

16th April 2019

Jubilant FoodWorks - Buy

CMP : 1,380
Target Price : 1,570
Upside : 14%
Stop Loss : 1290 (closing basis)

About the Company:

Jubilant FoodWorks Limited (the Company) is a Jubilant Bhartia Group Company. The Company was incorporated in 1995 and initiated operations in 1996. The Company got listed on the Indian bourses in February 2010. Mr. Shyam S. Bhartia, Mr. Hari S. Bhartia and Jubilant Consumer Pvt. Ltd. (formerly Jubilant Fresh Pvt. Ltd.) are the Promoters of the Company. The Company & 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 (as on June 30, 2018). Dunkin' Donuts, a subsidiary of Dunkin' Brands, is the world's leading baked goods & coffee chain, selling more than 1 billion cups of coffee a year and more than 3 million customers per day. Dunkin' Donuts sells large varieties of donuts and more than a dozen coffee beverages as well as an array of bagels, breakfast sandwiches and other baked goods. Today, there are more than 11,300 Dunkin' Donuts restaurants worldwide –with more than 3,200 international restaurants in 36 countries.

Investment Thesis

Enhanced digital focus as well as online contribution to sale improved to 65% in Q1FY19

Domino's now has revamped mobile app with user friendly easy to load interface, inbuilt digital wallet, faster check out with improved digital assets, share of online ordering to sales has continued to rise from 51% in Q1FY18 to 65% in Q1FY19 adopting a centralized call center has also helped push technology. Mobile ordering contribution to OLO has risen to 83% in Q1FY19 Vs 78% in Q4FY18 on back of increased traction in delivery growth and never ending momentum in digital space.

Healthy SSSG drives in top line

JFL reported robust growth of 26% YoY in top line in Q1FY19, driven by higher than predictable SSG which grew at a surprising 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) and FIFA world cup drove SSG higher in the quarter (Q1FY19). New customer adds and increased order frequency by existing customer's favorable metrics. We factor revenue CAGR of 19.4% over FY18-21E.

Pace of stores addition is going forward Improve

During Q1FY19 JFL only 10 net stores were added, As JFL continues to go slow on the addition of number stores as compared to historical trend as they were adding 30 to 35 stores per quarter, JFL plans to add 75 stores in FY19 with capital expenditure would be 150 Cr new stores would come up in existing as well as new market, indicates confidence in the improve business conditions.

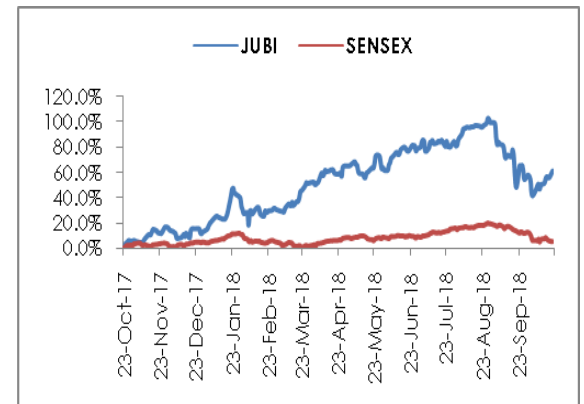
Margin continue to uptrend momentum more headroom to grow in future

Support by Operating leverage and productivity, cost efficiency such as manpower utilization, supply chain utilization, rental negotiation hence result in drop operating expenses and reduction in losses in dunkin helped EBITDA margin to expand in Q1FY19. Falling milk and cheese prices have really helped JFL in a big way as it could maintain gross margin at the current level. Cheese is a key raw material for JFL and accounts for around 40% of total raw materials consumed. EBITDA increased at a surprising pace of 78.5% YoY in Q1FY19 and 11.2% QoQ in Q1FY19.

Stock Details	
Market Cap (RsCr)	17250
BSE Code	533155
NSE Code	JUBLFOOD
Sector/Index	A / S&P BSE 200
Year End	March
52 w.High/Low	1575/764
Shares in Issue (cr)	13.1
BSE Sensex	33,847.23
NSE Nifty	10,146.80

Shareholding Pattern	
Indian Promoters	44.94%
DII's	7.37%
FII's	39.16%
Others	8.53%

Key Ratios	
Div Yield	0.20%
TTM PE	63.53x
ROE	22.10%
TTM EPS (INR)	19.49



Dunkin Donuts and Nestle India co-develop Three New Signature Donuts

Dunkin Donuts (DD), has announced its partnership with Nestle India to launch three new signature donuts made with bestselling chocolates- Nestle KITKAT, Nestle BAR ONE, and Nestle MUNCH NUTS. Donut lovers can enjoy these new donuts at any Dunkin Donuts outlet in the country. To create buzz around the newly introduced donuts, Dunkin' Donuts and Nestle India have also rolled out a joint marketing campaign 'An affair to remember' which will go live on 11th July, 2018. The three donuts- Chocoholic (Made with KITKAT), Choco-Crisp (Made with MUNCH NUTS) and Choc-o-Choc (Made with BAR ONE) will be a part of Dunkin's Signature Donut category and will be priced at INR 89. These new donuts have been co-developed by Dunkin Donuts and Nestle India.

Financials

During the past 5 years, revenue of JFL grew at a CAGR of 18.7% while PAT grew at a CAGR of 63.8% in the same period.

Particulars	FY17	FY18	FY19E	FY20E	FY21E
Net Revenue	2583.4	3018.4	3552.7	4263.2	5137.1
EBITDA	255.9	463.2	621.7	729.0	909.3
EBITDA Margin	9.9%	15.3%	17.5%	17.1%	17.7%
Net Profit	57.8	196.2	300.9	336.8	415.8
Growth	-40.4%	239.6%	53.3%	11.9%	23.4%
Net Profit Margin	2.2%	6.5%	8.5%	7.9%	8.1%
EPS	8.8	29.7	22.8	25.5	31.5
ROE	7.4%	22.1%	27.9%	24.3%	22.3%
RoCE	7.2%	20.3%	25.3%	21.3%	19.4%

Key Business Highlights

The Company has two strong international brands in its portfolio, Dominos pizza and dunkin donuts addressing different food market segment. For domino's pizza the company has exclusive rights to open and operate domino's pizza restaurants in India, Srilanka Bangladesh and Nepal currently, Domino's is operated by the company in India and Srilanka and company has just announced entry into the Bangladesh through a joint venture.

Domino's

Domino's Pizza India (DPI)

To harness the opportunities of the changing world, the Company identified four strategic pillars: Product & Innovation; Value for Money; Customer Experience and Digital & Technology. During the year, several initiatives were undertaken against each of these pillars which led to visible difference in sales, efficiency and productivity. Cost optimisation was also one of the key focus areas throughout the year

DPI's Same-Restaurant Sales Growth (SSG) witnessed a strong revival during the year at 13.9% in FY18 and 25.9% in Q1FY19. SSG is a key financial metric in the QSR industry, and the recovery indicates increase in frequency and value of ordering by existing and new customers

Dunkin' Donuts

Dunkin Donuts on track of achieving break-even

Change in strategy

Dunkin' Donuts have witnessed accelerated store closure in FY18. JUBI shutdown 31 loss making dunkin donut stores during the year. However, the management's focus on DD brand is reflected by repositioning of the menu and stores. It has improved focus on donuts and coffee to reduce losses with the introduction of value-for-money offerings. JUBI shifted to smaller format stores for DD in the range of 300sqft-600 sqft, against 800sqft earlier, to reduce costs and improve the return on investment.

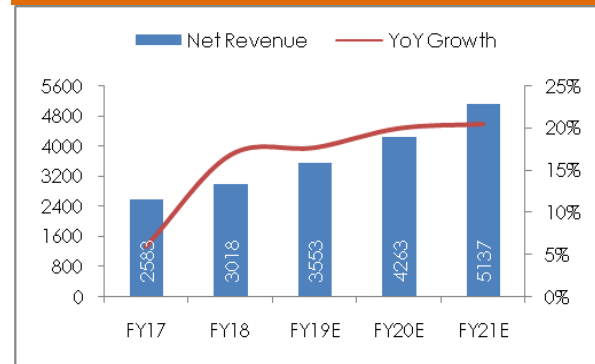
Overseas operation

Srilanka- Dominos registered 10% top line growth in FY18 (local currency) like in India even in srilanka the company rolled out the every day value proposition. New pizza and sides were also introduced to fuel excitement. The company has 24 domino's pizza restaurant earlier it was 23.

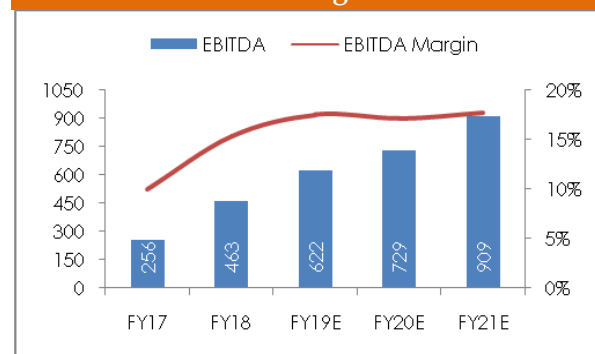
Bangladesh- entered into a joint venture (JUBI hold 51%) with golden harvest QSR LTD to launch domino's pizza restaurant in Bangladesh. Bangladesh, eighth most populous country in the world, has an emerging middle and affluent class with a young demographic that is ideal for JFL business.

Graphs & Charts

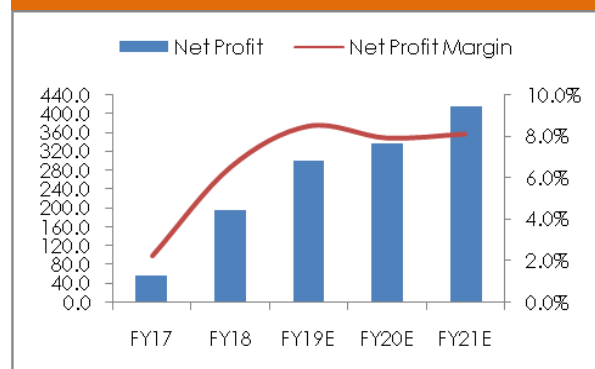
Net Sales Trend



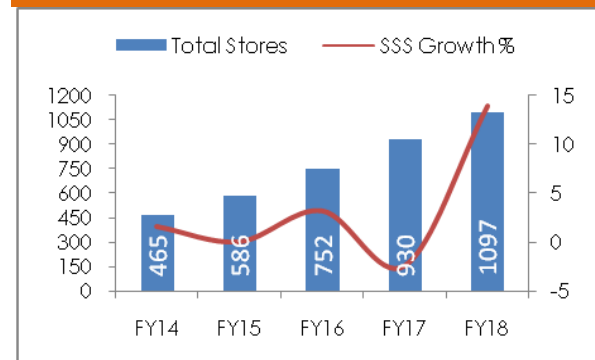
EBITDA & EBITDA Margin Trend



Net Profit Trend



Total Stores Growth Trend & SSS Growth %



Risk & Concern

Lower profitability of new store dragging down overall margins.

High promotional and Competitive intensity, leading to more discounting and higher than expected increases in raw material cost or increase in operating expenses could impact adversely on EBITDA margin.

Significant slowdown in consumer demand.

Valuation

QSRs with an estimated market size of Rs 10,500Cr till FY2017. QSRs are forecasted to continue driving growth for the organized segment, with its market size projected at Rs 30,500 Cr by 2020. In organized market QSR is expected to grow at a CAGR 21% by FY22. Management sounded confident about expansion plan after identified four strategic pillars such as product innovation, value for money, customer experience and digital & technology several initiatives were undertaken against each of these pillars which led to visible different in sales, efficiency and productivity and they have also focused on cost optimization area. Digital initiatives will drive overall business growth going forward as per management. Buy rating on JFL with target price of Rs based on FY20 EPS keeping with multiple 61.56x as indicating an upside of 14%.

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