September 07, 2022

Jubilant Consumer Private Limited: Rating reaffirmed

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	20.0	20.0	[ICRA]A+(Stable); Reaffirmed
Total	**20.0**	**20.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation for Jubilant Consumer Private Limited (JCPL) continues to favourably factor in its status as the principal holding company for Jubilant FoodWorks Limited (JFWL), and the strong financial flexibility emanating from the market value of its investment in JFWL (Rs. 16,750 crore as on August 30, 2022 for its unencumbered stake of 40.1%). While capital market volatilities had led to moderation in share price of JFWL and erosion in market value buffer during October 2021–May 2022, the same has since recovered and remains at a comfortable level (Market Value of investment/Net Debt[1] ~45x). The rating also factors in the expectation of limited incremental funding requirements in investee companies and scale up of standalone operations over the medium term.

The strengths are partially offset by the significant revenue (for dividend income) and investment concentration in JFWL, with the company's dividends accounting for 100% of the total dividend income and over 95% of the book value of investments of the JCPL as on March 31, 2022[2]. Nonetheless, the ratings derive comfort from JFWL's established leadership position in the country's organised Quick Service Restaurant (QSR) segment (with dominant market share in the pizza segment, as the master franchisee for Domino's Pizza) and its strong credit metrics, besides the healthy cash surplus. Even as there were disruptions to the operations due to the pandemic, JFWL has been consistent in its dividend pay-outs. Despite the nascent stage of operations of these recently launched brands, and some inorganic investments made over the past few years, a relatively steady dividend stream from JFWL is expected to continue.

JCPL sold its automotive dealership business (under erstwhile subsidiary Jubilant Motorworks Private Limited, JMPL) to its promoters (Bhartiya family-owned trusts) in March 2022. Nonetheless, given the continuation of financial support (as inter-corporate deposits) and corporate guarantees from JCPL to JMPL for the latter's majority debt, ICRA continues to consolidate the financials of the entities for undertaking the rating analysis. Under JMPL, the group operates dealerships for Audi and MG Motors in select cities across South and West India. Despite the pandemic and the semiconductor chip shortage issues faced by the passenger vehicle industry in FY2022, the business reported scale up in both volumes and earnings, which is expected to gain pace, going forward, aided by re-launch of several models by Audi (after a span of 2-3 years) and scale up of operations at new dealerships (at Goa, Mumbai and Nashik, acquired during the pandemic), incremental revenues from MG Motor dealerships and used car businesses. Even as the corporate guarantees from JCPL for the working capital debt availed by JMPL and its subsidiaries is expected to continue, an improved scale of operations for the dealership business is likely to help limit the dependence of the same on any funding support from JCPL. The food processing business in the standalone entity is currently in a gestational phase and may require capital investments and some extent of loss funding over the near term. The

[1] *External debt = Total debt less promoter debt (which includes debt portion of preference share equity) and operating lease liabilities*

[2] *As per provisional results*

various steps taken by the company to turn profitable have helped prune the losses to an extent and is anticipated to support the operations to achieve sustainable levels of profitability over the medium term.

While the cash flow from JCPL's operations remains modest and the net worth marginal, constraining the overall leverage and debt coverage metrics, comfort is drawn from the low debt levels relative to the market value of its listed investments (~2%). In addition to its equity investments, JCPL has also extended significant loans and advances to its Group companies (Rs. 387 crore outstanding as on July 31, 2022, following conversion of Rs. 524-crore loan in a Group entity into convertible debentures in FY2022). 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 would remain a key rating sensitivity.

The Stable outlook on the long-term rating reflects ICRA's expectation that JCPL would continue to enjoy healthy financial flexibility owing to its shareholding in JFWL. ICRA also expects 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

Strong financial flexibility as the holding company of JFWL – In addition to its operations, JCPL acts as the investment holding company of Jubilant Bhartia Group (JBG) in JFWL, holding 41.94% of the stake (market value of Rs. 16,750 crore as on August 30, 2022 for unencumbered stake of 40.1%). JFWL is a leading player in the organised QSR segment in India and operates a chain of 1,625 'Dominos Pizza' outlets pan India. It 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 are unencumbered (98%). JFWL paid out dividend of Rs. 79 crore in FY2022 and FY2023 (of which 41.94% flows to JCPL) and the same is expected to continue to support JCPL's investment as well as debt servicing requirements, going forward.

Limited incremental investment plans, dependence on external borrowings expected to remain limited – 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. 449 crore over FY2017 to FY2020, although it increased to some extent again over FY2021 and FY2022 on account of the pandemic. Nevertheless, only Rs. 153 crore of external debt is outstanding on the standalone balance sheet (as on August 18, 2022), which is expected to further reduce over the medium term. 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. Going forward too, it is expected to have minimal requirement for funding investments in any of the investee entities and, accordingly, incremental investments are expected to remain low.

Part of JBG; extensive experience in the food retailing business through JFWL augurs well for 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 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 1,625 Domino's Pizza outlets and 25 Dunkin Donuts outlets, in addition to 20 in-house brand outlets (as of June 30, 2022).

Additionally, its financial risk profile is characterised by healthy profitability and return metrics with marginal debt and a comfortable liquidity profile. Barring FY2021 when there was no dividend pay-out, in recent years, JFWL has also improved the dividend pay-out to its investors, which augurs well for its principal holding company, JCPL (dividend income from JFWL increased to Rs. 33 crore in FY2022 and FY2023 from Rs. 7.4 crore in FY2018).

Credit challenges

Limited diversification of dividend income – JFWL has contributed to the entire dividend income of JCPL over the years and remains a major contributor to the OPBITDA of the company. Consequently, JCPL's cash flows are predominantly dependent on JFWL's financial performance and dividend policy, especially at the standalone level. 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 (apart from FY2021), provide comfort.

Food processing business in nascent phase; may require funding support and capital investments over medium term – The scale of operations of JCPL's food processing business is currently small and yet to achieve sustainable levels of profitability. With the business being in the ramp-up phase, it will continue to 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, reporting improvement supported by deleveraging efforts – JCPL's financial risk profile has historically remained weak, characterised by significant debt obligations relative to its cash flow generation. However, with increase in dividend income and reduction in debt levels, which have rationalised interest outgo to a large extent, credit metrics are expected to continue to depict an improving trend.

Significant quantum of loans and advances to Group companies, some 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 July 31, 2022, the quantum of loans extended to related parties by JCPL amounted to Rs. 387 crore[3] (over ~Rs. 860 crore as on March 31, 2021), of which ~Rs. 219 crore pertains to advances provided to the energy ventures of the Group; as these operations have been discontinued, there is a possibility of these being written off. Although JCPL accrued interest income on these loans and advances outstanding, any delay in their receipt or write-off related to these loans and associated interest income, has the potential to impact the company's credit profile.

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. The company has already refinanced its upcoming debt repayment of Rs. 115 crore.

Liquidity position: Adequate

Despite modest cash flow generation from operations, JCPL's liquidity position remains adequate, characterised by liquid funds of approximately Rs. 38 crore (as of March 31, 2022, on a consolidated basis) and undrawn working capital lines of Rs. 14 crore (as on July 31, 2022). The debt repayment for the next 12 months would be a maximum of Rs. 115 crore (refinancing already arranged for the same) without any significant investment planned in the investee companies, going forward.

[3] *The company converted the entire intercorporate loans extended to group company, Jubilant Enpro Private Limited, into convertible debentures and booked a fair-value loss of Rs. 356 crore in FY2022.*

The liquidity profile is further supported by its healthy financial flexibility, aided by the high market value of its investments to Total Debt (~45x as on July 31, 2022). This is further augmented by its reputed and resourceful promoters as well as its healthy relationships with financial institutions as part of 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.

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 or reduction in debt levels, supporting improvement in credit metrics. 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.) significant deterioration in credit profile and market value of the 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 Rating Methodology for Holding Companies Rating approach – Consolidation
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of JCPL and JMPL (and its subsidiaries), given that the former has extended corporate guarantees for entire bank debt on the books of JMPL.

About the company

Jubilant Consumer Private Limited, 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. While it had expanded to the B2C segment through its own brand, 'Go Gourmet' (salads, wraps, sandwiches, etc) a few years ago, the same was discontinued in the current year post the pandemic impact on corporates.

In addition to its standalone operations, JCPL was 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 operated dealerships for Audi and MG Motors as well as for used cars with showrooms primarily in South and West India. However, following a group realignment in FY2022, the auto dealership business was sold by JCPL to the promoters w.e.f. March 2022. Nonetheless, JCPL continues to support JMPL through intercorporate loans and corporate guarantee for its entire borrowings.

Post the Group's restructuring exercise in FY2016, the 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 JFL, which acts as the master franchisee for Domino's Pizza and Dunkin Donuts in India and has recently acquired franchisee rights for Popeye's brand in India and neighbouring countries as well. JFL is listed on the BSE and NSE and operates a network of 1,625 Domino's Pizza outlets (as on June 30, 2022), 25 Dunkin Donuts, five Popeyes outlets and 20 outlets for its in-house F&B brands, Hong's Kitchen, and Ekdum Biriyani, in addition to its FMCG offering under the ChefBoss brand. Additionally, in its capacity as a holding company of JBG, JCPL extends loans and advances to other companies in the Group.

Key financial indicators (consolidated)

JCPL	FY2020	FY2021	FY2022*
Operating Income (Rs. crore)	780.1	832.8	1,238.2
PAT (Rs. crore)	15.0	53.1	-303.3
OPBDIT/OI (%)	8.1%	12.0%	9.6%
PAT/OI (%)	1.9%	6.4%	-24.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.1	0.1
Total Debt/OPBDIT (times)	5.8	4.8	3.7
Interest Coverage (times)	1.3	2.3	2.7

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

Note: Amount in Rs. crore; All calculations are as per ICRA research; Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of July 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Sep 7, 2022	Oct 6, 2021*	Mar 8, 2021	Mar 18, 2020
1	Issuer Rating	Long-term	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Fund-based Limits	Long-term	20.00	5.88	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)

**An update on the details of lender facilities was published on August 2, 2021*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable
Fund Based Limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Issuer Rating**	NA	NA	NA	-	[ICRA]A+ (Stable)
NA	**Fund-based working capital limits**	NA	NA	NA	20.00	[ICRA]A+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	JCPL Ownership	Consolidation Approach
Jubilant Consumer Private Limited	100.00% (rated entity)	Full Consolidation
Jubilant Motorworks Private Limited (along with subsidiaries)	-	Full Consolidation
Jubilant Brands Private Limited	100.00%	Full Consolidation
Jubilant Foodworks Limited	41.94%	Equity Method

Source: Company

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About ICRA Limited:

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