

Jubilant FoodWorks

Estimate changes

TP change

Rating change



Bloomberg	JUBI IN
Equity Shares (m)	132
M.Cap.(INRb)/(USD\$b)	201.2 / 2.6
52-Week Range (INR)	1973 / 1078
1, 6, 12 Rel. Per (%)	3/20/38
12M Avg Val (INR M)	1708

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	39.3	25.9	41.6
Sales Gr. (%)	10.2	-34.0	60.7
EBITDA	8.8	5.1	9.4
EBITDA Margin (%)	22.3	19.6	22.5
Adj. PAT	2.8	0.8	3.4
Adj. EPS (INR)	22.5	6.1	25.6
EPS Gr. (%)	-6.5	-72.8	317.1
BV/Sh.(INR)	85.0	76.1	83.0

Ratios

RoE (%)	26.5	8.1	30.8
RoCE (%)	21.1	6.7	18.9
Payout (%)	31.1	174.5	61.0

Valuation

P/E (x)	67.6	248.6	59.6
P/BV (x)	17.9	20.0	18.4
EV/EBITDA (x)	23.9	41.3	22.0

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	41.9	41.9	41.9
DII	21.1	19.4	10.3
FII	31.1	32.8	39.0
Others	5.9	5.8	8.7

FII Includes depository receipts

CMP: INR1,524

TP: INR1,405 (-8%)

Downgrade to Neutral

Weak results, worsening outlook

- While 4QFY20 sales were in line with expectations, EBITDA and PAT were significantly below expectations.
- Extended lockdown, the economic implications of COVID-19 on discretionary consumption, a minimum wage increase, and 30% of sales generated from dine-ins were major concerns that more than offset market share gains in other restaurants and aggregators.
- While the longer term earnings outlook is attractive – and JUBI, with its delivery-focused business, has the right model among retailing peers in India – valuations of ~60x FY22 appear daunting from a one-year investment perspective. Downgrade to **Neutral**.

Sales and SSSG in-line; profitability significantly below expectation

- Jubilant FoodWorks (JUBI) reported 3.8% sales growth YoY** to INR9b (est.: INR9.1b), with SSSG of -3.4% YoY (est.: -3%). Like-for-like growth (year-over-year growth in sales of non-split restaurants opened before the previous financial year) stood at -2.3%.
- JUBI opened a total of 17 stores during the quarter: 13 for Domino's Pizza, 2 for Dunkin' Donuts, and 2 for Hong's Kitchen.
- Gross margins were down 160bp YoY** to 74.4%. Higher other expenses as a percentage of sales (+200bp YoY) and staff cost as a percentage of sales (+230bp YoY) were offset by lower rent costs as a percentage of sales (-780bp YoY). This led to EBITDA margin expansion of 180bp to 18.9%.
- EBITDA thus grew 14.8% YoY to INR1.7b (est.: INR2b).
- EBITDA for 4QFY20 (without the impact of Ind-AS 116) declined 59.8% YoY to INR593m, with the EBITDA margin at 6.6%.
- Adj. PAT declined 42.9% YoY to INR452m (est.: INR646m).
- The company reported an exceptional item of INR323m pertaining to a) provision for diminution in the value of the investment of INR200m in the Sri Lankan subsidiary and (b) COVID-19-led expenses of INR123m.

Highlights from management commentary

- Extended lockdown is resulting in an economic crisis.
- Heightened safety protocols and social distancing measures would be the new norm.
- In addition to zero-contact deliveries, JUBI has introduced the same service for takeaways as well. It is also planning for zero-contact dine-ins when dine-ins are finally allowed.

Valuation and view

- Our upgrade to BUY on JUBI in Nov'19 has worked very well, with the company outperforming ~20% v/s our coverage universe over this period. Its delivery-focused model makes the company a good investment candidate in the Indian Retail space as this enables it to circumvent the high rental and overhead burdens faced by the industry.

- However, the near-term outlook is bleak due to: a) extended lockdown, b) the economic implications of the lockdown, leading to weak macros and muted discretionary consumption, c) minimum wage increases, and d) 30% of sales coming from dine-ins. These factors would outweigh any market share gains due to the shrinking of the restaurant industry. Given the safety concerns, the return to erstwhile confidence levels even on delivery sales would be a gradual process. We cut our FY21/FY22 EPS estimates by a steep 75%/33% due to significant deterioration in the operating environment in the past one month, with the macro outlook not offering any comfort either. Downgrade to **Neutral**.

Quarterly standalone perf.

(INR m)

Y/E March	FY19				FY20				Std. FY19	Consol. FY20	FY20E 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
No of stores (Dominos)	1,144	1,167	1,200	1,227	1,249	1,283	1,325	1,335	1,227	1,335	1,355	
SSG (%)	25.9	20.5	14.6	6.0	4.1	4.9	5.9	-3.4	16.4	3.2	-3.0	
Net Sales	8,551	8,814	9,291	8,652	9,401	9,882	10,596	8,979	35,307	39,273	9,085	-1.2%
YoY change (%)	26.0	21.3	16.8	10.9	9.9	12.1	14.1	3.8	18.5	11.2	5.0	
Gross Profit	6,373	6,575	7,019	6,581	7,093	7,439	7,937	6,682	26,548	29,438	6,819	
Gross margin (%)	74.5	74.6	75.6	76.1	75.5	75.3	74.9	74.4	75.2	75.0	75.1	
EBITDA	1,421	1,475	1,706	1,476	2,191	2,350	2,536	1,695	6,078	8,756	2,004	-15.4%
EBITDA growth %	78.5	44.4	24.6	15.5	54.2	59.3	48.6	14.8	36.2	44.1	35.8	
Margins (%)	16.6	16.7	18.4	17.1	23.3	23.8	23.9	18.9	17.2	22.3	22.1	
Depreciation	366	385	373	400	808	838	880	916	1,523	3,523	912	
Interest					395	404	426	410		1,652	426	
Other Income	71	108	138	151	153	172	159	204	469	696	197	
PBT	1,126	1,199	1,471	1,227	1,141	1,281	1,389	573	5,024	4,277	863	-33.6%
Tax	380	422	506	436	393	396	352	121	1,744	1,303	217	
Rate (%)	33.7	35.2	34.4	35.5	34.4	30.9	25.4	21.1	34.7	30.5	25.2	
Adjusted PAT	747	777	965	792	748	884	1,037	452	3,280	2,974	646	-30.0%
YoY change (%)	213.2	60.2	46.2	16.3	0.1	13.9	7.4	-42.9	58.9	-9.3	-18.5	

E: MOFSL Estimates

Interim nos. are standalone while annual nos. are on consol. basis

Key performance indicators

Y/E March	FY19				FY20			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
2Y average growth (%)								
SSG	16.2	13.0	16.2	16.3	15.0	12.7	10.3	1.3
Sales	18.7	15.2	18.8	19.1	18.0	16.7	15.4	7.4
EBITDA	58.2	51.7	69.2	63.3	66.4	51.8	36.6	15.2
PAT	119.4	92.5	138.4	186.1	106.7	37.1	26.8	-13.3
% of Sales								
COGS	25.5	25.4	24.4	23.9	24.5	24.7	25.1	25.6
Operating Expenses	57.9	57.9	57.2	59.0	52.2	51.5	51.0	55.5
Depreciation	4.3	4.4	4.0	4.6	8.6	8.5	8.3	10.2
YoY change (%)								
COGS	35.7	19.1	12.1	3.3	5.9	9.2	17.1	10.9
Operating Expenses	12.9	16.8	16.6	13.0	-1.0	-0.2	1.7	-2.3
Other Income	138.0	197.7	312.9	18.8	113.9	59.0	15.3	34.8
EBIT	216.3	56.6	36.6	19.6	31.1	38.6	24.2	-27.7

E: MOFSL Estimates



Highlights from management commentary

Key comments on COVID-19 impact and response to the situation

- Extended lockdown is resulting in an economic crisis.
- Heightened safety protocols and social distancing measures would be the new normal.
- Domino's was the first to introduce safety and sanitization measures, and zero-contact deliveries.
- In addition to zero-contact deliveries, JUBI has introduced the same service for takeaways as well. It is also planning for zero-contact dine-ins when dine-ins are allowed.
- Supply chain issues were witnessed in Raw Materials, but commissaries enabled the fast reopening of stores.
- All employees are checked by doctors every week.

Other key highlights

- 931 stores, of 1335 stores, have been re-opened thus far.
- SSSG stood at 7.2% and 13.1% for the first two months, respectively, in 4QFY20.
- Delivery and Takeaway sales would recover in the next few weeks, as per management.
- Restricted seating due to social distancing would affect Dine-in sales. JUBI has already started preparing for six feet of distancing among customers once dine-in are allowed again.
- Malls may reopen June onward, so mall dine-ins could turn operational in 2QFY21, albeit with limited occupancy.
- In smaller towns, deliveries have reached pre-COVID-19 sales levels. Larger towns have seen a greater impact of the lockdown.
- Delivery sales were affected in mid-April due to a well-reported incident in Delhi (of a pizza delivery boy for another brand having been detected with COVID-19). This affected delivery sales only in the north, but not in the rest of the country.

On cost savings and variabilizing costs

- **Rent:** JUBI has invoked the force majeure clause with reasonable progress, but more work is needed.
- **Manpower:** All full- and part-time employees were shifted to 'flexi time' with a one-hour slab.
- **Maintenance costs:** Costs were moved from AMC to incident-based costs.
- **RM inflation:** Dairy inflation continued in 4QFY20, but has come down in 1QFY21.

Other points

- Deliveries and dine-ins account for 70% of sales.
- The shift from unorganized would be very significant over the next few months.
- Customers are looking more for safety and less for discounts.
- 33 new stores are in various stages of construction and await permissions for completion and commencement.
- If not for COVID-19, JUBI would have opened 50 stores in 4QFY20.

- Lower dependence on malls v/s peers has allowed JUBI to reopen its stores faster.
- Domino’s Essentials was established to supply essential goods such as *atta* (flour) to the community. The nature of this business comprises just the trading of goods. This was primarily a community service project.
- Minimum wage increases are being proposed by states in FY21.

Clarification on financials

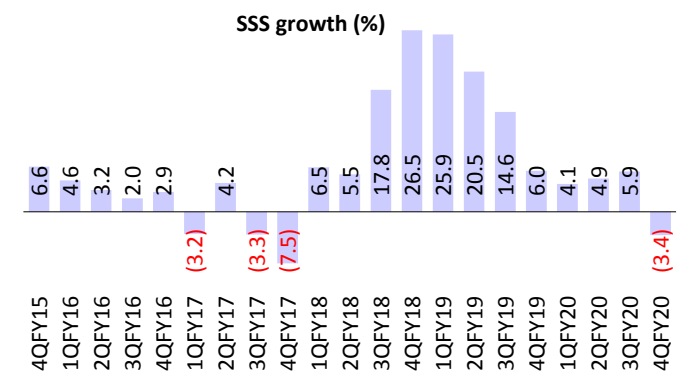
- The staff cost increase in 4QFY20 was due to minimum-wage-related inflation.
- Inventory days increased as the shutdown was implemented suddenly, while the company had planned for normal operations.

Exceptional item of INR323m in quarter

- INR 200m was for the diminution in the value of investments in Sri Lanka operations.
- INR 123m was put toward expenses related to COVID-19 and the sudden lockdown. When the lockdown was announced suddenly, all operational stores were shut down, resulting in raw materials in stores perishing. The company had to write off this inventory loss. Furthermore, it had to incur higher expenses on the necessary hygiene measures.

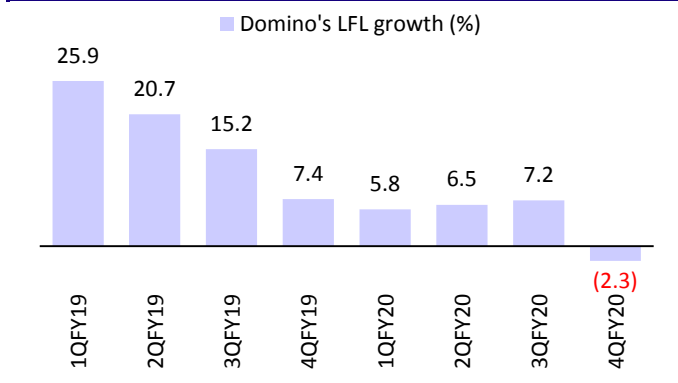
Key exhibits

Exhibit 1: SSS grew -3.4% v/s est. -3% in 4QFY20



Source: Company, MOFSL

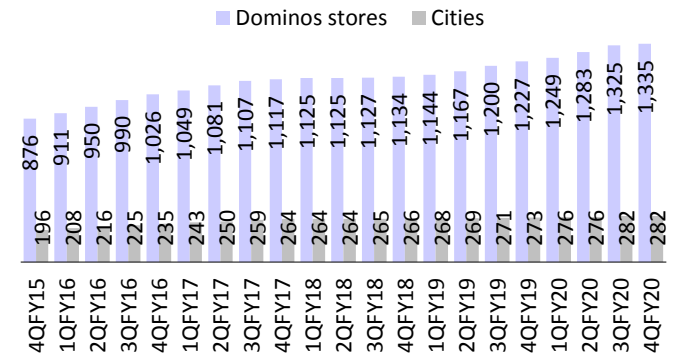
Exhibit 2: Domino’s LFL growth stood at -2.3% in 4QFY20



Source: Company, MOFSL

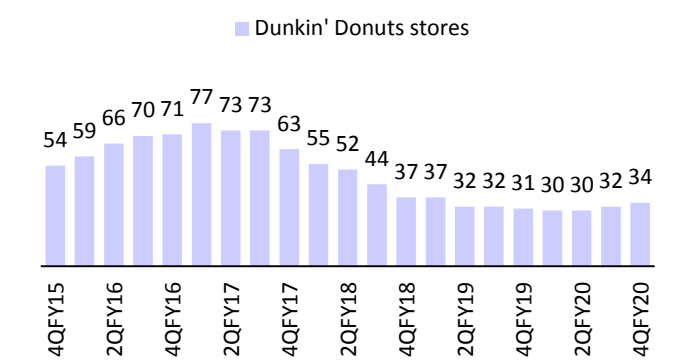
- Total store count for Domino’s stood at 1,335, with net additions of 10 stores (13 stores opened, 3 stores closed) in 4QFY20.

Exhibit 3: Net store additions in 4QFY20



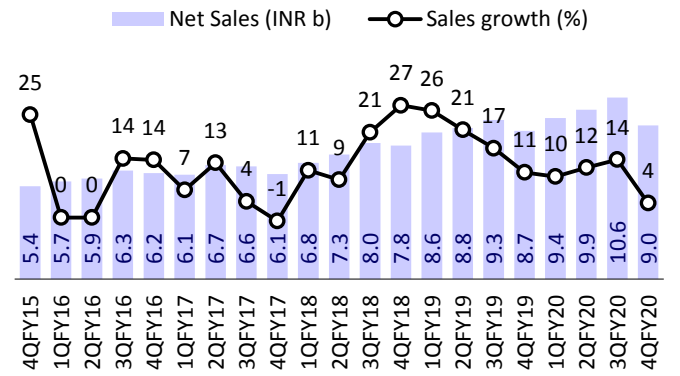
Source: Company, MOFSL

Exhibit 4: Dunkin' Donuts added two stores in 4QFY20



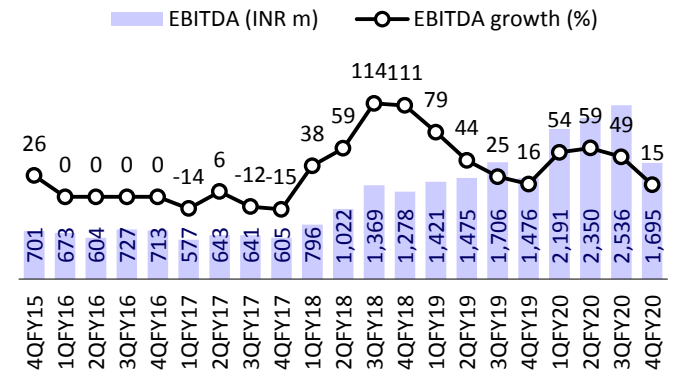
Source: Company, MOFSL

Exhibit 5: Net sales grew 3.8% YoY to INR9b in 4QFY20



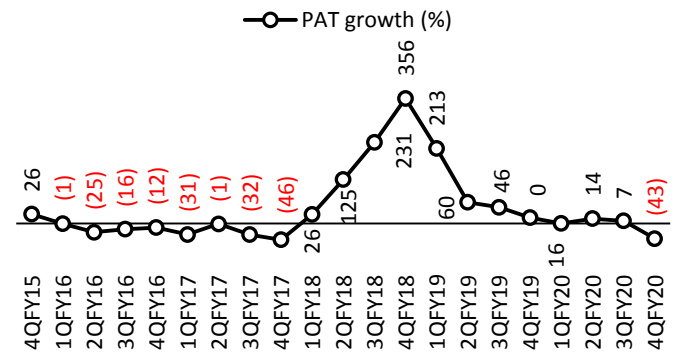
Source: Company, MOFSL

Exhibit 6: EBITDA grew 14.8% YoY to INR1.7b in 4QFY20



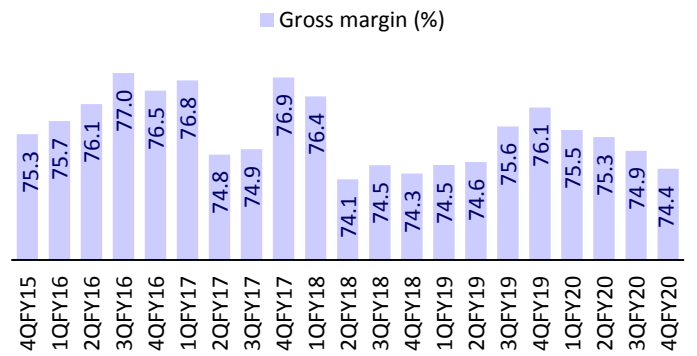
Source: Company, MOFSL

Exhibit 7: Adj. PAT growth stood at -42.9% YoY in 4QFY20



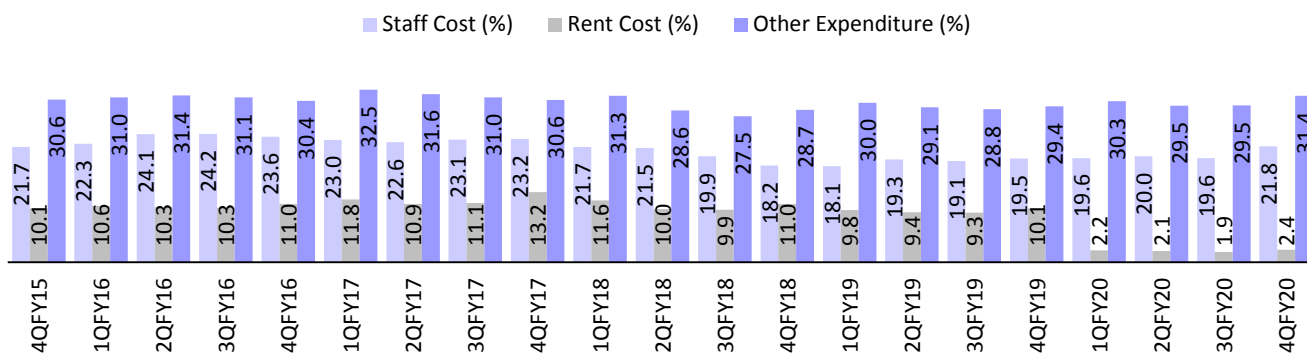
Source: MOFSL, Company

Exhibit 8: Gross margin contracted 160bp YoY in 4QFY20



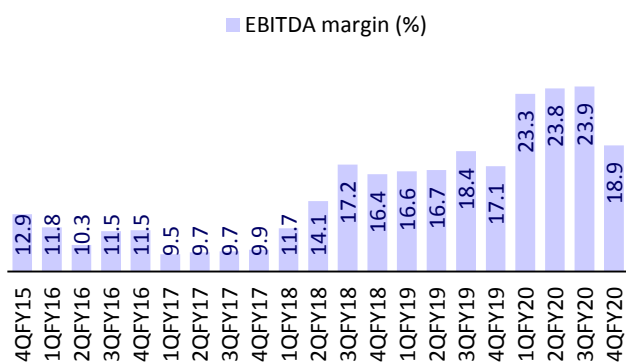
Source: MOFSL, Company

Exhibit 9: As % of sales: Staff costs were up 230bp YoY, other expenses 200bp YoY, rent costs were down 780bp YoY...



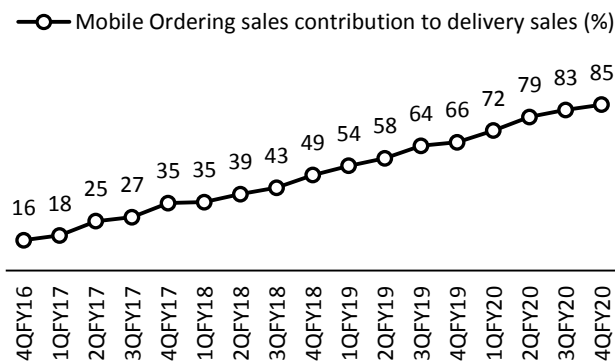
Source: Company, MOFSL

Exhibit 10: ...thus, EBITDA margins were up 180bp YoY to 18.9% in 4QFY20



Source: MOFSL, Company

Exhibit 11: Mobile ordering sales' contribution to delivery sales stood at 85% in 4QFY20 (83% in 3QFY20)



Source: MOFSL, Company

Valuation and view

Outstanding growth over past decade

- With the number of stores increasing to over 1,335 stores at the end of FY20, from 228 stores at the beginning of FY10, the company has expanded both successfully and profitably. It delivered 25% CAGR sales growth (with sales growing nearly 10x in this period), ~30% EBITDA growth (~13x growth), and ~24% CAGR PAT growth (~8x growth).
- Performance for the past three years and five years has also been equally impressive, with sales growing at ~15% CAGR and 13% CAGR, respectively; EBITDA grew at ~54% CAGR and 28% CAGR, respectively, and PAT at ~62% and 29% CAGR, respectively.
- JUBI is by far the largest player in the Indian QSR market, nearly 2x higher in terms of the number of stores v/s the next largest player. It also dominates the QSR pizza market with over 70% market share.
- It is also the most profitable player in the Indian QSR market, with net margins of ~8% in FY20, led by strong execution in the delivery-focused business.

Valuations seem stretched amid weak outlook

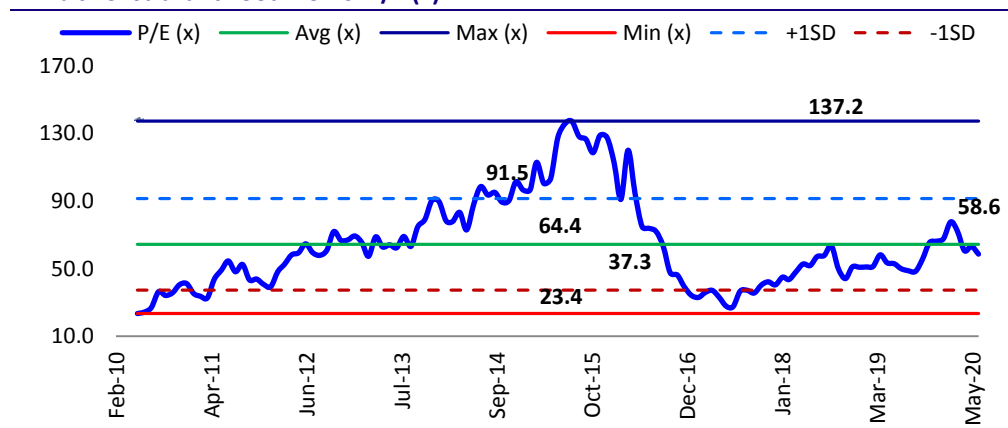
- Our upgrade to BUY on JUBI in Nov'19 has worked very well, with the company outperforming ~20% v/s our coverage universe over this period. Its delivery-focused model makes the company a good investment candidate in the Indian Retail space as this enables it to circumvent the high rental and overhead burdens faced by the industry.
- However, the near-term outlook is bleak due to: a) extended lockdown, b) the economic implications of the lockdown, leading to weak macros and muted discretionary consumption, c) minimum wage increases, and d) 30% of sales generated from dine-ins. These factors would outweigh any market share gains from the shrinking of the restaurant industry. Given the safety concerns, the return to erstwhile confidence levels even on delivery sales would be a gradual process. We cut our FY21/FY22 EPS estimates by a steep 75%/33% due to the significant deterioration in the operating environment in the past one month, with the macro outlook not offering any comfort either. Downgrade to **Neutral**.

Exhibit 12: Our PAT forecasts have decreased 74.7%/32.9% for FY21/FY22

	New		Old		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Sales	25,919	41,643	42,312	53,080	-38.7%	-21.5%
EBITDA	5,078	9,359	9,559	12,530	-46.9%	-25.3%
PAT	809	3,375	3,200	5,033	-74.7%	-32.9%

Source: Company, MOFSL

Exhibit 13: Jubilant FoodWorks' P/E (x)



Source: Company, MOFSL

Financials and Valuations

Income statement							(INR m)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Net Sales	24,379	25,834	30,184	35,631	39,273	25,919	41,643
Change (%)	16.4	6.0	16.8	18.0	10.2	-34.0	60.7
Material Consumed	5,801	6,308	7,660	8,861	9,835	6,503	10,412
Gross Profit	18,579	19,526	22,524	26,770	29,438	19,416	31,231
Gross Margin %	76.2	75.6	74.6	75.1	75.0	74.9	75.0
Operating expenses	15,942	17,115	18,123	20,773	20,682	14,337	21,872
EBITDA	2,636	2,411	4,401	5,998	8,756	5,078	9,359
Change (%)	3.0	-8.5	82.5	36.3	46.0	-42.0	84.3
Margin (%)	10.8	9.3	14.6	16.8	22.3	19.6	22.5
Depreciation	1,282	1,554	1,601	1,575	3,523	3,119	3,542
Int. and Fin. Ch.	0	0	0	0	1,652	1,121	1,950
Other Non-recurring Inc.	116	147	231	474	696	211	652
PBT	1,470	1,004	3,031	4,897	4,277	1,050	4,518
Change (%)	9.4	-31.7	201.7	61.6	-12.7	-75.5	330.5
Margin (%)	6.0	3.9	10.0	13.7	10.9	4.0	10.9
Tax	501	305	1,068	1,717	1,303	240	1,139
Tax Rate (%)	34.1	30.4	35.3	35.1	30.5	22.9	25.2
Adjusted PAT	968	699	1,962	3,180	2,974	809	3,380
Change (%)	15.4	-27.8	180.5	62.0	-6.5	-72.8	317.7
Margin (%)	4.0	2.7	6.5	8.9	7.6	3.1	8.1
Non-rec. (Exp)/Inc.	0	-122	0	0	-186	0	0
Reported PAT	968	578	1,962	3,180	2,788	809	3,380

Balance sheet							(INR m)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Share Capital	1,316	1,319	1,320	1,320	1,320	1,320	1,320
Reserves	6,304	6,734	8,358	11,277	9,901	8,725	9,635
Net Worth	7,620	8,053	9,677	12,596	11,220	10,045	10,954
Loans	17	18	30	9	15,252	13,727	16,472
Capital Employed	7,637	8,071	9,708	12,631	26,579	23,879	27,534
Gross Block	9,466	10,604	11,748	13,107	30,417	32,917	36,542
Less: Accum. Depn.	1,181	2,603	3,838	5,007	8,530	11,649	15,192
Net Fixed Assets	8,285	8,001	7,910	8,100	21,887	21,268	21,350
Lease Deposits	1,363	1,822	1,776	2,056	1,719	1,844	2,091
Capital WIP	261	608	124	152	412	473	544
Investments	908	936	2,631	1,808	512	691	868
Deferred tax assets	-729	-693	-550	-500	751	751	751
Curr. Assets, L&A	1,404	1,539	2,525	6,441	8,417	5,453	12,203
Inventory	552	607	642	771	947	588	941
Account Receivables	125	161	157	274	166	176	283
Cash and Bank Balance	332	354	1,290	4,943	6,559	4,282	10,571
Others	396	417	437	454	745	407	407
Curr. Liab. and Prov.	3,854	4,143	4,710	5,426	7,119	6,601	10,274
Other Current Liabilities	722	798	656	915	2,370	1,565	2,514
Creditors	2,960	3,142	3,890	4,209	4,470	3,318	5,176
Provisions	172	202	164	303	279	1,719	2,584
Net Curr. Assets	-2,450	-2,604	-2,184	1,015	1,298	-1,148	1,929
Appl. of Funds	7,637	8,071	9,708	12,631	26,579	23,879	27,533

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)							
EPS	7.4	5.3	14.9	24.1	22.5	6.1	25.6
BV/Share	57.9	61.1	73.3	95.4	85.0	76.1	83.0
DPS	1.3	1.2	2.5	5.0	7.0	10.7	15.6
Payout %	17.0	23.4	16.8	20.8	31.1	174.5	60.9
Valuation (x)							
P/E	207.1	287.5	102.5	63.3	67.6	248.6	59.5
EV/Sales	8.2	7.7	6.5	5.5	5.3	8.1	5.0
EV/EBITDA	75.6	82.9	44.8	32.4	23.9	41.3	22.0
P/BV	26.3	25.0	20.8	16.0	17.9	20.0	18.4
Return Ratios (%)							
RoE	12.7	8.7	20.3	25.2	26.5	8.1	30.9
RoCE	13.6	8.9	22.1	28.5	21.1	6.7	18.9
RoIC	15.6	9.7	30.6	50.4	29.3	8.0	25.6
Working Capital Ratios							
Debtor (Days)	2	2	2	3	2	2	2
Inventory (Days)	8	9	8	8	9	8	8
Creditor (Days)	44	44	47	43	42	47	45
Asset Turnover (x)	3.2	3.2	3.1	2.8	1.5	1.1	1.5
Leverage Ratio							
Debt/Equity (x)	0.0	0.0	0.0	0.0	1.4	1.4	1.5

Cash flow statement

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
(INR m)							
OP/(loss) before Tax	1,470	883	3,031	4,897	4,028	1,050	4,518
Int./Div. Received	61	-34	-120	-165	1,665	-211	-652
Depreciation & Amort.	1,282	1,554	1,601	1,575	3,523	3,119	3,542
Interest Paid	3	58	71	256	454	-1,121	-1,950
Direct Taxes Paid	386	366	1,262	1,779	1,402	240	1,139
Incr in WC	308	-57	-912	14	82	-169	-3,212
CF from Operations	2,117	2,036	4,091	4,256	7,278	5,007	11,432
Incr in FA	-2,264	-1,996	-1,160	-1,657	-2,830	-2,561	-3,696
Free Cash Flow	-147	40	2,931	2,600	4,261	2,446	7,736
Others	67	102	48	262	281	95	703
Pur of Investments	200	28	-1,695	958	1,502	-179	-177
CF from Invest.	-1,998	-1,866	-2,808	-437	-1,234	-2,645	-3,170
Issue of Shares	21	50	210	230	108	0	0
Incr in Debt	0	0	0	0	-1,323	-1,525	2,745
Dividend Paid	164	165	164	329	1,448	1,694	2,470
Others	-33	-34	-393	-68	-1,951	-1,419	-2,248
CF from Fin. Activity	-177	-148	-347	-167	-4,614	-4,639	-1,973
Incr/Decr of Cash	-57	22	936	3,652	1,430	-2,277	6,289
Add: Opening Balance	389	332	354	1,290	4,943	6,559	4,282
Closing Balance	332	354	1,290	4,943	6,373	4,282	10,571

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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