Equity Research

December 1, 2011
BSE Sensex: 16123

INDIA

Jubilant Foodworks

BUY

Mid-cap

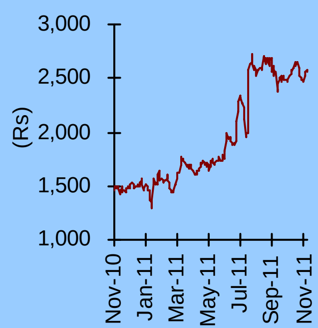
Target price Rs945

Shareholding pattern

(%)	Mar '11	Jun '11	Sep '11
Promoters	60.2	58.9	58.0
Institutional investors	32.3	35.2	37.1
MFs and UTI	7.7	1.8	1.3
Banks/Ins. Co.	0	0	0
FIIs	24.6	33.4	35.8
Others	7.5	5.9	4.9

Source: NSE

Price chart



Domino effect

Rs772

Reason for report: Initiating coverage

"Actually I am an overnight success. But it took 20 years" – ***Monty Hall***

We initiate coverage on Jubilant Foodworks (JFL), Domino's Pizza International's one of the fastest growing franchise and India's largest pizza chain with 65% market share, with BUY rating and target price of Rs945 (average of DCF based valuation and 30x FY14 P/E), implying 22% upside from the current levels. The company is well positioned to gain from rapid growth in urbanisation, rising middle class and changing lifestyle trends with respect to eating out habits. The company has added around 400 stores over the last 15 years since inception and we see a potential demand for 4x stores over the next 10 years. We expect the company increasing its store roll-out from ~75 stores per year to 100 stores per year over the next five years. Launch of Dunkin' Donuts and Domino's in the sub-continent add to visibility of growth over the longer term. We value JFL at Rs945, as we expect the earnings to grow ~5x over FY11-16E. The key risks to our call are: 1) delay in execution, 2) increased competition from organised players and 3) change in relationship with Domino's Pizza International, the parent company.

- **Domino's India stores to grow 4x in the next 10 years,** as the company enters a phase of acceleration with the brand gaining acceptance, with capacities in place and with back-end capable of delivering 80+ store roll-outs. India has witnessed similar acceleration in consumer plays like DTH, telecom and airlines with better acceptability and affordability.
- **JFL's profits to grow 5x over FY11-16E** on the back of 36% CAGR in sales growth driven by 14% CAGR in same store sales and increase in stores by 2.4x during the period. With RoC of ~50%, the company is well funded for growth and we expect it to announce dividends to its shareholders by FY14E.
- **JFL is a defensive play in an uncertain environment** and we recommend investing at the current levels with a target price of Rs945, a bull case value of Rs1,406 and a bear case value of Rs631. Rising food inflation and weak economic conditions in India continue to be the near-term risks.

Market Cap	Rs50bn/US$962mn
Reuters/Bloomberg	JUBI.BO/JUBI IN
Shares Outstanding (mn)	65.0
52-week Range (Rs)	1,008/471
Free Float (%)	42.0
FII (%)	35.8
Daily Volume (US$/'000)	27,149
Absolute Return 3m (%)	(23.2)
Absolute Return 12m (%)	24.5
Sensex Return 3m (%)	(4.2)
Sensex Return 12m (%)	(18.8)

Year to March	FY11	FY12E	FY13E	FY14E
Revenue (Rs mn)	6,781	10,102	14,257	19,233
Rec. Net Income (Rs mn)	720	1,010	1,471	2,008
EPS (Rs)	11.2	15.6	22.8	31.1
% Chg YoY	112.4	40.2	45.7	36.5
P/E (x)	69.0	49.2	33.8	24.7
CEPS (Rs)	15.7	22.0	31.1	41.8
EV/E (x)	37.1	24.4	17.0	12.5
Dividend Yield (%)	-	-	0.6	1.2
RoCE (%)	45.9	52.8	58.6	53.6
RoE (%)	46.6	51.9	57.9	53.1

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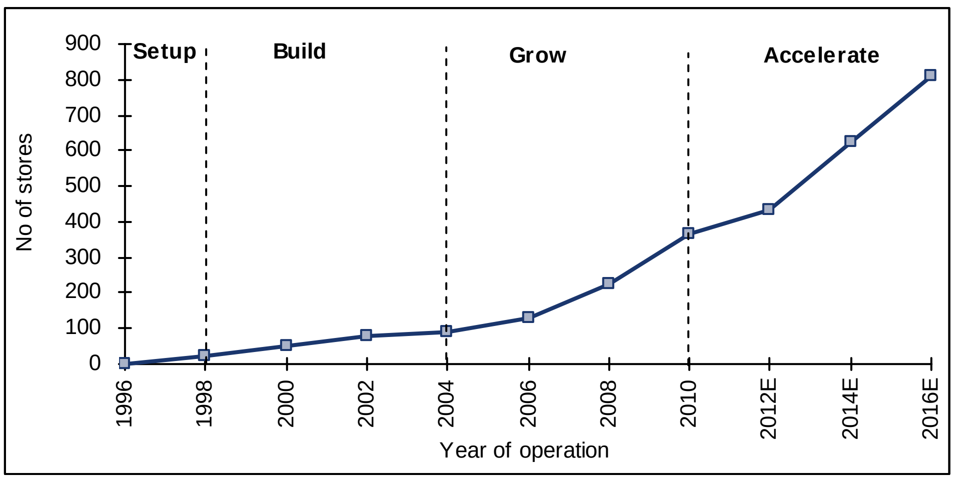
Investment argument summary

We initiate coverage on JFL, Domino's Pizza International's one of the fastest growing franchise and India's largest pizza chain with 65% market share, with BUY rating and target price of Rs945 (average of DCF based valuation and 30x FY14 P/E), implying 22% upside from the current levels. The company is well positioned to gain from rapid growth in urbanisation, rising middle class and changing lifestyle trends with respect to eating out habits. The company has added over 400 stores over the last 15 years since inception and we see a potential demand for 4x stores over the next 10 years. We expect the company increasing its store roll-out from ~75 stores per year to ~100 stores per year over the next five years. Launch of Dunkin' Donuts and Domino's in the sub-continent adds to visibility of growth over longer term. We value JFL at Rs945 as we expect the earnings to grow ~5x over FY11-16E. The key risks to our call are: 1) delay in execution, 2) increased competition from organised players and 3) change in relationship with Domino's Pizza International, the parent company.

From growth to acceleration

We expect JFL's store roll-out to reach acceleration phase similar to one witnessed by KFC in China or Chipotle in USA, as JFL's products are widely accepted and its back-end fine tuned to drive growth. We see Domino's stores growing fourfold in India over the next 10 years. India has witnessed similar acceleration in consumer plays like DTH, telecom and airlines with better acceptability and affordability.

Chart 1: JFL to enter acceleration phase



Source: Company data, I-Sec research

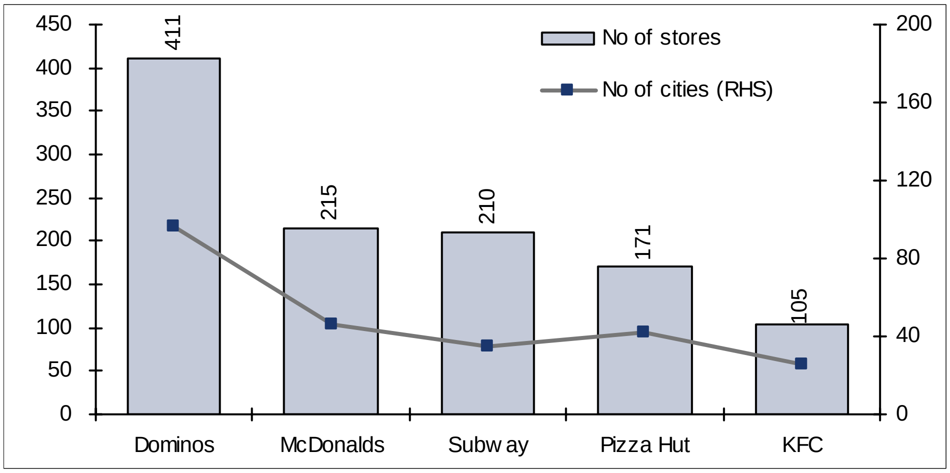
Strong underlying demographic trend

Young population in India with an average age of ~27 years and rising middle class, slated to add another 100mn households over the next 10 years, point towards strong consumption growth potential in the country. Rising urbanisation and increasing dual income household support the outlook for QSR (quick service restaurant). In Mumbai an average person eats out six times a year. Though the national average trails at 1.2 times a year, it is slated to rise over time.

Scalable business model – with delivery model, the killer app

Over the past 15 years in India JFL has been perfecting the art of building best-in-class processes and customising its products to Indian taste. Over years, the company has built competency to roll out around 70-80 stores per year driven by strong processes and management team. The company's focus on delivery and takeaway has been a huge success, giving it an edge over rivals who have failed to replicate this process. JFL stores outnumber McDonald's stores by almost 2:1 and that of Pizza Hut by about 2.5:1.

Chart 2: JFL demonstrating better execution than peers



Source: Company data, Food franchising report 2011

Profits to grow fivefold over FY11-16E

We expect JFL's profits to grow fivefold over FY11-16E on the back of sales growth at a CAGR of 36%. The SSS (same store sales) is expected to grow 14% and the number of stores 2.2x over the same period. However, we do not expect the margins to improve meaningfully due to rollout of Dunkin' Donuts brand and expansion outside India. With RoC of ~50%, the company is well funded for growth and we expect dividend payout to start by FY13.

Valuation – good things come at a price

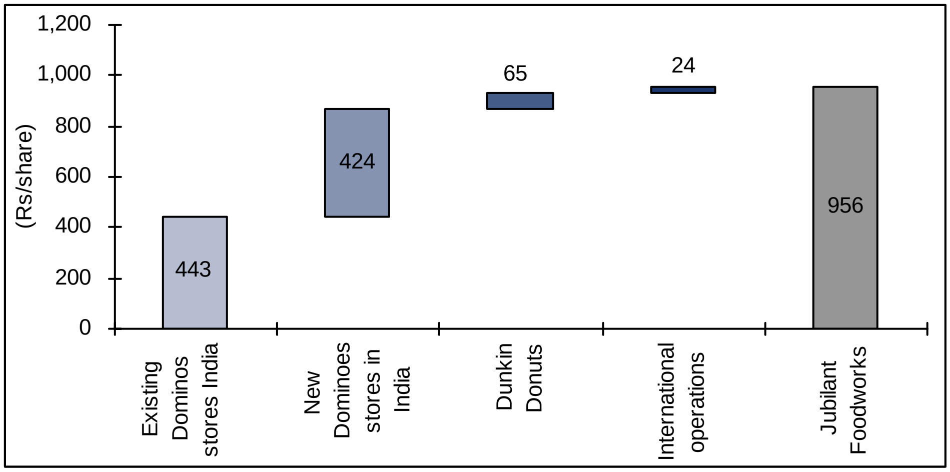
JFL currently trades at FY13 P/E of 33.9x and EV/EBITDA of 17.0x, at premium to global peers and Indian consumer peers. However, given the under penetrated nature of the Indian QSR market, which would lead to sustained period of high growth for JFL, the premium multiples are justified. Global peers in the food servicing space as well as Indian consumer plays have traded at high P/E multiples in early stages of growth. We ascribe a target price of Rs945 to JFL (average of DCF based valuation and 30x FY14 P/E), of which 46% value is for current stores, 44% is for roll-out of new stores in India and the remaining 10% is for expansion outside India and Dunkin' Donuts. Our scenario analysis suggest a bull case target price of Rs1,406 and a bear case target price of Rs631 based on sensitivity of store roll-outs and SSS growth.

Table 1: Value JFL using DCF at Rs956/share

5yr SSS Growth CAGR	Stores in FY16E: 771	904	1,027
12.4%	631	788	933
13.7%	761	956	1,142
15.1%	924	1,168	1,406

Source: I-Sec research

Chart 3: Domino's India accounts for ~90% of total value



Source: I-Sec research

Table 2: JFL's valuation in line with peers after adjusting for growth

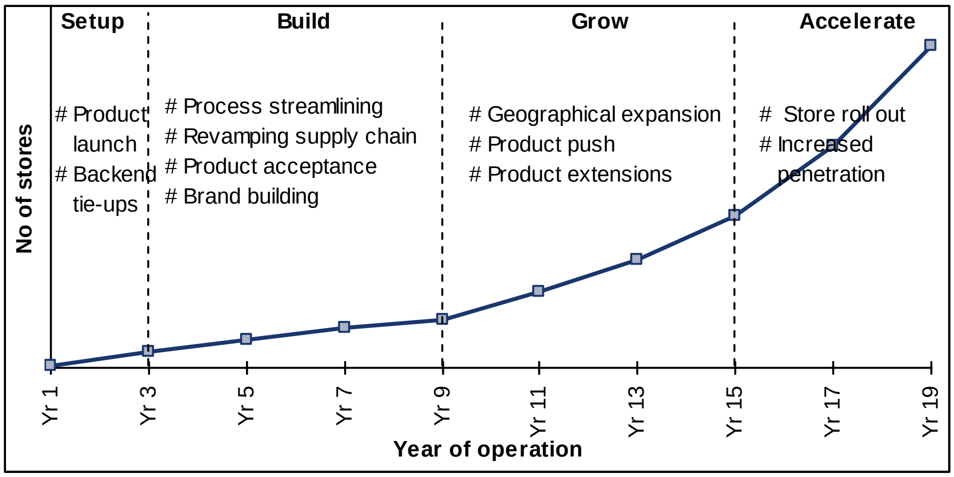
	Sales growth (%) FY11-13E	Price (Rs)	Market cap (Rs mn)	EV/Sales (x) FY11	EV/Sales (x) FY12E	EV/Sales (x) FY13E	Price/Earnings (x) FY11	Price/Earnings (x) FY12E	Price/Earnings (x) FY13E
Jubilant*	45	772	49,942	7.3	4.9	3.5	69.2	49.4	33.9
Bata	21	618	39,709	2.5	2.1	1.7	44.9	30.5	22.8
Titan	27	178	157,715	2.3	1.7	1.4	34.6	26.5	21.3
VIP	20	119	16,816	2.3	1.9	1.6	17.8	15.6	11.2
Page*	35	2,515	28,056	5.8	4.1	3.2	47.9	29.5	23.0

* I-Sec estimates;
Source: I-Sec research, Bloomberg as of November 30, '11; for Bata FY11 indicates year ending December '10 (similar for FY12 and FY13)

JFL – in acceleration mode

To be successful, food service joint requires investing considerable time in establishing a product, stabilising the processes and increasing its reach. Having invested 15 years in getting the success formula right, JFL seems to be at inflection point. Based on our company life scale model for a products company, we see JFL now in the acceleration phase which is characterised by high store roll out and increasing penetration in core markets.

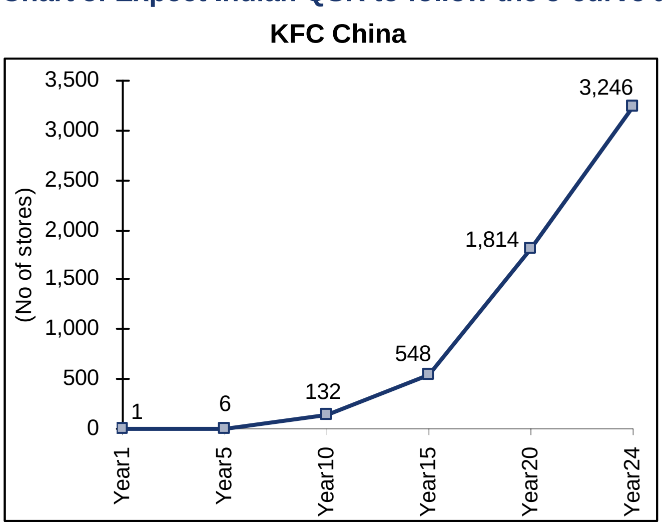
Chart 4: Typical food service joint growth model

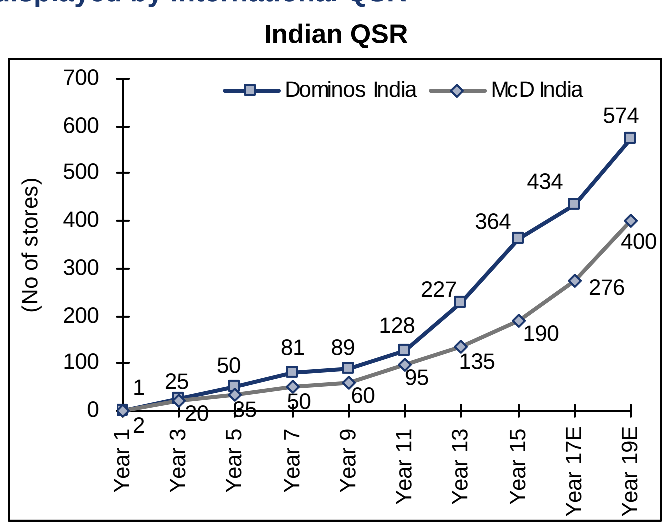


Source: I-Sec research

Globally, food service joints have witnessed similar growth trajectory with store addition accelerating with product gaining acceptance and processes stabilising. To illustrate, it took KFC 15 years to set up its first 548 stores in China, but it took the company merely nine more years to grow the store count sixfold to 3,246 stores. Chipotle, a Mexican fast food joint, after initial period of toil witnessed a somewhat similar growth trajectory.

Chart 5: Expect Indian QSR to follow the J-curve as displayed by international QSR

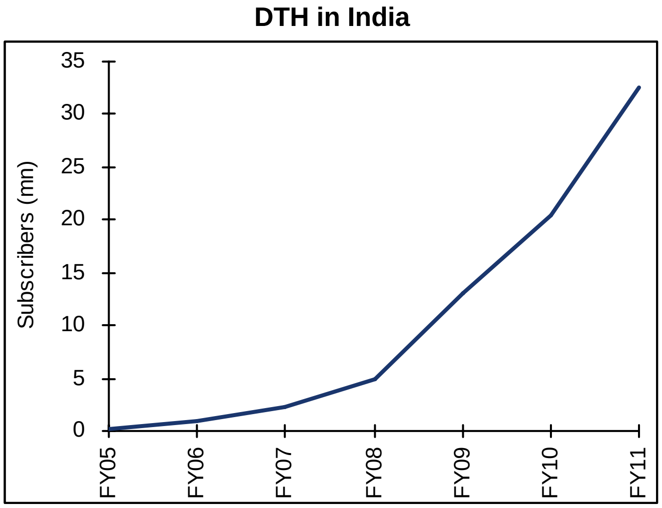


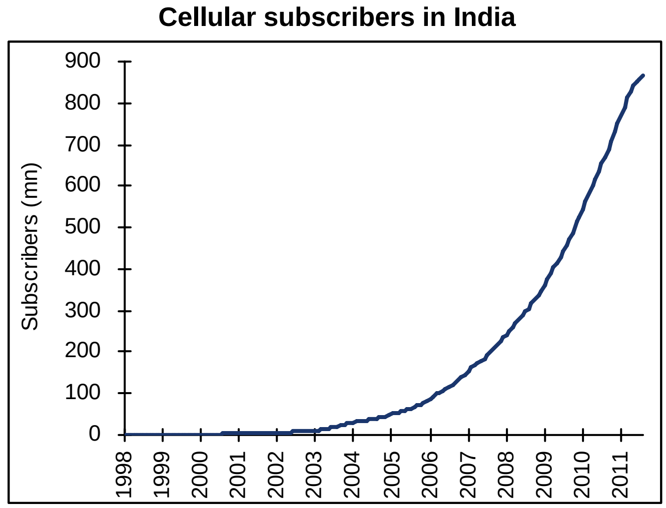


*McDonald's India store count projections as per management expectations
Source: Company data, I-Sec research

Inflection point has indeed been a reality for many consumer driven industries in India as well: telecom, DTH and airlines in India witnessed exponential growth after fraught initial years. Indian telecom industry took almost ten years (1998-2007) to add the first 200mn subscribers, whereas the next 100mn were added in merely 12 months and the next 300mn in only 20 months, with growth trajectory in India outpacing that in China. Given the current scenario, we believe Domino's in India (JFL) holds the potential to replicate the success of KFC China or Chipotle.

Chart 6: Consumer driven industries in India have experienced exponential growth





Source: TRAI, Industry, I-Sec research

India highly under "stored" – 4x store potential in 10 years

In India, Domino's (JFL) has 411 stores spread across 96 cities. However, according to Domino's Pizza International's reckoning, the current potential comes in at 750 stores. Though India is massively under stored with respect to QSR outlets per million, rising urbanisation and affluence levels are expected to push up the country's store potential. Extrapolating the figure of Domino's store penetration in top 10 cities leaves us with a potential of 734 stores in top 100 cities and another 74 stores in other urban areas. Our store potential model assumes one store per 150k persons (i.e. average Domino's store penetration in Bengaluru and Pune) in top 10 cities and one store per 280k persons (i.e. average Domino's store penetration in top 8 cities) in the remaining 100 cities.

Density of population is a critical factor in determining store potential. Hence, we believe, Domino's would not witness much growth beyond top 100 cities. Over the last two years, for Domino's, the growth has been equally spread between top 10 cities and remaining cities. However, high density and high disposable income would keep the store count in favour of key urban towns. Metros have seen major growth in store count driven by splitting of stores.

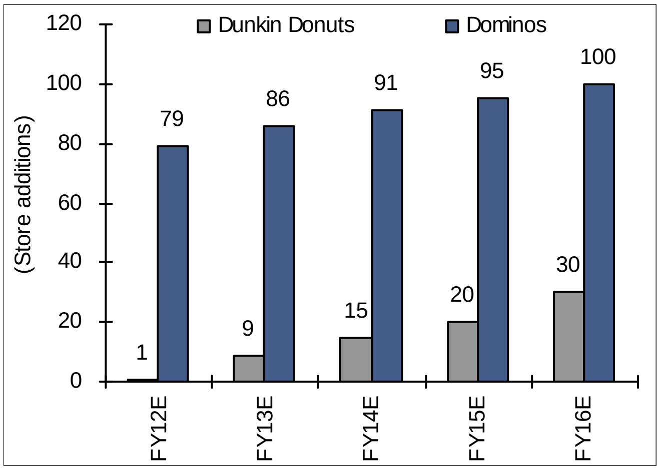
Table 3: Same store potential model… substantial room for growth in top 10 cities

(mn)

	2011E	2012E	2013E	2014E	2015E	2016E
Urban population forecasts	224	230	236	242	248	254
Share of urban population in top 10 cities (%)	29	29	29	29	29	29
Share of urban population in top 100 cities (%)	67	67	67	67	67	67
Urban population in top 10 cities	64	66	67	69	71	72
Population per store top 10 cities	0.15	0.14	0.14	0.13	0.12	0.12
Urban population in top 10-100 cities	86	88	91	93	95	98
Population per store top 10-100 cities	0.28	0.27	0.26	0.25	0.24	0.23
Remaining urban population	74	76	78	80	82	84
Population per store in remaining urban areas	1.00	0.96	0.92	0.88	0.85	0.82
Top 10 store potential	426	459	496	535	578	624
Top 10-100 cities store potential	308	329	351	375	401	428
Remaining cities store potential	74	79	84	90	96	103
Total store potential	**808**	**867**	**932**	**1,001**	**1,075**	**1,155**

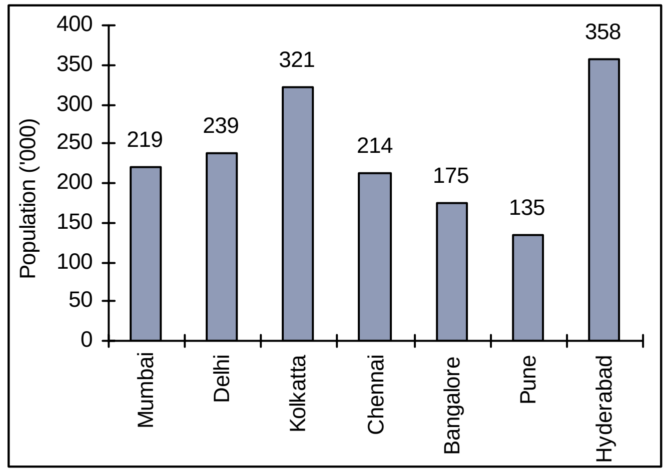
Source: Census 2011, I-Sec research

Chart 7: Domino's to account for ~80% of all store additions



Source: I-Sec research

Chart 8: Domino's store penetration in metros still lower than international cities



Source: Company data, Census 2011, I-Sec research

Table 4: Global store penetration shows India is highly under penetrated

(Population per store in '000)

	Market							
Brand	**APAC**	**China**	**Europe**	**India**	**Latam**	**Middle East**	**US/Canada**	**Avg penetration (excluding India)**
Burger King					279			279
Chipotle							294	294
Dominos	236		331	3,397	199		84	247
Dunkin' Donuts							47	47
KFC		390		11,775				390
McDonalds		1,050		5,750	318			410
Pizza Hut		1,962		7,230				1,962
Starbucks	517	2,733	814		369	174	30	598
Subway				35,324	300			300
Average penetration	415	1,534	572	12,695	306	174	95	461

Source: Company data, Bloomberg, I-Sec research

Tier II & III city model – business model to be in favour of dine-in

Dominos' current stores revenues are spilt in favour of home delivery/takeaway vis-à-vis dine-in option (55:45). However, business model in tier II and III cities is more about dine-in. Cheaper real estate and manpower cost in these cities help in maintaining the profits. We expect the current mix of 55:45 (home delivery/takeaway:dine-in) to continue, with store roll-out in top 10 cities accounting for 50% of all store roll-outs.

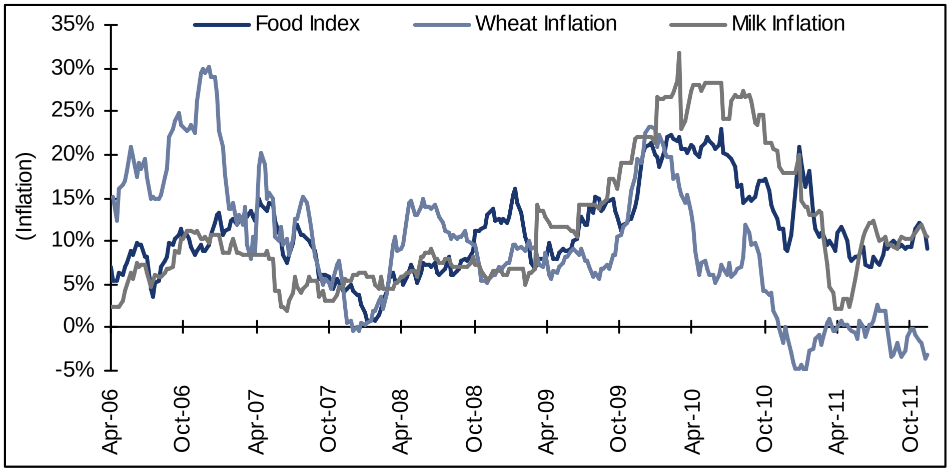
SSS growth – the key value driver

JFL's same store sales (SSS) grew at a CAGR of 21% over FY06-11. The SSS growth accelerated in FY10 and FY11 to 22% and 38% respectively after a dismal performance in FY09. We expect SSS growth of 22% in FY12 driven by 10-12% increase in yields with the remaining coming in from volumes. However, after the high growth phase in the next five years, we expect the SSS growth to trickle down to 6-8% in keeping with global peers (SSS at ~3%).

Drivers of SSS

Price hike at 5-6%: Over FY06-10, JFL has increased the prices of its product offerings by 5-6% on an annual basis, which is lower than the rate of food inflation. However, in 2011, the company hiked prices by ~12% in wake of surge in food inflation during the year. As a policy measure, JFL maintains raw material cost at 25-26% of sales and pass on savings of scale to customers. We expect the company to maintain pricing below food inflation to increase affordability, thereby increasing both customer frequency and customer base. And it has done a fair job in increasing affordability by launching Pizza Mania in 2009, which introduced pizza at low price point of Rs35.

Chart 9: High inflationary environment might force price hikes



Source: Central Statistics Office, MOSPI

New products to gain share of stomach: To address the needs of full family and gain a higher share of stomach, JFL has launched new pizza bases, side dishes and multiple desserts to woo non-pizza customers. In 2010, it introduced pasta and over time expanded the product line to multiple desserts like chocolate lava cake, butterscotch mousse and nutty chocolate lava cake.

Table 5: Product innovations to woo customers

Time of launch	Category	Product
Nov '09	Dessert	Choco lava cake
Nov '09	Pizza	Cheese burst pizza
Apr '10	Pizza	Wheat thin crust pizza
Aug '10	Side dish	Mexican wrap
Aug '10	Side dish	Pasta Italiano
Nov '10	Pizza	Double burst pizza
Aug '11	Dessert	Butterscotch mousse cake
Jun '11	Side dish	Chicken kicker
Nov '11	Pizza	3 cheese pizza
Nov '11	Dessert	Nutty choco lava

Source: Company data, I-Sec research

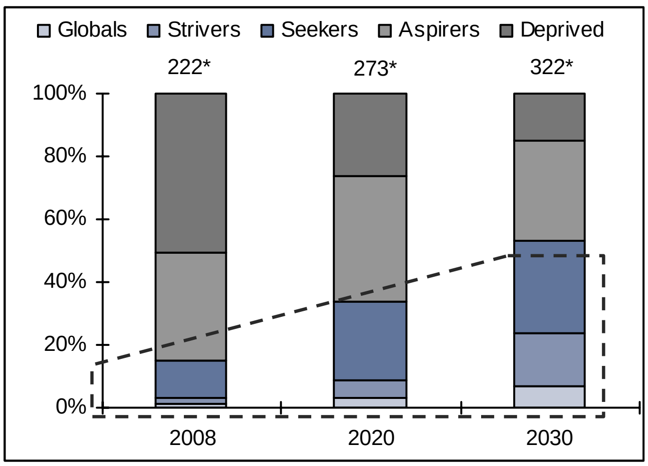
Increased store size: With a delivery-centric model, high growth in SSS has led the company tweak its strategy to increase store size. Expansion in tier II and tier III cities will be in stores with higher dine-in or seating capacity, as smaller cities have less busy lifestyle.

Strong underlying consumption trend

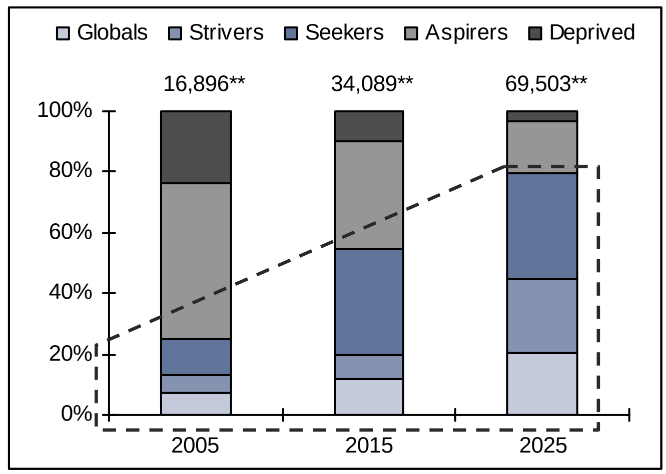
Indian economy has grown rapidly over the past two decades. As a result, consumer spending has risen with average per capita household income growing almost twofold over the period. As per Mckinsey, the trend is expected to continue in the coming two decades as well with the Indian middle class driving the growth. More than 100mn households (HHs) are expected to join the middle class in India by 2030, which would result in consumption growing at a CAGR of 14%.

Chart 10: India's demand growth to be driven by rising middle class

100mn+ HHs to join the middle class by 2030



Middle class consumption to increase 13x by 2025

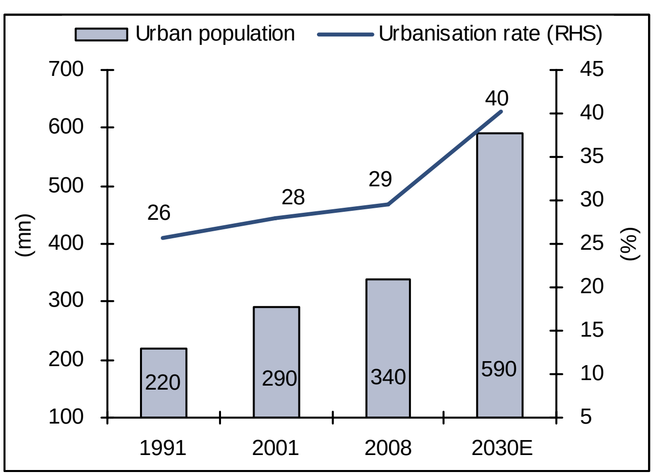


* Numbers represent total households; ** Numbers represent total household consumption
Source: Mckinsey Global Institute Analysis

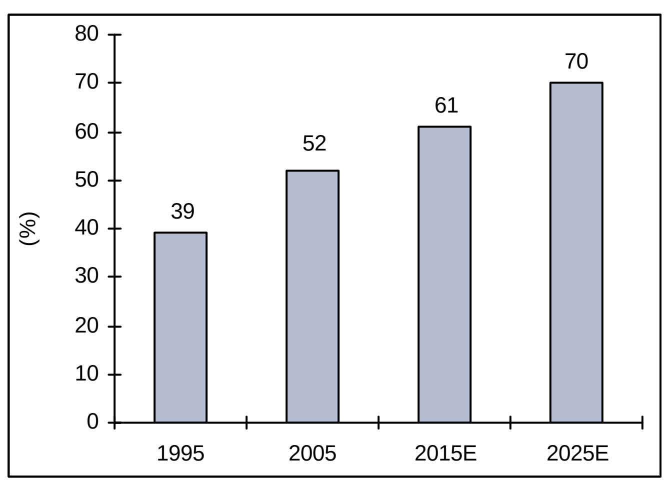
The food service industry in India would also get a boost from growth in urban population and higher discretionary spending. According to a McKinsey study, urban population at 590mn people would constitute 40% of India's population, up from 29% in 2008. Further, with rising income levels, the share of discretionary spending would rise to 70% by 2025 from 52% in 2005.

Chart 11: Rising urbanisation and higher discretionary spend to boost consumerism

40% Indians to live in urban areas by 2030



Share of discretionary spend to increase to 70%

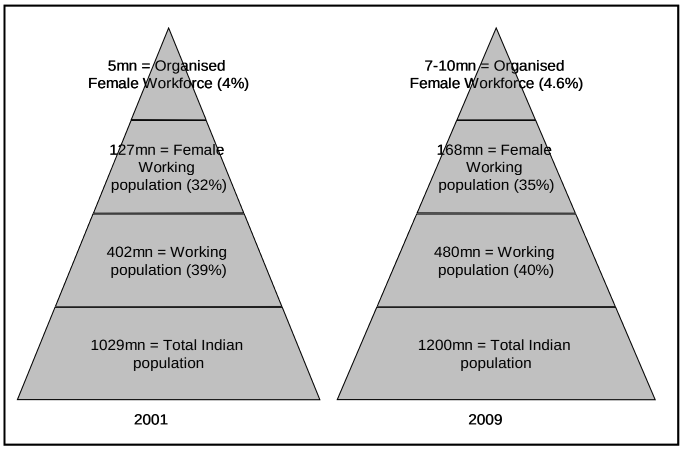


Source: Mckinsey Global Institute Analysis

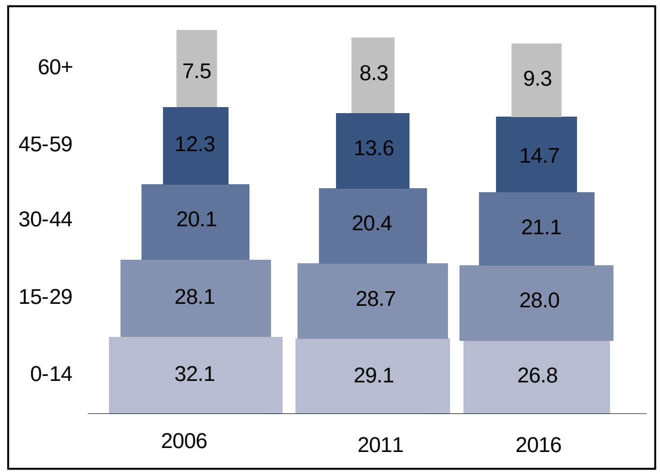
India's increasingly youthful demography and the accompanying change in lifestyles in favour of consumerism bodes well for the QSR industry. Around 76% of the population is projected to be below 45 years by 2016 and 65% of them will be in the age bracket of 15-45 years. Additionally, more and more women are joining the workforce. According to a study by Technopak, women accounted for 20-25% of the total organised workforce of 30-35mn people in 2009 and the number is set to grow in the future. Younger population and greater proportion of double income households spell higher demand for food service in India.

Chart 12: Changing demographics to favour food service industry

Women comprise 20-25% of total organised workforce



Favourable age profile to aid consumerism



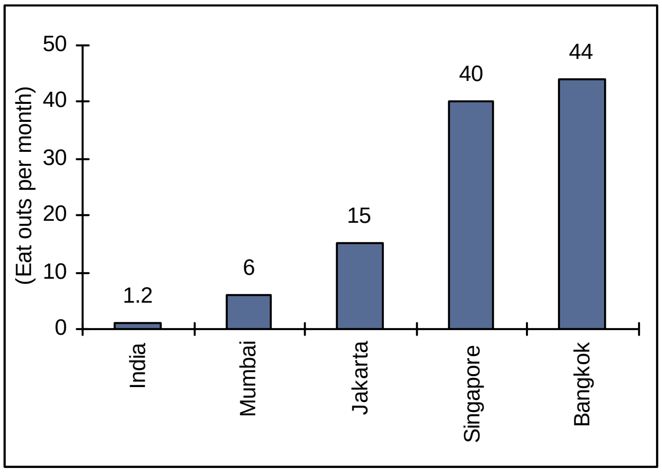
Source: Technopak, Mckinsey Global Institute Analysis

Evolving taste for quality food – QSR the preferred option

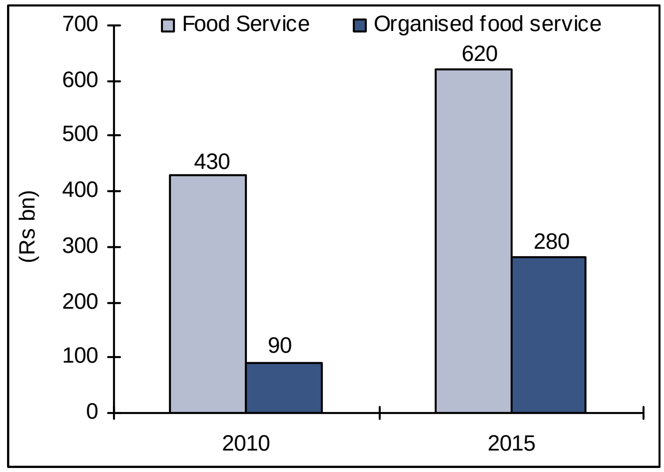
With numbers of nuclear families and double income households on rise, Indian households are eating out more frequently. In India, eating out is considered to be a recreational activity as opposed to necessity in other Asian and western countries. However, this trend is changing in urban areas with the availability of quality eating out options. The Indian food service industry, currently valued at Rs430bn, is highly unorganised with as many as 1.5mn eating outlets and organised food service constituting only 16-20% of the industry. With rising urbanisation and entry of international players, organised food service market is expected to grow at an exponential pace. According to a study by FICCI (Federation of Indian Chambers of Commerce and Industry) and Franchise India, the organised food service industry is slated to grow at a CAGR of 25% till 2015.

Chart 13: Underpenetrated Indian food service market offers growth potential

Indians eat out far less than Asian counterparts



Organised food service to grow at 25% CAGR

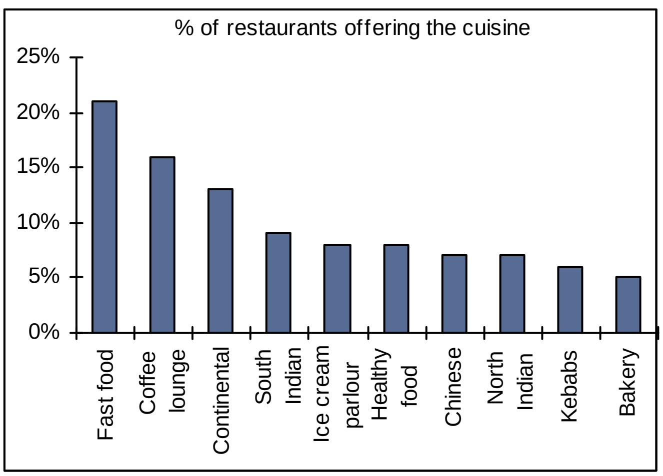


Source: FICCI, Food franchising report

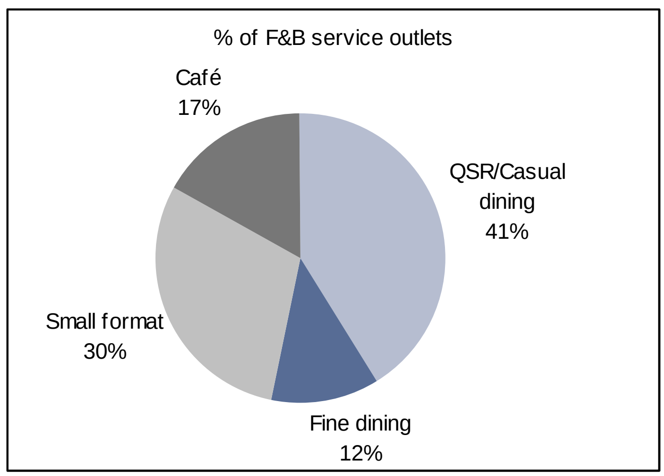
The QSR space, currently estimated at around Rs30bn, has witnessed robust growth over the past few years. According to a study by FICCI and Franchise India, 41% of food and beverage retail is QSR and casual dining restaurants. The segment is slated to grow at a CAGR of 30% over the next five years. Also, fast food is the most preferred cuisine offered by 21% of all restaurants and pizza is the largest category with 38% of all fast food restaurants serving it. This indicates that Indians are developing a palate for pizza.

Chart 14: Indians demonstrating inclination towards QSR

Fast food – the most preferred cuisine



QSR & casual dining slated to grow at 30% CAGR



Source: FICCI, Food franchising report

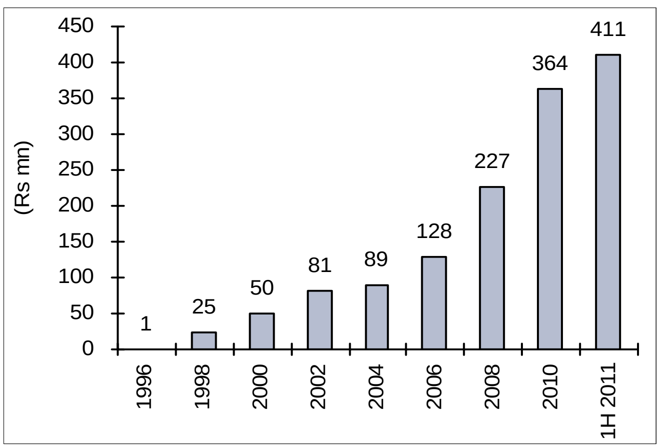
JFL – strong brand, stronger execution

JFL is the exclusive franchise of Domino's Pizza International in India. Over years, by investing in brand building, developing taste buds, consistent quality product, robust distribution network and strong supply chain, the company has established its dominance with a 65% market share. Domino's India has 411 stores and in the last two years it has added 131 stores.

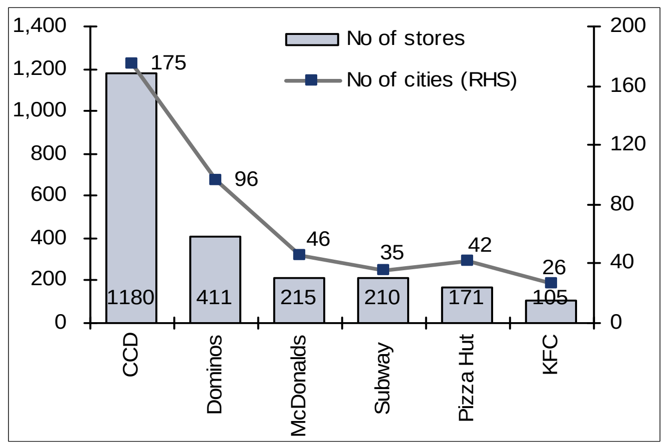
- **Domino's Pizza – replicating strong brand in India:** A globally known brand, Domino's Pizza is available at over 9,000 outlets across more than 60 countries. JFL has the exclusive right to use Domino's brand name in India and also gains from the parent company's 50 years' experience in the industry. JFL has been able to replicate the success of Domino's brand in India by aggressively investing in marketing and expanding the reach to 96 cities through its 411 stores. Domino's stores outnumber the closest rival pizza chain's outlets by 2.4:1 in India.

Chart 15: Domino's displaying strong execution capability

Domino's has ramped up its store additions



Domino's next only to CCD in terms of penetration



*CCD stands for Café Coffee Day; Source: Company data, Food franchising report, I-Sec research

- **Customised to Indian palate:** Domino's India has been able to customise Domino's Pizza International's menu to Indian taste buds by adding more vegetarian choices to accommodate large Indian vegetarian population. The company has also been successful in cultivating taste for pizza and bringing it within the reach of Indian consumer with price of pizza as low as Rs39. The Indian entity spends around 4% of its revenue on advertising and marketing.

Chart 16: Domino's customising its offerings at affordable prices

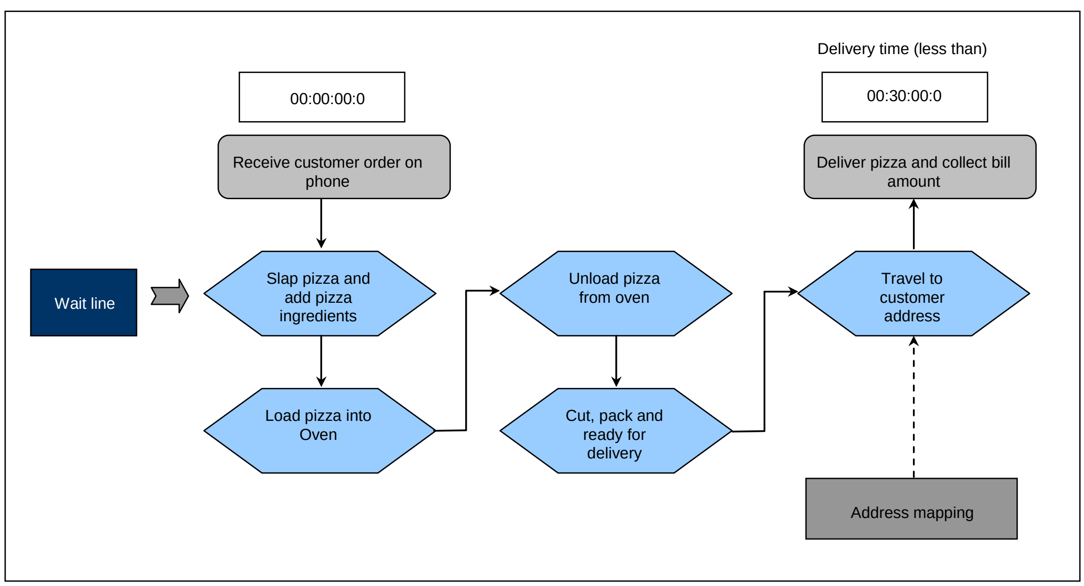
Source: Company

- **30 minutes or free home delivery – the killer app:** Domino's India's success in operations is best understood by its 30 minute home delivery model. Home delivery accounts for about 55% of the company's revenues and the well publicised 30 minute delivery time line has increased customer confidence on the company's service standards. Competition has not been able to replicate this model successfully in India yet, as it requires a very strong control over processes established with experience.

Chart 17: 30 minute home delivery ad

Source: Company

Chart 18: Processes involved in delivering pizza in less than 30 mins

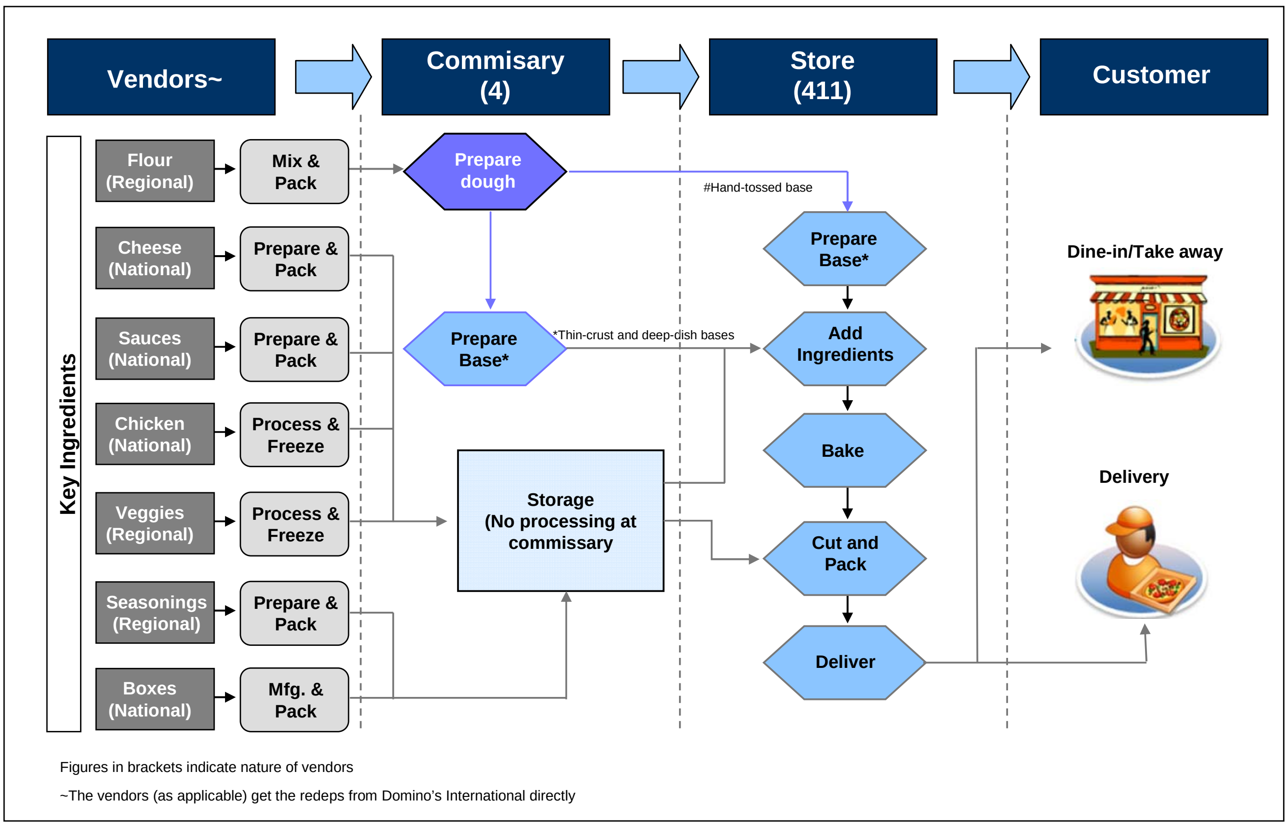


Source: Company

Strong backbone – scalable supply chain, great locations & experienced management

- **Robust supply chain – hub and spoke model:** Success of food service franchise excessively hinges on standardised quality product, as consumers expect uniform taste, feel and look across centres. Over years, JFL has invested in building third party supply chain relationship for procuring raw material (meat, cheese, vegetables *et al.*) used in preparation of pizza. The company has centralised its raw material procurement process with the help of four commissaries or regional supply chain centres located at Noida, Mumbai, Bengaluru and Kolkata. The commissaries primarily prepare dough (base of the pizza) and act as warehouse for most other ingredients. The commissaries also source and supply other primary raw materials used in preparation of pizza such as cheese, vegetables and meat to stores. The four commissaries service all the stores that are spread across the country and are equipped to supply up to 200 stores. The commissary model helps the company save on storage space at store levels.

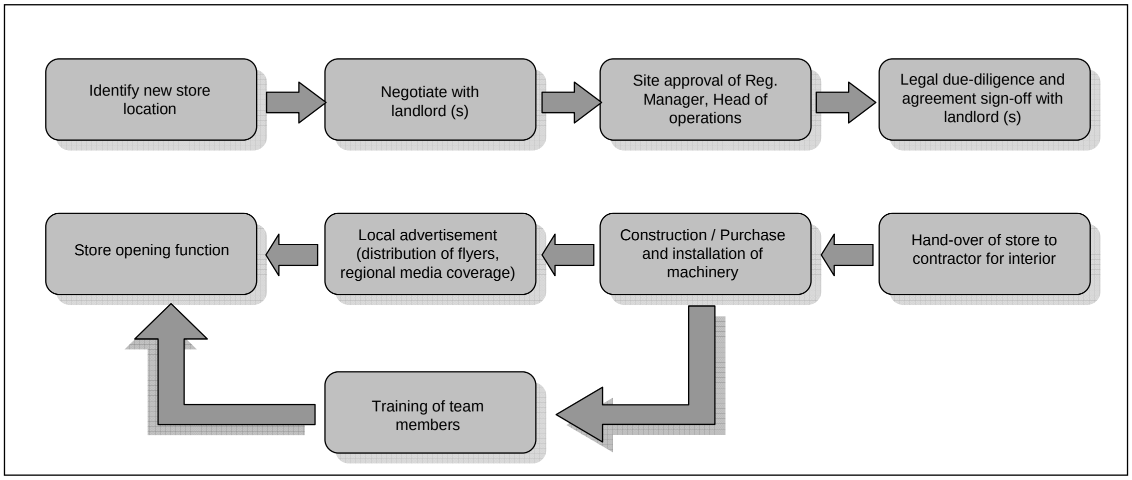
Chart 19: Domino's has set up strong back-end operations to support high growth



Source: Company

- **Great locations and fast-paced execution:** Over years, JFL has not only perfected the art of choosing business locations but has also paced up its time to set-up a store. The company takes 35-45 days to set up a store after the location is identified. This has enabled it to target higher store additions. Purchase of standard equipment, select vendors and standardised process have let JFL ramp up around 70 store openings in FY11 with target of 80 more such store openings in FY12.

Chart 20: JFL mastering its store opening process



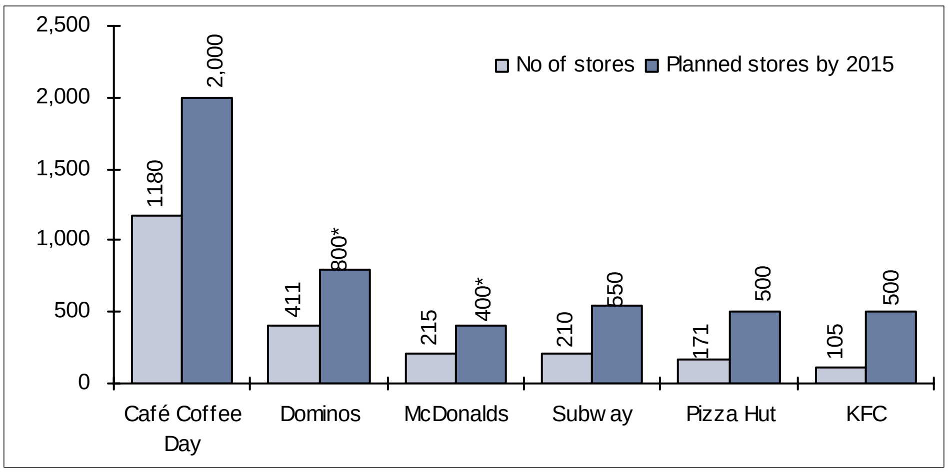
Source: Company

Experienced and loyal management team: The company has a history of consistent team of senior management. The CFO, Ravi Gupta, has been with the company since 2002 and the CEO, Ajay Kaul, and the COO - Domino's Pizza, Tarun Bhasin, have been with the firm since 1996. With employee strength of ~13,500, JFL has been ranked as the ninth best employer in India in 2009 by Hewitt Associates and among the top 25 employers in the Asia Pacific. The company's robust training process, which covers every aspect of store operation, is the key to establishing a 30 minute delivery model.

Competition – enough room for anyone with perseverance

We believe that the Indian market offers sufficient opportunity to any food servicing player provided it is committed to achieve scale, establish brand, build a scalable model with consistent products and processes and to remain invested for long time. Though Dominos india has gained from being an early entrant in the space (it entered India in 1996), we expect globally successful brands and scalable business models like McDonald's, Pizza Hut and KFC to also do well in the Indian market. Even Indian food service players could benefit by getting their act together in making scalable model by standardising their products, processes and consumer experience.

Chart 21: QSR space is expected to witness a ramp up in next 5 years



* Domino's and McDonald's store plans as of 2016 and 2014 respectively
Source: Company, I-Sec research

Tie-up with Dunkin' Donuts – potential to add value

JFL has entered into a MFA (Master Franchise Agreement) with Dunkin' Donuts, which is a leading coffee and baked foods chain with over 9,700 stores across 31 countries. The MFA is exclusive for 15 years and JFL has the option to renew it for another 10 years. Tie up with Dunkin' Donuts will lead to JFL's entry in high-growth all day part food segment. JFL will offer coffee, donuts and other baked goods through Dunkin' Donuts stores with an option of customising the product menu as per Indian taste.

JFL will initially focus on metro cities and plans to roll out about 80-100 stores over a span of five years with the first Dunkin' Donuts outlet coming up in early 2012. We expect that a phased roll-out coupled with existing supply chain setup will help JFL achieve payback in three years (internal norm). In addition, capex per store for Dunkin' Donuts will be lower than Domino's outlet, as store size for Dunkin' Donuts at ~750 sqft is smaller than 1,200 sqft for Domino's.

We forecast Dunkin' Donuts to open 75 stores in five years (FY16E). We expect the chain to report an EBITDA margin of 6.7% in FY15E (third year of operations) driven by a phased roll-out and increasing scale of operations. We ascribe Rs65/share to JFL's Dunkin' Donuts operations.

Table 6: Dunkin' Donuts to be EBITDA positive in FY15E

(Rs mn)

	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E
Revenues	7	80	289	705	1,389	2,302
EBITDA	(37)	(20)	(22)	47	174	340
EBITDA margin (%)	(560)	(25)	(8)	7	13	15
No of stores	1	10	25	45	75	105
CAPEX	6	61	115	175	292	337

Source: I-Sec research

Chart 22: A typical Dunkin' Donuts store

Source: Websites

Financials – acceleration to start

JFL's revenues grew 7x and EBITDA margin improved from 12.0% to 17.7% over FY06-11. We expect the strong revenue growth trajectory to continue, with revenues growing 5x over FY11-16 on the back of high roll-out of new stores. The growth would also be aided by addition of Dunkin' Donuts and expansion outside India.

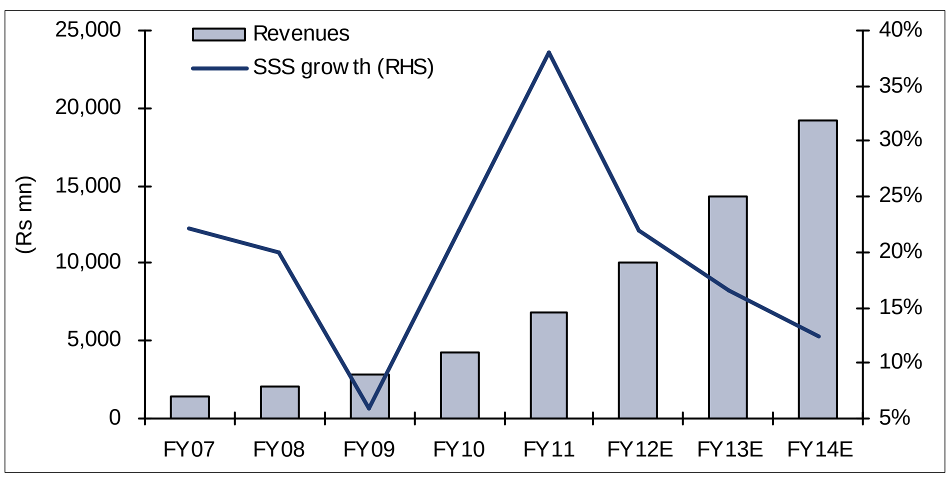
Key forecast – store roll-out key driver for growth

- JFL's revenues to grow at a CAGR of 42% over FY11-14E led by addition of new stores. We expect Domino's store count to increase to 634 stores by FY14E from 411 stores in September 2011
- JFL's EBITDA margin to remain stable at ~18%, as operating efficiency in Domino's would be offset by initial losses at Dunkin' Donuts. EBITDA is expected to grow at a CAGR of 43% over FY11-14E to Rs3.5bn in FY14E (FY11: Rs1.2bn)

Revenue CAGR at 42% over FY11-14E

We expect JFL's revenues to grow at a CAGR of 42% over FY11-14E led by addition of new stores. The company is expected to add 78, 82 and 86 new Dominos stores in India in FY12E, FY13E and FY14E respectively. FY09-FY11 was a growth phase for JFL with the company adding 60, 65 and 72 stores in FY09, FY10 and FY11 respectively. Though the company was constrained for cash in its initial days of operations, the success of Domino's brand and QSR as an eating option have led to exponential growth over the past three years. We assume SSS growth to start declining and assume 22% for FY12E, 17% for FY13E and 12% for FY14E. The SSS growth has remained strong over the last two years at 22% in FY10 and 38% in FY11.

Chart 23: JFL's sales growth driven by both store addition and SSS growth



Source: Company data, I-Sec research

Table 7: Assumptions – store count and same store growth

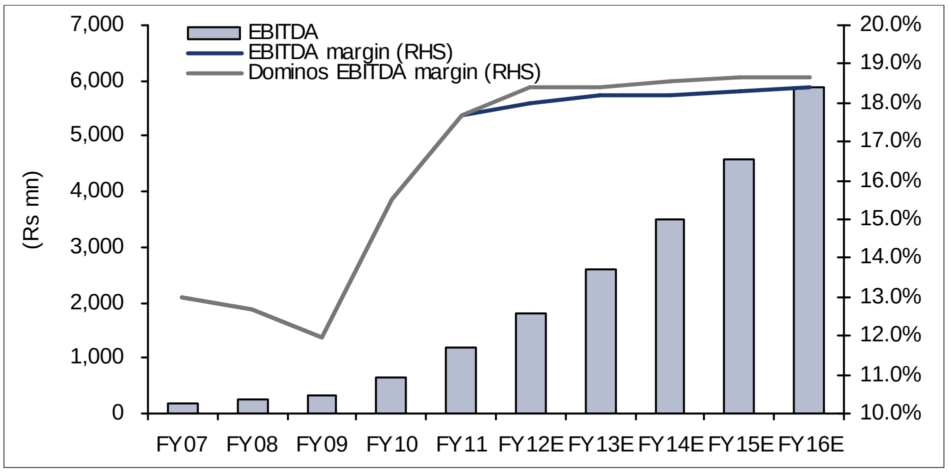
	FY12E	FY13E	FY14E	FY15E	FY16E
Store count (nos)					
Bear case	455	537	618	695	771
Base case	458	553	659	774	904
Bull case	460	573	701	853	1027
SSS growth (%)					
Bear case	22.0	15.4	10.8	7.5	7.2
Base case	22.0	16.5	12.4	9.3	8.8
Bull case	22.0	17.6	14.1	11.3	10.7

Source: Company data, I-Sec research

EBITDA margin to stabilise at ~18%

We expect JFL's EBITDA margin to stabilise at ~18% levels. The EBIDTA margin has improved from 12% in FY06 to 17.7% in FY11. We are not building in any efficiency in margins on an overall basis, as any increase in margins for Domino's would be offset by initial losses in Dunkin' Donuts' operations. Further, we believe that the persistent high inflationary environment in India would continue to exert pressure on the company's margins. We expect the EBITDA to grow at a CAGR of 43% over FY11-14E to Rs3.5bn. EBITDA margin stood at 18.6% in H1FY12 and we expect FY12E margin at 18%. Domino's would witness significant improvement in its operating margin led by increasing proportion of mature stores. We expect Domino's EBITDA margin to marginally expand to 18.6% in FY14E (FY11: 17.7%).

Chart 24: EBITDA margin to remain at ~18%

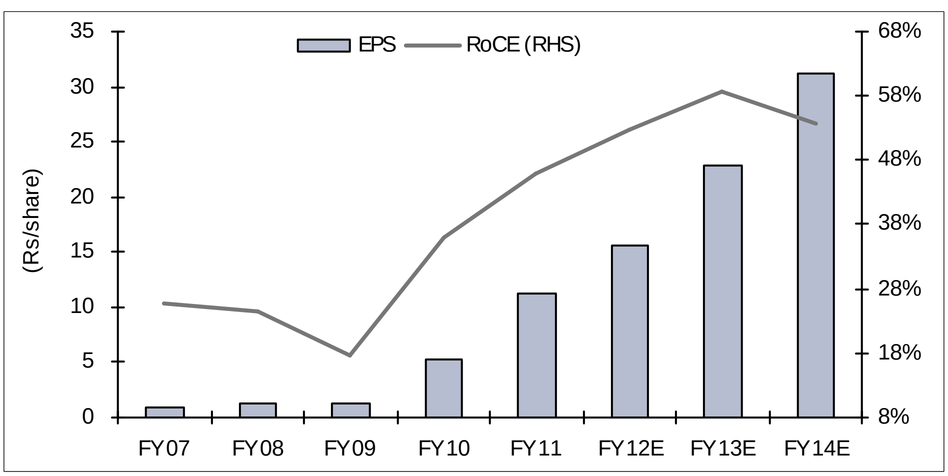


Source: Company data, I-Sec research

EPS CAGR at 41% over FY11-14E; RoE to increase to 53%

We expect the company's earnings to grow at a CAGR of 41% to Rs2,008mn in FY14E from Rs720mn in FY11. We estimate the company to post an EPS of Rs15.6 in FY12E, Rs22.8in FY13E and Rs31.1 in FY14E. The company also has very high return ratios with FY11 RoCE and RoE at 45.9% and 46.6% respectively. And we expect FY14E RoCE and RoE to increase to 53.6% and 53.1% respectively.

Chart 25: EPS growth to accelerate over FY11-14E



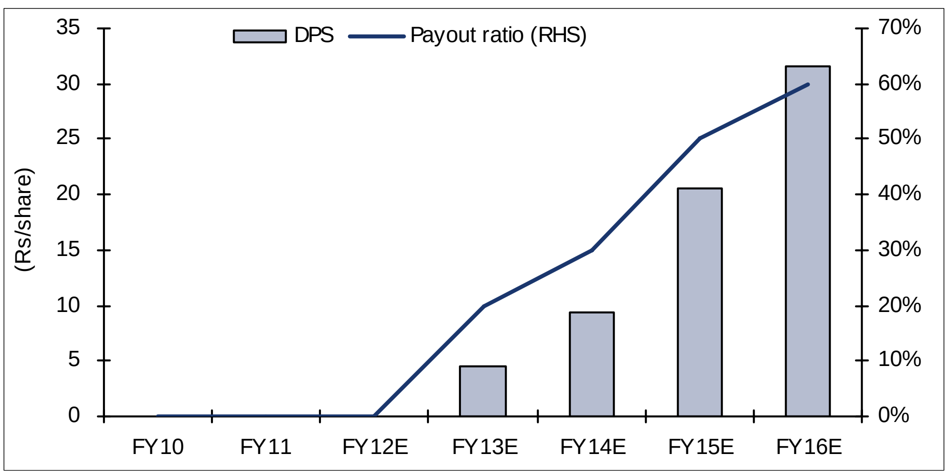
Source: Company data, I-Sec research

Dividend payout to start in FY13E on the back of strong cashflow generation

We expect the company to start announcing dividend from FY13E on the back of strong cashflow generation. We expect JFL to generate a cashflow of Rs3.3bn over FY13-15E after capex on new stores has been incurred. This would enable the company to declare higher dividend: we have factored in 30% payout in FY13E and 50% payout in FY14E. The management has indicated that it has not started declaring dividend as yet, as it still expects lot of investment going into new stores. However, we believe this would change from FY13 after capex on new stores would have been incurred.

We expect capex requirement of ~Rs3.9bn over FY12-14E largely for increasing store count for Domino's and Dunkin' Donuts, setting up new commissaries and expanding business in Sri Lanka. The company is setting up two commissaries in Mumbai (relocating) and Chandigarh (new), which would involve a capex of ~Rs180mn; Mumbai commissary would involve a higher capex at Rs110mn, as it will have a capacity to cater to ~200 stores. We assume Rs8mn capex per store for Domino's and Rs6mn per store for Dunkin' Donuts.

Chart 26: Expect dividend payout from FY13E



Source: Company data, I-Sec research

Table 8: JFL expected to generate strong cashflow

(Rs mn)

	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E
Operating cashflow	126	239	202	677	915	2,046	1,868	2,377
Net working capital	(38)	(108)	(91)	(169)	(168)	(888)	(455)	29
CAPEX	(179)	(373)	(485)	(566)	(736)	(1,116)	(1,245)	(1,539)
Dividend	-	-	-	-	-	-	330	676

Source: Company data, I-Sec research

Valuations – good things come at a price

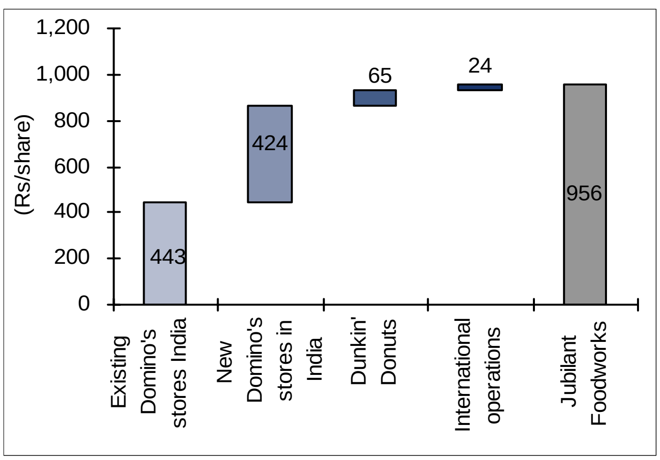
Growth to sustain premium multiples; initiate with BUY; TP Rs945

We initiate coverage on JFL with BUY rating and target price of Rs945 (average of DCF and 30x FY14E PE), which assumes a P/E multiple of 60x for FY12 and 41x for FY13. We expect the EPS to grow at a CAGR of 36% over FY11-16E driven by robust business potential in food servicing in India and strong play on Indian consumer trends of urbanisation, rising per capita spend and changing lifestyle. The company's premium trading multiples are very similar to multiples of global QSRs during high-growth phase. The company is largely immune to poor secondary market conditions of leverage prevailing at present, as it is a debt free and a FCF positive company. However, it is susceptible to rising food cost inflation and may see near-term slowdown in SSS if consumer sentiments were to worsen.

Valuation driver – SSS and store roll-out

We see 54% of the value attributed to JFL to be dependent on its ability to scale up its store count maintaining the current economics. While value of a store is highly volatile with respect to SSS assumptions over the long run, we have done a scenario analysis to showcase the impact on valuation. We have attributed Rs443 per share value to the expected current store count of 456 stores by the end FY12, valuing each store at Rs59mn or 15x FCF. We expect new store roll-outs of Domino's to contribute 44% of the value and ascribe marginal value to Dunkin' Donuts and international roll-outs.

Chart 27: What is creating value?



Source: I-Sec research

Table 9: Per store valuation – alternate approach

(Rs mn)

Capex on a store	8.0
Single store revenue	29.4
EBITDA @20%	5.9
Depreciation	0.8
EBIT	5.1
Tax @33%	1.7
PAT	3.4
FCF	4.2
Value per store @15x FCF	63
Stores at the end of FY12E	456
Valuation of current stores	28,753
Per share value (Rs)	440

SSS – the key value driver

During FY10-12, JFL has surprised positively with respect to SSS growth. While we feel that the company does have multiple levers in SSS in terms of improving customer frequency and introducing newer products, SSS metrics could still be volatile. We have done scenario analysis to assess its impact on JFL's fair value. For mature QSR players, SSS generally tends to stabilise at ~3% growth. We are factoring in 7-10% SSS growth in our scenarios after five years.

Table 10: Assumptions in bull base and bear case

Value JFL using DCF at Rs956 in our base case

		Stores in FY16E		
		771	904	1027
5yr SSS Growth CAGR (%)	12.4	631	788	933
	13.7	761	956	1,142
	15.1	924	1,168	1,406

Store count assumptions

	Bear case	Base case	Bull case
Domino's India	716	809	902
Dunkin' Donuts	40	75	100
Domino's Sri Lanka	15	20	25
Total stores	771	904	1,027

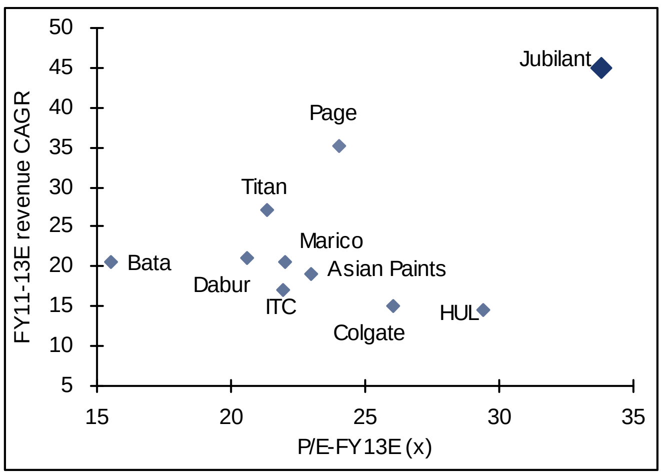
Source: I-Sec research

JFL compares well with Indian and global peers

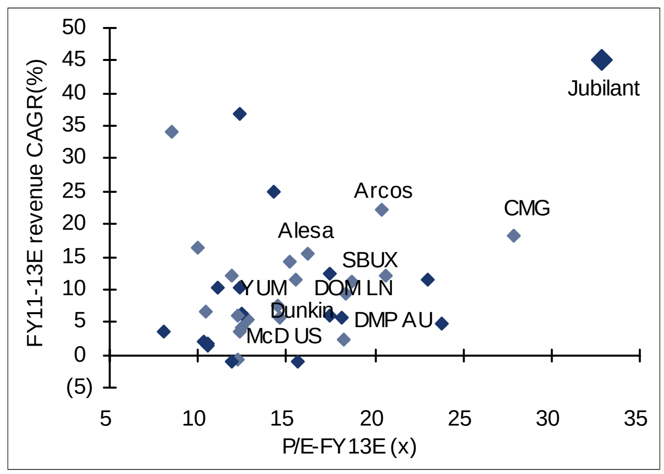
We compared JFL with Indian consumer plays with similar characteristics, and much of the premium JFL enjoys could be attributed to its high return on capital and better growth prospects in early stage. The same holds true with global peers, as JFL stands out on return and growth parameters. However, JFL's premium valuations are justified when compared with the best in class – Starbucks and Chipotle – which traded at high P/Es in their high-growth stage.

Chart 28: JFL in line with peers after adjusting for growth

Indian peers



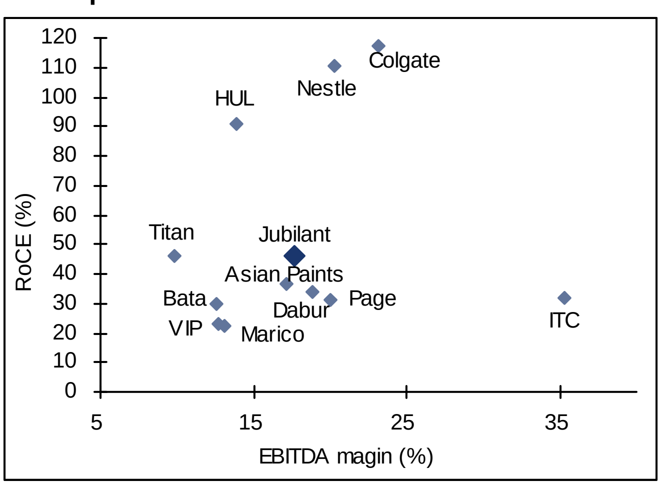
International peers



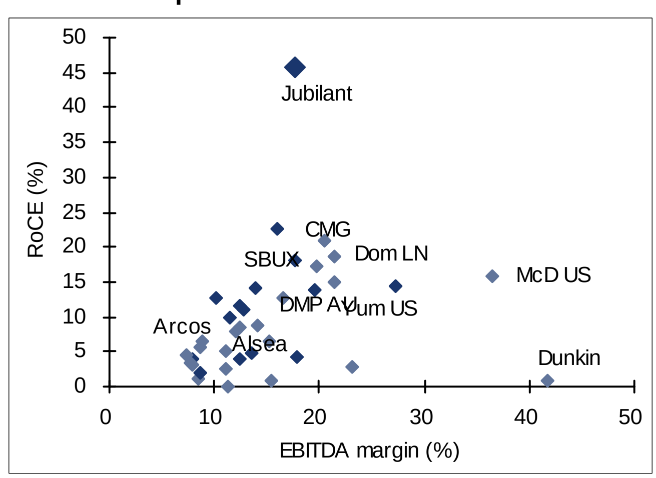
*Among international peers lighter shade represents western peers while darker shade represents Asian peers
Source: Bloomberg, I-Sec research

Chart 29: JFL scores over peers in terms of growth

Indian peers

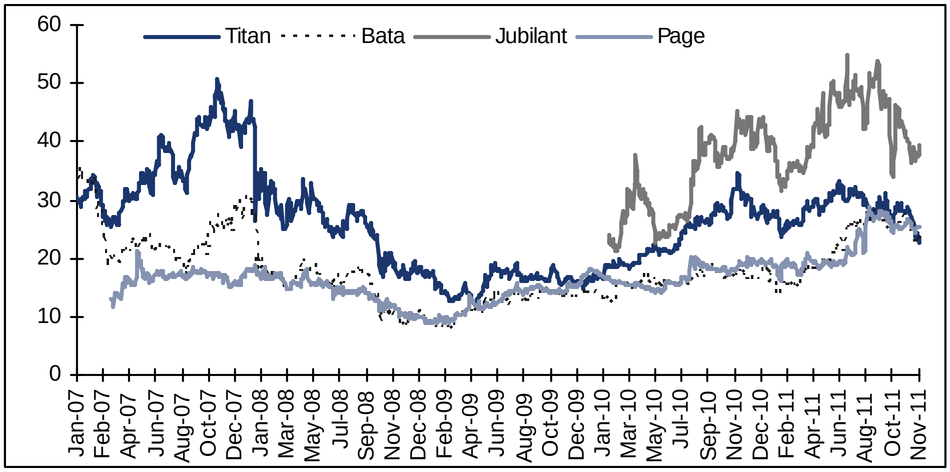


International peers



*Among international peers lighter shade represents western peers while darker shade represents Asian peers
Source: Bloomberg, I-Sec research

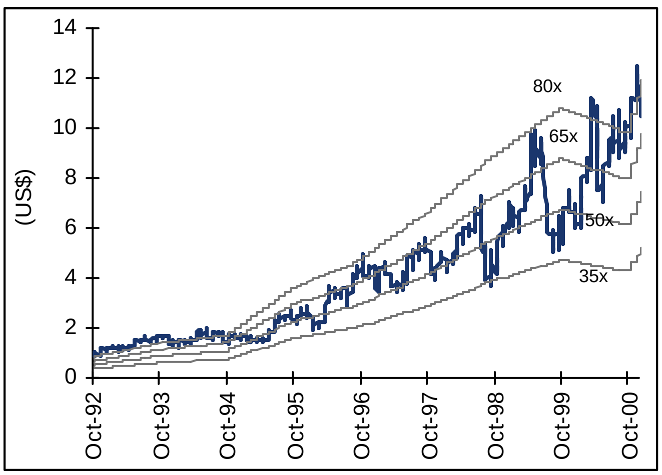
Chart 30: One-year forward P/E comparison with peers



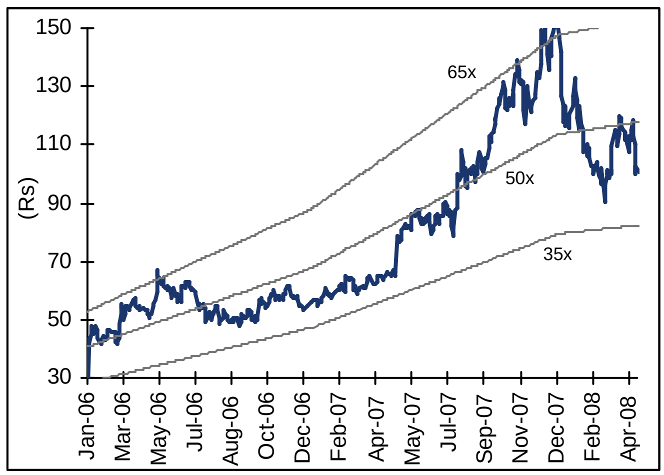
Source: Bloomberg, I-Sec research

Chart 31: International peers sustained premium valuations during high growth phase

Starbucks' trailing PE bands



Chipotle's trailing PE bands



Source: Bloomberg

DCF value at Rs956/share

Table 11: DCF model

(Rs mn)

	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E
DCF											
EBIT	1,406	2,053	2,805	3,700	4,770	5,994	7,359	8,980	10,788	12,958	15,387
NOPAT	909	1,329	1,816	2,396	3,090	3,883	4,767	5,818	6,989	8,397	9,973
Depreciation & Ammortisation	413	537	691	877	1,106	1,375	1,691	2,063	2,500	3,013	3,613
Capex	(1,116)	(1,245)	(1,539)	(1,859)	(2,288)	(2,689)	(3,163)	(3,720)	(4,375)	(5,122)	(6,000)
Net change in working capital	725	2	(130)	388	474	554	727	833	951	1,083	1,228
Free Cashflow	930	623	838	1,803	2,383	3,123	4,022	4,994	6,066	7,370	8,813
Terminal Value		45,291									
Enterprise Value		**60,966**		**Assumptions**							
Net debt		(733)		WACC (%)		14.4					
Equity value		**61,699**		Exit EV/EBITDA		8.0					
Total shares outstanding (mn)		**65**									
Total value/share (Rs)		**956**									

Source: I-Sec research

Table 12: JFL's valuation in line with peers after adjusting for growth

	Price (Rs)	Market Cap (Rs mn)	EV/Sales (x)			Price/Earnings (x)		
			FY11	FY12E	FY13E	FY11	FY12E	FY13E
Jubilant *	772	49,942	7.3	4.9	3.5	69.2	49.4	33.9
Bata	618	39,709	2.5	2.1	1.7	44.9	30.5	22.8
Titan	178	157,715	2.3	1.7	1.4	34.6	26.5	21.3
VIP	119	16,816	2.3	1.9	1.6	17.8	15.6	11.2
Page *	2,515	28,056	5.8	4.1	3.2	47.9	29.5	23.0

* I-Sec estimates;
Source: I-Sec research, Bloomberg as of November 30, '11; for Bata FY11 indicates year ending December '10 (similar for FY12 and FY13)

Table 13: Peers – valuations

	Year ending	Mkt cap (US$ mn)	EV/EBITDA (x)			PE (x)			PRICE/SALES (x)		
			CY10/ FY11	CY11/ FY12	CY12/ FY13	CY10/ FY11	CY11/ FY12	CY12/ FY13	CY10/ FY11	CY11/ FY12	CY12/ FY13
Asia											
Country Style Cooki-Spon	Dec	244.8	10.0	10.5	7.3	18.7	36.1	18.9	2.2	1.5	1.1
Beijing Xiangeqing	Dec	615.5	20.5	15.0	11.3	46.3	34.2	24.7	4.2	3.3	2.6
Jubilant Foodworks	Mar	949.2	37.1	24.4	17.0	69.0	49.2	33.9	7.3	4.9	3.5
Mcdonald's Japan	Dec	3,551.8	5.7	5.5	5.0	39.5	20.1	16.6	0.9	0.9	0.9
Jollibee Foods	Dec	2,142.8	14.6	14.6	12.8	28.9	28.9	25.3	1.7	1.5	1.3
Ajisen China	Dec	1,284.0	12.5	12.6	9.8	23.7	25.2	18.7	4.0	3.3	2.6
Zensho	Mar	1,584.0	8.5	6.1	5.7	22.3	14.5	10.9	0.3	0.3	0.3
Cafe De Coral	Mar	1,315.2	11.6	10.6	8.9	21.2	21.4	17.9	1.9	1.7	1.5
KFC Malaysia	Dec	812.2	9.0	8.6	7.8	17.2	17.0	15.0	1.1	1.0	0.9
Plenus Co	Feb	690.1	3.5	3.2	2.9	20.8	20.5	12.3	0.5	0.4	0.4
QSR Brands	Dec	539.1	6.8	6.3	5.6	15.2	14.5	12.8	0.6	0.5	0.5
Ichibanya	May	483.0	6.5	5.8	5.4	17.8	16.0	14.7	1.0	0.9	0.9
Mean (Excluding Jubilant)		**1,205.7**	**9.9**	**9.0**	**7.5**	**24.7**	**22.6**	**17.1**	**1.7**	**1.4**	**1.2**
Europe and Australia											
Domino's Pizza Enterprises Aus	Jun	510.6	12.9	11.4	10.0	24.2	21.2	18.6	2.0	2.0	1.8
Restaurant Brands	Feb	150.4	4.7	5.0	4.6	8.4	9.7	8.4	0.7	0.6	0.6
Domino's Pizza UK & IRL	Dec	975.3	17.2	15.6	14.0	24.7	22.9	20.3	3.7	3.4	3.1
Amrest	Dec	386.6	10.9	8.2	5.9	21.1	18.9	13.3	0.6	0.5	0.4
Ibersol Sgps	Dec	122.0	3.6	5.1	5.5	6.1	10.5	12.6	0.4	0.5	0.5
Famous Brands	Feb	486.6	10.1	8.6	7.9	16.3	13.8	12.3	1.9	1.7	1.5
Mean		**438.6**	**9.9**	**9.0**	**8.0**	**16.8**	**16.2**	**14.3**	**1.6**	**1.5**	**1.3**
Latin America											
Alsea Sab De Cv	Dec	561.7	7.9	7.9	6.7	40.8	39.2	23.3	0.8	0.8	0.7
Intl Meal Comp	Dec	541.5	9.3	6.9	4.9	NM	13.8	10.5	1.4	1.1	0.8
Arcos Dorados	Dec	4,182.2	18.4	13.6	11.2	49.8	36.0	21.6	1.8	1.2	1.0
Mean		**1,761.8**	**11.9**	**9.5**	**7.6**	**45.3**	**29.7**	**18.5**	**1.3**	**1.0**	**0.8**
US & Canada											
McDonald's	Dec	94,003.1	12.1	10.8	10.3	20.3	17.9	16.4	4.0	3.6	3.4
Starbucks	Sep	30,747.8	15.2	13.6	11.6	34.2	27.8	23.1	3.0	2.7	2.4
Yum! Brands	Dec	24,489.2	11.4	10.6	9.5	22.0	19.2	17.2	2.2	2.0	1.9
Chipotle Mexican Grill	Dec	9,403.0	26.8	21.8	17.7	57.2	46.0	36.3	5.4	4.3	3.6
Darden Restaurants	May	5,888.6	7.4	6.9	6.4	13.6	12.3	10.8	0.8	0.8	0.7
Panera Bread Company	Dec	4,051.0	16.0	13.1	11.5	38.5	29.8	25.3	2.7	2.3	2.0
Dunkin' Brands Group	Dec	2,969.6	19.6	14.8	13.5	43.6	27.6	21.4	2.0	4.9	4.7
Wendy's Co	Dec	1,902.9	7.0	8.2	7.7	39.0	33.6	21.7	0.5	0.7	0.7
Brinker International	Jun	1,770.8	6.9	6.5	6.0	15.2	12.4	10.7	0.7	0.7	0.6
Domino's Pizza	Dec	1,789.6	12.8	11.5	10.9	23.5	19.3	16.8	1.2	1.1	1.1
Cheesecake Factory	Dec	1,447.1	7.4	7.1	6.7	19.3	16.7	14.7	0.9	0.9	0.8
Papa John's Intl	Dec	873.4	8.6	8.2	7.4	21.3	17.7	15.1	0.8	0.8	0.7
Einstein Noah Restaurant	Dec	212.3	6.3	6.5	5.9	17.8	17.1	14.5	0.5	0.5	0.5
Jack In The Box	Sep	844.7	5.2	5.6	6.3	12.8	12.7	15.1	0.4	0.4	0.4
Sonic	Aug	415.4	7.3	7.2	7.6	13.7	12.2	12.0	0.8	0.8	0.8
Krispy Kreme Doughnuts	Jan	434.1	16.3	12.6	9.7	39.7	21.9	19.5	1.3	1.2	1.1
Red Robin Gourmet Burgers	Dec	367.3	6.8	5.6	5.0	40.5	16.4	13.7	0.4	0.4	0.4
AFC Enterprises	Dec	382.9	9.5	9.8	8.7	18.5	16.4	14.0	2.6	2.5	2.3
MTY Food Group	Nov	281.1	10.1	10.1	7.5	18.7	17.8	13.9	4.4	3.7	2.9
Carrols Restaurant Group	Dec	219.9	6.6	5.9	5.4	13.6	12.0	11.2	0.3	0.3	0.3
Mean		**9,124.7**	**11.0**	**9.8**	**8.8**	**26.2**	**20.3**	**17.2**	**1.7**	**1.7**	**1.6**

For companies with year ending before July data is for the fiscal year.
Source: I-Sec research, Bloomberg as of November 30, '11;

Key risks

Change in MFA with Domino's Pizza International: JFL has exclusive rights to Domino's brand in India, Sri Lanka, Bangladesh and Nepal till December 31, 2024 with the option to renew the agreement for another 10 years. Termination or changes in the master agreement by Domino's Pizza International owing to any breach/default possesses a significant risk to the company. However, we see slender chance of this happening. Further, any rise in franchise fees from current levels of 3% of sales could hit JFL's margins.

High food inflation: The company is exposed to input cost pressure led by rising raw material cost. Raw material as a % of sales currently accounts for 25-26% of the overall sales. Though the company has been able to mitigate inflationary pressure on food articles through increasing scale of operations and taking price hikes of ~12% last year, high food inflation would dent the margins if the company is unable to pass it on to customers.

Entry of other major global players will intensify competition: A host of global QSRs are looking to either set up operations in India or significantly increase their presence in the country. Pizza Hut plans to open 300 outlets for its delivery model by 2015. QSR players like KFC, McDonald's and Subway have plans to increase their stores by more than twofold over the next four-five years, whereas other global majors like Quiznos have announced their plans to set shop in India. Though competition is yet to make any significant dent on JFL, any aggressive price-related competition could erode the company's market share. However, we do not see any meaningful increase in competition from new players, as setting up basic infrastructure and supply chain would take some time.

Execution problems with slow roll-out of stores: JFL's growth largely depends upon roll-out of new stores and innovation in terms of new products. Aggressive entry into smaller cities and towns can lead to execution issues in terms of supply chain. In addition, customer acceptance of new cuisine in smaller towns would be a key factor to watch out for.

Labour supply coupled with wage inflation: The company has a huge employee base of ~13,500, with an average 33 persons employed per store on account of its home delivery model. The company has witnessed significant cost pressure in the wake of increasing minimum wage levels and rising urbanisation. In addition, the ability to attract and maintain an efficient workforce remains a challenge for the company.

Company profile

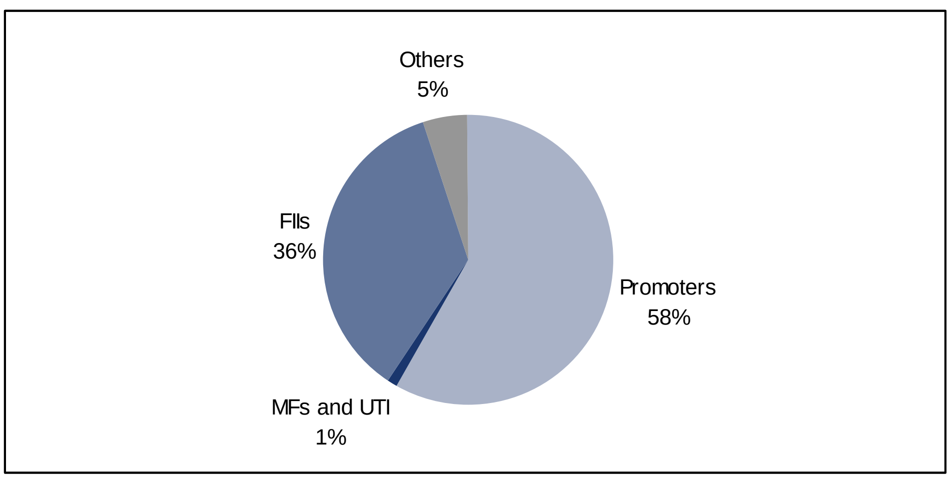
JFL, a Jubilant Bhartia group company, holds the Master Franchisee Rights for Domino's Pizza International for India, Nepal, Sri Lanka and Bangladesh till 2014 with the option to renew the rights for another 10 years. The company has recently signed Master Franchise Agreement with Dunkin' Donuts, a leading coffee and all day part food chain, for 15 years. Since opening its first store in New Delhi in January 1996, the company's countrywide network has grown to more than 411 stores (as on September 30, 2011) employing more than 13,500 persons. The company offers both delivery and dine-in options at its stores and main offerings include pizzas, pastas and other side dishes and desserts. Domino's is the leading player in the pizza market enjoying over 65% market share.

Table 14: Key management personnel

Name	Designation	Comments
Shyam S Bhartia	Chairman and founder director	• Holds a bachelors degree in Commerce from St. Xaviers College, Calcutta University, and is a fellow member of ICWAI • Has experience in pharmaceuticals and specialty chemicals, food, oil and gas, aerospace and IT sectors • Serves on the board of Chambal Fertilisers and Chemicals, Vam Holdings and Zuari Industries • Joined the board of the company on March 16, 1995
Hari S Bhartia	Co-Chairman and founder director	• Holds a degree in chemical engineering from IIT Delhi • Has interests in pharmaceuticals, oil and gas, life sciences and healthcare and food & retail sectors • Served as a president of Confederation of Indian Industries and Chairman of Indian Institute of Management, Raipur • Joined the board of the company on March 16, 1995
Ajay Kaul	Whole time director and CEO	• Holds bachelors degree from IIT Delhi and masters degree in business administration from XLRI, Jamshedpur • Has experience in industries such as financial services, airlines, express distribution and logistics and food retail • Joined the board of the company on March 14, 1995 and took over as CEO from February 7, 2005
Ravi S Gupta	President (Finance) and CFO	• Holds bachelors degree in Commerce from Shri Ram College of Commerce, University of Delhi and diploma in business finance from ICFAI • Has experience in corporate finance, strategy accounting, information technology and legal and secretarial areas • Joined the company in April 2002

Source: Company data

Chart 32: Shareholding pattern



Source: Company data

Table 15: Key milestones

Year	Key event
1995	Company was incorporated
	Entered into a master franchise agreement with Domino' Pizza International for India (north and west regions)
1996	First pizza store opened in New Delhi
1998	Master franchise from Domino's Pizza International extended to whole of India and Nepal
2000	Entered into investment agreement with IPEF and Indocean, pursuant to which IPEF and Indocean invested in the company
2001	Tie-up with Hindustan Coca-Cola Beverages Pvt Ltd
	Issued non-convertible debentures to IL&FS aggregating Rs250mn
2003	Became subsidiary of Jubilant Enpro Pvt Ltd
2004	Launch of '30 minutes or free' campaign
2005	Master franchise agreement for Sri Lanka and Bangladesh assigned by DP India Pvt Ltd in favour of the company
2006	Total number of stores crossed 100
	Became a profit making company
2008	Achieved monthly sales of one million pizzas
2009	Launch of 'Pizza Mania'
	Total number of stores crossed 200
2010	JFL listed on Indian bourses
	Entered into a new master franchise agreement with Domino's Pizza International
2011	Total number of stores crossed 400

Source: Company data

Annexure 1: Financials

Table 16: Profit and loss statement

(Rs mn, year ending March 31)

	FY10	FY11	FY12E	FY13E	FY14E
Total Operating Income	**4,239**	**6,781**	**10,102**	**14,257**	**19,233**
Sales Domino's	*4,755*	*7,652*	*11,393*	*15,999*	*21,379*
Sales Dunkin' Donuts	-	-	*8*	*91*	*326*
Less : Sales Tax/VAT	*(516)*	*(872)*	*(1,299)*	*(1,833)*	*(2,472)*
Less:					
Raw materials consumed	1,050	1,706	2,578	3,714	5,016
Personnel expenses	805	1,355	2,032	2,859	3,861
Manufacturing and other expenses	1,727	2,520	3,673	5,093	6,859
Total Operating Expenses	**3,581**	**5,582**	**8,283**	**11,666**	**15,737**
EBITDA	**658**	**1,199**	**1,819**	**2,591**	**3,496**
Depreciation & Amortization	243	293	413	537	691
Other Income	4	22	101	143	192
EBIT	**418**	**928**	**1,507**	**2,196**	**2,997**
Less: Gross Interest	83	3	-	-	-
Recurring Pre-tax Income	**335**	**924**	**1,507**	**2,196**	**2,997**
Less: Extraordinary Expenses	4	-	-	-	-
Less: Taxation	1	204	497	725	989
--Current Tax	-	235	497	725	989
--Deferred Tax	-	(31)	-	-	-
Net Income (Reported)	**330**	**720**	**1,010**	**1,471**	**2,008**
Minority interest	-	-	-	-	-
Recurring Net Income	**334**	**720**	**1,010**	**1,471**	**2,008**

Source: Company data, I-Sec research

Table 17: Balance sheet

(Rs mn, year ending March 31)

	FY10	FY11	FY12E	FY13E	FY14E
ASSETS					
Current Assets, Loans & Advances					
Cash & Bank balance	70	89	93	528	883
Inventory	71	142	215	310	418
Sundry Debtors	29	45	55	78	105
Loans and Advances	362	697	692	830	996
Other Current Assets	-	9	-	-	-
Total Current Assets	**533**	**981**	**1,056**	**1,746**	**2,403**
Current Liabilities & Provisions					
Current Liabilities	**663**	**1,085**	**1,879**	**2,137**	**2,309**
Sundry Creditors	547	875	1,342	1,526	1,649
Other Current Liabilities	115	210	537	611	660
Provisions	**39**	**65**	**65**	**65**	**65**
Total Current Liabilities and Provisions	**702**	**1,149**	**1,944**	**2,201**	**2,373**
Net Current Assets	**(169)**	**(168)**	**(888)**	**(455)**	**29**
Investments					
Strategic & Group Investments	-	12	12	12	12
Other Marketable Investments	-	205	205	205	205
Total Investments	**-**	**216**	**216**	**216**	**216**
Fixed Assets					
Gross Block	2,276	2,904	4,128	5,373	6,912
Less Accumulated Depreciation	872	1,103	1,516	2,053	2,744
Net Block	1,403	1,801	2,612	3,320	4,168
Add: Capital Work in Progress	25	36	-	-	-
Add: Expenditure during construction (Pending Capitalization/Allocation)	1	-	-	-	-
Total Fixed Assets	**1,429**	**1,838**	**2,612**	**3,320**	**4,168**
Total Assets	**1,260**	**1,886**	**1,941**	**3,082**	**4,414**
Liabilities And Shareholders' Equity					
Total Borrowings	86	-	-	-	-
Deferred Tax Liability	**-**	**(31)**	**(31)**	**(31)**	**(31)**
Share Capital					
Paid up Equity Share Capital	636	645	645	645	645
No. of Shares outstanding (mn)	*64*	*65*	*65*	*65*	*65*
Face Value per share (Rs)	*10*	*10*	*10*	*10*	*10*
Reserves & Surplus	**538**	**1,272**	**1,327**	**2,468**	**3,800**
Share Premium	**12**	**-**	**-**	**-**	**-**
General & Other Reserve	**929**	**955**	**-**	**-**	**-**
Net Worth	**1,174**	**1,917**	**1,972**	**3,113**	**4,445**
Total Liabilities & Shareholders' Equity	**1,260**	**1,886**	**1,941**	**3,082**	**4,414**

Source: Company data, I-Sec research

Table 18: Cash flow statement

(Rs mn, year ending March 31)

	FY10	FY11	FY12E	FY13E	FY14E
Cash Flow from Operating Activities					
Reported Net Income	330	720	1,010	1,471	2,008
Add:					
Depreciation & Amortisation	228	230	413	537	691
Provisions	10	26	-	-	-
Deferred Tax	-	(31)	-	-	-
Less:					
Other Income	4	22	101	143	192
Net Extra-ordinary income	(4)	-	-	-	-
Operating Cash Flow before Working Capital change (a)	**568**	**924**	**1,321**	**1,866**	**2,507**
Changes in Working Capital					
(Increase) / Decrease in Inventories	(15)	(72)	(73)	(95)	(109)
(Increase) / Decrease in Sundry Debtors	(18)	(15)	(11)	(23)	(27)
(Increase) / Decrease in Operational Loans & Adv.	(123)	(335)	5	(138)	(166)
(Increase) / Decrease in Other Current Assets	-	(8)	9	-	-
Increase / (Decrease) in Sundry Creditors	149	327	468	184	123
Increase / (Decrease) in Other Current Liabilities	115	95	327	74	49
Working Capital Inflow / (Outflow) (b)	108	(8)	725	2	(130)
Net Cash flow from Operating Activities (a) + (b)	**677**	**915**	**2,046**	**1,868**	**2,377**
Cash Flow from Capital commitments					
Purchase of Fixed Assets	(503)	(640)	(1,188)	(1,245)	(1,539)
Purchase of Investments	-	(12)	-	-	-
Cash Inflow/(outflow) from capital commitments (c)	(503)	(651)	(1,188)	(1,245)	(1,539)
Free Cash flow after capital commitments (a) + (b) + (c)	**173**	**264**	**858**	**623**	**838**
Cash Flow from Investing Activities					
Purchase of Marketable Investments	-	(205)	-	-	-
(Increase) / Decrease in Other Loans & Advances	-	-	-	-	-
Other Income	4	22	101	143	192
Net Cash flow from Investing Activities (d)	**3**	**(183)**	**101**	**143**	**192**
Cash Flow from Financing Activities					
Proceeds from fresh borrowings	(739)	(86)	-	-	-
Dividend paid including tax	-	-	-	(330)	(676)
Others	605	22	(955)	-	-
Net Cash flow from Financing Activities (e)	**(133)**	**(63)**	**(955)**	**(330)**	**(676)**
Net Extra-ordinary Income (f)	**(4)**	**-**	**-**	**-**	**-**
Total Increase / (Decrease) in Cash (a) + (b) + (c)+ (d)+ (e) + (f)	**39**	**18**	**5**	**435**	**354**

Source: Company data, I-Sec research

Table 19: Key ratios

(Year ending March 31)

	FY10	FY11	FY12E	FY13E	FY14E
Per Share Data (Rs)					
Diluted Recurring Earning per share (DEPS)	5.3	11.2	15.6	22.8	31.1
Diluted Earnings per share	5.2	11.2	15.6	22.8	31.1
Recurring Cash Earnings per share (CEPS)	9.1	15.7	22.0	31.1	41.8
Free Cash flow per share (FCPS-post capex)	2.7	4.1	13.3	9.6	13.0
Reported Book Value (BV)	18.5	29.7	30.6	48.2	68.9
Adjusted Book Value (ABV)	18.5	29.7	30.6	48.2	68.9
Dividend per share	-	-	-	4.6	9.3
Valuation Ratios (x)					
Diluted Price Earning Ratio	146.6	69.0	49.2	33.8	24.7
Price to Recurring Cash Earnings per share	84.8	49.0	34.9	24.7	18.4
Price to Book Value	41.7	25.9	25.2	16.0	11.2
Price to Adjusted Book Value	41.7	25.9	25.2	16.0	11.2
Price to Sales Ratio	11.6	7.3	4.9	3.5	2.6
EV / EBITDA	68.1	37.1	24.4	17.0	12.5
EV / Total Operating Income	10.6	6.6	4.4	3.1	2.3
EV / Operating Free Cash Flow (Pre-Capex)	66.2	48.6	21.7	23.6	18.4
EV / Net Operating Free Cash Flow (Post-Capex)	258.4	168.3	51.8	70.7	52.1
Dividend Yield (%)	-	-	-	0.6	1.2
Growth Ratios (% YoY)					
Diluted Recurring EPS Growth	319.1	112.4	40.2	45.7	36.5
Diluted Recurring CEPS Growth	117.9	73.0	40.4	41.2	34.4
Total Operating Income Growth	51.1	59.9	49.0	41.1	34.9
EBITDA Growth	96.1	82.2	51.7	42.4	35.0
Recurring Net Income Growth	358.5	115.5	40.2	45.7	36.5
Operating Ratios (%)					
EBITDA Margins	15.5	17.7	18.0	18.2	18.2
EBIT Margins	9.9	13.7	14.9	15.4	15.6
Recurring Pre-tax Income Margins	7.9	13.6	14.8	15.2	15.4
Recurring Net Income Margins	7.9	10.6	9.9	10.2	10.3
Raw Material Consumed / Sales	24.8	25.2	25.5	26.1	26.1
SGA Expenses / Sales	0.0	0.0	0.0	0.0	0.0
Other Income / Pre-tax Income	1.1	2.4	6.7	6.5	6.4
Effective Tax Rate	0.2	22.1	33.0	33.0	33.0
Return / Profitability Ratios (%)					
Return on Capital Employed (RoCE)-Overall	35.9	45.9	52.8	58.6	53.6
Return on Invested Capital (RoIC)	59.2	80.3	99.8	117.7	114.9
Return on Net Worth (RoNW)	47.3	46.6	51.9	57.9	53.1
Dividend Payout Ratio	-	-	-	20.0	30.0
Solvency Ratios / Liquidity Ratios (%)					
Debt Equity Ratio (D/E)	7.3	(1.6)	(1.6)	(1.0)	(0.7)
Long Term Debt / Total Debt	100	-	-	-	-
Net Working Capital / Total Assets	(19.0)	(13.6)	(50.6)	(31.9)	(19.3)
Interest Coverage Ratio-based on EBIT	5.0	271.2	-	-	-
Debt Servicing Capacity Ratio (DSCR)	7.9	356.7	-	-	-
Current Ratio	0.2	0.2	0.2	0.4	0.6
Cash and cash equivalents / Total Assets	5.6	4.7	4.8	17.1	20.0
Turnover Ratios					
Inventory Turnover Ratio (x)	75.6	71.9	63.9	61.4	59.7
Assets Turnover Ratio (x)	3.7	4.3	5.3	5.7	5.2
Working Capital Cycle (days)	(37.0)	(37.6)	(44.2)	(36.7)	(21.4)
Average Collection Period (days)	1.8	2.0	1.8	1.7	1.7
Average Payment Period (days)	162.0	146.0	152.6	137.4	113.1
Fixed Assets Turnover Ratio (x)	3.3	4.2	4.5	4.8	5.1
Employee Costs / Total Income	19.0	20.0	20.1	20.1	20.1
Depreciation / Total Income	5.7	4.3	4.1	3.8	3.6
Depreciation / Average Gross Block	10.7	10.1	10.0	10.0	10.0
Dividend to cash flow	0.0	0.0	0.0	47.3	71.9

Source: Company data, I-Sec research

Annexure 2: Index of Tables and Charts

Tables

Charts

New I-Sec investment ratings (all ratings based on absolute return)
BUY: >15% return; ADD: 5% to 15% return; REDUCE: Negative5% to positive5% return; SELL: < negative 5% return

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