.2
Other Income	138	33	312.9	108	27.3
Interest	0	0		0	
EBT	1,471	1,009	36.6	1,199	22.7
Tax	506	349	45.0	422	19.8
RPAT	965	660	46.2	777	24.3
APAT	965	660	46.2	777	24.3
			(bps)		(bps)
Gross Margin (%)	75.6	74.5	103	74.6	95
EBITDA Margin (%)	18.4	17.2	115	16.7	162
NPM (%)	10.4	8.3	208	8.8	158
Tax Rate (%)	34.4	34.6	(18)	35.2	(83)
EBIT Margin (%)	14.3	12.3	208	12.4	197

CMP	₹ 1,200
Target / Upside	₹ 1,355 / 13%
BSE Sensex	35,591
NSE Nifty	10,652

Scrip Details

Equity / FV	₹ 1,320mn / ₹ 10
Market Cap	₹ 158bn
	US$ 2bn
52-week High/Low	₹ 1,578/₹ 902
Avg. Volume (no)	2,004,760
NSE Symbol	JUBLFOOD
Bloomberg Code	JUBI IN

Shareholding Pattern Dec'18(%)

Promoters	44.9
MF/Banks/FIs	6.8
FIIs	39.7
Public / Others	8.6

Valuation (x)

	FY19E	FY20E	FY21E
P/E	46.5	39.8	35.4
EV/EBITDA	24.4	20.9	18.5
ROE (%)	27.9	25.3	23.0
RoACE (%)	26.7	24.5	22.4

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	35,595	40,245	45,373
EBITDA	6,227	7,141	7,919
PAT	3,405	3,978	4,471
EPS (₹)	25.8	30.1	33.9

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DOLAT CAPITAL

Pace of Dominos store additions improves

During Q3FY19, JFL has regained momentum with 33 net stores additions; highest after 11 quarters. JFL plans to add 75 stores in FY19E, indicates that the company would add lower number of stores (9-10) in Q4FY19.

Conference call highlights

- More than 50% of new stores have been opened in existing areas where company split existing stores to improve efficiency in delivery and costs. The company indicated that this would marginally pressurize SSG in short term.
- Implementation of GPS rider tracking is expected to improve delivery efficiency.
- Gross margin expansion was due to benign dairy costs, mix improvement and beverage contract with Pepsico which lowered RM costs.
- Dine and delivery contribution was equal in value terms.
- Payback period for new stores has improved to less than 3 years compared to 3-4 years earlier.
- Dominos market share in Pizza is likely to be 70%.
- Company will remain focused on delivering value with Everyday Value Offer.
- Small town growth has been robust with good online delivery growth in recent years.
- Company received encouraging traction in online ordering led by All New Domino's App. Mobile ordering to online sales further improved to 88% (from 85% in Q2FY19). OLO to Delivery Sales improved to 73% from 68% in Q2FY19.
- New contract with beverage partner Pepsico is for 5 years. Margins as part of the contract are favorable at Gross level and improved marketing support.
- Strong top-line in Dunkin Donuts driven by core portfolio, innovations like launch of tea and simple food, premiumization, delivery channel, operating costs management in terms of manpower, energy etc helped Dunkin breakeven. Company intends to watch the business closely before deciding on expansions.
- During Q3, Domino's launched 'Multigrain Crust' and also introduced four new side dishes viz. Potato Cheese Shots, Crunchy Strips, Crinkle Fries and Brownie Fantasy.
- Company is evaluating and conducting experiments for different Chinese cuisine. It does not have a specific plan yet of getting into the market.
- Delivery staff and leader store staff are employed on Company's payroll.
- Company's own organic platforms or assets and marketing support initiatives are helping drive new customer acquisition. Own channels contribute to the majority share of total business.
- The E-commerce policy applies to e-commerce entities engaged in the business of selling goods and services, so the management believes that the food aggregators are covered under the ambit of this policy.

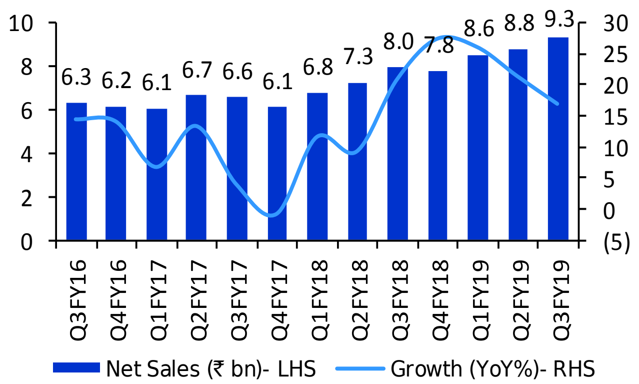
Exhibit 1: Change in estimates

In ₹ Mn	FY19E New	FY19E Old	FY19E Chg (%)	FY20E New	FY20E Old	FY20E Chg (%)
Revenue	35,595	35,531	0.2	40,245	40,916	(1.6)
EBITDA	6,227	5,918	5.2	7,141	6,715	6.3
EBITDA Margin	17.5%	16.7%	80 bps	17.7%	16.4%	130 bps
APAT	3,405	3,112	9.4	3,978	3,626	9.7
EPS (%)	25.8	23.6	9.4	30.1	27.5	9.7

Source: DART, Company

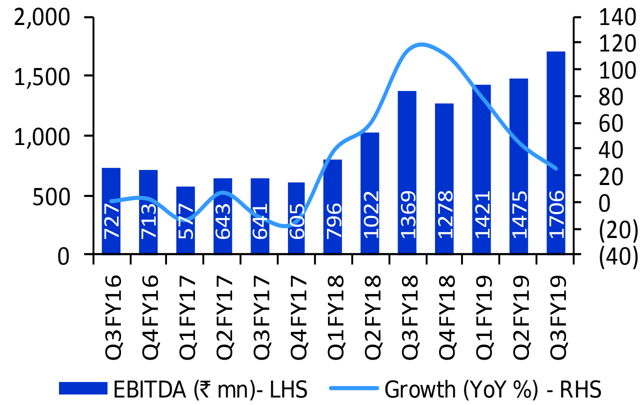
We have upward revised our revenue estimates for FY19E to factor in higher than estimated SSSG in Q3. In addition, operating margins were ahead of our estimates driven by early breakeven in Dunkin stores. Consequently, we have upward revised our margin estimates for FY19E. With higher number of store addition and high base, we believe that the SSSG would decline marginally hereon. Consequently, we have downward revised our FY20E revenue estimates. Nevertheless, we have increased our margin estimates for FY20E to factor in Dunkin breakeven and better operating efficiency. We have introduced FY21E EPS at 33.9.

Exhibit 2: Net Sales and Growth



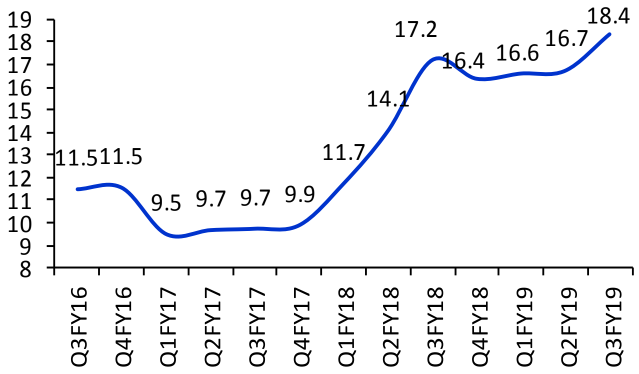
Source: DART, Company

Exhibit 3: EBITDA and EBITDA Growth



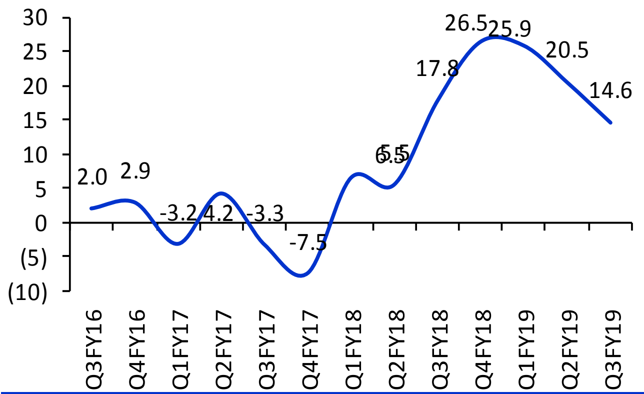
Source: DART, Company

Exhibit 4: Trend in EBITDA Margin



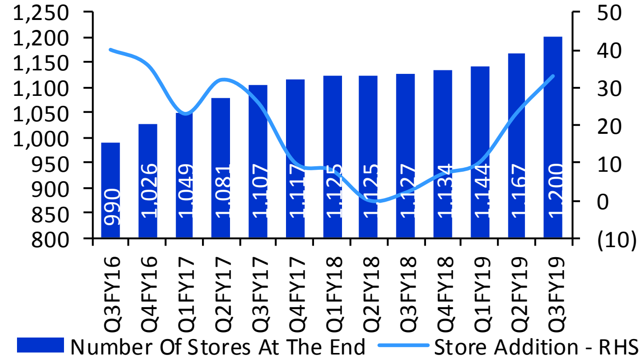
Source: DART, Company

Exhibit 5: Trend in Some Store Sales Growth (%)



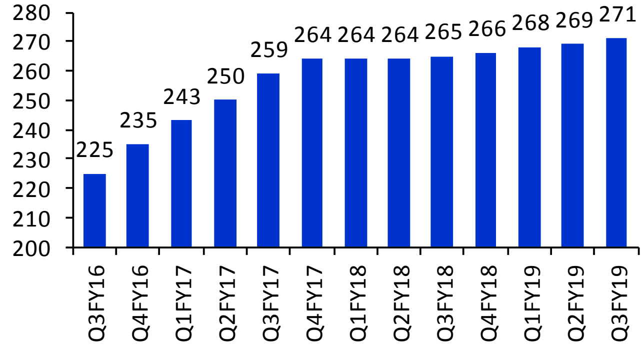
Source: DART, Company

Exhibit 6: Store Addition Trend



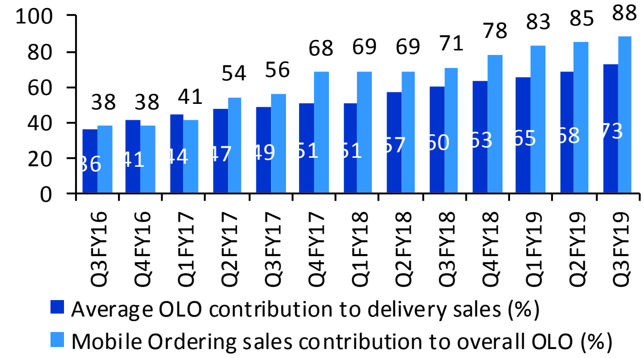
Source: DART, Company

Exhibit 7: Number of Cities Covered



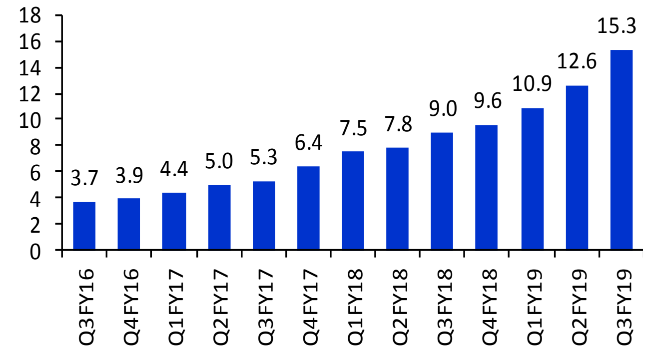
Source: DART, Company

Exhibit 8: OLO Contribution to Delivery Sales (%)



Source: DART, Company

Exhibit 9: Download of Mobile Apps (mn)



Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	**29,804**	**35,595**	**40,245**	**45,373**
Total Expense	**25,341**	**29,368**	**33,104**	**37,455**
COGS	7,514	9,102	10,424	11,599
Employees Cost	6,041	6,629	7,171	8,095
Other expenses	11,785	13,637	15,509	17,760
EBIDTA	**4,464**	**6,227**	**7,141**	**7,919**
Depreciation	1,559	1,500	1,578	1,648
EBIT	**2,905**	**4,727**	**5,563**	**6,271**
Interest	0	0	0	0
Other Income	227	441	474	514
Exc. / E.O. items	0	0	0	0
EBT	**3,132**	**5,167**	**6,037**	**6,785**
Tax	1,068	1,762	2,059	2,314
RPAT	2,064	3,405	3,978	4,471
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**2,064**	**3,405**	**3,978**	**4,471**

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	660	1,320	1,320	1,320
Minority Interest	0	0	0	0
Reserves & Surplus	9,779	12,656	16,107	20,050
Net Worth	**10,439**	**13,976**	**17,426**	**21,369**
Total Debt	0	0	0	0
Net Deferred Tax Liability	550	550	550	550
Total Capital Employed	**10,989**	**14,526**	**17,976**	**21,919**
Applications of Funds				
Net Block	**7,679**	**8,132**	**8,703**	**9,419**
CWIP	127	127	127	127
Investments	822	1,322	1,822	2,322
Current Assets, Loans & Advances	**7,046**	**10,095**	**13,109**	**16,575**
Inventories	626	821	928	1,046
Receivables	151	218	247	278
Cash and Bank Balances	1,285	3,663	6,203	9,150
Loans and Advances	320	341	362	384
Other Current Assets	2,033	2,421	2,737	3,086
Less: Current Liabilities & Provisions	**4,686**	**5,151**	**5,786**	**6,525**
Payables	3,868	4,620	5,223	5,889
Other Current Liabilities	818	531	563	636
Net Current Assets	2,360	4,944	7,324	10,051
Total Assets	**10,989**	**14,526**	**17,976**	**21,919**

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	74.8	74.4	74.1	74.4
EBIDTA Margin	15.0	17.5	17.7	17.5
EBIT Margin	9.7	13.3	13.8	13.8
Tax rate	34.1	34.1	34.1	34.1
Net Profit Margin	6.9	9.6	9.9	9.9
(B) As Percentage of Net Sales (%)				
COGS	25.2	25.6	25.9	25.6
Employee	20.3	18.6	17.8	17.8
Other	39.5	38.3	38.5	39.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	0.0	0.0	0.0	0.0
Inventory days	8	8	8	8
Debtors days	2	2	2	2
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	47	47	47	47
Working Capital days	29	51	66	81
FA T/O	3.9	4.4	4.6	4.8
(D) Measures of Investment				
AEPS (₹)	15.6	25.8	30.1	33.9
CEPS (₹)	27.5	37.2	42.1	46.4
DPS (₹)	1.5	4.0	4.0	4.0
Dividend Payout (%)	9.6	15.5	13.3	11.8
BVPS (₹)	79.1	105.9	132.0	161.9
RoANW (%)	21.8	27.9	25.3	23.0
RoACE (%)	20.4	26.7	24.5	22.4
RoAIC (%)	31.2	46.0	49.2	51.1
(E) Valuation Ratios				
CMP (₹)	1200	1200	1200	1200
P/E	76.7	46.5	39.8	35.4
Mcap (₹ Mn)	158,390	158,390	158,390	158,390
MCap/ Sales	5.3	4.4	3.9	3.5
EV	154,474	152,097	149,556	146,609
EV/Sales	5.2	4.3	3.7	3.2
EV/EBITDA	34.6	24.4	20.9	18.5
P/BV	15.2	11.3	9.1	7.4
Dividend Yield (%)	0.1	0.3	0.3	0.3
(F) Growth Rate (%)				
Revenue	17.1	19.4	13.1	12.7
EBITDA	80.8	39.5	14.7	10.9
EBIT	203.3	62.7	17.7	12.7
PBT	220.4	65.0	16.8	12.4
APAT	159.9	65.0	16.8	12.4
EPS	159.9	65.0	16.8	12.4

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	4,045	4,699	5,717	6,338
CFI	(2,886)	(2,453)	(2,649)	(2,863)
CFF	(198)	132	(528)	(528)
FCFF	2,931	2,745	3,569	3,974
Opening Cash	324	1,285	3,663	6,203
Closing Cash	1,285	3,663	6,203	9,150

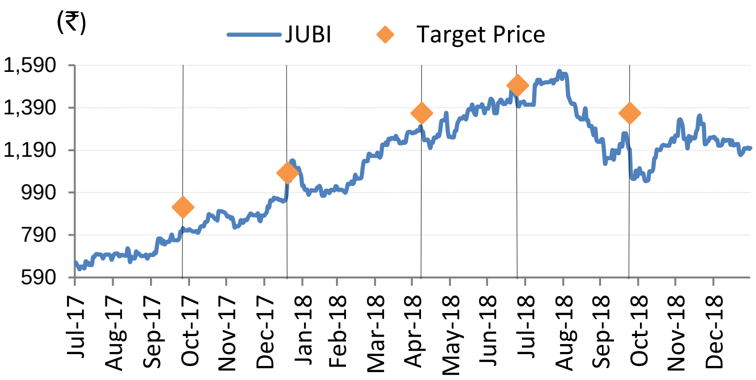
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Oct-17	Accumulate	921	821
Jan-18	Accumulate	1,082	1,047
May-18	Accumulate	1,365	1,280
Jul-18	Accumulate	1,495	1,400
Oct-18	Accumulate	1,365	1,193

*Price as on recommendation date

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