

Buy

In its Annual report FY21, Jubilant Foods (JFL) continues to emphasize on its 5-pillar growth strategy 1) strengthen channel play, 2) innovation and value 3) sustained technology investments 4) build portfolio of brands 5) expand international business. With a robust business model, efficient supply chain, large network, strong reputation for quality, hygiene and value, we expect JFL to recover faster than peers in the near term.

Store additions to gather momentum

During FY21, JFL added 25 net new outlets- opened 134 outlets against initial plan of 100 and closed 109 unprofitable stores, taking the total Domino's Pizza outlets to 1,360. Domino's continued to widen its geographical footprint, expanded to 11 new cities totaling 293 cities as on March 31, 2021. Management believes that Dominos has potential of 3,000 stores in India in the medium to long term. It intends to accelerate new store openings and plan to open ~150-175 stores in FY22. Given the current demand scenario, new stores would be more efficient and oriented towards delivery and carryout.

Continued improvement in margins

Gross margin increased by 310bps YoY in FY21 mainly due to lower RM costs and introduction of delivery charges. With strong focus on costs and shutdown of 109 unprofitable stores in FY21, EBITDA margins expanded 90bps to 23.5%. JFL's EBITDA margins have improved ~800bps over last three years despite rapid network expansion and without price increases. Hence, management does not expect growth in store network or expansion of JFL portfolio to other brand to lead to margin dilution. By switching to variable model, calibrated pricing and with cost control measures, we don't expect inflationary headwinds or digital investments to weigh significantly on margins. We expect JFL's EBITDA margin to improve ~200bps by FY23E.

Strong recovery in Delivery and takeaway

Delivery/ Takeaway grew 5.8%/33.2% respectively in FY21, against dine-in which declined 70% due to lockdown. Online sales grew strongly and constituted 98% of delivery sales in FY21 as against 86% in FY20. The company continued to gain traction for Domino's Pizza app which recorded 57.3mn downloads as of FY21 against 33.1mn as of FY20. Delivery growth gained strong momentum, with the smaller towns growing faster than the Tier-1/metros. With possibility of third wave of Covid, we expect delivery and take-away to grow faster compared to dine-in. JFL, with its continued investment in technology and online delivery expertise is likely to perform better compared to peers. With many unorganized restaurants expected to shut-down post Covid, trusted brands like Dominos, with healthy FCF and strong balance sheet, are expected to grow faster and gain market share.

Venturing into new businesses

After entering Chinese cuisine segment with its homegrown brand Hong's Kitchen, JFL further expanded in Biryani, Kebabs and Curries segment under the brand - Ekdum! In order to establish a presence in the Indian cuisine segment. JFL entered into an exclusive Master Franchise and Development Agreement with PLK APAC Pte. Ltd., a subsidiary of Restaurant Brands International Inc. (RBI), to develop, establish, own and operate Popeyes® restaurants in India, Bangladesh, Nepal and Bhutan in the coming years. Popeyes is one of the largest chicken quick service restaurants with over 3,400 restaurants in +25 countries globally. Leveraging on the in-home consumption trend, JFL launched ready-to-cook range of products under the brand - 'ChefBoss'. It announced an investment of ₹920mn in Barbeque- Nation Hospitality Limited (BNHL) for an equity stake of 10.76%, reduced to 9.72% (Post-IPO of BNHL).

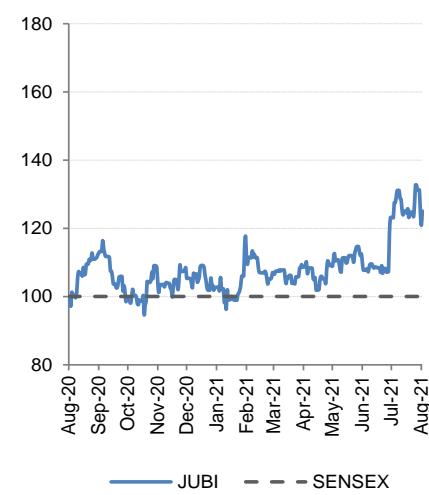
CMP	Rs 3,828
Target / Upside	Rs 4,416 / 15%
BSE Sensex	55,927
NSE Nifty	16,625

Script Details

Equity / FV	Rs 1,320mn / Rs 10
Market Cap	Rs 505bn
	US\$ 6.8bn
52-week High/Low	Rs 4,164/Rs 2,070
Avg. Volume (no)	723,635
NSE Symbol	JUBLFOOD
Bloomberg Code	JUBI IN

Shareholding Pattern Jun'21(%)

Promoters	41.9
MF/Banks/FIs	13.1
FII	39.4
Public / Others	5.6

JUBI Relative to Sensex

VP - Research: Sachin Bobade

Tel: +91 22 40969731

E-mail: sachinb@dolatcapital.com

Associate: Nikhat Koor

Tel: +91 22 40969764

E-mail: nikhatk@dolatcapital.com

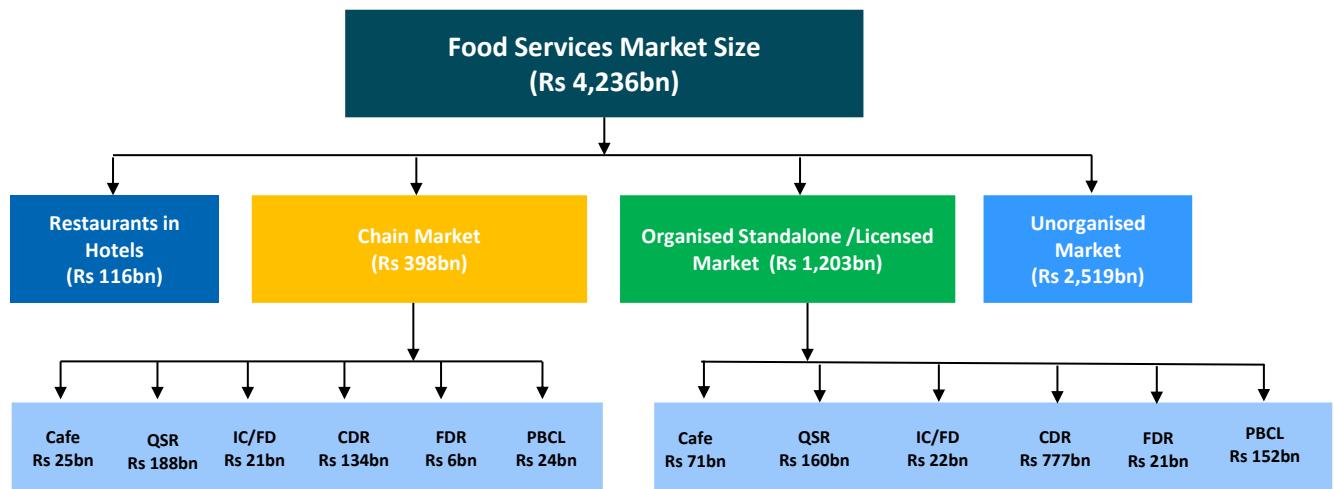


Annual Report Macro View

Key Management	During the year, Mr. Prakash C. Bisht, EVP & Chief Financial Officer resigned to join another Jubilant group entity as a CFO. Mr. Ashish Goenka was appointed as EVP & Chief Financial Officer wef February 17, 2021.		
	The BOD approved re-appointment of Mr. Pratik R. Pota as CEO and Wholetime Director for a further period of three years from April 1, 2022, up to March 31, 2025.		
Auditors		Mr. Hari S. Bhartia, Director of the company, is liable to retire by rotation at the ensuing AGM and being eligible, offer himself for re-appointment	
Credit Ratings		Deloitte Haskins & Sells LLP continues to be the auditors of the company.	
Pledged Shares		FY2021 FY2020	
Commercial Paper Programme		Re-affirmed CRISIL A1+	
Macro-economic Factors		2.17% of promoter shares are pledged.	
Remuneration		Both, the advanced as well as developing economies across the world witnessed slowdown during FY21 due to Covid-19 disruption impacting economic activity and consumer confidence. People curtailed discretionary spending and focused on essentials and precautionary savings due to the level of uncertainty. Consequently, in FY21, India's economy contracted by 7.3%. In 2020, the global economy contracted by 3.3%. Recently, RBI cut its FY22E economic growth forecast for India to 9.5% from 10.5% estimated earlier, due to negative impact of second Covid wave, which is likely to lead to uncertainty in demand. However, the rollout of the vaccination drive and opening up of markets across the major economies will boost sentiment globally. Monetary and fiscal support will remain crucial.	
Key Holders		No. of Permanent Employees on the rolls of the Company as on March 31, 2021 stood at 36,001 (previous year: 31,514). Median remuneration (excl wholetime director) declined by 3.77% in FY21 due to reduction in incentives linked to sales and increase in headcount on account of new restaurants opened during the year. Average increase in fixed salaries of employees other than managerial personnel was 2.1% in FY21.	
		Shareholding Pattern FY2021 FY2020	
A. Promoters		41.94 41.94	
B. Public Shareholding			
1. Institutions:			
a. Mutual Funds		8.81 15.22	
b. Banks/FI		2.05 4.81	
c. Central/State Government		0.32 0.41	
d. FIIs		40.87 30.94	
e. Others-Alternate Investment funds		0.50 0.61	
2. Non-Institutions:			
a. Bodies corporate		1.37 1.32	
b. Individuals/ NRI		4.14 4.75	
Total		100 100	

Source: Company, DART

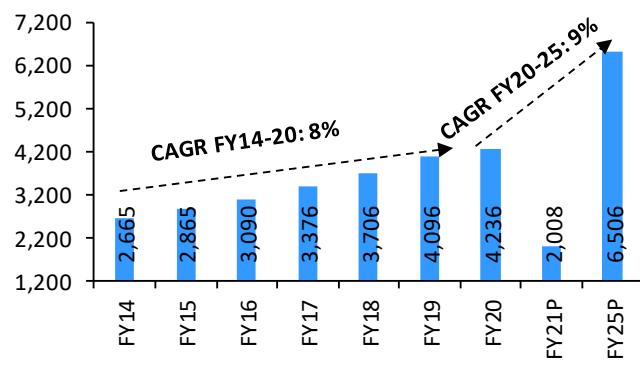
Industry overview



Source: DART, Company (As of FY20)

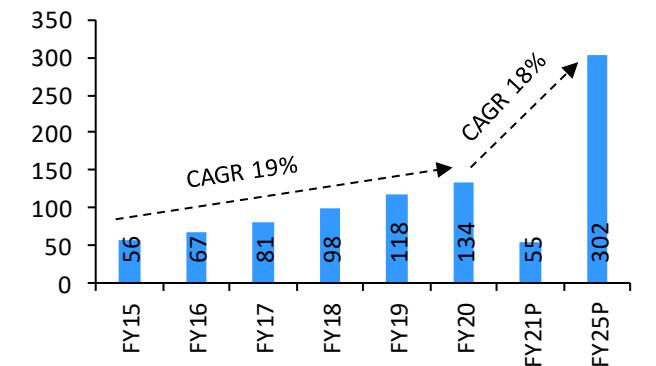
The Chain market (worth Rs 397bn) is dominated by the international QSR brands operating in India such as Domino's, McDonald's, KFC, Subway, Burger King etc. The Chain Casual Dining (CDR) segment represents the 2nd largest share in the chain food services market in India after QSR. The Chain CDR market in India grew at a CAGR of 19% during FY15-20 to Rs 134bn and is expected grow at a healthy CAGR of 18% to reach Rs 302 Bn by FY25. Home grown players like Farzi Café, Moti Mahal Delux and Barbeque Nation dominate the Chain CDR market.

Exhibit 1: Indian Food services market size (Rs bn)



Source: DART, Company, RHP

Exhibit 2: Indian Chain CDR Market Size (Rs bn)



Source: DART, Company

We believe that India's food services industry has all required ingredients and macro triggers in place to trigger sustainable and robust growth. The macro triggers like – (1) nuclearization of families leading to increased dependence on outside food, (2) rising disposable incomes – capability to eat out, (3) India's growing workforce, especially female workforce – demand for outside food (4) urbanization – awareness, (5) changing consumption patterns, (6) favorable demographic mix (60% in age group from 15 to 34 years old) and (7) improved connectivity and mobility.

Financial Analysis

Profit and Loss Statement Analysis

During the year, the company witnessed headwinds of pronounced inflationary costs and challenging demand environment exacerbated by the Covid-19 led lockdown.

- **Revenue** declined 15.9% YoY from Rs 38.8 bn in FY20 to Rs 32.7 bn in FY21. Domios Like-for-Like (LFL)/ Same Store Growth (SSG) stood at -16.8/-17.7% in FY21 compared to 4.5%/3.2% in FY20. While Delivery and Takeaway grew 5.8% and 33.2% YoY, Dine- in declined 70% in FY21 due to limited mobility amidst Covid restrictions.
- **Gross margin** increased by 310bps YoY to 78.1% in FY21 mainly due to lower RM costs and introduction of delivery charges.
- **Operating expenses**- Employee expenses fell by 6.2% YoY to Rs 7,357mn in FY21 (22.5% of sales). Advertising expenses declined 49.0% YoY to Rs 1,260mn in FY21 (3.9% of sales). In FY21, net rent expenses stood at Rs 111mn after netting of rent concession of Rs 680mn on account of the pandemic.
- **EBITDA margin** (reported) expanded 90bps to 23.5% as 230/206bps increase in employee/advertisement expenses respectively, was offset by 310/210bps decline in RM/ other expenses respectively. Strong focus on costs, operational efficiencies, shutdown of 109 unprofitable stores resulted into better EBITDA margins.
- **Profit before tax** declined by 21.4% YoY to Rs 3,091mn in FY21.
- **Reported Profit after tax** fell 15.2% YoY to Rs 2,337mn in FY21. APAT decreased 27% YoY. Exceptional items of Rs 448mn during FY20 were on account of i) Covid-19 pandemic ii) Provision against investments made by Jubilant FoodWorks Employee Provident Fund Trust, iii) provision for diminution in the value of investment in Jubilant FoodWorks Lanka (Pvt) Limited ('Srilanka subsidiary').

Balance Sheet and Cash Flow Analysis

- **Net block** (including Right-of-use asset) stood at Rs 21.0bn in FY21 from Rs 21.8bn in FY20. Fixed asset turnover stood at 1.6x in FY21 from 1.8x in FY20.
- **Equity Capital** - There was no change in the authorised, subscribed and paid-up share capital of the company in FY20. As on March 31, 2021, the paid-up share capital of the company stood at Rs 1,319.7mn divided into 131,969,040 equity shares of Rs 10/- each.
- **Dividend**- For FY21, the BOD at its meeting held on 15th June, 2021 has recommended final dividend of ` 6/- per share of FV` 10/- amounting to ` Rs 792mn. As on reporting date, dividend paid was nil in FY21.
- With new accounting structure, Lease liabilities (included in debt) amounted to Rs 16.0bn in FY21.
- **Inventories** increased by 41.4% YoY to Rs 1,304mn in FY21. Inventory days increased from 9 days to 15 days in FY21. Inventory Turnover Ratio reduced to 25.1x for FY21 compared to 42.1x in FY20 mainly due to advance stocking of dairy products by the company which will be used over next few months.
- **Receivables** declined 7.2% YoY to Rs 179mn in FY21. **Trade payables** increased 19.1% YoY to Rs 5,286mn in FY21, as against Rs 4,438mn in FY20. **Payable** days increased to 59 days from 42 days in FY20.

- **Cash flow from operations** grew 2% YoY to Rs 7.4bn. **Capital Expenditure** declined 16.1% YoY to Rs 2.4bn in FY21 due to slow pace of store openings due to pandemic. Consequently, FCF grew 13.5% YoY to Rs 5.0bn.
- **Return Ratios:** ROE and ROCE stood at 17.4/13.7% respectively in FY21, from 22/23.4% in FY20. However, return ratios are likely to improve with better profitability with re-opening of markets.

DART View: JFL is focussed on accelerating pace of store additions and diversifying its portfolio. It has also forayed into Chinese cuisine (Hong's Kitchen), Indian cuisine (Ekdum!), Ready to eat (Chefboss) and will also be operating Popeyes in India. Management believes that Dominos has potential to open 3,000 stores in India in medium to long term. Moreover, as mature store contribution increases, JFL's FCF generating ability would increase significantly. Hence, instead of valuing on PE basis, we value the stock on P/FCF basis. Considering high growth prospects, valuations are expected to remain rich. We arrive at a TP of Rs 4416 (60x FY23E P/FCF). Maintain BUY.

Exhibit 3: JFL portfolio

Particulars	Number of Restaurants as on March 31, 2021	New additions in FY21	Closures in FY21	Presence in Number of cities
India				
Domino's Pizza	1,360	134	109	293
Dunkin' Donuts	24	4	14	8
Hong's Kitchen	8	4	0	2
Ekdum!	4	4	0	1
Sri Lanka				
Domino's Pizza	26	5	0	18
Bangladesh				
Domino's Pizza	5	2	0	1

Source: DART, Company

International Business

Apart from India, the Company and its subsidiary operate Domino's Pizza brand with the exclusive rights for Nepal, Bangladesh and Sri Lanka.

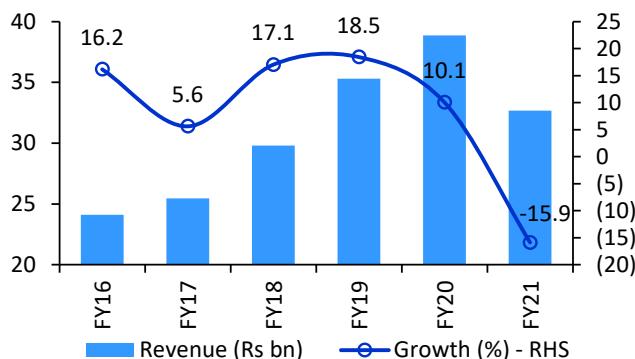
- **Bangladesh Operations** – In FY19, Domino's Pizza forayed into the Bangladesh market via a joint venture with the Golden Harvest QSR Limited, a part of the Golden Harvest Group. The joint venture under which the brand operates is named Jubilant Golden Harvest Limited (JGHL). The restaurant got off to a strong start and broke the global Domino's record for the highest number of orders for its first week and the first month of operations. It has continued healthy performance, and two more restaurants were opened during FY21 taking the total count to five. Domino's Pizza, Bangladesh launched two local flavour pizzas - Hariyali Chicken and Keema Dopeyaja. During the year, online ordering accounted for 2/3rd of delivery sales. The total income of JGHL in FY21 is Rs 172.2mn, compared to Rs 171.5 mn in FY20.
- **Sri Lanka Operations** – During FY21, Jubilant FoodWorks Lanka (Private) Limited (JLPL) delivered positive EBITDA for the first time ever, despite the pandemic. This was driven by rationalising discounts, reducing wastages, launch of an enhanced mobile app and focused marketing activities. In FY21, Domino's Pizza Sri Lanka launched two local flavor pizzas, a range of Pasta Pizzas and a new crust called as 'Cheese Float'. 4 new restaurants were opened, and 2 restaurants were relocated, marking the highest ever restaurant count of 26 restaurants. OLO contributed 35.7% to delivery sales in FY21 compared to 15% in FY20. The total income of JLPL was Rs 298.0mn in FY21 compared to Rs 314.8mn in FY20.

Other developments and new launches

- JFL introduced the new Drive-N-Pick functionality, which allows customers to avail takeaway orders conveniently from within the safety of their vehicles. It also introduced No Minimum Order Value Proposition to enable consumers to place a Domino's delivery order without any minimum order value.
- JFL became the first-ever QSR chain in India to include plant-based protein in the food menu, by launching 'The Unthinkable Pizza', which has the same taste as that of chicken. It also launched the new Pasta Pizza range for the first time in India.
- For Hong's Kitchen, JFL revamped the menu with expansion of the momo's section, launch of soups, new products by the name of Chef's Special Orange and Dynamite.
- For Dunkin' Donuts, the company introduced beverages specially developed for delivery, named as 'Dunkin Cold Coffee at Home'. It launched 'Make your own donut'- where donuts and ingredients like chocolate sauce, toppings, etc are sent separately.
- During the year, JFL also launched a Hindi version of the app, which is likely to be a significant enabler for ordering. JFL will also be adding other language support across apps to make it user friendly. The company recorded highest ever app downloads at 57.2 mn (33.1mn at the end of FY20).

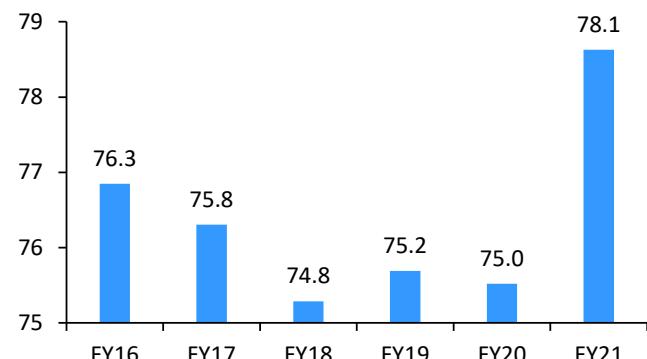
Annual Charts

Exhibit 4: Trend in Revenue Growth



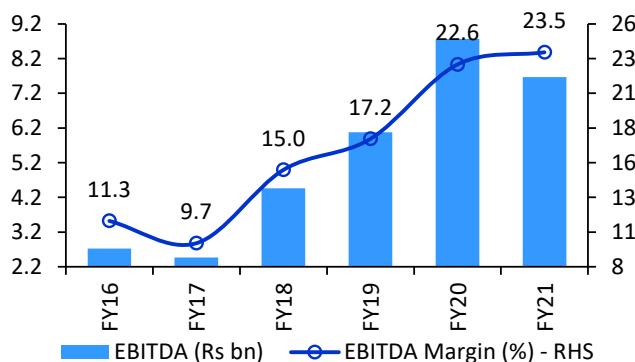
Source: DART, Company

Exhibit 5: Gross margin trend (%)



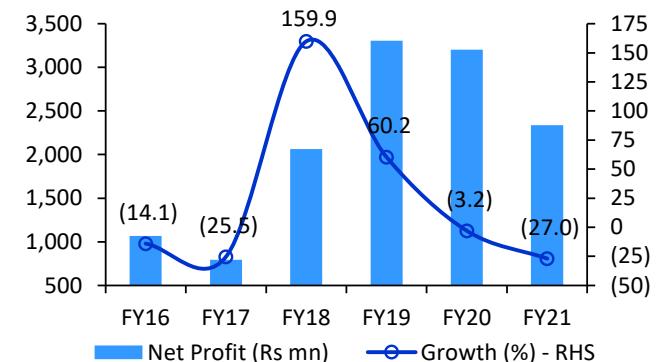
Source: DART, Company

Exhibit 6: EBITDA and EBITDA margin



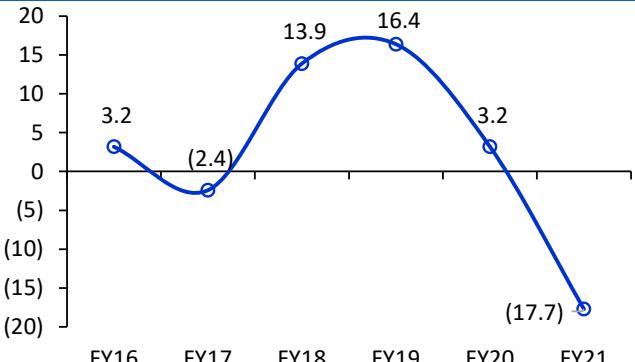
Source: DART, Company

Exhibit 7: Net profit trend



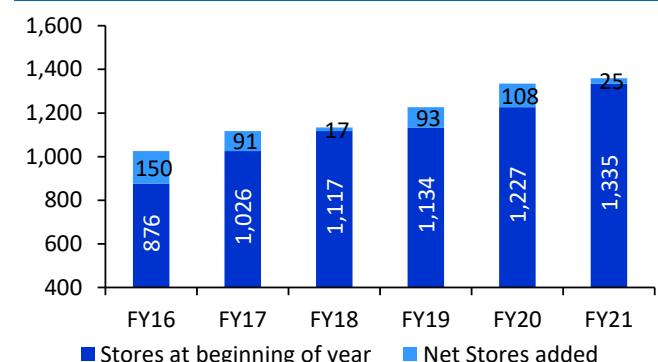
Source: DART, Company

Exhibit 8: Same Store Sales Growth (%)



Source: DART, Company

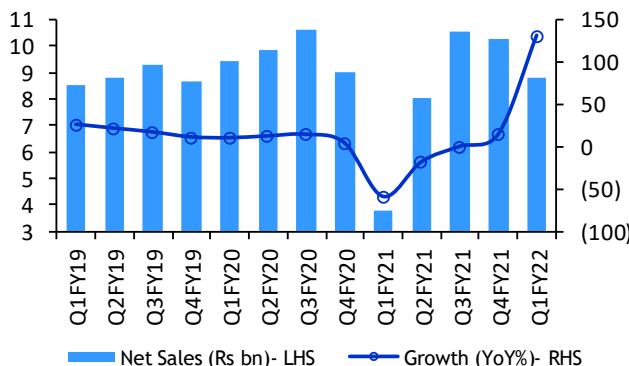
Exhibit 9: Store expansion



Source: DART, Company

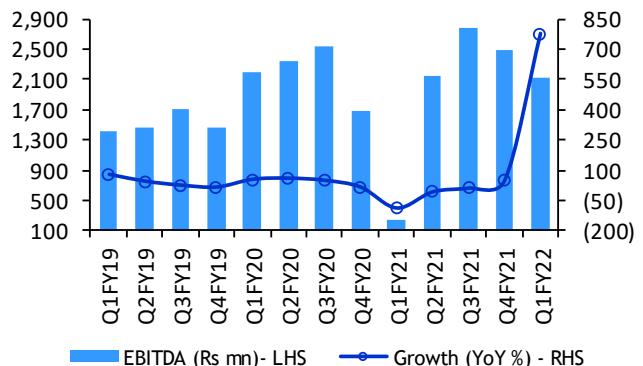
Quarterly Charts

Exhibit 10: Net Sales and Growth



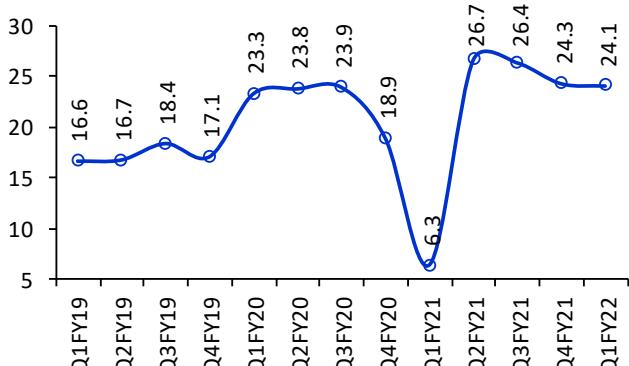
Source: DART, Company

Exhibit 11: EBITDA and EBITDA Growth



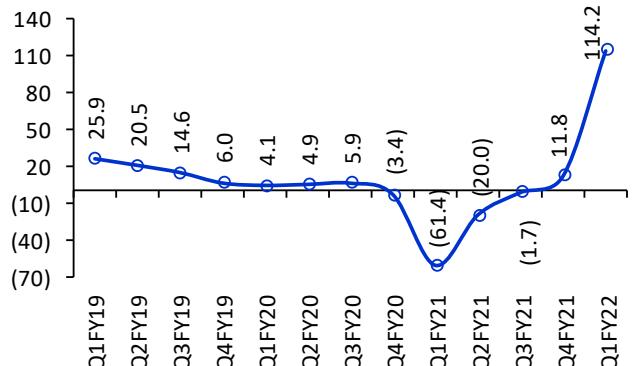
Source: DART, Company

Exhibit 12: Trend in EBITDA Margin



Source: DART, Company

Exhibit 13: Trend in Some Store Sales Growth (%)



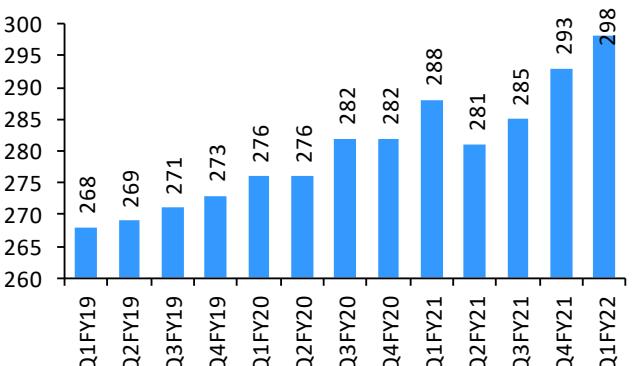
Source: DART, Company

Exhibit 14: Store Addition Trend



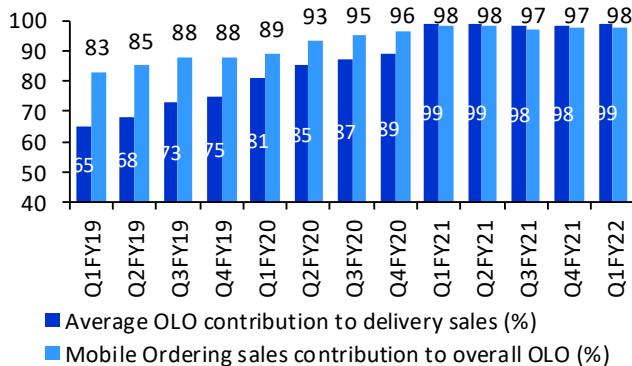
Source: DART, Company

Exhibit 15: Number of Cities Covered



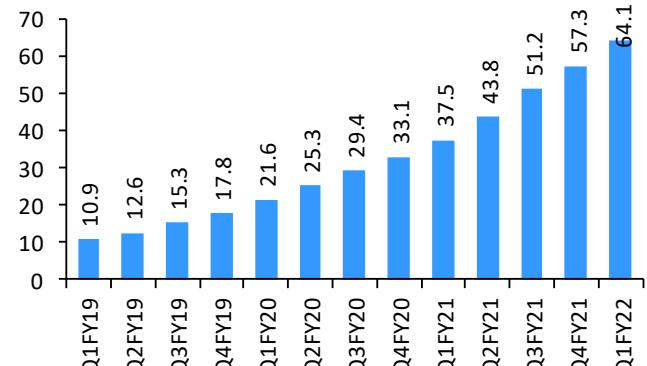
Source: DART, Company

Exhibit 16: OLO Contribution to Delivery Sales (%)



Source: DART, Company

Exhibit 17: Download of Mobile Apps (mn)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	38,858	32,689	45,703	53,903
Total Expense	30,087	25,023	34,545	40,036
COGS	9,707	7,150	10,003	11,642
Employees Cost	7,846	7,357	10,132	11,559
Other expenses	12,534	10,516	14,409	16,834
EBIDTA	8,771	7,666	11,158	13,868
Depreciation	3,441	3,672	4,046	4,168
EBIT	5,329	3,993	7,112	9,700
Interest	1,635	1,606	1,839	2,068
Other Income	688	704	791	877
Exc. / E.O. items	(448)	0	0	0
EBT	3,935	3,091	6,064	8,509
Tax	1,181	754	1,480	2,076
RPAT	2,755	2,337	4,585	6,433
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	3,203	2,337	4,585	6,433

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	1,320	1,320	1,320	1,320
Minority Interest	0	0	0	0
Reserves & Surplus	10,510	13,652	17,273	22,743
Net Worth	11,829	14,971	18,593	24,062
Total Debt	16,510	15,987	15,987	15,987
Net Deferred Tax Liability	(809)	(884)	(884)	(884)
Total Capital Employed	27,530	30,075	33,696	39,166

Applications of Funds

Net Block	21,883	21,032	23,225	22,385
CWIP	389	244	244	244
Investments	834	5,324	5,824	6,324
Current Assets, Loans & Advances	10,444	10,480	13,914	21,169
Inventories	922	1,304	1,823	2,150
Receivables	193	179	251	295
Cash and Bank Balances	6,392	5,175	6,903	13,088
Loans and Advances	354	295	331	348
Other Current Assets	2,071	2,712	3,792	4,472
Less: Current Liabilities & Provisions	6,020	7,005	9,512	10,957
Payables	4,438	5,286	7,391	8,717
Other Current Liabilities	1,582	1,719	2,121	2,240
<i>sub total</i>				
Net Current Assets	4,424	3,474	4,402	10,212
Total Assets	27,530	30,075	33,696	39,166

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	75.0	78.1	78.1	78.4
EBIDTA Margin	22.6	23.5	24.4	25.7
EBIT Margin	13.7	12.2	15.6	18.0
Tax rate	30.0	24.4	24.4	24.4
Net Profit Margin	7.1	7.1	10.0	11.9
(B) As Percentage of Net Sales (%)				
COGS	25.0	21.9	21.9	21.6
Employee	20.2	22.5	22.2	21.4
Other	32.3	32.2	31.5	31.2
(C) Measure of Financial Status				
Gross Debt / Equity	1.4	1.1	0.9	0.7
Interest Coverage	0.0	0.0	0.0	0.0
Inventory days	9	15	15	15
Debtors days	2	2	2	2
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	42	59	59	59
Working Capital days	42	39	35	69
FA T/O	1.8	1.6	2.0	2.4
(D) Measures of Investment				
AEPS (Rs)	24.3	17.7	34.7	48.7
CEPS (Rs)	50.3	45.5	65.4	80.3
DPS (Rs)	13.3	0.0	7.3	7.3
Dividend Payout (%)	54.6	0.0	21.0	15.0
BVPS (Rs)	89.6	113.4	140.9	182.3
RoANW (%)	22.0	17.4	27.3	30.2
RoACE (%)	23.4	13.7	20.1	23.3
RoAIC (%)	35.6	17.3	27.5	36.7
(E) Valuation Ratios				
CMP (Rs)	3828	3828	3828	3828
P/E	157.7	216.2	110.2	78.5
Mcap (Rs Mn)	505,135	505,135	505,135	505,135
MCap/ Sales	13.0	15.5	11.1	9.4
EV	514,741	515,133	513,405	507,219
EV/Sales	13.2	15.8	11.2	9.4
EV/EBITDA	58.7	67.2	46.0	36.6
P/BV	42.7	33.7	27.2	21.0
Dividend Yield (%)	0.3	0.0	0.2	0.2
(F) Growth Rate (%)				
Revenue	10.1	(15.9)	39.8	17.9
EBITDA	44.3	(12.6)	45.6	24.3
EBIT	17.0	(25.1)	78.1	36.4
PBT	(20.4)	(21.4)	96.2	40.3
APAT	(3.2)	(27.0)	96.2	40.3
EPS	(3.2)	(27.0)	96.2	40.3

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	7,223	7,369	11,270	13,044
CFI	(1,466)	(7,158)	(6,739)	(3,828)
CFF	(4,255)	(1,428)	(2,803)	(3,031)
FCFF	4,407	5,004	5,031	9,716
Opening Cash	4,891	6,392	5,175	6,903
Closing Cash	6,392	5,175	6,903	13,088

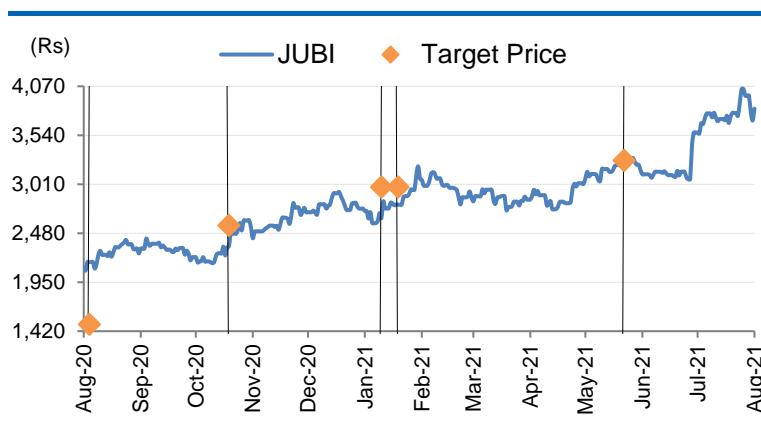
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-20	Reduce	1,495	2,168
Nov-20	Accumulate	2,566	2,339
Feb-21	Buy	2,981	2,646
Feb-21	Buy	2,981	2,789
Jun-21	Accumulate	3,268	3,176

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Anjana Jhaveri	VP - FII Sales	anjanaj@dolatcapital.com	+9122 4096 9758
Lekha Nahar	AVP - Equity Sales	lekhana@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	Direct Lines
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirish@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co - Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

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Registered office: Unit no P06-02A - P06-02D, Tower A, WTC, Block 51, Zone-5, Road 5E, Gift City, Gandhinagar, Gujarat – 382355

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com