

Jubilant FoodWorks

Refer to important disclosures at the end of this report

Strong performance delivered; upgrade to Buy

- Jubilant posted Q3 numbers that surprised us positively, with SSG of 15% and PAT growth of 46% which was ahead of our estimate by 16%.
- Margins expansion at 120bps was higher, and we believe that concerns of high inflation affecting margins appear overdone as management commentary indicated to have sufficient levers to maintain margins going ahead.
- The pace of expansion has been stepped up, which may marginally affect SSG growth in future, but is factored in our estimates (9% SSG) and JUBI's superior execution may provide some upsides, in our view.
- Strong performance provides marginal upsides to our estimates. We believe JUBI offers good earnings visibility despite the estimated moderation in SSG. We raise JUBI's TP to Rs1,540 from Rs1,450, and upgrade it to a Buy from Accumulate, as valuations at 40x FY20E EPS appear attractive after the recent correction.

- SSG at 14.6% continues to be ahead of expectations:** SSG was strong at 15% despite a high base of 18% in 3QFY18, driven by positive momentum from its Every Day Value offerings, new product innovations, and a strengthened app driving higher online sales. Management efforts to strengthen the app with new features is driving strong growth - online ordering up to 73% of sales vs. 60% in 3QFY18 with mobile ordering at 88% of online orders vs. 71% in 3QFY18 (app downloads were up by 20%+ qoq).
- Margin expansion despite inflation concerns - a positive surprise:** Despite concerns about higher staff inflation driven by online aggregators, JUBI surprised positively with an operating margin expansion of 120bps. Other overheads increased 22%, but these were partly driven by higher marketing spends. Gross margins were up 110bps, driven by lower input prices, particularly cheese, better mix and higher margins from its new beverage contract with Pepsi. With management indicating the worst of inflation to be behind, operating margins are likely to remain strong in the coming quarters.
- Store addition pace increased; levers in place to maintain SSG and margins.** The pace of store addition increased in the quarter to 33 (net addition) vs. 23 in Q2. JUBI has now added 66 stores on a net basis (average of 22 stores each quarter) and expects to sustain this level of expansion. With most stores being added in cities where JUBI is present, management guided for a moderation in SSG ahead, but with an expansion rate of only 6-7%, the SSG impact from splitting of stores will not be significant, in our view.
- Valuations at discount to peers; upgrade to Buy:** Despite a moderation in SSG estimate (9% SSG in FY20-21E), we believe JUBI offers healthy earnings visibility with a strong focus on driving profitable growth. After the recent underperformance, valuations at 40x FY20E EPS appear attractive. We increase estimates marginally and upgrade to a Buy from Accumulate, with a revised TP of Rs1,540, valuing it at 45x Dec-20E EPS.

Financial Snapshot (Standalone)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	25,461	29,804	35,611	40,623	46,278
EBITDA	2,466	4,464	6,104	7,042	8,180
EBITDA Margin (%)	9.7	15.0	17.1	17.3	17.7
APAT	794	2,064	3,310	3,958	4,728
EPS (Rs)	6.0	15.6	25.1	30.0	35.8
EPS (% chg)	(25.7)	159.7	60.4	19.6	19.4
ROE (%)	9.6	21.8	28.4	27.1	25.6
P/E (x)	199.3	76.7	47.8	40.0	33.5
EV/EBITDA (x)	63.7	34.6	24.5	20.7	17.2
P/BV (x)	18.6	15.2	12.3	9.7	7.7

Source: Company, Emkay Research

CMP	Target Price
Rs 1,200 as of (January 30, 2019)	Rs 1,540 (▲) 12 months
Rating	Upside
BUY (▲)	28.3 %

Change in Estimates

EPS Chg FY19E/FY20E (%)	5.9/4.1
Target Price change (%)	6.2
Target Period (Months)	12
Previous Reco	ACCUMULATE

Emkay vs Consensus

	EPS Estimates	
	FY19E	FY20E
Emkay	25.1	30.0
Consensus	23.5	29.2
Mean Consensus TP (12M)	Rs 1,463	

Stock Details

Bloomberg Code	JUBI IN
Face Value (Rs)	10
Shares outstanding (mn)	132
52 Week H/L	1,578 / 902
M Cap (Rs bn/USD bn)	158 / 2.23
Daily Avg Volume (nos.)	2,004,891
Daily Avg Turnover (US\$ mn)	34.1

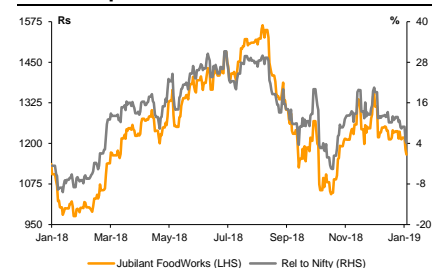
Shareholding Pattern Dec '18

Promoters	44.9%
FIIIs	39.4%
DIIIs	6.8%
Public and Others	8.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	13	(15)	12
Rel. to Nifty	(2)	8	(10)	16

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Actual vs. estimates (Q3FY19)

Rs mn	Actual	Estimate		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues	9,291	9,137	9,157	1.7%	1.5%	Revenue ahead of our estimates, driven by strong SSG.
EBITDA	1,706	1,571	1,594	8.6%	7.0%	Higher-than-estimate EBITDA due to lower overheads and improved gross margins.
EBITDA Margin (%)	18.4%	17.2%	17.4%	116	95	
APAT	965	833	842	15.9%	14.6%	

Source: Company, Emkay Research

Exhibit 2: Revision in estimates

Y/E, Mar (Rs. mn)	FY19E			FY20E			FY21E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	34,986	35,611	1.8	40,187	40,623	1.1	46,201	46,278	0.2
EBITDA	5,939	6,104	2.8	6,953	7,042	1.3	8,181	8,180	0.0
EBITDA Margin (%)	17.0	17.1	20 bps	17.3	17.3	0 bps	17.7	17.7	0 bps
APAT	3,125	3,310	5.9	3,803	3,958	4.1	4,634	4,728	2.0
EPS	23.7	25.1	5.9	28.8	30.0	4.1	35.1	35.8	2.0

Source: Company, Emkay Research

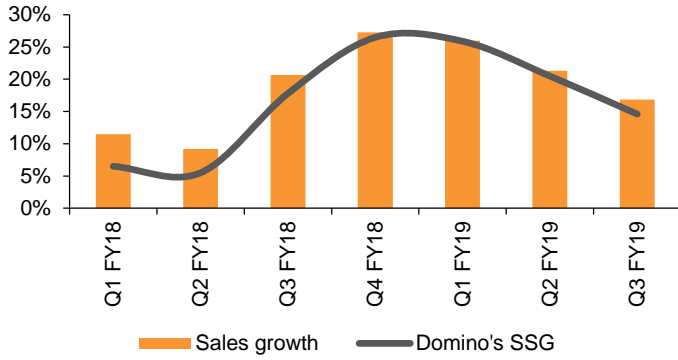
Exhibit 3: Quarterly performance (Standalone)

Y/E Mar (Rs mn)	3QFY18	2QFY19	3QFY19	YoY (%)	QoQ (%)	9MFY18	9MFY19	YoY (%)
Total income	7,952	8,814	9,291	16.8	5.4	22,006	26,655	21.1
Gross Profit	5,926	6,575	7,019	18.5	6.7	16,496	19,967	21.0
Employee expenses	1,585	1,702	1,771	11.7	4.0	4,621	5,018	8.6
as % of sales	20%	19%	19%			21%	19%	
Rent	785	829	866	10.4	4.5	2,300	2,536	10.2
as % of sales	10%	9%	9%			10%	10%	
Other expenses	2,187	2,569	2,676	22.4	4.2	6,389	7,811	22.3
as % of sales	28%	29%	29%			29%	29%	
EBITDA	1,369	1,475	1,706	24.6	15.6	3,186	4,602	44.4
Depreciation & Amortisation	393	385	373	(5.2)		1,181	1,123	(4.9)
EBIT	976	1,091	1,333	36.6	22.2	2,006	3,479	73.5
Interest cost	0	0	0			0	0	
Other income	33	108	138	312.9	27.3	100	318	218.2
Exceptional items	0	0	0			0	0	
PBT	1,009	1,199	1,471	45.8	22.7	2,106	3,797	80.3
Tax	349	422	506			722	1,308	
Net Profit	660	777	965	46.2	24.2	1,383	2,489	79.9
Adj Profit	660	777	965	46.2	24.2	1,383	2,489	79.9
EPS (Rs)	5.0	5.9	7.3	46.2	24.2	10.5	18.9	79.9

Margins (%)				(bps)	(bps)			(bps)
Gross Margin	74.5	74.6	75.6	100 bps	90 bps	75.0	74.9	(10 bps)
EBITDA	17.2	16.7	18.4	110 bps	160 bps	14.5	17.3	280 bps
EBIT	12.3	12.4	14.3	210 bps	200 bps	9.1	13.1	390 bps
PAT	8.3	8.8	10.4	210 bps	160 bps	6.3	9.3	310 bps
Tax rate(%)	34.6	35.2	34.4	(20 bps)	(80 bps)	34.3	34.5	20 bps

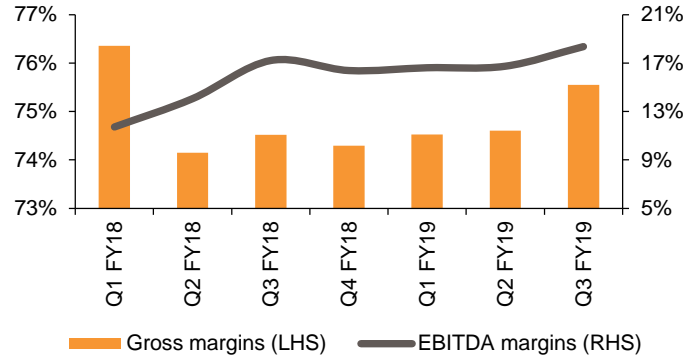
Source: Company, Emkay Research

Exhibit 4: Strong double-digit SSSG growth rate sustains



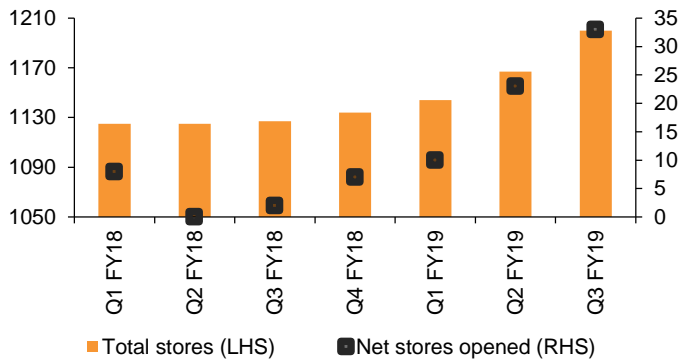
Source: Company, Emkay Research

Exhibit 5: Gross margin gains and effective cost management impact EBITDA margins positively



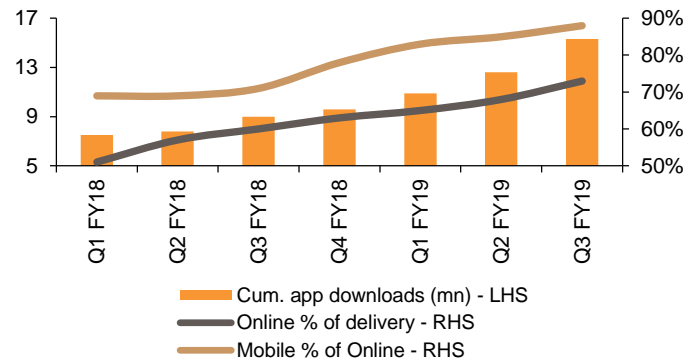
Source: Company, Emkay Research

Exhibit 6: Pace of new store additions increasing



Source: Company, Emkay Research

Exhibit 7: Rising share of mobile orders with higher app downloads



Source: Company, Emkay Research

Con-call highlights

Strengthened app driving growth

- The company has added new features to the app - advance ordering, ordering tracking and train ordering and implementation of GPS rider tracking across all stores. This has driven strong growth in online sales and will be an area of focus.

Higher pace of store expansion will not affect margins adversely

- New store expansion will be an area of focus and management believes the current pace of expansion is comfortable. Seeing strong growth momentum across both mother store and new store in the case of stores which are split. The mother store is returning to original level within 12 months.
- Management commented that the higher expansion will put pressure on SSG but focus will be to drive profitable growth.
- Gross margin expansion is driven by benign dairy costs, new beverage contract with Pepsi and better mix. Though commodity prices may increase the latter will offset inflation in input prices. In addition, the focus on efficient procurement through increased supplier base, as well as reduced logistics costs and wastages should offset rising input inflation.
- Management indicated that manpower cost management was satisfactory in Q3. These were done through three things: 1) employing technology in delivery efficiency; 2) focused and concerted hiring effort; and 3) better retention of existing manpower.
- It believes the worst of manpower challenges are behind it and does not see major challenges going ahead. JUBI believes it has the right algorithm to manage costs and growth.

Other highlights

- The company keeps experimenting with different kinds of foods. Chinese is the second-largest food category and hence could be evaluated in future.
- Higher cash surplus is driving an increase in other income. It had a cash surplus of Rs5.5bn as of 2QFY18
- Depreciation is lower as the comparable prior-year number had an impact of accelerated depreciation stemming from store closures.

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	25,461	29,804	35,611	40,623	46,278
Expenditure	22,995	25,341	29,507	33,581	38,099
EBITDA	2,466	4,464	6,104	7,042	8,180
Depreciation	1,512	1,559	1,543	1,681	1,812
EBIT	954	2,905	4,561	5,361	6,368
Other Income	145	227	454	636	795
Interest expenses	0	0	0	0	0
PBT	1,099	3,132	5,016	5,997	7,163
Tax	305	1,068	1,705	2,039	2,435
Extraordinary Items	(122)	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	673	2,064	3,310	3,958	4,728
Adjusted PAT	794	2,064	3,310	3,958	4,728

Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Equity share capital	659	660	660	660	660
Reserves & surplus	7,862	9,779	12,195	15,672	19,870
Net worth	8,522	10,439	12,855	16,332	20,530
Minority Interest	0	0	0	0	0
Loan Funds	0	0	0	0	0
Net deferred tax liability	693	550	550	550	550
Total Liabilities	9,215	10,989	13,405	16,882	21,080
Net block	7,783	7,697	7,642	7,744	7,916
Investment	1,680	3,453	3,453	3,453	3,453
Current Assets	3,260	4,420	7,502	11,630	16,487
Cash & bank balance	324	1,285	6,161	10,134	14,813
Other Current Assets	83	202	93	112	134
Current liabilities & Provision	4,106	4,690	5,372	6,126	6,957
Net current assets	(846)	(271)	2,130	5,504	9,530
Misc. exp	1	0	0	0	0
Total Assets	9,215	10,989	13,405	16,882	21,080

Cash Flow

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT (Ex-Other income) (NI+Dep)	954	2,905	4,561	5,361	6,368
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(306)	242	2,476	599	653
Operating Cashflow	1,802	3,418	6,874	5,602	6,397
Capital expenditure	(1,585)	(985)	(1,559)	(1,784)	(1,984)
Free Cash Flow	217	2,433	5,316	3,818	4,413
Investments	(155)	(1,773)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(1,596)	(2,530)	(1,104)	(1,148)	(1,189)
Equity Capital Raised	2	0	0	0	0
Loans Taken / (Repaid)	0	0	0	0	0
Dividend paid (incl tax)	(198)	(398)	(438)	(481)	(529)
Other Financing Cash Flow	0	0	0	0	0
Financing Cashflow	(197)	(397)	(438)	(481)	(529)
Net chg in cash	10	491	5,333	3,973	4,679
Opening cash position	314	324	1,285	6,161	10,134
Closing cash position	324	815	6,618	10,134	14,813

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY17	FY18	FY19E	FY20E	FY21E
EBITDA Margin	9.7	15.0	17.1	17.3	17.7
EBIT Margin	3.7	9.7	12.8	13.2	13.8
Effective Tax Rate	27.7	34.1	34.0	34.0	34.0
Net Margin	3.1	6.9	9.3	9.7	10.2
ROCE	12.3	31.0	41.1	39.6	37.7
ROE	9.6	21.8	28.4	27.1	25.6
RoIC	14.4	45.6	93.6	159.5	221.6

Per Share Data (Rs)	FY17	FY18	FY19E	FY20E	FY21E
EPS	6.0	15.6	25.1	30.0	35.8
CEPS	17.5	27.5	36.8	42.7	49.6
BVPS	64.6	79.1	97.4	123.8	155.6
DPS	1.2	2.5	2.7	3.0	3.3

Valuations (x)	FY17	FY18	FY19E	FY20E	FY21E
PER	199.3	76.7	47.8	40.0	33.5
P/CEPS	79.8	50.8	37.9	32.6	28.1
P/BV	18.6	15.2	12.3	9.7	7.7
EV / Sales	6.2	5.2	4.2	3.6	3.0
EV / EBITDA	63.7	34.6	24.5	20.7	17.2
Dividend Yield (%)	0.1	0.2	0.2	0.3	0.3

Gearing Ratio (x)	FY17	FY18	FY19E	FY20E	FY21E
Net Debt/ Equity	(0.1)	(0.4)	(0.7)	(0.8)	(0.8)
Net Debt/EBIDTA	(0.5)	(0.9)	(1.4)	(1.8)	(2.1)
Working Cap Cycle (days)	(16.8)	(19.1)	(41.3)	(41.6)	(41.7)

Growth (%)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	5.6	17.1	19.5	14.1	13.9
EBITDA	(9.3)	81.0	36.7	15.4	16.2
EBIT	(35.3)	204.4	57.0	17.5	18.8
PAT	(36.9)	206.9	60.4	19.6	19.4

Quarterly (Rs mn)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Revenue	7,952	7,798	8,551	8,814	9,291
EBITDA	1,369	1,278	1,421	1,475	1,706
EBITDA Margin (%)	17.2	16.4	16.6	16.7	18.4
PAT	660	681	747	777	965
EPS (Rs)	10.0	10.3	11.3	11.8	14.6

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-18	Jun-18	Jun-18	Sep-18	Dec-18
Promoters	44.9	44.9	44.9	44.9	44.9
FIs	36.9	37.6	37.8	39.2	39.4
DIs	9.1	8.2	8.2	7.2	6.8
Public and Others	9.1	9.2	9.0	8.7	8.8

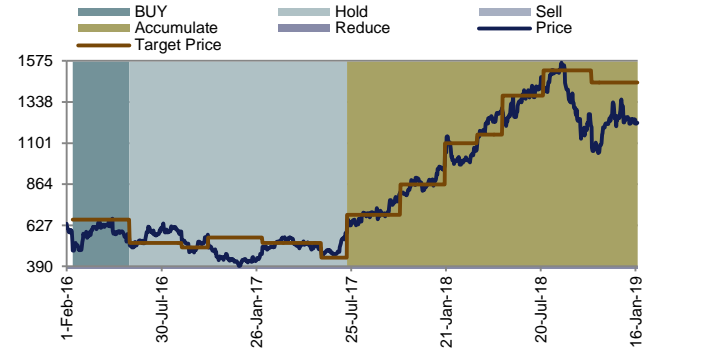
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
24-Oct-18	1,193	1,450	12m	Accumulate	Ashit Desai
25-Jul-18	1,400	1,520	12m	Accumulate	Ashit Desai
8-May-18	1,280	1,375	12m	Accumulate	Ashit Desai
21-Mar-18	1,104	1,150	12m	Accumulate	Ashit Desai
19-Jan-18	1,047	1,100	12m	Accumulate	Sameep Kasbekar
26-Oct-17	821	863	12m	Accumulate	Dhaval Mehta
17-Jul-17	636	687	12m	Accumulate	Dhaval Mehta
29-May-17	470	440	12m	Hold	Dhaval Mehta
6-Feb-17	504	525	12m	Hold	Dhaval Mehta
26-Oct-16	529	558	12m	Hold	Dhaval Mehta
23-Sep-16	497	500	12m	Hold	Dhaval Mehta
6-Sep-16	534	500	12m	Hold	Dhaval Mehta
30-May-16	512	525	12m	Hold	Prashant Kutty
12-Feb-16	482	660	12m	Buy	Prashant Kutty

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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