

View: SSSG continues to moderate; Maintain Accumulate

JFL's Q1FY20 results were below our estimate, with a 4.1% YoY same store sales growth (SSSG) vs our estimate of 5%. A high base of 25.9% YoY in SSSG restricted overall growth in Q1FY20. We believe JFL will likely post a high single digit SSSG in the ensuing quarters, as the base remains highly unfavorable. In addition, margins are likely to remain under pressure in the near term due to store additions, escalating RM prices, and rise in A&P costs. We revise our FY20E and FY21E EPS estimates downwards to ₹ 25.5 and ₹ 30.6, from ₹ 30.4 and ₹ 34.1, respectively to factor in Q1 performance and change in accounting standards. Maintain Accumulate, with TP of ₹ 1,225 (40x FY21E EPS).

Going ahead, we believe that the operating margins is likely to improve sequentially, driven by price hikes implemented. We do not see negative impact of price hikes on volume growth as the increases were small.

Operational performance below estimate

Revenues rose 9.9% YoY to ₹ 9.4bn- in line with our estimates. This was driven by SSSG growth of 4.1% YoY (on a high base of 25.9%). EBITDA jumped 54% YoY to ₹ 2.2bn – more than our estimate. Comparable EBITDA increased 3.7% to ₹ 1.5bn, marginally below our estimate. The EBITDA margin expanded 670bps to 23.3%. The comparable EBITDA margin fell 90bps to 15.7%, below our estimate of 17.2%. A 130/50bps rise in employee costs/ other expense was offset by 90bps fall in RM expenses. Rent expenses cannot be compared due to IND AS implementation. RPAT remained flat YoY to ₹ 748mn. On comparable basis, the APAT increased 9.3% to ₹ 815mn – below our estimate of ₹ 870mn.

Store additions and new launches to support growth

JFL is on track to add 100 stores in FY20E. The company added 26 new stores in the quarter (22 net). The overall store count rose to 1249. In addition, JFL forayed in Chinese cuisine business with the brand 'Hong's Kitchen'. The company plans to increase store count to 10 in FY20E. Further, JFL entered the Bangladesh market and received positive response. It plans to launch five stores in Bangladesh in FY20E. We believe that these efforts will help the company to accelerate its revenue growth and reduce dependence on core pizza category, going ahead.

Q1FY20 Result (₹ Mn)

Particulars	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Revenue	9,401	8,551	9.9	8,652	8.7
Total Expense	7,210	7,130	1.1	7,176	0.5
EBITDA	2,191	1,421	54.2	1,476	48.4
Depreciation	808	366	120.9	400	102.0
EBIT	1,383	1,055	31.1	1,076	28.5
Other Income	153	71	113.9	151	0.9
Interest	395	0		0	
EBT	1,141	1,126	31.1	1,148	(0.7)
Tax	393	380	3.4	409	(3.9)
RPAT	748	747	0.1	739	1.1
APAT	748	747	0.1	819	(8.7)
			(bps)		(bps)
Gross Margin (%)	75.5	74.5	93	76.1	(60)
EBITDA Margin (%)	23.3	16.6	669	17.1	624
NPM (%)	8.0	8.7	(78)	8.5	(59)
Tax Rate (%)	34.4	33.7	73	35.6	(116)
EBIT Margin (%)	14.7	12.3	237	12.4	227

CMP	₹ 1,158
Target / Upside	₹ 1,225 / 6%
BSE Sensex	37,854
NSE Nifty	11,271

Scrip Details

Equity / FV	₹ 1,320mn / ₹ 10
Market Cap	₹ 153bn
	US\$ 2bn
52-week High/Low	₹ 1,578/₹ 977
Avg. Volume (no)	1,210,100
NSE Symbol	JUBLFOOD
Bloomberg Code	JUBI IN

Shareholding Pattern Jun'19(%)

Promoters	41.9
MF/Banks/FIs	10.0
FIIIs	39.1
Public / Others	8.9

Valuation (x)

	FY19A	FY20E	FY21E
P/E	46.2	45.4	37.8
EV/EBITDA	24.0	15.3	13.3
ROE (%)	27.3	22.9	22.7
RoACE (%)	26.8	32.6	31.1

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	35,307	40,142	45,547
EBITDA	6,078	9,416	10,567
PAT	3,228	3,361	4,044
EPS (₹)	25.1	25.5	30.6

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Conference call highlights

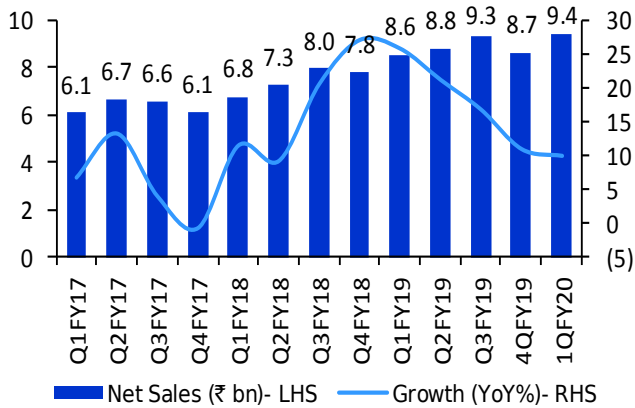
- More than 50% of new stores were opened in the existing areas, where company split existing stores to improve efficiency in delivery and costs. This, as well as high base of 25.9% resulted in lower SSG growth in Q1.
- SSSG in non-split stores was at 5.8%. SSSG would remain impacted by similar extent due to store splits.
- The company has started witnessing RM inflation, especially in dairy products. Consequently, JFL increased prices by ~3-4%. First price hike in last three years by the company.
- Dine-in business remained under pressure. Nevertheless, increase in delivery business compensated the decline.
- The company received encouraging traction in online ordering led by the All New Domino's App. Mobile ordering to online sales further improved to 89% (from 83% in Q1FY19). OLO to Delivery Sales improved to 81% from 65% in Q1FY19.
- In FY20, company plans to open 100 Dominos stores, maintaining the same trajectory of 93 net new stores in FY19 (102 new additions, 9 closures).
- Jubilant closed 1 Dunkin' Donuts store in Q1 taking the total store count to 30 restaurants.
- JFL's first owned brand, Hong's Kitchen (HK) was launched in Q4FY19 in Gurugram. HK witnessed robust order count, strong weekly sales, and good customer response. The company intends to have at least 10 stores in FY20, all will be limited to Delhi NCR.
- Chinese is the second largest Cuisine in the country after North Indian and it is ~3x the size of Pizzas
- Going ahead, company will focus on innovations and new launches in beverages segment.

Exhibit 1: Change in estimates

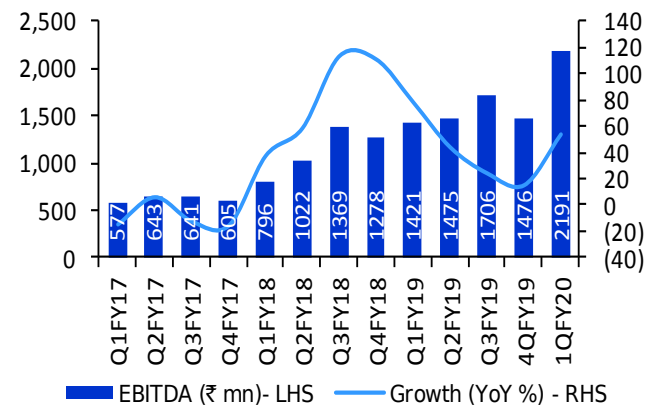
In ₹ Mn	FY20E			FY21E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	40,142	40,774	(1.6)	45,547	46,259	(1.5)
EBITDA	9,416	7,237	30.1	10,567	8,045	31.4
EBITDA Margin	23.5%	17.7%	570 bps	23.2%	17.4%	580 bps
APAT	3,361	4,012	(16.2)	4,044	4,498	(10.1)
EPS (%)	25.5	30.4	(16.2)	30.6	34.1	(10.1)

Source: DART, Company

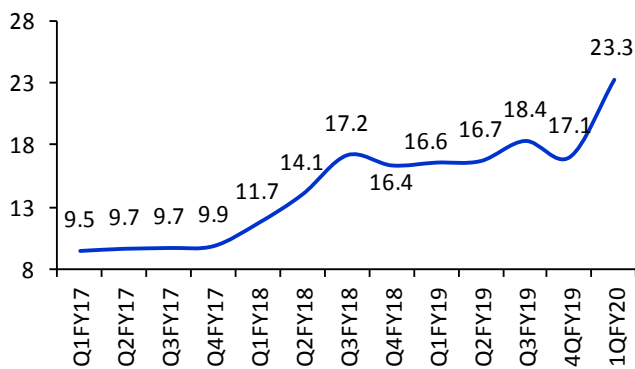
We have revised our FY20E and FY21E revenue estimates downwards to factor in lower than estimated SSSG during Q1. The increase in EBITDA margin is reflection of change in accounting standards. On comparable basis we have downward revised EBITDA margins to factor in increase in A&P spends, employee cost and expected RM inflation. We have significantly revised earnings estimates to factor in change in accounting standards and below estimated APAT during Q1FY20.

Exhibit 2: Net Sales and Growth


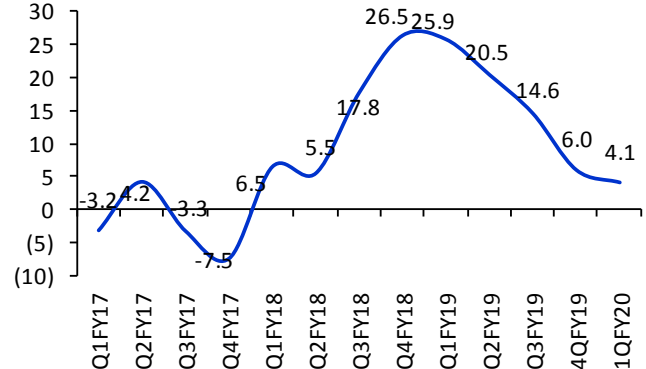
Source: DART, Company

Exhibit 3: EBITDA and EBITDA Growth


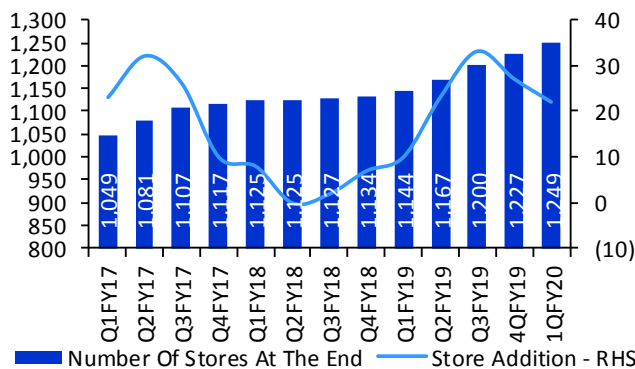
Source: DART, Company

Exhibit 4: Trend in EBITDA Margin


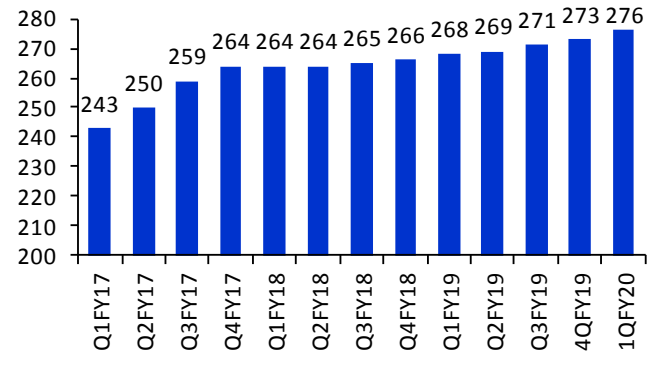
Source: DART, Company

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


Source: DART, Company

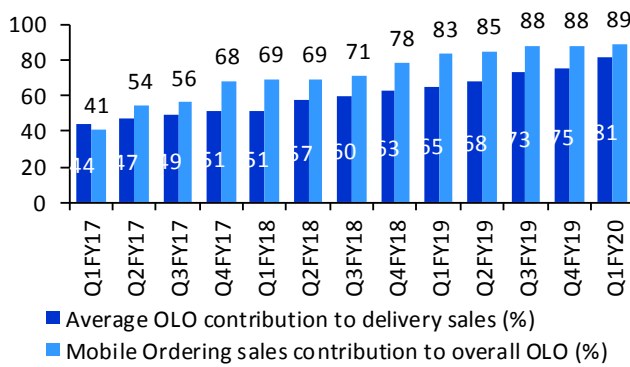
Exhibit 6: Store Addition Trend


Source: DART, Company

Exhibit 7: Number of Cities Covered


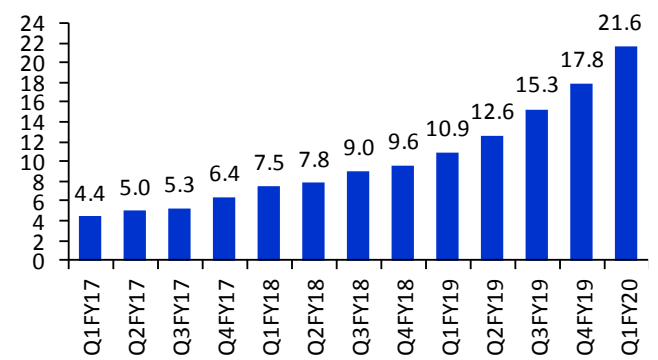
Source: DART, Company

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	FY19A	FY20E	FY21E
Revenue	29,804	35,307	40,142	45,547
Total Expense	25,341	29,229	30,726	34,980
COGS	7,514	8,759	9,965	11,428
Employees Cost	6,041	6,725	7,662	8,811
Other expenses	11,785	13,745	13,098	14,742
EBIDTA	4,464	6,078	9,416	10,567
Depreciation	1,559	1,523	3,229	3,319
EBIT	2,905	4,555	6,187	7,248
Interest	0	0	1,584	1,647
Other Income	227	469	503	542
Exc. / E.O. items	0	(79)	0	0
EBT	3,132	4,945	5,106	6,143
Tax	1,068	1,717	1,745	2,099
RPAT	2,064	3,228	3,361	4,044
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	2,064	3,307	3,361	4,044

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	660	1,320	1,320	1,320
Minority Interest	0	0	0	0
Reserves & Surplus	9,779	11,918	14,751	18,267
Net Worth	10,439	13,237	16,071	19,587
Total Debt	0	0	0	0
Net Deferred Tax Liability	550	492	492	492
Total Capital Employed	10,989	13,729	16,563	20,079

Applications of Funds

Net Block	7,679	7,858	7,494	7,325
CWIP	127	144	144	144
Investments	822	887	1,387	1,887
Current Assets, Loans & Advances	7,046	10,395	13,001	16,908
Inventories	626	731	926	1,050
Receivables	151	327	246	279
Cash and Bank Balances	1,285	4,890	7,064	10,438
Loans and Advances	320	346	375	403
Other Current Assets	2,033	2,292	2,582	2,930
Less: Current Liabilities & Provisions	4,686	5,555	5,463	6,186
Payables	3,868	4,165	4,735	5,373
Other Current Liabilities	818	1,390	728	813
Net Current Assets	2,360	4,840	7,538	10,722
Total Assets	10,989	13,729	16,563	20,079

E – Estimates (Note: Company allotted 1:1 bonus shares in FY19)

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	74.8	75.2	75.2	74.9
EBIDTA Margin	15.0	17.2	23.5	23.2
EBIT Margin	9.7	12.9	15.4	15.9
Tax rate	34.1	34.7	34.2	34.2
Net Profit Margin	6.9	9.1	8.4	8.9
(B) As Percentage of Net Sales (%)				
COGS	25.2	24.8	24.8	25.1
Employee	20.3	19.0	19.1	19.3
Other	39.5	38.9	32.6	32.4
(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	3	2	2
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	47	43	43	43
Working Capital days	29	50	69	86
FA T/O	3.9	4.5	5.4	6.2
(D) Measures of Investment				
AEPS (₹)	15.6	25.1	25.5	30.6
CEPS (₹)	27.5	36.6	49.9	55.8
DPS (₹)	1.5	4.0	4.0	4.0
Dividend Payout (%)	9.6	16.0	15.7	13.1
BVPS (₹)	79.1	100.3	121.8	148.4
RoANW (%)	21.8	27.3	22.9	22.7
RoACE (%)	20.4	26.8	32.6	31.1
RoAIC (%)	31.2	49.1	67.5	75.7
(E) Valuation Ratios				
CMP (₹)	1158	1158	1158	1158
P/E	74.0	46.2	45.4	37.8
Mcap (₹ Mn)	152,768	152,768	152,768	152,768
MCap/ Sales	5.1	4.3	3.8	3.4
EV	148,852	146,070	143,896	140,523
EV/Sales	5.0	4.1	3.6	3.1
EV/EBITDA	33.3	24.0	15.3	13.3
P/BV	14.6	11.5	9.5	7.8
Dividend Yield (%)	0.1	0.3	0.3	0.3
(F) Growth Rate (%)				
Revenue	17.1	18.5	13.7	13.5
EBITDA	80.8	36.2	54.9	12.2
EBIT	203.3	56.8	35.8	17.1
PBT	220.4	57.9	3.3	20.3
APAT	159.9	60.2	1.6	20.3
EPS	159.9	60.2	1.6	20.3

Cash Flow

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	4,045	4,315	7,651	9,199
CFI	(2,886)	(842)	(3,365)	(3,651)
CFF	(198)	132	(2,112)	(2,175)
FCFF	2,931	2,715	4,786	6,048
Opening Cash	324	1,285	4,890	7,064
Closing Cash	1,285	4,890	7,064	10,438

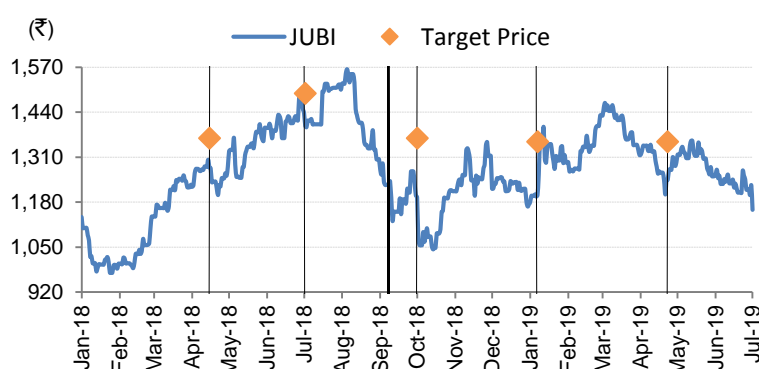
E – Estimates (Note: Company allotted 1:1 bonus shares in FY19)

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 (₹)
May-18	Accumulate	1,365	1,280
Jul-18	Accumulate	1,495	1,400
Oct-18	Accumulate	1,365	1,193
Jan-19	Accumulate	1,355	1,200
May-19	Accumulate	1,355	1,245

*Price as on recommendation date

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