Rating Rationale

December 17, 2024 | Mumbai

Jubilant FoodWorks Limited

Rating reaffirmed at 'CRISIL A1+'

Rating Action

Rs.100 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

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1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A1+' rating on the commercial paper programme of Jubilant FoodWorks Ltd (JFL).

The rating continues to reflect the established market position of JFL in the food service market, robust supply-chain network, over 27 years of experience in the business, supportive operating environment with rising disposable income and a younger population, and strong financial risk profile. These strengths are partially offset by concentration of revenue and profitability, which is driven by Domino's Pizza; and its susceptibility to competitive intensity and cost pressures.

JFL acquired a controlling stake in DP Eurasia NV (now DP Eurasia B.V.), increasing its ownership to 94.33% (as on March 31, 2024) from 49%, effective February 1, 2024, through its wholly owned subsidiary, Jubilant Foodworks Netherlands BV. DP Eurasia is the exclusive master franchisee of the Domino's Pizza brand in Turkey, Azerbaijan and Georgia. It offers pizza delivery and takeaway or eat-in facilities at its 730 stores (713 in Turkey, 10 in Azerbaijan and seven in Georgia as on September 30, 2024) and operates an asset-light, scalable business through franchised stores contributing around 90% of the overall stores. Furthermore, it operates in Turkey's high-frequency coffee consumption market under the "COFFY" brand.

The total acquisition value of DP Eurasia was 118.9 million euros (~Rs. 1,200 crore) wherein shareholding was acquired over the last three fiscals ended fiscal 2024. As per CRISIL Ratings expectations, the acquisition is expected to contribute to 20-25% of JFL's consolidated revenue from fiscal 2025, significantly diversifying its revenue base. The interest rate for the debt raised for the acquisition is approximately ~5.5%. This acquisition strengthens JFL's emerging market position, leveraging its expertise in running India's largest food service company. While the acquisition debt shall temporarily moderate its financial risk profile, As per CRISIL Ratings expectations, it shall continue to be healthy with the gearing remaining below 1 time and interest coverage remaining robust over the medium term. Any further debt-funded acquisition will remain monitorable.

During fiscal 2024, consolidated revenue grew 10% on-year to Rs 5,667 crore, supported by the addition of 356 new stores as well as the consolidation of DP Eurasia since February 1, 2024 (DP Eurasia contributed Rs 217 crore to topline for February and March of 2024). While JFL's Like-for-like growth remained negative for the first three quarters of fiscal 2024 amid slowdown in consumption, it has recovered since the fourth quarter of fiscal 2024 and remained in the positive territory in H1-fiscal 2025. While the growth in fiscal 2025 shall remain above 30% on-year led by the first full year of DP Eurasia consolidation, CRISIL Ratings expects the revenue to grow at 8-10% annually over the medium term.

The earnings before interest, taxes, depreciation and amortisation (Ebitda) margin (Post IndAS basis) moderated to 20.7% in fiscal 2024, from 22.6% in fiscal 2023. Employee costs stood at 18.7% in fiscal 2024, against 17.6% in fiscal 2024, while advertising and publicity spends were higher at 4.5% against 4.0% earlier. Ebitda margin (Pre IndAS; after adjusting for lease expenses) stood at 12.8% for fiscal 2024, against 15.4% in fiscal 2023. Post the consolidation of DP Eurasia, CRISIL Ratings expects the margin to sustain at 20.0-20.5% (Post IndAS basis) and 13-14% (Pre IndAS basis) over the medium term with accretion in profit after tax (PAT) margin.

In the first half of fiscal 2025, the reported revenue from operations stood at Rs 3,888 crore (44% on-year growth). The consolidation of DP Eurasia led to a sharp increase on consolidated revenue growth on on-year basis. While the operations in India registered ~8% growth on-year in the first half of fiscal 2025, DP Eurasia business also witnessed strong performance in key Turkey market. Ebitda (Post IndAS) stood at Rs 782 crore, resulting in an Ebitda margin of 20.1% (20.5% in the first half of fiscal 2024) (margin on Pre IndAS stood at ~13% for the first half in fiscal 2025; CRISIL Ratings adjusted).

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of JFL and its subsidiaries, as these entities have operational and financial linkages. Further, CRISIL Ratings has amortised the goodwill and master franchisee right assets, arising on acquisition of DP Eurasia over a period of ten years.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position in the QSR segment:** The company is a market leader in the pizza segment through its exclusive rights to operate Domino's Pizza outlets in India, Sri Lanka, Bangladesh, Nepal, Turkey, Azerbaijan and Georgia. During fiscal 2024, JFL opened 356 new stores, resulting in a network of 2,991 stores across all brands. As on September 30, 2024, Domino's India expanded its network to 2,079 stores across 447 cities. Post integration of DP Eurasia, the consolidated operations now include 730 Domino's stores and 116 COFFY stores across Turkey, Azerbaijan and Georgia.

  To further fortify its market position, the company has expanded its offerings under the brands—Popeyes, Dunkin' and Hong's Kitchen. Furthermore, with the acquisition of majority stake in DP Eurasia, it has entered Turkey's high-frequency coffee consumption market under the "COFFY" brand.

- **Robust supply-chain network:** The company operates through a unique commissary model, which provides it with a distinct competitive advantage. As its purchase function is centralised and it buys large volume of ingredients (such as cheese, sauce and pizza boxes), JFL can leverage its scale and negotiate better prices with suppliers. Furthermore, centralised sourcing, warehousing and distribution of raw materials, as well as production of dough balls at commissaries reduce the storage space, thereby enabling the company to minimise store operating costs. Working capital management has remained efficient with a traditionally negative working capital cycle, thus reducing the dependence on external debt.

- **Strong financial risk profile:** As on September 30, 2024, the total debt was Rs 1,494 crore, excluding lease liabilities of Rs 2,748 crore as against adjusted networth of Rs 2,454 crore. While the debt increased at March 31, 2024 to Rs. 1,507 crore as against Rs 183 crore as on March 31, 2023, due to acquisition-related and organic capex debt, the gearing remained below 1 time at the same date. While interest coverage ratio (pre IndAS basis) stood at 14.1 times for fiscal 2024, CRISIL Ratings expects same to moderate at 5-6 times over the medium term, with acquisition debt and working capital debt at DPEU. Eurasia B.V. (DPEU) availed of unsecured working capital loans, wherein interest rates are currently high at 40-60% due to the hyper-inflation in Turkey. Any further large, debt-funded acquisitions will remain monitorable.

Weaknesses:

- **Concentration of profitability in the Domino's Pizza division:** JFL derives most of its profit from Domino's Pizza in India and Turkey. Although the company has taken franchise of another major brand, Dunkin', it is yet to achieve comparative profitability and store economics. Additionally, since 2019, JFL has been focusing on diversifying its portfolio through expansion of its own brand, Hong's Kitchen (2019), and has taken franchisee rights of Popeyes (2021). The company expects to reach to 250 stores for Popeyes in India over the medium term. However, scalability and contribution of these brands to the profitability are yet to be seen. With acquisition of majority stake in DP Eurasia, it has entered Turkey's high-frequency coffee consumption market.

- **Susceptibility of profitability to competitive intensity and cost pressures:** The Indian QSR market is highly competitive (with players in the organised and the huge unorganised markets), which may result in loss of market share and reduced profitability. Fixed costs (mainly lease rentals for store premises, employee cost and electricity charges) form a significant portion of the operating cost for a QSR, resulting in high operating leverage. Thus, growth in same-store sales is essential to boost profitability. Hence, timely execution of the growth plan without any cost overrun and improvement in the operating margin with sustained focus on cost optimisation, technology, low leverage, and economies of scale remain monitorable.

Liquidity: Strong

The liquidity is supported by cash and equivalent, including bank deposits and liquid investments of around Rs 152 crore as on September 30, 2024. CRISIL Ratings expects that over the medium term, healthy liquid surplus along with internal accrual generation should be sufficient to fund organic expansion plans. Working capital requirement remains limited for JFL due to its negative working capital cycle.

Environment, social and governance (ESG) profile

The ESG profile of JFL supports its already strong credit risk profile.

The industry trends for the food retail sector show that it has a significant impact on the environment owing to high water consumption and waste generation, apart from greenhouse gas emission. Its social impact is characterised by health hazards, leading to a higher focus on employee safety and well-being; and the impact on the local community given the nature of operations.

JFL has continuously focused on mitigating its environmental and social risks. The company has been improving its disclosure levels and is further strengthening it.

ESG highlights

1. JFL has been increasing the share of electric bikes in its delivery fleet across multiple cities. This helps reduce Scope I/II emissions. With over 14,000 electric vehicles (EVs), the share of EV in fleet is now 53%.

2. The company is committed to reducing carbon dioxide emissions, 20% of the electricity demand of its commissaries is currently met by renewable power sources.
3. As part of its focus on recycling the waste generated, the company uses 100% recyclable pizza boxes and offers lidless dine-in boxes to reduce paper consumption. The Company has also taken several initiatives to fully eliminate single-use-plastic.
4. It continues to build a more diverse, inclusive and representative workforce, with 35% of its employees being women.
5. Under responsible sourcing initiatives, the company introduced India's first 'No Antibiotics Ever' policy and offers antibiotic-free chicken across brands. It has also achieved 100% farm traceability for chicken, oregano, chili and tomato paste.
6. The company has also extended training and veterinary support to over 6,500+ dairy farmers to enhance cattle productivity.
7. Governance profile is marked by 55% of its board comprising independent directors, split chairman and CEO positions, and strong investor grievance redressal cell. It also has extensive disclosures.

There is growing importance of ESG among investors and lenders. The commitment of JFL to ESG principles will play a key role in enhancing stakeholder confidence and ensuring ease of raising capital from markets where ESG compliance is a key factor.

Rating sensitivity factors

Downward factors:

- Substantial decline in revenue with operating margin falling to below 7-8% (Pre IndAS basis), impacting cash generation
- Any large, debt-funded capital expenditure or acquisition weakening the financial risk profile substantially on a sustained basis.

About the Company

(JFL Group/Group), incorporated in 1995, ranks among the leading emerging markets' food service companies. Its Group network comprises 3,130 stores (as of September 2024) across six markets – India, Turkey, Bangladesh, Sri Lanka, Azerbaijan and Georgia. The Group has a strong Portfolio of Brands in emerging markets with franchise rights for three global brands - Domino's, Popeyes and Dunkin' – and two own-brands, Hong's Kitchen, an Indo-Chinese QSR brand in India, and a CAFÉ brand - COFFY in Turkey

In India, it has an extensive network of 2,079 Domino's restaurants across 447 cities (as of September 2024). In Sri Lanka and Bangladesh, the company operates through its wholly owned subsidiary, which currently has 50 and 35 restaurants, respectively. JFL also has exclusive rights to develop and operate Dunkin' restaurants in India; and Popeyes restaurants in India, Bangladesh, Nepal and Bhutan. The company currently operates 32 Dunkin' restaurants and 54 Popeyes restaurants. It also operates 34 Hong's Kitchen restaurants across India.

Post integration of DP Eurasia (subsidiary since February 2024), the consolidated operations now include 730 Domino's stores and 116 COFFY stores across Turkey, Azerbaijan and Georgia.

Key Financial Indicators

As on/for the period ended March 31	**Unit**	**2024**	**2023**
Revenue	**Rs crore**	**5667**	**5162**
Reported profit after tax (PAT)	**Rs crore**	**400**	**353**
PAT margin	**%**	**7.1**	**6.8**
Adjusted debt/adjusted networth^	**%**	**0.62**	**0.09**
Adjusted interest coverage^	**Times**	**14.1**	**218.7**

^CRISIL Ratings-adjusted consolidated financials
Debt and finance costs do not include impact of lease accounting

Any other information: Not Applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Commercial Paper	NA	NA	7-365 Days	100.00	Simple	CRISIL A1+

Annexure – List of entities consolidated

Name of the company	Type of consolidation	Rationale for consolidation
Jubilant FoodWorks Ltd	Full consolidation	Subsidiary
Jubilant FoodWorks Lanka Pvt Ltd	Full consolidation	Subsidiary
Jubilant FoodWorks Bangladesh Ltd	Full consolidation	Subsidiary
Jubilant FoodWorks Netherlands B.V.	Full consolidation	Subsidiary
Jubilant FoodWorks International Investments Ltd	Full consolidation	Subsidiary
Jubilant FoodWorks International Luxembourg	Full consolidation	Subsidiary
DP Eurasia B.V. (DPEU)	Full consolidation	Subsidiary
Fidesrus B.V. (Fidesrus)	Full consolidation	Subsidiary
Pizza Restaurants LLC	Full consolidation	Subsidiary
Fides Food Systems B.V. (Fides Food)	Full consolidation	Subsidiary
Pizza Restaurantlari A.Ş.	Full consolidation	Subsidiary
JFL Employees Welfare Trust	Full consolidation	Subsidiary
Hashtag Loyalty Pvt Ltd	Equity method	Associate
Wellversed Health Pvt Ltd	Equity method	Associate
Roadcast Tech Solutions Pvt Ltd	Equity method	Associate

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	100.0	CRISIL A1+		--	21-12-23	CRISIL A1+	29-07-22	CRISIL A1+	10-08-21	CRISIL A1+	Withdrawn
			--		--	30-06-23	CRISIL A1+		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt

Media Relations	Analytical Contacts	Customer Service Helpdesk
Prakruti Jani Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja Gaikwad** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Anuj Sethi Senior Director **CRISIL Ratings Limited** B:+91 44 6656 3100 anuj.sethi@crisil.com Aditya Jhaver Director **CRISIL Ratings Limited** B:+91 22 3342 3000 aditya.jhaver@crisil.com AKSHAY GOEL Manager **CRISIL Ratings Limited** B:+91 22 3342 3000 AKSHAY.GOEL1@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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