

# Jubilant FoodWorks

## Time to charge on delivery strength

Jubilant FoodWorks (Jubilant) clocked weak show amidst COVID led lockdown. Revenue declined by 60% YoY with negative SSG of 61% YoY (HSIE -54%). Recovery in July/Aug at 70/85% is encouraging as dine-in pressure remained high. Jubilant is capitalising the situation (weaker competition, delivery friendly demand, and increase in delivery fee by aggregator) by charging delivery fee (Rs 30/order). It will support operational performance in FY21. Cost control initiatives have resulted into positive EBITDA of Rs 241mn vs. loss of Rs 423mn by Westlife. We believe benign raw material prices, soft rental cost and sustained delivery fee will drive the EBITDA margin in ensuing quarters. We change our EPS estimate by -9/+15/+12% for FY21/22/23. We increase target P/E multiple to 45x (42x earlier) to factor-in faster recovery and potential share gain. We maintain REDUCE rating with TP of Rs 1,758.

- **Weak revenue:** Revenue declined by 60% YoY (+10% in 1QFY20 and +4% in 4QFY20), much better than Westlife Development which clocked 75% YoY decline. System sales saw healthy recovery and stood at 70/85% in July/Aug. In August, delivery and takeaway was up by 10% and 55% YoY while Dine-in remained weak at -84%. Domino's net store addition was 19 (spill over of 4QFY20 store addition) while Dunkin saw 4 store closure. Company guided no new net store addition in FY21.
- **Subdued EBITDA margins:** GM expanded by 257bps YoY to 78% (+93bps in 1QFY20 and -164bps in 4QFY20). Soft raw material prices and less promotional activity (EDV was available in 1Q) expanded margin. Employee/other expenses were down by 19/60% YoY. EBITDA margin was at 6.3% vs. 23% in 1QFY20.
- **Call takeaways:** (1) Demand is expected to reach normalcy by the end of FY21; (2) Plan to close 105 unprofitable stores in FY21 (mostly located in malls and corporate parks with a dine-in focus); (3) Intends to open 100 new stores in FY21 and will maintain its store count; (4) Delivery charges were started at Rs 20/order then moved to Rs 30/order. Delivery fee has no impact on the rate of recovery in demand; (5) Delivery fee will be sustainable.

### Quarterly/Annual Financial summary

YE Mar (Rs mn)	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	3,803	9,401	(59.5)	8,979	(57.6)	39,273	33,235	43,919	49,457
EBITDA	241	2,191	(89.0)	1,695	(85.8)	8,756	7,407	10,629	11,751
APAT	(651)	815	(179.8)	520	(225.1)	3,537	2,490	4,791	5,518
Diluted EPS (Rs)	(4.93)	6.18	(179.8)	3.94	(225.1)	26.8	18.9	36.3	41.8
P/E (x)						84.0	119.3	62.0	53.9
EV / EBITDA (x)						50.4	64.7	37.4	32.5
RoCE (%)						30.7	10.8	25.4	31.7

### Change in Estimates

	FY21E			FY22E			FY23E		
	Old	New	Chg (%)	Old	New	Chg (%)	Old	New	Chg (%)
Sales	34,318	33,235	(3.2)	42,145	43,919	4.2	47,502	49,457	4.1
EBITDA	4,784	4,466	(6.6)	6,661	7,620	14.4	7,637	8,638	13.1
APAT	2,737	2,490	(9.0)	4,169	4,791	14.9	4,922	5,518	12.1
EPS	20.7	18.9	(9.0)	31.6	36.3	14.9	37.3	41.8	12.1

Source: Company, HSIE Research

## REDUCE

CMP (as on 02 Sep 2020)	Rs 2,251
Target Price	Rs 1,758
NIFTY	11,535

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 1,387	Rs 1,758
EPS %	FY21E -9%	FY22E +15%

### KEY STOCK DATA

Bloomberg code	JUBI IN
No. of Shares (mn)	132
MCap (Rs bn) / (\$ mn)	297/4,059
6m avg traded value (Rs mn)	2,324
52 Week high / low	Rs 2,286/1,138

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	32.3	34.9	89.3
Relative (%)	16.8	32.5	84.6

### SHAREHOLDING PATTERN (%)

	Mar-20	June-20
Promoters	41.94	41.94
FIs & Local MFs	18.93	15.67
FPIs	32.65	36.19
Public & Others	6.48	6.20
Pledged Shares	1.52	1.14

Source : BSE

Pledged shares as % of total shares

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