Jubilant Foodworks

Accumulate

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

Result Update

Strong margin expansion adds flavor; Upgrade to Accumulate

- JFL's Q2FY21 results were ahead of our estimate, with -20% same store sales growth (SSSG).
- During Q2FY21, July/August/September'20 witnessed gradual sales recovery to 69.8/85/92% of last year sales. During October, the company recovered 96.2% of last year sales driven by delivery growth of 16.3% and takeaway growth of 64.3% YoY.
- In addition to benign RM, GM also benefited from lesser discounts and introduction of delivery charges in Q1FY21.
- JFL closed down 100 unprofitable Domino stores (>2/3rd contribution of dine-in). We believe that this would help improve margins significantly.
- Sri Lanka/Bangladesh businesses witnessed 87/81% sales recovery. Sri Lanka reported positive EBITDA for second consecutive quarter.
- We have revised our FY21E and FY22E EPS estimates to Rs 16.3 and Rs 36.4 respectively, to factor in Q2 performance and introduced FY23E EPS at Rs 42.8. Valuing the stock at 60X FY23E to arrive at a TP of Rs 2566. Upgrade to Accumulate.

Results ahead of estimate on all fronts

Revenues declined by 18.5% YoY to Rs 8.1bn. Sales momentum continued in October'20 with revenues recovering to 96.2% of last year levels. EBITDA declined 8.7% YoY to Rs 2147mn. EBITDA was supported by rent savings of Rs 161mn. EBITDA margin expanded 290bps to 26.7%. A 70/30bps increase in employee costs/rent expense was completely offset by 350/30bps reduction in RM/other expenses respectively. APAT declined 13% YoY to Rs 769mn.

Margin improvement was encouraging

During Q1, JFL has introduced delivery charges to mitigate loss of revenues due to lockdown. This was well absorbed by the consumers, was encouraging. This helped the company to improve margins in Q2. In addition, the company closed 100 non-profitable stores during the quarter which in turn would augment margins, going ahead. Further, benign milk prices is helping the company to improve GM. The company has increased GM from 75% level to 78% in last couple of quarters. We believe that the company would maintain these levels with calibrated pricing and introduction of new products.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	8,055	9,882	(18.5)	3,803	111.8
Total Expense	5,908	7,532	(21.6)	3,562	65.9
EBITDA	2,147	2,350	(8.7)	241	791.8
Depreciation	1,030	838	22.9	908	13.4
EBIT	1,117	1,512	(26.1)	(667)	(267.4)
Other Income	311	172	80.7	127	145.4
Interest	412	404	2.0	419	(1.6)
EBT	1,016	1,155	(12.0)	(959)	(205.9)
Tax	247	396	(37.6)	(233)	(206.1)
RPAT	769	759	1.3	(726)	(205.9)
APAT	769	884	(13.0)	(726)	(205.9)
			(bps)		(bps)
Gross Margin (%)	78.8	75.3	352	78.0	76
EBITDA Margin (%)	26.7	23.8	287	6.3	2032
NPM (%)	9.5	7.7	187	(19.1)	2865
Tax Rate (%)	24.3	34.3	(997)	24.3	3
EBIT Margin (%)	13.9	15.3	(143)	(17.5)	3142

CMP	Rs 2,339
Target / Upside	Rs 2,566 / 10%
NIFTY	12,691

Scrip Details

Equity / FV	Rs 1,320mn / Rs 10
Market Cap	Rs 309bn
	USD 4bn
52-week High/Low	Rs 2,458/ 1,138
Avg. Volume (no)	957,913
Bloom Code	JUBI IN

Price Performance	1M	3M	12M
Absolute (%)	3	25	43
Rel to NIFTY (%)	(4)	12	36

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	41.9	41.9	41.9
MF/Banks/FIs	23.9	18.9	18.9
FIIs	30.9	36.2	36.2
Public / Others	3.2	3.0	3.0

Valuation (x)

	FY21E	FY22E	FY23E
P/E	143.4	64.3	54.7
EV/EBITDA	40.2	26.2	22.8
ROE (%)	17.3	32.2	29.4
RoACE (%)	13.6	21.5	21.6

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	32,174	45,726	51,144
EBITDA	7,772	11,661	13,129
PAT	2,153	4,804	5,644
EPS (Rs.)	16.3	36.4	42.8

VP Research: Sachin Bobade
Tel: +91 22 40969731
E-mail: sachinb@dolatcapital.com

Associate: Nikhat Koor
Tel: +91 22 40969764
E-mail: nikhatk@dolatcapital.com

Exhibit 1: Actual v/s Estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	8,055	7,333	9.9	Recovery in September was ahead of our estimate
EBITDA	2,147	1,729	24.2	
EBITDA margin %	26.7	23.6	310	RM and other expenses were lower than our estimates
APAT	769	423	81.9	

Source: Company, DART

Exhibit 2: Change in estimates

	FY21E			FY22E		
In Rs Mn	**New**	**Old**	**Chg (%)**	**New**	**Old**	**Chg (%)**
Revenue	32,174	27,331	17.7	45,726	47,241	(3.2)
EBITDA	7,772	4,345	78.9	11,661	11,395	2.3
EBITDA Margin	24.2%	15.9%	830 bps	25.5%	24.1%	140 bps
APAT	2,153	(376)	NM	4,804	4,487	7.0
EPS (%)	16.3	-2.9	NM	36.4	34.0	7.0

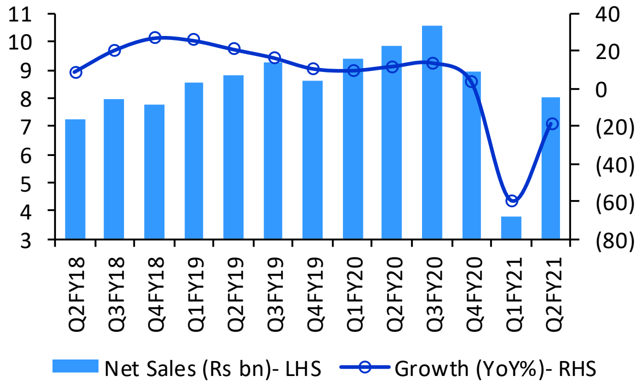
Source: DART, Company

We have upward revised our revenue estimates for FY21E to factor in faster recovery witnessed in Q2. Further, we have increased our EBITDA margin estimates as the benefits of closure of stores, benign costs and delivery charges was ahead of our estimate. In line with the revision in EBITDA, we have revised our APAT estimates.

Conference call highlights

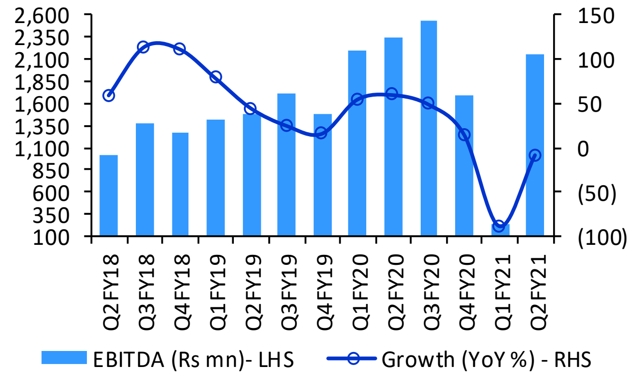
- Like for Like Sales growth for Domino's stood at -13.1% for Q2FY21. In Q2FY20, Domino's LFL Sales growth was 6.5%, and SSSG at 4.9%.
- Delivery and takeaway grew +5.8% and +49.8% YoY in Q2.
- Gross margin expansion was due to soft dairy prices, lesser discounts, wastage control, introduction of delivery charges. GM are likely to remain at current levels. The management is focused on delivering 'value for money'. Hence pricing actions would be calibrated.
- During the quarter, company closed down 100 stores and opened 10 new stores. The store count at the end of the quarter was at 1283.
- OLO as % of delivery sales has reached at 99% compared to 85% in Q2FY20. During the quarter 6.3mn apps were downloaded – highest ever. Total app downloads has reached to 43.8mn in Q2FY21 vs 25.3mn in Q2FY20.
- JFL targets to add 100 new stores during FY21E.
- The company introduced new products in pasta category during the quarter.
- The negative impact of shift in festive season was compensated by IPL in October compared to April in last year.
- 22 stores in Sri Lanka have delivered 13% decline in sales; but remained EBITDA positive for the second consecutive quarter.
- The company added 1 new store in Dunkin network but closed 5 during the quarter.

Exhibit 3: Net Sales and Growth



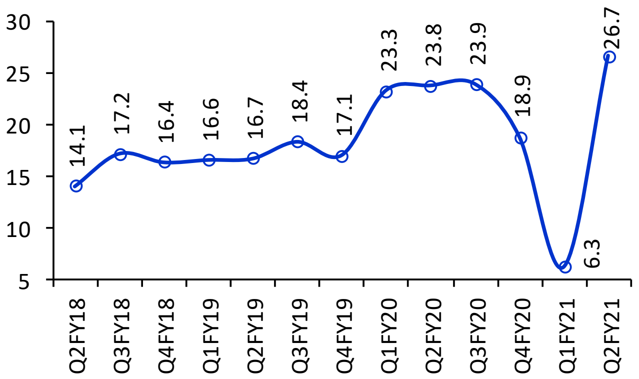
Source: DART, Company

Exhibit 4: EBITDA and EBITDA Growth



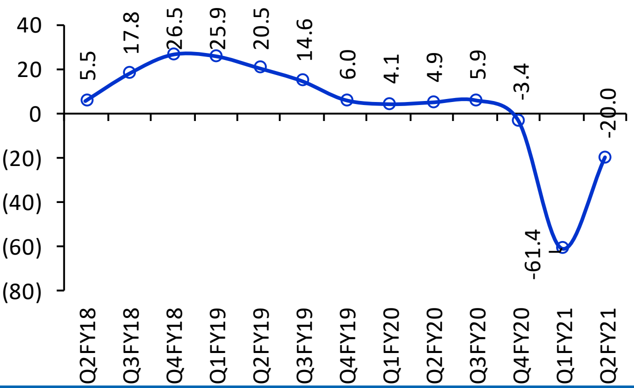
Source: DART, Company

Exhibit 5: Trend in EBITDA Margin



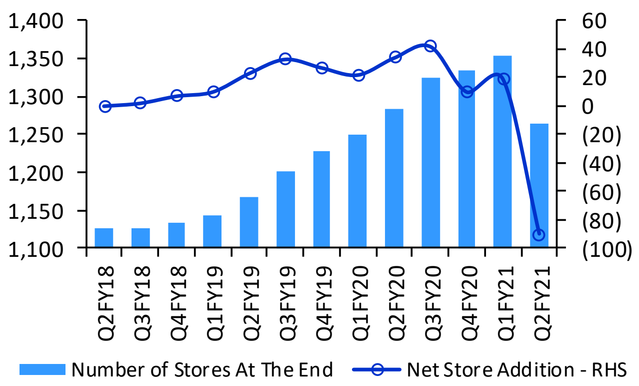
Source: DART, Company

Exhibit 6: Trend in Some Store Sales Growth (%)



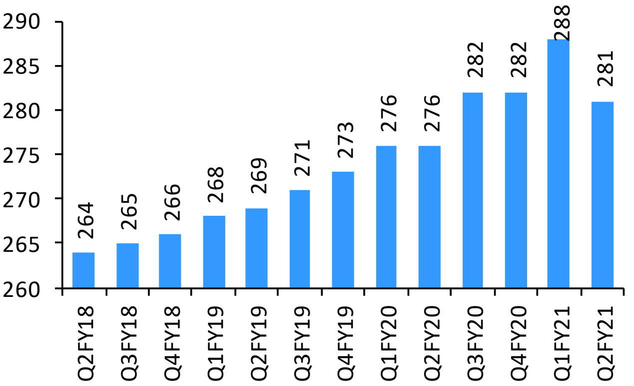
Source: DART, Company

Exhibit 7: Store Addition Trend



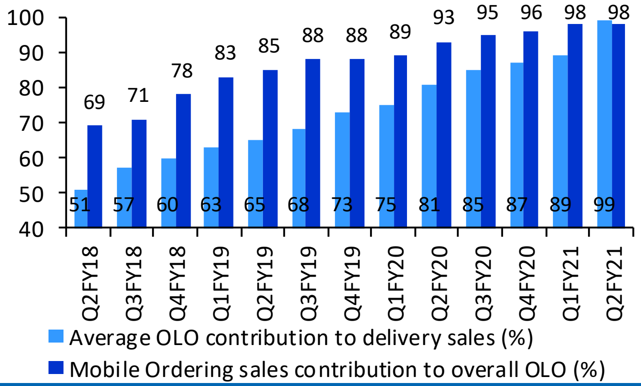
Source: DART, Company

Exhibit 8: Number of Cities Covered



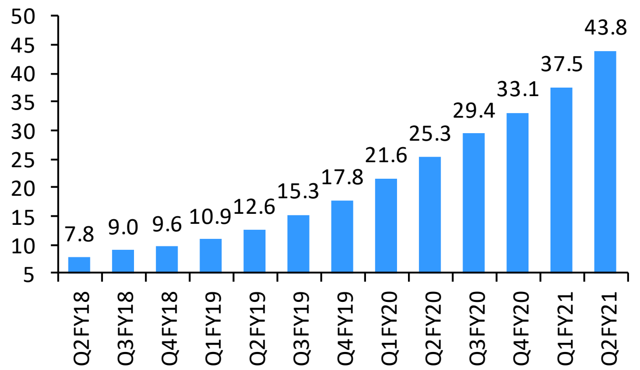
Source: DART, Company

Exhibit 9: OLO Contribution to Delivery Sales (%)



Source: DART, Company

Exhibit 10: Download of Mobile Apps (mn)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	**38,858**	**32,174**	**45,726**	**51,144**
Total Expense	**30,087**	**24,402**	**34,065**	**38,015**
COGS	9,707	6,982	10,008	11,291
Employees Cost	7,846	7,273	9,345	10,045
Other expenses	12,534	10,147	14,712	16,680
EBIDTA	**8,771**	**7,772**	**11,661**	**13,129**
Depreciation	3,441	4,073	4,348	4,643
EBIT	**5,329**	**3,699**	**7,313**	**8,486**
Interest	1,635	1,673	1,788	1,878
Other Income	688	842	875	910
Exc. / E.O. items	(448)	0	0	0
EBT	**3,935**	**2,868**	**6,399**	**7,519**
Tax	1,181	715	1,595	1,875
RPAT	2,755	2,153	4,804	5,644
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**3,203**	**2,153**	**4,804**	**5,644**

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	1,320	1,320	1,320	1,320
Minority Interest	0	0	0	0
Reserves & Surplus	10,510	11,699	15,539	20,220
Net Worth	**11,829**	**13,019**	**16,859**	**21,540**
Total Debt	16,510	16,510	16,510	16,510
Net Deferred Tax Liability	(809)	(809)	(809)	(809)
Total Capital Employed	**27,530**	**28,720**	**32,560**	**37,241**
Applications of Funds				
Net Block	**21,883**	**16,091**	**13,634**	**11,279**
CWIP	389	389	389	389
Investments	834	1,334	1,834	2,334
Current Assets, Loans & Advances	**10,444**	**15,839**	**23,482**	**30,771**
Inventories	922	763	1,085	1,214
Receivables	193	160	227	254
Cash and Bank Balances	6,392	12,349	18,867	25,697
Loans and Advances	354	341	354	369
Other Current Assets	2,071	1,715	2,437	2,726
Less: Current Liabilities & Provisions	**6,020**	**4,935**	**6,779**	**7,533**
Payables	4,438	3,675	5,222	5,841
Other Current Liabilities	1,582	1,260	1,556	1,692
sub total				
Net Current Assets	4,424	10,905	16,703	23,238
Total Assets	**27,530**	**28,720**	**32,560**	**37,241**

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	75.0	78.3	78.1	77.9
EBIDTA Margin	22.6	24.2	25.5	25.7
EBIT Margin	13.7	11.5	16.0	16.6
Tax rate	30.0	24.9	24.9	24.9
Net Profit Margin	7.1	6.7	10.5	11.0
(B) As Percentage of Net Sales (%)				
COGS	25.0	21.7	21.9	22.1
Employee	20.2	22.6	20.4	19.6
Other	32.3	31.5	32.2	32.6
(C) Measure of Financial Status				
Gross Debt / Equity	1.4	1.3	1.0	0.8
Interest Coverage	0.0	0.0	0.0	0.0
Inventory days	9	9	9	9
Debtors days	2	2	2	2
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	42	42	42	42
Working Capital days	42	124	133	166
FA T/O	1.8	2.0	3.4	4.5
(D) Measures of Investment				
AEPS (Rs)	24.3	16.3	36.4	42.8
CEPS (Rs)	50.3	47.2	69.3	77.9
DPS (Rs)	13.3	7.3	7.3	7.3
Dividend Payout (%)	54.6	44.7	20.1	17.1
BVPS (Rs)	89.6	98.6	127.7	163.2
RoANW (%)	22.0	17.3	32.2	29.4
RoACE (%)	23.4	13.6	21.5	21.6
RoAIC (%)	35.6	19.7	48.6	67.3
(E) Valuation Ratios				
CMP (Rs)	2339	2339	2339	2339
P/E	96.4	143.4	64.3	54.7
Mcap (Rs Mn)	308,704	308,704	308,704	308,704
MCap/ Sales	7.9	9.6	6.8	6.0
EV	318,310	312,353	305,836	299,005
EV/Sales	8.2	9.7	6.7	5.8
EV/EBITDA	36.3	40.2	26.2	22.8
P/BV	26.1	23.7	18.3	14.3
Dividend Yield (%)	0.6	0.3	0.3	0.3
(F) Growth Rate (%)				
Revenue	10.1	(17.2)	42.1	11.8
EBITDA	44.3	(11.4)	50.0	12.6
EBIT	17.0	(30.6)	97.7	16.0
PBT	(20.4)	(27.1)	123.1	17.5
APAT	(3.2)	(32.8)	123.1	17.5
EPS	(3.2)	(32.8)	123.1	17.5

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	7,223	7,375	11,660	12,459
CFI	(1,466)	1,219	(2,391)	(2,788)
CFF	(4,255)	(2,637)	(2,752)	(2,841)
FCFF	4,407	9,094	9,769	10,172
Opening Cash	4,891	6,392	12,349	18,867
Closing Cash	6,392	12,349	18,867	25,697

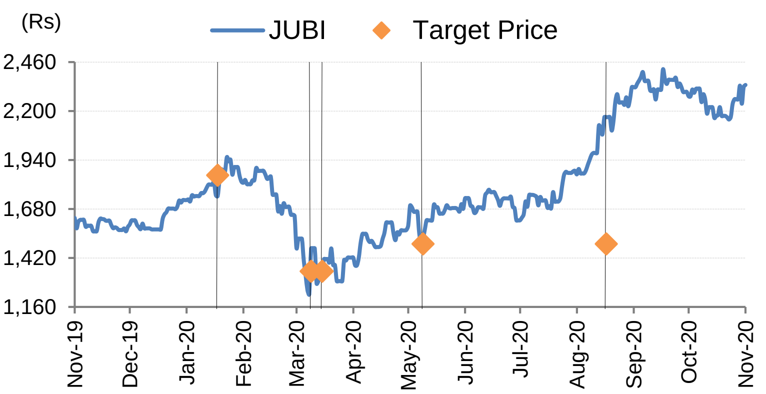
E – Estimates

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 (Rs.)	Price (Rs.)
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

DART Team

Purvag Shah	**Managing Director**	**purvag@dolatcapital.com**	**+9122 4096 9747**
Amit Khurana, CFA	**Head of Equities**	**amit@dolatcapital.com**	**+9122 4096 9745**

CONTACT DETAILS

Equity Sales	**Designation**	**E-mail**	**Direct Lines**
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	**Designation**	**E-mail**	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

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SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685
Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu
Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com