

## RESULTS

## REVIEW

## Jubilant Foodworks Ltd.

Lower SSG guidance: Near term overhang

HOLD

Analyst

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Nifty: 5,987; Sensex: 19,751

CMP	Rs1,134
Target Price	Rs1,189
Potential Upside/Downside	+5%

## Key Stock Data

Sector	FMCG
Bloomberg / Reuters	JUBI IN / JUBI.BO
Shares o/s (mn)	65
Market cap. (Rs mn)	73,938
Market cap. (US\$ mn)	1,387
3-m daily average vol.	55,583

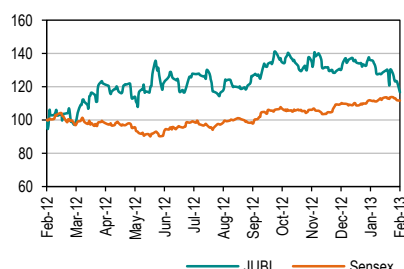
## Price Performance

52-week high/low	Rs1,397/910
	-1m -3m -12m
Absolute (%)	(14) (14) 17
Rel to Sensex (%)	(14) (19) 5

## Shareholding Pattern (%)

Promoters	55.2
FII's/NRI's/OCBs/GDR	40.8
MFs/Banks/FIs	0.2
Non Promoter Corporate	1.9
Public & Others	1.9

## Relative to Sensex



Source: Capitaline

## Summary

Jubilant Foodworks Ltd. (JUBI) results were in line on revenue/EBITDA/PAT fronts with 39%/28/24% growth YoY to Rs3.9 bn/Rs672 mn/Rs377 mn (IDBI Rs3.9 bn/Rs684 mn/Rs383 mn). EBITDA was in line on higher revenue, while EBITDA margin was lower at 17.2% (IDBI 18.3%), with deviation led by higher than expected employee cost at Rs702 mn (IDBI Rs600 mn) on account of employee addition and salary increase at store manager and above levels in operations and all support staff at Domino's.

Management while maintaining its store opening guidance at 110 stores for FY13, has lowered SSG guidance to 17% (vs. >18% guidance earlier and 19.2% achieved in 9MFY13), translating into single digit SSG in Q4FY13, led by higher base, impact of store splitting, price hikes in weak macro environment and subdued consumer sentiment. It has guided for double digit SSG in FY14. It expects promotional activities to remain high to boost sales in this difficult environment, which is likely arrest margin expansion, despite 3% price hike taken in Nov'12.

We cut our revenue estimates by 2%/6% for FY13/14 to factor in lowered SSG guidance. We cut EBITDA margin estimates by 20bps/40bps for FY13/14 to 17.5%/17.6% to factor in 9MFY13 performance (service tax impact + higher promotional activities). Consequently, our earnings are cut by 6%/10% to Rs22/30.

The stock has fallen ~10% in past 6 trading session (~5% post today's results announcement), which in our view largely captures subdued expectations on SSG and margin pressures. However, we feel lowering of SSG guidance may play as near term overhang. We remain impressed by management's aggressive store ramp up, strong brand equity and its ability to maintain healthy profitability despite rising competition and weak sentiment. Maintain HOLD with revised price target of Rs1,189 (DCF basis). Any material dip in stock price should be seen as buying opportunity.

## Key highlights

## ■ SSG remains healthy; new store addition on track

Revenue during Q3FY13 was in line, up 39%/13% YoY/QoQ to Rs3.9 bn (IDBI Rs3.9 bn), led by (i) 16.1% same store sales growth (SSG) on the base of 30.1% YoY; 19.2% SSG in 9MFY13 on the base of 30.9% YoY, (ii) addition of 37 stores to 552 stores as on Dec'12 and (iii) New launches of Cheesy Boloroni Pizza and Taco Indiana. The company entered 6 new cities during Q3FY13 to reach 118 cities as on Dec'12. The company has maintained its FY13 store opening target of 110 stores (vs. 87 opened in 9MFY13), which should continue to boost its revenue traction. JUBI maintains its target of opening 10 DD stores in FY13 (8 stores opened in 9MFY13) and 80-100 stores over 5 year horizon.

## ■ EBITDA margin contract 150bps YoY on higher rentals and other expenditure

EBITDA was in line at Rs672 mn up 28%/15% (IDBI Rs684 mn), led by price hikes of ~3%/3% taken in Jun'12/Nov'12 and strong operating leverage. However, EBITDA margin fell 150bps/rose 30bps to 17.4%, impacted by higher rentals/other expenditure at 8%/30.7% of sales vs. 7.1%/29.7%. Rentals were higher led by DD stores (DD store rent is relatively higher) and 2% increase in service tax. Other expenditure was higher led by higher promotional activities and brand building (new brand positioning). Overall impact of DD stores on EBITDA was to the tune of 70-80bps, which is likely to come down as DD store count increases. Adjusted PAT was largely in line at Rs377 mn, up 24%/17% (IDBI Rs383 mn).

## Table: Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY11	6,781	1,199	17.7	720	11.2	100.9	58.8	46.6	57.0
FY12	10,171	1,904	18.7	1,097	16.9	67.0	38.3	44.7	61.0
FY13E	14,285	2,504	17.5	1,403	21.6	52.6	29.0	38.0	52.0
FY14E	19,499	3,423	17.6	1,953	30.0	37.8	20.7	36.3	50.0

Source: Company; IDBI Capital Research

Table: Quarterly financials

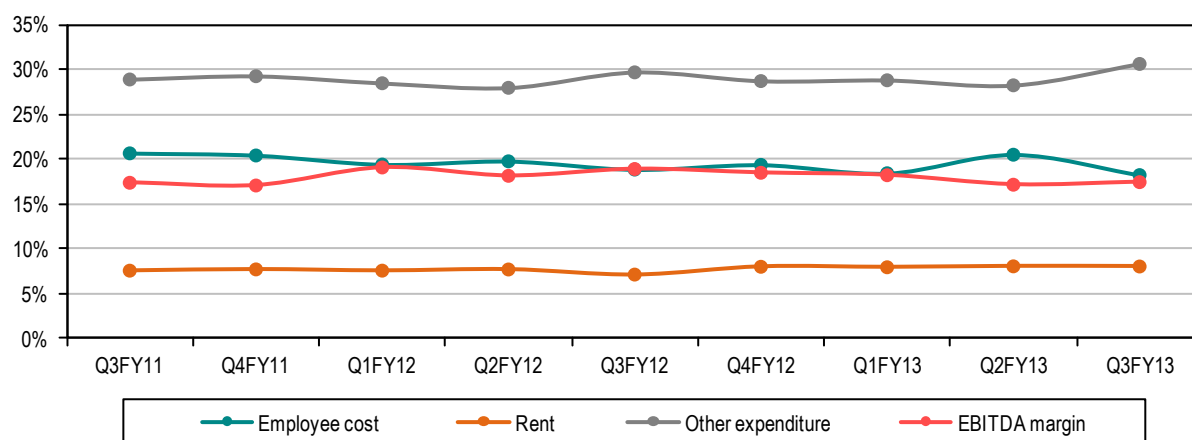
(Rs mn)

Year-end: March	Q3FY13	Q3FY12	YoY (%)	Q2FY13	QoQ (%)	9MFY13	9MFY12	YoY (%)
Net sales	3,851	2,770	39.0	3,420	12.6	10,416	7,342	41.9
Other operating income	1	1	(7.6)	1	10.3	2	2	0.3
<b>Total operating income</b>	<b>3,851</b>	<b>2,770</b>	<b>39.0</b>	<b>3,421</b>	<b>12.6</b>	<b>10,418</b>	<b>7,343</b>	<b>41.9</b>
(Inc)/Dec in stock in trade	(5)	(13)	(61.2)	0	1,888.8	(5)	(27)	(82.4)
Consumption of Raw mat	837	578	44.8	736	13.7	2,261	1,559	45.0
Purchase of traded goods	156	139	12.4	155	0.9	459	360	27.6
<b>Cost of goods sold</b>	<b>988</b>	<b>704</b>	<b>40.3</b>	<b>891</b>	<b>10.9</b>	<b>2,715</b>	<b>1,892</b>	<b>43.5</b>
<b>Gross Margin</b>	<b>2,863</b>	<b>2,065</b>	<b>38.6</b>	<b>2,529</b>	<b>13.2</b>	<b>7,700</b>	<b>5,450</b>	<b>41.3</b>
<i>Gross Margin (%)</i>	<i>74.3</i>	<i>74.6</i>	<i>(0.2)</i>	<i>74.0</i>	<i>0.4</i>	<i>73.9</i>	<i>74.2</i>	<i>(0.3)</i>
Staff Cost	702	522	34.5	702	0.1	1,984	1,418	39.8
<i>% of Sales</i>	<i>18.2</i>	<i>18.9</i>	<i>(0.6)</i>	<i>20.5</i>	<i>(2.3)</i>	<i>19.0</i>	<i>19.3</i>	<i>(0.3)</i>
Rent	309	197	56.7	275	12.3	832	545	52.7
<i>% of Sales</i>	<i>8.0</i>	<i>7.1</i>	<i>0.9</i>	<i>8.0</i>	<i>0.0</i>	<i>8.0</i>	<i>7.4</i>	<i>0.6</i>
Other expenditure	1,181	823	43.4	967	22.1	3,055	2,114	44.5
<i>% of Sales</i>	<i>30.7</i>	<i>29.7</i>	<i>0.9</i>	<i>28.3</i>	<i>2.4</i>	<i>29.3</i>	<i>28.8</i>	<i>0.5</i>
<b>Total Operating Expenses</b>	<b>3,180</b>	<b>2,247</b>	<b>41.5</b>	<b>2,834</b>	<b>12.2</b>	<b>8,586</b>	<b>5,969</b>	<b>43.8</b>
<i>% of Sales</i>	<i>82.6</i>	<i>81.1</i>	<i>1.5</i>	<i>82.9</i>	<i>(0.3)</i>	<i>82.4</i>	<i>81.3</i>	<i>1.1</i>
<b>EBITDA</b>	<b>672</b>	<b>524</b>	<b>28.2</b>	<b>587</b>	<b>14.5</b>	<b>1,832</b>	<b>1,374</b>	<b>33.3</b>
<i>EBITDA Margin (%)</i>	<i>17.4</i>	<i>18.9</i>	<i>(1.5)</i>	<i>17.2</i>	<i>0.3</i>	<i>17.6</i>	<i>18.7</i>	<i>(1.1)</i>
Depreciation	140	95	46.8	138	1.4	395	275	43.4
<b>EBIT</b>	<b>532</b>	<b>428</b>	<b>24.1</b>	<b>449</b>	<b>18.5</b>	<b>1,437</b>	<b>1,099</b>	<b>30.8</b>
<i>EBIT Margin (%)</i>	<i>13.8</i>	<i>15.5</i>	<i>(1.7)</i>	<i>13.1</i>	<i>0.7</i>	<i>13.8</i>	<i>15.0</i>	<i>(1.2)</i>
Interest	1	-	-	-	-	1	-	-
Other income	20	14	39.2	20	0.7	58	41	43.6
<b>Pre-tax profit</b>	<b>551</b>	<b>443</b>	<b>24.5</b>	<b>468</b>	<b>17.6</b>	<b>1,494</b>	<b>1,139</b>	<b>31.2</b>
<i>Pre-tax Margin (%)</i>	<i>14.3</i>	<i>16.0</i>	<i>(1.7)</i>	<i>13.7</i>	<i>0.6</i>	<i>14.3</i>	<i>15.5</i>	<i>(1.2)</i>
Current tax	174	139	34.7	145	20.1	470	358	31.3
<b>Tax</b>	<b>174</b>	<b>139</b>	<b>34.7</b>	<b>145</b>	<b>20.1</b>	<b>470</b>	<b>358</b>	<b>31.3</b>
<i>% of PBT</i>	<i>31.6</i>	<i>31.4</i>	<i>0.1</i>	<i>30.9</i>	<i>0.6</i>	<i>31.5</i>	<i>31.4</i>	<i>0.0</i>
<b>Adjusted PAT</b>	<b>377</b>	<b>303</b>	<b>24.2</b>	<b>323</b>	<b>16.5</b>	<b>1,024</b>	<b>781</b>	<b>31.1</b>
<i>NPM</i>	<i>9.8</i>	<i>11.0</i>	<i>(1.2)</i>	<i>9.5</i>	<i>0.3</i>	<i>9.8</i>	<i>10.6</i>	<i>(0.8)</i>
Extraordinary items	-	9	(100.0)	-	-	-	18	(100.0)
<b>Reported PAT</b>	<b>377</b>	<b>295</b>	<b>27.9</b>	<b>323</b>	<b>16.5</b>	<b>1,024</b>	<b>763</b>	<b>34.2</b>
<i>Reported NPM (%)</i>	<i>9.8</i>	<i>10.6</i>	<i>(0.9)</i>	<i>9.5</i>	<i>0.3</i>	<i>9.8</i>	<i>10.4</i>	<i>(0.6)</i>
Equity Share Capital	652	649	-	651	0.1	649	645	-
No. of shares o/s	65.2	64.9	-	65.1	0.1	64.9	64.5	-
<b>Adjusted EPS (Rs)</b>	<b>5.8</b>	<b>4.7</b>	<b>23.7</b>	<b>5.0</b>	<b>16.4</b>	<b>15.8</b>	<b>12.1</b>	<b>30.3</b>

Source: Company; IDBI Capital Research

Figure: Cost efficiencies remain strong

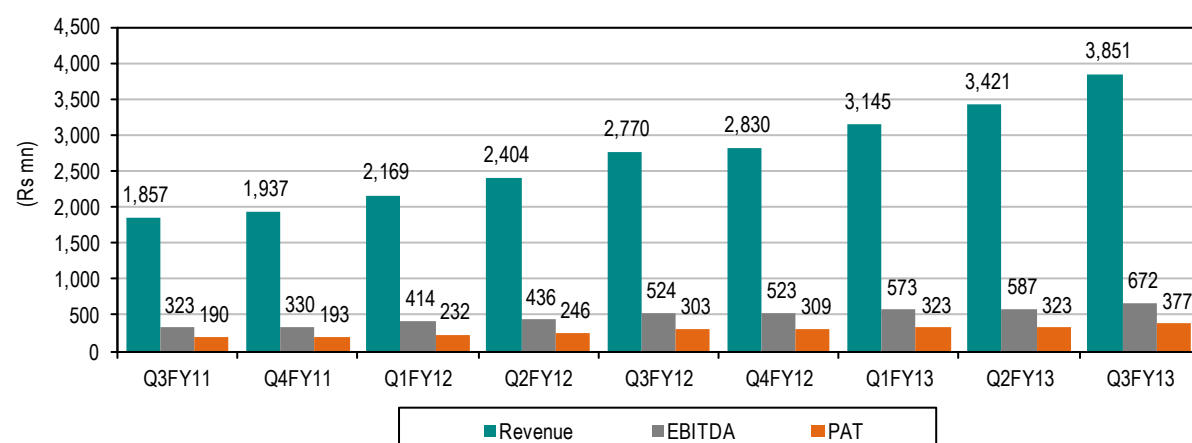
(%)



Source: Company; IDBI Capital Research

Figure: Trend in financials

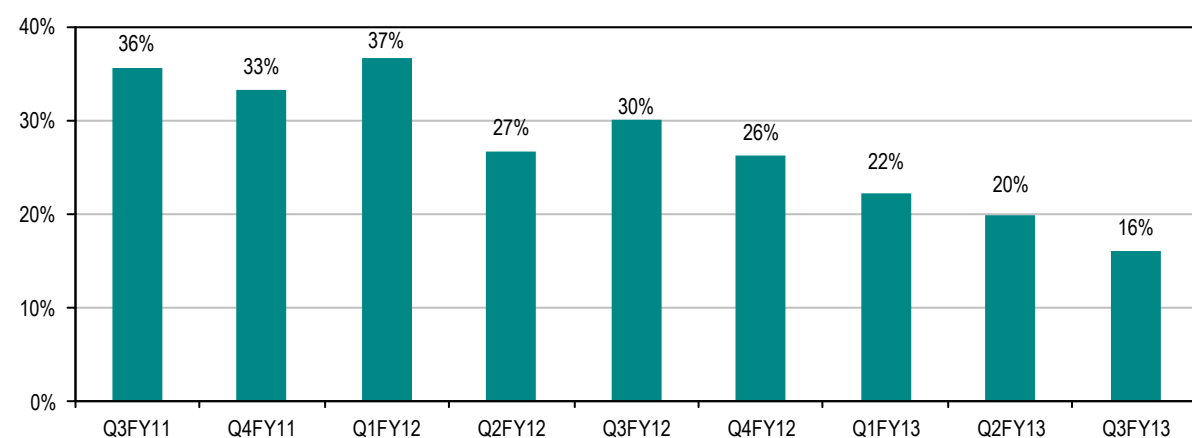
(Rs mn)



Source: Company; IDBI Capital Research

Figure: Same store sales growth trend tapering down on high base and weak sentiment

(%)



Source: Company; IDBI Capital Research

## Key highlights of management conference call

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- FY13 capex for DD is Rs150 mn and for Dominos is Rs1.4-15 bn.
- During Q3, the company has invested Rs55 mn in wholly owned subsidiary Jubilant Foodworks Lanka Pvt. Ltd. and its total investment in this subsidiary as of Dec'12 stood at Rs210 mn. It plans to open 5-6 stores in SL in FY13 and 25-30 stores in 5 years.
- Online ordering contribution to delivery was 14.6% during Q3, while mobile ordering was 10.2% of online ordering in Dec'12.
- It had 20.7k employees as on Dec'12 vs. 15k/18.4k employees YoY/QoQ.

## Financial summary

### ■ Profit & Loss Account (Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
<b>Net sales</b>	<b>6,781</b>	<b>10,171</b>	<b>14,285</b>	<b>19,499</b>
Growth (%)	59.9	50.0	40.4	36.5
Operating expenses	(5,582)	(8,270)	(11,783)	(16,078)
<b>EBITDA</b>	<b>1,199</b>	<b>1,904</b>	<b>2,504</b>	<b>3,423</b>
Growth (%)	80.0	58.8	31.5	36.7
Depreciation	(293)	(376)	(532)	(687)
<b>EBIT</b>	<b>906</b>	<b>1,528</b>	<b>1,972</b>	<b>2,736</b>
Interest paid	(3)	-	-	-
Other income	22	59	77	115
<b>Pre-tax profit</b>	<b>924</b>	<b>1,547</b>	<b>2,049</b>	<b>2,851</b>
Tax	(204)	(490)	(645)	(898)
Effective tax rate (%)	22.1	31.7	31.5	31.5
<b>Net profit</b>	<b>720</b>	<b>1,056</b>	<b>1,403</b>	<b>1,953</b>
<b>Adjusted net profit</b>	<b>720</b>	<b>1,097</b>	<b>1,403</b>	<b>1,953</b>
Growth (%)	115.5	52.4	27.9	39.2
Shares o/s (mn nos)	62	64	65	65

### ■ Balance Sheet (Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Net fixed assets	1,838	2,623	3,804	4,386
Investments	0	216	109	309
Other non-curr assets	31	(71)	(71)	(71)
<b>Current assets</b>	<b>1,198</b>	<b>2,077</b>	<b>2,641</b>	<b>4,697</b>
Inventories	142	184	259	353
Sundry Debtors	45	64	90	123
Cash and Bank	89	121	886	1,252
Loans and advances	697	676	174	237
<b>Total assets</b>	<b>3,066</b>	<b>4,630</b>	<b>6,374</b>	<b>9,012</b>
<b>Shareholders' funds</b>	<b>1,917</b>	<b>2,996</b>	<b>4,399</b>	<b>6,352</b>
Share capital	645	651	651	651
Reserves & surplus	1,272	2,345	3,748	5,701
<b>Total Debt</b>	<b>-</b>	<b>95</b>	<b>95</b>	<b>95</b>
Secured loans	-	39	39	39
Unsecured loans	-	56	56	56
Other liabilities	-	95	95	95
<b>Curr Liab &amp; prov</b>	<b>1,214</b>	<b>1,550</b>	<b>1,894</b>	<b>2,585</b>
Current liabilities	1,149	1,539	1,880	2,565
Provisions	65	10	15	20
<b>Total liabilities</b>	<b>1,149</b>	<b>1,634</b>	<b>1,975</b>	<b>2,660</b>
<b>Total equity &amp; liabilities</b>	<b>3,066</b>	<b>4,630</b>	<b>6,374</b>	<b>9,012</b>
<b>Book Value (Rs)</b>	<b>30</b>	<b>46</b>	<b>68</b>	<b>98</b>

### ■ Cash Flow Statement (Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Pre-tax profit	924	1,547	2,049	2,851
Depreciation	230	288	532	687
Tax paid	(204)	(490)	(645)	(898)
Chg in working capital	26	349	742	494
Other operating activities	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>976</b>	<b>1,694</b>	<b>2,678</b>	<b>3,134</b>
Capital expenditure	(639)	(1,073)	(1,713)	(1,269)
Chg in investments	-	-	-	-
Other investing activities	(26)	-	-	-
<b>Cash flow from investing (b)</b>	<b>(881)</b>	<b>(966)</b>	<b>(1,913)</b>	<b>(2,769)</b>
Equity raised/(repaid)	(504)	(3)	0	0
Debt raised/(repaid)	(86)	95	-	-
Dividend (incl. tax)	-	-	-	-
Chg in minorities	-	-	-	-
Other financing activities	513	(787)	-	-
<b>Cash flow from financing (c)</b>	<b>(77)</b>	<b>(696)</b>	<b>0</b>	<b>0</b>
<b>Net chg in cash (a+b+c)</b>	<b>18</b>	<b>31</b>	<b>766</b>	<b>365</b>

### ■ Financial Ratios

Year-end: March	FY11	FY12	FY13E	FY14E
Adj EPS (Rs)	11.2	16.9	21.6	30.0
Adj EPS growth (%)	104.8	50.6	27.4	39.2
EBITDA margin (%)	17.7	18.7	17.5	17.6
Pre-tax margin (%)	13.6	15.2	14.3	14.6
RoE (%)	46.6	44.7	38.0	36.3
RoCE (%)	57.0	61.0	52.0	50.0
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover	2.7	2.6	2.6	2.5
Leverage factor	1.6	1.6	1.5	1.4
Net margin (%)	10.6	10.8	9.8	10.0
Net Debt/Equity	(0.2)	(0.0)	(0.3)	(0.5)
<b>Working Capital &amp; Liquidity ratios</b>				
Inventory days	8	7	7	7
Receivable days	2	2	2	2
Payable days	57	48	48	48

### ■ Valuations

Year-end: March	FY11	FY12	FY13E	FY14E
PER (x)	100.9	67.0	52.6	37.8
Price/Book value (x)	37.9	24.5	16.8	11.6
PCE (x)	71.7	49.9	38.1	28.0
EV/Net sales (x)	10.4	7.2	5.1	3.6
EV/EBITDA (x)	58.8	38.3	29.0	20.7
Dividend Yield (%)	0.0	0.0	0.0	0.0



# Notes

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**Key to Ratings****Stocks:**

**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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