



## 3R MATRIX

|                      | +          | =         | -          |
|----------------------|------------|-----------|------------|
| Right Sector (RS)    | ✓          | ✗         | ✗          |
| Right Quality (RQ)   | ✓          | ✗         | ✗          |
| Right Valuation (RV) | ✓          | ✓         | ✗          |
|                      | + Positive | = Neutral | - Negative |

## What has changed in 3R MATRIX

|    | Old |   | New |
|----|-----|---|-----|
| RS | ✓   | ↔ | ✓   |
| RQ | ✓   | ↔ | ✓   |
| RV | ✗   | ↔ | ✗   |

## ESG Disclosure Score NEW

ESG RISK RATING Updated Nov 08, 2021 **26.69**

## Medium Risk

| NEGL | LOW   | MED   | HIGH  | SEVERE |
|------|-------|-------|-------|--------|
| 0-10 | 10-20 | 20-30 | 30-40 | 40+    |

Source: Morningstar

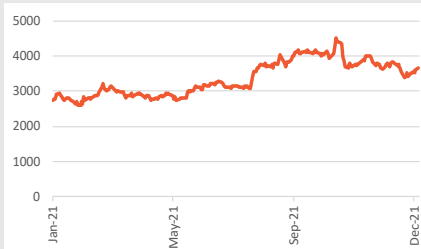
## Company details

|                               |                   |
|-------------------------------|-------------------|
| Market cap:                   | Rs. 47,573 cr     |
| 52-week high/low:             | Rs. 4,577 / 2,545 |
| NSE volume:<br>(No of shares) | 6.3 lakh          |
| BSE code:                     | 533155            |
| NSE code:                     | JUBLFOOD          |
| Free float:<br>(No of shares) | 7.7 cr            |

## Shareholding (%)

|           |      |
|-----------|------|
| Promoters | 41.9 |
| FII       | 41.7 |
| DII       | 10.9 |
| Others    | 5.5  |

## Price chart



## Price performance

| (%)                | 1m   | 3m   | 6m   | 12m  |
|--------------------|------|------|------|------|
| Absolute           | -2.7 | -8.4 | 15.1 | 31.2 |
| Relative to Sensex | -8.2 | -9.5 | 1.8  | 7.0  |

Sharekhan Research, Bloomberg

## Jubilant Foodworks Ltd

## Q3 will be good; Focus remains on delivering sustainable growth

## Consumer Discretionary

## Sharekhan code: JUBLFOOD

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 3,605

Price Target: Rs. 4,707

## Summary

- We maintain Buy on Jubilant Foodworks Limited (JFL) with an unchanged PT of Rs. 4,707. Recent correction of 21% provides a good entry opportunity in the established QSR play valued at 47.4x its FY2024E EPS (25.3x its FY2024E EV/EBIDTA).
- Industry data suggest that the QSR space registered a growth of 29% and 5% in the month of Oct,21 and Nov,21 respectively vs. pre-covid level sales. We expect the December,21 to be another strong quarter in view of strong traction on delivery platform in last few days of the month.
- JFL with its strong delivery model is expected to report same-store-sales growth (SSSG) of low double digit in Q3FY2022 with the base normalising as business recovered to 100% of pre-COVID level in Q3FY2021. With the company likely to add 55-60 stores in Q3, revenue growth will be 20% during the quarter.
- As the company implemented mid-single digit price increase in its menu, gross margin is expected to remain almost flat. OPM is expected to remain at 25-26%, in-line with management's guidance.

Jubilant Foodworks Limited's (JFL) stock price has corrected by 21% from its recent high, in-line with the correction in broader indices. This provides a good opportunity in the quality quick service restaurant (QSR) play with a strong market share in the domestic market. With strong store count of 1,435 stores, expansion in multiple cuisines, and established delivery model, the company will be one of the key beneficiaries of expected strong growth in the domestic QSR space. The company will continue to add 170-200 stores per annum (p.a.) to expand its base in tier 2-3 towns. Further, JFL is focusing on expanding some of its new ventures such as Hong's Kitchen and EkDum! Biryani to grab a large share in the domestic QSR market.

- QSR space registered good growth in October-November 2021:** According to industry reports, the QSR segment in India registered strong growth in October 2021 and November 2021 with revenue growing by 29% and 5%, respectively compared to pre-COVID level sales. This was on account of improved dine-in sales and higher traction on the delivery platform during the festive season. We expect December 2021 to be another strong quarter as the festive season will continue to add to sales. However, in the last few days of the month, the traction on delivery is expected to be stronger due to rising COVID-19 cases. Empirical evidence suggests food aggregators registering strong orders on their respective platforms on the evening of year end.
- JFL to post good performance in Q3:** With strong traction on the delivery platform and new store addition of 55-60 stores, JFL is likely to post revenue growth of 20%+ with same-store-sales growth (SSSG) expected to be in low double digits in the backdrop of normalised base of the corresponding quarter last year. According to media reports, the company has undertaken mid-single digit price increase to pass on raw-material inflation. Thus, gross margins are expected to be lower by 40-50 bps and OPM is expected to stand at 25-26% (lower by 60-100 bps) in Q3FY2022.
- Focus on becoming a consistent QSR play:** Along with expanding its base in the domestic market, JFL is also focusing on consolidating its position in some of the key international markets to achieve sustainable growth in the long run. The company will be increasing its stake in DP Eurasia to ~50%, while it has consolidated its position in Bangladesh by acquiring 39% stake in its subsidiary, Jubilant Golden Harvest, with JFL's holding increasing to 90%. The company aims to add value to DP Eurasia's business through a three-member board participation to improve business in countries such as Russia and Turkey. In Bangladesh, low penetration provides a huge scope to grow and, hence, JFL plans to expand its store count from seven stores currently.

## Our Call

**View – Maintain Buy with an unchanged PT of Rs. 4,707:** JFL is banking on consistent growth in Dominos revenue, scale-up in emerging brands through higher investments, increased presence in international markets, and making investments in high potential businesses to generate better returns for its shareholders in the long run. The stock has corrected by 21% from its recent high and further correction can be considered as a good buying opportunity. We like management's strategy of increasing its share in domestic as well as some of the international QSR markets with prudent capital allocation plans. We maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 4,707. The stock is currently trading at 65.6x and 47.4x its FY2023E and FY2024E earnings, respectively.

## Key Risks

Any disruption in sales caused by frequent lockdowns or significant increase in key input prices would act as key risks to our earnings estimates.

## Valuation (standalone)

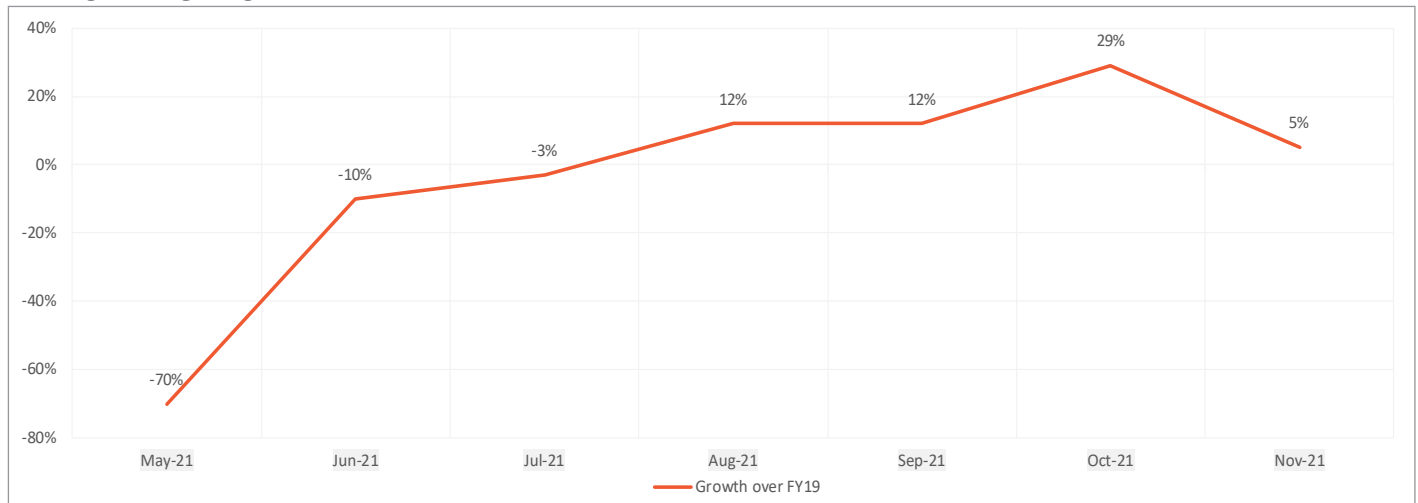
| Particulars        | FY21  | FY22E | FY23E | FY24E |
|--------------------|-------|-------|-------|-------|
| Revenue            | 3,269 | 4,401 | 5,474 | 6,727 |
| OPM (%)            | 23.5  | 24.7  | 25.8  | 26.9  |
| Adjusted PAT       | 234   | 463   | 725   | 1,003 |
| Adjusted EPS (Rs.) | 17.7  | 35.1  | 54.9  | 76.0  |
| P/E (x)            | 203.6 | 102.7 | 65.6  | 47.4  |
| P/B (x)            | 31.8  | 25.3  | 18.8  | 13.8  |
| EV/EBIDTA (x)      | 63.4  | 44.0  | 33.2  | 25.3  |
| RoNW (%)           | 17.4  | 27.4  | 32.9  | 33.6  |
| RoCE (%)           | 16.0  | 24.5  | 31.9  | 35.3  |

Source: Company; Sharekhan estimates

## QSR space grew faster compared to other retail formats in October-November 2021

According to industry reports, the QSR segment in India registered strong growth in October 2021 and November 2021 with revenue growing 29% and 5%, respectively, compared to pre-COVID level sales. However, compared to October 2020 and November 2020, growth stood at 59% and 8%, respectively. This was because of improved dine-in sales and higher traction on the delivery platform during the festive season. December 2021 is likely to be another strong quarter as the festive season will continue to add to sales. However, in the last few days of the month, the traction on delivery is expected to be stronger due rising COVID-19 cases. Empirical evidence suggests food aggregators registering strong orders on their respective platforms on the evening of year end.

### QSR registered good growth in Oct-Nov,21

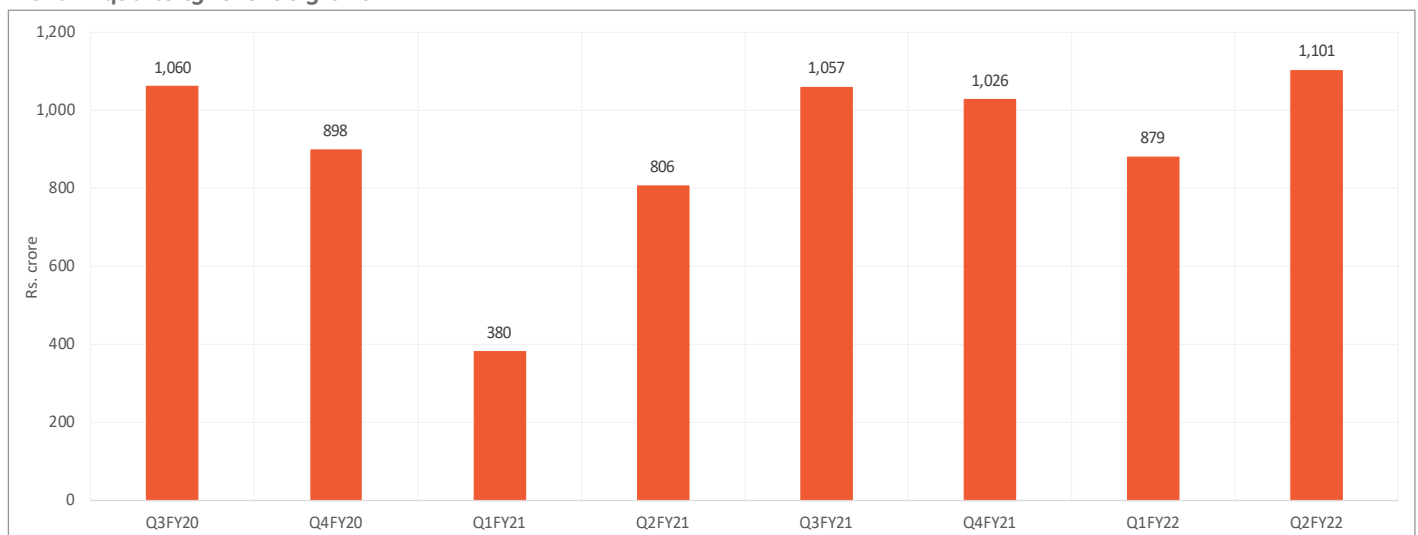


Source: RAI

## JFL to post good performance in Q3

JFL's revenue is likely to grow at 20%+ in Q3FY2022 with SSSG expected to be in low double digits in the backdrop of normalised base of the corresponding quarter last year. Dine-in sales are expected to be better in October-November along with strong traction on the delivery platform. We expect the company to add around 55-60 stores in Q3FY2022, in-line with its target to add 175 stores in FY2022. JFL's gross margin and OPM decreased by 54 bps and 66 bps, respectively, in Q2FY2022 due to inflated raw-material prices. According to media reports, the company has undertaken mid-single digit price increase to pass on the raw-material inflation. Thus, gross margin is expected to be lower by 40-50 bps and OPM would stand at 25-26% (lower by 60-100 bps) in Q3FY2022.

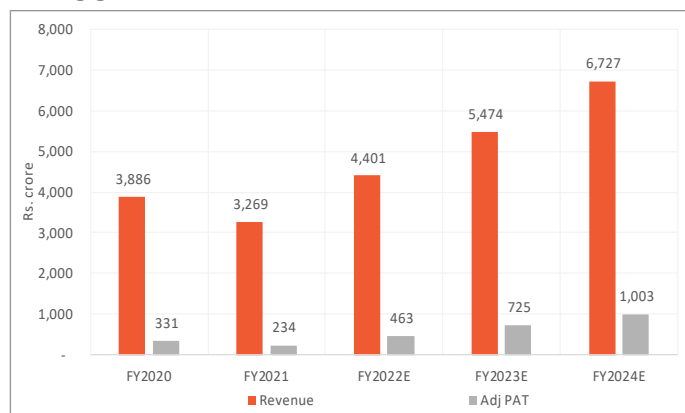
### Trend in quarterly revenue growth



Source: Company; Sharekhan research

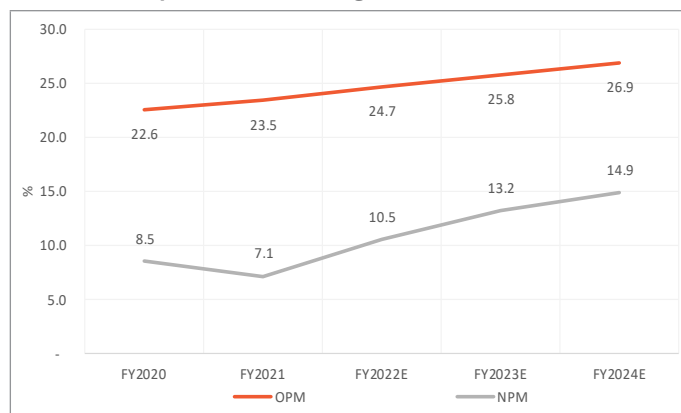
## Financials in charts

### Steady growth in revenue and PAT



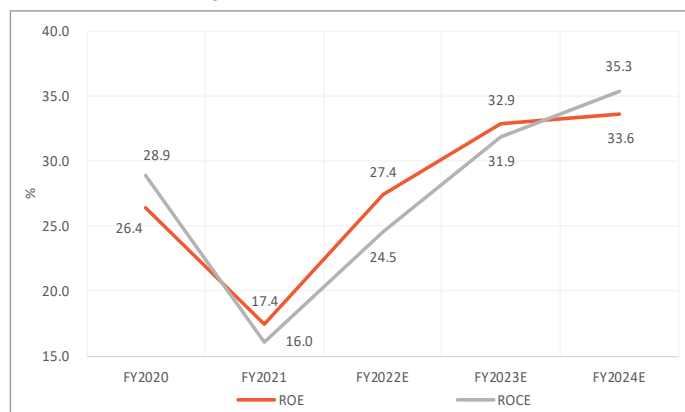
Source: Company, Sharekhan Research

### Consistent improvement in margins



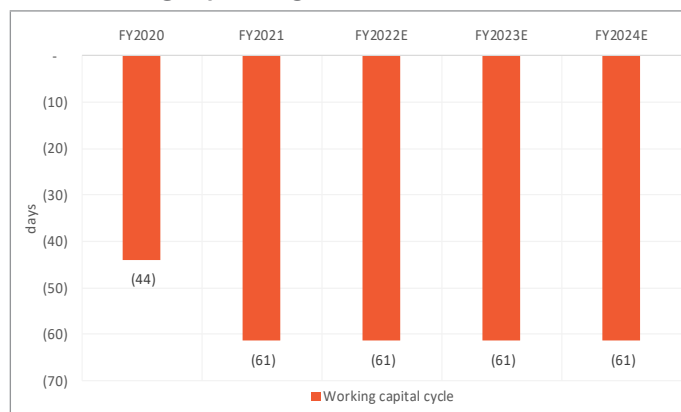
Source: Company, Sharekhan Research

### Return ratios to improve



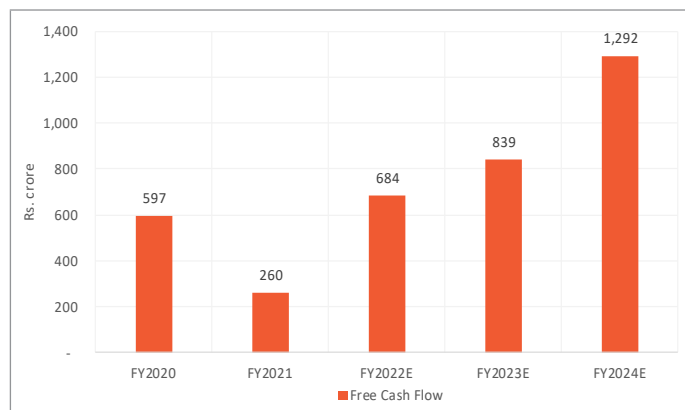
Source: Company, Sharekhan Research

### Stable working capital days



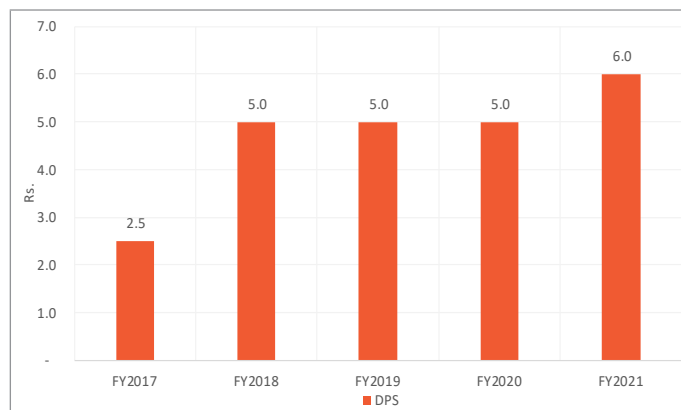
Source: Company, Sharekhan Research

### Good free cash flow generation



Source: Company, Sharekhan Research

### Consistent dividend payout



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector View – QSR segment will lead FSI growth in the coming years

QSR is the fastest growing industry in India compared to other segments of the food service industry. The QSR industry is expected to post a CAGR of 23% over FY2020-FY2025 versus casual dining and pubs and bars, which is expected to post a CAGR of 19% and 17%, respectively. The QSR segment's market share is expected to increase from 47.2% in FY2020 to 54.3% in FY2025. Growth in the QSR channel is expected to be supported by urbanisation and increasing exposure of youth to various food types. Rapid urbanisation and rising number of commercial spaces for consumers are likely to have a quick bite amid their work or shopping schedules will play an important role in the growth of quick-service restaurants. Contactless dining experiences and takeaways were adopted by restaurants, with the help of technology, helping QSR to quickly recover from the pandemic affect.

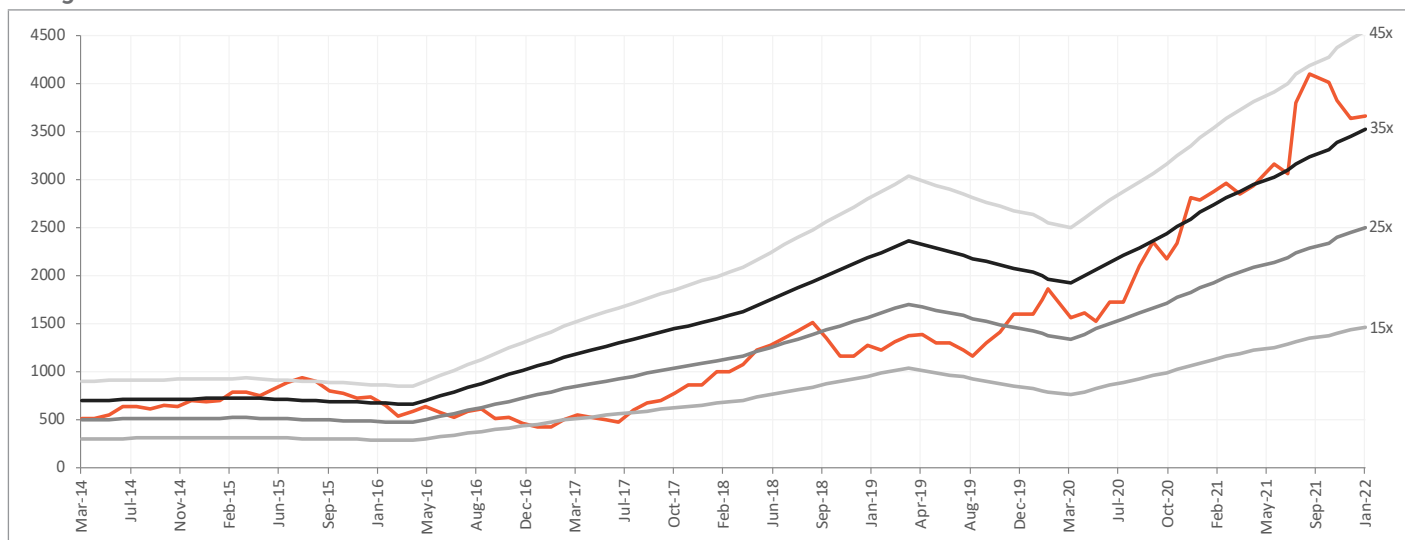
### ■ Company outlook – Medium-term growth levers intact

A large shift towards organised players, frequent ordering, better penetration of delivery model in tier 2/3 towns, and widening of customer base will be key growth drivers in the near to medium term. Further, the company is planning to add 150-175 new stores under the Domino's brand and new formats. The company is also planning to expand its base across various geographies. OPM improvement will be the function of recovery in sales and efficiencies in the coming years. Management has maintained its target of maintaining OPM at 25-26% in the medium term.

### ■ Valuation – Maintain Buy with an unchanged PT of Rs. 4,707

JFL is banking on consistent growth in Dominos revenue, scale-up in emerging brands through higher investments, increased presence in international markets, and making investments in high potential businesses to generate better returns for its shareholders in the long run. The stock has corrected by 21% from its recent high and further correction can be considered as a good buying opportunity. We like management's strategy of increasing its share in domestic as well as some of the international QSR markets with prudent capital allocation plans. We maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 4,707. The stock is currently trading at 65.6x and 47.4x its FY2023E and FY2024E earnings, respectively.

#### One-year forward EV/EBITDA band



Source: Sharekhan Research

#### Peer Comparison

| Particulars          | P/E (x) |       |       | EV/EBITDA (x) |       |       | RoCE (%) |       |       |
|----------------------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|
|                      | FY21    | FY22E | FY23E | FY21          | FY22E | FY23E | FY21E    | FY22E | FY23E |
| Westlife Development | -       | 82.0  | 50.0  | -             | 35.2  | 26.1  | -        | 11.5  | 20.4  |
| Burger King India    | -       | -     | -     | -             | 33.3  | 22.5  | -        | 1.6   | 6.2   |
| Jubilant Foodworks   | -       | -     | -     | 55.4          | 63.4  | 44.0  | 28.9     | 16.0  | 24.5  |

Source: Company, Sharekhan estimates

## About company

JFL is one of India's largest food service companies. The company is part of 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. In India, JFL's network comprises 1,435 Domino's Pizza restaurants, spanning across 307 cities, and 28 Dunkin Donuts restaurants across eight cities. The company has entered into the Chinese cuisine segment with its first owned restaurant brand, Hong's Kitchen. The company has 13 Hong's Kitchen restaurants across three cities in India. Recently, the company has added Indian cuisine of biryani, kebabs, breads, and more to its portfolio by launching Ekdum! which now has eight restaurants across three cities. The company has exclusive rights to develop and operate Popeyes® restaurants in India, Bangladesh, Nepal, and Bhutan. The company has also forayed into the ready-to-cook segment with a range of sauces, gravies, and pastes under the newly launched brand, Chef Boss.

## 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 OLO share, which is in line with its strategy of technology-driven growth. Venturing into Chinese cuisines and biryani segments and entering into the franchisee agreement with Popeyes brand to launch in India will be long-term growth drivers. 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 and director       |
| Pratik Pota      | CEO & Whole Time Director      |
| Ashish Goenka    | Executive Vice President & CFO |
| Mona Aggarwal    | Company Secretary              |

Source: Company Website

### Top 10 shareholders

| Sr. No. | Holder Name                   | Holding (%) |
|---------|-------------------------------|-------------|
| 1       | Sands Capital Management      | 7.0         |
| 2       | ARISAIG Asia Consumer Fund    | 2.6         |
| 3       | Touchtone Strategies          | 2.4         |
| 4       | Touchtone Advisors Inc.       | 2.2         |
| 5       | UTI Asset Management          | 4.3         |
| 6       | Blackrock Inc                 | 2.1         |
| 7       | Vanguard Group                | 1.8         |
| 8       | ARISAIG Globl Emerging Fund   | 1.5         |
| 9       | Tree Lin Asia Master Fund     | 1.5         |
| 10      | Kotak Mahindra Asset Mgmt Co. | 1.4         |

Source: Bloomberg (old data)

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## 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 deteriorating 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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