

BSE Code: 533155
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Reuters Code: JUBI.NS
Bloomberg Code: JUBI:IN

Jubilant FoodWorks Limited (JFL) is India's leading quick-service restaurant (QSR) company. JFL commands nearly 70% market share in the organised Indian pizza market.

Investment Rationale

SSG drives growth in topline

JFL reported robust growth of 26% YoY in top line in Q1FY19, driven by higher than anticipated SSG which grew at a staggering pace of 25.9% YoY (6.5% SSG in Q1FY18). JFL is also working towards increasing the funnel of new locations and has doubled the number of store openings as compared to the last quarter, adding 13 new Domino's stores (closed 3 stores) taking the total store count to 1144. The company plans to increase the pace of store openings and is targeting 75 additional stores in FY19. JFL has also forayed in Bangladesh through a joint venture with Golden Harvest QSR Ltd. to launch Domino's Pizza. We factor revenue CAGR of 16% over FY18-21E.

Store expansion & efficiencies to drive margin

EBITDA increased at a staggering pace of 78.5% YoY in Q1FY19 with 489 bps YoY expansion in EBITDA margin to 16.6% led by operating leverage owing to strong SSG, cost optimization initiative (manpower & rent management) and reduction in losses at Dunkin. Losses in Dunkin continued to decline and impacted JFL EBITDA by 55 bps as against 106 bps in Q4 of last year. In line with the strong operating performance, PAT more than tripled in the current quarter. The management is confident of maintaining margins despite hike in minimum wages due to cost efficiencies, productivity improvement and automation. Hence, we factor EBITDA margin of 17.2%/17.6% for FY19E/20E.

Working on all fronts

Dominos made concerted efforts over the last year to comprehensively upgrade the quality of its pizza. Further, the Everyday value proposition was well received by the customers and the company has now extended it to regular pizzas. This has in-turn driven both new customer acquisitions as well as increased frequency of ordering from the existing customers. To improve customer experience, the company introduced centralised call centres and significantly upgraded its app. JFL is also looking to split some of its existing stores to better focus on specific geographical demands. On the other hand, the company has managed to reduce Dunkin losses considerably owing to shutting down of non-profitable stores and it is expected to break even by end FY19.

Valuation:

We expect strong performance to sustain going forward given strong demand, solid SSG, store expansion and margin improvement. Recommend 'BUY' rating on the stock with revised target price of Rs. 1,460 based on 45x Sept'20E earnings.

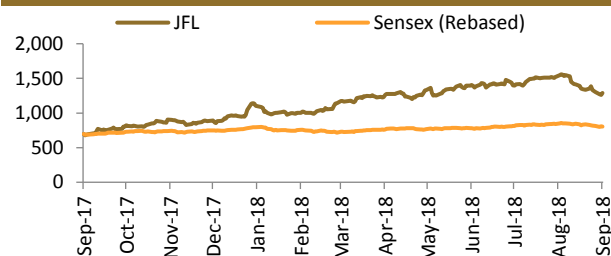
Market Data

Rating	BUY
CMP (Rs.)	1,225
Target (Rs.)	1,460
Potential Upside(%)	19%
Duration	Long Term
Face Value (Rs.)	10.0
52 week H/L (Rs.)	1,575/668
Decline from 52WH (%)	28.6
Rise from 52WL (%)	83.4
Beta	0.8
Mkt. Cap (Rs.Cr)	16,161

Fiscal Year Ended

Y/E	FY18	FY19E	FY20E	FY21E
Revenue (Rs.Cr)	2,980	3,507	4,063	4,695
Adj. Net profit (Rs.Cr)	206	313	388	468
EPS (Rs.)	15.6	23.7	29.4	35.5
P/E (x)	78.3	51.6	41.6	34.5
P/BV (x)	15.5	12.8	10.6	8.7
ROE (%)	21.8	27.2	27.9	27.6

One year Price Chart

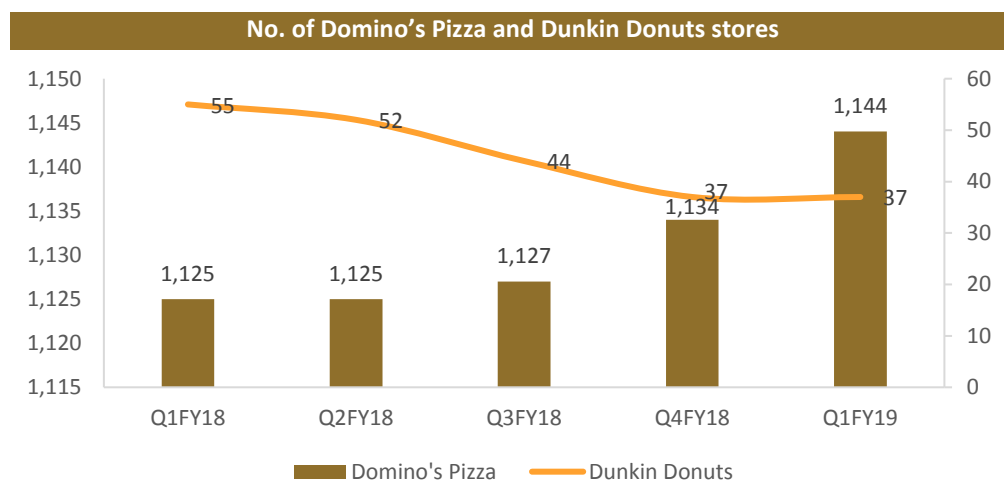


Shareholding Pattern

	Jun-18	Mar-18	Chg.
Promoters (%)	44.9	44.9	-
FII (%)	36.9	37.6	(0.7)
DII (%)	9.6	8.8	0.8
Public (%)	2.8	3.2	(0.4)
Other (%)	5.8	5.5	0.3

Jubilant FoodWorks Ltd: Business Overview

Jubilant FoodWorks Limited (JFL) is India's leading quick-service restaurant (QSR) company. JFL holds the master franchise for Domino's Pizza and Dunkin' Donuts brands in India. JFL & its subsidiary operates Domino's Pizza brand with the exclusive rights for India, Nepal, Bangladesh and Sri Lanka. The company is market leader in the pizza segment with a network of 1,144 Domino's Pizza restaurants across 268 cities in India. JFL commands nearly 70% market share in the organised Indian pizza market. The company also has exclusive rights for operating Dunkin' Donuts restaurants in India and has 37 Dunkin' Donuts restaurants across 10 cities in India.



Source: Company, In-house research

Quarterly Financials (Standalone)

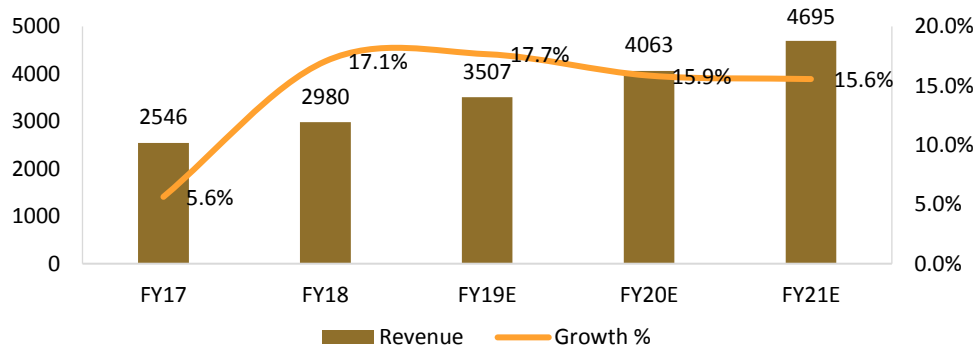
(Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
Sales	855	679	26.0	780	9.6
EBITDA	142	80	78.5	128	11.2
EBITDA Margin (%)	16.6	11.7	489bps	16.4	23bps
Depreciation	37	46	(20.9)	38	(3.3)
EBIT	106	33	216.3	90	17.3
Interest	-	-	-	-	-
Other Income	7	3	138.0	13	(44.0)
Exceptional Items	-	-	-	-	-
PBT	113	36	209.8	103	9.7
Tax	38	13	203.4	35	9.7
PAT	75	24	213.2	68	9.7
Minority Interest	-	-	-	-	-
Reported PAT	75	24	213.2	68	9.7

Source: Company, In-house research

Store expansion and strong momentum in SSG to drive revenue growth

JFL reported robust growth of 26% YoY in top line in Q1FY19, driven by higher than anticipated SSG which grew at a staggering pace of 25.9% YoY (6.5% SSG in Q1FY18). Superior product, continued strong response to Everyday value offer coupled with aggressive marketing (IPL T20) drove SSG higher in the quarter. Further, online sales remained strong with share of online orders (OLO) increasing to 65% of the delivery sales as against 51% in Q1FY18. JFL is also working towards increasing the funnel of new locations and has doubled the number of store openings as compared to the last quarter, adding 13 new Domino's stores (closed 3 stores) taking the total store count to 1144. The company plans to increase the pace of store openings and is targeting 75 additional stores in FY19. JFL has also forayed in Bangladesh through a joint venture with Golden Harvest QSR Ltd. to launch Domino's Pizza. We factor revenue CAGR of 16% over FY18-21E.

Revenue to grow at 16% CAGR over FY18-21E

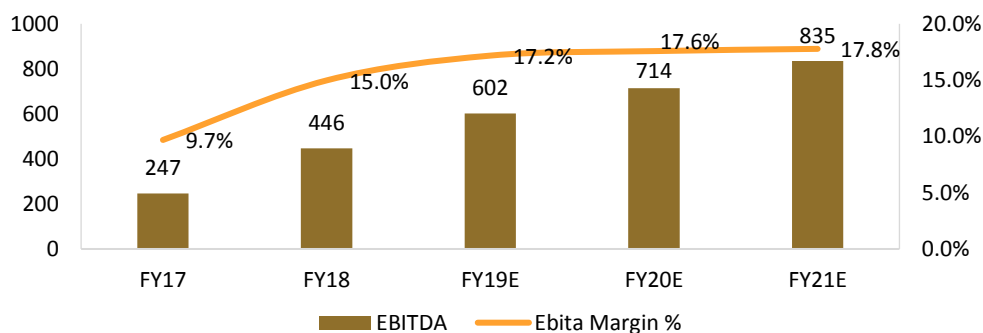


Source: Company, In-house research

Store expansion & efficiencies to drive margin

EBITDA increased at a staggering pace of 78.5% YoY in Q1FY19 with 489 bps YoY expansion in EBITDA margin to 16.6% led by operating leverage owing to strong SSG, cost optimization initiative (manpower & rent management) and reduction in losses at Dunkin. Losses in Dunkin continued to decline and impacted JFL EBITDA by 55 bps as against 106 bps in Q4 of last year. In line with the strong operating performance, PAT more than tripled in the current quarter. The management is confident of maintaining margins despite hike in minimum wages due to cost efficiencies, productivity improvement and automation. We increase our EBITDA margin estimates to 17.2%/17.6% in FY19E/20E to factor the beat in Q1FY19.

EBITDA margin to further improve to 17.8% in FY21E

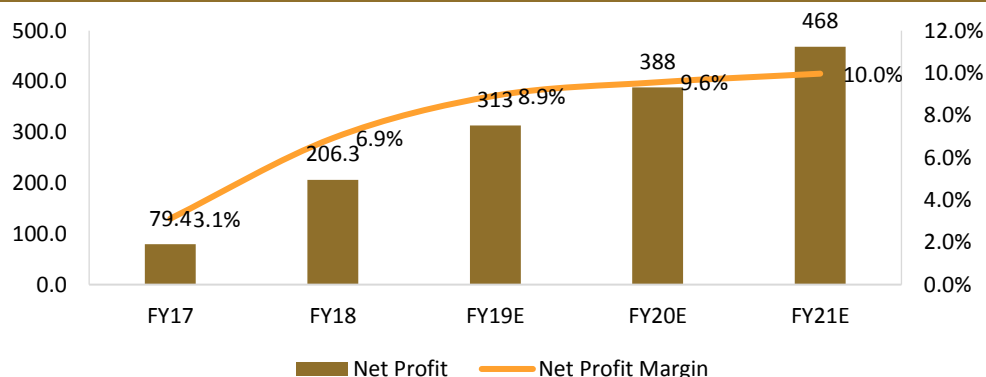


Source: Company, In-house research

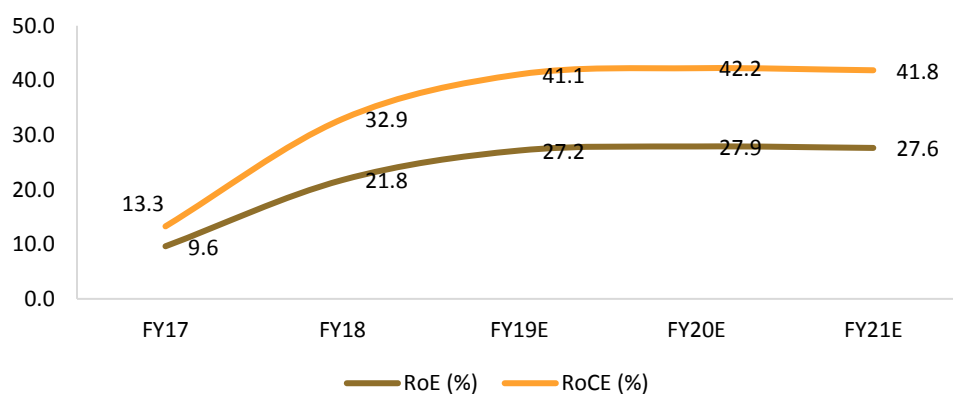
Working on all fronts

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Net profit to grow at a CAGR of 31% over FY18-21E



Return ratios trend



Source: Company, In-house research

Key Risks:

- Increase in competition from players across the food space
- Slow pace of store expansion
- Slowdown in consumer discretionary spends

Profit & Loss Account (Standalone)

Y/E (Rs.Cr)	FY18	FY19E	FY20E	FY21E
Total operating Income	2,980	3,507	4,063	4,695
Raw Material cost	751	891	1,032	1,193
Employee cost	604	649	748	859
Other operating expenses	1,179	1,365	1,569	1,809
EBITDA	446	602	714	835
Depreciation	156	162	178	197
EBIT	290	441	536	638
Interest cost	-	-	-	-
Other Income	23	35	53	72
Profit before tax	313	475	590	710
Tax	107	162	201	242
Profit after tax	206	313	388	468
Minority Interests	-	-	-	-
P/L from Associates	-	-	-	-
Adjusted PAT	206	313	388	468

Balance Sheet (Standalone)

Y/E (Rs.Cr)	FY18	FY19E	FY20E	FY21E
Paid up capital	66	132	132	132
Reserves and Surplus	978	1,130	1,391	1,732
Net worth	1,044	1,262	1,523	1,864
Minority interest	-	-	-	-
Total Debt	-	-	-	-
Other non-current liabilities	1	1	1	1
Total Liabilities	1,044	1,262	1,524	1,864
Total fixed assets	770	739	711	664
Capital WIP	11	30	30	30
Goodwill	-	-	-	-
Investments	345	595	945	1,395
Net Current assets	(230)	(251)	(312)	(374)
Deferred tax assets (Net)	(43)	(43)	(43)	(43)
Other non-current assets	192	192	192	192
Total Assets	1,044	1,262	1,524	1,864

Cash Flow Statement (Standalone)

Y/E (Rs.Cr)	FY18	FY19E	FY20E	FY21E
Pretax profit	313	475	590	710
Depreciation	156	162	178	197
Chg in Working Capital	91	51	65	74
Others	(19)	(35)	(53)	(72)
Tax paid	(126)	(162)	(201)	(242)
Cash flow from operating activities	415	492	578	667
Capital expenditure	(114)	(150)	(150)	(150)
Chg in investments	(226)	(250)	(350)	(450)
Other investing cashflow	(12)	35	53	72
Cash flow from investing activities	(352)	(365)	(447)	(528)
Equity raised/(repaid)	2	-	-	-
Debt raised/(repaid)	-	-	-	-
Dividend paid	(16)	(79)	(106)	(106)
Other financing activities	(3)	(16)	(22)	(22)
Cash flow from financing activities	(18)	(95)	(127)	(127)
Net chg in cash	45	31	4	12

Key Ratios (Standalone)

Y/E	FY18	FY19E	FY20E	FY21E
Growth (%)				
Net Sales	17.1	17.7	15.9	15.6
EBITDA	81.0	35.0	18.6	16.9
Net profit	159.7	51.8	24.1	20.5
Margin (%)				
EBITDA	15.0	17.2	17.6	17.8
NPM	6.9	8.9	9.6	10.0
Return Ratios (%)				
RoE	21.8	27.2	27.9	27.6
RoCE	32.9	41.1	42.2	41.8
Per share data (Rs.)				
EPS	15.6	23.7	29.4	35.5
DPS	2.5	6.0	8.0	8.0
Valuation(x)				
P/E	78.3	51.6	41.6	34.5
EV/EBITDA	35.9	26.6	22.4	19.2
EV/Net Sales	5.4	4.6	3.9	3.4
P/B	15.5	12.8	10.6	8.7
Turnover Ratios (x)				
Net Sales/GFA	2.7	2.9	3.0	3.1
Sales/Total Assets	2.1	2.1	2.0	2.0

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

* JFL is a mid-cap company.

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