

IPO Note

Sector – Food Service

Company Background

Jubilant FoodWorks was incorporated in 1995 under the name of Domino's Pizza India Private Ltd and later renamed Jubilant FoodWorks in 2009. It is a food-service company, currently operating Domino's pizza stores in India and Sri Lanka. It opened its first Domino's pizza store in January 1996. As of November 30, 2009, Jubilant operated 286 stores in India located in 22 states and union territories, including 59 cities across the country and through a sub-franchisee, DP Lanka Private Limited, five stores in Sri Lanka. On average, 1.81 million pizzas, including add-ons were sold each month throughout its pizza stores in India in FY09 and for the six months period ended September 30, 2009, 2.46 million pizzas (including add-ons) were sold each month.

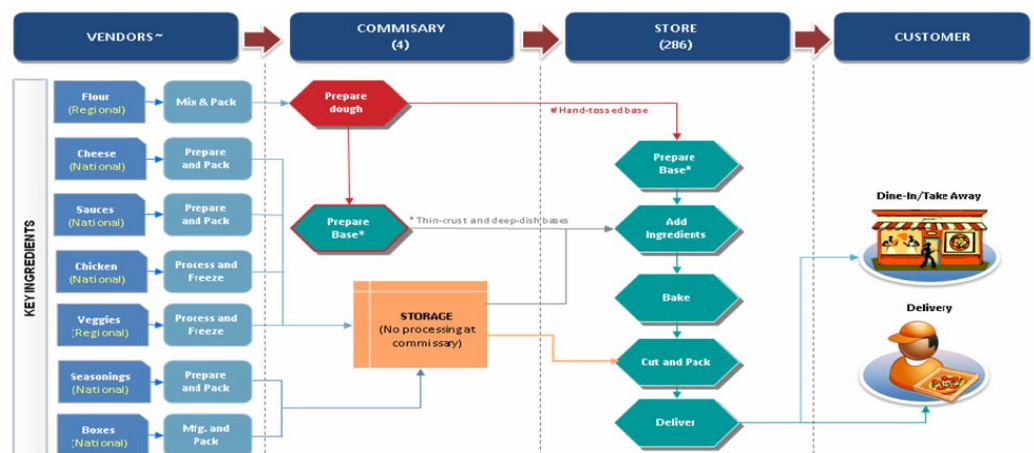
According to the India Retail Report, 2009, it was the largest pizza chain in India and one of the fastest growing multi-national fast food chains between 2006-2007 and 2008-2009, in terms of number of stores. The Food Franchising Report 2009 published by CIFTI, FICCI, has estimated that it was one of the largest and fastest growing international food brands in South Asia and the market leader in the organized pizza home delivery segment in India with over 65% market share. Jubilant operates through four regional supply chain centers located in Noida (Delhi NCR), Mumbai, Bangalore and Kolkata.

Key Highlights

Jubilant opened 60 stores in FY09 of which 44 stores were opened in existing cities. It plans to open between 65 and 70 stores in FY2010, of which it had opened 31 stores as of November 30, 2009 in the existing cities. It intends to leverage its market position and experience in the food services industry to launch new international food services brands in India. Some key business highlights of the company are depicted as follows:

Exclusive franchisee of a globally successful brand

Jubilant operates its pizza delivery stores pursuant to a Master Franchise Agreement with Domino's International, which provides it with the exclusive right to develop and operate Domino's pizza stores and the associated trademarks in the operation of pizza stores in India, Nepal, Bangladesh and Sri Lanka. This provides the ability to use Dominos' globally recognised brand name, as well as operational support for pizza and food technology, commissary & logistics management support, global marketing and vendor development know-how (Source: Company RHP).



Issue Opens	18-Jan-10	
Issue Closes	20-Jan-10	
Equity Shares Offered (In Mn)	22.67	
Face Value (INR)	10.00	
Price Band (INR)	135.00-145.00	
Issue Size (In INR Mn)	3,060.51-3,287.21	
Minimum Application Lot	NA	
Issue Type	Book Building	
Listing	BSE & NSE	
IPO Grading	Fitch - 3	
Fundamentals	Average	
BRLMs	Kotal Mahindra Cap	
Registrar	Link Intime	
Shareholders		
	Pre Issue (%)	Post Issue (%)
Promoters	66.24	62.07
Others	33.76	37.93
Issue Structure		
	(In Shares Mn)	
Issue Size	22.67	
Fresh Issue	4.00	
Offer for Sale	18.67	
Employee Reservation (upto)	2.27	
Net Issue	20.40	
Face Value	10.00	
Break up of Net Issue		
QIBs (upto)	10.20	
Non-Institutional Bidders (Minimum)	3.06	
Retail Individual Bidders (upto)	7.14	
Lower Price Band	135.00	
Upper Price Band	145.00	
Diluted EPS 2010 (annualized)*	4.16	
P/E Lower PB	32.45	
P/E Upper PB	34.86	

* Annualized 1H 2010 EPS of INR2.08
 Note: Based on FY09 Diluted EPS, P/E multiple is 116x at the lower price band and 125x at the upper price band

Robust supply chain

Jubilant operates through four regional supply chain centers, or commissaries, located in Noida (Delhi NCR), Mumbai, Bangalore and Kolkata. These commissaries primarily manufacture “dough” (base of the pizza) and act as warehouse for most of other ingredients. The centralized sourcing, warehousing and distribution of raw materials reduces the storage space required at its stores, enabling it to minimize its store operating costs, without incurring significant additional expenses at the commissary level (Source: Company RHP).

For most of its key ingredients, it follows a multi-vendor policy to minimize reliance on any single vendor and has entered into annual agreements with certain key vendors to ensure steady supply of ingredients.

Consumer focused and innovative marketing

Over the years, Jubilant has focused on developing a marketing strategy that seeks to leverage on the strength of the Domino’s brand to establish a distinctive image in the minds of customers. Its marketing strategy is focused on understanding customers continuously changing tastes and preferences. National advertising campaigns, which include “Hungry Kya?”, “30 minutes or free” and “Khusiyon Ki Home Delivery” (Happiness Delivered Home) campaigns based on these consumer insights, have contributed significantly to its robust business growth (Source: Company RHP).

Effective site selection and project management

One of the important factors of Jubilant’s continued growth has been its ability to open and operate most of new stores profitably. It conducts return-on-investment analysis based on projected sales and profitability to determine the financial feasibility of the store (Source: Company RHP).

Objectives of the Issue

The Offer comprises a fresh issue and an Offer for sale by the selling shareholders. Jubilant will not receive any proceeds of the Offer for sale by the selling shareholders. It wants to raise funds for the following purposes through the current Initial Public Offering (IPO):

- Repayment of Loans
- General Corporate Purposes

While it intends to utilize the funds for repayment of loans, any surplus funds can be utilized towards general corporate purposes including meeting future growth requirements.

Key Risks

Termination of agreement with Hindustan Coca-Cola Beverages could impact business adversely

Jubilant has entered into an agreement with Hindustan Coca-Cola Beverage Private Limited (“HCCBPL”) under which it has agreed to purchase and HCCBPL has agreed to provide beverages at its stores during the term of the agreement ending June 30, 2011, which is renewable for a further period of two years. Any termination of this agreement with Coca-

Cola prior to its term would lead to incurrence of higher cost in relation to beverages sold, impacting financial position adversely.

Negative cash flows in the last five years

For the six months period ended September 30, 2009 and FY 2009, 2008, 2007, 2006 and 2005, Jubilant incurred negative cash flow from investing activities of INR309.64 million, INR542.25 million, INR432.34 million, INR229.23 million, INR111.02 million and INR33.98 million, respectively. Additionally, for the six months period ended September 30, 2009 and FY 2006 & 2005, it incurred negative cash flow from financing activities of INR44.23 million, INR16.56 million and INR26.21 million, respectively. However, its cash flows from operating activities were positive for the respective periods. These negative cash flows were on account of purchase of fixed assets and inter-corporate & fixed deposits with scheduled banks.

Significant competition

Jubilant competes in India against other national and international pizza chains, such as Pizza Hut, Papa John's, Smokin Joe's and Pizza Corner. It also competes on a broader scale with casual dining and other international, national, regional and local food service businesses. Due to increased competition, the company could experience downward pressure on prices, lower demand for products, reduced margins, inability to take advantage of new business opportunities and a loss of market share, all of which would have an adverse impact on its business and results of operations.

Competitive Landscape

Jubilant (Domino's) will be the only listed player in India in this segment, post the IPO. There are many other players like Pizza Hut, Smokin Joe's, Papa John's operating in India but none of them are listed. In the US, however, Domino's, Pizza Inn, Papa John's are listed.

Valuation

At the upper price band of INR145.00, Jubilant is priced at 34.8x times of its FY2010 Diluted annualized Earnings per Share (EPS) of INR4.16. However, based on FY09 Diluted EPS, it is at a P/E of 125x at the upper price band. Other global players like Domino's, Papa John's and McDonald's are quoting at FY 2010E P/E of roughly 12-14x and at a 3-year average P/E of 13-18x.

Investors might subscribe to the issue for listing gains but the company's valuation appears to be expensive when compared to other players in this segment.

Industry Outlook

The size of the Indian food industry, which was around US\$200 billion in the year 2006-07, is estimated to reach US\$ 300 billion by 2015. (Source: Technopak Report 2009). The food service industry has two distinct sectors – the organized segment and the unorganized segment, each with its own unique operational characteristics. Dhabas and roadside eateries comprising street stalls are the most common forms of restaurants and have traditionally addressed eating out requirements of Indians. Such outlets which lack technical and accounting standardization form a part of the unorganised segment.

According to the Food Franchising Report 2009, the food services industry in India was estimated to be worth INR580,000 million in 2008, out of which INR80,000 million, or 7.24%, was accounted for by the organised sector. According to the report, the consumer food services value sales grew by 20% in 2008 over 2007.

The Quick Service Restaurant (QSR) industry can be distinguished by the following characteristics:

- High speed of service and efficiency
- Convenience
- Limited menu choice and service
- Value prices

Retail outlets have gained in popularity by virtue of their being seen by consumer food service players at high-footfall locations. On the other hand travel locations such as airports and railway stations have gained prominence as these provide the best means of following the increasingly mobile consumer. The QSR segment seeks to meet consumers' desire for a convenient, reasonably priced restaurant experience. In addition, the consumers' need for meals prepared outside of the home, including take-out, has increased significantly over historical levels as a result of the increasing population, changing food habits and increasing urbanization.

Financials

Consolidated Income Statement						In INR Mn
Particulars	FY2005A	FY2006A	FY2007A	FY2008A	FY2009A	1H 2010
Income						
Products manufactured by company	766.74	1,029.41	1,484.10	2,263.40	3,017.72	1,960.48
Products traded in by company	38.96	56.71	69.79	96.93	121.34	87.50
Net Sales (post sales tax)	736.66	970.39	1,386.81	2,111.57	2,806.10	1,827.40
Other Income	0.86	1.64	0.63	1.78	1.66	0.61
Total Income	737.52	972.03	1,387.44	2,113.35	2,807.76	1,828.01
Expenditure						
Raw materials consumed	167.95	214.50	308.76	468.25	642.76	391.54
Cost of traded products sold	27.91	37.78	48.06	63.86	75.64	56.64
Staff Costs	124.67	162.43	255.72	425.07	555.67	344.00
Manufacturing and other expenses	335.36	439.08	594.03	886.53	1,180.65	740.52
Loss on fixed assets sold/discarded	8.92	4.87	7.73	6.84	5.92	0.31
Decrease/Increase in inventories	0.06	0.07	0.09	(0.73)	(0.15)	(0.25)
Diminution in value of long term investments	0.31	-	-	-	-	-
Total Expenditure	665.18	858.73	1,214.39	1,849.82	2,460.49	1,532.76
EBITDA	72.34	113.30	173.05	263.53	347.27	295.25
EBITDA Margins (%)	9.81%	11.66%	12.47%	12.47%	12.37%	16.15%
Depreciation / Amortization	57.70	65.1	79.54	121.12	172.90	107.52
EBIT	14.64	48.20	93.51	142.41	174.37	187.73
EBIT Margins (%)	1.99%	4.96%	6.74%	6.74%	6.21%	10.27%
Finance Charges	20.42	24.66	33.97	58.11	98.95	66.63
Net Profit before tax and Extraordinary items	(5.78)	23.54	59.54	84.30	75.42	121.10
Taxation	-	3.34	3.74	6.73	7.99	0.13
Net Profit before Extraordinary items	(5.78)	20.20	55.80	77.57	67.43	120.97
Extraordinary items	-	-	-	-	-	-
Net Profit after Extraordinary items	(5.78)	20.20	55.80	77.57	67.43	120.97
Net Profit Margins (%)	-0.78%	2.08%	4.02%	3.67%	2.40%	6.62%
EPS (Basic & Diluted)	(0.10)	0.35	0.96	1.33	1.16	2.08

Source: Company RHP, Microsec

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