

## Buy

### Margin expansion continues; Upgrade to Buy

- JFL's Q3FY21 revenue was in line with our estimate, but APAT was a beat.
- The company has reported strong recovery in past three quarters with -61.4%/-20%/-1.7% same store sales growth in Q1/Q2/Q3FY21. SSSG during Q3 was better than peer -Westlife Development. The company has reported positive 3.4% SSSG during January'21.
- In addition to benign RM, GM also benefited from lesser discounts and introduction of delivery charges in Q3FY21.
- JFL opened 57 new stores during the quarter (50 Domino stores) – highest store addition in a single quarter.
- Sri Lanka/Bangladesh businesses witnessed 82.5/94.9% sales recovery. Sri Lanka/Bangladesh store count stood at 23/4 respectively.
- We have revised our FY21/22/23E EPS estimates to Rs 17.6/37.1/45.9 implying +8.1%/+2.1%/+7.2% revision respectively, to factor in Q3 performance. Considering high growth prospects, valuations are expected to remain rich. Valuing the stock at 65X FY23E to arrive at a TP of Rs 2,981. Upgrade to Buy.

### Revenues in line; APAT is a beat

Revenues remained stable YoY at Rs 10.6bn– came in line. Domino's witnessed complete sales recovery in Q3FY21 backed by continued strong growth momentum in delivery and takeaway channels (grew by 18.5% and 64.3%). Sales momentum continued in Jan'21 with revenues 5.1% YoY (SSG: 3.4%). EBITDA jumped 9.9% YoY to Rs 2,786mn-came ahead. EBITDA margin expanded 240bps to 26.4%. A 120/20bps increase in employee costs/rent expense was completely offset by 340/40bps reduction in RM/other expenses. APAT grew 20.6% YoY to Rs 1251mn.

### 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. Further, the company closed down 100 non profitable stores in Q2. In addition to these measures, lower RM helped margins to improve during Q3. The company has increased GM from 75% level to 78% in last three quarters. We believe that the company would maintain these levels with calibrated pricing and introduction of new products.

### Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	10,572	10,596	(0.2)	8,055	31.2
Total Expense	7,786	8,060	(3.4)	5,908	31.8
EBITDA	2,786	2,536	9.9	2,147	29.8
Depreciation	876	880	(0.4)	1,030	(14.9)
EBIT	1,910	1,656	15.3	1,117	71.0
Other Income	156	159	(2.2)	311	(50.0)
Interest	405	426	(5.0)	412	(1.8)
EBT	1,661	1,389	19.6	1,016	63.4
Tax	410	352	16.3	247	65.8
RPAT	1,251	1,037	20.6	769	62.7
APAT	1,251	1,037	20.6	769	62.7
			(bps)		(bps)
Gross Margin (%)	78.3	74.9	340	78.8	(49)
EBITDA Margin (%)	26.4	23.9	243	26.7	(29)
NPM (%)	11.8	9.8	205	9.5	228
Tax Rate (%)	24.7	25.4	(68)	24.3	36
EBIT Margin (%)	18.1	15.6	244	13.9	420

CMP	Rs 2,646
Target / Upside	Rs 2,981 / 13%
NIFTY	14,790

### Script Details

Equity / FV	Rs 1,320mn / Rs 10
Market Cap	Rs 349bn
	USD 5bn
52-week High/Low	Rs 2,988/ 1,138
Avg. Volume (no)	1,138,080
Bloom Code	JUBI IN

Price Performance	1M	3M	12M
Absolute (%)	(5)	23	35
Rel to NIFTY (%)	(10)	(2)	9

### Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	41.9	41.9	41.9
MF/Banks/FIs	18.9	18.9	13.1
FIIIs	36.2	36.2	39.4
Public / Others	3.0	3.0	5.6

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	150.1	71.2	57.7
EV/EBITDA	46.5	29.4	25.6
ROE (%)	18.6	32.3	30.8
RoACE (%)	14.2	21.7	22.5

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	32,260	46,246	51,780
EBITDA	7,605	11,799	13,301
PAT	2,326	4,903	6,051
EPS (Rs.)	17.6	37.1	45.9

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**Exhibit 1: Actual v/s Estimates**

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	10,572	10,280	2.8	
EBITDA	2,786	2,517	10.7	
EBITDA margin %	26.4	24.5	190	RM and employee costs were lower than estimates
APAT	1,251	1,049	19.2	Cascading effect of higher EBITDA

Source: Company, DART

**Exhibit 2: Change in estimates**

In Rs Mn	FY21E			FY22E			FY23E		
	New	Old	Change	New	Old	Change	New	Old	Change
Revenue	32,260	32,174	0.3	46,246	45,726	1.1	51,780	51,144	1.2
EBITDA	7,605	7,772	(2.1)	11,799	11,661	1.2	13,301	13,129	1.3
EBITDA Margin %	23.6%	24.2%	-60 bps	25.5%	25.5%	0 bps	25.7%	25.7%	0 bps
APAT	2,326	2,153	8.1	4,903	4,804	2.1	6,051	5,644	7.2
EPS (Rs)	17.6	16.3	8.1	37.1	36.4	2.1	45.9	42.8	7.2

Source: Company, DART

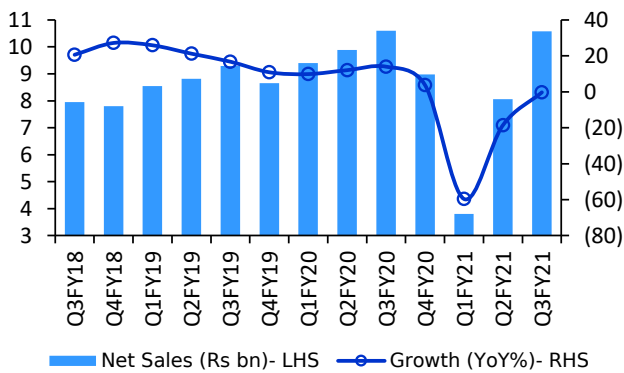
We have marginally revised our revenue estimates for FY21/22/23E to factor in higher store addition during the quarter. Further, we have reduced our EBITDA margin estimates as the higher store addition is expected to reduce operating leverage in the ensuing quarter. In line with the revision in EBITDA, we have revised our APAT estimates.

**Conference call highlights**

- JFL remains on track to open 100+ new Domino's stores in FY21 (~110 stores). Domestic market has the potential to accommodate +3000 Dominos stores in medium term.
- Dine-In recovered 43.6% YoY in Q3FY21 and 59.5% in January'21. However, it improved significantly compared to Q2FY21 (20% recovery). On account of Covid restrictions, dine-in capacity limit is still 50% which impacted recovery. It is likely to revive strongly once the government approves 100% seating capacity. Easy accessibility, variety of store formats (office buildings, shopping malls, stadium, airports) and affordable products is likely to help deliver pre-covid revenue growth in Dine-in.
- Gross margin expanded 340bps YoY but declined 50bps QoQ in Q3FY21. Going ahead, company expects dairy prices to increase, vs benign dairy costs last year. The management is focused on delivering 'value for money'. Hence pricing actions would be calibrated. We believe JFL will take strict cost control initiatives and drive efficiencies to maintain healthy margins.
- OLO as % of delivery sales has reached 98%. During the quarter, 7.4mn apps were downloaded- highest ever. JFL will also add other language support in app to connect better with consumers.
- Like for Like Sales growth for Domino's stood at -0.2% for Q3FY21. In Q2FY20, Domino's LFL Sales growth was -18.8%, and SSSG at -20%.
- JFL introduced 'Domino's Drive-N-Pick' nationwide in Nov'20 - allowing customers to pick up their orders without stepping out of their vehicle. The initial response has been encouraging.
- JFL introduced 'The Unthinkable Pizza', India's first Plant protein-based product which is 100% Vegetarian with the sensory properties of chicken.

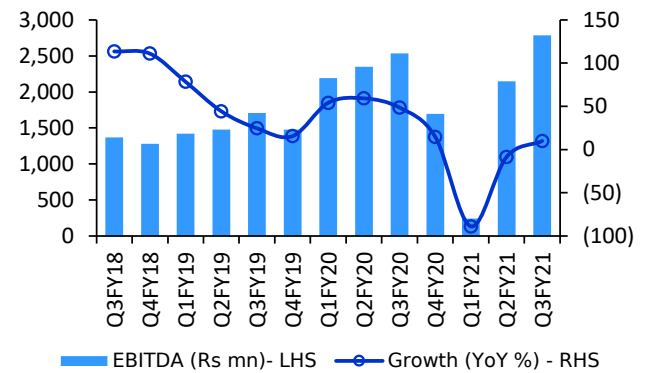
- Delivery ticket size has increased significantly YoY due to 1) large order sizes during lockdown and premium pizza orders. 2) Delivery charge introduction
- The company is confident that acquisition of 10.76% stake in Barbeque Nation (Rs 920 mn) is expected to be value accretive to shareholders.
- The company has entered the Biryani segment with launch of new brand - Ek dum! with 3 restaurants in Gurugram. It will open new restaurants in other areas in Delhi NCR. It opened 2 Hong's Kitchen during Q3. JFL expects both brands to grow well given the popularity of biryani and Chinese cuisine in India
- Sri Lanka and Bangladesh revenue declined 17.5% YoY and 5.1% YoY respectively. Both countries achieved EBITDA breakeven. JFL opened one new store in Sri Lanka. The company has the potential to open 150 stores in both countries in medium term.
- Bird flu impact on company's sales was negligible as the mix shifted to vegetarian from non-vegetarian. Further, it was not a national issue, more pronounced in North and to some extent in West.

**Exhibit 3: Net Sales and Growth**



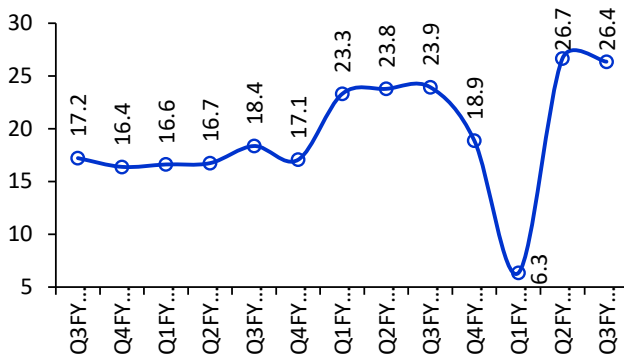
Source: DART, Company

**Exhibit 4: EBITDA and EBITDA Growth**



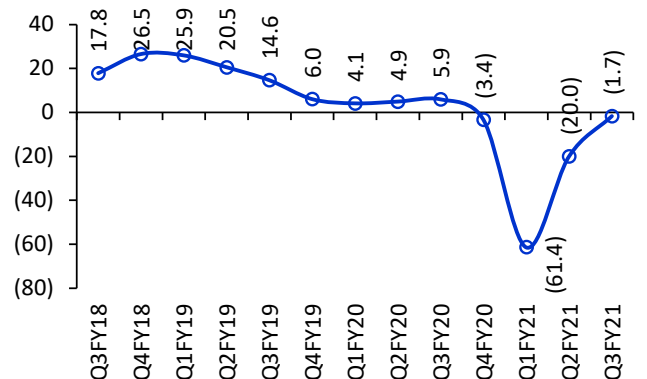
Source: DART, Company

**Exhibit 5: Trend in EBITDA Margin**



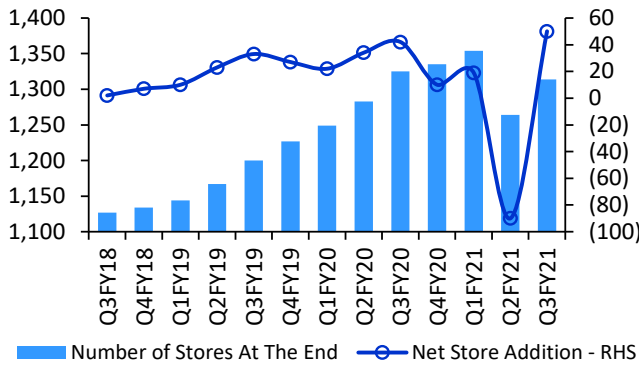
Source: DART, Company

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



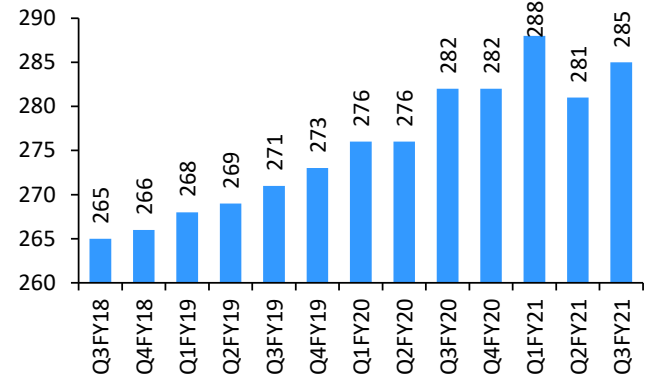
Source: DART, Company

**Exhibit 7: Store Addition Trend**



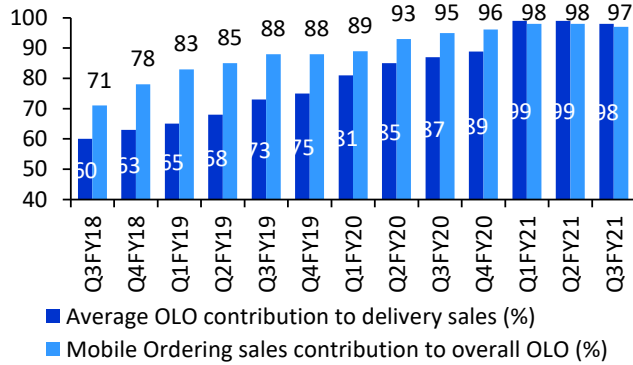
Source: DART, Company

**Exhibit 8: Number of Cities Covered**



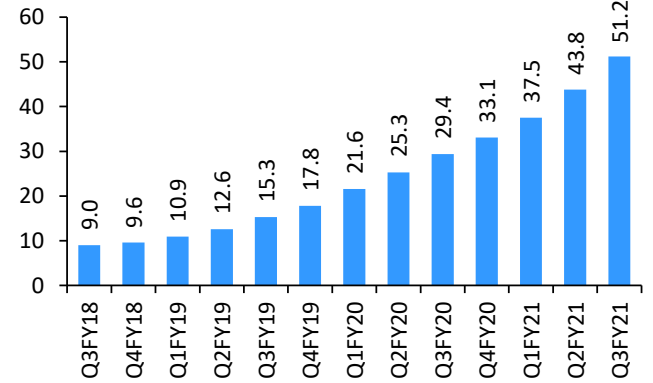
Source: DART, Company

**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
<b>Revenue</b>	<b>38,858</b>	<b>32,260</b>	<b>46,246</b>	<b>51,780</b>
<b>Total Expense</b>	<b>30,087</b>	<b>24,655</b>	<b>34,447</b>	<b>38,480</b>
COGS	9,707	6,996	10,068	11,380
Employees Cost	7,846	7,491	9,626	10,346
Other expenses	12,534	10,168	14,753	16,754
<b>EBIDTA</b>	<b>8,771</b>	<b>7,605</b>	<b>11,799</b>	<b>13,301</b>
Depreciation	3,441	3,674	4,348	4,251
<b>EBIT</b>	<b>5,329</b>	<b>3,931</b>	<b>7,451</b>	<b>9,050</b>
Interest	1,635	1,673	1,795	1,899
Other Income	688	842	875	910
Exc. / E.O. items	(448)	0	0	0
<b>EBT</b>	<b>3,935</b>	<b>3,099</b>	<b>6,531</b>	<b>8,061</b>
Tax	1,181	773	1,628	2,010
RPAT	2,755	2,326	4,903	6,051
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>3,203</b>	<b>2,326</b>	<b>4,903</b>	<b>6,051</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	1,320	1,320	1,320	1,320
Minority Interest	0	0	0	0
Reserves & Surplus	10,510	11,873	15,812	20,900
<b>Net Worth</b>	<b>11,829</b>	<b>13,192</b>	<b>17,132</b>	<b>22,219</b>
Total Debt	16,510	16,510	16,510	16,510
Net Deferred Tax Liability	(809)	(809)	(809)	(809)
<b>Total Capital Employed</b>	<b>27,530</b>	<b>28,893</b>	<b>32,833</b>	<b>37,920</b>

**Applications of Funds**

Net Block	<b>21,883</b>	<b>16,834</b>	<b>14,754</b>	<b>12,791</b>
CWIP	389	389	389	389
Investments	834	1,334	1,834	2,334
<b>Current Assets, Loans &amp; Advances</b>	<b>10,444</b>	<b>15,319</b>	<b>22,707</b>	<b>30,028</b>
Inventories	922	765	1,097	1,229
Receivables	193	160	230	257
Cash and Bank Balances	6,392	11,819	18,044	24,896
Loans and Advances	354	343	359	374
Other Current Assets	2,071	1,719	2,465	2,760
<b>Less: Current Liabilities &amp; Provisions</b>	<b>6,020</b>	<b>4,983</b>	<b>6,852</b>	<b>7,621</b>
Payables	4,438	3,684	5,282	5,914
Other Current Liabilities	1,582	1,298	1,570	1,707
<i>sub total</i>				
Net Current Assets	4,424	10,337	15,855	22,406
<b>Total Assets</b>	<b>27,530</b>	<b>28,893</b>	<b>32,833</b>	<b>37,920</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	75.0	78.3	78.2	78.0
EBIDTA Margin	22.6	23.6	25.5	25.7
EBIT Margin	13.7	12.2	16.1	17.5
Tax rate	30.0	24.9	24.9	24.9
Net Profit Margin	7.1	7.2	10.6	11.7
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	25.0	21.7	21.8	22.0
Employee	20.2	23.2	20.8	20.0
Other	32.3	31.5	31.9	32.4
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	1.4	1.3	1.0	0.7
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	117	125	158
FA T/O	1.8	1.9	3.1	4.0
<b>(D) Measures of Investment</b>				
AEPS (Rs)	24.3	17.6	37.1	45.9
CEPS (Rs)	50.3	45.5	70.1	78.1
DPS (Rs)	13.3	7.3	7.3	7.3
Dividend Payout (%)	54.6	41.4	19.6	15.9
BVPS (Rs)	89.6	100.0	129.8	168.4
RoANW (%)	22.0	18.6	32.3	30.8
RoACE (%)	23.4	14.2	21.7	22.5
RoAIC (%)	35.6	20.6	46.8	65.1
<b>(E) Valuation Ratios</b>				
CMP (Rs)	2646	2646	2646	2646
P/E	109.0	150.1	71.2	57.7
Mcap (Rs Mn)	349,166	349,166	349,166	349,166
MCap/ Sales	9.0	10.8	7.6	6.7
EV	358,772	353,345	347,121	340,268
EV/Sales	9.2	11.0	7.5	6.6
EV/EBITDA	40.9	46.5	29.4	25.6
P/BV	29.5	26.5	20.4	15.7
Dividend Yield (%)	0.5	0.3	0.3	0.3
<b>(F) Growth Rate (%)</b>				
Revenue	10.1	(17.0)	43.4	12.0
EBITDA	44.3	(13.3)	55.2	12.7
EBIT	17.0	(26.2)	89.6	21.5
PBT	(20.4)	(21.2)	110.7	23.4
APAT	(3.2)	(27.4)	110.7	23.4
EPS	(3.2)	(27.4)	110.7	23.4
<b>Cash Flow</b>				
<b>(Rs Mn)</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
CFO	7,223	7,189	11,752	12,503
CFI	(1,466)	875	(2,769)	(2,788)
CFF	(4,255)	(2,637)	(2,758)	(2,862)
FCFF	4,407	8,564	9,483	10,215
Opening Cash	4,891	6,392	11,819	18,044
Closing Cash	6,392	11,819	18,044	24,896

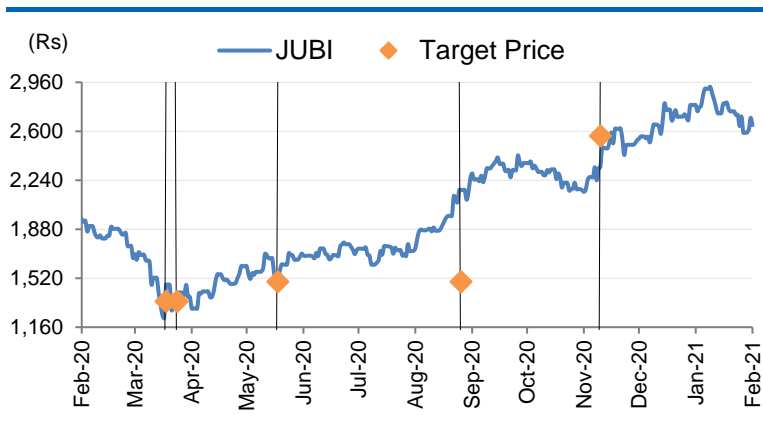
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
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
Nov-20	Accumulate	2,566	2,339

\*Price as on recommendation date

### DART Team

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Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

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