

Jubilant Foodworks Ltd

Industry Consumer Service:
Bloomberg JUBI IN
BSE CODE 533155

7-year high 18.4% EBITDA margin; DDI breaks-even

RATING	BUY
CMP	1200
Price Target	1448
Potential Upside	21%

Rating Change	↔
Estimate Change	↑
Target Change	↔

Stock Info

52wk Range H/L	1578/902
Mkt Capital (Rs Cr)	15839
Free float (%)	55%
Avg. Vol 1M (,000)	2192
No. of Shares	13
Promoters Pledged %	18%

Research Analyst

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Q3FY19 Result Update

- ❑ JUBLFOOD reported a sales growth of 16.8% at Rs 929 crores, in-line with our estimates of Rs 926 crores for the quarter.
- ❑ The company continues to deliver strong same store sales growth of 14.6% (expected 15%) even on a high base quarter.
- ❑ Gross Margin came in at 75.5% vs our estimate of 74.5% with the help of benign cost environment, better product mix and new beverages tie-up offering better costs.
- ❑ The flow-down from gross margin and management's continued sharp focus on the cost structure has resulted in a 7 year high EBITDA margin of 18.4% as against our estimate of 17.1%. The EBITDA margin was also aided by the break-even of Dunkin' Donuts India in the quarter.
- ❑ Strong operational performance and break-even of Dunkin' Donuts India helped company report PAT for the quarter at Rs 97 crores indicating PAT margin of 10.4%, against our PAT estimate of Rs 90 crores.
- ❑ The company opened 35 new stores in the quarter with adding 2 new cities and has maintained all its 32 Dunkin' Donuts stores.

View and Valuation

The strong sales growth trajectory continues for JUBLFOOD with company reporting SSG of 14.6% even on a higher base. The company opened 35 stores in the third quarter indicating the expansionary strategy to be adopted for future growth. With more than 50% of these stores being opened in the existing geographies by splitting the stores and the management's commentary of demand being strong, brings confidence that the growth going ahead would be on the new stores with SSG around 10% for FY20 on the strong base of FY19. We expect the revenue to grow at a CAGR of 18% over FY18-20. The company's strategy to focus on stringent cost policies have been working well over the past whole year. The Dunkin' Donuts brand (DDI) has achieved EBITDA break-even in quarter three which would now eliminate its drag on the overall margins for the company. With the new EDV strategy in place, lower discounts, better product mix and cost rationalisation along with prudent store expansion will continue to drive operational efficiency for the company. We largely maintain our sales estimates and revise our estimates for PAT by 4%/6% upwards in FY19/20 to factor in strong margins and DDI break-even. At current market price, JUBLFOOD is trading at 35x FY20e EPS and we maintain BUY with a price target of Rs.1448.

Key Risks to our rating and target

- ❑ Unable to gather demand from the newly expanded stores and peaking SSG.
- ❑ Company's capital allocation of high cash on balance sheet.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	2410	2546	2980	3558	4138
EBITDA	272	247	446	615	760
EBIT	148	95	291	465	602
PAT	106.6	67.3	206.4	338.2	448.6
EPS (Rs)	8	5	16	26	34
EPS growth (%)	0	0	2	1	0
ROE (%)	0.1	0.1	0.2	0.3	0.3
ROCE (%)	0.2	0.1	0.3	0.4	0.4
BV	60	65	79	102	131
P/B (X)	10.5	8.6	14.7	11.8	9.2
P/E (x)	78.8	109.8	73.7	46.8	35.3

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3Q FY 19 Results Better than estimates

Strong EBITDA Margins

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	795	780	855	881	929	16.8%	5.4%	2,546	2,980	17.1%
Other Income	3	13	7	11	14	312.9%	27.3%	14	23	56.9%
COGS	203	200	218	224	227	12.1%	1.5%	616	751	22.0%
Gross Margin	75%	74%	75%	75%	76%	1.0%	0.9%	76%	75%	-1.0%
Employee Cost	159	142	155	170	177	11.7%	4.0%	585	604	3.3%
Rent	78	86	84	83	87	10.4%	4.5%	299	316	5.7%
Other Expenses	219	224	257	257	268	22.4%	4.2%	800	863	7.8%
EBITDA	137	128	142	148	171	24.6%	15.6%	247	446	81.0%
EBITDA Margin	17%	16%	17%	17%	18%	1.1%	1.6%	10%	15%	5.3%
Depreciation	39	38	37	38	37	-5.2%	-3.1%	151	156	3.1%
EBIT	98	90	106	109	133	36.6%	22.2%	95	291	204.4%
Interest	-	-	-	-	-	0.0%	0.0%	-	-	0.0%
PBT	101	103	113	120	147	45.8%	22.7%	110	313	185.0%
Exceptional	-	-	-	-	-	0.0%	0.0%	(12)	-	-100%
Tax	35	35	38	42	51	45.0%	19.8%	31	107	250.3%
PAT	66	68	75	78	97	46.2%	24.2%	67	206	207.0%
PAT Margin	8%	9%	9%	9%	10%	2.1%	1.6%	3%	7%	4.3%

SSG continues to be strong, even on higher base

JUBLFOOD reported a sales growth of 16.8% at Rs 929 crores, in-line with our estimates of Rs 926 crores for the quarter. The company continues to deliver strong same store sales growth of 14.6% (expected 15%) even on a high base quarter. The management mentioned in the call that the underlying demand continues to be strong. The share of online delivery sales has risen to 73% of total delivery sales with the help of new app launched (contributing 88% of total online sales) by the company and technology innovations for advance ordering and one-click ordering coming to aid.

High gross margins and DDI break-even drives EBITDA margins

Gross Margin improved by over 90 bps QoQ to 75.5% during the quarter driven by benign RM cost environment, better product mix and better costing from new beverages partner. Such high gross margins and strict cost rationalisation followed by the company helped it to report an EBITDA margin of 18.4% for the quarter against our estimation of 17.1%. Cost rationalisation efforts led to lower other expenses by 40 bps as a % to sales than our expectation and 10bps in case of rent. With the break-even of DDI operations, the drag on the company's overall margins will be reduced going ahead.

The company reported profit after tax for the quarter at Rs 97 crores indicating PAT margin of 10.4%, against our PAT estimate of Rs 90 crores.

Concall Highlights

- ❑ Domino's Pizza – 35 Stores opened, 2 Stores closed, Total store count at 1,200. More than 50% of stores have been opened in existing geographies by splitting up the stores working at full capacity to improve customer experience and delivery efficiency. Management mentioned that it could hurt near term SSG; however not for long.
- ❑ New products introduced at Domino's Pizza including multi-grain crust and four new side dishes. The company announced its tie-up with Pepsi Co for beverages in the quarter.
- ❑ Dunkin' Donuts delivered EBITDA Break-even in Q3 FY19 on the back of strong growth in the core portfolio of Donuts and Beverages, as also disciplined cost management.
- ❑ EDV will continue to be an important lever of growth. Discounts given occasionally are part of the strategies used on situational basis.
- ❑ The company implemented GPS tracking on its riders and it has helped them collect data and thus drive delivery efficiency.
- ❑ Challenges faced on manpower cost in the previous quarter are behind now.
- ❑ Ordering through railway platform has been quite encouraging and response has been good
- ❑ 100% Veg model in Gujarat has been quite successful and that has helped in garnering new customers as well increasing revisits for existing ones. Post this strategy; it has become one of the fastest growing markets for the company.
- ❑ The company continues to evaluate various cuisines for extending its umbrella of food going ahead.

Exhibit: Net Sales (Rs. Crs) and Gross Margin trend

Strong sales growth to continue with expansion of stores

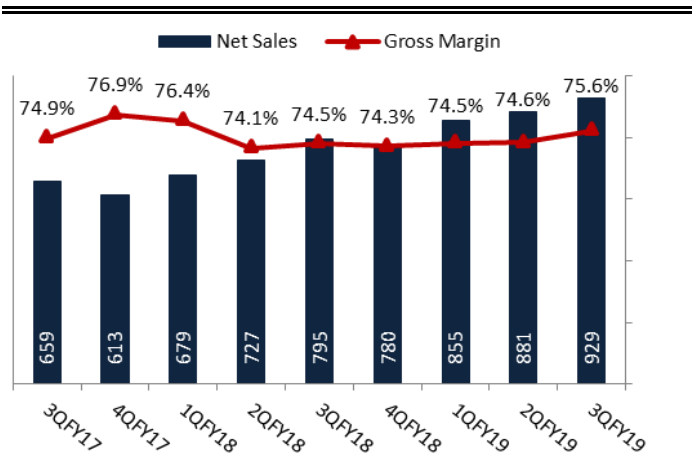


Exhibit: EBITDA (Rs. Crs) and EBITDA Margin trend

Strong cost rationalisation strategies and no DDI drag to drive EBITDA margins higher

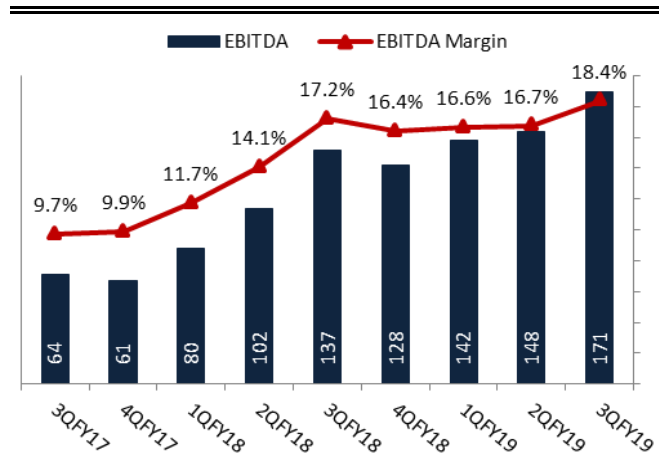


Exhibit: Return Ratios

Return ratios to improve going ahead

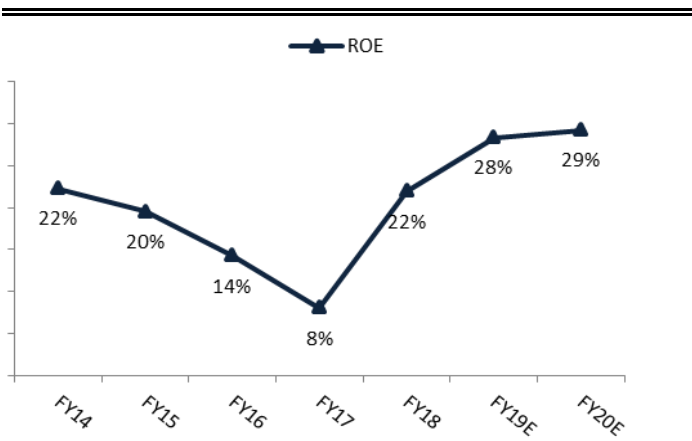


Exhibit: Same Sales Growth Trend

New stores to contribute to sales growth alongwith with SSG

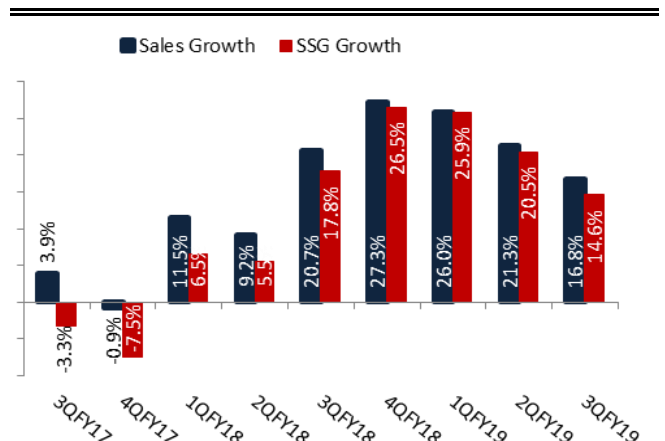


Exhibit: Sales (Rs. Crs) and PAT (Rs. Crs)

Strong Sales and PAT growth to continue going ahead

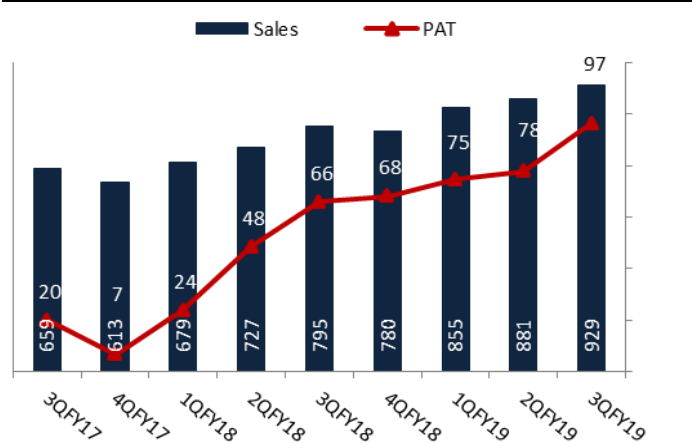
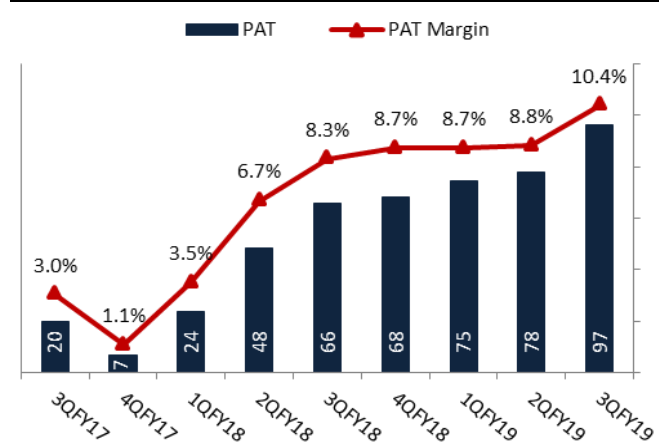


Exhibit: PAT (Rs. Crs) and PAT Margin trend

Rising operational profits to flow into PAT and PAT margin



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	65	66	66	66	66	132	132
Reserves	498	631	732	786	978	1,209	1,594
Networth	563	696	798	852	1,044	1,341	1,726
Debt	-	-	-	-	-	-	-
Other Non Current Liab	46	61	73	70	55	51	51
Total Capital Employed	609	757	871	922	1,099	1,392	1,777
Net Fixed Assets (incl CWIP)	547	734	831	838	781	775	817
Non Current Investments	34.9	55.7	61.7	74.4	82.2	86.7	86.7
Other Non Current Assets	106	121	140	186	204	204	204
Non Current Assets	688	911	1,032	1,099	1,067	1,066	1,108
Inventory	32	42	54	59	63	78	90
Debtors	9	12	12	16	15	26	30
Cash & Bank	23	30	31	32	129	475	883
Other Current Assets	120	98	124	127	295	301	308
Current Assets	184	183	221	233	501	880	1,310
Creditors	172	240	293	312	387	457	527
Provisions	11	14	17	20	16	19	23
Other Current Liabilities	79	84	73	78	65	78	91
Curr Liabilities	263	337	383	410	469	554	641
Net Current Assets	(79)	(154)	(162)	(177)	33	326	669
Total Assets	872	1,094	1,253	1,332	1,568	1,946	2,418

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1,724	2,074	2,410	2,546	2,980	3,558	4,138
Change (%)	22%	20%	16%	6%	17%	19%	16%
Other Income	9	7	11	14	23	51	83
EBITDA	255	263	272	247	446	615	760
Change (%)	5%	3%	3%	-9%	81%	38%	24%
Margin (%)	15%	13%	11%	10%	15%	17%	18%
Depr & Amor.	77	98	124	151	156	150	158
EBIT	178	165	148	95	291	465	602
Int. & other fin. Cost	-	-	-	-	-	-	-
EBT	188	172	159	110	313	516	685
Exp Item	-	-	-	(12)	-	-	-
Tax	62	49	52	31	107	178	236
Reported PAT	126	123	107	79	206	338	449
Adjusted PAT	126	123	107	67	206	338	449
Change (%)	8%	-2%	-14%	-37%	207%	64%	33%
Margin(%)	7%	6%	4%	3%	7%	10%	11%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	22%	20%	14%	8%	22%	28%	29%
ROCE	29%	24%	18%	11%	29%	37%	38%
Asset Turnover	2	2	2	2	2	2	2
Debtor Days	2	2	2	2	2	3	3
Inv Days	26	30	34	35	30	32	32
Payable Days	140	168	188	185	188	187	187
P/E	56	79	79	110	74	47	35
Price / Book Value	12	14	11	9	15	12	9
EV/EBITDA	27	37	31	29	34	25	20
EV/Sales	4	5	3	3	5	4	4
FCF per Share	(1.5)	0.6	(0.3)	2.5	46.0	25.9	29.4
Div Yield	0.0%	0.3%	0.4%	0.5%	0.4%	0.3%	0.4%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	188	172	159	98	313	516	685
<i>(inc)/Dec in Working Capital</i>	14	48	(11)	8	91	53	64
<i>Non Cash Op Exp</i>	72	98	131	144	143	95	75
<i>Int Paid (+)</i>	-	-	-	-	-	-	-
<i>Tax Paid</i>	(43)	(35)	(58)	(37)	(126)	(178)	(236)
CF from Op. Activities	231	283	220	213	415	486	588
<i>(inc)/Dec in FA & CWIP</i>	(241)	(280)	(222)	(196)	(111)	(145)	(200)
<i>Free Cashflow</i>	(10)	4	(2)	17	304	342	388
<i>(Pur)/Sale of Inv</i>	6	18	21	3	(226)	-	-
<i>others</i>	(5)	(15)	(0)	(4)	(15)	46	83
CF from Inv. Activities	(240)	(277)	(201)	(197)	(352)	(98)	(117)
<i>inc/(dec) in NW</i>	1	1	2	5	2	-	-
<i>inc/(dec) in Debt</i>	-	-	-	-	-	-	-
<i>Int. Paid</i>	-	-	-	-	-	-	-
<i>Div Paid (inc tax)</i>	-	-	(20)	(20)	(20)	(40)	(64)
<i>others</i>	-	-	-	-	-	-	-
CF from Fin. Activities	1	1	(18)	(15)	(18)	(40)	(64)
Inc(Dec) in Cash	(8)	8	1	0	45	348	408
<i>Add: Opening Balance</i>	30	23	30	31	32	77	425
Closing Balance	23	30	31	32	77	425	833

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