

December 07, 2023

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	20.00	20.00	[ICRA]A+(Stable); reaffirmed
Total	20.00	20.00	

*Instrument details are provided in Annexure-I

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. 14,757 crore, as on November 23, 2023, for its unencumbered stake of 41.61%). The company continues to have a strong market value buffer compared to its debt levels¹, even as JFWL's share price has moderated over the last few years. The rating also factors in the expectation of limited incremental funding requirements in its investee companies and likely improvement of operating cash flows in the standalone operations over the near to medium term.

The strengths are partially offset by the limited diversification of JCPL's dividend income as a holding company given its investment concentration in JFWL. Nonetheless, the ratings derive comfort from JFWL's established leadership position in the country's organised Quick Service Restaurant (QSR) sector (with dominant market share in the pizza segment, as the master franchisee for Domino's Pizza) and its strong credit metrics. JFWL has been consistent in its dividend pay-outs, barring FY2021 (owing to the disruptions caused by the global pandemic), lending revenue visibility to JCPL.

JCPL's cash flows are mainly supported by dividend income and modest cash flows from food processing operations. Its own debt levels are modest; however, it has a sizeable exposure to group entity, JMPL, by way of corporate guarantees. JCPL had sold its automotive dealership business (under the erstwhile subsidiary, Jubilant Motorworks Private Limited or JMPL) to its promoters (Bhartia family-owned trusts) in March 2022. However, it continues to support JMPL with corporate guarantees, debentures as well as ICDs. The support is expected to grow, given the growth being witnessed by JMPL and the associated need for working capital limits. Moreover, expansion of the dealership network may require fund-based support. JMPL's financial profile remains characterised by modest margins and dependence on debt as is typical of the auto dealership business. ICRA draws comfort from JMPL's track record and healthy market position as an established dealer for Audi and MG Motors.

Of the loans and advances extended by JCPL to its Group companies (~Rs. 297 crore outstanding as on Aug 31, 2023), some portion has been deemed unrecoverable, as it pertains to advances provided to the energy venture of the Group, which has been discontinued. The company's ability to recover its loans from nonperforming entities and their associated impact on JCPL's credit and liquidity profile are rating monitorables. However, ICRA takes comfort from the fact that there are no plans for significant additional investments in Group entities, either through incremental equity or loans and advances, and JCPL is expected to deploy only its available cash flow surpluses, as and when required. 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.

¹ Including debt guaranteed for group entity, Jubilant Motorworks Private Limited (JMPL)

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 its cash flow generation and credit metrics to improve over the near term, supported by improvement in profitability of its food processing operations as well as normalisation of its working capital cycle for JMPL, going forward.

Key rating drivers and their description

Credit strengths

Strong financial flexibility as the holding company of JFWL – JCPL acts as the investment holding company of JBG in JFWL, holding 41.94% stake (market value of Rs. 14,757 crore, as on November 23, 2023, for unencumbered stake of 41.61%). JFWL is a leading player in the organised QSR segment in India and operates a chain of 1,888 Domino's Pizza outlets pan India. It has demonstrated steady profitable growth over the years, driven by its increasing store network; albeit with some moderation in margins in FY2023 and H1 FY2024, owing to higher operating costs and demand pressures faced by the industry. ICRA also notes that JFWL is in the process of acquiring the balance stake in its subsidiary, DP Eurasia, which has the Domino's franchisee in Turkey, Azerbaijan and Georgia. 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 (99%). The outstanding debt, including JMPL's, is modest in comparison to the value of the unencumbered stake in JFWL. JFWL paid out dividend of Rs. 79 crore in H1 FY2024 (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 to JMPL's bank borrowings – JCPL currently has only working capital debt (limits of Rs. 20 crore) associated with its standalone food processing operations. Its exposure to external debt is on account of JMPL's debt, which it has guaranteed and which is expected to increase in line with the scale of operations. Going forward, JCPL is expected to primarily use its cash flow surpluses to support its investee entities and, accordingly, incremental investments are expected to remain limited. The company has also offered a pledge of JFWL's shares (of 0.33%) to an investee entity to avail a loan against shares to fund its business requirements. ICRA would continue to monitor the support extended by JCPL to Group entities and the same would remain a key rating sensitivity.

Part of Jubilant Group, which has extensive experience in the food retailing business through JFWL; same 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. Moreover, JBG has interests across various industries including agrichemicals, pharmaceuticals, speciality chemicals, oil and gas consultancy and real estate. The Group entered the QSR business as a master franchisee of Domino's Pizza in India in 1996 and has an experience of more than 25 years in the segment. Accordingly, JCPL's operations in the food processing sector benefit from the Group's extensive experience in sourcing and supply chain. JCPL's food processing division includes processing of vegetables and meat, clocking in revenues of Rs. 75 crore in FY2023 from the same. With cost optimisation measures implemented, exit from some loss-making segments and ramping up of revenues, this business is expected to become profitable at the operational level in the near-term.

Mature business and financial profile of key investee company, JFWL, provides revenue visibility via dividend income – JFWL enjoys a strong business risk profile, as the largest QSR player in India, with a pan India network of approximately 1,888 Domino's Pizza outlets and 21 Dunkin Donuts outlets, in addition to other outlets (as of September 30, 2023). Additionally, its financial risk profile is characterised by healthy profitability and return metrics and a comfortable liquidity profile. ICRA notes that JFWL is also in the process of acquiring the balance 51% stake in DP Eurasia, which may be partly debt-funded. DP Eurasia holds the Domino's franchisee in Turkey, Azerbaijan and Georgia. Barring FY2021, when there was no dividend pay-out by JFWL, JFWL has been consistent with dividend pay-outs to its investors in recent years, which augurs well for its principal holding company, JCPL.

Market position as a leading dealer for Audi and MG passenger vehicles in South and West India through entity, JMPL – The Group entered the auto dealership business in 2006 (under Jubilant Enpro Private Limited). Over the past decade, it has established a strong market position in the industry with exclusive dealerships for Audi and MG Motor in several southern and western Indian markets. The company's business profile is also augmented by its longstanding relationship with Audi. Moreover, the company has been witnessing healthy volume growth for both its key principals. The company has witnessed a healthy volume growth of ~52% and ~35% for Audi and MG, respectively, in FY2023 vis-à-vis FY2022, which is further continuing in the current fiscal. Consequently, JMPL contributes meaningful market shares for both the original equipment manufacturers (OEMs).

Credit challenges

Limited diversification of dividend income with one dividend-paying investee entity – JFWL has contributed to the entire dividend income of JCPL over the years and, 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 the recent years (apart from FY2021), provide comfort.

Weak cash flows and coverage indicators – JCPL's financial risk profile has historically remained weak, characterised by significant debt obligations relative to its cash flow generation. Current standalone debt levels are limited to working capital limits for the food processing business, wherein margin and cashflow improvement is expected. However, on a consolidated basis, with high debt levels in JMPL, coverage metrics are expected to be modest even as some improvement is expected for JMPL, going forward.

Significant quantum of non-recoverable loans and advances to Group companies with weak performance – In addition to the equity investments held by JCPL, the company has extended loans and advances to JBG companies over the years. As on August 31, 2023, the quantum of loans to related parties by JCPL amounted to ~Rs. 297 crore (~Rs. 390 crore as on March 31, 2023), of which ~Rs. 210 crore are advances to the energy ventures of the Group, i.e., JE Energy Ventures Private Limited. Since these operations have been discontinued, there is a possibility of them being written off. JCPL has written off the accrued interest income on these loans and advances (~Rs. 29.93 crore in FY2023). The company's ability to recover its loans from nonperforming entities and their associated impact on JCPL's credit and liquidity profile are rating monitorables.

Liquidity position: Adequate

Despite modest cash flow generation from operations, JCPL's standalone liquidity position remains adequate, characterised by liquid funds of Rs. 7-8 crore maintained in the normal course of operations and undrawn working capital lines of ~Rs. 6 crore (as on August 31, 2023). There is no repayment liability for term-debt nor any significant capex plans. The dealership business has adequate sanctioned inventory funding lines as well as CC limits, which have an above average utilisation. The company has been receiving enhancements in line with its growth requirements. The projected cash flow from operations and available working capital lines are expected to be adequate to meet the business requirements over the next 12-months. The company is also expected to raise term debt to part fund its capex requirements.

JCPL's liquidity profile is further supported by its healthy financial flexibility, aided by the high market value of its investments to total debt. This is further augmented by its reputed and resourceful promoters as well as its healthy relationships with financial institutions, as part of JBG. Nonetheless, such financial flexibility arising out of the market value of JCPL's listed investments also remains susceptible to volatility in stock prices. The company has a track record of monetising investments to support its cash flows, whenever required, and ICRA expects this trend to continue.

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 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 significant deterioration in the credit profile and market value of key investee company, JFWL, on a sustained basis. Negative pressure could also arise in case of material incremental investments or loans and advances to Group companies with a weak performance and/or material increase in debt levels resulting in deterioration of its credit profile, on a sustained basis; or 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
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of JCPL standalone and JMPL (and its subsidiaries), given that the former has extended corporate guarantees for the 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 Food Works 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 segment, under the standalone entity. Herein, it supplies fresh produce (cut and processed vegetables), customised food products (patties, sauces, gravies, etc) and has also recently commenced poultry meat processing operations.

In addition to its standalone operations, JCPL was earlier 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 Motor 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.

Following the restructuring exercise in the Group 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 JFWL, which acts as the master franchisee for Domino's Pizza and Dunkin Donuts in India, and also has franchisee rights for Popeye's brand in India and neighbouring countries. JFWL is listed on the BSE and NSE and operates a network of 1,888 Domino's Pizza outlets, 21 Dunkin Donuts outlets, 22 Popeyes outlets and 18 outlets for its in-house F&B brands, Hong's Kitchen and Ekdam Biryani (as on September 30, 2023). Its FMCG offering under the ChefBoss brand has been discontinued.

Key financial indicators (audited)

JCPL Consolidated*	FY2022	FY2023
Operating income	1,185.6	1,667.2
PAT	-584.0	83.5
OPBDITA/OI	9.2%	6.2%
PAT/OI	-49.3%	5.0%
Total outside liabilities/Tangible net worth (times)	0.1	0.1
Total debt/OPBDITA (times)	4.1	5.3
Interest coverage (times)	2.3	2.1

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; All figures as per ICRA calculation

*Consolidated numbers of JCPL standalone and JMPL consolidated

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Dec 07, 2023	Sep 07, 2022	Oct 06, 2021*	Mar 08, 2021
1 Issuer Rating	Long-term	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A- (Stable)
2 Fund based working capital limits	Long-term	20.0	--	[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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	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 II: 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 its subsidiaries)	-	Full Consolidation
Jubilant Foodworks Limited	41.94%	Not consolidated

Source: company

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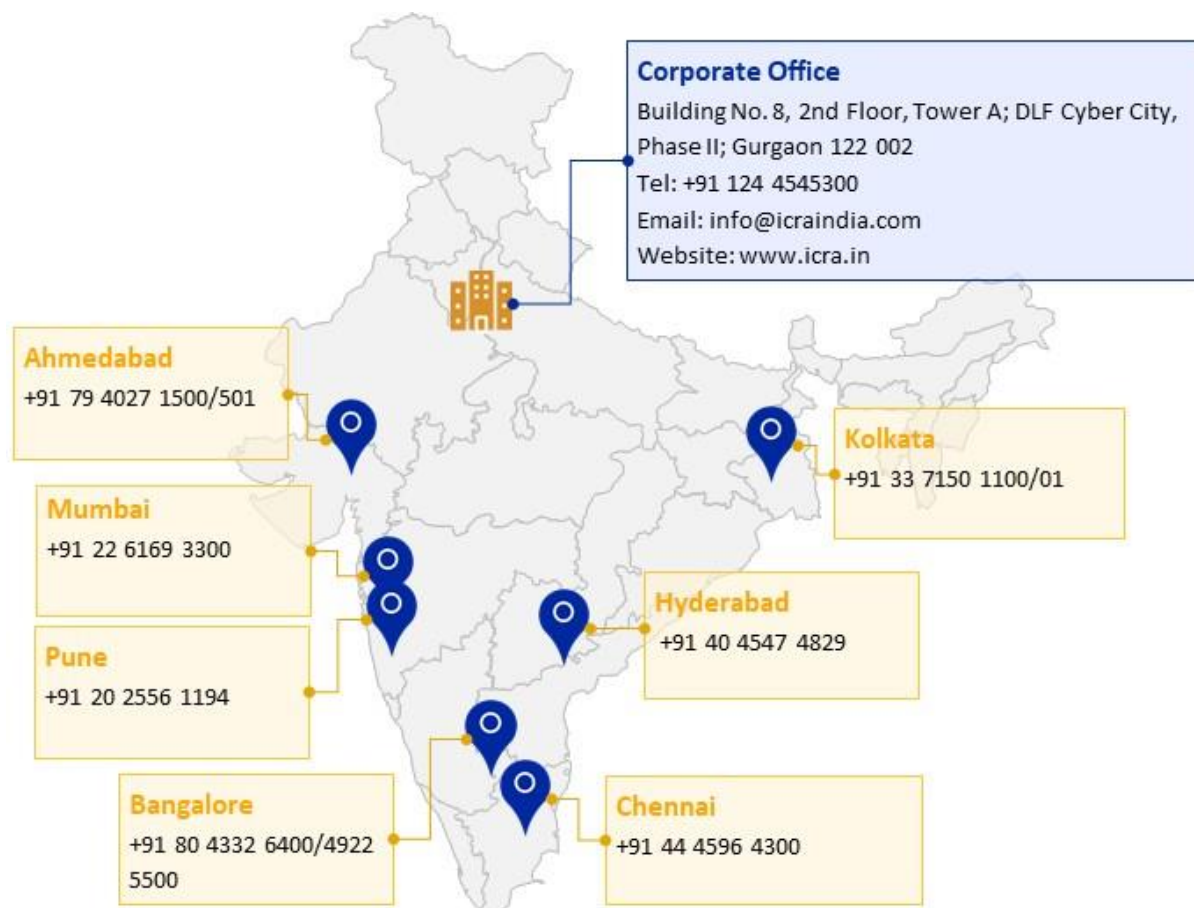


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