

26 October 2023

India | Equity Research | Q2FY24 results review

## Jubilant Foodworks

Consumer Staples &amp; Discretionary

### The glass half full or half empty? It's all about perspectives!

Key positives in the 2QFY24 result include (1) volume-led revenue growth, (2) continued sequential improvement in LFL ADS, (3) on-track ramping-up of Popeyes with positive consumer feedback (to add 30 stores in FY24), (4) healthy traction in the loyalty program (enrolments up 16% QoQ, 50% revenue share) and (5) transitioning from 4 region structure to 7; this will lead to better agility and sharper execution/regionalisation. That said, we do reckon that the recovery in the dine-in business is uninspiring, while operating margins remained under stress due to negative operating leverage. However, given that all the levers for growth (20-minute delivery, store-re-imagination, loyalty programme, menu regionalization) are in advanced stages of completion, we maintain our positive stance. **BUY**.

### Subdued dine-in continues to cast shadow on like-for-like revenue growth

Net sales were up 5% YoY to INR 13bn. Like-for-like growth continues to be negative at -1.3% YoY, while retail expansion stood at 11% YoY. Like for like ADS for matured stores has come down to 1.4% QoQ to INR 81,658 (vs ~+3% QoQ in 1QFY24). Overall revenue growth was order (volume) led while decline in ticket size has been arrested (continues to be positive since last two quarters). Revenue from delivery continues to outperform (8% YoY) while that from dine-in and takeaway declined 3% YoY to INR 4.6bn. Further, it has launched (1) mutton and prawn pizzas for the first time in East India, (2) coolers range of beverage (three flavour) in Popeyes and (3) seven new starters by collaborating with celebrity chef under 'Taste of Tibet' in Hong's Kitchen. In international market, overall system sales growth in Sri Lanka and Bangladesh stood at healthy 2% and 86%, respectively.

### Profitability impacted by negative operating leverage

Gross margin expanded marginally by 15bps to 76% (+38bps QOQ) led by sharpening of discount offered to customers through data analytics, higher penetration of combos and cost-effective sourcing of the raw material. EBITDA margin contracted 342bps to 21% (-24bps QoQ) due to negative operating leverage. EBITDA declined 10% YoY to INR 2.8bn, while adjusted PAT declined at a higher rate of 39% YoY (to INR 721mn) due to 23% YoY increase in depreciation (added 187 stores over last four quarters).

### Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	43,961	51,582	56,109	67,003
EBITDA	11,088	11,516	12,753	16,069
EBITDA Margin (%)	25.2	22.3	22.7	24.0
Net Profit	4,358	3,792	4,175	6,101
EPS (Rs)	6.3	5.3	6.3	9.1
EPS % Chg YoY	81.4	(16.2)	17.8	45.6
P/E (x)	80.1	92.8	84.6	58.1
EV/EBITDA (x)	47.2	50.1	45.0	33.2
RoCE (%)	20.5	15.6	14.0	15.6
RoE (%)	25.7	19.0	16.9	19.2

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#### Market Data

Market Cap (INR)	349bn
Market Cap (USD)	4,198mn
Bloomberg Code	JUBI IN
Reuters Code	JUBI.BO
52-week Range (INR)	628 /412
Free Float (%)	58.0
ADTV-3M (mn) (USD)	18.1

Price Performance (%)	3m	6m	12m
Absolute	11.0	17.8	(10.3)
Relative to Sensex	14.1	10.2	(19.4)

ESG Disclosure	2021	2022	Change
ESG score	39.9	39.9	-
Environment	15.9	15.9	-
Social	25.0	25.0	-
Governance	78.6	78.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(6.3)	(5.5)
EBITDA	(7.7)	(1.8)
EPS	(10.8)	(3.2)

#### Previous Reports

26-07-2023: [Q1FY24 results review](#)

19-05-2023: [Company update](#)

### Other highlights

(1) In Q2FY24, (a) it added 50 new Domino's stores (total: 1,888) and entered 3 new cities (total 397), (b) added five stores in Popeyes (total: 22); entered two new cities (Hyderabad and Madurai), (c) In Hongs Kitchen, it added 4 stores taking the total to 18 stores across three cities. (2) OLO to delivery sales was 98.2% with 98.8% of OLO done from mobile. (3) Quarterly app downloads continued to be strong at 10.6mn. (4) Domino's Cheesy Reward is getting decent traction, having crossed 19.5 mn (+16% QoQ) since its launch in May 2022 (contributing 50% of total order). (5) Transitioned from a four region structure to seven region structure; this will enable sharper on-ground execution (regional teams will be closer to the store) and better agility (reduced hierarchy between consumer facing frontline teams and regional leadership).

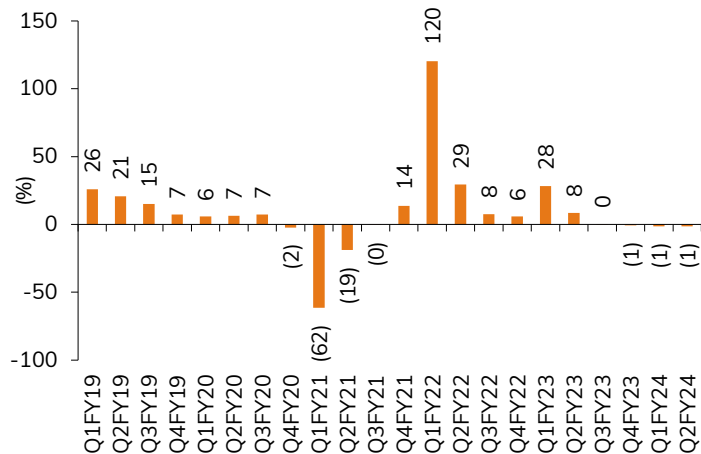
### Valuations and risks

We have cut our FY24E and FY25E earnings estimates by ~11% and 3%, modelling revenue / EBITDA / PAT CAGR of 14 / 18 / 27 (%) over FY23-25E. Maintain **BUY** with a revised DCF-based target price of INR 620 (was INR 590). Key downside risks are raw material costs turning inflationary and increase in competitive intensity.

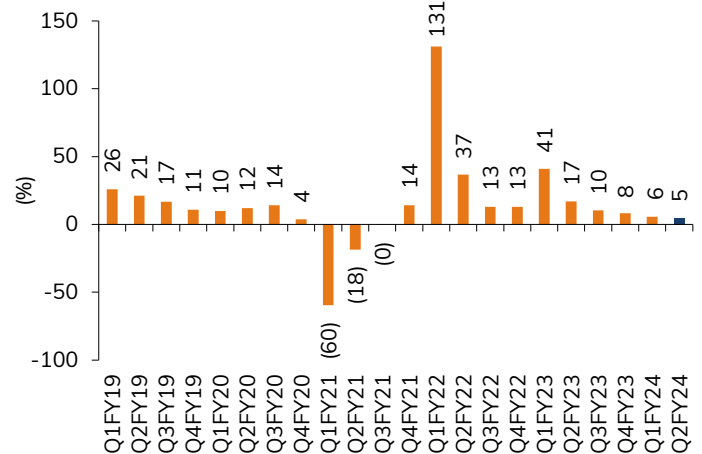
#### Exhibit 1: Q2FY24 results review

INR mn	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	YTD FY24	YTD FY23	YoY (%)
<b>LFL Growth (%)</b>	<b>(1.3)</b>	<b>8.4</b>	<b>-970 bps</b>	<b>(1.3)</b>	<b>0 bps</b>	<b>(1.3)</b>	<b>18.4</b>	<b>-1965 bps</b>
Number of Dominos stores	1,888	1,701	187	1,838	50	1,816	1,567	249
<b>Net Revenues</b>	<b>13,448</b>	<b>12,868</b>	<b>5</b>	<b>13,097</b>	<b>3</b>	<b>26,545</b>	<b>25,270</b>	<b>5</b>
COGS	(3,174)	(3,056)	4	(3,141)	1	(6,314)	(5,945)	6
<b>Gross profit</b>	<b>10,275</b>	<b>9,811</b>	<b>5</b>	<b>9,956</b>	<b>3</b>	<b>20,231</b>	<b>19,325</b>	<b>5</b>
Staff cost	(2,535)	(2,257)	12	(2,473)	3	(5,008)	(4,298)	17
Other opex	(4,932)	(4,430)	11	(4,719)	5	(9,651)	(8,857)	9
<b>Total opex</b>	<b>(7,468)</b>	<b>(6,686)</b>	<b>12</b>	<b>(7,192)</b>	<b>4</b>	<b>(14,660)</b>	<b>(13,155)</b>	<b>11</b>
<b>EBITDA</b>	<b>2,807</b>	<b>3,125</b>	<b>(10)</b>	<b>2,764</b>	<b>2</b>	<b>5,571</b>	<b>6,170</b>	<b>(10)</b>
Other income	69	103	(33)	91	(24)	160	209	(24)
Finance Cost	(534)	(485)		(513)		(1,047)	(945)	
D&A	(1,379)	(1,123)	23	(1,328)	4	(2,707)	(2,173)	25
<b>PBT</b>	<b>963</b>	<b>1,619</b>	<b>(41)</b>	<b>1,014</b>	<b>(5)</b>	<b>1,977</b>	<b>3,261</b>	<b>(39)</b>
Tax	(241)	(428)	(44)	(262)	(8)	(503)	(793)	(37)
<b>Recurring PAT</b>	<b>721</b>	<b>1,192</b>	<b>(39)</b>	<b>752</b>	<b>(4)</b>	<b>1,473</b>	<b>2,468</b>	<b>(40)</b>
Extraordinary items	-	-		-		-	(266)	
<b>Net profit (reported)</b>	<b>721</b>	<b>1,192</b>	<b>(39)</b>	<b>752</b>	<b>(4)</b>	<b>1,473</b>	<b>2,201</b>	<b>(33)</b>
<b>EPS</b>	<b>1.1</b>	<b>1.8</b>	<b>(39)</b>	<b>1.1</b>	<b>(4)</b>	<b>2.2</b>	<b>3.7</b>	<b>(40)</b>
<b>Costs as a % of sales</b>								
COGS	23.6	23.8	-16 bps	24.0	-39 bps	23.8	23.5	26 bps
<b>Gross margin (%)</b>	<b>76.4</b>	<b>76.2</b>	<b>15 bps</b>	<b>76.0</b>	<b>38 bps</b>	<b>76.2</b>	<b>76.5</b>	<b>-27 bps</b>
Staff cost	18.9	17.5	131 bps	18.9	-3 bps	18.9	17.0	185 bps
Other opex	36.7	34.4	225 bps	36.0	64 bps	36.4	35.0	130 bps
<b>EBITDA margin (%)</b>	<b>20.9</b>	<b>24.3</b>	<b>-342 bps</b>	<b>21.1</b>	<b>-24 bps</b>	<b>21.0</b>	<b>24.4</b>	<b>-343 bps</b>
Income tax rate (%)	25.1	26.4	-136 bps	25.8	-79 bps	25.5	24.3	113 bps

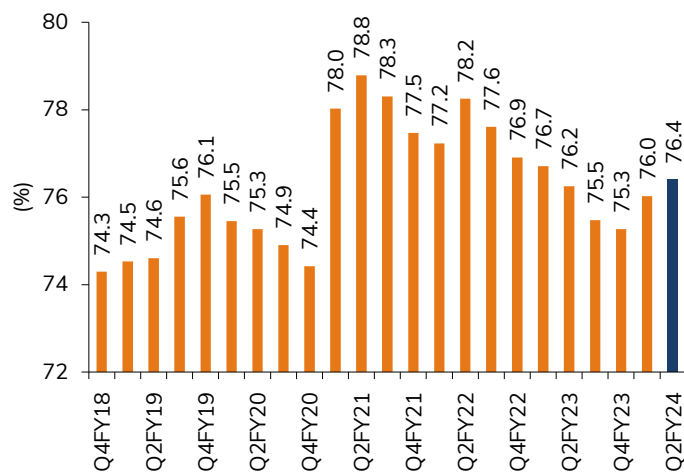
Source: Company data, I-Sec research

**Exhibit 2: LFL growth**

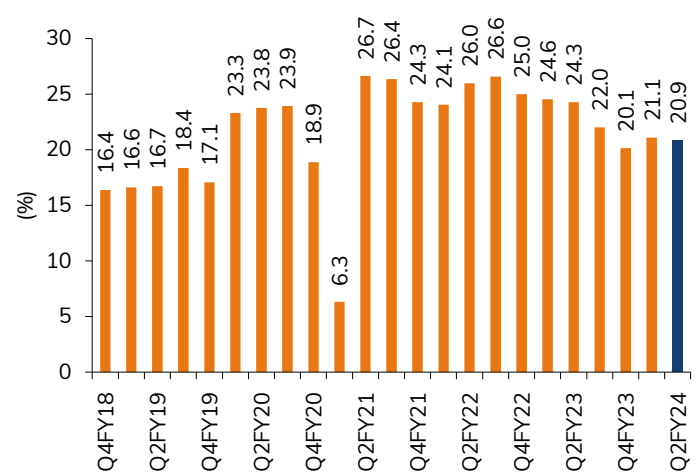
Source: Company data, I-Sec research

**Exhibit 3: Revenue growth**

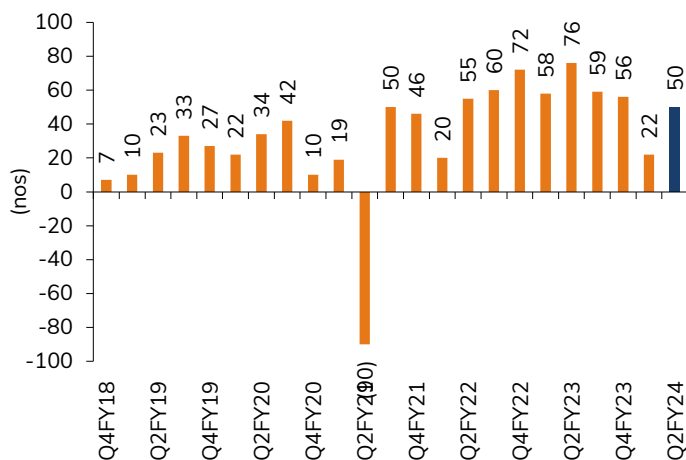
Source: Company data, I-Sec research

**Exhibit 4: Gross margin**

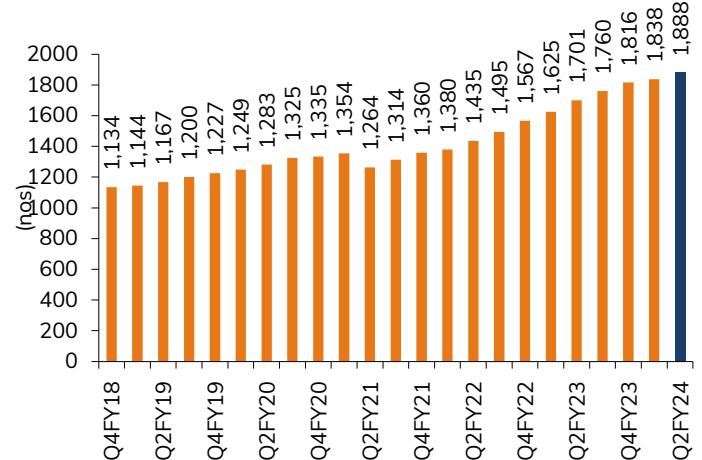
Source: Company data, I-Sec research

**Exhibit 5: EBITDA margin**

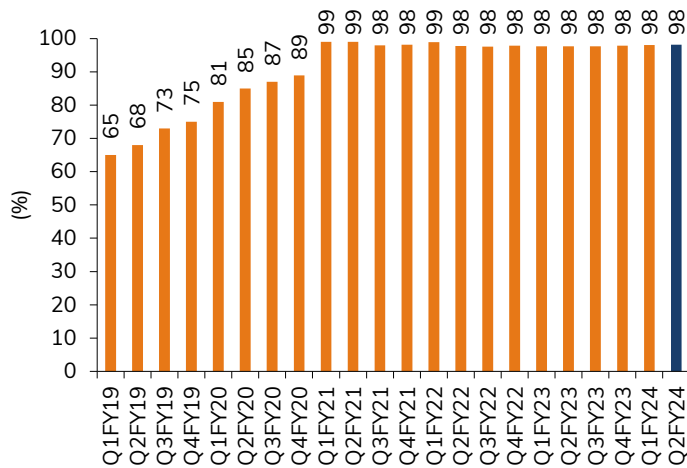
Source: Company data, I-Sec research

**Exhibit 6: Net store additions (Domino's)**

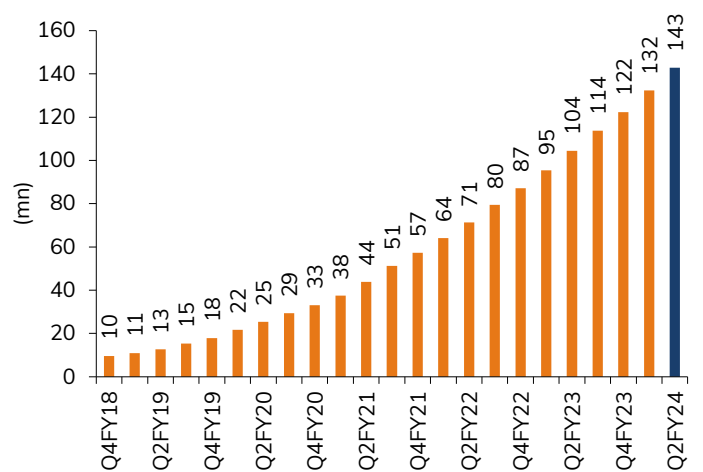
Source: Company data, I-Sec research

**Exhibit 7: Number of stores (Domino's)**

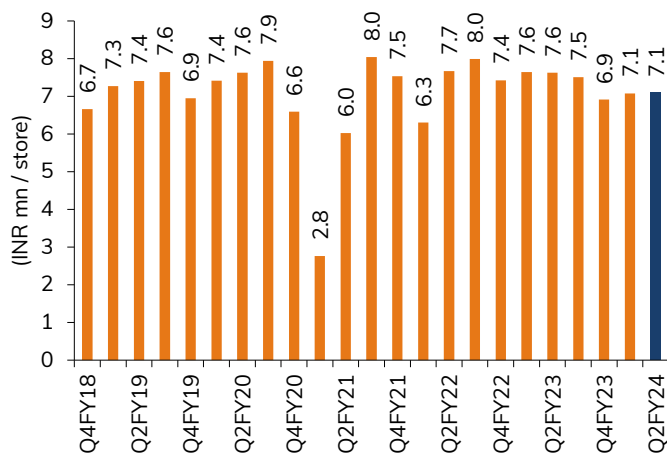
Source: Company data, I-Sec research

**Exhibit 8: Average OLO contribution to delivery sales**

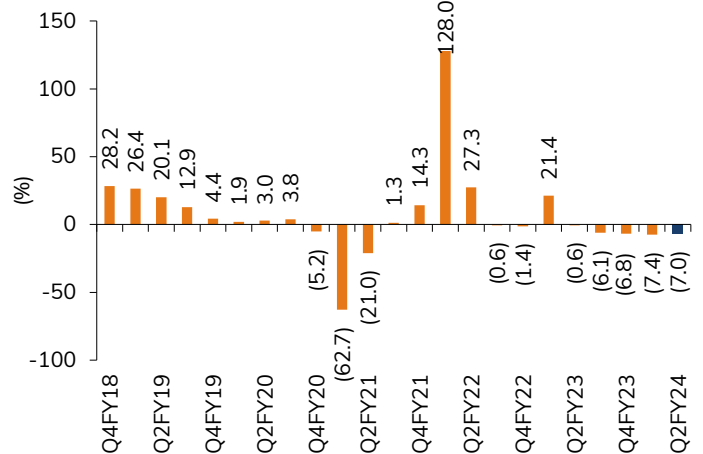
Source: Company data, I-Sec research

**Exhibit 9: Downloads of mobile ordering app (cumulative)**

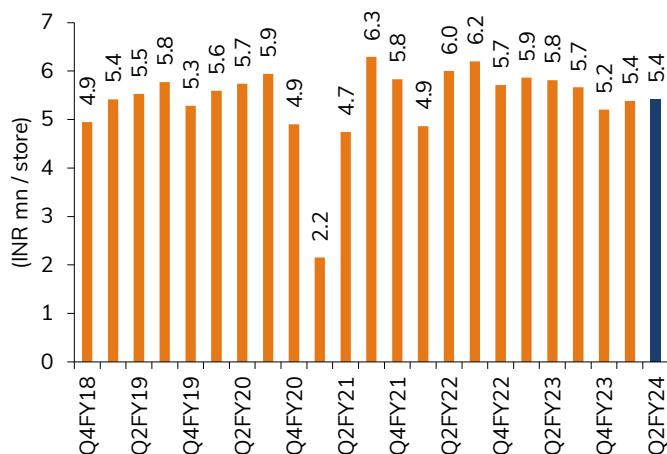
Source: Company data, I-Sec research

**Exhibit 10: Revenue per store**

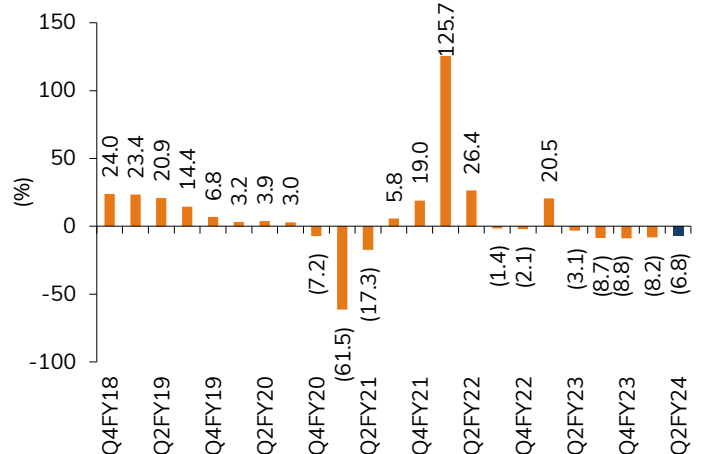
Source: Company data, I-Sec research

**Exhibit 11: Revenue per store growth**

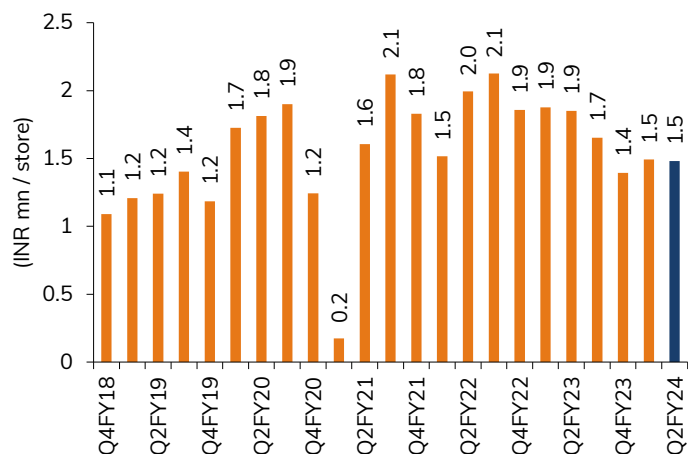
Source: Company data, I-Sec research

**Exhibit 12: Gross profit per store**

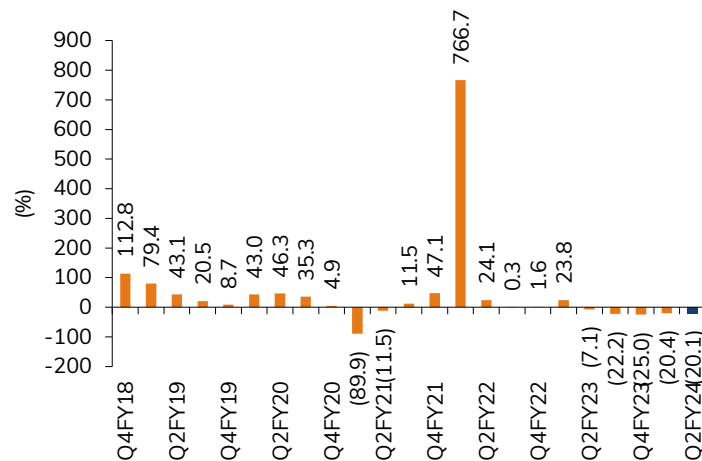
Source: Company data, I-Sec research

**Exhibit 13: Gross profit per store growth**

Source: Company data, I-Sec research

**Exhibit 14: EBITDA per store**

Source: Company data, I-Sec research

**Exhibit 15: EBITDA per store growth**

Source: Company data, I-Sec research

**Exhibit 16: Shareholding pattern**

%	Mar'23	Jun'23	Sep'23
Promoters	41.9	41.9	41.9
Institutional investors	47.3	47.7	48.5
MFs and others	15.6	16.0	17.4
Insurance	5.9	6.1	4.6
FII's	25.8	25.6	26.5
Others	10.8	10.4	9.6

Source: Bloomberg, I-Sec research

**Exhibit 17: Price chart**

Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 18: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	43,961	51,582	56,109	67,003
<b>Operating Expenses</b>	<b>32,873</b>	<b>40,067</b>	<b>43,357</b>	<b>50,934</b>
EBITDA	11,088	11,516	12,753	16,069
<b>EBITDA Margin (%)</b>	<b>25.2</b>	<b>22.3</b>	<b>22.7</b>	<b>24.0</b>
Depreciation & Amortization	3,931	4,859	5,623	6,629
EBIT	7,157	6,657	7,130	9,440
Interest expenditure	1,761	2,012	2,249	2,486
Other Non-operating Income	414	504	684	1,180
Recurring PBT	5,810	5,149	5,565	8,134
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Less: Taxes</b>	<b>1,452</b>	<b>1,357</b>	<b>1,391</b>	<b>2,032</b>
PAT	4,358	3,792	4,175	6,101
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(177)	(261)	-	-
Net Income (Reported)	4,181	3,530	4,175	6,101
<b>Net Income (Adjusted)</b>	<b>4,358</b>	<b>3,792</b>	<b>4,175</b>	<b>6,101</b>

Source Company data, I-Sec research

### Exhibit 19: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	9,224	6,858	15,747	21,377
of which cash & cash eqv.	5,634	2,569	11,748	16,829
Total Current Liabilities & Provisions	7,200	7,896	8,956	10,365
<b>Net Current Assets</b>	<b>2,024</b>	<b>(1,038)</b>	<b>6,792</b>	<b>11,011</b>
Investments	8,271	6,978	6,978	6,978
Net Fixed Assets	11,020	14,739	16,065	17,458
ROU Assets	16,346	20,143	22,516	24,888
Capital Work-in-Progress	465	1,838	1,838	1,838
Total Intangible Assets	-	-	-	-
Other assets	236	208	208	208
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>40,091</b>	<b>45,182</b>	<b>56,711</b>	<b>64,695</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>21,066</b>	<b>25,547</b>	<b>28,339</b>	<b>31,132</b>
<b>Deferred Tax Liability</b>	<b>(526)</b>	<b>(743)</b>	<b>(743)</b>	<b>(743)</b>
provisions	-	-	-	-
other Liabilities	5	10	10	10
Equity Share Capital	1,320	1,320	6,673	6,698
Reserves & Surplus	18,231	19,058	22,441	27,608
<b>Total Net Worth</b>	<b>19,551</b>	<b>20,378</b>	<b>29,114</b>	<b>34,306</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>40,091</b>	<b>45,182</b>	<b>56,711</b>	<b>64,695</b>

Source Company data, I-Sec research

### Exhibit 20: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	13,166	12,523	13,097	13,448
% growth (YOY)	10.3	8.2	5.6	4.5
EBITDA	2,900	2,522	2,764	2,807
Margin %	22.0	20.1	21.1	20.9
Other Income	93	195	91	69
Extraordinaries	-	(200)	-	-
Adjusted Net Profit	886	675	752	721

Source Company data, I-Sec research

### Exhibit 21: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>5,633</b>	<b>4,887</b>	<b>5,565</b>	<b>8,134</b>
Working Capital Changes	(410)	(83)	1,349	860
Capital Commitments	(3,913)	(7,934)	(4,039)	(4,626)
<b>Free Cashflow</b>	<b>1,575</b>	<b>(2,200)</b>	<b>3,513</b>	<b>4,389</b>
<b>Other investing cashflow</b>	<b>233</b>	<b>209</b>	<b>684</b>	<b>1,180</b>
Cashflow from Investing Activities	(6,542)	(5,949)	(5,727)	(5,818)
Issue of Share Capital	(370)	(344)	5,354	25
Interest Cost	(4)	(27)	-	-
Inc (Dec) in Borrowings	1,198	629	-	-
Dividend paid	(790)	(790)	(792)	(934)
Others	-	-	-	-
Cash flow from Financing Activities	6,193	(3,042)	7,354	1,883
<b>Chg. in Cash &amp; Bank balance</b>	<b>5,139</b>	<b>(3,256)</b>	<b>9,179</b>	<b>5,080</b>
Closing cash & balance	5,633	2,569	11,748	16,829

Source Company data, I-Sec research

### Exhibit 22: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	6.6	5.7	6.3	9.1
Adjusted EPS (Diluted)	6.3	5.3	6.3	9.1
Cash EPS	12.6	13.0	14.7	19.0
Dividend per share (DPS)	1.2	1.2	1.4	2.2
Book Value per share (BV)	29.6	30.7	43.6	51.2
Dividend Payout (%)	18.2	20.9	22.4	24.2
<b>Growth (%)</b>				
Net Sales	32.7	17.3	8.8	19.4
EBITDA	43.8	3.9	10.7	26.0
EPS (INR)	81.4	(16.2)	17.8	45.6
<b>Valuation Ratios (x)</b>				
P/E	80.1	92.8	84.6	58.1
P/CEPS	42.1	40.7	36.0	27.8
P/BV	17.9	17.3	12.1	10.3
EV / EBITDA	47.2	50.1	45.0	33.2
P / Sales	7.9	6.8	6.3	5.3
Dividend Yield (%)	0.2	0.2	0.3	0.4
<b>Operating Ratios</b>				
Gross Profit Margins (%)	77.5	75.8	76.3	77.3
EBITDA Margins (%)	25.2	22.3	22.7	24.0
Effective Tax Rate (%)	25.0	26.4	25.0	25.0
Net Profit Margins (%)	9.5	6.8	7.4	9.1
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.3)	(0.1)	(0.4)	(0.5)
Net Debt / EBITDA (x)	(0.5)	(0.2)	(0.9)	(1.0)
Fixed Asset Turnover (x)	2.3	2.2	2.0	2.0
Inventory Turnover Days	15	14	9	10
Receivables Days	2	2	2	2
Payables Days	51	44	45	47
<b>Profitability Ratios</b>				
RoCE (%)	20.5	15.6	14.0	15.6
RoE (%)	25.7	19.0	16.9	19.2
RoIC (%)	15.1	11.3	10.3	11.5

Source Company data, I-Sec research



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