

Jubilant FoodWorks

Estimate changes

TP change

Rating change



CMP: INR520 TP: INR480 (-8%) Downgrade to Neutral

Sluggish performance; not unwinding in near term

Bloomberg	JUBI IN
Equity Shares (m)	660
M.Cap.(INRb)/(USDb)	342.8 / 4.1
52-Week Range (INR)	587 / 412
1, 6, 12 Rel. Per (%)	-8/-1/-16
12M Avg Val (INR M)	1245

Financials & Valuations (INR b)

Y/E March	2024E	2025E	2026E
Sales	54.0	60.9	71.1
Sales Gr. (%)	4.6	12.9	16.8
EBITDA	11.0	12.5	15.1
EBITDA Margin (%)	20.5	20.5	21.3
Adj. PAT	2.7	3.6	4.7
Adj. EPS (INR)	4.1	5.4	7.2
EPS Gr. (%)	-30.7	32.2	33.2
BV/Sh.(INR)	30.8	31.0	32.2

Ratios

RoE (%)	13.2	17.4	22.3
RoCE (%)	9.2	10.9	13.0

Valuation

P/E (x)	127.6	96.5	72.5
P/BV (x)	16.9	16.8	16.2
EV/EBITDA (x)	32.5	28.8	23.7
EV/Sales (x)	6.7	5.9	5.1

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	41.9	41.9	41.9
DII	22.1	22.4	20.9
FII	28.0	26.4	27.0
Others	8.0	10.1	10.2

FII Includes depository receipts

- Jubilant Foodworks (JUBI) reported sales growth of 3% YoY to INR13.5b in 3QFY24, impacted by LFL decline of 2.9%. Delivery business was up 6%, while dine-in contracted by 5%. Demand challenges in the industry continue to impact growth metrics.
- Domino's added 40 new stores and entered 10 new cities in 3Q. The store expansion spree for Domino's and other brands has continued. The company has a store network in 407 cities now.
- With persistent pressure on LFL/ADS, the operating margin saw further deterioration. Despite gross margin expansion (120bp YoY to 76.7%), PBT margin further slid to 6% vs. 7% QoQ and 9% YoY. PBT declined by 30% YoY. Weak operating margins were further impacted by higher depreciation (investment in backend). PBT margin in FY22 was 13.5%.
- As near-term demand is expected to be soft, we do not see the operating print improving anytime soon. The backend investments (commissaries in Bangalore, Mumbai) will further keep the PBT margin under pressure. We believe the current valuation does not capture the full earnings pressure. Hence, **we downgrade our rating from BUY to NEUTRAL.**

Weak delivery due to industry challenges

- JUBI reported sales growth of 3% YoY to INR13.5b, impacted by **LFL decline of 2.9%**.
 - Growth in Delivery (+6.2%) was partially offset by a decline in Dine-in (-5.6%).
- Gross profit grew 5% YoY to INR10.3b.
- Margin improved 120bp YoY/30bp QoQ due to marketing campaign- "Domino's brand refresh – It Happens Only with Pizza".
- The deployment of multiple levers through Project Vijay and disciplined cost control continued to aid profitability.
- EBITDA declined 2% YoY to INR2.8b, led by weak LFL growth and higher opex.
- Margins contracted 110bp YoY (flat QoQ) to 20.9%.
- PBT margin (better metric after Covid) was at 6% vs. 7% QoQ and 9% YoY.
- PBT declined 30% YoY.
- Adj. PAT declined 31% YoY to INR610m due to higher depreciation/ interest and decrease in other income.
- Margins stood at 4.5% (vs. 6.7% in 3QFY23).
- 9MFY24 revenue grew 4.3%, while EBITDA/PAT declined 7%/37% YoY.

Highlights from the management commentary

- The current slowdown seems to be cyclical. Performance was strong in Nov'23, but subsided after Diwali and in Dec'23. Jan'24 also remained weak. However, Domino's has gained market share.
- In India's USD50b food service industry, pizza represents only USD1b; hence, the company will invest in brand building and marketing. Two-thirds of the food service industry is unorganized, which would act as a tailwind.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- The company will keep investing in stores as inflation is moderating (maintains 200 store addition guidance in FY24). It expects to sustain gross margins.
- Competition has increased, but Domino's was able to gain market share. Out of 14 pizza chains, which have combined ~4,000 stores, JUBI has a 69.7% revenue share and a 46.8% store share.

Valuation and view

- With continued pressure on LFL/ADS, the operating margin saw further deterioration. Despite gross margin expansion (120bp YoY to 76.7%), PBT margin further slid to 6% vs. 7% QoQ and 9% YoY. PBT declined by 30% YoY. Weak operating margins were further impacted by higher depreciation (investment in backend). PBT margin in FY22 was 13.5%.
- With near-term demand is expected to be soft, we do not see operating print improving anytime soon. The backend investments (commissaries in Bangalore, Mumbai) will further keep the PBT margin under pressure. We believe the current valuation does not capture the full earnings pressure. Hence, we downgrade our rating from BUY to NEUTRAL.
- **We value Domino's India business at 60x P/E on FY26E EPS and add INR50 per share for other initiatives and strategic investments. Our TP is INR480.**

Quarterly Standalone Perf.

Y/E March	FY23				FY24E						FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY23	FY24E	3QE	(%)
No of stores (Dominos)	1,625	1,701	1,760	1,816	1,838	1,888	1,953	2,016	1,816	2,016	1,953	
LFL growth (%)	28.3	8.4	0.3	-0.6	-1.3	-1.3	-2.9	-3.0	8.9	2.0	5.0	
Net Sales	12,403	12,868	13,166	12,523	13,097	13,448	13,551	12,941	50,960	53,037	14,878	-9%
YoY change (%)	41.1	16.9	10.3	8.2	5.6	4.5	2.9	3.3	17.7	4.1	13.0	
Gross Profit	9,514	9,811	9,937	9,426	9,956	10,275	10,387	9,902	38,688	40,520	11,444	-9%
Gross margin (%)	76.7	76.2	75.5	75.3	76.0	76.4	76.7	76.5	75.9	76.4	76.9	
EBITDA	3,045	3,125	2,900	2,522	2,764	2,807	2,827	2,687	11,592	11,085	3,677	-23%
EBITDA growth %	44.0	9.2	-8.6	-12.9	-9.2	-10.2	-2.5	6.5	4.9	-4.4	26.8	
Margins (%)	24.6	24.3	22.0	20.1	21.1	20.9	20.9	20.8	22.7	20.9	24.7	
Depreciation	1,050	1,123	1,298	1,282	1,328	1,379	1,465	1,535	4,753	5,401	1,396	5%
Interest	459	485	501	505	513	534	583	563	1,951	2,193	540	8%
Other Income	106	103	93	195	91	69	40	51	497	250	99	-60%
PBT	1,642	1,619	1,194	930	1,014	963	819	640	5,385	3,741	1,841	-56%
YoY Change (%)	85.0	-1.0	-34.8	-39.6	-38.2	-40.5	-31.4	-31.1	-8.6	-30.5	54.1	
Tax	366	428	309	254	262	241	209	189	1,356	942	464	
Rate (%)	22.3	26.4	25.8	27.4	25.8	25.1	25.6	29.5	25.2	25.2	25.2	
Adjusted PAT	1,217	1,192	885	621	752	721	610	451	3,914	2,799	1,377	-56%
YoY change (%)	78.6	-2.9	-35.57	-46.74	-38.2	-39.5	-31.16	-27.30	-12.0	-28.5	55.5	

E: MOFSL estimates

Highlights from the press release and investor presentation

- Store Network: Opened 58 net store, taking the count to 2,007 stores
 - **Domino's:** Opened 40 new Domino's Pizza stores and closed none, leading to 1,928 total stores. Expanded in 10 new cities, reaching 407 cities across India.
 - **Popeyes:** Opened 10 new stores and closed none, taking the count to 32 stores in 10 cities (added 4 cities).
 - **Hong's Kitchen:** Opened 4 store and closed none, taking the count to 22 stores in 4 cities.
 - **Dunkin' Donuts:** Opened 4 new and closed none, taking the count to 23 stores in 4 cities.
 - **DP Eurasia** consolidation will be effective from 4QFY24.
- The enrolment to loyalty program, 'Domino's Cheesy Rewards', reached 21.5m (+10% QoQ) and the loyalty order contribution crossed 50% in Sep'23.
- The quarterly app downloads declined QoQ to 9.1m (vs. 10.6m in 2QFY24) and MAU decreased to 10.5m (vs. 10.8m in 2QFY24).
- ADS for mature stores declined 3% QoQ to INR80,111.
- **International stores:**
 - In **Sri Lanka and Bangladesh**, network count increased to 76 stores (added 3 stores QoQ).



Highlights from the management commentary

Current Environment

- The current slowdown seems to be cyclical. The performance was strong in Nov'23, but subsided after Diwali and in Dec'23. Jan'24 also remained weak.
- However, Domino's has gained market share. This is on the basis of aggregator data, the company's internal method, and comparison with other listed companies.
- Out of 14 pizza chains, which have combined ~4,000 stores, JUBI has a 69.7% revenue share and a 46.8% store share.
- Around 60-70% of the deliveries are under 20 minutes. Faster delivery led to faster growth.

Market size

- In India's USD50bn food service industry, pizza represents only USD1bn; hence, the company will invest in brand building and marketing.
- Two-thirds of the food service industry is unorganized, which would act as a tailwind.

Guidance

- Continues to invest in Popeyes and technology and expects a turnaround in Domino's.
- Maintains guidance to add 200 stores in FY24.
- The company will keep investing in stores as inflation is moderating.
- Expects gross margins to sustain at this level
- Reduces the number of split stores given slow growth in mother stores; focusing on increasing the number of cities.

Quarterly update

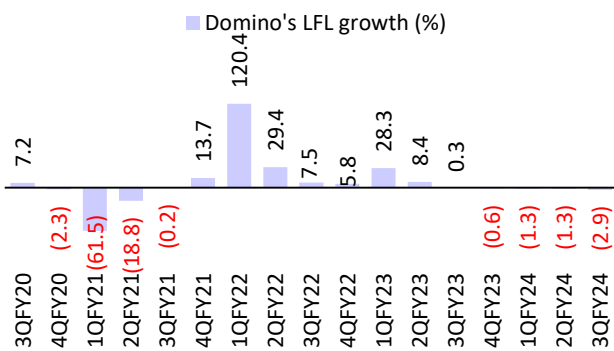
- Delivery is the preferred channel and is much ahead of its own pre-Covid performance.
- Recorded the highest ticket in the last six quarters without price hikes, primarily led by combo pack sales.
- GM improved due to the launch of Project Vijay.

Bangladesh commissary

- Building supply chain is a focus area for the company.
- Investing in an asset-heavy capex model of commissaries rather than partnering with multiple vendors to build the supply chain.
- The facility is designed to serve 750 Domino's stores, 300 stores of Popeyes and Dunkin, as well as a cold warehouse at the supply chain center.
- The Bangalore Food Park has large factories within the factory for chicken toppings, chicken marination, bakery products, central kitchen operations and seasoning manufacturing inside the factory.

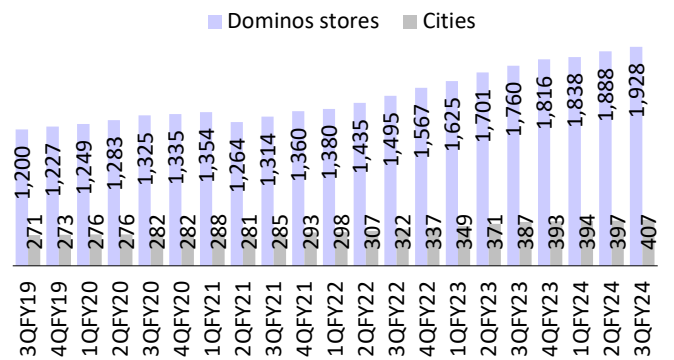
Key exhibits

Exhibit 1: LFL continued to decline



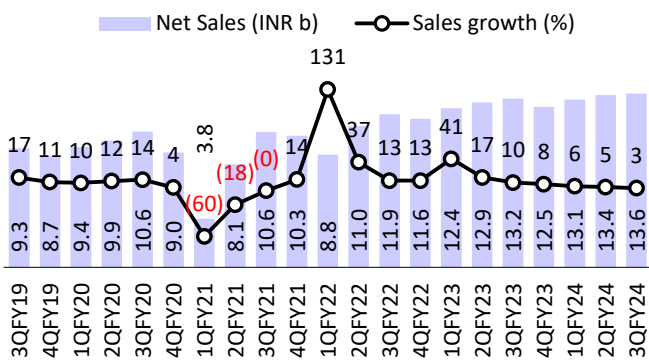
Source: Company, MOFSL

Exhibit 2: Domino's: Added 40 new stores, 10 new cities



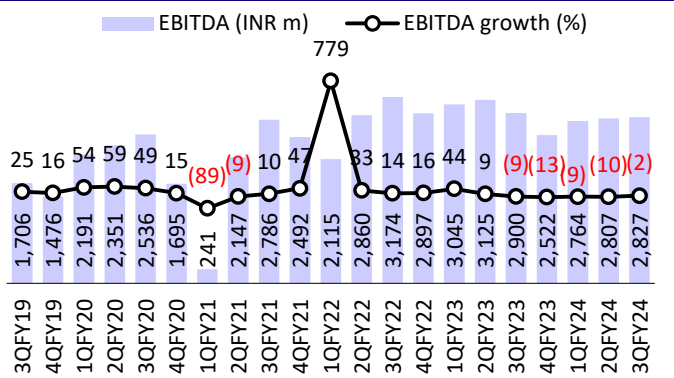
Source: Company, MOFSL

Exhibit 3: Net sales grew 3% YoY, led by weak LFL



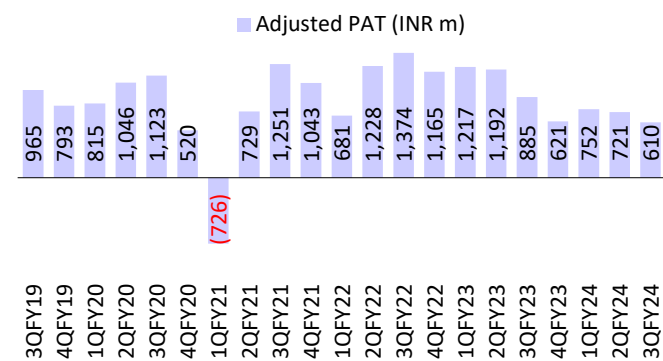
Source: Company, MOFSL

Exhibit 4: EBITDA down 2% YoY to INR2.8b



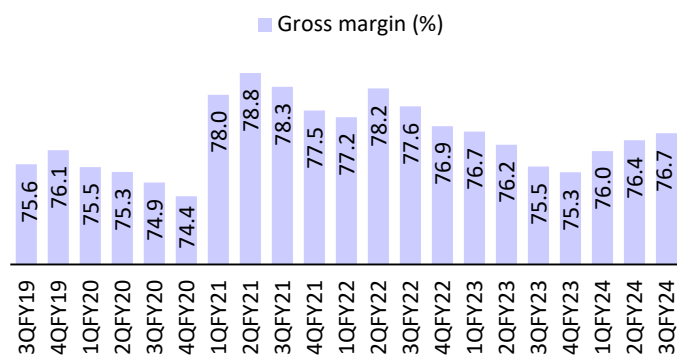
Source: Company, MOFSL

Exhibit 5: Adjusted PAT declined 31% YoY; margins at 4.5%



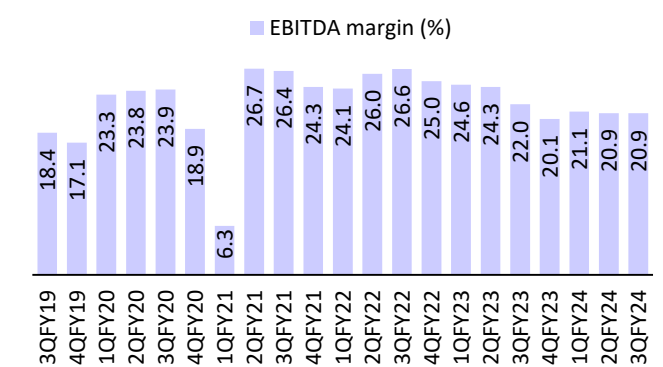
Source: MOFSL, Company

Exhibit 6: GM up by 120bp YoY/30bp QoQ



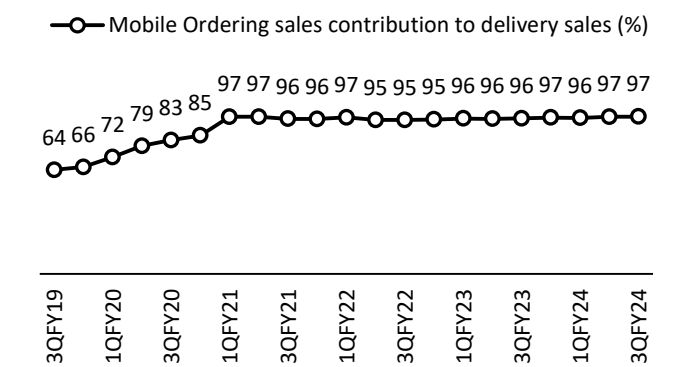
Source: MOFSL, Company

Exhibit 7: EBITDA margin contracted 110bp YoY



Source: MOFSL, Company

Exhibit 8: Contribution continued to inch up



Source: MOFSL, Company

Exhibit 9: We cut our estimates by ~27-29% for FY24/FY25

INR m	New		Old		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Sales	53,972	60,920	55,399	63,211	-2.6%	-3.6%
EBITDA	11,039	12,481	12,229	14,766	-9.7%	-15.5%
Adjusted PAT	2,690	3,555	3,723	4,978	-27.7%	-28.6%

Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	35,631	39,273	33,119	43,961	51,582	53,972	60,920	71,142
Change (%)	18.0	10.2	-15.7	32.7	17.3	4.6	12.9	16.8
Material Consumed	8,861	9,835	7,262	9,899	12,478	12,517	14,185	16,700
Gross Profit	26,770	29,438	25,856	34,062	39,104	41,455	46,735	54,442
Gross Margin %	75.1	75.0	78.1	77.5	75.8	76.8	76.7	76.5
Operating expenses	20,773	20,682	18,144	22,974	27,589	30,417	34,255	39,298
EBITDA	5,998	8,756	7,712	11,088	11,516	11,039	12,481	15,144
Change (%)	36.3	46.0	-11.9	43.8	3.9	-4.1	13.1	21.3
Margin (%)	16.8	22.3	23.3	25.2	22.3	20.5	20.5	21.3
Depreciation	1,575	3,523	3,754	3,931	4,859	5,401	5,715	6,675
Int. and Fin. Ch.	0	1,652	1,627	1,761	2,012	2,193	2,415	2,692
Other Non-recurring Inc.	474	447	731	236	243	150	400	550
PBT	4,897	4,028	3,062	5,633	4,887	3,594	4,751	6,327
Change (%)	61.6	-17.7	-24.0	83.9	-13.2	-26.5	32.2	33.2
Margin (%)	13.7	10.3	9.2	12.8	9.5	6.7	7.8	8.9
Tax	1,717	1,240	757	1,452	1,357	905	1,196	1,593
Tax Rate (%)	35.1	30.8	24.7	25.8	27.8	25.2	25.2	25.2
Adjusted PAT	3,180	3,537	2,266	4,254	3,883	2,690	3,555	4,735
Change (%)	65.8	11.2	-35.9	87.8	-8.7	-30.7	32.2	33.2
Margin (%)	8.9	9.0	6.8	9.7	7.5	5.0	5.8	6.7
Non-rec. (Exp)/Inc.	0	-249	0	-73	0	0	0	0
Reported PAT	3,180	2,788	2,306	4,181	3,530	2,690	3,555	4,735

Balance Sheet								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320
Reserves	11,277	9,901	12,949	18,130	19,058	19,029	19,154	19,899
Share Premium	477	477	477	477	477	477	477	477
P&L Balance	10799	9423	12471	17653	19103	19923	20282	20353
Net Worth	12,596	11,220	14,268	19,450	20,378	20,349	20,473	21,218
Loans	5	16,706	16,205	21,066	25,537	27,625	29,735	32,497
Capital Employed	12,627	28,033	30,567	40,617	45,915	47,974	50,209	53,716
Gross Block	12,288	27,542	28,778	35,390	45,564	51,105	56,238	62,666
Less: Accum. Depn.	4,577	6,036	7,688	8,591	11,759	15,721	19,770	24,372
Net Fixed Assets	7,711	21,506	21,090	26,798	33,805	35,383	36,469	38,294
Intangible property	383	381	365	567	1,141	1,141	1,141	1,141
Capital WIP	157	412	285	465	1,838	1,838	1,038	1,038
Investments	1,808	512	5,167	9,268	8,218	8,418	8,618	8,818
Deferred tax assets	-500	751	831	526	743	743	743	743
Curr. Assets, L&A	8,498	10,137	9,881	10,192	8,077	8,845	11,561	14,390
Inventory	771	947	1,331	1,612	1,770	1,852	2,090	2,441
Account Receivables	274	166	168	220	287	301	339	396
Cash and Bank Balance	4,943	6,559	5,344	5,634	2,506	3,218	5,286	7,162
Others	2,510	2,464	3,038	2,726	3,514	3,475	3,845	4,390
Curr. Liab. and Prov.	5,430	5,666	7,053	7,200	7,906	8,394	9,361	10,708
Other Current Liabilities	919	873	1,300	1,420	1,873	2,060	2,266	2,493
Creditors	4,209	4,470	5,330	5,370	5,614	5,915	6,676	7,796
Provisions	303	322	423	411	419	419	419	419
Net Curr. Assets	3,067	4,471	2,828	2,992	171	451	2,199	3,681
Appl. of Funds	12,627	28,032	30,566	40,616	45,915	47,974	50,208	53,715

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	4.8	5.4	3.4	6.4	5.9	4.1	5.4	7.2
BV/Share	19.1	17.0	21.6	29.5	30.9	30.8	31.0	32.2
DPS	1.0	1.2	1.2	1.2	1.2	1.8	1.8	1.8
Payout %	20.8	22.4	34.9	18.6	20.4	42.9	32.5	24.4
Valuation (x)								
P/E	107.9	97.0	151.4	80.7	88.4	127.6	96.5	72.5
EV/Sales	9.4	9.0	10.5	7.9	6.9	6.7	5.9	5.1
EV/EBITDA	56.1	40.3	45.2	31.5	31.1	32.5	28.8	23.7
P/BV	27.2	30.6	24.0	17.6	16.8	16.9	16.8	16.2
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Return Ratios (%)								
RoE	25.2	31.5	15.9	21.9	19.1	13.2	17.4	22.3
RoCE	28.5	19.4	12.1	15.5	11.5	9.2	10.9	13.0
RoIC	50.7	27.6	14.8	23.6	16.4	12.4	14.5	17.6
Working Capital Ratios								
Debtor (Days)	3	2	2	2	2	2	2	2
Inventory (Days)	8	9	15	13	13	13	13	13
Creditor (Days)	43	42	59	45	40	40	40	40
Asset Turnover (x)	2.8	1.4	1.1	1.1	1.1	1.1	1.2	1.3
Leverage Ratio								
Debt/Equity (x)	0.0	1.5	1.1	1.1	1.3	1.4	1.5	1.5

Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(loss) before Tax	4,897	4,028	3,062	5,633	4,887	3,594	4,751	6,327
Int./Div. Received	-200	-395	-414	-294	-267	-250	-450	-600
Depreciation & Amort.	1,575	3,523	3,754	3,931	4,859	5,401	5,715	6,675
Interest Paid	0	1,652	1,627	1,761	2,012	2,193	2,415	2,692
Direct Taxes Paid	-1,779	-1,402	-869	-1,410	-1,263	-905	-1,196	-1,593
Incr in WC	-36	-82	509	-275	-83	539	632	853
CF from Operations	4,235	7,278	7,506	9,436	10,262	10,573	11,866	14,354
Others	(221)	(47)	(162)	91	117	0	0	0
Extraordinary Items	-136	1,740	1,429	1,724	0	0	0	0
Incr in FA	-1,657	-2,883	-2,427	-4,563	-8,382	-5,380	-4,001	-6,000
Free Cash Flow	2,442	6,135	6,509	6,598	1,879	5,193	7,866	8,354
Others	4,376	334	554	694	-2,968	250	450	600
Pur of Investments	-3,134	1,502	-3,961	-2,212	2,225	-307	-512	-659
CF from Invest.	-416	-1,047	-5,834	-6,080	-9,126	-5,437	-4,062	-6,059
Issue of Shares	44	95	0	29	-262	0	0	0
Dividend Paid	-329	-1,448	0	-790	-790	-791.814	-1154.73	-1154.73
Others	118	-3,261	-2,887	-2,305	-3,212	-3,632	-4,581	-5,265
CF from Fin. Activity	-167	-4,614	-2,887	-3,066	-4,264	-4,423	-5,736	-6,419
Incr/Decr of Cash	3,652	1,616	-1,215	290	-3,128	712	2,068	1,876
Add: Opening Balance	1,290	4,943	6,559	5,344	5,634	2,506	3,218	5,286
Closing Balance	4,943	6,559	5,344	5,634	2,506	3,218	5,286	7,162

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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