

Jubilant Foodworks (JUBI IN)

Express 20-minute delivery – coming soon!

INDIA | Retail | Company Update

Our checks suggest that Domino's has been diligent about reducing its delivery time to 20 minutes from 30 minutes and to achieve this, it has a comprehensive plan. Before it rolls out a big advertising campaign in late-March/early-April 2019, promoting the lower delivery time, individual store managers have already been given an internal target to ensure that 90-95% of deliveries are completed within 20 minutes. We believe Jubilant Foodworks' new delivery timeline strategy dovetails perfectly with three important events: IPL (23rd March), the Cricket World Cup 2019 (India's participation will begin on 5th June) and General Elections in April-May 2019 (higher spending may give boost to discretionary purchases). Our channel checks indicate that healthy SSS trends (11-12%) have sustained for Domino's even in January, while Subway India saw SSS growth of 8-9% in that period.

What are the advantages of faster (20 mins) delivery?

- Provides a competitive edge vs. online food aggregators who generally take twice or thrice that time at 40-60 minutes.
- Fresher and warmer food.
- An upper hand over other pizza and OSR players. Faster delivery enhances its addressable market since many customers are looking for faster and timely delivery.

What is Domino's doing to reduce delivery time to 20 minutes from 30 earlier? We believe it would be a combination of the following:

- **Remarkable improvement in oven technology:** Our discussion with store managers suggests that Domino's has made significant strides in technology – it can bake its pizza bread by increasing temperature significantly without burning it, which saves 4-5 minutes. Some store managers also said that they have a back-up oven, which is generally put into use when demand is higher than anticipated.
- **Installation of GPS on riders' bikes across stores in India. This leads to better routing and reduction in late deliveries.** JUBI gives free/concessional food to customers if it does not deliver within the stipulated timeline in some cases. One delivery at a time vs. the earlier practice of multiple deliveries is also expected to improve customer experience.
- **Upped the hiring of part-time delivery personnel** in order to fulfil its promise of 20-minute delivery. Jubilant has recently started a Buddy Referral Programme and riders receive Rs 2,000 if they refer another rider and if the referred person works with the company for atleast 45 days. The store manager has to ensure that bikes are kept in good condition (serviced etc.).
- **Giving priority to delivery orders vs. dining-in orders.** Ensuring continuous production of high-consumption items such as garlic-bread and cheesy-bread in peak hours. Management intends to remove some non-core items from the menu if they take more than 15 minutes to manufacture.

Raising SSS estimates for FY20; poised to deliver: We have raised our SSSG estimates for FY20 to 10% from 8% earlier on this development and accounted for higher employee costs. We have increased our EBITDA estimates by 3% each for FY20/21 and continue to reiterate our high-conviction BUY call within the consumer discretionary space – with a target of Rs 1,850 (25x FY21 EV/ EBITDA) vs. Rs 1,800 earlier. Key risks to our call: (1) Promoter stake sale has come down to 45% from 62% at the time of the IPO, (2) any agreements that hurt the interest of minority shareholders (recent royalty agreement with promoter group, which was later revoked), and (3) irrational exuberance among online delivery players to grab market share.

21 February 2019

BUY (Maintain)

CMP RS 1,292

TARGET RS 1,850 (43%)

COMPANY DATA

O/S SHARES (MN) :	132
MARKET CAP (RSBN) :	176.8
MARKET CAP (USDBN) :	2.5
52 - WK HI/LO (RS) :	1575 / 9057
LIQUIDITY 3M (USDMN) :	44.0
PAR VALUE (RS) :	10

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	9.8	10.9	34.4
REL TO BSE	12.7	12.1	29.8

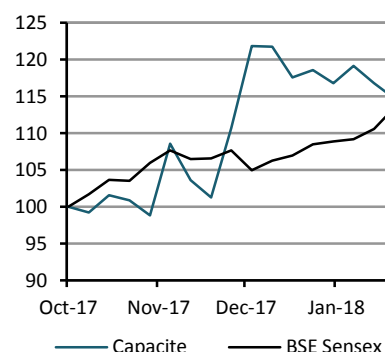
SHARE HOLDING PATTERN, %

	Dec 18	Sep 18	Jun 18
PROMOTERS :	44.9	44.9	44.9
FII / NRI :	39.8	39.4	37.8
FI / MF :	6.8	7.1	8.2
NON PRO :	1.9	1.8	1.6
PUBLIC & OTHERS :	6.6	6.8	7.5

KEY FINANCIALS

Rs mn	FY19E	FY20E	FY21E
Net Sales	35,635	41,762	47,835
EBIDTA	6,066	7,760	9,247
Net Profit	3,299	4,365	5,313
EPS, Rs	25.0	33.1	40.3
PER, x	52.1	39.4	32.4
EV/EBIDTA, x	27.7	21.2	17.3
PBV, x	13.0	10.2	8.1
ROE, %	25.0	25.9	25.0

PRICE VS. SENSEX

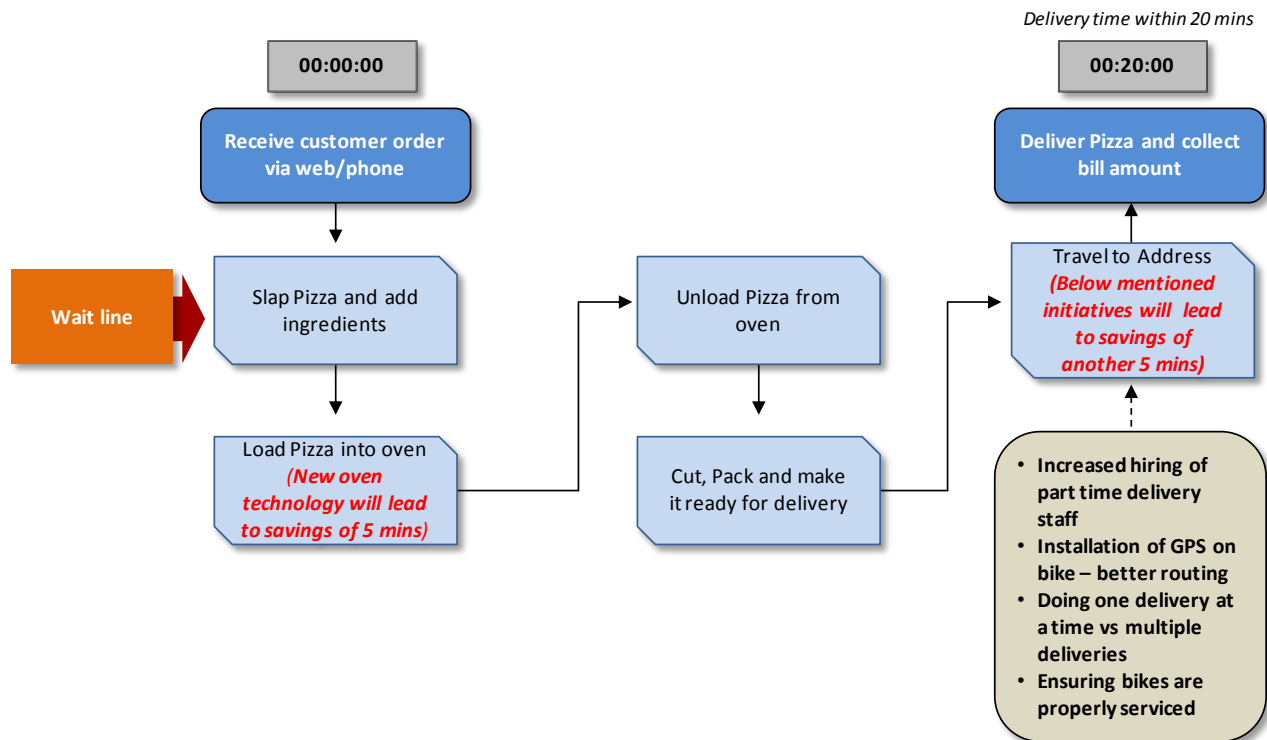


Source: Phillip Capital India Research

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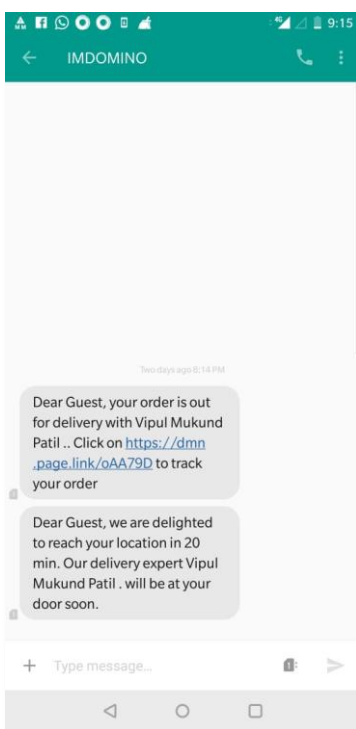
Domino's: Diligently reducing delivery time to 20 minutes



Change in estimates

	Old		Revised		Change, %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
SSSG	8%	8%	10%	8%		
Revenue, Rs mn	41,037	46,980	41,762	47,835	2%	2%
EBITDA, Rs mn	7,528	8,998	7,760	9,247	3%	3%
PAT, Rs mn	4,212	5,150	4,365	5,313	4%	3%
EPS, Rs	32	39	33	40	4%	3%

Source: PhillipCapital India Research Estimates



Domino's has been recently sending messages to its customers for delivering Pizza within a stipulated guideline of 20 minutes

Financials

Income Statement

Y/E Mar, Rs mn	FY18	FY19e	FY20e	FY21e
Net sales	29,804	35,635	41,762	47,835
Growth, %	17	20	17	15
Raw material expenses	-8,425	-10,013	-11,526	-13,202
Employee expenses	-6,041	-6,645	-7,642	-8,597
Rent	-3,157	-3,488	-3,942	-4,454
Other Operating expenses	-7,718	-9,422	-10,892	-12,334
EBITDA (Core)	4,464	6,066	7,760	9,247
Growth, %	81.0	35.9	27.9	19.2
Margin, %	15.0	17.0	18.6	19.3
Depreciation	-1,559	-1,510	-1,699	-1,888
EBIT	2,905	4,556	6,061	7,359
Growth, %	204.4	56.8	33.1	21.4
Margin, %	9.7	12.8	14.5	15.4
Other Non-Operating Income	227	466	582	728
Pre-tax profit	3,132	5,021	6,644	8,087
Tax provided	-1,068	-1,722	-2,279	-2,774
Profit after tax	2,064	3,299	4,365	5,313
Net Profit	2,064	3,299	4,365	5,313
Growth, %	159.9	59.8	32.3	21.7
Net Profit (adjusted)	2,064	3,299	4,365	5,313
Unadj. shares (m)	132	132	132	132
Wtd avg shares (m)	132	132	132	132

Balance Sheet

Y/E Mar, Rs mn	FY18	FY19e	FY20e	FY21e
Cash & bank	1,266	3,746	7,580	12,392
Debtors	151	195	229	262
Inventory	626	781	915	1,048
Loans & advances	2,038	2,148	2,517	2,883
Other current assets	320	320	320	320
Total current assets	4,401	7,190	11,562	16,906
Investments	3,453	3,909	4,109	4,309
Gross fixed assets	11,408	12,943	14,478	16,013
Less: Depreciation	-3,729	-5,239	-6,938	-8,825
Add: Capital WIP	127	127	127	127
Net fixed assets	7,807	7,832	7,668	7,315
Total assets	15,110	18,380	22,789	27,980
Current liabilities	4,509	5,034	5,789	6,538
Provisions	163	163	163	163
Total current liabilities	4,671	5,196	5,952	6,700
Total liabilities	4,671	5,196	5,952	6,700
Paid-up capital	659	659	659	659
Reserves & surplus	9,779	12,524	16,177	20,620
Shareholders' equity	10,439	13,184	16,836	21,279
Total equity & liabilities	15,110	18,380	22,788	27,979

Cash Flow

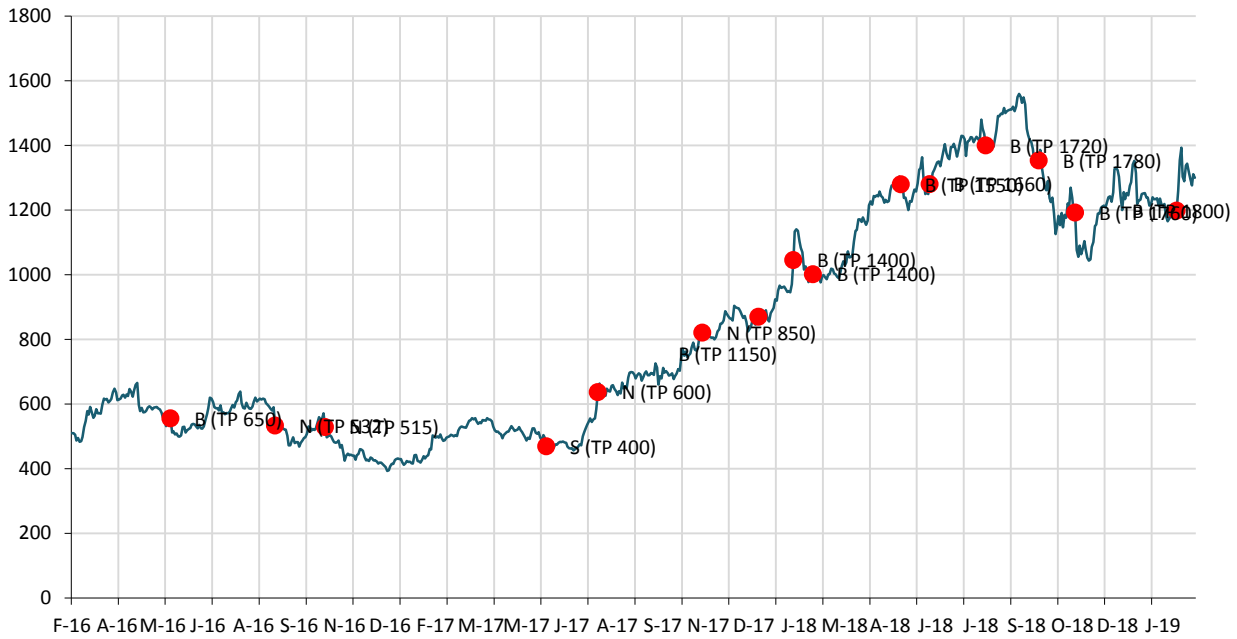
Y/E Mar, Rs mn	FY18	FY19e	FY20e	FY21e
Pre-tax profit	3,132	5,021	6,644	8,087
Depreciation	1,559	1,510	1,699	1,888
Chg in working capital	375	215	218	216
Total tax paid	-1,212	-1,722	-2,279	-2,774
Cash flow from operating activities	3,855	5,025	6,282	7,417
Capital expenditure	-985	-1,535	-1,535	-1,535
Chg in investments	-1,773	-456	-200	-200
Cash flow from investing activities	-2,758	-1,991	-1,735	-1,735
Free cash flow	1,097	3,034	4,547	5,682
Dividend (incl. tax)	-398	-554	-712	-871
Cash flow from financing activities	-398	-554	-712	-871
Net chg in cash	699	2,480	3,835	4,812

Valuation Ratios

	FY18	FY19e	FY20e	FY21e
Per Share data				
EPS (INR)	15.6	25.0	33.1	40.3
Growth, %	159.9	59.8	32.3	21.7
Book NAV/share (INR)	79.1	100.0	127.6	161.3
FDEPS (INR)	15.6	25.0	33.1	40.3
CEPS (INR)	27.5	36.5	46.0	54.6
CFPS (INR)	27.5	34.6	43.2	50.7
DPS (INR)	2.5	3.5	4.5	5.5
Return ratios				
Return on assets (%)	14.9	19.7	21.2	20.9
Return on equity (%)	19.8	25.0	25.9	25.0
Return on capital employed (%)	21.4	27.6	28.8	27.6
Turnover ratios				
Asset turnover (x)	4.3	5.6	6.9	8.6
Sales/Total assets (x)	2.1	2.1	2.0	1.9
Sales/Net FA (x)	3.7	4.6	5.4	6.4
Working capital/Sales (x)	(0.0)	(0.0)	(0.0)	(0.0)
Receivable days	1.8	2.0	2.0	2.0
Inventory days	7.7	8.0	8.0	8.0
Payable days	56.6	55.0	55.9	56.4
Working capital days	(16.8)	(16.3)	(15.8)	(15.4)
Liquidity ratios				
Current ratio (x)	1.0	1.4	2.0	2.6
Quick ratio (x)	0.8	1.3	1.8	2.4
Net debt/Equity (%)	(12.1)	(28.4)	(45.0)	(58.2)
Valuation				
PER (x)	83	52	39	32
PEG (x) - y-o-y growth	0.5	0.9	1.2	1.5
Price/Book (x)	16.5	13.0	10.2	8.1
EV/Net sales (x)	5.7	4.7	3.9	3.3
EV/EBITDA (x)	38.2	27.7	21.2	17.3
EV/EBIT (x)	58.8	36.9	27.1	21.7

Source: Company, PhillipCapital India Research Estimates

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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