Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Jubilant Foodworks Ltd

Disappointing Q3; new initiatives to drive growth

Consumer Discretionary	Sharekhan code: JUBLFOOD

Reco/View: Buy	↔	CMP: **Rs. 457**	Price Target: **Rs. 600**	↓

↑ 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 25.10

Updated Dec 08, 2022

Medium Risk

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

Source: Morningstar

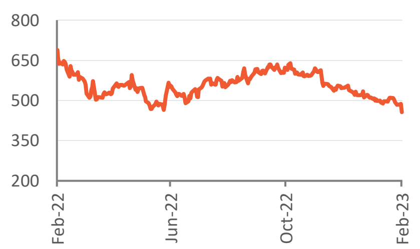
Company details

Market cap:	Rs. 30,155 cr
52-week high/low:	Rs. 707 / 441
NSE volume: (No of shares)	29.7 lakh
BSE code:	533155
NSE code:	JUBLFOOD
Free float: (No of shares)	38.3 cr

Shareholding (%)

Promoters	41.9
FII	27.3
DII	20.9
Others	9.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.6	-25.0	-20.3	-33.6
Relative to Sensex	-7.2	-23.1	-22.7	-35.1

Sharekhan Research, Bloomberg

Summary

- Jubilant Foodworks Limited (JFL) posted disappointing numbers in Q3FY23 with a flat like-for-like (LFL) sales, while gross margins and EBIDTA margins declining by 213 bps and 457 bps, y-o-y respectively resulting in a 35% y-o-y decline in PAT to Rs. 89 crore.
- Company is focusing on improving LFL growth through higher dine-in sales. It has launched Everyday value range at Rs. 49 and is improving store ambience to attract more customers. Targets LFL sales growth of 6-8% in the coming years.
- New store addition and change in focus to dine-in business is unlikely to have any material impact on margins. Expects EBIDTA margins to recover to 25% as raw material inflation recedes.
- Stock has corrected by 45% from its high and is currently trading at 67.7x/46.1x/34.7x its FY2023E/FY2024E/FY2025E earnings. In view of long-term growth prospects, we maintain a Buy recommendation on the stock with revised PT of Rs. 600.

Jubilant Foodworks Limited (JFL) posted disappointing performance in the Q3FY2023 with revenues growing by 10% y-o-y to Rs. 1,316.6 crore largely led by new store additions, while the LFL sales growth moderated to 0.3% during the quarter (November witnessed sharp slowdown in sales). Higher input prices and lower ticket orders, led to 213 bps y-o-y decline in gross margins to 75.5%, while EBITDA margins declined by 457 bps y-o-y to 22% due to higher employee and other expenses on account of new stores. Higher interest expense & higher depreciation led to 35% y-o-y decline in adjusted PAT to Rs.89 crore. Depreciation during the quarter stood at Rs. 130 crore out of which 70% of depreciation was towards new store addition and refurbishment of existing stores while there was one time depreciation charge of Rs. 25-30 crore. For 9MFY2023, revenues grew by 21.1% y-o-y to Rs. 3,843.7 crore, EBIDTA margins decreased by 210 bps y-o-y to 23.6% and PAT stood flat at Rs. 329 crore. The company added 73 stores in Q3 and 221 stores (193 net stores) were added in 9MFY23. The company is focusing on dine-in business to improve its LFL sales growth in the coming years. It will be doing capex of Rs. 650-700 crore towards new store additions and developing a strong back-end in the coming years.

Key positives

- Delivery channel sales grew by ~10% as orders rose.
- Store addition stood strong at 73 new stores (60 new Dominos stores opened).
- Enrolment to the loyalty programme – Domino's cheesy reward – crossed 10.6 million since its launch in May 2022 (loyalty order contribution reach 39% in December 2022).
- Expanded Popeyes network with launch of one store in Chennai in January 2023.

Key negatives

- LFL sales growth moderated to 0.3%.
- Gross margin decreased by 213 bps y-o-y to 75.5%, affected by higher input cost.

Management Commentary

- Company is eyeing untapped customers, driving higher sales through dine-in platform and increase in frequency of ordering under loyalty programme to improve LFL growth in the coming years (targets 6-8% LFL growth in the coming years).
- The company has adopted a two-fold strategy to drive accelerated growth in dine in orders. It has introduced every-day value range at Rs. 49 menu (buy 2 items to avail the offer) and improve the store experience/ambience to improve dine-in sales in the coming years. Targets dine-in sales contribution to improve to 40% from current 35-37%.
- JFL's management has maintained its strong store expansion strategy. JFL has maintained its target to add 250+ new Domino's stores and 40-45 Popeyes stores in next 12-18 months.
- Capex in FY2023 is estimated at Rs. 650-700 crore and similar capex is expected to be incurred in FY2024. According to the management, bulk of capex would go in store expansion (70%) and establishment of new commissionaires (20%).
- The company is working towards reducing wastage and other cost saving measures to protect the EBITDA margin. JFL targets 23-25% EBITDA margins (post IND-AS) in the medium term.

Revision in estimates – We have reduced our earnings estimates for FY2023, FY2024 and FY2025 to factor in below par performance in Q3, lower LFL sales growth and lower EBIDTA margins than earlier expected. We have also considered higher depreciation to factor in strong capex plan in the next two years.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 600: Though discretionary demand is expected to remain uncertain in the near term, the company's renewed strategies would help LFL growth to gradually improve ahead. We like JFL's strategy of investing in core and new ventures to scale up business growth and revenue without comprising on profitability in the long run. A 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. The stock has corrected by 45% from its high and is 67.7x/46.1x/34.7x its FY2023E/FY2024E/FY2025E earnings. We maintain our Buy rating on the stock with a revised price target of Rs. 600 (in-line with reduction in the earnings estimates).

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

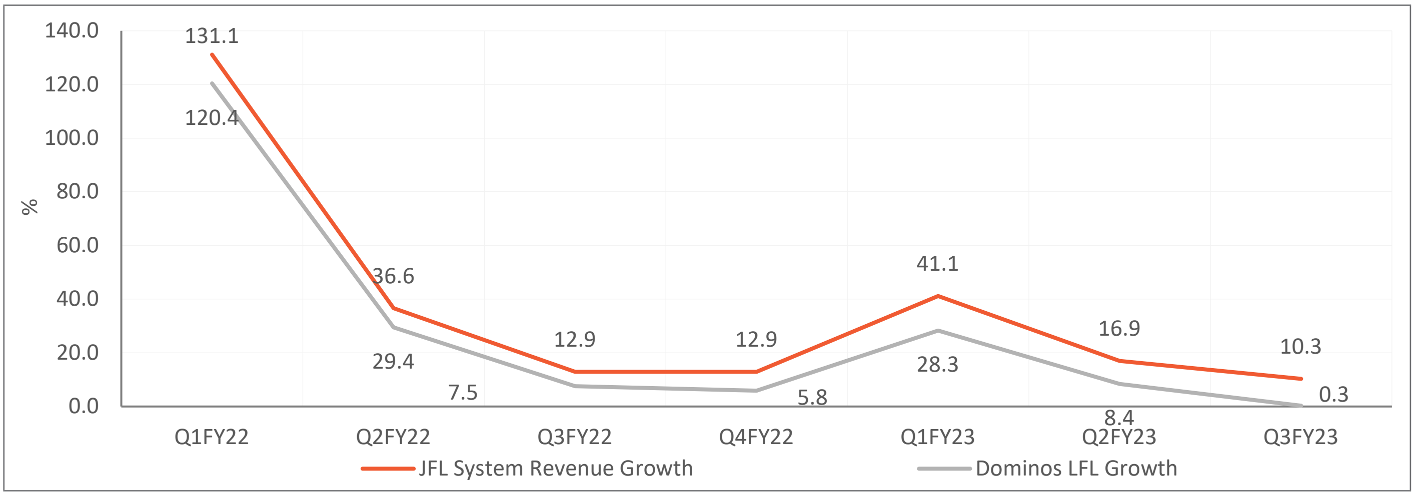
Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	3,269	4,331	5,100	6,182	7,369
EBITDA Margin (%)	23.5	25.5	23.5	24.1	24.7
Adjusted PAT	234	445	445	654	869
Adjusted EPS (Rs.)	3.5	6.7	6.7	9.9	13.2
P/E (x)	-	67.8	67.7	46.1	34.7
P/B (x)	20.1	14.3	12.2	9.9	7.9
EV/EBITDA (x)	40.7	28.5	25.3	20.2	16.3
RoNW (%)	17.4	24.7	19.5	23.7	25.3
RoCE (%)	16.0	21.3	18.7	22.4	24.9

Source: Company; Sharekhan estimates

Muted Q3

JFL's revenue grew by 10.3% y-o-y to Rs. 1,317 crore, with like-for-like sales growth at 0.3% impacted by a challenging demand environment. The delivery channel registered 9.9% y-o-y growth led by orders partially offset by marginal decline in ticket, while the dine-in and takeaway channels combined registered 9.8% y-o-y growth driven by increase in ticket and orders. In Sri Lanka, the company registered system sales growth of 24.9% y-o-y; while in Bangladesh, system sales grew by 44.7% y-o-y. Higher raw material inflation and lower ticket orders led to a 213 bps y-o-y decline in gross margin to 75.5%. EBITDA margin fell by 457 bps y-o-y due to decline in gross margins and higher employee expenses and increased ad spends. EBITDA declined by 8.6% y-o-y to Rs. 290 crore. Higher interest expense & higher depreciation led to 35% y-o-y decline in adjusted PAT to Rs. 89 crore. The company added 73 new stores in Q3FY2023, ending the quarter with 1,874 stores across all brands and all markets.

Quarterly revenue growth and Domino's LFL trend

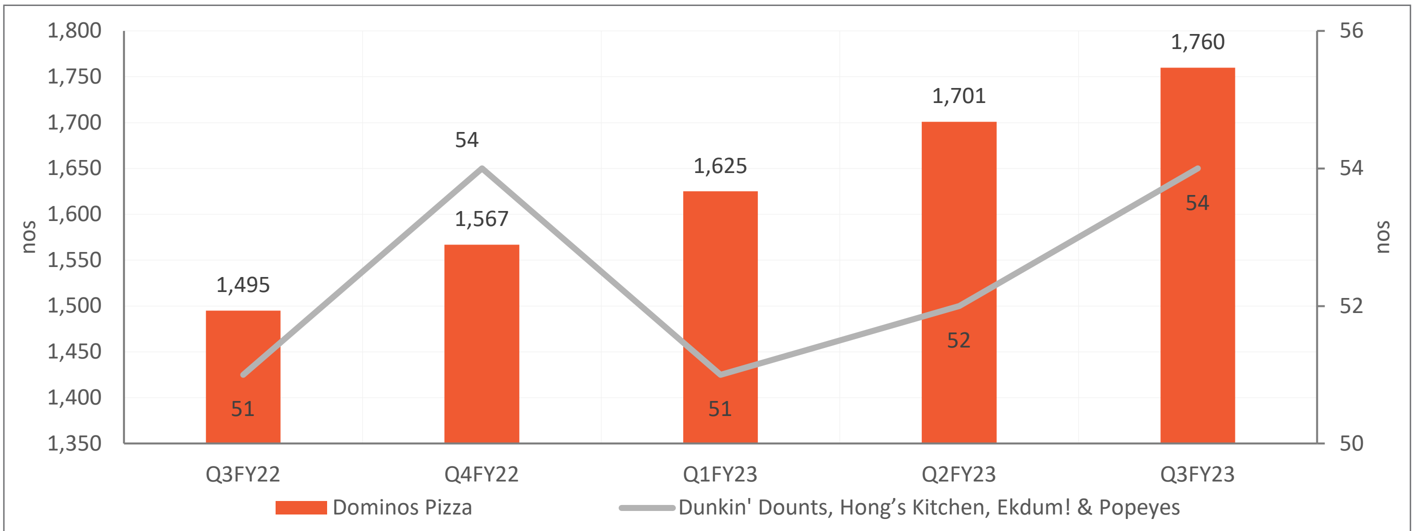


Source: Sharekhan Research

Domestic network expansion continued

JFL opened 73 new stores in India during Q3FY2023 across brands and markets. During the quarter, Domino's pizza network expanded by 60 stores, taking the total store count to 1,760 stores across 387 cities. Popeyes network grew by four stores, taking the total count to 12 as of Q3FY2023-end. The company expanded the Popeyes network with the launch of the first store in Chennai in January 2023. JFL has outlined a medium-term plan of reaching 3,000 Domino's stores in the next 2-3 years with target to open 250 stores for Domino's India in next 12-18 month. The company also targets to open 40-50 stores for Popeyes India in next 12-18 months.

JFL's domestic store network

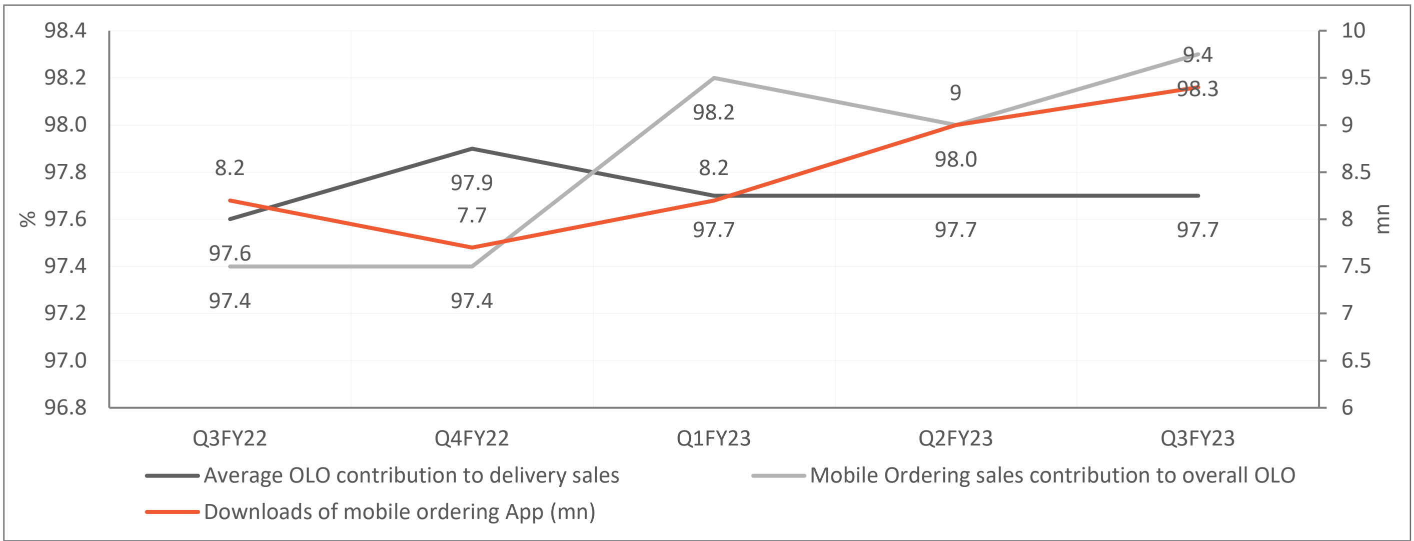


Source: Sharekhan Research

Digital and marketing focus to aid growth

Average online orderings' (OLO) contribution to delivery sales stood flat at 97.7% in Q3FY2023 against 97.6% in Q3FY2022. Mobile ordering contribution to overall OLO improved to 98.3% in Q3FY2023 versus 97.4% in Q3FY2022. App downloads during the quarter stood at 9.4 million (highest for a quarter). Enrolment to JFL's loyalty programme – Domino's Cheesy Rewards – crossed 10.6 million since its launch in May 2022 and order contribution reached 39% in December 2022. The MAU for the quarter at 11.3 million registered a 22.8% growth.

Online ordering quarterly trend



Source: Sharekhan Research

International business delivered strong growth despite uncertainties

Domino's Sri Lanka reported strong system sales growth of 24.9% y-o-y despite tough economic conditions, driven by growth in both dine-in and takeaway channels. The company opened seven new stores during the quarter in Sri Lanka and is now serving guests across five out of nine provinces through 47 stores in 28 cities. Domino's Bangladesh reported robust system sales growth of 44.7% y-o-y, with delivery sales growth at 43% y-o-y and takeaway sales growth at 53% y-o-y. Own app contribution to delivery sales increased to 79% in Q3FY2023 from 65% in Q3FY2022. Domino's Bangladesh opened two new stores during the quarter, taking the total store count to 13.

JFL's global store network

	India	Sri Lanka and Bangladesh	DP Eurasia	Total
Restaurants at the end of the period	1,814	60	859	2,733

Source: Company; Sharekhan Research

Key concall highlights

- **Volatile demand environment in Q3:** Demand was uncertain in Q3 with October was strong, November witnessed a sharp slowdown and December saw sales much better compared to November. Uncertainty in demand continued in January and the company is focusing on tapping the untapped customers, driving higher sales through dine-in platform and increase in frequency of ordering under loyalty programme to improve LFL growth in the coming years.
- **Focus on dine-in to improve LFL sales growth ahead:** The company has adopted a two-fold strategy to drive accelerated growth in dine in orders. As per the strategy, new design for new stores to enhance customer experience and launch of dine-in only promotions would aid dine-in segment's growth. It has introduced every-day value at Rs. 49 menu (buy 2 items to avail the offer) and improve the store experience/ambience to improve dine-in sales in the coming years. Further delivery channel growth is expected to be driven by cheesy rewards, app downloads and app orders. JFL targets dine-in mix to improve to 40% in the near term.
- **Gross margin trend to be driven by commodity prices:** Gross margin contraction of ~200 bps y-o-y in Q3FY2023 can be attributed to increased wheat flour prices, two rounds of milk price increase and higher labour charges in key states. Margin is expected to stabilize in a few quarters with stabilisation in input cost inflation in cheese,

wheat and other raw materials. The management does not anticipate any further price hikes as the company is looking forward to bring back volumes. As per the management, new product addition will not be margin dilutive and even though Popeyes is low margin business but current contribution to business is very low so will not have any material impact on the overall margins.

- **EBITDA margin targeted at 23-25% in medium term:** As stated by the management, the impact of new store addition on EBITDA margins is minimal at 15-20 bps. Higher decline in EBITDA margin is due to higher ad spends and sharp fall in demand. The company is working towards reducing wastage and other cost saving measures to protect the EBITDA margin. JFL targets 23-25% EBITDA margin (post IND-AS) in the medium term.
- **Improve LFL growth for Dominos:** Dominos LFL growth is top priority for the company. JFL targets LFL growth at 6-8%.
- **Store addition to continue:** The company added 73 stores in Q3 and 221 stores (193 net additions) were added in 9MFY23. The company would continue to expand in tier 2-3 cities where the payback is less than two years. However, contribution wise, tier 1 would continue to remain high contributor given the higher density of stores in these cities.
- **Capex of ~Rs. 650-700 crore:** Capex in FY2023 is estimated at Rs. 650-700 crore and similar capex is expected to be incurred in FY2024. According to the management, bulk of capex would go in store expansion (70%) and establishment of new commissionaires (20%). JFL plans to establish its next commissionary in Bangalore with capex of Rs. 250 crore which is expected to be operational by Q1FY24 and then another expected in Mumbai. A small contribution of capex would be towards digital followed by reimaging of stores.
- **Strategies & priorities for growth:** The company has outlined four key focus areas to drive sustained profitable growth.
  - **Customer & market first:** The company aims to build multi-brand and multi-cuisine portfolio to serve its customers.
  - **Data & technology forward:** Improvement in data and technology would help the company to understand its customers better and improve automation.
  - **Operational excellence:** JFL aims to improve its efficiency in multiple areas including kitchen operation to supply chain logistics.
  - **Foundation of people & culture:** Better organization culture would be a prerequisite for the company to achieve the other focus areas.

Results (Standalone) Rs cr

Particulars	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
Net Revenue	**1,316.6**	**1,193.5**	**10.3**	**1,286.8**	**2.3**
Materials	322.9	267.3	20.8	305.6	5.7
Employee cost	242.4	195.7	23.9	225.7	7.4
Other expenditure	461.3	413.2	11.6	443.0	4.1
Total expenditure	1,026.6	876.1	17.2	974.3	5.4
EBITDA	**290.0**	**317.4**	**-8.6**	**312.5**	**-7.2**
Other income	9.3	10.9	-14.5	10.3	-9.2
Interest expense	50.1	44.6	12.4	48.5	3.3
Depreciation	129.8	100.6	29.0	112.3	15.6
PBT	**119.4**	**183.1**	**-34.8**	**161.9**	**-26.2**
Tax	30.7	45.7	-32.8	42.8	-28.2
Adjusted PAT	**88.7**	**137.4**	**-35.4**	**119.2**	**-25.5**
Extraordinary item	0.0	-0.1	-	0.0	-
Reported PAT	**88.7**	**137.3**	**-35.4**	**119.2**	**-25.5**
EPS (Rs.)	1.3	2.1	-35.4	1.8	-25.5
			bps		**bps**
GPM (%)	75.5	77.6	-213	76.2	-77
EBITDA margin (%)	22.0	26.6	-457	24.3	-226
NPM (%)	6.7	11.5	-478	9.3	-252
Tax rate (%)	25.7	25.0	75	26.4	-71

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 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.

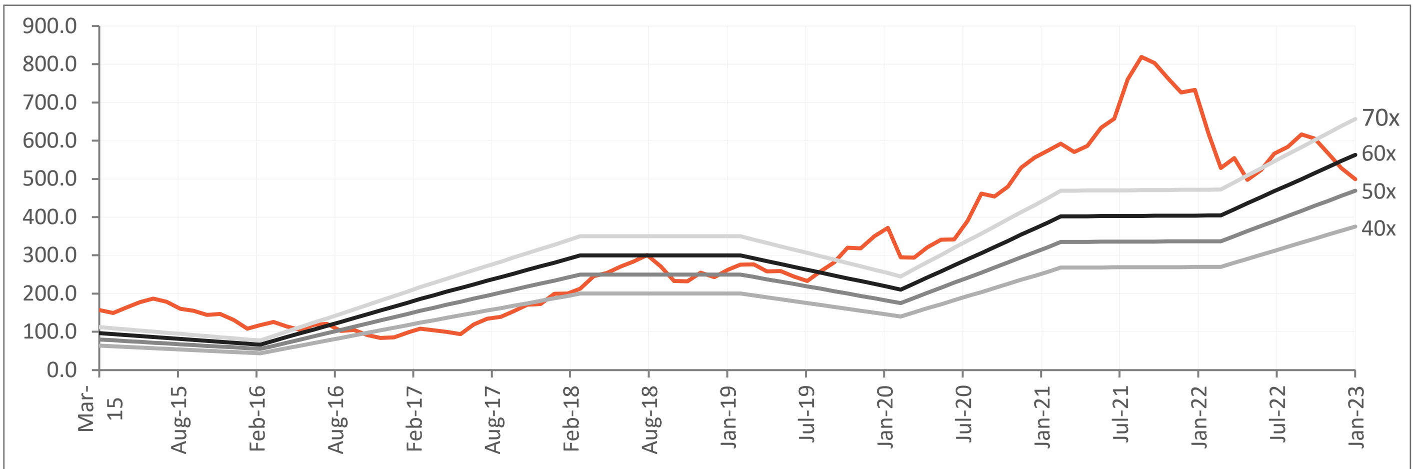
■ Company Outlook – Long term growth prospects intact

A large shift towards organised players, frequent ordering, better penetration of the delivery model in tier 2/3 towns and a 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. In the near term the company is focusing on improving LFL sales growth by 6-8% through increasing sales on Dine-in channel. 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 recover to 25% from the current 22-23% over the next two to three years.

■ Valuation – Maintain Buy with a revised PT of Rs. 600

Though discretionary demand is expected to remain uncertain in the near term, the company's renewed strategies would help LFL growth to gradually improve ahead. We like JFL's strategy of investing in core and new ventures to scale up business growth and revenue without comprising on profitability in the long run. A 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. The stock has corrected by 45% from its high and is 67.7x/46.1x/34.7x its FY2023E/FY2024E/FY2025E earnings. We maintain our Buy rating on the stock with a revised price target of Rs. 600 (in-line with reduction in the earnings estimates).

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Restaurant Brands Asia	-	-	-	50.9	27.2	13.5	-	-	7.1
Devyani International	-	59.0	39.8	38.2	25.5	17.5	15.4	21.4	26.8
Jubilant Foodworks	67.8	67.7	46.1	28.5	25.3	20.2	21.3	18.7	22.4

Source: Company, Sharekhan estimates

About company

JFL is one of India's largest food service companies and is part of the Jubilant Bhartia Group. In India, JFL's network comprises 1,760 Domino's Pizza restaurants, spanning across 387 cities and 24 Dunkin' restaurants across eight cities. In 2019, the company entered the Chinese cuisine segment with its first-owned restaurant brand, Hong's Kitchen, which now has 12 restaurants across four cities in India. In 2020, JFL 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 12 Popeyes® restaurants in Bengaluru. In Sri Lanka and Bangladesh, the company operates through its 100% owned subsidiary which currently has 47 and 13 restaurants respectively. The company has also forayed into the ready-to-cook segment with a range of sauces, gravies, and pastes under the Chef Boss brand.

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
Sameer Khetarpal	CEO
Ashish Goenka	CFO
Mona Aggarwal	Company Secretary & Compliance Officer

Source: Company Website

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	BlackRock Inc	1.84
5	Vanguard Group Inc	1.84
6	Kotak Mahindra AMC	1.8
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

Sharekhan

by BNP PARIBAS

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