Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

Jubilant Foodworks Ltd

Transient headwind, valuation attractive

Consumer Discretionary	Sharekhan code: JUBLFOOD
Reco/View: Buy ↔	CMP: Rs. 511
Price Target: Rs. 770 ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

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 24.89

Updated Oct 10, 2022

Medium Risk

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

Source: Morningstar

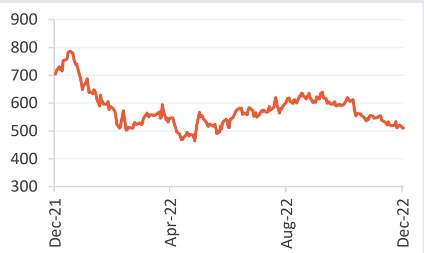
Company details

Market cap:	Rs. 33,715 cr
52-week high/low:	Rs. 805 / 452
NSE volume: (No of shares)	32.1 lakh
BSE code:	533155
NSE code:	JUBLFOOD
Free float: (No of shares)	38.3 cr

Shareholding (%)

Promoters	41.9
FII	29.1
DII	19.9
Others	9.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.6	-16.9	-5.6	-27.4
Relative to Sensex	-3.0	-24.0	-20.6	-32.7

Sharekhan Research, Bloomberg

Summary

- Domino's launch of 20-minute delivery across 20 zones is a positive move for JFL, as it will enhance consumer satisfaction, lead to increased frequency of ordering, provide JFL an edge over its peers, and help the brand continue to be the market leader.
- Launch of the Italian gourmet pizza range is in line with JFL's strategy of premiumisation and innovating with focus on consumer-centricity and will help it improve volumes as it will attract new customers and provide new options for its existing customers.
- Although Q3 performance is expected to be weak owing to softening demand post the festive season and sustained raw-material inflation, JFL is poised to achieve consistent double-digit growth in the coming years aided by regional menu innovation, enhanced digital focus, scaling up of new ventures, sustained new store addition, and introduction of the loyalty programme.
- The stock is currently trading at 37.9x/29.4x its FY2024E/FY2025E earnings. We maintain Buy with an unchanged PT of Rs. 770.

Jubilant Foodworks Limited (JFL) recently launched a 20-minute delivery and Italian gourmet pizza, which will act as a key catalyst to improve consumer experience resulting in more traction on the delivery business. The reduced delivery time from 30 minutes to 20 minutes is expected to enhance consumer satisfaction through better consumer experience and lead to increased frequency of ordering across the market. Launch of the gourmet range of pizza will help the company to improve volumes as it might attract new customers and existing customers might also be tempted to try the new variants. However, near-term headwinds persist in the form of high raw-material prices (cheese and wheat price up by 30% y-o-y) and softening demand post the festive season (November to mid-December witnessed weak momentum in footfalls). On the other hand, same-store-sales growth (SSSG) is expected to remain moderated in the near term due to addition of new stores in the same vicinity, which will improve once new stores attain certain maturity. The company's like-for-like (system-led growth) will continue to grow in double digits, aided by increased traction on online platform, frequency in ordering, and new store addition.

- **Recently launched 20-minute delivery and Italian gourmet pizza:** Domino's launch of 20-minute delivery in 20 zones across 14 cities in India is driven by enhancing and optimising in-store process improvements, dynamic resource planning, technology upgradation and interventions for improved operational efficiencies, and expanding stores within the vicinity. The company's recent launch of a new range of Italian gourmet pizzas is in line with the company's strategy of premiumisation and innovating with a focus on consumer-centricity.
- **New initiatives to aid in standing tall against competition:** Domino's faster delivery promise will enhance consumer satisfaction, lead to increased frequency of ordering, provide the company an edge over its peers, and help the brand continue to be the market leader. Our channel check suggests that in peak hours, the delivery of top pizza brands takes 30-50 minutes through aggregator depending on the availability of delivery partner and distance of the store, while Domino's Pizza will be delivered in 20 minutes. Further, launch of the Italian gourmet pizza range is in line with the company's strategy of premiumisation and innovating with a focus on consumer-centricity and will help the company to improve volumes as it will attract new customers and provide new options for its existing customers. Overall, improvement in customer experience and more options in the menu will help increase traction on the delivery platform.
- **SSSG to remain moderated in the near term; Will improve in the long run:** JFL has maintained its target to add 250+ new Domino's stores and 20-30 Popeyes stores in FY2023. New stores are being added in the same vicinity, which will aid in enhancing consumer experience through faster delivery of pizza. This will lead to moderation in SSSG in the near term as the new store takes time to mature. However, with right strategies in place, the company's long-term outlook is intact. We believe the store addition will soften once the launch of 20-minute delivery is available in a large number of cities in India. The company will focus on improving store sales (especially in new stores), which will help SSSG to improve in the medium to long run.

Our Call

View – Maintain Buy with an unchanged PT of Rs. 770: We like JFL's strategy of investing in the core and new ventures to scale up business growth and revenue without comprising on profitability in the medium term. The company's brand-wise differentiated strategy, aggressive store additions, improving customer experience on the delivery platform, sustained innovation, and customer-centric offerings will drive growth in the medium-long term. With the right strategies in place, we expect the company's revenue and PAT to report a 22.5% and 37.1% CAGR, respectively, over FY2022-FY2025E. The stock has corrected by 18% from its recent high and currently trades at 37.9x/29.4x its FY2024E/FY2025E earnings. We maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 770.

Key Risks

Any slowdown in revenue growth due to sustained high inflation or pressure on profitability would act as a key risk to our earnings estimates.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	3,269	4,331	5,294	6,636	7,970
EBITDA Margin (%)	23.5	25.5	24.6	26.3	26.6
Adjusted PAT	234	445	561	889	1,145
Adjusted EPS (Rs.)	3.5	6.7	8.5	13.5	17.4
P/E (x)	-	75.8	60.2	37.9	29.4
P/B (x)	22.5	16.0	13.0	9.9	7.6
EV/EBITDA (x)	45.4	31.8	25.8	19.0	15.3
RoNW (%)	17.4	24.7	23.9	29.7	29.2
RoCE (%)	16.0	21.3	21.6	27.6	29.1

Source: Company; Sharekhan estimates

Domino's pizza in 20 minutes

Domino's launched 20-minute delivery in 20 zones across 14 cities in India to deliver hotter, fresher, and tastier pizzas to consumers. Domino's India 20-minute delivery is being driven by enhancing and optimising in-store process improvements, dynamic resource planning, technology upgradation and interventions for improved operational efficiencies, and expanding stores within the vicinity. The company has committed to delivering pizza in 20 minutes without compromising on the food quality and safety and well being of its delivery riders. The brand earlier pioneered 30-minute delivery and established itself as a market leader in the QSR sector.

Launch of the Italian gourmet pizza range

Domino's recently launched a new range of gourmet pizzas – Viva Roma, featuring eight premium pizzas, topped with a mix of delectable, indulgent cheese like Bocconcini, Burrata, and Parmesan, and a sauce made from the finest tomatoes of Italy. The new range of Domino's Pizza will mark the brand's entry into the category that offers consumers authentic Italian pizzas. The company has made a couple of new launches in the past six months and has been expanding its portfolio based on regional taste and preferences. The launch is in line with the company's strategy of premiumisation and innovating with a focus on consumer-centricity. The new range is available to order at the nearest Domino's restaurant and online through Domino's India website and Domino's app.

Newly launched pizzas at a premium over regular pizza and over peers

New Launches	% premium over regular range	% premium over peers
The 5-Cheese Gourmet Pizza	46	34
Caprese Gourmet Pizza	46	13
Primavera Gourmet Pizza	46	13
Al Fungi Gourmet Pizza	34	13
Chicken Pepperoni Gourmet Pizza	29	19
Burrata Pesto Gourmet Pizza	36	39
Chicken Salami Gourmet Pizza	57	46
Smoked Chicken Gourmet Pizza	34	19
Spiced Double Chicken	20	4
Red Velvet Lava Cake	22	14
Paneer Tikka Stuffed Garlic Bread	36	36
Chicken Pepperoni Stuffed Garlic Bread	36	36

Source: Sharekhan Research

Focus on improving customer experience to drive more volumes

The company has undertaken various steps that will aid in its growth in the coming years. The reduced delivery time from 30 minutes to 20 minutes is expected to enhance consumer satisfaction through better consumer experience and lead to increased frequency of ordering across the market. As per our channel check, in major cities, pizza delivery from competitors or through aggregators takes 30-50 minutes during peak hours, while Domino's promise of delivering pizza in 20 minutes will provide it an edge over its peers and help the brand continue to be the market leader. The new range of pizzas is crafted to cater to the palates and taste buds of customers who desire a luxurious yet authentic Italian experience while adding a new taste profile to the portfolio. Launch of the gourmet range of pizza will help the company improve its volumes as it might attract new customers and existing customers might be tempted to try the new variants.

Q3 performance expected to be impacted by multiple factors

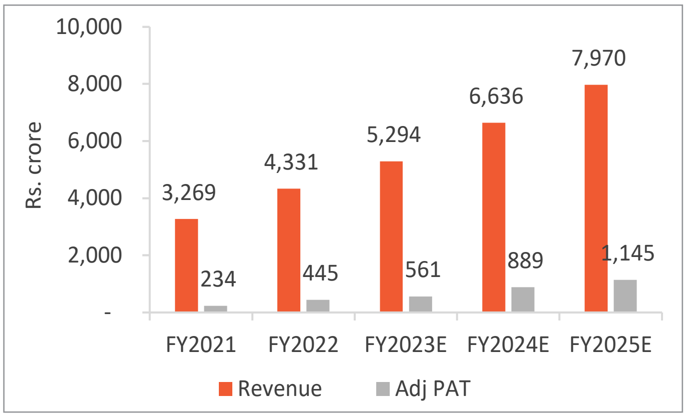
In Q3, the company witnessed strong demand traction till Diwali; however, post the festive season, the momentum weakened in November with a decline in footfalls, which continued till mid-December. The decline in demand can be majorly attributed to a general decline in high street and mall footfalls and higher eating out at social functions (vs. QSR chains). Even though demand has shown some signs of recovery in the latter half of December, on an overall basis, Q3 sales are expected to be muted. On the other hand, raw-material inflation continued to remain elevated during the quarter with cheese and wheat prices up by 30% y-o-y, which would adversely impact JFL's profitability in the near term.

Long-term outlook intact

JFL has multiple drivers in place to achieve consistent double-digit growth in the coming years. Few of the company's strategies that will aid in achieving strong growth in the long run include regional menu innovation, enhanced digital focus, scaling up of new ventures, sustained new store addition, and introduction of the loyalty programme. We expect the company's revenue and PAT to register a 22.5% and 37.1% CAGR, respectively, over FY2022-FY2025E.

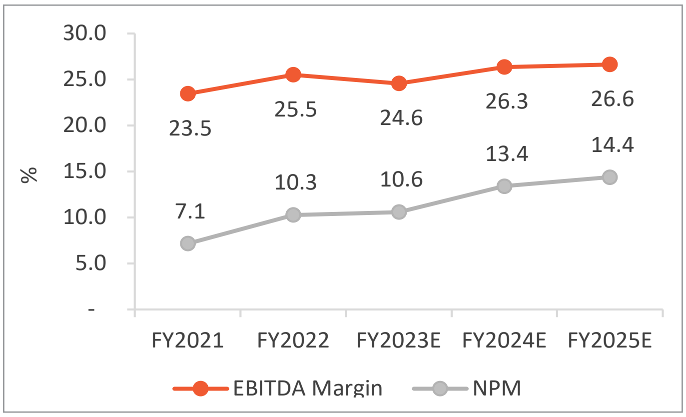
Financials in charts

Steady growth in revenue and PAT



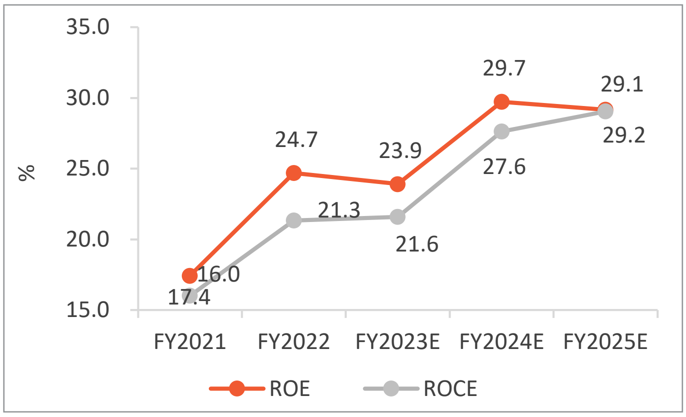
Source: Company, Sharekhan Research

Margins to expand in the coming years



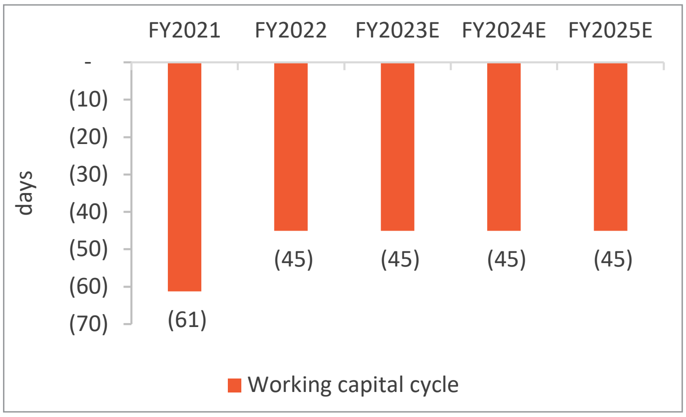
Source: Company, Sharekhan Research

Return profile remains strong



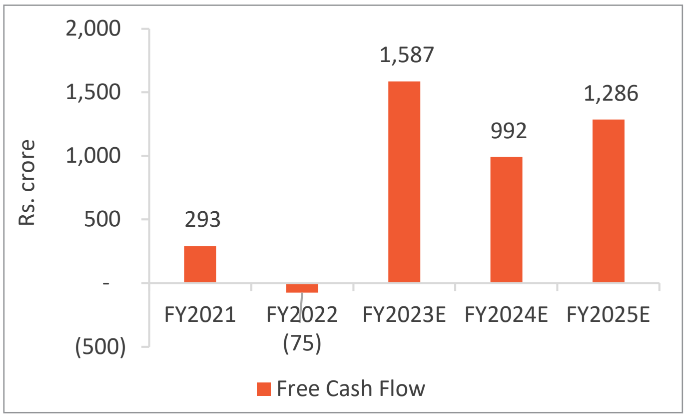
Source: Company, Sharekhan Research

Stable working capital days



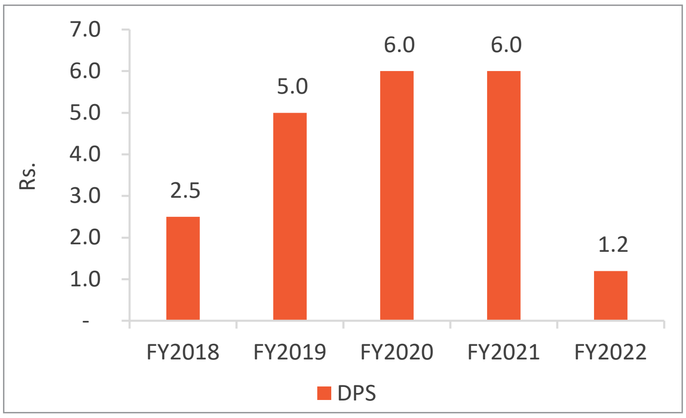
Source: Company, Sharekhan Research

Trend in free cash flow generation



Source: Company, Sharekhan Research

History of dividend payout



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Long-term growth prospects of the QSR industry are intact

After COVID-led disruptions caused a lull for two years, QSRs are geared up for a solid recovery in FY2023 and FY2024. Most companies bounced back in Q1FY2023, with their average daily sales (ADS) crossing pre-COVID levels. This was led by a strong recovery in the dine-in business, higher footfalls, sustained frequency of orders through digital platforms, and a large shift to branded products. The industry expects strong momentum to sustain in the quarters ahead with stark improvement in same-store sales. Further, companies have opted for strong store expansions in every market to improve brand penetration in the coming years. QSR's long-term growth prospects are intact and QSRs are poised to beat the food services industry on higher demand for out-of-home consumption, market share gains from unorganised players, increased online delivery and food technology, menu innovation driving new demand, and incremental demand on account of offers and discounts. With robust growth drivers, QSRs are likely to grow strongly, outpacing other sub-segments in the food service industry in the coming years.

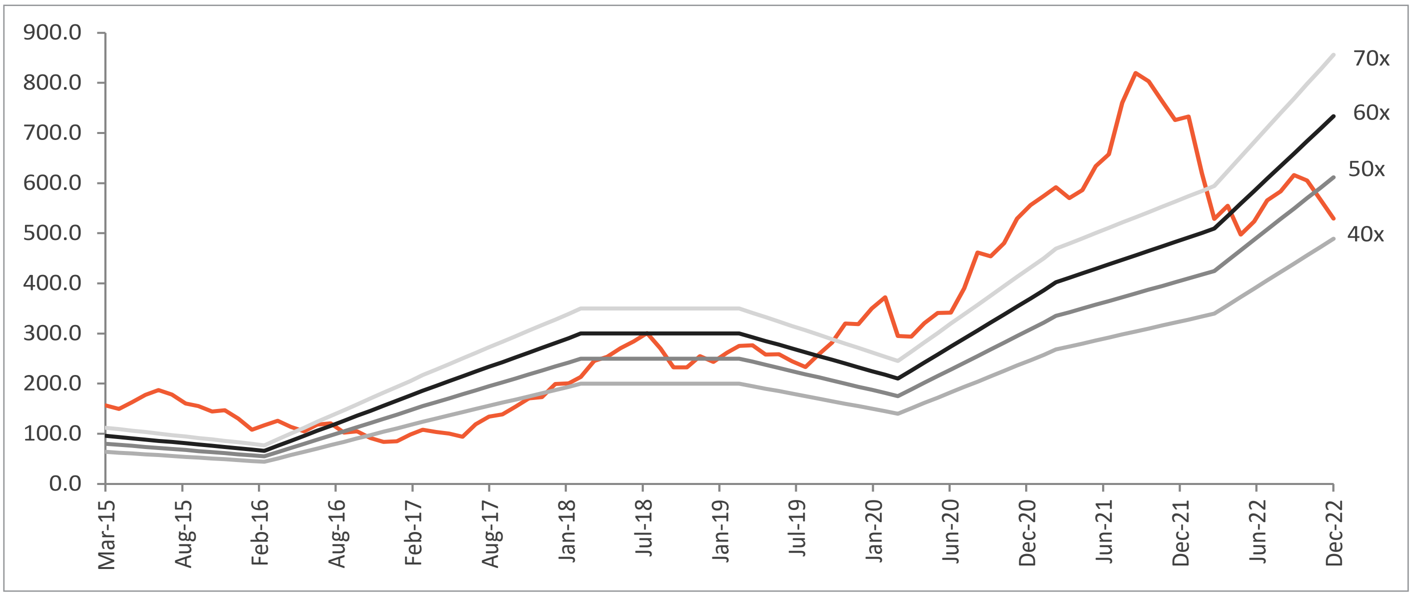
■ Company outlook - Medium-term growth levers intact

A large shift towards organised players, frequent ordering, better penetration of the delivery model in tier 2/3 towns, and widening customer base will be key growth drivers in the near to medium term. Further, the company has laid out a distinct strategy for each brand, with store expansion being the focus for Domino's (targeting to cross 3,000+ stores in the medium term) and Popeyes (targeting 250-300 store addition in the medium term) brands. For Hong's Kitchen, JFL aims to increase awareness; and for Ekdum! – the strategy is to improve unit economics before scaling up brands. EBITDA margin is expected to remain stable at ~25%, aided by lower discounts, price hikes, and improved productivity in every store.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 770

We like JFL's strategy of investing in the core and new ventures to scale up business growth and revenue without comprising on profitability in the medium term. The company's brand-wise differentiated strategy, aggressive store additions, improving customer experience on the delivery platform, sustained innovation, and customer-centric offerings will drive growth in the medium-long term. With the right strategies in place, we expect the company's revenue and PAT to report a 22.5% and 37.1% CAGR, respectively, over FY2022-FY2025E. The stock has corrected by 18% from its recent high and currently trades at 37.9x/29.4x its FY2024E/FY2025E earnings. We maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 770.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Restaurant Brands Asia	-	-	215.1	51.6	27.6	13.7	-	-	7.1
Westlife Development	-	-	95.9	64.7	36.9	28.3	11.9	24.5	28.3
Jubilant Foodworks	75.8	60.2	37.9	31.8	25.8	19.0	21.3	21.6	27.6

Source: Company; Sharekhan Research

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. In India, JFL's network comprises 1,625 Domino's Pizza restaurants, spanning across 349 cities and 25 Dunkin' 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 14 Hong's Kitchen restaurants across four 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 six restaurants across three cities. The company has exclusive rights to develop and operate Popeyes® restaurants in India, Bangladesh, Nepal, and Bhutan and currently has six Popeyes® restaurants in Bengaluru. In Sri Lanka, the company operates through its 100% owned subsidiary, which currently has 36 restaurants. In Bangladesh, the operation is through a joint venture, which manages and operates 10 restaurants. 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 cuisine and biryani segments and entering into the franchisee agreement with Popeyes brand 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
Sameer Khetarpal	CEO
Ashish Goenka	CFO
Mona Aggarwal	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Sands Capital Management LLC	4.83
2	UTI Asset Management Co. Ltd.	2.64
3	UTI Flexi Cap Fund	2.56
4	Kotak Mahindra AMC	2.01
5	Vanguard Group Inc.	1.84
6	BlackRock Inc.	1.83
7	SBI Life Insurance Co.	1.39
8	HHLR Fund	1.38
9	Arisaig Asia Consumer Fund	1.34
10	Touchstone Strategies	1.24

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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