

Jubilant FoodWorks

Miss on all fronts

Jubilant's Q3 performance was a miss on all fronts. Revenue and LFL YoY growth was at 10% and 0.3% vs. the expectation of 12% and 4.5%. We were building up a weak consumption trend, but it came sharper than expected. GM was down 200/78bps YoY/QoQ to 75.5% (coming off from 78% in FY21). Inflationary headwinds with weaker offtake have been pressurising the margin. Furthermore, EBITDA margin was impacted by operating deleverage, resulting in a decline of 450/230bps YoY/QoQ to 22% (lowest of the last 10 quarters). Jubilant is trying to address the challenges by introduced entry level menu at INR 49 to drive footfalls in dine-in. It is also to counter the competition that has been aggressive at the entry level. We believe the EBITDA margin will remain under pressure, owing to (1) RM headwinds, (2) slower consumption trend not offering price actions, (3) faster store opening that would impact unit economics. We cut our EPS estimate by 12% for FY23-25. Our target price is INR 475 (INR 450 for Domino's at 45x P/E on Dec-24E EPS + INR 25 for other initiatives). We maintain REDUCE.

- **Weak LFL growth:** Net revenue was up 10% YoY (12% HSIE) to INR 13.1bn. LFL came in at +0.3% YoY (+7.5% in Q3FY22, +8% in Q2FY23), below our estimate of 4.5%. We believe volume SSSG CAGR remains negative for Jubilant over the last few quarters. Dine-in recovery for Domino's was not as good as some of its peers. Delivery mix stood at 63%, which will go down as the company is taking several initiatives to drive the dine-in business.
- **Store opening momentum continues:** Jubilant opened 59/193 Domino's net stores in Q3/9MFY23 vs. 207 stores in FY22 and 25 in FY21, a strong opening during the last 18-24 months. Domino's stores in India stand at 1,760 across 387 cities (50 and 43 cities addition in 9MFY23 and FY22). Dunkin and Ekdum did not add any more and remained at 24 and 6 stores. While Hong's Kitchen saw closure of 2 stores (at 12 stores). Popeye's store addition was 4, to reach 12 stores, with presence remaining in one city. Deeper penetration was the theme for the last 18-24 months for Jubilant. Company remains positive for strong store opening in FY24/FY25 too but we see risk in that guidance.
- **PBT contracted by 35% YoY:** GM contracted by 213/78bps YoY QoQ to 75.5%. Without the assistance of price increase, RM inflation impacted GM fully (covered earlier). The company is also not taking price hike (weak sentiment); hence, GM recovery will depend on RM normalisation. Employee/other expenses were up 24/12% YoY. EBITDA margin dipped by 450bps to 22% (26.6% in Q3FY22, 24.3% in Q2FY23) vs. HSIE's 24%. EBITDA contracted by 9%. PBT (better metric post IND AS) declined by 35% YoY, owing to higher depreciation and lower other income.
- **Call takeaways:** (1) LFL growth is purely order driven, demand was very weak in November, partially recovered in Dec/Jan. (2) Company's top priority is to accelerate LFL growth, and it launched entry level menu at INR 49. (3) No price hike likely in the near term. (4) Dine-in mix will improve in FY24/25. (5) EBITDA margin to remain in the range of 23-25%.

Quarterly/annual financial summary

(INR mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	13,166	11,935	10.3	12,868	2.3	43,961	51,643	59,358	68,102
EBITDA	2,900	3,174	(8.6)	3,125	(7.2)	11,088	11,852	14,175	16,488
APAT	976	1,466	(33.4)	1,277	(23.6)	4,586	4,704	5,738	6,996
EPS (INR)	1.48	2.22	(33.4)	1.94	(23.6)	7.0	7.1	8.7	10.6
P/E (x)						66.2	64.5	52.9	43.4
EV / EBITDA (x)						36.2	33.5	27.3	22.8
RoCE (%)						28.4	25.2	28.7	34.6

Source: Company, HSIE Research

REDUCE

CMP (as on 01 Feb 2023)	INR 456
Target Price	INR 475
NIFTY	17,616

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 525	INR 475
EPS %	FY23E	FY24E
	-12%	-12%

KEY STOCK DATA

Bloomberg code	JUBI IN
No. of Shares (mn)	660
MCap (INR bn) / (\$ mn)	301/3,678
6m avg traded value (INR mn)	1,734
52 Week high / low	INR 707/441

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(26.4)	(18.4)	(33.7)
Relative (%)	(24.1)	(21.2)	(35.1)

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	41.94	41.94
FIs & Local MFs	19.94	20.89
FPIs	28.66	26.77
Public & Others	9.46	10.40
Pledged Shares	0.70	0.70

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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