JUBILANT FOODWORKS LIMITED

CASE STUDY

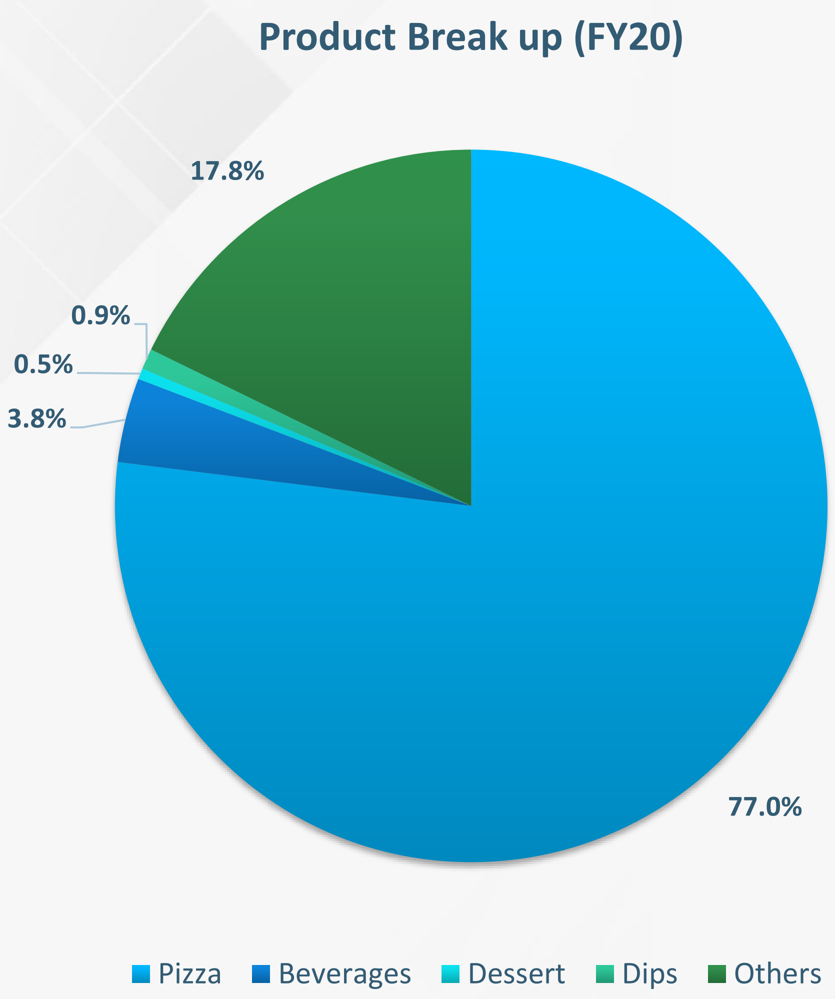
ABOUT THE COMPANY

Jubilant FoodWorks Limited (JFL), part of the Jubilant Bhartia Group, is among India's largest food service companies with a network of 1,354 Domino's Pizza restaurants across 284 cities (as of June 30, 2020). The company holds the master franchise rights for two international brands, Domino's Pizza and Dunkin' Donuts addressing two different food market segments.

JFL has exclusive rights to develop and operate Domino's Pizza brand in India, Sri Lanka, Bangladesh and Nepal. The company dominates the pizza market in India. The company also launched its first homegrown brand – Hong's Kitchen in Chinese cuisine segment. The company forayed into the ready-to-cook segment with a range of sauces, gravies and pastes under the newly launched brand, 'ChefBoss'.

With a robust business model, an efficient supply chain comprising a strong network of certified supply chain business partners, and countrywide presence, JFL is well-positioned to capitalize on a wide array of growth opportunities in the Food Service Industry (FSI). To stay ahead of competition, the company is constantly working towards transforming processes and leveraging technology to enhance its capabilities and simplify its operations.

ABOUT THE COMPANY



SALES GROWTH

In FY20, the net sales grew by 10.2% to ₹3,927 cr v/s ₹3,563 cr in FY19. The company had 1,373 stores (across brands) spread with a Same Store Sale Growth (SSSG) of 3.2% in FY20.

In Q1 FY21, revenues de-grew substantially by 59% YoY to ₹388 cr. The SSSG slumped by 61.4% YoY. Lower operating stores led to a substantial decline in the revenues.

24 new Domino's pizza stores were opened (5 closed down) bringing the total number of stores at 1,354 in Q1 FY21. The system sales recovery was at 40.5% led by delivery sales recovery of 66.7%. The revenue recovery improved progressively to 84.6% in August v/s 69.8% in July 2020.

5 Year CAGR: 13.4%

EBITDA GROWTH

The EBITDA in FY20 grew to ₹876 cr due to increase in revenue, but this increase is not comparable to prior year numbers since the company adopted the new Accounting Standard 116. Under AS 116, lessees have to recognize a lease liability reflecting future lease payments and a right-of-use asset for almost all lease contracts with tenure over 12 months. Consequently, the de-recognition of operating lease charges has had a positive impact on EBITDA.

In Q1 FY21, the EBITDA de-grew by 89% YoY to ₹25 cr on account of lower revenues, primarily led by lockdowns and lower operating stores.

Reduction in operating costs, rent renegotiation, variable store manpower along with other cost cutting measures were undertaken in order to contain the dip in the profitability during the quarter.

5 Year CAGR: 28.0%

PAT GROWTH

In FY20, the PAT de-grew by 12% to ₹279 cr v/s ₹318 cr in FY19 which was impacted mostly due to exceptional items worth ₹25 cr that includes expenses consequential to Covid 19 pandemic and provision against investments made in Jubilant Foodworks EPF Trust, in corporate bonds of DHFL, Reliance Capital & ILFS.

The company reported a net loss of ₹74 cr in Q1 FY21 v/s a profit of ₹72 cr in Q1 FY20. The company has been working on several measures to contain costs in order to reduce the impact of loss of sales. Since the company is witnessing an overall pickup in the business (84% in August), the adverse impact of Covid 19 may be short-lived.

5 Year CAGR: 20.2%

GROWTH EDGE METER: 4

An Edge Meter is a graded measurement of certain aspects of a company on a scale of 1 to 5, 5 denoting the highest rating. Since judgement on equity is subjective because different people will have different expectation from their investments, it is better to study each aspect and give an individual grading to arrive at the final evaluation of a stock.

EBITDA MARGIN

In FY20, the EBITDA margin expanded to 24.1% due to a change in accounting policy relating to leases.

In Q1 FY21, the EBITDA margins dipped to 6.4% (v/s 23% in Q1 FY20) on account of lower revenues thus impacting the operating profits. The company has taken re-structuring initiatives and would shut down certain non-profitable stores in line with the aim of maintaining margins going forward.

Jubilant Foodworks has been able to improve its EBITDA margins since FY17 on the back of recovery in SSSG.

PROFITABILITY

Case Study

PAT MARGIN

In FY20, the PAT margins contracted by 180 bps YoY to 7.1% (v/s 8.9% in FY19) on the back of exceptional items during the year worth ₹25 cr.

PROFITABILITY

Case Study

ROCE

Jubilant Foodworks has maintained a healthy ROCE at an average of 31.6% over the past five years. In FY20 it came in at 47.7% as compared to 44.0% in FY19.

ROCE was impacted (FY12-FY17) as the EBIT did not grow as compared to the growth in capital employed. However, the profitability improved significantly since FY18.

In the current financial year, there would be a negative impact on the ROCE due to reduced profitability. However, the ROCE may return to normalcy as the adverse impact of Covid decreases.

PROFITABILITY

Case Study

ROE

Jubilant Foodworks has a healthy average ROE of 19.2% over the past 5 years. For FY20, the ROE stood at 23.5% as compared to 28.7% in FY19.

Introduction of delivery charge, cut in operating costs and closure of unprofitable Domino's stores are expected reduce the damage to the profitability of the company in the short term.

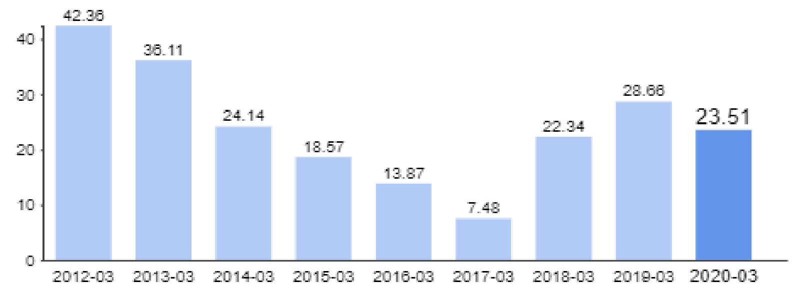
Jubilant FoodWorks Ltd.

Deliveries | Updates | Technicals | **Fundamental** | Financials | Shareholding | MF Ho

Overview | Results | **Ratios**

Return Ratios | Consolidated

Return on Equity (%)	13.87	7.48	22.34	28.66	**23.51**



Net Profit	96.89	57.77	196.23	317.98	**278.80**
Net Worth	762.02	805.30	967.73	1,259.64	**1,122.03**

PROFITABILITY EDGE METER: 3

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STOCK EDGE

CASH FLOWS

The cash from operations of Jubilant Foodworks for FY20 stood at ₹727.8 cr. The increase was on account of the impact of AS-116 as a result of which and lease rentals have become part of financing cost.

The company did not invest in bank deposits in FY20 leading to lower cash outflows from investing activities (₹99 cr in FY20 v/s ₹457 cr in FY19) however higher repayment of lease liabilities and dividend to equity shareholders led to higher cash outflows from financing activities.

The company had stated in the last quarter of FY20 that due to the pandemic situation, it would focus on reducing cash outflow and would conserve cash which would help the company tide over the crisis efficiently.

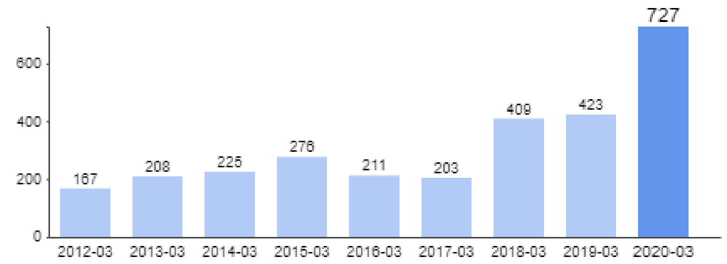
Jubilant FoodWorks Ltd.

s Updates Technicals Fundamental Financials Shareholding MF Holding Outlook F

Chart B/S P/L C/F

Cash Flow Consolidated Standalone

Particulars	9 years	2016-03 Rs. Cr.	2017-03 Rs. Cr.	2018-03 Rs. Cr.	2019-03 Rs. Cr.	2020-03 Rs. Cr.
+ Cash Fr. Operatn.		212	204	409	424	728
Cash Fr. Inv.		-200	-188	-332	-457	-99
Cash Fr. Finan.		-18	-15	-35	-17	-461



WORKING CAPITAL CYCLE

The working capital days of Jubilant Foodworks has been significantly strong over the years.

However, in FY20 due to a marginal decrease in days of payables, the working capital cycle also increased.

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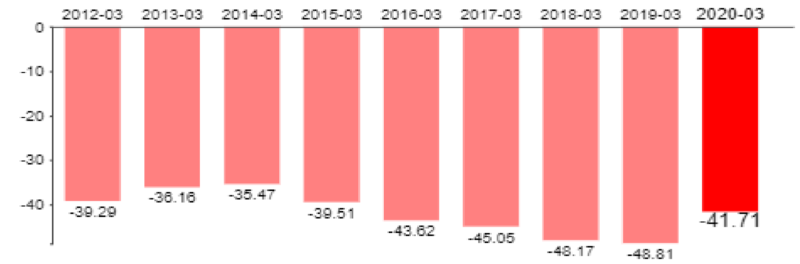
Efficiency Ratios

Consolidated

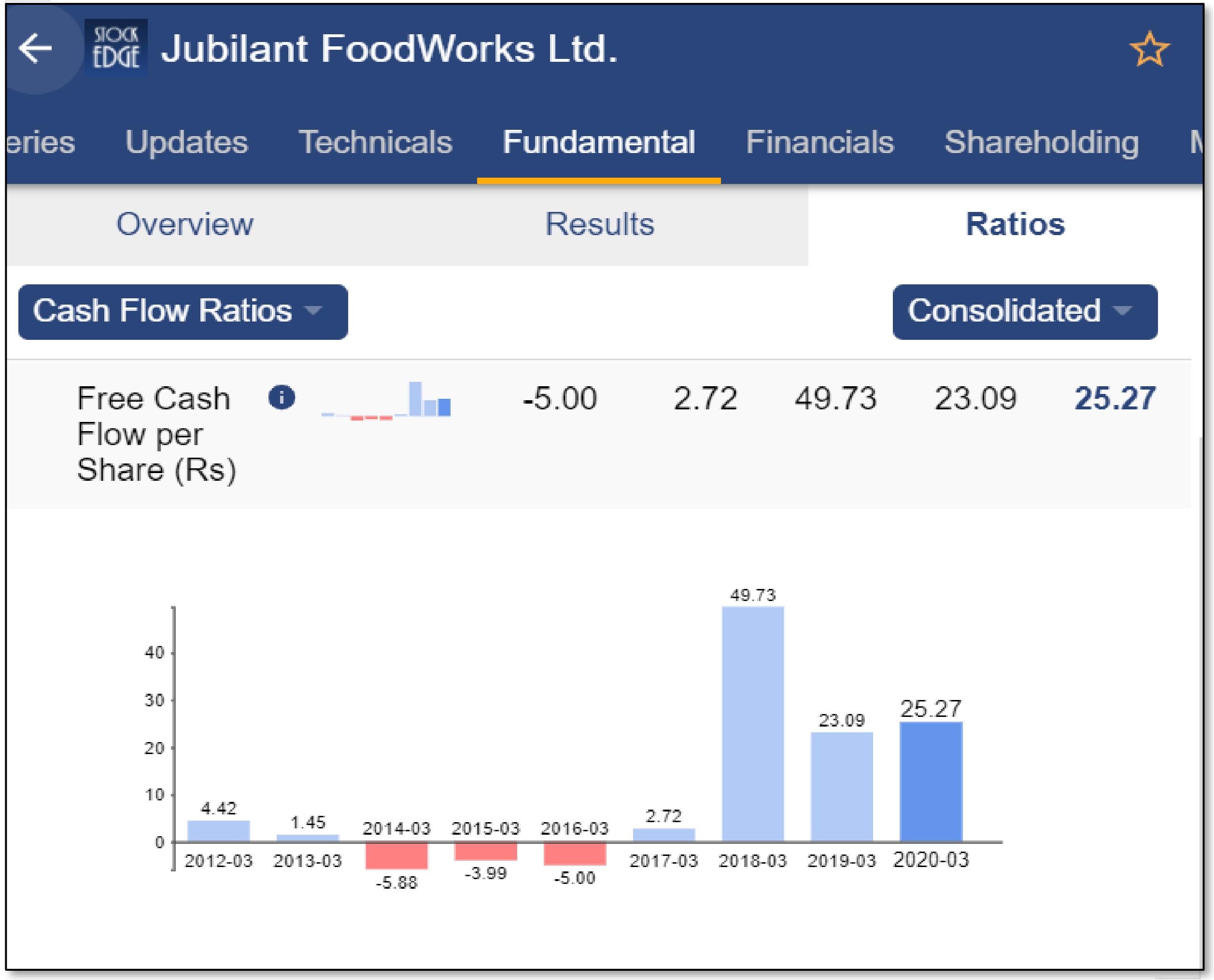
Days of Receivables	1.82	2.02	1.92	2.21	**2.05**
Days of Payables	52.82	55.26	57.64	58.25	**51.74**
Days of Inventory	7.37	8.19	7.55	7.24	**7.98**
Working Capital Days	-43.62	-45.05	-48.17	-48.81	**-41.71**



FREE CASH FLOW

Jubilant Foodworks has a positive FCF per share over the past 4 years. In FY20, the FCF came at ₹25.27 per share on the back of higher cash flow from operations.

During the year, the company made an overall capex of ₹280 cr. Most of the capex (₹250 cr) catered to opening up of new stores and the remaining was towards maintenance.



ASSET TURNOVER RATIO

The asset turnover ratio of the company has been steady over the past 9 years.

The sudden slump in the FY20 was on the back of increase in the total assets on account of recognition of right-of-use assets worth ₹1330.98 cr in FY20 required for the transition to Ind AS-116 accounting treatment. Without considering the impact of this, there would have been a slight decline in the asset turnover ratio.

With focus on technology, automation, digitization to improve efficiency, customer experience and agility for the company continues to be a strong focus.

EFFICIENCY EDGE METER: 3

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DEBT TO EQUITY

Jubilant Foodworks did not have any debt over the past 9 years. It has been able to fund its capex and other activities through its internal accruals.

However, in FY20 due to Ind AS-116 accounting regulations the company had to recognize lease liabilities under long term liabilities worth ₹1,524.71 cr. But, as there is no cash transaction involved in this transition and it is purely an accounting treatment so there is no material impact on the ratio profile.

INTEREST COVERAGE RATIO

Jubilant Foodworks has had zero debt over the years due to which it does not have any liability to pay off in the form of interest costs.

However, the implementation of AS-116 in FY20, has led to a recognition of interest in relation to the leases (most of which is store space on lease).

Due to the accounting treatment, the company has an interest cost of ₹165 cr and with an EBIT of ₹568 cr, the interest coverage ratio for FY20 stands at 3.44x.

CURRENT RATIO

Jubilant Foodworks has improved its current ratio substantially over the last 3 years. It has grown from 0.58x in FY17 to 1.21x in FY20.

With a current ratio of 1.2x in FY20, the company has comfortable liquidity to meet the short term obligations.

SOLVENCY EDGE METER: 5

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VALUATION

PE RATIO

The PE ratio of Jubilant Foodworks has a 9 year average of 68.7x. Currently, the stock is trading at a trailing twelve months PE of 231.67x.

This high PE is due to the loss incurred in Q1 FY21, which has resulted in reduced EPS for the last four quarters. With revival in business, the loss is unlikely to sustain for long.

Nevertheless, the stock has also run up by ~42% in the past three months on the back of improving sales recovery.

Jubilant FoodWorks Ltd.

art | Deliveries | Updates | Technicals | **Fundamental** | Financials | Shareholding | MF Holdir

Overview | Results | Ratios

Market Cap	31,146.01 Cr.	
Earnings per share (EPS)	10.19	Trailing Twelve Months Ending 2020-06
Price-Earning Ratio (PE)	231.67	Trailing Twelve Months Ending 2020-06
Industry PE	29.03	Trailing Twelve Months Ending 2020-06
Book Value / Share	78.93	Trailing Twelve Months Ending 2020-06
Price to Book Value	29.90	Calculated using Price: 2360.1
Dividend Yield	0.25	Period Ending 2020-03
No. of Shares Subscribed	13.20 Cr.	131,969,040 Shares
FaceValue	10	

VALUATION

Case Study

DIVIDEND YIELD

For the year ending March 2020 Jubilant Foodworks has declared an equity dividend of 60.00% amounting to ₹6 per share. At the current share price of ₹2,360.10, this results in a dividend yield of 0.25%.

Jubilant Foodworks started paying dividend from FY15, and has had an average dividend payout of ~20% over FY15-FY19. It has been growing its dividend payout ratio as per the company's performance and for FY20 the dividend payout stood at 28%.

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TECHNICAL ANALYSIS

Jubilant Foodworks has exhibited tremendous strength on the charts and is currently trading near its life time high.

After moving in the range of 1050-1550 in the calendar year 2018 and 2019, the stock broke out on the upside in early 2020. However, due to Covid it again retraced all the gains and tested a low of ~1150. Since then the stock has only moved in one direction and that is up.

The stock is likely to find very good support in the 1920-2100 band and any decline towards these levels can be utilized to accumulate the stock for investment.

VALUATION EDGE METER: 3

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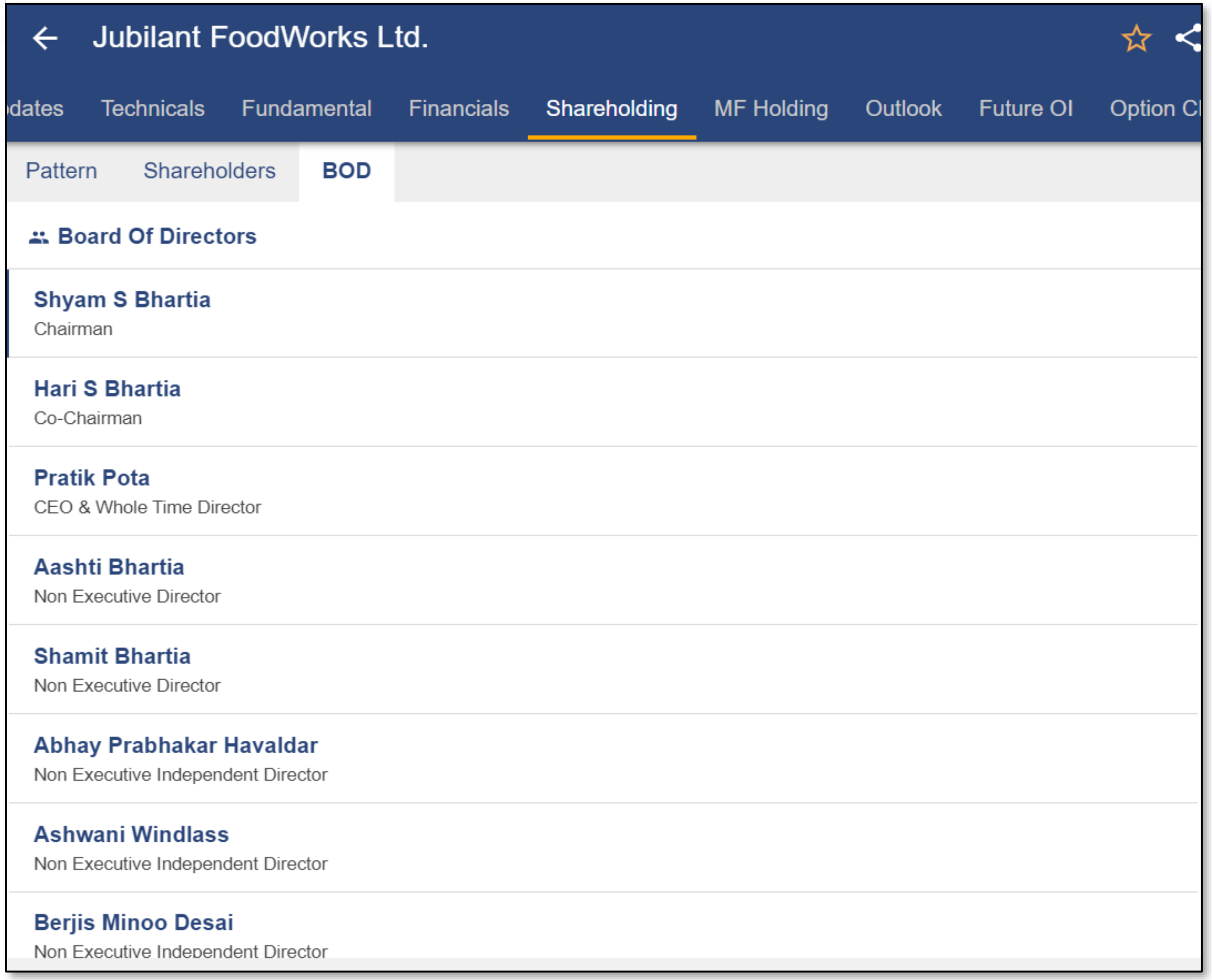
MANAGEMENT

The highly experienced management of the company remains focused on improving the customer experience through continuous innovation, brand building activities, new restaurant design and more. The management has been able to strategically grow the brand Domino's by having more split stores and enhancing the digital assets.

In the near term, in order to cope up with the pandemic the management has undertaken initiatives like Zero Contact Delivery, Zero Contact Dine-in and Zero Contact Takeaway which is expected to gain prime focus in the post Covid-19 era.

Also, in order to maintain the profitability the management has decided to cut costs and optimize expenses efficiently.



SHAREHOLDING PATTERN

The promoter group holds 41.94% stake in the company with 2.71% pledged shares (v/s 3.61% in Q4 FY20).

FII shareholding increased to 36.19% (v/s 30.94% in March 2020) while DII shareholding decreased to 15.69% (v/s 21.06% in March 2020).

Non-Institution shareholding also decreased to 5.55% (v/s 6.07% in March 2020).

Top Public Shareholding:

Arisaig India Fund	2.78%
UTI Equity Fund	2.49%
Kotak Standard Multi-cap fund	2.39%
Gaoling Fund, L.P.	1.67%
Arisaig Global EM Consumer Fund	1.62%

	9 Qtrs	2019-06 (%)	2019-09 (%)	2019-12 (%)	2020-03 (%)	2020-06 (%)
+ Promoter		41.94	41.94	41.94	41.94	41.94
− Public		58.06	58.06	58.06	58.06	57.87
FII/FPI		35.89	34.49	32.65	30.94	36.19
DII		11.80	17.48	19.38	21.06	15.69
Non Institution		10.37	6.10	6.03	6.07	5.55
+ Depository Receipts		0.00	0.00	0.00	0.00	0.00
Promoter Holding Pledge (%)		2.36	2.54	2.89	3.61	2.71

SECTOR POTENTIAL

- Jubilant Foodworks is engaged in the food service industry in India. The food service industry has witnessed significant increase in the spending by the consumers due to factors like increase in disposable income, increase in delivery based services, reduction in the GST rates from 18% to 5% and increase in ease of online ordering.
- According to the National Restaurant Association of India (NRAI), the Indian food service industry is estimated to grow at a CAGR of 9% to reach ₹5.9 lakh cr by FY 2023.
- Ordering in has been an integral part of the eating experience as customers do not have to travel, wait-in line or compromise on the food quality. While speed and convenience are the two major driving forces behind this shift in consumer behavior, technology is the enabler making it happen.
- In the current scenario, the food service industry is expected to see a significant shift from the unorganized segment (~70%) towards the organized segment (~30%) due to the increase in the awareness of hygienic products which is absent in most of the unorganized segment. This would bode well for the Quick Service Restaurant (QSR) food chains like Domino's to gain market share in the long term.
- While the long term prospects for the food service industry remains robust, in the near term there may be few restaurant closures in the unorganized segment due to significant loss of sales for a prolonged period. In this situation, QSRs may gain more market share due to quick and convenient delivery system and better brand penetration.

COMPETITIVE LANDSCAPE

Jubilant Foodworks is a leading player in the Quick Service Restaurant segment which has occupied an important position in the overall food & services industry.

Domino’s has established itself as the undisputed leader in the pizza segment, due to factors like first mover advantage, rapid expansion, brand building initiatives and innovative product portfolio. Westlife development is the closest competitor with the brand name McDonald’s under it.

Currently, in the post Covid era delivery based restaurants will witness increased demand from the customers. Domino’s is already established as a delivery based restaurant as against McDonald’s which provides delivery only in few locations.

Consumer Food

All Stocks | Gainers | Losers | News

MCAP | PE | P/BV | D/E | ROE | ROCE | **SALES** | PAT

Stock Name	Statement	Year Ending	Net Sales (Rs. Cr.)
Nestle India Ltd.	Standalone	2019-12	12,368.90
Britannia Industries Ltd.	Consolidated	2020-03	11,599.55
Marico Ltd.	Consolidated	2020-03	7,315.00
Jubilant FoodWorks Ltd.	Consolidated	2020-03	3,927.27
Varun Beverages Ltd.	Consolidated	2019-12	7,129.58

FUTURE OUTLOOK

- Jubilant Foodworks has plans to open 100 Domino's stores and scaling up 15 Hong's Kitchen stores in Delhi NCR in the current financial year. Also, the company would be opening 5 stores each in Bangladesh and Sri Lanka.
- Being a delivery focused retail restaurant chain it is better placed during these times as compared to other players in the food and services industry. Also, with a probable expansion into the cloud kitchen format (delivery-only restaurants that has no physical space for dine-in), it bodes well for Domino's stores.
- In the near term, however, the outlook remains weak due to - a) weak macro economic situation where people would look for value of money products, b) increased sense of cautiousness regarding outside food, and c) minimum wage increases (increasing the employee costs)
- As per the management the customers have already accepted the delivery charges introduced during the Covid period which bodes well for the company.
- Also, the management has decided to close down 105 Domino's stores whose profit outlook was uncertain for the coming 2 years. This would help the company to improve the profitability and enhance the margins.

QUALITY EDGE METER: 4

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STOCK EDGE

FINAL EDGE MATRIX

Edge Meter Aspects	Grade
Growth	4
Profitability	3
Efficiency	3
Solvency	5
Valuation	3
Quality	4
TOTAL	**22**

The maximum grade for a company could be 30. Any company above grade 20 is worth considering. A grade below 15 is considered to be poor.

THANK YOU