February 03, 2021

Result Report Q3 FY21 | Sector: Consumer Discretionary

Jubilant Foodworks

Narrative shifts to growth from recovery; new growth engines also added

Jubilant Foods is one of the few discretionary names which have come back to a full recovery in 3Q and is now set for strong growth for 4Q onwards. In addition to an acceleration in store opening for Domino's and recovery in the dine-in channel with supply constraints going away, it has added new growth engines by entering in large segments like Chinese and biryani. While margins can come off somewhat with some RM inflation, we expect return ratios to improve further with better store economics for its delivery and takeaway-focused new stores. Its timely investments in technology should help drive further market share gains benefitting from reduction in overall industry supply in the restaurant space. We see the company getting back to its 20% plus earnings growth trajectory and with ROEs again moving up above 35%, premium valuations of 55x FY23 should sustain. Jubilant remains one of our top picks in the consumer discretionary space.

Presentation highlights

- ✓ **Quarter highlights** – Flat revenue yoy at Rs 10.7bn (+31.2% qoq), SSG at -1.7% and LFL -0.2%, GMs improved by 330bps to 78.2%, EBITDA margins up 250bps to 26.2%, PAT up 22% to Rs 1.24bn; delivery +18.5%, takeaway +64%, dine-in down 58%; opened 57 new stores including 50 Domino's (highest ever), highest ever app downloads at 7.4mn; January has seen sales growth of 6% with 19%/73% growth in delivery/takeaway and 43% decline in dine-in, cash flows improved further with cash rising significantly to Rs 9.5bn, OLO contribution to delivery increased to 98%.
- ✓ **New initiatives** – Entered the biryani segment with brand Ekdum which offers a vast menu of biryanis and kebabs with an open kitchen concept, launched the Unthinkable Pizza made from plant-based protein, Drive-N-Pick service launched nationwide in November.
- ✓ **International business** – Opened 1 store in Sri Lanka taking total to 23 stores with sales down 17%; Bangladesh has 4 stores with sales down 5%; OLO contribution much lower at 47% and 67%; positive EBITDA in both countries.
- ✓ **Dunkin' Donuts and new brands** – Opened 2 and closed 1 Dunkin' store taking total to 27; opened 5 restaurants under new brands Ekdum and Hong's Kitchen taking total to 10 stores.

Concall takeaways

- ✓ **Store footprint potential** – Target to open more than 110 Domino's stores in FY21 and further acceleration from FY22 given expectations of strong growth in the QSR space, see long-term potential of more than 3000 stores in India and 150 stores each in Sri Lanka and Bangladesh.
- ✓ **Barbeque Nation investment** – Bought 10.8% stake for 92crs, see great unit economics and solid execution in the chain, confident of creating shareholder value; were impacted severely due to COVID but believe offer strong learning opportunity in the casual dining space.

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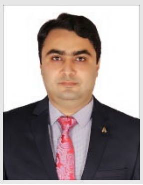

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- **Hong's Kitchen and Ekdum outlook** – Strong recovery in sales and orders in Hong's, strong acceptance of value range, opened 2 new stores in 3Q, working on more kitchen and process automation where strong supply chain is helping; Have entered the biryani segment with Ekdum post successful pilot, will offer widest variety and offer best value for money; hold potential for share gains in a large fragmented category, expect a faster scale-up than Hong's given lesser complexities; while gross margins will be lower in new brands, EBITDA would be similar post optimization of scale.
- **Multilingual app** - Launched Hindi version of app, will continue to add more languages to make ordering experience more personalized.
- **Outlook for dine-in given pick up in mobility** – Consumer anxiety is down which is driving gradual recovery, supply constraints as operating at only 50% capacity; with multiplexes allowed at 100% capacity., similar relaxation expected soon for restaurants as well which will bring back normalcy.
- **New brand strategy** – Will give required focus to both new brands which independently have large growth potential in the Chinese and biryani segments separately; too early to think about any consolidation with Domino's app or network.
- **Margin outlook** – Some softening in vegetable prices coupled with lower dairy prices helped gross margins, expect to see some hardening in dairy prices going forward; employee costs higher sequentially due to higher order volumes, special COVID incentives and increased strategic headcount in areas like technology.
- **Store expansion vs margins** – Despite aggressive expansion plans, don't think margins will get impacted as long as the choice of store location is correct which ensures profitable store economics.
- **Can improvement in dine-in channel be negative** – Despite very strong brand equity in delivery, do not think a recovery in dine-in will be negative, in fact recovery to pre COVID dine-in revenue will accelerate overall growth.
- **Revenue decline in December** - Restrictions in operating hours in few markets led to negative performance in December after moving to positive trajectory in November.
- **Chefboss outlook** – Had a good start with repeat orders in the e-commerce channel where it was launched, now working on range expansion and launching in other channels.
- **Consumer behavior and own app investments** - Delivery channel picking up in smaller towns as well, investments in building own digital platform has worked well driving record downloads and increase in share of ordering from own apps, new customers now coming via own app, own digital assets doing much better across metrics vs aggregator apps.
- **Plant protein based pizza** – Got a lot of trials and good feedback, bird flu impact led to drop in non-vegetarian mix especially in North market; have capability of taking it to other brands and geographies.
- **Drive-N-Pick** – Completely contactless digital experience, no plans to charge any convenience fee for this channel as takeaway channel needs more nurturing given it is the lowest cost channel.
- **Average order ticket size** – Significant increase given larger in-home consumer groups increasing order quantities coupled with up trading, delivery charges also drove increase in ticket size; recovery led by ticket size as order volumes flat.
- **Outlook** – Shifting narrative from recovery to growth, expect QSR to have hyper growth given convenience, preference for trusted brands, digital capabilities and omni-channel preference.

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