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Aggressive expansion plans may keep Domino's growth rates strong

New formats of chicken, biryani and Chinese offer incremental opportunities

Ram Prasad Sahu June 16, 2021 Last Updated at 19:19 IST

The March-quarter results of Jubilant FoodWorks missed the Street estimates both on top line growth as well as profitability. The stock, however, gained about 2 per cent in a weak market as management commentary on expansion highlighted the scope for growth. Further, the company's portfolio expansion into new categories would help diversify its presence in key categories and aid in incremental growth.

Though its sales growth of over 14 per cent on the back of 11.8 per cent same-store sales growth and the addition of new stores missed estimates, it was better than its peers Westlife Development (McDonald's franchise for west and south India) and Burger King India (see table).

As in previous quarters, growth was led by convenience formats of delivery and take away, which account for 70 per cent of revenues and were up 29 per cent and 79 per cent respectively. Dine-in (30 per cent contribution to sales) lagged the pre-Covid revenue run rate in the quarter.

It was the delivery format that continued to support growth even in April and May and has seen a significant reduction in operating hours and negligible dine-in business due regional lockdowns across states.

System-wide sales recovery in the first two months of the June quarter remained strong at 94.4 per cent and 87.7 per cent, respectively, compared to FY20 levels and the trend is expected to continue in June. Say Ashit Desai and Devanshu Bansal of Emkay Research: "Despite lockdowns, recovery in April-May'21 at about 90 per cent (vs. FY20) has been impressive, indicating strong traction in delivery."

Brokerages such as Motilal Oswal Research expect the company to outperform other discretionary peers in the June quarter after its resilient performance in the first two months.

The company's store expansion for Domino's with 50 added on a gross basis for the second consecutive quarter in the March quarter and its aggressive plan for FY22 signal its growth intentions. Despite the disruption caused by the second wave, the company plans to add 134 stores in FY22, which is similar to the FY21 additions. It plans to add a further 150 stores annually after FY22, as compared to the Street's estimates of 125-135 additions. In addition to this, the management expects strong store roll-outs for newer formats such as Popeyes (chicken segment) while in-house brands Ekdum! (biryani) and Hong's Kitchen (Chinese) could see a more calibrated build-up.

With its expansion, the company is looking to capitalise on the lower levels of competition from the unorganised and regional players, attractive real estate deals, and a scale-up of orders on its own application (compared to third-party aggregators) backed by attractive offers and promotions.

The management has indicated the new formats and expansion will not be margin-dilutive, which is a positive, given the raw material inflation and the higher promotion needed for the new businesses.

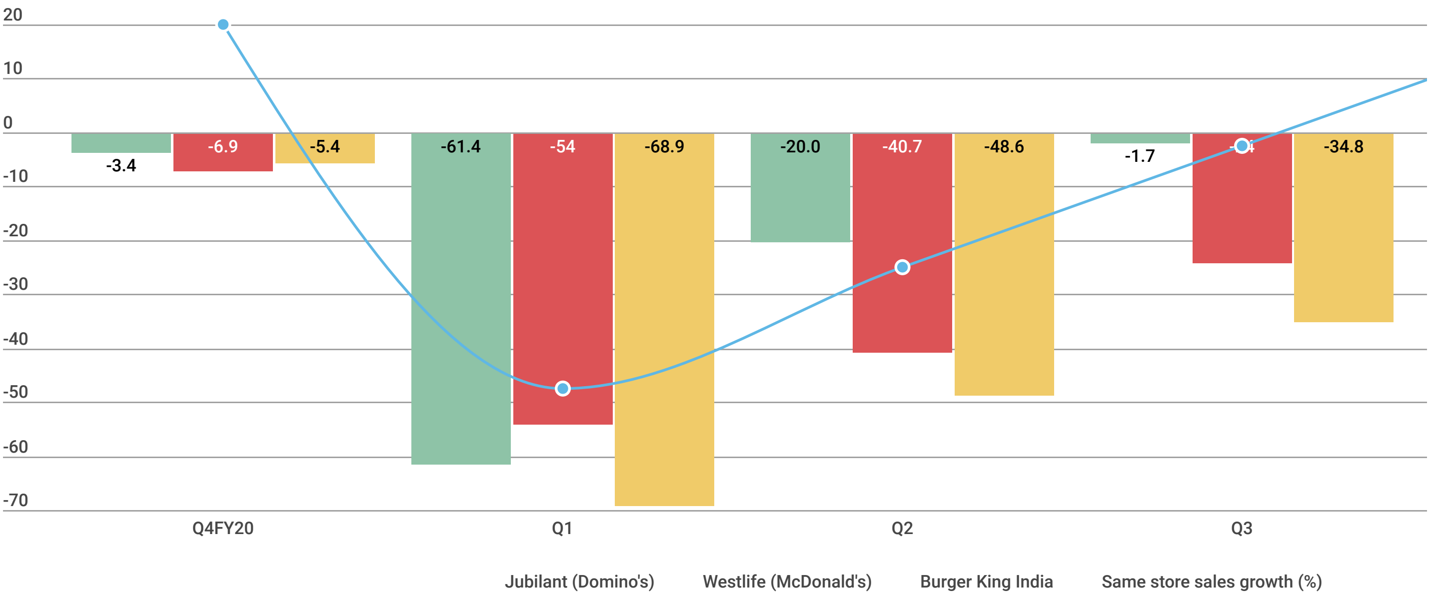
Its operating profit margins in the March quarter were 540 basis points higher y-o-y at 24.3 per cent but missed expectations, which had pegged them at over 27 per cent. On a sequential basis, the margins were lower 200 basis points due to lower gross margins (higher cheese and edible oil costs) and higher other expenses.

The Street is not reading too much into the expansion or rising costs as far as its impact on profitability is concerned.

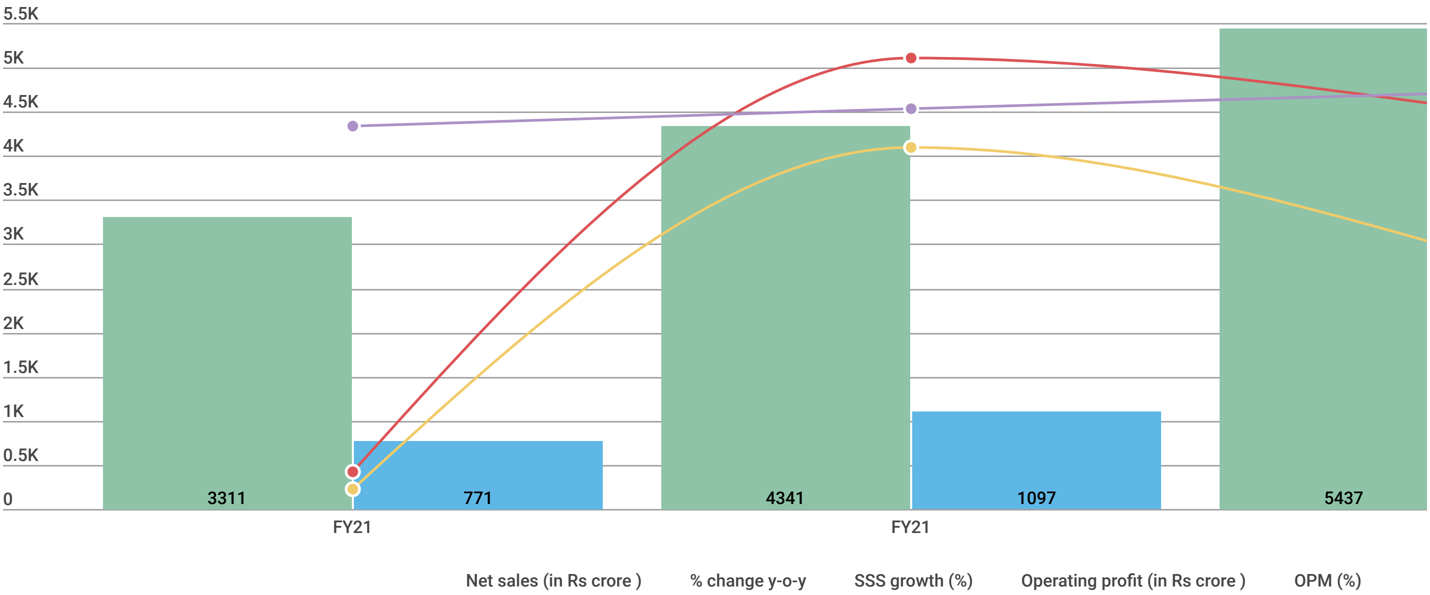
Jaykumar Doshi and Sushruta Mishra of Kotak Institutional Equities point out that Domino's has not increased prices in the past three years barring the introduction of delivery fees at the start of the pandemic and its product prices are much lower than those of its peers. Jubilant, according to them, is well placed to exercise its pricing-power lever to protect profitability and navigate raw material inflation.

Most brokerages are positive about the company's prospects, given its presence across multiple quick service formats as well as geographies (India, Bangladesh, and Sri Lanka), investment in DP Eurasia (Russia, Turkey operations), and aggressive expansion plans. However, valuations at 64 times the FY23 earnings estimates capture near-term upsides.

Jubilant outperforms peers



Growth pick-up ahead



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