



THINK DIFFERENT PROFIT MORE

Company Name	: JUBILANT FOODWORKS
BSE Code	: 533155
Time Duration	: 2 years
CMP	: ₹1188.85 (as on 01 Aug., 2019)
Target Price	: ₹1675

Our Upstream Pick for the month of August is Jubilant Foodworks Limited. The company and its subsidiary operate Domino's Pizza brand with the exclusive rights for India, Nepal, Bangladesh and Sri Lanka. The company has also rights for developing and operating Dunkin' Donuts restaurants for India. The company has also forayed into Chinese cuisine business in the name of 'Hong's Kitchen'.

We have chosen Jubilant Foodworks as our Upstream Pick for this month. The company had earlier invested in Dunkin' Donuts, which it has now started to normalise and, at present, it operates 30 stores as against 37 stores in Q1FY19. Also, the stock of Jubilant Foodworks has already corrected a lot and now it is available at attractive valuation of 48.98x P/E multiple, which is close to its five-year minimum P/E of 47.24x. Also, despite the challenging times for the consumption sector, the company is likely to maintain its growth momentum in the coming quarters owing to consistent menu innovation and focus on delivering value to the customers.

Domino's Pizza: SSG low due to high base, margins likely to improve on price hike

The company is the market leader in the pizza segment with a network of 1,249 Domino's Pizza restaurants across 276 cities in India. Looking at the SSG (same store growth), SSG in Q1FY20 stood at 4.1% vs 25.9% in Q1FY19. The higher base in Q1FY19 has restricted same store sales growth in this quarter. Going ahead, SSG would grow further as the high base effect will be normalised.

In the last quarter, the company has taken price hike of ~3-4% after almost three years due to rising costs, mainly of the dairy products. However, this hike would not affect the demand as the price hike is minimal. Going ahead, improvement in margin would be seen on account of this price hike.

Store additions to drive the revenue growth

During Q1FY20, the company opened 26 new stores and closed 4 stores, taking the total store count of Domino's Pizza to 1249 as on June 30, 2019. The company is on the track to add 100 new stores by the end of FY20. Domino's Pizza Bangladesh continues to do very well and ahead of plans. The company is planning to add five more stores by FY20E, which would further drive the revenue.

Foray into Chinese cuisine business

The company has also forayed into the Chinese cuisine business with its own brand 'Hong's Kitchen' in Q4FY19. The company has received positive response and it plans to increase its store count to 10 in FY20 in Delhi. The company will further analyse the response for Hong's Kitchen and then plan some capex for the same.

Gaining momentum in online business

The company has gained significant traction in its online business, supported by its new Domino's App. Mobile ordering to online sales came in at 89% in Q1FY20 vs 83% in Q1FY19. Also, the online sales contributed 81% to the total revenue in Q1FY20 vs 65% in Q1FY19. Further, owing to the rise in preference for online food delivery, the company's revenue from online business is likely to witness strong traction, thereby contributing significantly to company's growth trajectory.

Financials

Looking at the recently concluded quarter Q1FY20, the consolidated revenue came in at Rs. 949.11 crore as against Rs. 863.23 crore in the corresponding quarter last year, registering 9.9% yoy increase. The EBITDA for the quarter grew by 54.5% yoy to Rs. 217.91 crore as against Rs. 141.08 crore in the corresponding quarter last year, with a corresponding margin expansion of 662 bps. EBITDA margin for the quarter stood at 23%. The PAT for the quarter came in at Rs. 71.48 crore as against Rs. 72.13 crore in the corresponding quarter last year, a decline of 0.9% yoy.

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Valuation & Outlook

Over the years, the company has improved its return ratios significantly and, as of FY19, its ROE stands at 25.38 per cent as against 20.27 per cent in the previous year. Also, ROCE in FY19 jumped 37.30 per cent from 29.61 per cent in the preceding year. We believe that with increasing preference for western fast food, Jubilant Foodworks would be a key beneficiary. Thus, the company's plan to add more stores is expected to aid in revenue growth going forward. The foray into new segment (Chinese fast casual) and geography (Bangladesh) would further aid topline. Additionally, increasing trend for online food delivery augurs well for the company as it generates most of its revenue from online ordering. Considering above factors, we see a potential upside of 41% with a target price of Rs. 1675 over a period of two years.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	3563.14	3018.40	2583.39	2437.98	2092.76
Total Income	3610.51	3041.48	2598.13	2449.55	2100.29
Total Expenditure	2963.38	2578.31	2342.26	2174.29	1837.68
PBIDT	647.12	463.17	255.87	275.26	262.60
PAT	317.98	196.23	57.77	96.89	111.08
Dividend %	0.00	50.00	25.00	25.00	25.00
Adj. EPS(Rs)	24.23	14.87	4.38	7.36	8.47

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201906	201806	Y on Y Var%
Net Sales	949.11	863.23	9.95
Total Expenditure	731.19	722.15	1.25
PBIDT (Excl OI)	217.92	141.08	54.47
PAT	71.48	72.13	-0.89
PBIDTM% (Excl OI)	22.96	16.34	40.51
PBIDTM%	24.58	17.18	43.07
PATM%	7.53	8.36	-9.93
Adj. EPS(Rs)	5.43	5.47	-0.73



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