Jubilant Foodworks

Reduce

DART
DOLAT ANALYSIS & RESEARCH THEMES
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Result Update

View: Expect gradual growth with operational efficiencies

- JFL's Q1FY21 results were below our estimate, with -61.4% same store sales growth (SSSG).
- Though the lock down impacted performance significantly during Q1, the company was able to recover 69.8/84.6% of the sales during July/August'20. We believe that the delivery business would gain higher traction compared to dine in in the near term.
- The company has introduced delivery charges which is likely to mitigate impact of increased discounts and help improve margins.
- JFL would close down 105 Domino stores which are not profitable (>2/3rd contribution of dine-in). We believe that this would help improve margins significantly.
- Sri Lanka business registered strong recovery while Bangladesh remained impacted due to higher contribution of dine-in.
- We have revised our FY21E and FY22E EPS estimates to Rs -2.9 and Rs 34.0 (+9.2%) respectively, to factor in Q1 performance. Considering rich valuations, we maintain Reduce with TP of Rs 2040 (60x FY22E EPS). Buy on dips.

Operational performance was below estimate

Revenues declined by 59.5% YoY to Rs 3.8bn, adversely impacted by Covid-led lockdown – came significantly below our estimate. EBITDA declined 89.0% YoY to Rs 241mn. EBITDA margin contracted 1700bps to 6.3%. A 1980/20bps increase in employee costs/rent expense was partially mitigated by 260/40bps reduction in RM/other expenses. Net loss stood at Rs 726mn against a net profit of Rs 748mn in Q1FY20. The company achieved net savings of Rs 204mn related to rent, helped restrict further widening of loss.

Cost control measures to boost margins

During Q1, JFL has introduced delivery charges to mitigate loss of revenues due to lockdown. This was well accepted by consumers, was encouraging. Further, in the light of pandemic, the company has planned to close down 105 loss making dine-in stores. The closure of these stores would help JFL to register better operational performance. Further, with rent renegotiation, variabalizing of store manpower cost, we believe that the operating margins would improve, going ahead.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	3,803	9,401	(59.5)	8,979	(57.6)
Total Expense	3,562	7,210	(50.6)	7,284	(51.1)
EBITDA	241	2,191	(89.0)	1,695	(85.8)
Depreciation	908	808	12.4	916	(0.9)
EBIT	(667)	1,383	(148.3)	778	(185.7)
Other Income	127	153	(16.9)	204	(37.8)
Interest	419	395	6.1	410	2.3
EBT	(959)	1,141	(184.1)	250	(484.0)
Tax	(233)	393	(159.3)	39	(691.9)
RPAT	(726)	748	(197.1)	210	(445.1)
APAT	(726)	748	(197.1)	533	(236.2)
			(bps)		(bps)
Gross Margin (%)	78.0	75.5	257	74.4	360
EBITDA Margin (%)	6.3	23.3	(1697)	18.9	(1254)
NPM (%)	(19.1)	8.0	(2705)	2.3	(2144)
Tax Rate (%)	24.3	34.4	(1015)	15.8	853
EBIT Margin (%)	(17.5)	14.7	(3226)	8.7	(2621)

CMP	Rs 2,251
Target / Downside	Rs 2,040 / 9%
BSE Sensex	39,106
NSE Nifty	11,535

Scrip Details

Equity / FV	Rs 1,320mn / Rs 10
Market Cap	Rs 297bn
	USD 4bn
52-week High/Low	Rs 2,286/Rs 1,138
Avg. Volume (no)	10,35,540
NSE Symbol	JUBLFOOD
Bloomberg Code	JUBI IN

Shareholding Pattern Jun'20(%)

Promoters	41.9
MF/Banks/FIs	20.0
FIIs	30.9
Public / Others	7.1

Valuation (x)

	FY20A	FY21E	FY22E
P/E	92.7	(789.7)	66.2
EV/EBITDA	35.0	70.3	26.4
ROE (%)	22.0	(3.4)	36.6
RoACE (%)	23.4	4.8	22.6

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	38,858	27,331	47,241
EBITDA	8,771	4,345	11,395
PAT	3,203	(376)	4,487
EPS (Rs.)	24.3	(2.9)	34.0

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DOLAT CAPITAL

Exhibit 1: Change in estimates

	FY21E			FY22E		
In Rs Mn	**New**	**Old**	**Chg (%)**	**New**	**Old**	**Chg (%)**
Revenue	27,331	41,299	(33.8)	47,241	47,686	(0.9)
EBITDA	4,345	9,258	(53.1)	11,395	10,958	4.0
EBITDA Margin	15.9%	22.4%	-650 bps	24.1%	23.0%	110 bps
APAT	(376)	3,312	NM	4,487	4,111	9.2
EPS (%)	-2.9	25.1	NM	34.0	31.2	9.2

Source: DART, Company

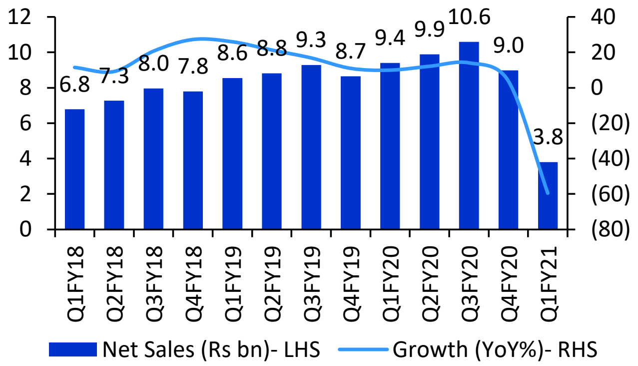
We have downward revised our FY21E estimates to factor in Q1 performance. However, we have maintained our FY22E revenue estimates to factor in anticipated growth in delivery business and increased delivery charges. In addition, we have increased our EBITDA margin estimates to factor in closure of loss making stores and disciplined cost control.

Conference call highlights

- The company exhibited revenue de-growth of 30.2%/15.4% YoY in Jul/Aug respectively led by SSSG decline of 34.6%/ 20.5% respectively. 83% stores (1126 stores) are currently operational. We see this as a positive performance considering most of the retail companies have not seen similar recovery.
- While Delivery and Takeaway grew 10% and 55% YoY respectively in Aug'20, Dine-in declined 84%. We believe that share of dine-in would get diverted to delivery business.
- Management witnessed gradual improvement in operating hours week-on - week and revival in consumer confidence. It expects near normalcy in business operations by end of FY21E.
- Delivery charges of Rs 30 are accepted by customers and is likely to continue.
- The company plans to close 105 unprofitable stores which have dine in focus and are located in malls, foodcourts, tech parks. This is likely to boost margins.
- Management stated that closure of stores would not have any significant impact on P&L.
- JFL plans to open ~100 new stores in FY21, opened 24 so far. Hongs Kitchen witnessed strong recovery in Q1 as well as in July-August. The company plans to expand the franchise in Delhi NCR with 15 new stores. It has also planned 5 new stores each in Bangladesh and SriLanka.
- During Q1, SriLanka business exhibited 20% decline in sales and achieved positive EBITDA led by stringent cost control measures. The region showed encouraging recovery with delivery and takeaway both ahead of pre-COVID level.
- The company opened one new store in Bangladesh totaling 4 stores. Sales decline was 42% due to higher dine-in contribution; however delivery channel grew 43% YoY.
- JFL recorded 4.4mn Dominos app downloads in Q1FY21 (3.7mn in Q4) taking count to 37.5mn. Amidst Covid situation, OLO contribution to delivery improved to 99% compared to 81% in Q1FY20.

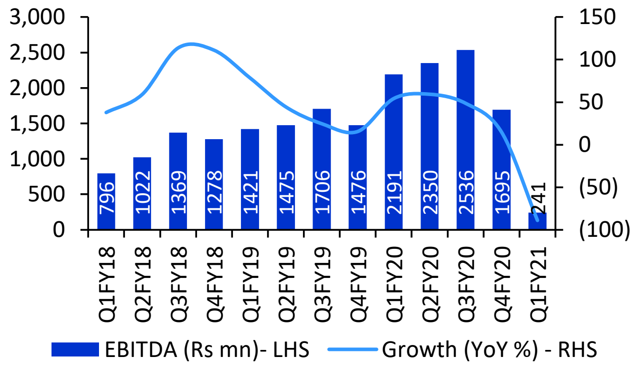
- GM expansion in Q1FY21 was due to reduced competitive intensity, soft RM and discount rationalization. The company expects gross margin improvement in ensuing quarters with benign commodity costs and delivery charges. However, re-introducing discounts in Q2 will restrict expansion.
- The company has recently forayed into the Rs 5bn ready-to-cook segment under the brand 'ChefBoss'. The company will gradually expand range of products and make it available on all channels (currently e-com portals).
- ~70-75% of revenue is derived from delivery and takeaways. Delivery and takeaway is expected to grow faster, due to social distancing, going ahead. Hence, new store openings which will focus on delivery and takeaways.
- The company received rent concession of Rs 294mn in Q1. Most of the manpower has been converted from full time/part time to flexi timers.
- During the quarter, JFL added 24 new stores, closed 5 for Domino's Pizza. Total Dominos store count at the end of Q1 was 1,354. It also closed 4 Dunkin Stores with total count of 30.
- Going ahead, restaurant industry, specifically dine-in focused stores, is expected to shrink 20-30% with close down of stores. Within organized sector, the trusted brands are expected to grow faster and gain market share.

Exhibit 2: Net Sales and Growth



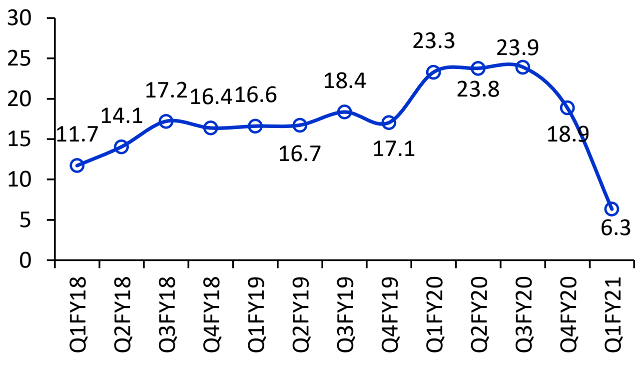
Source: DART, Company

Exhibit 3: EBITDA and EBITDA Growth



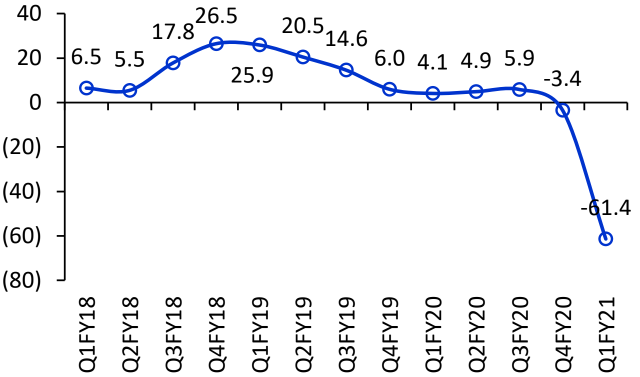
Source: DART, Company

Exhibit 4: Trend in EBITDA Margin



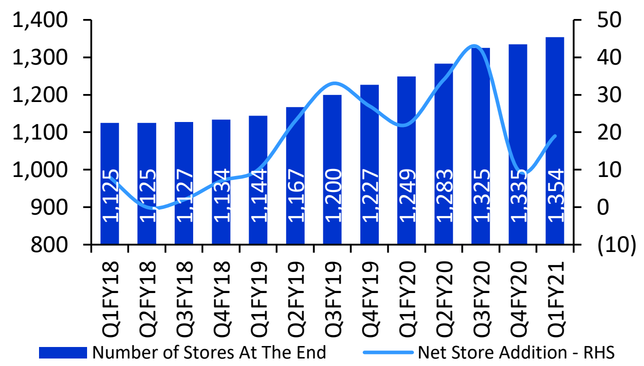
Source: DART, Company

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



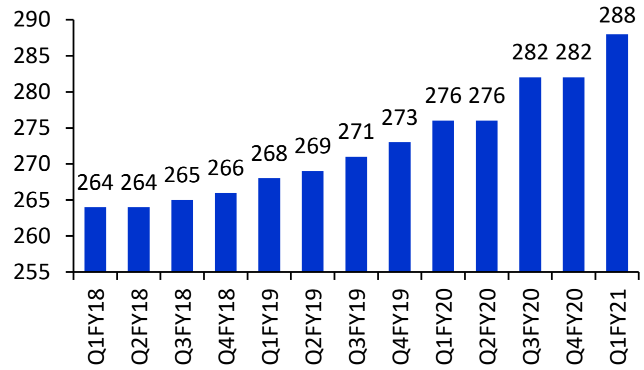
Source: DART, Company

Exhibit 6: Store Addition Trend



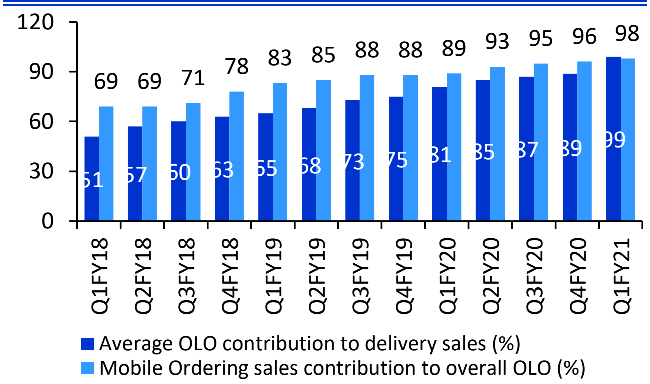
Source: DART, Company

Exhibit 7: Number of Cities Covered



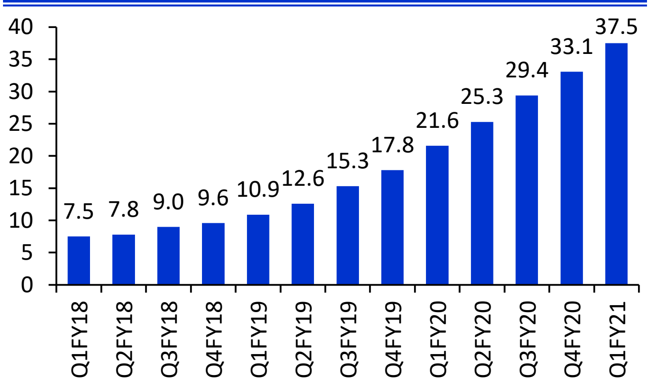
Source: DART, Company

Exhibit 8: OLO Contribution to Delivery Sales (%)



Source: DART, Company

Exhibit 9: Download of Mobile Apps (mn)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	**35,307**	**38,858**	**27,331**	**47,241**
Total Expense	**29,229**	**30,087**	**22,985**	**35,846**
COGS	8,759	9,707	6,716	11,169
Employees Cost	6,725	7,846	7,273	9,817
Other expenses	13,745	12,534	8,996	14,859
EBIDTA	**6,078**	**8,771**	**4,345**	**11,395**
Depreciation	1,523	3,441	3,594	4,046
EBIT	**4,555**	**5,329**	**751**	**7,349**
Interest	0	1,635	1,673	1,826
Other Income	469	688	422	455
Exc. / E.O. items	(79)	(448)	0	0
EBT	**4,945**	**3,935**	**(501)**	**5,978**
Tax	1,717	1,181	(125)	1,490
RPAT	3,228	2,755	(376)	4,487
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**3,307**	**3,203**	**(376)**	**4,487**

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	1,320	1,320	1,320	1,320
Minority Interest	0	0	0	0
Reserves & Surplus	11,918	10,510	9,170	12,694
Net Worth	**13,237**	**11,829**	**10,490**	**14,014**
Total Debt	0	16,510	16,510	16,510
Net Deferred Tax Liability	492	(809)	(809)	(809)
Total Capital Employed	**13,729**	**27,530**	**26,191**	**29,715**
Applications of Funds				
Net Block	**7,854**	**21,883**	**18,460**	**18,196**
CWIP	149	389	389	389
Investments	887	834	1,334	1,834
Current Assets, Loans & Advances	**10,242**	**10,444**	**10,671**	**16,415**
Inventories	731	922	648	1,121
Receivables	327	193	136	235
Cash and Bank Balances	4,891	6,392	7,564	11,648
Loans and Advances	307	354	355	382
Other Current Assets	2,178	2,071	1,457	2,518
Less: Current Liabilities & Provisions	**5,404**	**6,020**	**4,664**	**7,119**
Payables	4,165	4,438	3,121	5,395
Other Current Liabilities	1,239	1,582	1,543	1,723
sub total				
Net Current Assets	4,838	4,424	6,007	9,296
Total Assets	**13,729**	**27,530**	**26,191**	**29,715**

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

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	75.2	75.0	75.4	76.4
EBIDTA Margin	17.2	22.6	15.9	24.1
EBIT Margin	12.9	13.7	2.7	15.6
Tax rate	34.7	30.0	24.9	24.9
Net Profit Margin	9.1	7.1	(1.4)	9.5
(B) As Percentage of Net Sales (%)				
COGS	24.8	25.0	24.6	23.6
Employee	19.0	20.2	26.6	20.8
Other	38.9	32.3	32.9	31.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	1.4	1.6	1.2
Interest Coverage	0.0	0.0	0.0	0.0
Inventory days	8	9	9	9
Debtors days	3	2	2	2
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	43	42	42	42
Working Capital days	50	42	80	72
FA T/O	4.5	1.8	1.5	2.6
(D) Measures of Investment				
AEPS (Rs)	25.1	24.3	(2.9)	34.0
CEPS (Rs)	36.6	50.3	24.4	64.7
DPS (Rs)	3.0	13.3	7.3	7.3
Dividend Payout (%)	12.0	54.6	(256.1)	21.5
BVPS (Rs)	100.3	89.6	79.5	106.2
RoANW (%)	27.3	22.0	(3.4)	36.6
RoACE (%)	26.8	23.4	4.8	22.6
RoAIC (%)	49.1	35.6	3.8	40.1
(E) Valuation Ratios				
CMP (Rs)	2251	2251	2251	2251
P/E	89.8	92.7	(789.7)	66.2
Mcap (Rs Mn)	2,97,031	2,97,031	2,97,031	2,97,031
MCap/ Sales	8.4	7.6	10.9	6.3
EV	2,90,333	3,06,638	3,05,466	3,01,382
EV/Sales	8.2	7.9	11.2	6.4
EV/EBITDA	47.8	35.0	70.3	26.4
P/BV	22.4	25.1	28.3	21.2
Dividend Yield (%)	0.1	0.6	0.3	0.3
(F) Growth Rate (%)				
Revenue	18.5	10.1	(29.7)	72.8
EBITDA	36.2	44.3	(50.5)	162.2
EBIT	56.8	17.0	(85.9)	879.0
PBT	57.9	(20.4)	(112.7)	(1293.1)
APAT	60.2	(3.2)	(111.7)	(1293.1)
EPS	60.2	(3.2)	(111.7)	(1293.1)

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	4,339	7,223	4,480	11,155
CFI	(768)	(1,466)	(672)	(4,281)
CFF	35	(4,255)	(2,637)	(2,789)
FCFF	2,758	4,407	4,308	7,373
Opening Cash	1,285	4,891	6,392	7,564
Closing Cash	4,891	6,392	7,564	11,648

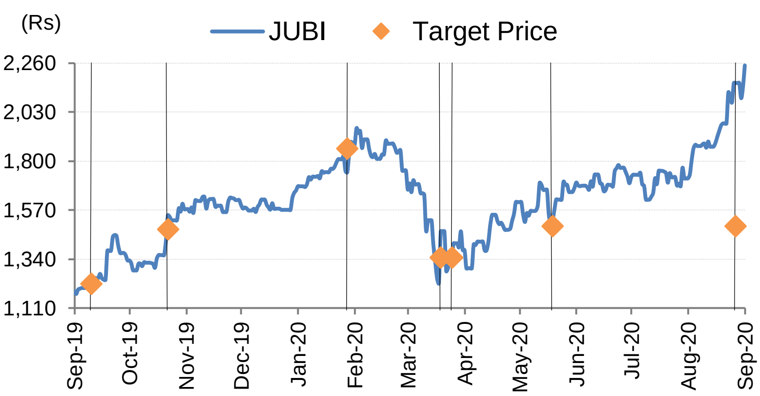
E – Estimates (Note: Company allotted 1:1 bonus shares in FY19)

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 (Rs.)	Price (Rs.)
Sep-19	Accumulate	1,225	1,257
Oct-19	Reduce	1,480	1,546
Jan-20	Reduce	1,860	1,749
Mar-20	Accumulate	1,350	1,471
Mar-20	Reduce	1,350	1,343
May-20	Reduce	1,495	1,522
Aug-20	Reduce	1,495	2,168

*Price as on recommendation date

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