

**SELL** Jubilant FoodWorks

## Recent stock movement lacks substance; maintain Sell

Retail ▶ Company Update ▶ September 12, 2023

TARGET PRICE (Rs): 420

**JUBI has run-up ~20% in the last 6M in anticipation of growth pick-up. We believe the recent run-up is beyond fundamentals, as our checks suggest that the demand environment has only worsened post Q1 and recovery hopes may further get delayed. From a sporting events perspective, we believe the expected pick-up in the upcoming Q3 needs to be adjusted with 2 big events in the base (T20 and FIFA world cup). Specific to JUBI, the arrest of MoM dip in bill-size is a positive, but muted order growth still remains a bigger challenge. This tallies with our thesis of the pizza category losing its share to chicken /burger and rising competition within the pizza space. Among channels, the dine-in mix remains subdued despite specific offers and store refurbishments. We see scope for reduction in street estimates as we expect Q2 to be broadly similar to Q1. We maintain SELL with a TP of Rs420 (45x Jun-25 EPS).**

**Jubilant FoodWorks: Financial Snapshot (Standalone)**

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	43,311	50,960	56,144	67,816	79,493
EBITDA	11,046	11,591	12,538	16,066	19,054
Adj. PAT	4,448	4,027	3,967	5,818	7,258
Adj. EPS (Rs)	6.7	6.1	6.0	8.8	11.0
EBITDA margin (%)	25.5	22.7	22.3	23.7	24.0
EBITDA growth (%)	44.1	4.9	8.2	28.1	18.6
Adj. EPS growth (%)	90.4	(9.5)	(1.5)	46.7	24.8
RoE (%)	24.7	19.0	17.3	22.0	23.1
RoIC (%)	142.0	73.7	49.9	58.2	70.3
P/E (x)	80.9	89.4	90.8	61.9	49.6
EV/EBITDA (x)	32.0	30.8	28.5	22.0	18.3
P/B (x)	17.1	16.8	14.8	12.6	10.6
FCFF yield (%)	1.5	0.5	1.3	3.1	4.0

Source: Company, Emkay Research

**Channel checks suggest further growth moderation**

For Q2TD, our channel checks suggest further worsening of the growth environment, in-line with an uncertain demand commentary, given by JUBI's post-Q1 earnings. JUBI's focus remains on recouping the share from other categories by leveraging tech and offering a better experience through store refurbishments/faster deliveries. However, the same is not reflected in the improved growth trajectory as the dine-in channel remains impacted, despite focused efforts. Please note JUBI has reimaged over 1,400 stores in pizza theater format, out of the total 1,838 store network at Q1 end. The only bright spot is the arrest of a MoM decline in ticket size, which is likely helped by the launch of the Red Hot Spicy Range (four pizzas at Rs179). In our view, the new launch is helping to premiumize *Pizza Mania* customers.

**Vegetable/Wheat inflation are incremental headwinds**

While dairy prices have seen sequential moderation, the recent spike in vegetable/wheat prices is an incremental challenge that can keep gross margins under check in the near term. Given negative SSG trends and elevated RM prices, we expect the dip in EBITDA margin to continue. On a sequential basis, we expect margins to remain similar to Q1.

**Valuations stretched amid slowing growth trends**

We currently expect Q2 to remain weak with 30-40% PBT decline. Sequentially, Q2 should broadly follow weak Q1 trends across Revenue/EBITDA fronts vs. 5-10% improvement seen historically under normal operating conditions. Given muted trends and scope for cuts to street estimates, we believe the 20% increase in JUBI's stock price is a bit exaggerated and has stretched its valuations. Over a 12M timeframe, JUBI's stock price has lagged benchmarks but underperformance is more due to earnings disappointment and less due to the de-rating. Given the lack of triggers and potential earning cuts, we maintain our SELL rating on JUBI with a revised TP of Rs420 (based on unchanged 45x its Jun-25 EPS).

Target Price – 12M	Jun-24
<b>Change in TP (%)</b>	-
Current Reco.	SELL
Previous Reco.	SELL
Upside/(Downside) (%)	(23.0)
CMP (11-Sep-23) (Rs)	545.7

Stock Data	Ticker
52-week High (Rs)	652
52-week Low (Rs)	412
Shares outstanding (mn)	659.8
Market-cap (Rs bn)	360
Market-cap (USD mn)	4,336
Net-debt, FY24E (Rs mn)	-2,737
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	1,225.8
ADTV-3M (USD mn)	14.8
Free float (%)	58.0
Nifty-50	19,996
INR/USD	83.0
<b>Shareholding, Jun-23</b>	
Promoters (%)	41.9
FPIs/MFs (%)	25.2/22.5

**Price Performance**

(%)	1M	3M	12M
Absolute	9.5	13.8	(9.2)
Rel. to Nifty	6.4	5.6	(19.0)

**1-Year share price trend (Rs)****Devanshu Bansal**

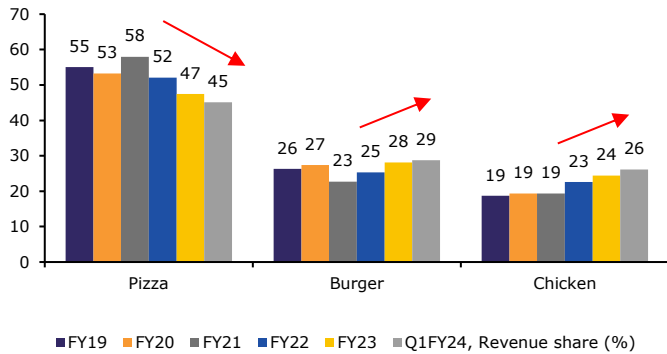
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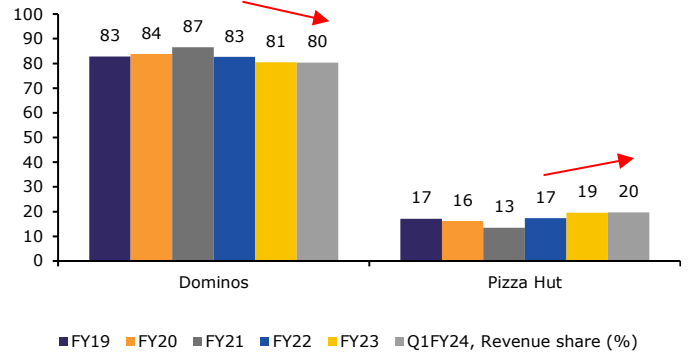
## Story in Charts

**Exhibit 1: Burger/chicken categories continue to gain share at the expense of share loss for the pizza category**



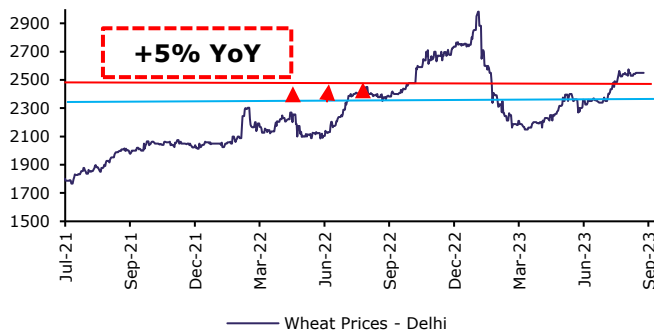
Source: Emkay, Pizza includes India sales for PH (DIL + Sapphire)/JUBI, Burger includes WESTLIFE/BK and Chicken includes KFC (DIL + Sapphire)

**Exhibit 2: Within PH/Dominos, PH is gaining revenue share led by faster network expansion; SSG struggling for both PH/Dominos**



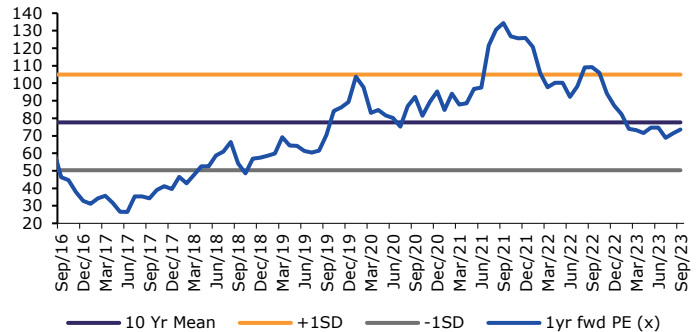
Source: Emkay Research, PH includes combined sales for DIL/Sapphire

**Exhibit 3: Wheat/Vegetable inflation is an incremental headwind**



Source: Company, Emkay Research

**Exhibit 4: JUBI's average fwd. P/E exaggerated by inclusion of the pandemic period; normalized average P/E has been ~50x**



Source: Company, Emkay Research

**Exhibit 5: Peer Comparison**

Companies	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs)	P/E (x)			EV/EBITDA (x) Pre IndAS-116		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Jubilant FoodWorks	528	348	Sell	420	87.8	59.9	48.0	41.5	30.4	25.1
Devyani International	207	250	Hold	180	136.9	74.1	53.0	47.8	34.4	26.2
Westlife Foodworld	976	152	Buy	1,035	94.1	75.8	56.9	39.3	33.0	26.5
Sapphire Foods	1,449	92	Hold	1,400	65.7	46.6	35.2	29.9	21.5	17.0

Source: Company, Emkay Research; \*Pre IndAS-116 EBITDA

## Jubilant FoodWorks: Standalone Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>43,311</b>	<b>50,960</b>	<b>56,144</b>	<b>67,816</b>	<b>79,493</b>
Revenue growth (%)	32.5	17.7	10.2	20.8	17.2
<b>EBITDA</b>	<b>11,046</b>	<b>11,591</b>	<b>12,538</b>	<b>16,066</b>	<b>19,054</b>
EBITDA growth (%)	44.1	4.9	8.2	28.1	18.6
Depreciation & Amortization	3,830	4,753	5,522	6,318	7,085
<b>EBIT</b>	<b>7,216</b>	<b>6,838</b>	<b>7,016</b>	<b>9,748</b>	<b>11,969</b>
EBIT growth (%)	80.7	(5.2)	2.6	38.9	22.8
Other operating income	0	0	0	0	0
Other income	407	497	410	472	542
Financial expense	1,730	1,951	2,123	2,442	2,808
<b>PBT</b>	<b>5,893</b>	<b>5,383</b>	<b>5,303</b>	<b>7,778</b>	<b>9,703</b>
Extraordinary items	(73)	(466)	0	0	0
Taxes	1,444	1,356	1,336	1,960	2,445
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>4,375</b>	<b>3,561</b>	<b>3,967</b>	<b>5,818</b>	<b>7,258</b>
PAT growth (%)	87.2	(18.6)	11.4	46.7	24.8
<b>Adjusted PAT</b>	<b>4,448</b>	<b>4,027</b>	<b>3,967</b>	<b>5,818</b>	<b>7,258</b>
<b>Diluted EPS (Rs)</b>	<b>6.7</b>	<b>6.1</b>	<b>6.0</b>	<b>8.8</b>	<b>11.0</b>
Diluted EPS growth (%)	90.4	(9.5)	(1.5)	46.7	24.8
<b>DPS (Rs)</b>	<b>1.2</b>	<b>1.2</b>	<b>1.5</b>	<b>2.2</b>	<b>2.7</b>
<b>Dividend payout (%)</b>	<b>18.1</b>	<b>22.2</b>	<b>25.0</b>	<b>25.0</b>	<b>25.0</b>
EBITDA margin (%)	25.5	22.7	22.3	23.7	24.0
EBIT margin (%)	16.7	13.4	12.5	14.4	15.1
Effective tax rate (%)	24.5	25.2	25.2	25.2	25.2
<b>NOPLAT (pre-IndAS)</b>	<b>5,448</b>	<b>5,115</b>	<b>5,248</b>	<b>7,292</b>	<b>8,953</b>
Shares outstanding (mn)	659.8	659.8	659.8	659.8	659.8

Source: Company, Emkay Research

Cash flows					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	5,893	5,383	5,303	7,778	9,703
Others (non-cash items)	3,830	4,753	5,522	6,318	7,085
Taxes paid	(1,095)	(1,513)	(1,484)	(2,130)	(2,641)
Change in NWC	(431)	32	70	519	550
<b>Operating cash flow</b>	<b>8,905</b>	<b>8,903</b>	<b>11,124</b>	<b>14,454</b>	<b>16,963</b>
Capital expenditure	(4,166)	(7,362)	(7,000)	(5,000)	(5,000)
Acquisition of business	(3,223)	1,745	0	0	0
Interest & dividend income	407	497	410	472	542
<b>Investing cash flow</b>	<b>(7,164)</b>	<b>(5,349)</b>	<b>(6,590)</b>	<b>(4,528)</b>	<b>(4,458)</b>
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	0	5	1	2	2
Payment of lease liabilities	(3,077)	(3,761)	(4,231)	(4,739)	(5,307)
Interest paid	(138)	(81)	0	0	0
Dividend paid (incl tax)	(792)	(792)	(992)	(1,454)	(1,815)
Others	2,491	(1,995)	(131)	0	0
<b>Financing cash flow</b>	<b>(1,516)</b>	<b>(6,624)</b>	<b>(5,353)</b>	<b>(6,192)</b>	<b>(7,120)</b>
Net chg in Cash	225	(3,070)	(819)	3,734	5,385
OCF	8,905	8,903	11,124	14,454	16,963
Adj. OCF (w/o NWC chg.)	9,336	8,870	11,054	13,936	16,413
FCFF	4,740	1,540	4,124	9,454	11,963
FCFE	3,416	86	2,411	7,484	9,697
OCF/EBITDA (%)	80.6	76.8	88.7	90.0	89.0
FCFE/PAT (%)	76.8	2.1	60.8	128.6	133.6
<b>FCFF/NOPLAT (%)</b>	<b>87.0</b>	<b>30.1</b>	<b>78.6</b>	<b>129.7</b>	<b>133.6</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,320	1,320	1,320	1,320	1,320
Reserves & Surplus	19,715	20,135	22,979	27,342	32,786
<b>Net worth</b>	<b>21,035</b>	<b>21,455</b>	<b>24,298</b>	<b>28,662</b>	<b>34,105</b>
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(571)	(779)	(895)	(1,030)	(1,184)
<b>Total debt</b>	<b>5</b>	<b>10</b>	<b>11</b>	<b>13</b>	<b>14</b>
<b>Total liabilities &amp; equity</b>	<b>20,469</b>	<b>20,686</b>	<b>23,414</b>	<b>27,644</b>	<b>32,936</b>
Net tangible fixed assets	10,168	13,164	17,079	18,515	19,539
Net intangible assets	597	1,346	1,544	1,741	1,939
Net ROU assets	(3,488)	(3,543)	(4,071)	(4,725)	(5,531)
Capital WIP	388	1,585	1,585	1,585	1,585
Goodwill	0	0	0	0	0
Investments [JV/Associates]	8,547	6,802	6,802	6,802	6,802
<b>Cash &amp; equivalents</b>	<b>6,397</b>	<b>3,556</b>	<b>2,737</b>	<b>6,471</b>	<b>11,856</b>
Current assets (ex-cash)	4,954	5,479	6,269	7,344	8,507
Current Liab. & Prov.	7,094	7,702	8,532	10,089	11,761
<b>NWC (ex-cash)</b>	<b>(2,140)</b>	<b>(2,223)</b>	<b>(2,263)</b>	<b>(2,745)</b>	<b>(3,254)</b>
<b>Total assets</b>	<b>20,469</b>	<b>20,686</b>	<b>23,414</b>	<b>27,644</b>	<b>32,936</b>
Net debt	(6,397)	(3,556)	(2,737)	(6,471)	(11,856)
Capital employed	20,464	20,676	23,403	27,632	32,921
<b>Invested capital</b>	<b>5,137</b>	<b>8,743</b>	<b>12,290</b>	<b>12,786</b>	<b>12,692</b>
BVPS (Rs)	31.9	32.5	36.8	43.4	51.7
Net Debt/Equity (x)	(0.3)	(0.2)	(0.1)	(0.2)	(0.3)
Net Debt/EBITDA (x)	(0.6)	(0.3)	(0.2)	(0.4)	(0.6)
Interest coverage (x)	0.2	0.3	0.3	0.2	0.2
<b>RoCE (%)</b>	<b>44.1</b>	<b>35.7</b>	<b>33.7</b>	<b>40.1</b>	<b>41.3</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	80.9	89.4	90.8	61.9	49.6
P/CE(x)	38.0	35.8	33.1	25.9	21.9
P/B (x)	17.1	16.8	14.8	12.6	10.6
EV/Sales (x)	8.2	7.0	6.4	5.2	4.4
EV/EBITDA (x)	32.0	30.8	28.5	22.0	18.3
EV/EBIT(x)	42.7	45.5	44.4	31.6	25.3
EV/IC (x)	60.0	35.6	25.4	24.1	23.8
FCFF yield (%)	1.5	0.5	1.3	3.1	4.0
FCFE yield (%)	1.1	0.0	0.8	2.4	3.1
Dividend yield (%)	0.2	0.2	0.3	0.4	0.5
<b>DuPont-RoE split</b>					
Net profit margin (%)	10.3	7.9	7.1	8.6	9.1
Total asset turnover (x)	2.5	2.5	2.5	2.7	2.6
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
<b>RoE (%)</b>	<b>24.7</b>	<b>19.0</b>	<b>17.3</b>	<b>22.0</b>	<b>23.1</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	12.6	10.0	9.3	10.8	11.3
IC turnover (x)	11.3	7.3	5.3	5.4	6.2
<b>RoIC (%)</b>	<b>142.0</b>	<b>73.7</b>	<b>49.9</b>	<b>58.2</b>	<b>70.3</b>
<b>Operating metrics</b>					
Core NWC days	(37.6)	(31.7)	(30.3)	(28.6)	(28.8)
<b>Total NWC days</b>	<b>(18.0)</b>	<b>(15.9)</b>	<b>(14.7)</b>	<b>(14.8)</b>	<b>(14.9)</b>
Fixed asset turnover	2.9	2.6	2.2	2.2	2.2
Opex-to-revenue (%)	52.0	53.2	53.9	52.8	52.5

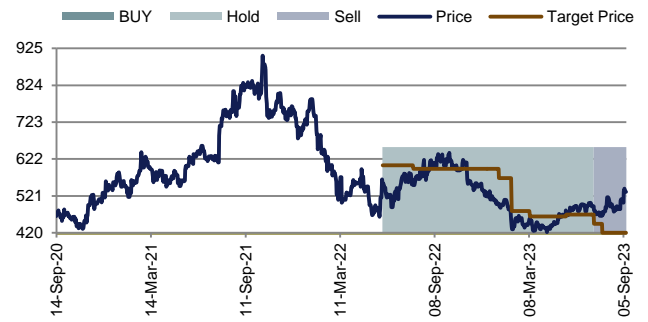
Source: Company, Emkay Research

**RECOMMENDATION HISTORY - DETAILS**

Date	CMP (INR)	TP (INR)	Rating	Analyst
26-Jul-23	468	420	Sell	Devanshu Bansal
10-Jul-23	482	445	Sell	Devanshu Bansal
21-May-23	469	470	Hold	Devanshu Bansal
18-May-23	475	470	Hold	Devanshu Bansal
09-Mar-23	461	465	Hold	Devanshu Bansal
02-Feb-23	436	480	Hold	Devanshu Bansal
09-Jan-23	500	570	Hold	Devanshu Bansal
08-Nov-22	613	595	Hold	Devanshu Bansal
21-Aug-22	597	595	Hold	Devanshu Bansal
29-Jul-22	550	595	Hold	Devanshu Bansal
31-May-22	551	605	Hold	Devanshu Bansal

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Bloomberg, Company, Emkay Research

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