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Company update

Consumer Staples & Discretionary

Target price: Rs630

Shareholding pattern

(%)	Jun '22	Sep '22	Dec '22
Promoters	41.9	41.9	41.9
Institutional investors	47.0	46.9	47.1
MFs and others	12.6	13.8	14.5
Banks/Ins. Co.	3.9	4.4	5.8
FII	30.5	28.7	26.8
Others	11.1	11.2	11.0

Source: NSE

ESG disclosure score

Year	2021	2022	Chg
ESG score	39.9	39.1	(0.8)
Environment	16.0	16.0	-
Social	25.0	25.0	-
Governance	78.6	76.1	(2.5)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA



Jubilant FoodWorks

BUY
Maintain

Popeyes: Right ingredients for significant ramp-up (some impact for KFC is inevitable)

Rs447

We returned impressed from Popeyes first store in Chennai (Phoenix Mall, Velachery), which marks its entry into Chennai and expansion from Bangalore (12 stores), in the fried chicken market. The store atmosphere is appealing with vibrant colours and a contemporary look and feel, self-ordering kiosk, good lighting and highest seating capacity amongst Popeyes India outlets (with a separate section for 'open to sky' table seating). These features differentiate the store look with a superior proposition (*picture of the store, menu details, etc. on pages 3-4*). Its Cajun flavour offerings are unique in India QSR and we reckon it has high probability of consumer acceptance. A casual positioning (set between fast food and casual dining) fits well with JUBI's strengths – focusing on value-for-money and delivery.

We forecast JUBI to add >100 stores in FY24. The market may eventually expand to accommodate both brands - Popeyes and KFC; however, KFC does have an air-pocket to tackle for now as we assign high probability of new Popeyes stores in same catchment as KFC. Retain BUY on JUBI. Devyani and Sapphire may potentially face some growth headwinds in interim.

- **New store launch looks promising:** JUBI has expanded its Popeyes network to Chennai from its existing operations at Bangalore. Popeyes is launched in a new city with flagship store format – with 'open to sky' seating arena which has a contemporary vibrant look and feel. The launch (a month ago) has gained google rating of 4.4. The store is the largest Popeyes India outlet, currently with a seating capacity of 150 split into two divisions (108 indoor and 42 outdoor with 'open to sky' arrangement). We believe the brand will compete fiercely with KFC and wrest some of its market share. The market may eventually expand to accommodate both brands; however, KFC does have an air-pocket to tackle for now.
- **International flavours a potential growth story:** On the menu, the Cajun-based sandwich, fries, rice bowls are a unique offering giving consumers a choice to relish international flavour with a mild touch of Indian spice. Traditionally, at other QSRs, fries are a standalone offering while Popeyes brings the twist of serving French fries pre-coated with Cajun mix (a layer coated over the potato) before frying, serving with fusion twist. While the Cajun seasoning is available more at barbeque dine-ins (Barbeque Nation, Coal Barbeque, Absolute Barbeque) and is well preferred, we believe Popeyes menu may find customer patronage, which may help the brand gain market share.

Market Cap	Rs295bn/US\$3.6bn	Year to March			
Reuters/Bloomberg	JUBI.BO/JUBI IN	FY21	FY22	FY23E	FY24E
Shares Outstanding (mn)	659.8	Revenue (Rs mn)	33,119	43,961	52,265
52-week Range (Rs)	639/430	Adj. Net Profit (Rs mn)	2,305	4,358	4,302
Free Float (%)	58.1	Dil. Rec. EPS (Rs)	3.5	6.6	6.5
FII (%)	26.8	% Chg YoY	(23.3)	89.1	(2.0)
Daily Volume (US\$/'000)	17,670	P/E (x)	128.2	67.8	69.2
Absolute Return 3m (%)	(19.5)	CEPS (Rs)	9.2	12.6	13.6
Absolute Return 12m (%)	(14.8)	EV/EBITDA (x)	67.8	38.8	37.6
Sensex Return 3m (%)	(3.7)	Dividend Yield (%)	0.3	0.3	0.3
Sensex Return 12m (%)	12.3	RoCE (%)	13.9	20.5	15.9
		RoE (%)	17.9	25.7	17.9

Please refer to important disclosures at the end of this report

- ▶ **Popeyes – Our first impression:** We returned optimistic from our visit to Popeyes Chennai store launched a month ago. Located on the ground floor in close proximity to entrance of Phoenix Market City in Velachery, trendy exteriors and *princeton orange* branding (images on page 3) gives us confidence in the store's ability to attract footfalls. The store is adequately staffed (with 20 employees, including kitchen and servicing staff, three shift managers and one store manager). The open kitchen with partition separating veg and non-veg sections gels well with vegetarian customers' preference. The menu is affordably priced, be it an individual pick or a combo, in sync with JUBI's value-for-money proposition. We estimate a meal for two to cost Rs300-350, for three Rs400-500 and for four/five Rs600-770 on an average. The store currently offers dine-in and takeaway options, and plans to launch delivery soon. It will use its own fleet (EV vehicles) whereby delivery partners would carry the order in an insulated bag so that the food retains its freshness and is delivered hot.
- ▶ **Learnings from Popeyes – keeping a close watch:** The core team is always at the store, keeping a close watch and managing any initial hiccups. The team is also responsible for getting first-hand customer feedbacks to improvise on the menu and their offerings suiting the Indian palate. Statistics indicate 70% of Indians pan-India eat non-vegetarian food. In Tamil Nadu, 97.8% of the people are non-veg and in Karnataka 79.1% (chart-1). These data points suggest that Popeyes chicken offerings may find good acceptance by the customer in Tamil Nadu and Karnataka.
- ▶ **Back-end infrastructure:** Popeyes is likely to benefit from JUBI's existing back-end infrastructure including in-house digital and data strength, supply chain, commissary, management team, etc. Supplies to the store will be sourced directly from JUBI's commissary (at Bangalore) and refilled on a daily basis. The raw materials – be it the chicken, sandwich/burger patties and fries – are centrally controlled helping the brand to retain tastes and flavours across its chain. The store's frying section operates with separate areas for veg and non-veg items. We believe JUBI's commissary and scale of sourcing could be a key driver to provide value-for-money without diluting company profitability. JUBI initially expanded its store network in Bangalore (currently 12 stores, with the first launched in Jan-22) and has now expanded it further with the launch in Chennai (one store as of now).
- ▶ **Valuations and risks:** We maintain our earnings estimates, modelling revenue / EBITDA / PAT CAGRs at 20% / 21% / 24% over FY22-FY24E. Maintain **BUY** with a DCF-based target price of Rs630. Key downside risks are raw material costs turning inflationary and increase in competitive intensity.

Exhibit 1: Vibrant branding



Source: Company, I-Sec research

Exhibit 2: Popeyes in Chennai: 'Open to sky' area



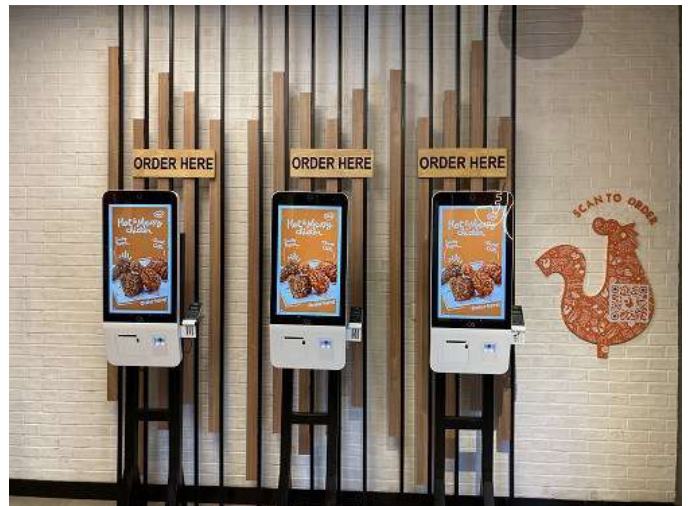
Source: Company, I-Sec research

Exhibit 3: Outdoor seating



Source: Company, I-Sec research

Exhibit 4: Self-ordering kiosk



Source: Company, I-Sec research

Exhibit 5: Stylish promotion



Source: Company, I-Sec research

Exhibit 6: Competing with differentiation



Source: Company, I-Sec research

Exhibit 7: Indoor seating arena

Source: Company, I-Sec research

Exhibit 8: Counter with wide LED display

Source: Company, I-Sec research

Exhibit 9: Popeyes customer rating**Popeyes**

UG 41, Phoenix Market City, 142, Velachery Rd, Indira Gandhi Nagar, Velachery, Chennai, Tamil Nadu

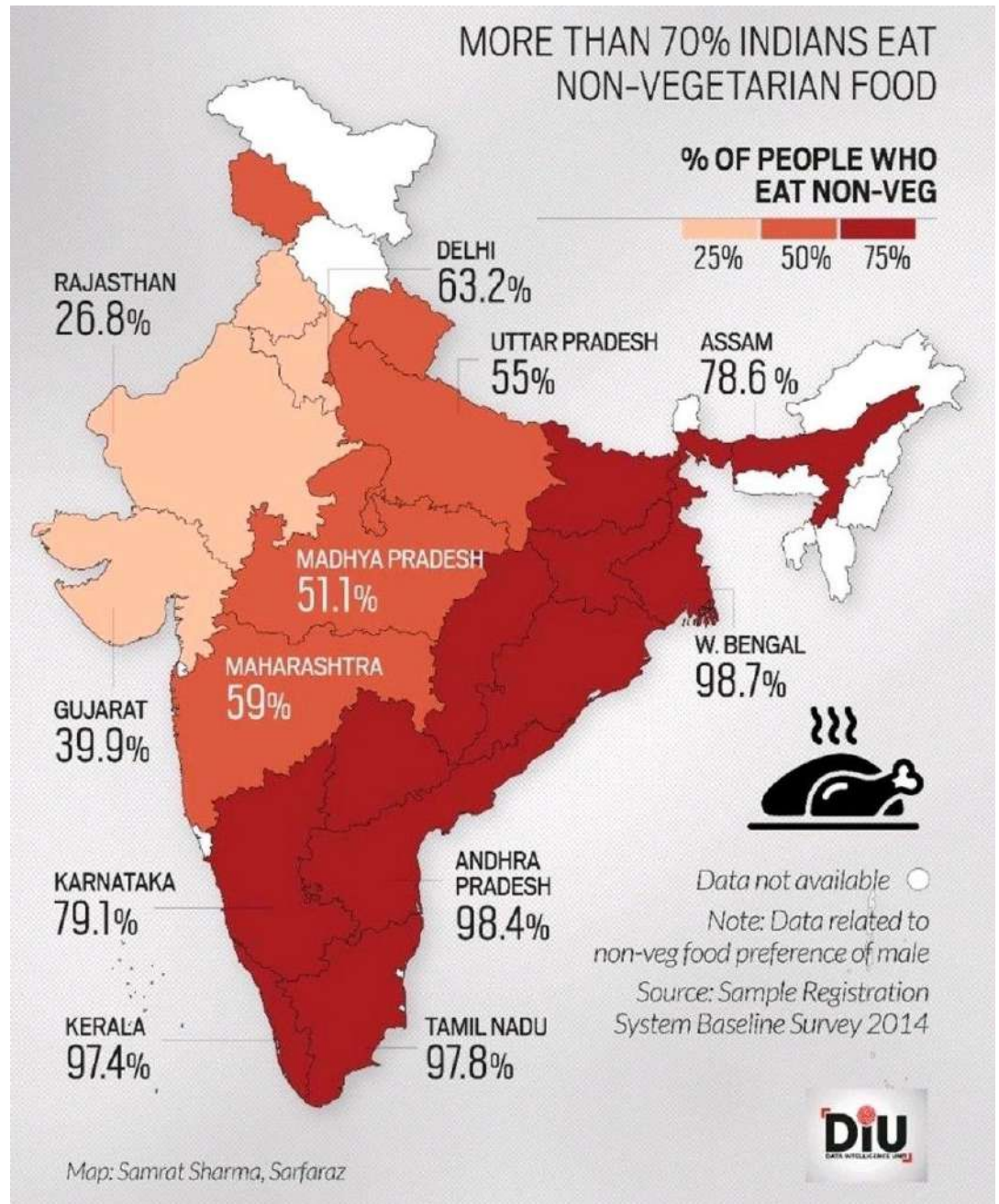
4.4 ★★★★★ 238 reviews ⓘ

Source: Company, I-Sec research

Exhibit 10: LED menu display

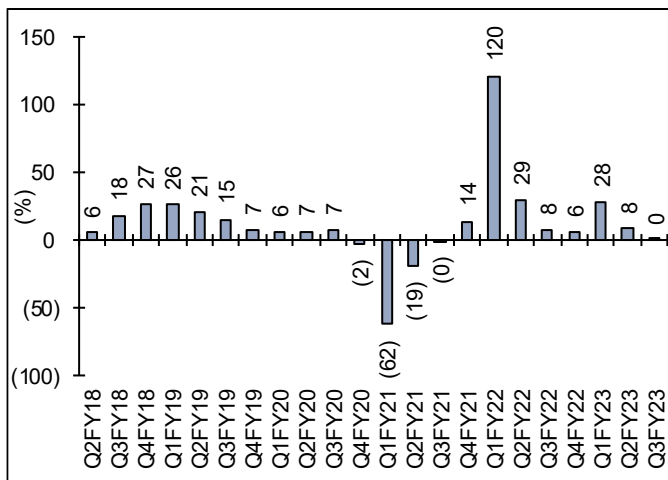
Source: Company, I-Sec research

Chart 1: State-wise non-vegetarian consumption in India



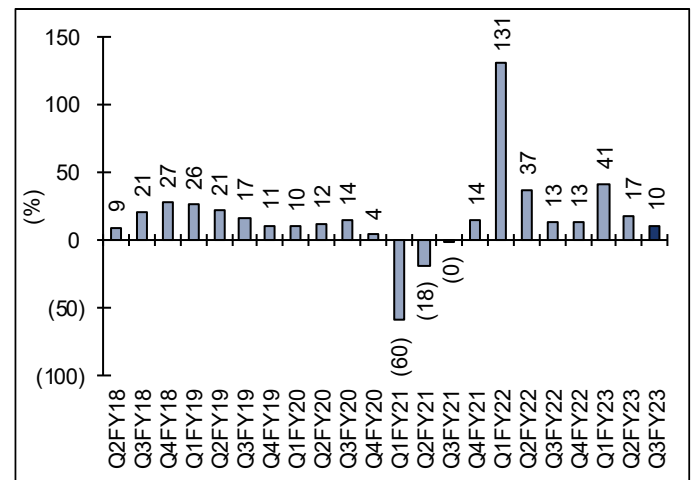
Source: I-Sec research

Chart 2: LFL growth



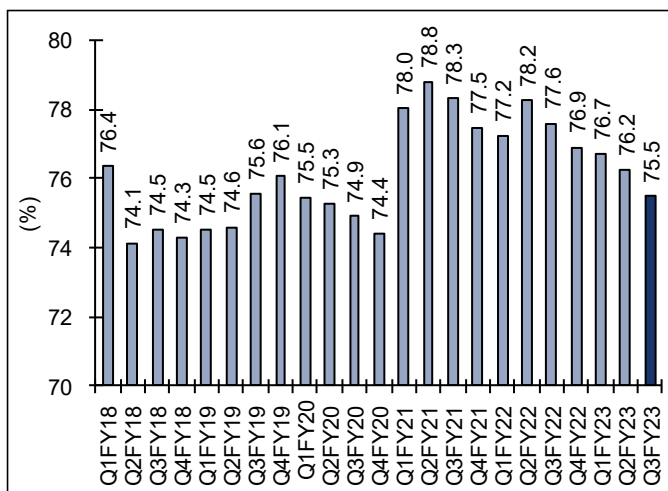
Source: Company data, I-Sec research

Chart 3: Revenue growth



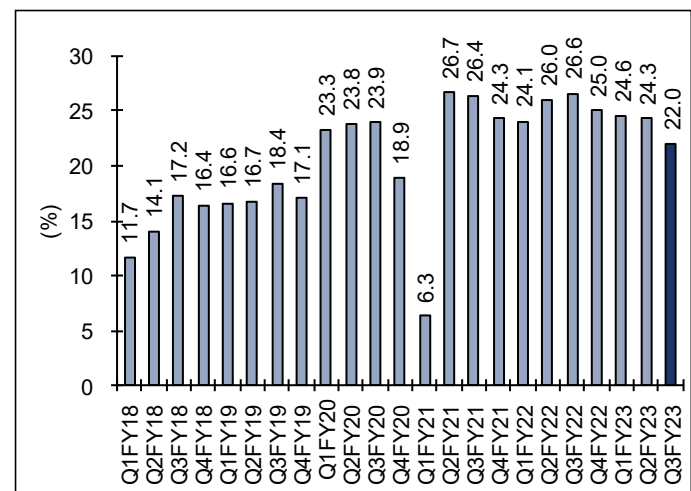
Source: Company data, I-Sec research

Chart 4: Gross margin



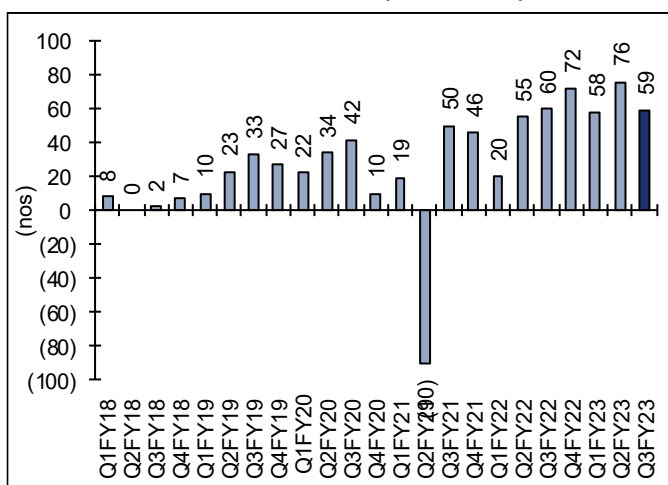
Source: Company data, I-Sec research

Chart 5: EBITDA margin



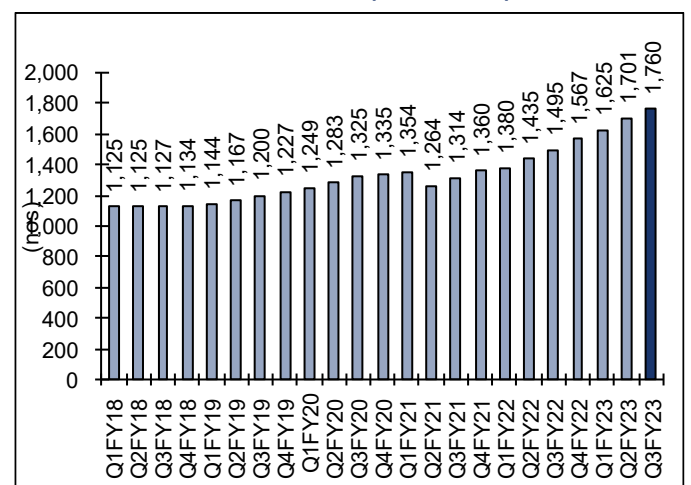
Source: Company data, I-Sec research

Chart 6: Net store additions (Domino's)

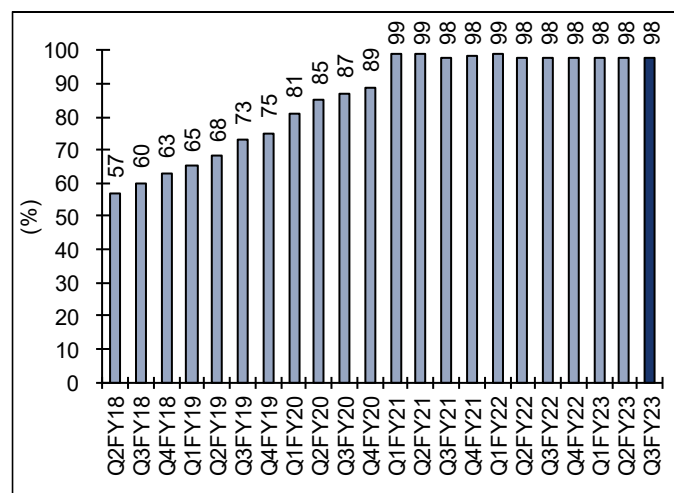


Source: Company data, I-Sec research

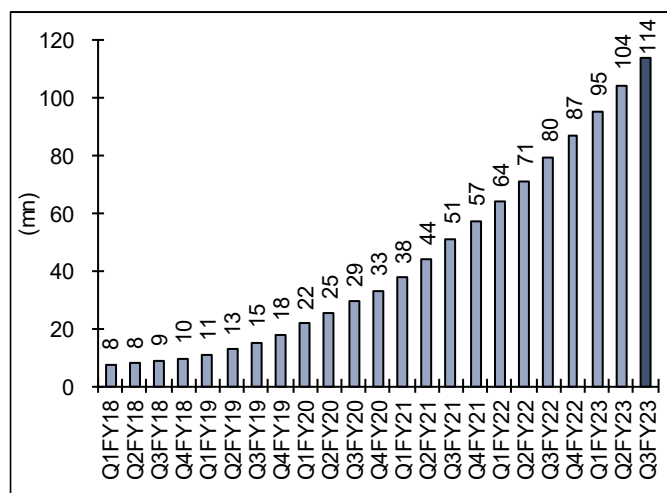
Chart 7: Number of stores (Domino's)



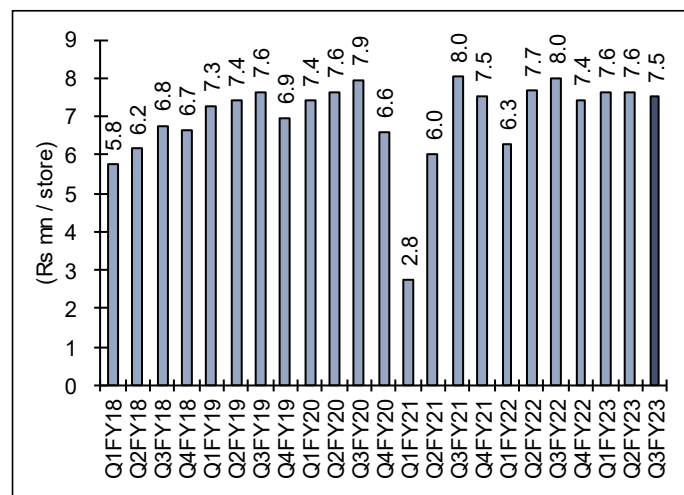
Source: Company data, I-Sec research

Chart 8: Average OLO contribution to delivery sales

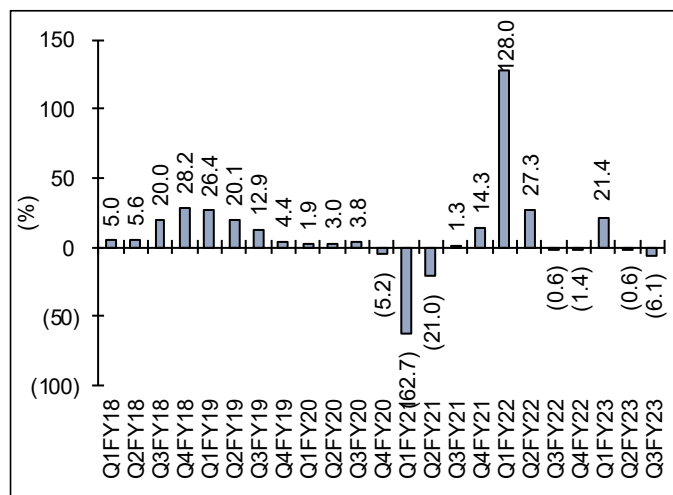
Source: Company data, I-Sec research

Chart 9: Downloads from mobile ordering app (cumulative)

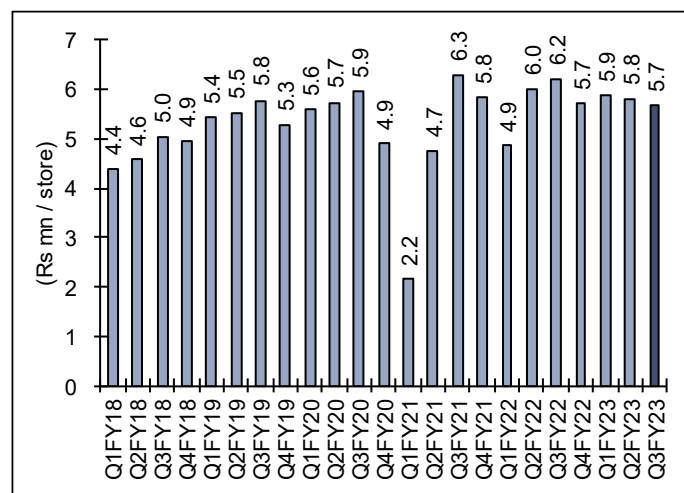
Source: Company data, I-Sec research

Chart 10: Revenue per store

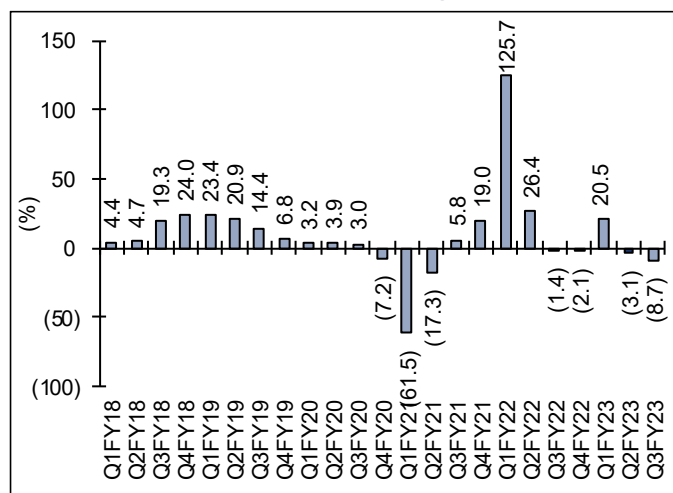
Source: Company data, I-Sec research

Chart 11: Revenue per store growth

Source: Company data, I-Sec research

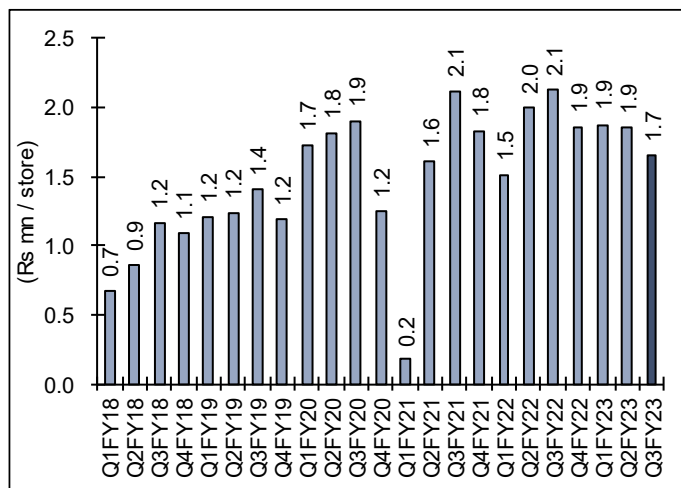
Chart 12: Gross profit per store

Source: Company data, I-Sec research

Chart 13: Gross profit per store growth

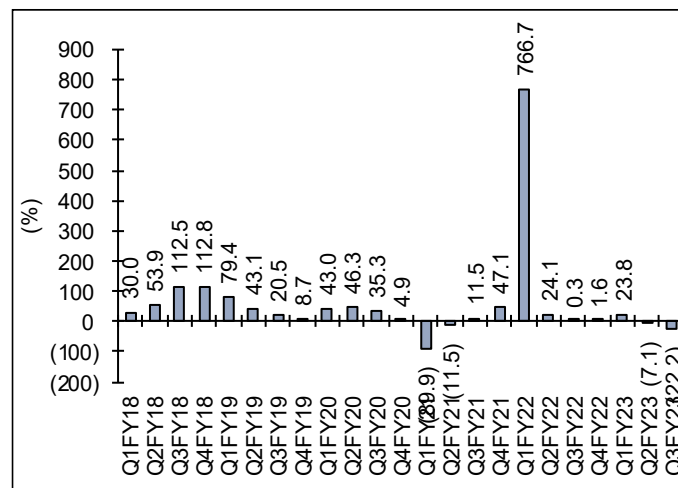
Source: Company data, I-Sec research

Chart 14: EBITDA per store



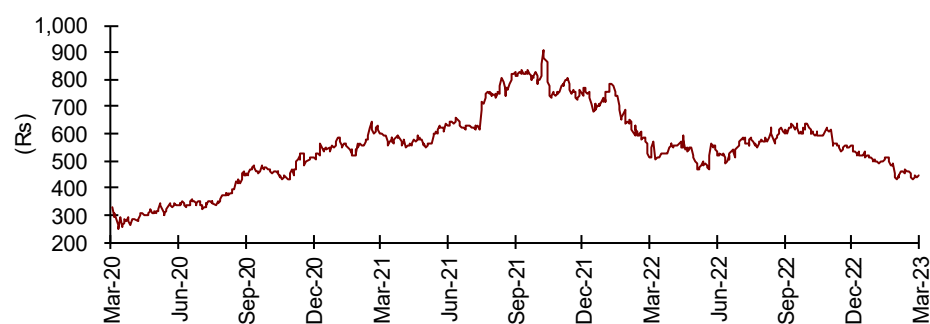
Source: Company data, I-Sec research

Chart 15: EBITDA per store growth



Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financial summary

Table 1: Profit and Loss statement
(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Net Sales & Operating income	33,119	43,961	52,265	63,160
Operating Expenses	25,407	32,873	40,223	47,244
EBITDA	7,712	11,088	12,042	15,917
% margins	23.3	25.2	23.0	25.2
Depreciation & Amortisation	3,754	3,931	4,717	5,488
Gross Interest	1,627	1,761	1,977	2,173
Other Income	731	414	427	711
Recurring PBT	3,062	5,810	5,775	8,967
Less: Taxes	757	1,452	1,473	2,241
Less: Minority Interest	-	-	-	-
Net Income (Reported)	2,305	4,181	4,036	6,726
Extraordinaries (Net)	-	(177)	(266)	-
Recurring Net Income	2,305	4,358	4,302	6,726

Source: Company data, I-Sec research

Table 2: Balance sheet
(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Assets				
Total Current Assets	8,382	9,224	15,752	21,604
of which cash & cash eqv.	6,206	6,630	13,293	18,619
Total Current Liabilities & Provisions	7,101	7,200	8,294	9,714
Net Current Assets	1,281	2,024	7,458	11,890
Investments	6,714	10,236	10,236	10,236
Net Fixed Assets	21,455	27,366	34,136	38,891
Capital Work-in-Progress	286	465	465	465
Total Assets	29,736	40,091	52,295	61,481
Liabilities				
Borrowings	16,205	21,066	24,431	27,797
Deferred Tax Liability	(831)	(526)	(526)	(526)
Minority Interest	-	-	-	-
Equity Share Capital	1,320	1,320	6,648	6,673
Face Value per share (Rs)	2	2	10	10
Reserves & Surplus*	13,042	18,231	21,741	27,537
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	14,362	19,551	28,390	34,210
Total Liabilities	29,736	40,091	52,295	61,481

Source: Company data, I-Sec research

Table 3: Quarterly trend
(Rs mn, year ending March 31)

	Mar 22	Jun 22	Sep 22	Dec 22
Net sales	11,579	12,403	12,868	13,166
% growth (YoY)	12.9	41.1	16.9	10.3
EBITDA	2,897	3,045	3,125	2,900
Margin (%)	25.0	24.6	24.3	22.0
Other income	124	106	103	93
Add: Extraordinaries	(4)	(266)	-	-
Net profit	1,165	1,276	1,192	886

Source: Company data

Table 4: Cashflow statement
(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Operating Cashflow	3,541	6,052	6,246	8,655
Working Capital Changes	509	(410)	1,228	895
Capital Commitments	(2,186)	(3,913)	(6,371)	(4,624)
Free Cashflow	1,864	1,729	1,103	4,925
Cashflow from Investing Activities	(6,021)	(6,542)	(8,714)	(6,683)
Issue of Share Capital	(43)	(370)	5,329	25
Inc (Dec) in Borrowings	-	1,194	-	-
Dividend paid	0	(790)	(792)	(931)
Chg. in Cash & Bank balance	(2,015)	5,295	6,663	5,326
Closing cash & balance	5,392	5,634	12,296	17,622

Source: Company data, I-Sec research

Table 5: Key ratios
(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Per Share Data (in Rs)				
Recurring EPS	3.5	6.6	6.5	10.1
Cash EPS	9.2	12.6	13.6	18.3
Dividend per share (DPS)	1.2	1.2	1.4	2.2
Book Value per share (BV)	21.8	29.6	42.7	51.3
Growth Ratios (%)				
Sales	(15.7)	32.7	18.9	20.8
EBITDA	(11.9)	43.8	8.6	32.2
PAT	(23.3)	89.1	(1.3)	56.4
Diluted Recurring CEPS	-	-	16.7	57.1
Valuation Ratios (x)				
P/E	128.2	67.8	69.2	44.4
P/CEPS	48.8	35.6	33.0	24.5
P/BV	20.6	15.1	10.5	8.7
EV / EBITDA	67.8	38.8	37.6	26.8
EV / Sales	8.7	6.6	5.6	4.6
Operating Ratios (%)				
Raw Material / Sales	21.9	22.5	24.0	22.7
Employee cost / Sales	22.6	17.5	17.5	18.1
Other exps / Sales	32.2	34.8	35.4	34.0
Other Income / PBT	0.6	0.3	0.3	0.2
Effective Tax Rate	24.7	25.0	25.5	25.0
Working Capital (days)	(28.3)	(22.0)	(27.1)	(27.6)
Inventory Turnover (days)	14.7	13.4	9.0	9.1
Receivables (days)	1.9	1.8	1.9	1.9
Payables (days)	59.3	45.1	44.3	43.6
Net D/E (x)	(0.4)	(0.3)	(0.4)	(0.5)
Profitability Ratios (%)				
Net Income Margins	7.0	9.9	8.2	10.6
RoACE	13.9	20.5	15.9	18.3
RoAE	17.9	25.7	17.9	21.5
Dividend Payout	34.3	18.9	23.1	21.8
Dividend Yield	0.3	0.3	0.3	0.5
EBITDA Margins	23.3	25.2	23.0	25.2

Source: Company data, I-Sec research

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