

Jubilant Foodworks (JUBI IN)

Management tones down margin expectations, but IRCTC Venture may reap rich returns in long term

26 February 2015

INDIA | FMCG | Management Meet Update

We met Mr. Ravi Gupta, CFO of Jubilant Foodworks for a discussion on company's future prospects. During the discussion, Mr. Gupta maintained that improvement in SSSG in Q3FY15 was largely cosmetic and tried to tone down some of the exuberant investor expectations on margins. Also, we have analyzed IRCTC's tie up with Jubilant Foodworks to enable passengers to order Pizzas from Dominos & get it delivered to their seats. We believe this will lead to a significant value creation if executed successfully. Baking IRCTC venture with conservative estimates, we find the potential addition to target price is Rs 100 translating to revised target price of Rs 1850. The key takeaways of the meeting and IRCTC venture are as follows:

Same Store Sales Growth (SSSG) will take time to revive, Nevertheless Dominos to continue gaining share: The management again reiterated that the positive SSSG in Q3FY15 was primarily because of a lower base. Nevertheless slowdown for Jubilant Foodworks has been far less pronounced than other comparable businesses like Westlife Development & Yum! India which have seen -ve double digit SSSG in the last 12 months. The management indicated that the worst may be over for Jubilant & positive SSSG is expected from this quarter; but it will take 3-6 months to go back to the high single to double digit SSSG. Dominos store addition is highest in the industry and rate of growth is significantly higher than any of the QSR peers. Dominos has gained market share in 2013 and it is likely to have gained market share in 2014 also. The management believes that they will lose market share at some point in time but at the current juncture market share gains will be led by store expansion and focus will be only on execution.

Margin improvement will be protracted but focus on innovations to sustain: Focus of the discussion was to tone down exuberant investor expectations on EBITDA margins. New store additions and Dunkin outlets have lower than system average margins. In FY16, even though SSSG will improve, the margin improvement will not be significant because of new stores, higher labour and rental expenses. Management indicated that new stores on launch draw on 70% - 80% of system sales average and take around 3-4 years to reach system average. Currently, Jubilant has 50% of stores which are less than 3 years old. The management also reiterated that Dunkin Donuts will become profitable only after 6th year of operation and even then the impact on margins will be dilutive because of lower than system average margins. The Company had launched 10 new pizzas recently & the innovations have been very well received, and all these new offerings will stay in the menu

Consensus estimates of significant margin improvement over-optimistic; PC estimates in line with management expectations: The consensus has estimated for FY16 the SSSG to be 6-10% yoy and EBITDA margin improvement to be 100-300 bps yoy. The management indicated that these numbers seem to be over optimistic. We believe that PhillipCapital estimates of SSSG of 4% yoy & EBITDA margin improvement of 40 bps yoy in FY16 are conservative and largely in line with management expectations.

IRCTC deal could be a long-term master stroke; Raise target price by Rs 100: Jubilant has tied up with IRCTC to deliver pizzas to train passengers on their seat. The service has been started on trial basis on 120 trains and 12 stations. The deal can add significant earnings and same store sales from FY17 and we conservatively estimate that earnings accrual could be Rs 620 mn by FY20. This adds Rs 100 to our target price, taking it to Rs 1850. Considering the significant upside we maintain our Buy recommendation on the stock.

BUY (Maintain)

CMP RS 1636

TARGET RS 1850 (+13%)

COMPANY DATA

O/S SHARES (MN) :	66
MARKET CAP (RSBN) :	109
MARKET CAP (USDBN) :	1.8
52 - WK HI/LO (RS) :	1695 / 939
LIQUIDITY 3M (USDMN) :	7.6
PAR VALUE (RS) :	10

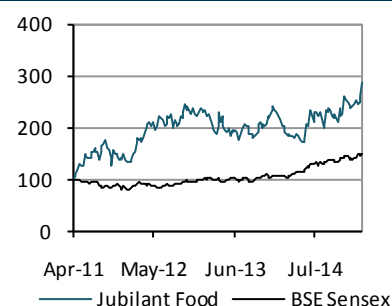
SHARE HOLDING PATTERN, %

PROMOTERS :	48.9
FII / NRI :	43.2
FI / MF :	2.9
NON PROMOTER CORP. HOLDINGS :	3.6
PUBLIC & OTHERS :	1.5

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	19.7	15.6	57.3
REL TO BSE	20.6	13.8	18.0

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY15	FY16E	FY17E
Net Sales	20,621	27,052	36,418
EBIDTA	2,634	3,569	5,585
Net Profit	1,250	1,682	2,751
EPS, Rs	19.1	25.7	42.0
PER, x	88.2	65.5	40.1
EV/EBIDTA, x	41.5	30.6	19.2
P/BV, x	16.0	12.9	9.8
ROE, %	18.2	19.7	24.3

Source: PhillipCapital India Research Est.

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Pizza Delivery in Trains in tie up with IRCTC seems a very attractive opportunity:

IRCTC (Indian Railways) has recently tied up with Jubilant Foodworks to enable passengers to order Pizzas from Dominos & get it delivered to their seats. The service will be started on trial basis at 12 stations majorly in North India & Gujarat, and for passengers travelling across 120 trains which do not have pantry cars. Passengers travelling in a train without pantry car will be able to place an order for a pizza of their choice, to be served at their seats in the train en route, either online or through a phone call on a toll-free number. Based on how the trials proceed, more stations and trains will be included in this venture soon.

Ground Research indicates a favorable response from Indian Railways passengers:

IRCTC had recently started e-catering services two weeks ago. Earlier the food offerings offered included only vegetarian & non-vegetarian Thali & Biryani. We spoke to the customer service executive at IRCTC call centre. He told us that currently a team of 10 customer service executives operates from 6 am to 12 in the midnight daily & they get calls throughout the day. The introduction of Pizza as an offering 2 days ago has significantly increased the number of calls they receive throughout the day.

IRCTC venture may provide additional revenues of Rs 2285 mn by FY20: We took into account the number of trains & stations covered currently, current response by consumers & market potential, the potential number of trains that can be covered in the next 5 years. As per our estimates, IRCTC venture can contribute additional revenue (net of IRCTC commission) of Rs 2285 mn by FY20. This is in addition to the expected Revenue of Rs 91,652 mn in FY20 through regular operations.

Incremental Revenue projections from tie up with IRCTC

	FY16	FY17	FY18	FY19	FY20
Number of trains served daily by the venture	120	250	450	700	1000
Target Passengers per train	1,030	1,030	1,030	1,030	1,030
Penetration	1.0%	2.0%	2.5%	3.0%	3.5%
Daily Number of orders per train	10	21	26	31	36
Daily Total number of orders	1,236	5,150	11,588	21,630	36,050
Net Realisation for Jubilant per order (assuming 5% price growth) in Rs.	200	210	221	232	243
Daily Revenue per train in Rs.	2,060	4,326	5,678	7,154	8,764
Daily Revenue for all trains (Rs mn)	0.2	1	3	5	9
Annual Revenue for all trains (Rs mn)	64	282	666	1,306	2,285

Source: Company, PhillipCapital India Research Estimates

IRCTC Venture may provide additional profits of Rs 623 mn by FY20: A study of location of Dominos outlets near the 12 railway stations currently covered like New Delhi, Vapi, Vadodra, etc. under the IRCTC venture shows that the existing outlets can be used to cater to this venture. A sample analysis of other Indian towns also shows that most towns have existing Dominos outlets near main railway stations. This implies no additional rental expenses for the venture & savings on employee & other expenses. Our estimates indicate that by FY20 the IRCTC venture will help generate additional post tax profits of Rs 623 mn. This is 8.4% in addition to expected profits of Rs 7449 mn in FY20 through regular operations.

Incremental EPS projections from tie up with IRCTC

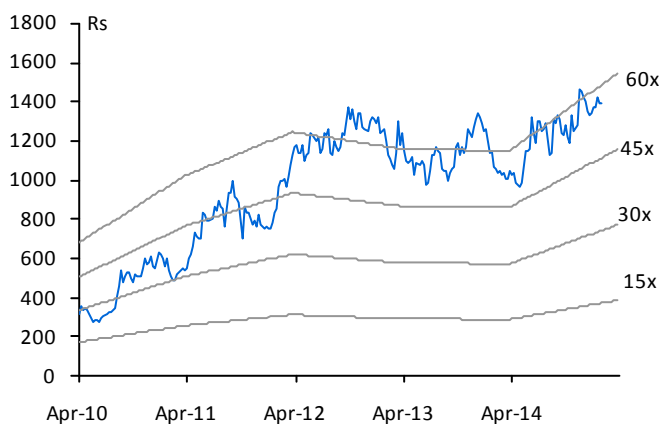
In Rs mn	FY16	FY17	FY18	FY19	FY20
Gross Revenue	64	282	666	1,306	2,285
Net Revenue	55	239	566	1,109	1,940
Cost of Goods Sold	(13)	(56)	(131)	(257)	(448)
Gross Profit	42	184	434	852	1,492
Employee Expenses	(6)	(23)	(52)	(99)	(168)
Manufacturing Expenses	(5)	(23)	(55)	(107)	(187)
Other Expenses	(6)	(26)	(60)	(118)	(208)
Additional Profit before Tax	25	113	268	528	930
Additional Post Tax Profit	18	75	179	353	623
Additional EPS	0.28	1.15	2.74	5.40	9.52
% increase in EPS	1.1%	2.8%	4.6%	6.6%	8.4%

Source: Company, PhillipCapital India Research Estimates

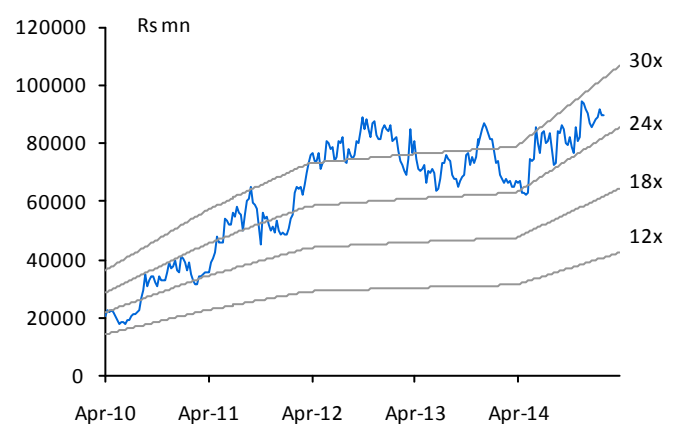
Increase the price per share by Rs 100 based on value created by the venture: An additional EPS of Rs 9.52 in FY20 when valued at P/E of 20, gives an increase in target share price in FY20 by Rs 190. Discounting the increase in valuation to present leads to increase in target price of Rs 100 in FY15. This implies an increase in current market capitalization by Rs 6600 mn.

Risks: There are 2 major risks to the IRCTC venture. First risk is the possibility of the quality of Pizza delivered to rail passengers not being of the same quality as compared to regular. This may lead to difficulties in growing the business. Pizza tastes best when served fresh & the quality of taste may deteriorate if there is a huge gap between preparation time & delivery time, which is possible in case of rail delivery. Second risk is the increase in working capital requirement. The cash will be collected by Railways & passed on to Dominos. This can lead to an increase in Debtor days & less capital being available to invest in expanding the business.

1 yr forward P/E band



EV/EBITDA



Source: PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Net sales	17,235	20,621	27,052	36,418
Growth, %	22	20	31	35
Total income	17,235	20,621	27,052	36,418
Raw material expenses	-4,487	-5,138	-6,461	-8,466
Employee expenses	-3,369	-4,381	-5,532	-7,129
Other Operating expenses	-6,828	-8,468	-11,491	-15,237
EBITDA (Core)	2,551	2,634	3,569	5,585
Growth, %	4.4	3.3	35.5	56.5
Margin, %	14.8	12.8	13.2	15.3
Depreciation	-767	-984	-1,291	-1,575
EBIT	1,784	1,650	2,278	4,010
Growth, %	(5.9)	(7.5)	38.1	76.0
Margin, %	10.4	8.0	8.4	11.0
Other Non-Operating Income	93	69	51	87
Pre-tax profit	1,880	1,723	2,334	4,103
Tax provided	-619	-473	-652	-1,352
Profit after tax	1,261	1,250	1,682	2,751
Net Profit	1,261	1,250	1,682	2,751
Growth, %	(6.8)	(0.9)	34.6	63.6
Net Profit (adjusted)	1,261	1,250	1,682	2,751
Unadj. shares (m)	65	65	65	65
Wtd avg shares (m)	65	65	65	65

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Cash & bank	228	873	1,125	3,076
Debtors	90	143	166	259
Inventory	324	144	395	256
Loans & advances	1,317	1,418	1,567	1,732
Total current assets	1,961	2,578	3,254	5,324
Investments	1,286	86	86	86
Gross fixed assets	7,857	10,878	13,882	16,846
Less: Depreciation	-2,569	-3,554	-4,845	-6,420
Add: Capital WIP	184	184	184	184
Net fixed assets	5,471	7,508	9,221	10,610
Non-current assets	2	0	0	0
Total assets	8,721	10,172	12,561	16,019
Current liabilities	2,601	2,800	3,500	4,200
Provisions	114	123	135	149
Total current liabilities	2,715	2,923	3,635	4,349
Total liabilities	3,086	3,292	4,004	4,718
Paid-up capital	654	654	654	654
Reserves & surplus	4,980	6,226	7,903	10,648
Shareholders' equity	5,635	6,881	8,558	11,302
Total equity & liabilities	8,721	10,172	12,562	16,020

Cash Flow

	FY14	FY15e	FY16e	FY17e
Pre-tax profit	1,880	1,723	2,334	4,103
Depreciation	767	984	1,291	1,575
Chg in working capital	107	607	288	595
Total tax paid	-447	-843	-652	-1,352
Cash flow from operating activities	762	44	3,261	4,921
Capital expenditure	-2,326	-3,021	-3,004	-2,964
Chg in investments	-135	1,200	0	0
Cash flow from investing activities	-2,461	-1,821	-3,004	-2,964
Free cash flow	-1,700	-1,777	257	1,957
Equity raised/(repaid)	1,273	1,246	1,677	2,745
Cash flow from financing activities	1,273	1,246	1,677	2,745
Net chg in cash	-427	-531	1,934	4,701

Valuation Ratios

	FY14	FY15e	FY16e	FY17e
Per Share data				
EPS (INR)	19.3	19.1	25.7	42.0
Growth, %	(7.0)	(0.9)	34.6	63.6
Book NAV/share (INR)	86.1	105.1	130.8	172.7
FDEPS (INR)	19.3	19.1	25.7	42.0
CEPS (INR)	31.0	34.1	45.4	66.1
CFPS (INR)	33.8	36.7	49.0	73.9
Return ratios				
Return on assets (%)	16.5	13.2	14.8	19.2
Return on equity (%)	22.4	18.2	19.7	24.3
Return on capital employed (%)	23.5	18.5	20.5	26.3
Turnover ratios				
Asset turnover (x)	4.5	3.9	4.0	4.6
Sales/Total assets (x)	2.3	2.2	2.4	2.5
Sales/Net FA (x)	3.7	3.2	3.2	3.7
Working capital/Sales (x)	(0.1)	(0.1)	(0.1)	(0.1)
Receivable days	1.9	2.5	2.2	2.6
Inventory days	6.9	2.5	5.3	2.6
Payable days	64.7	56.8	54.4	49.7
Working capital days	(18.4)	(19.4)	(18.5)	(19.6)
Liquidity ratios				
Current ratio (x)	0.8	0.9	0.9	1.3
Quick ratio (x)	0.6	0.9	0.8	1.2
Net debt/Equity (%)	(4.1)	(12.7)	(13.1)	(27.2)
Valuation				
PER (x)	74.7	75.4	56.0	34.3
Price/Bosok (x)	16.7	13.7	11.0	8.3
EV/Net sales (x)	5.5	4.5	3.4	2.5
EV/EBITDA (x)	36.9	35.4	26.1	16.3
EV/EBIT (x)	52.7	56.6	40.9	22.7

Source: Company, PhillipCapital India Research Estimates

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