March 08, 2021

# Jubilant Consumer Private Limited: Ratings reaffirmed; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Issuer Rating | - | - | [ICRA]A- (Stable); reaffirmed |
| Fund Based Limits | 7.50 | 20.00 | [ICRA]A- (Stable); reaffirmed |
| Total | **7.50** | **20.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating reaffirmation for Jubilant Consumer Private Limited (JCPL) continues to factor in its healthy financial flexibility emanating from the sizeable market value of investments in its capacity as the principal holding company for Jubilant FoodWorks Limited (JFWL). JCPL is the principal holding company for JFWL, holding 41.94% stake, accounting for the entire promoter shareholding in the entity. JFWL is a leading player in the country's organised Quick Service Restaurant (QSR) segment and is the master franchisee for Domino's Pizza and Dunkin Donuts in India, operating a pan India network of approximately 1,314 outlets. Additionally, it has entered the Chinese fast-casual and biryani segments over the recent past, with its in-house brands of Hong's Kitchen and Ekdum Biriyani, respectively. Despite the disruption in operations in the current fiscal on account of the pandemic, JFWL continues to enjoy a robust financial profile, characterised by healthy cash flow generation, nil debt and sizeable cash balances. JCPL's stake in JFWL is valued at about Rs. 15,950 crore (as on February 17, 2021), which provides healthy financial flexibility in meeting funding requirements, including any refinancing of debt.

In addition to JCPL's status as a holding company, it is engaged in food processing and retailing businesses at a standalone level and operates automotive dealerships through its wholly-owned subsidiary, Jubilant Motorworks Private Limited (JMPL), and its various step-down subsidiaries[1]. The food processing business is currently in a gestational phase, requiring capital investments and some extent of loss funding over the medium term. To minimise the losses in this business, the company has adopted measures like exiting unprofitable segments and stores, and backward integration into farming in order to reduce raw material pricing volatilities. These measures, along with expected scale up, are anticipated to support the operations in achieving sustainable levels of profitability over the medium term.

The automotive dealership business, wherein it operates dealerships for Audi and MG Motors in select cities across South and West India, was also significantly impacted by the pandemic during the initial few months of the fiscal. However, there has been sequential recovery in operations, and revenues are expected to report healthy scale up, going forward, aided by incremental revenues from MG Motor dealerships and used car businesses, which were started over the past two fiscals. Nevertheless, the dealership business is typically characterised by weak profitability and, accordingly, JCPL has extended corporate guarantees for the working capital debt availed by JMPL and its various step-down subsidiaries.

While JCPL's financial risk profile remained weak on account of the modest cash flow from operations, its focus on paring down debt levels over recent years has helped improve the same in recent years. Over FY2017 to FY2020, the company pared down standalone debt levels by about Rs. 489 crore to Rs. 132 crore of external debt. Accordingly, its balance sheet and credit metrics also improved over this period. Although standalone debt increased by Rs. 25 crore in the current fiscal in order to support the automotive dealership business, JCPL plans to prepay these term loans by recovering loans and advances from Group companies, going forward; the same is expected to aid further improvement in JCPL's cash flow generation and credit metrics.

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[1] *Includes Jubilant Motorworks (South) Private Limited, Jubilant Autoworks Private Limited, Jubilant Sports Cars Private Limited and Jubilant Performance Cars Private Limited*

In addition to its equity investments, JCPL also extended significant loans and advances to its Group companies (Rs. 953.4 crore outstanding as on December 31, 2020). Of this, some portion has been deemed unrecoverable, as it pertains to advances provided to the energy venture of the Group, which has been discontinued. However, ICRA takes comfort from the fact that there are no plans for additional investments in Group entities, either through incremental equity or loans and advances. Nevertheless, ICRA would continue to monitor the requirements for incremental funding support in these Group entities and, accordingly, the support extended by JCPL and its recoverability would remain key rating sensitivities.

The Stable outlook on the long-term rating reflects ICRA's expectation that JCPL would continue to enjoy healthy financial flexibility by virtue of its shareholding in JFWL, and that its cash flow generation and credit metrics would improve over the near term, supported by reduction in debt levels.

## Key rating drivers and their description

### Credit strengths

**High financial flexibility as the holding company of JFWL –** In addition to its operations, JCPL is the investment holding company of Jubilant Bhartia Group (JBG) in JFWL, holding 41.94% of the stake (market value of Rs. 15,950 crore as on February 17, 2021). JFWL is a leading player in the organised QSR segment in India and is also the master franchise for Domino's Pizza in the country. The company operates a chain of 1,314 outlets pan India and has demonstrated steady profitable growth over the years, driven by its increasing store network and focus on efficiency gains. As the holding company of JFWL, JCPL's credit profile is supported by healthy financial flexibility, emanating from the considerable market value of its investment, most of which also remains unencumbered (98%). Although JFWL did not pay any dividend in the current fiscal, the trend of dividend outflow (Rs. 145 crore in FY2020 vis-à-vis Rs. 33 crore in FY2019, excluding dividend distribution tax) is expected to support JCPL's investment as well as debt servicing requirements, going forward.

**Ongoing efforts to deleverage balance sheet to support improvement in financial risk profile –** Over recent years, JCPL has focussed on reducing its debt levels by monetising part of its stake in JFWL. To this extent, the overall standalone debt levels were pared down by about Rs. 489 crore since FY2017, and currently only Rs. 157 crore of external debt is present on the standalone balance sheet (as on December 31, 2020). The company plans to further prepay its term loans by recovering loans and advances from Group companies going forward.

**Limited incremental investment plans –** Except for the monetisation of some stake in JFWL, JCPL's investments in its subsidiaries, associates and joint ventures (JVs) have remained largely stable over the past few years. There has been only some marginal investments and loans and advances to JMPL over the past five years, and none in B&M Hot Breads or JFWL. Going forward too, it is expected to have minimal requirement for funding incremental investments in any of these entities and, accordingly, investments are expected to remain stable.

**Part of the Jubilant Bhartia Group; extensive experience in the food retailing business through JFWL augurs well for its operations in food processing –** As part of the JBG, which has extensive presence in the food retailing business through JFWL, JCPL benefits in terms of the rich experience of its promoters and management. The Group entered the QSR business as a master franchisee of Domino's Pizza in India in 1996 and has an experience of approximately 25 years in the segment. Accordingly, JCPL's operations in the food processing segment as well as in the food retail segment through the 'Go Gourmet' brand, benefit from the Group's extensive experience in sourcing, supply chain and scaling up retail operations.

**Mature business and financial profile of key investee company, JFWL, provides revenue visibility through dividend income –** JFWL enjoys a strong business risk profile, as the largest QSR player in India, with a pan India network of approximately 1,314 Domino's Pizza outlets and 27 Dunkin Donuts outlets. Additionally, its financial risk profile is characterised by healthy profitability and return metrics with nil debt and a comfortable liquidity profile. Barring the current fiscal when there was no dividend pay-out, in recent years, JFWL has also significantly improved the dividend pay-out to its investors, which augurs well for its principal holding company, JCPL (dividend income from JFWL increased to Rs. 60.9 crore in FY2020 from Rs. 14.8 crore in FY2019 and Rs. 7.4 crore in FY2018).

## Credit challenges

**Limited diversification of investments –** JFWL drove nearly 99% of JCPL's dividend income during FY2020 and contributed 60% to the standalone OPBITDA during the year. Consequently, JCPL's cash flows are predominantly dependent on JFWL's financial performance and dividend policy. However, the strong credit profile of JFWL, and its track record of declaring dividends, as well as the increase in dividend pay-out over recent years (with the exception of FY2021), provide comfort.

**Food processing business in gestation phase at present; likely to require some extent of loss funding and capital investments over the medium term –** JCPL's food processing business is currently small and yet to achieve sustainable levels of profitability, as operations are in the gestation phase entailing fixed overheads in scaling up the business. Accordingly, with the business being in the expansion phase, it will require working capital support besides capital investments over the medium term. Nevertheless, the Group's experience in the food retailing industry, and the financial flexibility and backing of JBG, provides comfort regarding the scale up of operations.

**Weak cash flows and coverage indicators; however, ongoing deleveraging exercise to support improvement –** JCPL's financial risk profile has historically remained weak, characterised by significant quantum of debt obligations relative to its cash flow generation. However, with increase in dividend income, scale-up in automobile dealership business and considerable reduction in debt levels, which have rationalised interest outgo to a large extent, credit metrics are on an improving trend.

**Significant quantum of loans and advances to Group companies, some part of which is non-recoverable –** In addition to the equity investments held by JCPL, the company has also extended loans and advances to JBG companies over the years. As on December 31, 2020, the quantum of loans extended to related parties by JCPL amounted to Rs. Rs. 953.4 crore, of which Rs. 216.1 crore are non-recoverable in nature and would be written-off, as it pertains to advances provided to the energy ventures of the Group, operations of which have been discontinued. Although JCPL receives interest income on these loans and advances outstanding, any delay in their receipt or write-offs related to these loans and associated interest income, has the potential to impact the company's cash flows.

**Refinancing risk because of weak cash flow generation; however, sizeable market value buffer on investments lends financial flexibility –** Owing to the weak cash flow generation and bullet repayment profile of most of JCPL's debt, it remains exposed to refinancing risk to an extent. Nevertheless, the company has significant financial flexibility to raise incremental borrowings against its investments in JFWL, which offsets the refinancing risk to a great extent.

## Liquidity position: Adequate

Despite modest cash flow generation from operations, JCPL's liquidity position is supported by its healthy financial flexibility aided by the high market value of its investments to Total Debt (29.3x as on March 31, 2020). This is further augmented by its reputed and resourceful promoters as well as its healthy relationships with financial institutions as part of the JBG. The company has a track record of monetising investments to support its cash flows, whenever required, and ICRA expects this trend to continue. Nonetheless, such financial flexibility arising out of the market value of JCPL's listed investments also remains susceptible to volatility in stock prices. At present, JCPL has liquid funds of approximately Rs. 55 crore in addition total market value of investments of approximately Rs. 15,950 crore in JFWL. The debt repayment for the next six months would be a maximum of Rs. 140 crore and there is no significant investment planned in the investee companies, going forward. These factors, cumulatively, support JCPL's liquidity position.

## Rating sensitivities

**Positive factors –** ICRA could upgrade JCPL's rating if, inter alia, there is healthy improvement in scale and profitability of JCPL's operations (both food processing and automotive dealership), which along with reduction in debt levels, supports improvement in credit metrics like Total Debt/OPBITDA remaining below 2.3x on a sustained basis. Furthermore, improvement in financial flexibility aided by increase in underlying value of its investments on a sustained basis would also support a positive rating action.

**Negative factors –** Negative pressure on the ratings would arise in case of (a.) deterioration in credit profile and market capitalisation of key investee company, JFWL; or (b.) weakening of JCPL's financial risk profile because of delays in turning around its operations and sizeable investments, resulting in higher than anticipated debt levels and deterioration in credit metrics. Negative pressure could also arise in case of (c.) material incremental investments or loans and advances in Group companies; or (d.) significant dilution of JCPL's shareholding in JFWL.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Holding Companies |
| **Parent/Group Support** | Not applicable |
| **Consolidation/Standalone** | The ratings are based on the consolidated financial statements of the issuer, which includes the standalone operations of the company as well as the automobile dealership business through JMPL and step-down subsidiaries. |

# About the company

JCPL, part of the Jubilant Bhartia Group, is the holding company of the Group's food retailing business run by Jubilant Foodworks Limited. Set up in December 2008 as Jubilant Retail Private Limited, it is also engaged in the processing and supply of food retail related products for the B2B and B2C segments, under the standalone entity. Herein, it supplies fresh produce (cut and processed vegetables), customised food products (patties, sauces, gravies, etc) and canned foods in the B2B segment. It also caters to the B2C segment through its own brand, 'Go Gourmet' (salads, wraps, sandwiches, etc).

In addition to its standalone operations, JCPL is engaged in the automotive dealership business through its wholly-owned subsidiary, Jubilant Motorworks Private Limited, and some of its step-down subsidiaries. Through these entities, the company operates dealerships for Audi and MG Motors as well as for used cars with showrooms primarily in South and West India. JCPL has also extended corporate guarantee to support these entities.

Post the restructuring exercise in the Group in FY2016, its investments in various businesses were hived off into separate entities, and JCPL became the operating cum investment holding vehicle for the Group in the food retailing business. At present, JCPL holds 41.94% of stake in JFWL, which acts as the master franchisee for Domino's Pizza and Dunkin Donuts in India. JFWL is listed on the BSE and NSE and operates a network of 1,314 Domino's Pizza outlets (as on December 31, 2020), 27 Dunkin Donuts and 10 for its in-house F&B brands, Hong's Kitchen and Ekdum Biriyani. In addition to its investment in JFWL, JCPL holds 48.37% in B&M Hot Breads Private Limited, which operates a bakery chain in Chennai; however, this was disposed off in the current fiscal. Additionally, in its capacity as a holding company of JBG, JCPL extends loans and advances to other companies in the Group.

## Key financial indicators (audited)

| JCPL Consolidated | FY2019 | FY2020 |
|---|---|---|
| Operating Income (Rs. crore) | 778.8 | 780.1 |
| PAT (Rs. crore) | -258.4 | 19.1 |
| OPBDIT/OI (%) | 5.0% | 8.1% |
| PAT/OI (%) | -33.2% | 2.4% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.1 | 0.1 |
| Total Debt/OPBDIT (times) | 15.6 | 5.8 |
| Interest Coverage (times) | 0.5 | 1.4 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

*Source: JCPL, ICRA research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2021) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Mar 31, 2020 (Rs. crore) | Date & Rating in | Date & Rating in FY2020 | Date & Rating in FY2019 | Date & Rating in FY2018 |
| | | | | | Mar 8, 2021 | Mar 18, 2020 | - | - |
| 1 | Issuer Rating | Long-term | - | - | [ICRA]A-(Stable) | [ICRA]A-(Stable) | - | - |
| 2 | Fund based limits | Long-term | 20.0 | 2.2 | [ICRA]A-(Stable) | [ICRA]A-(Stable) | - | - |

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

## Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (RS Crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Issuer Rating | NA | NA | NA | - | [ICRA]A-(Stable) |
| NA | Fund Based Limits | NA | NA | NA | 20.00 | [ICRA]A-(Stable) |

***Source:*** *Company*

## Annexure-2: List of entities considered for consolidated analysis

| Company Name | JCPL Ownership | Consolidation Approach |
|---|---|---|
| Jubilant Consumer Private Limited | 100.00%<br>(rated entity) | Full Consolidation |
| Jubilant Motorworks Private Limited | 100.00% | Full Consolidation |
| Jubilant Brands Private Limited | 100.00% | Full Consolidation |
| Jubilant Foodworks Limited | 41.94% | Equity Method |
| B&M Hotbreads Private Limited | 48.37% | Equity Method |

***Source:*** *JCPL annual report FY2020*

***Note:*** *ICRA has taken a consolidated view of the parent (JCPL), its subsidiaries and associates while assigning the ratings.*

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