# Jumbo King

QSR | Company Update

Unlisted

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## Scalable business model post brand repositioning

### Key Points

- We recently hosted Mr. Dheeraj Gupta – Founder and MD of Jumboking (JK) to get an overview of the company's operations, being a franchisee operator and its future plans to scale up Jumboking.
- JK is Western India's largest chain of homegrown Quick Service Restaurants (QSR).
- Transitioned from selling vada pav in 2001 to selling burgers in 2017. Grown 8x in the past six years post repositioning.
- JK operates a network of ~170 stores as of FY24 (137 stores as of FY23-end) across Mumbai, Delhi, Hyderabad and Bengaluru.

### The Brand Story

- In 2001, JK started operations as a vada pav selling brand. After facing obstacles along the way in its attempt to scale the brand (as customers weren't willing to pay upwards of Rs20 for a vada pav), the promoter deemed it fit to reposition into burgers in 2017.
- The reposition required the brand to use garlic mayo (vs garlic sauce), bread crumb coating (vs besan coating) and sesame seeds for an incremental cost of 30 paise per burger.
- JK has had good growth trajectory ever since 2017, growing 8x in the past six years.
- JK operates on-the-go stores with an average wait time of two mins/customer.
- The brand has 8 SKUs (of all vegetarian burgers) in total with a policy of menu refreshment (+/- 2 burgers) every year.
- The company is not inclined towards adding to the SKUs as they believe the current number of SKUs is ideal.
- They are also not keen on introducing non-vegetarian options as being all vegetarian is the brand's USP.
- JK sources frozen patties from Vista Foods, sauces from Cremica and buns from Bakebest Foods. Distribution partner for the brand is Radhakrishna Foodland.
- 60% of sales is from premium burgers (>Rs60).
- 7% average SSSG clocked in the past 10 years.
- With 1.5mn subscribers enrolled in the JK loyalty program, the same has a redemption rate of ~26% - the highest in the QSR industry.



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## Franchise Terms

- JK operates ~170 stores with strong agreements with 96 franchisees (of which ~26 franchisees run 55 stores).
- The brand charges a franchisee fee of 10% on net sales (6% royalty & 4% marketing).
- Lease & license agreement is negotiated by JK with landlords for five years and not by the franchisee. Leases are in the name of franchisee.
- The franchisee clocks ~20% ROI after paying franchisee cost of 10%.
- JK has a 5-year mandatory renewal policy for a franchise fee. The franchisee re-furbishes his store every five years. Every renovated store has the potential to increase sales by ~20%.
- If the franchisee agreement is terminated, the franchisee will exit the property. The company has the right but not a compulsion to appoint a new franchisee at that location.
- JK gets ~500 franchisee-related enquiries a month.
- JK runs Franchise Accelerator Program (FAP) for the most committed franchisees. Their core philosophy is they need owner-operator franchisees. The brand gives second franchisee only to people actively engaged in the business.

## Store level metrics

- JK operates on-the-go stores with a store size of ~150-200 sq. ft.
- Initial investment for setting up an on-the-go store is ~Rs3mn (vs Rs20-50mn for the international burger brands).
- Lower capex and lower opex requirements as each store employs only four staff.
- Each store clocks Rs0.8-1mn sales per month on average.
- 50% gross margins at the store level.
- Dine-in AOV is Rs110. The brand defines AOV as total sales divided by the number of buns and not the per bill value.
- Higher AOV for Delivery as prices are 1.5x for the same product.
- All stores are audited once a month with a penalty charge of Rs10,000 if the store fails to comply with the requirements.
- Annual rent escalation clause is 3-5%.

## Growth & Expansion Plans

- JK operates a network of ~170 stores as of FY24 (137 stores as of FY23-end) across Mumbai, Delhi, Hyderabad and Bengaluru.
- Mumbai has the highest store count at ~120 (~71% salience) followed by Delhi at ~36.
- Average sales per store are the highest in Delhi as there is no pre conceived notion of pricing with respect to vada pav in that city.
- The brand plans to consolidate its position before venturing into other geographies and foresees a potential of ~500 stores in the aforementioned four cities.
- With ~10% store closures every year, JK aims to reduce it to ~5%.
- With FY23 sales at ~Rs1.1bn, the brand aims to double revenue every two years. This translates into ~42% CAGR, which the company aims to achieve through ~7% SSSG and ~35% new store openings.

### Other points

- Operating environment in 1QFY25 was muted for JK as well.
- The management believes that the current downturn is possibly a time for consolidation and expansion as smaller players vacate.
- Delivery saliency is ~15% of sales and the management intends to keep it at similar levels.
- Shareholding pattern: Promoter - 56%, Lucky Investments - 17%, Balance with HNIs etc.

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