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Jubilant Foodworks JUBI.NS JUBI IN

EQUITY: FOOD & BEVERAGE

Trend continues to be weak – SSSG negative

Quick Note

Global Markets Research

4 February 2014

Rating Remains	**Reduce**
Target price Remains	INR 835
Closing price 4 February 2014	INR 1092

Above or below estimates

3QFY14 results came in below our and consensus estimates. While sales were 8.8% below our estimate, PAT was 20.9% below our and 17.4% below Street estimates.

Fig. 1: Q3FY14 performance vs. expectations

INR mn	Actual	Consensus	Nomura	vs. consensus	vs. Nomura
Net Sales	4,566	4,911	5,008	-7.0%	-8.8%
Operating Profit	674	758	792	-11.1%	-14.9%
Margin	14.8%	15.4%	15.8%		
Net Profit	336	407	425	-17.4%	-20.9%

Source: Bloomberg, Nomura Research

What do the results mean?

For the first time since 2009, SSSG has become negative. This is reflective of the sharp decline in customer acquisition as well as weak underlying consumer demand. What is to be noted is that Q3 is the biggest and busiest quarter for the company and this performance on a lower base of Q3FY13, is concerning.

Key numbers

- Net revenues increased 18.5% to INR4.6bn against our expectation of INR5bn and Street expectations of INR4.9bn.
- SSSG (same store sales growth) for the quarter at -2.6%, below our estimate of 7%.
- EBITDA came in at INR674mn, our estimate of INR792mn and consensus at INR758mn.
- EBITDA margin came in to 14.8%, down 260bps y-y. We were expecting EBITDA margins at 15.8% (down 160bps y-y) and the street was at 15.4% (down 200bps y-y).
- The key negative surprises were gross margin, which declined 100bps y-y and rental costs, which rose 90bps y-y.
- PAT came in at INR336mn against our expectation of INR425mn and consensus at INR407mn.

Research analysts

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Fig. 2: Q3FY14 key highlights

INR mn	Dec-13	Dec-12	% Chg	Sep-13	% Chg
Net Sales	4,566	3,851	18.5	4,367	4.6
EBIDTA	674	672	0.3	653	3.2
Other income	24	20	19.8	24	(1.7)
PBIDT	698	692	0.9	677	3.1
Depreciation	196	140	39.7	179	9.3
PBT	502	551	(8.9)	498	0.8
Tax	166	174	(4.5)	165	0.4
Adjusted PAT	336	377	(10.9)	332	1.1
No. of shares (mn)	65	65		65	
EBIDTA margins (%)	14.8	17.4		15.0	
PBIDT margins (%)	15.3	18.0		15.5	
EPS(INR)	5.1	5.8		5.1	

Source: Company data, Nomura Research

Feedback from conference call

- Demand has been impacted by weak consumer sentiment and withdrawal of some of offers that were present in Q2FY14. Management said the key reason remains the macro environment, but it is confident that medium-term growth outlook remains intact. Management said new customer acquisition as well as frequency of consumption re both down in the quarter.
- SSSG trend remains under pressure with management not confident that the current quarter is the bottom. As of now, there are no green shoots visible, which we believe means Q4FY14F is also likely to see weak SSSG numbers.
- Input costs have been increasing in low double digits over the past few quarters which have put pressure on margins. The company has taken 3% price in June and a 5% price hike in November, which will help offset some pressures, but management said while more price hikes are possible, they would not be looking to take them in the near term given the pressure on demand.
- Dunkin' Donuts store build out remains on track with company now having 11 operational across North India. The company will launch its first store in Mumbai in Q4FY14. Dunkin' Donuts business continues to impact margins by 100-110bps on a y-y basis. In the near term Dunkin' Donuts stores will continue to be a drag on margins.
- Capex for FY14F will be INR2.5bn. Off this, INR1.8-1.9bn will be for the store build out of Dominos while the rest will be for commissaries which they are putting in place as well as other maintenance capex for existing restaurants. The number of stores to be launched in FY14F will be 145 Dominos stores and 20 Dunkin' Donut stores.
- Promoter stake has come down from 55.2% at end-December 2012 to 49.9% as at December 2013. Mr. Hari Bhartia said it expects to keep promoter stake at 'high 40%' levels over the medium term.

Overall, management remains cautious on the near-term demand outlook, but is confident that once consumer environment revives, it will see a strong pick-up in growth. Margins are expected to be under pressure in the near term, which means consensus earnings are at risk for FY15F. Valuations remain high at 36.7x FY15F EPS of INR29.45. We retain our Reduce rating on the stock.

Appendix A-1

Analyst Certification

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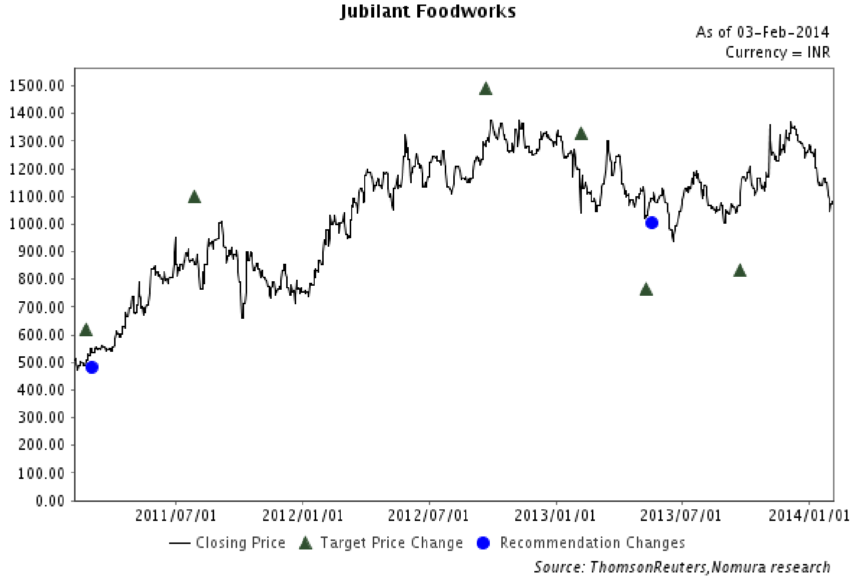
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Jubilant Foodworks	JUBI IN	INR 1092	04-Feb-2014	Reduce	N/A	

Jubilant Foodworks (JUBI IN) **INR 1092 (04-Feb-2014)** Reduce (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
23-Sep-13		835.00	1,112.35
10-May-13	Reduce		1,025.35
10-May-13		765.00	1,025.35
05-Feb-13		1,330.00	1,039.75
20-Sep-12		1,490.00	1,283.85
28-Jul-11		1,100.00	863.45
21-Feb-11	Buy		503.10
21-Feb-11		620.00	503.10

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of INR835 is 25x our one-year forward EPS forecast of INR33.4. On our valuation, Jubilant trades at 35.5x FY15F vs the sector average of 28.9x. We believe given the risk to earnings in the short-term and weak consumer demand, valuations should converge to the sector average.The benchmark index for this stock is MSCI India.

Risks that may impede the achievement of the target price A pick-up in same-store sales growth and a sharp drop in raw material costs pose upside risks to our estimates.

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