Jubilant FoodWorks Limited

Good Quarter; Delivery & takeaways to drive growth ahead

Consumer Discretionary | Sharekhan code: JUBLFOOD | Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 2,339**	
Price Target: **Rs. 2,799**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 30,866 cr
52-week high/low:	Rs. 2.465/1.142
NSE volume: (No of shares)	10.4 lakh
BSE code:	533155
NSE code:	JUBLFOOD
Free float: (No of shares)	7.7 cr

Shareholding (%)

Promoters	41.9
FII	37.9
DII	14.8
Others	5.4

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	2.7	25.5	46.8	48.4
Relative to Sensex	-4.1	12.5	8.6	40.3

Sharekhan Research, Bloomberg

Summary

- Jubilant Foodworks Limited's (JFL) revenue decreased by ~19% to Rs. 805 crore in Q2FY2021; Delivery channel's revenue grew by 5.8% and takeaway channel grew by ~50%.
- Benign input prices, delivery charges of Rs. 30 per order, and reduction in wastage aided gross margins to improve by 352 bps to ~79%; Gross margin trajectory is likely to be 76-77% in the coming years compared to 74-75% earlier.
- As part of its cost-saving strategy, the company has shut down 105 non-profitable outlets in H1FY2021, which will not have any major impact on revenue as a large number outlets are dine-in outlets (will add 100 new stores in FY2021 with re-modelled store format).
- Rising trend of digital ordering and shift to top brands will help JFL to post better performance in the quarter ahead. We recommend Buy with price target (PT) of Rs. 2,799.

Jubilant Foodworks Limited (JFL) posted good performance in Q2FY2021 in view of strong base of dine-in revenue in the corresponding quarter last year. The company's revenue decreased by ~19% to Rs. 805.5 crore (slightly lower than our expectation of Rs. 822 crore). The delivery channel and takeaway channel registered growth of 5.8% ~50%, respectively, during the quarter. Like-for-like (LFL) same stores sales decline (excluding restaurants temporarily closed due to COVID-19) stood at 13% compared to a 47% decline in Q1. However same-store-sales decline for all stores stood at 20%. Gross margin improved by 352 bps y-o-y to 78.8% mainly on account of benign input prices, lesser discounts by food aggregators, lower wastages, and Rs. 30 delivery charges introduced during the quarter. OPM expanded by 287 bps y-o-y to Rs. 26.7 crore, better than our expectation of 23% and street expectation of ~25%. The company closed 105 non-profitable outlets in H1FY2021, as a large part of these outlets was dine-in outlets mostly located in traffic-congested areas. So, considering limited dine-in traction, the company thought it was the right time to shut such outlets and is planning to open 100 new outlets (34 already opened in H1) in FY2021 with a re-modeled store format (700-800 sq. ft.), focusing on generating sales through delivery/takeaway. The company is planning to incur capex of Rs. 200 crore in FY2021, which includes opening of new outlets and refurbishing some of the old outlets. Increased trend of digital ordering, shift to top brands, and new store additions remain key revenue drivers in the near to medium term. Introduction of delivery charges of Rs. 30 per order, lower wastages, shifting to variable manpower model, and benign input prices would help margins to remain high in the near term. As on September 30, 2020 the company has liquid funds of Rs. 843 crore in its books.

Key positives

- India business recovered to ~96% in October with 64% growth in takeaway and 15% growth in the delivery business.
- Online ordering to delivery sales stood at 99%; downloads of mobile ordering app stood at 43.8 million, highest downloads in the past few quarters.
- OPM at 26.7% is better than our expectation of ~23% and street expectation of ~25%.

Key negatives

- Dine-in store sales recovered to just 34% of pre-COVID levels in October 2020.

Our Call

View - Recommend Buy with a PT of Rs. 2,799: We have fine-tuned our earnings estimates for FY2022/FY2023 to factor in the dual impact of closure of 105 non-profitable outlets and higher-than-expected OPM in Q2FY2021. With the trend of digital ordering increasing at every aspect of consumption and shift to trusted brands, JFL is expected to post better performance in the coming quarters. Further, the company can leverage its delivery and store expertise in new ventures such as Chinese cuisine (Hong's Kitchen) and Indian food to capture a large pie in the domestic restaurant space in the coming years. We expect the company's revenue and PAT to post a CAGR of ~10% and 26%, respectively, over FY2020-23E. The stock is currently trading at 46x its FY2023E earnings (and 22.4x its FY2023 EV/EBIDTA). We recommend Buy on the stock with a PT of Rs. 2,799.

Key risk

Any significant decline in delivery/takeaway sales due to enhanced competition or local lockdown due to increased cases in the coming quarters would act as key risk to our earnings estimates in the near to medium term.

Valuation (Standalone) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	3,531	3,886	3,300	4,388	5,142
OPM (%)	17.2	22.6	23.8	25.6	26.2
Adjusted PAT	331	331	256	506	669
Adjusted EPS (Rs.)	25.0	25.1	19.4	38.3	50.7
P/E (x)	93.4	93.3	-	61.0	46.1
P/B (x)	23.3	26.1	26.2	19.2	14.1
EV/EBIDTA (x)	49.5	36.3	40.3	27.5	22.4
RoNW (%)	27.9	26.4	21.7	36.4	35.2
RoCE (%)	40.6	28.9	18.1	28.9	31.7

Source: Company; Sharekhan estimates
Note: We now convert Jubilant FoodWorks into a stock update; It was earlier a 'Viewpoint' under our coverage.

Revenue declined by just 18.5%; SSS down by 20%: Standalone revenue declined by 18.5% y-o-y to Rs. 805.5 crore in Q2FY2021 from Rs. 988.2 crore in Q2FY2020, much better sequentially from Rs. 380.3 crore in Q1FY2021. SSS declined by 20% during the quarter (decline of 13.1% excluding the temporary-closed restaurants due to COVID-19 from the base quarter). SSS for split restaurants (no new restaurants in the vicinity of old restaurants) declined by 18.8% for the quarter. Delivery sales registered 5.8% growth and takeaway sales grew strongly by 49.8% in Q2FY2021. Soft input prices, delivery charges, and discount rationalisation helped gross margin to expand by 352 bps to 78.8%. This, along with operating efficiencies, drove up OPM by 287 bps to 26.7%. Lower other expenditure led to an operating profit of Rs. 214.7 crore, down 8.7% y-o-y. Profit before tax declined by 23.5% y-o-y to Rs. 98 crore. Adjusted profit declined by 23.3% y-o-y to Rs. 74.2 crore in Q2FY2021 from Rs. 96.7 crore in Q2FY2020.

Online sales continued to gain strong traction; Delivery/Takeaway channels boosted revenue: Digital revenue of Domino's grew strongly and the average online ordering (OLO) contribution to delivery sales went up to 99% in Q2FY2021 from 85% in Q2FY2020. Further, robust growth in mobile ordering (by 98% in Q2FY2021 as against 93% in Q2FY2020) helped increase online orders in Q2FY2021, driven by higher number of downloads. The latest launch, Pasta Pizza Party, has been received well, driven by digital and marketing investments. The company launched 'zero contact delivery' with prepaid orders and 'zero contact takeaway' as a precautionary measure to ensure the safety of customers and delivery staff amid COVID-19 crisis. JFL added 10 new Domino's stores and closed 100 loss-making stores in Q2FY2021, taking the total count to 1,264 stores across 281 cities. The company opened one new Dunkin' Donuts store and closed five stores in Q2FY2021, taking the total store count to 26. The company expects to open 15 Dunkin' Donuts stores by the end of FY2021.

Key Conference call takeaways

- JFL has witnessed a sharp shift in channel mix with increased revenue from the delivery/takeaway channel, which was 50:50 earlier. This was also seen with the company recording the highest-ever app downloads at 6.3 million. This is driven by a strategic shift towards trusted brands post the pandemic. The delivery trend is expected to sustain in the near to medium term. The company is likely to benefit as discounting is lower in this channel. Moreover, the adoption of delivery is much stronger in smaller towns.
- Almost 100% of the company's store network is operational with near 100% sales recovery. The company has closed 105 non-profitable stores in H1FY2021 (5 in Q1 and 100 in Q2) as part of its margin expansion strategy. The closed stores were largely dine-in focused, present in malls/food courts. The company plans to maintains its net store network. Thus, the company will open almost the same number of stores by the end of FY2021. The company is expecting to open the new stores in smaller formats of 700-800 square feet more optimised for delivery/takeaway. However, if the company is entering into a new city/ town, stores are expected to be slightly larger (1,200-1,300 square feet). This, along with re-imaging of existing stores, will require a capex of ~Rs. 200 crore for FY2021.
- Lower commodity prices, rationalised discounting, addition of Rs. 30 delivery charges, and wastage control resulted in significant expansion in gross margins in H1FY2021. Rationalised discounting, delivery charges, and wastage control are structural and are expected to sustain. However, commodity costs need to be keenly monitored. Overall, we expect the gross margin trajectory to improve to 76%-77% levels from 74%-75% earlier. This, along with efficient deployment of manpower, reduced energy costs, and other efficiencies will help OPM expansion to sustain.
- Domino's Sri Lanka recovered to 87% with 91% recovery in delivery sales and 98% recovery in takeaway sales. It achieved positive EBITDA for the second quarter in a row. Domino's Bangladesh recovered to 81% with 56% growth in delivery sales and 118% growth in takeaway sales.

Result snapshot (Standalone) Rs cr

Particulars	Q2FY21	Q2FY20	y-o-y (%)	Q1FY21	q-o-q (%)
Net Revenue	805.5	988.2	-18.5	380.3	111.8
Total expenditure	590.8	753.2	-21.6	356.2	65.9
Operating Profit	214.7	235.0	-8.7	24.1	-
Other income	10.8	17.2	-37.6	12.7	-15.3
Interest expense	41.2	40.4	2.0	41.9	-1.6
Depreciation	86.2	83.8	2.9	90.8	-5.1
PBT	98.0	128.1	-23.5	-95.9	-
Tax	23.8	31.3	-24.1	-23.3	-
Adjusted PAT	74.2	96.7	-23.3	-72.6	-
Extraordinary item	2.7	-20.8	-	0.0	-
Reported PAT	76.9	75.9	1.3	-72.6	-
EPS (Rs.)	5.6	7.3	-23.3	-5.5	-
			bps		bps
GPM (%)	78.8	75.3	352	78.0	76
OPM (%)	26.7	23.8	287	6.3	-

Source: Company; Sharekhan Research

Result Snapshot (Consolidated) Rs cr

Particulars	Q2FY21	Q2FY20	y-o-y (%)	Q1FY21	q-o-q (%)
Net Revenue	816.3	998.1	-18.2	388.4	-
Operating Profit	216.1	234.1	-7.7	24.6	-
PBT	100.7	125.1	-19.5	-97.7	-
Adjusted PAT	75.8	81.7	-7.3	-74.5	-
Extraordinary item	0.0	8.8	-	0.0	-
Reported PAT	75.8	73.0	3.8	-74.5	-
EPS (Rs.)	5.7	6.2	-7.3	-5.6	-
			bps		bps
GPM (%)	78.7	75.2	353	78.0	75
OPM (%)	26.5	23.5	302	6.3	-

Source: Company; Sharekhan Research

Network opening status

Particulars	Q1FY21	July 20	Aug 20	Sept 20	Q2FY21	Oct 20
System sales recovery compared to PY	40.5	69.8	85.0	92.0	82.3	96.2
LFL sales recovery (restaurants closed during COVID-19 removed from respective months in last year)	52.7	77.8	89.1	93.2	86.9	97.4

Outlook and Valuation

Sector View – QSR market will be boosted by higher delivery/takeway sales

The organised food service market in India is around Rs. 1,000 billion. Quick Service Restaurants (QSR) account to ~10% of overall food service market in India. The Indian society is evolving with rise in working population, nuclear/individual households, and more outdoor activities such as leisure trips and outings with friends, families, and colleagues. These factors are driving the frequency of eating out. However, in the post-pandemic era, trends in the food service industry are expected to shift towards online food ordering, increased share of delivery and takeaway mix, changed customer perceptions about product consumption and services, higher emphasis on hygiene and safety among businesses and customers alike, and an exponential rise in digitalisation owing to greater focus on contactless and safer transactions. Established and trusted brands that have always upheld safety and hygiene have top-of-the-mind awareness for customers who are making food purchasing decisions.

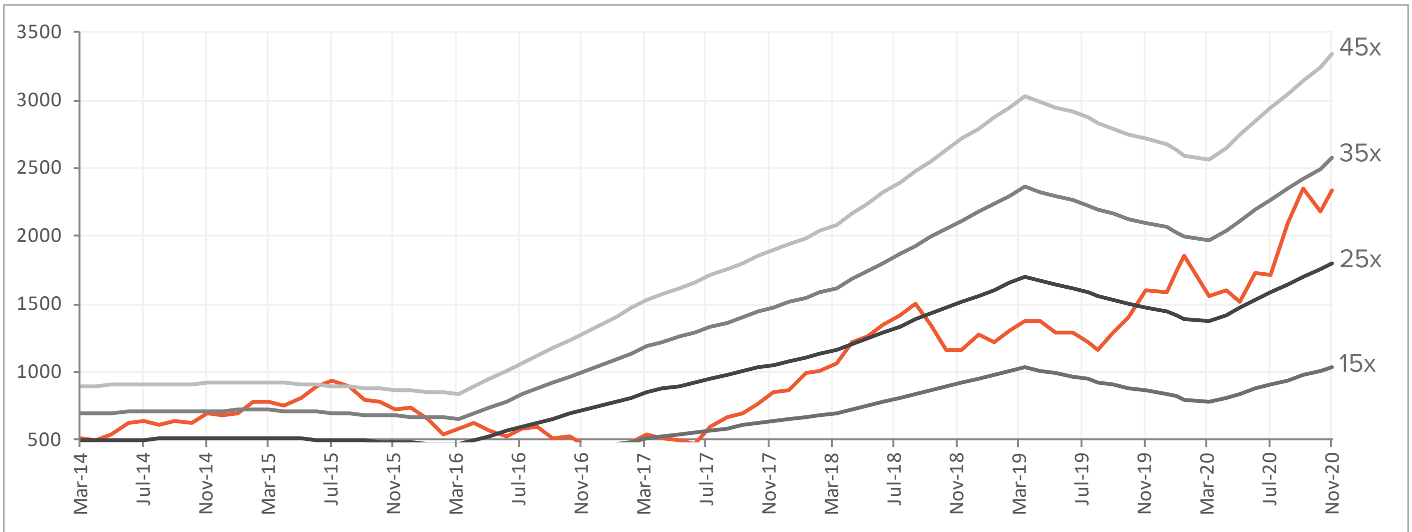
Company Outlook – Quick recovery from a low in Q1

After subdued Q1FY2021 (affected by store closure during the lockdown), JFL posted strong recovery in Q2 with recovery to pre-COVID levels with delivery and takeaway models gaining strong traction. With efficacy of the virus receding, we expect the company to perform better in the quarters ahead because of higher digital ordering and large shift to trusted brands. Thus, increased trend of digital ordering, shift to top brands, and new store additions remain key revenue drivers in the near to medium term. Introduction of delivery charges of Rs. 30 per order, lower wastages, shifting to variable manpower model, and benign input prices would help margins to remain high in the near term.

Valuation – Recommend Buy with a PT of Rs. 2,799

We have fine-tuned our earnings estimates for FY2022/FY2023 to factor in the dual impact of closure of 105 non-profitable outlets and higher-than-expected OPM in Q2FY2021. With the trend of digital ordering increasing at every aspect of consumption and shift to trusted brands, JFL is expected to post better performance in the coming quarters. Further, the company can leverage its delivery and store expertise in new ventures such as Chinese cuisine (Hong's Kitchen) and Indian food to capture a large pie in the domestic restaurant space in the coming years. We expect the company's revenue and PAT to post a CAGR of ~10% and 26%, respectively, over FY2020-23E. The stock is currently trading at 46x its FY2023E earnings (and 22.4x its FY2023 EV/EBIDTA). We recommend Buy on the stock with a PT of Rs. 2,799.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Westlife Development	-	-	-	27.1	-	25.9	10.5	-	11.0
Jubilant Foodworks	93.3	120.6	61.0	36.3	40.3	27.5	28.9	18.1	28.9

Source: Company, Sharekhan estimates

About company

JFL is one of India's largest food service companies. The company is part of the Jubilant Bhartia Group, India's most respected conglomerate operating in diverse business areas with a strong global presence. JFL currently operates Domino's Pizza and Dunkin' Donuts brands in India. The company also operates Domino's Pizza through its subsidiaries in Sri Lanka, Nepal, and Bangladesh. Domino's Pizza is the largest pizza chain in India in terms of restaurant numbers, as well as the world's largest franchisee outside the US for Domino's Pizza brand. Dunkin' Donuts is the world's leading baked goods and coffee chain. JFL's network comprised 1,354 Domino's Pizza restaurants, spanning across 288 cities and 30 Dunkin' Donuts restaurants across 10 cities. The company has entered into the Chinese cuisine segment with its first-owned restaurant brand, 'Hong's Kitchen' and has four Hong's Kitchen restaurants across two cities in India. The company has also forayed into the ready-to-cook segment with a range of sauces, gravies, and pastes under the newly launched brand, 'ChefBoss'.

Investment theme

JFL has four strategic pillars: product and innovation, value for money, customer experience, and digital and technology to drive growth, efficiency, and productivity. The company has introduced the Every Day Value (EDV) offer to enhance its value-for-money proposition. With a revamped mobile app and website, the company has been increasing its online ordering (OLO) share, which is in line with its strategy of technology-driven growth. JFL has also entered into the Chinese cuisine market by launching its first-owned restaurant brand Hong's Kitchen recently. Expansion strategies along with robust SSSG, increasing number of stores, cost optimisation, and customer-satisfaction initiatives would be key growth drivers for JFL.

Key Risks

- **Slowdown in demand:** Any slowdown in the demand environment would impact revenue growth.
- **Increased raw-material costs:** A significant increase in key raw-material prices would impact profitability.
- **Increased competition:** Increased competition in the QSR category would act as a threat to revenue growth.

Additional Data

Key management personnel

Shyam S Bhartia	Chairman and Managing Director
Hari S Bhartia	Co-chairman
Pratik Pota	CEO & Whole Time Director
Prakash C Bisht	Chief Financial Officer
Mona Aggarwal	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Sands Capital Management	5.0
2	UTI Asset Management Co Ltd	2.6
3	JPMorgan Group	2.5
4	Kotak Mahindra Asset Management Co	2.3
5	Motilal Oswal Asset Management Co	2.2
6	Vanguard Group Inc	1.9
7	Arisaig Global Emerging MK	1.7
8	Hillhouse Capital Advisors Ltd	1.6
9	Dimensional Fund Advisors LP	1.4
10	Tata Asset Management Ltd	1.3

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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