Emkay

Research

10 February, 2010

BUY

Price	Target Price
Rs 245	Rs 298

Sensex	**16,042**

Price Performance

(%)	1M	3M	6M	12M
Absolute	NA	NA	NA	NA
Rel. to Sensex	NA	NA	NA	NA

Source: Bloomberg

Stock Details

Sector	Retail
Reuters	JUBI.BO
Bloomberg	JUBI@IN
Equity Capital (Rs mn)	636
Face Value (Rs)	10
No of shares o/s (mn)	64
52 Week H/L (Rs)	251/162
Market Cap (Rs bn/USD mn)	15/324
Daily Avg Vol (No of shares)	NA
Daily Avg Turnover (US$ mn)	NA

Jubilant FoodWorks Ltd.

Initiating Coverage

'Growth + Returns': Combo pack

Jubilant FoodWorks Ltd (JFL), the master franchisee for 'Domino's' brand in India, Nepal, Bangladesh and Sri Lanka is likely to dish out a VFM recipe for investors in the years to come. Given the strong growth prospects of the QSR segment in India and Domino's well entrenched business model, we are confident that JFL will sustain its revenue growth momentum and grow at 38.7% CAGR during FY09 - FY12E. We expect the APAT to also grow at a healthy 100.0% CAGR during the same period. Apart from market leadership in the pizza segment and its strong outlet network, we believe that the ability of its business model to generate free cashflows and gain significant operating leverage is the true value clincher. We expect its cashflows to grow at a 67.3% CAGR over FY09 - 12E. Given our positive bias on its cash flow generation, we have deviated from widely used valuation tools like PER, EV/EBIDTA and valued it on P/OCF. We recommend a BUY on the stock with a target price of Rs 298/share (12xFY12E OCF).

Extra topping in Domino's India menu

We like the double topping in Domino's pizza i.e. gain from the under-penetration of QSR in India and well entrenched business model with +60% market share in food delivery market. India offers all the ingredients for long-term sustainable growth of QSR like (1) rising income levels, (2) growing urbanization, (3) increasing working-woman population and (4) high percentage of young population. As a result, we expect the Domino's franchise to report strong and sustained growth in earnings through (1) penetration in existing cities, (2) exploring new distribution channels, (3) entering new cities and (4) maximizing revenue per store.

Thumbs up to Domino's culinary skills

Alongside multi-year growth opportunity, we give thumbs up to the self-sustaining business model of the Domino's franchise. The model has enormous ability to generate free cash and offers significant scope for operating leverage. We expect it's operating cash flow to rise to Rs1.1 bn in FY12E from Rs238 mn in FY09, a 67.3% CAGR in FY09-12E period. The operating cash flows will meet the store expansion in FY10-12E period and address additional growth opportunity in the QSR space. Further, better utilization of existing store and commissaries infrastructure and relatively lower spends on advertising & communication will trigger 440 bps expansion in operating margins in FY09-12E period.

Try new cuisine; look at price to operating cashflow

Upfront, JFL seems expensive on preliminary investment tools like PER- trading at 48.6X FY10E, 31.5X FY11E and 24.5X FY12E earnings. But, most impressive aspect of business is its ability to generate cash and gain from operating leverage. Further, JFL is amongst the few companies to be listed in the food-service domain. Hence, there is no like-to-like comparison. We expect it to attract a scarcity premium on account of the limited options available in this promising segment. Considering price to operating cash flow of 13.9X FY12E, JFL is attractive versus consumer companies trading at average price to operating cash flow of 19X FY12E. We recommend 'BUY' with a price target of Rs298/Share, valuing it at 17X FY12E operating cash flow - discount of 10% to consumer companies.

Key Financials (Rs.mn)

YE-Mar	Net Sales	EBITDA (Core)	(%)	APAT	AEPS (Rs)	EV/ EBITDA	P/BV	Div Yld (%)	ROE (%)	P/E
FY2008	2,112	268	12.7	86	1.5	53.9	88.3	0.0	55.0	160.7
FY2009	2,806	352	12.5	73	1.4	42.1	62.2	0.0	34.7	179.0
FY2010E	4,095	646	15.8	320	5.0	24.1	13.6	0.0	46.7	48.6
FY2011E	5,662	933	16.5	492	7.7	16.5	9.9	0.4	36.3	31.5
FY2012E	7,484	1,269	17.0	634	10.0	11.8	7.4	0.8	34.6	24.5

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Company Background

…Background

JFL revenues grew at 39.7% CAGR from Rs0.8 bn in FY05 to Rs2.8 bn in FY09 APAT increased at 114.7% CAGR from Rs3 mn in FY05 to Rs76 mn in FY09

Jubilant FoodWorks Ltd (JFL) is the master franchisee for 'Domino's' brand in India, Nepal, Bangladesh and Sri Lanka. JFL till November 2009 operated 286 stores across 59 cities in India. During December 2009 the company added 10 more stores in 6 cities to take the store count to 296 and reach to 65 cities. JFL is a market leader with +60% share of the domestic organized pizza delivery market. JFL has reported strong traction in FY05-09 period with (1) revenues growing at 39.7% CAGR from Rs0.8 bn in FY05 to Rs2.8 bn in FY09, (2) EBIDTA growing at 44.5% CAGR from Rs80 mn in FY05 to Rs352 mn in FY09, (3) EBIDTA margin expansion of 150 bps to 12.5% in FY09 and (4) APAT growth of 114.7% CAGR from Rs3 mn in FY05 to Rs79 mn in FY09. The traction in revenues and profitability is attributed to robust same stores sales growth, expansion of store network and operating leverage in the business.

State/Union Territory	Cities	No. of Stores
Andhra Pradesh	1	16
Chandigarh	1	4
Chattisgad	1	1
Daman	1	1
Goa	1	6
Gujarat	5	12
Haryana	6	17
Himachal Pradesh	1	1
Jammu and Kashmir	1	1
Jharkhand	1	1
Karnataka	4	41
Kerala	2	2
Madhya Pradesh	2	3
Maharashtra	7	71
New Delhi	1	35
Punjab	5	9
Rajasthan	2	4
Sikkim	1	1
Tamil Nadu	2	20
Uttar Pradesh	9	24
Uttarakhand	3	3
West Bengal	2	13
Total	**59**	**286**

Source: Emkay Research

Note: The given data is till November 2009

Source: Company

…Process

The delivery area of each pizza store is restricted to an area within a 9-10 minute travel time from the pizza store - during peak hours

Since its incorporation, JFL has focused on the delivery and takeaway oriented model. This offers customers the convenience of eating in the comfort of their own homes and workspaces, with minimal interruption to their schedules and activities, without having to go to a dine-in restaurant and wait for their orders.

The order delivery system is based on a detailed mapping of the areas in which pizza stores are located. Each pizza store is allocated a distinct area for delivery. The delivery area of each pizza store is restricted to an area within a 9-10 minute travel time from the pizza store - during peak hours. The method and the time mapping are done in such a manner that the process of receiving the order, cooking the pizza and delivering it to the customer does not take more than 30 mins.

...Scale

JFL sold approximately 21.7 mn pizzas and 4.3 mn units of beverages in FY09

JFL recorded strong increase in pizza sales (including Add-ons) in FY05-09, growing at a 41.0% CAGR. The company sold approximately 21.7 mn pizzas in FY09, representing a 39.3% yoy growth. In addition to pizzas, JFL was able to deliver 13.9% CAGR growth in beverage sales during the same period. In FY09, JFL sold 4.3 mn units of beverages compared to 4.0 mn units sold in FY08. During H1FY10, JFL was able to sell 14.8 mn pizzas (including Add-ons) and 3.2 mn units of beverages - representing a huge increase compared to its FY09 performance.

Investment Positives

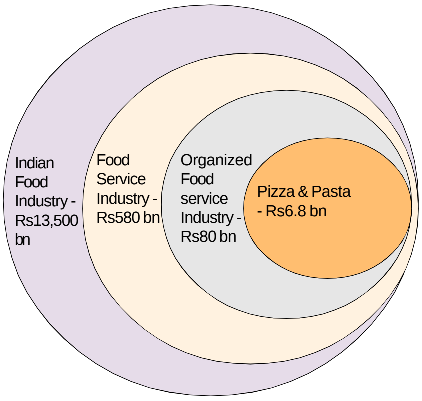
QSR business in India has multi-year growth potential

JFL being a formidable and serious player in the QSR industry is expected to reap handsome gains and benefit from the growth in QSR industry

We believe that the QSR business is highly under-penetrated in India, thereby offering substantial and multi-year growth opportunity. We have relied on the findings of two survey reports - which have estimated the Indian food services industry at Rs580 bn, with the organized sector accounting for 14% or Rs80 bn (organized sector comprises of Dining, Bars and Lounges, Quick Service Restaurants (QSRs), Food Courts, Cafes and Kiosks). The report highlights the miniscule contribution of QSRs to the total food industry and food service industry. Further, only 2% of total expenditure on food is spent on pizzas and pastas as a product category - w.r.t. either dining or delivery service accessed by Indian households. Hence, there is ample growth opportunity in the Indian QSR space in general and pizza and pasta categories in particular. We believe that, the QSR business can offer high double-digit value growth on sustainable basis and expect the pizzas and pasta product category has to grow at a 20% CAGR p.a.

Research agencies have estimated that the food industry (including services and others) is likely to grow from USD200 bn in 2007 to USD300 bn in 2015 - i.e. CAGR of 5.2%. Amongst various formats of food services - QSRs have grown at a fast pace in the last few years and are likely to sustain the growth momentum in ensuing years. JFL, being a formidable and serious player in the QSR industry is expected to reap handsome gains and benefit from the growth opportunity.

Structure of food industry in India



Source: Company, Emkay Research

India's QSR industry has all the INGREDIENTS in place - sure-shot RECIPE to stupendous and sustainable growth

Favorable macro triggers to augment QSR industry growth in the coming years

We believe that India's QSR industry has all the necessary ingredients or macro triggers for robust and sustainable growth. The key macro triggers like (1) income levels - propensity to spend (2) urbanization - rising awareness (3) Rising woman work force and (4) young population - better acceptance - are long-term growth drivers for the QSR business.

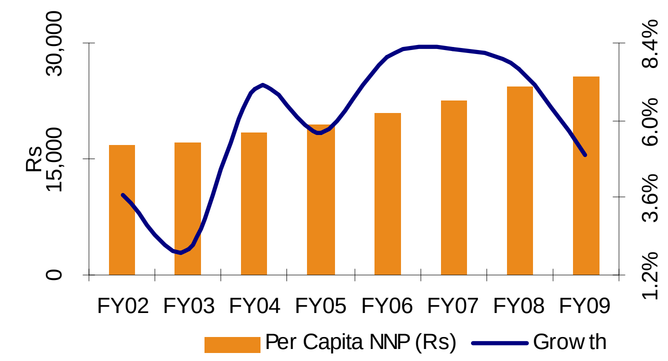
Rising income levels- implies better propensity to spend - Rise in income levels naturally results in higher expenditure on discretionary spends i.e. entertainment, QSR, etc. This in turn will attract growth in the business.

Rising urbanization - QSR business is more prevalent in Class A or Tier I towns- owing to acceptance of concept of Dining, QSR, Lounges, Cafes, etc. Thus, rising awareness in Tier 2 & 3 cities and higher urbanization of Indian population will create new growth opportunities for the QSR business in ensuing years.

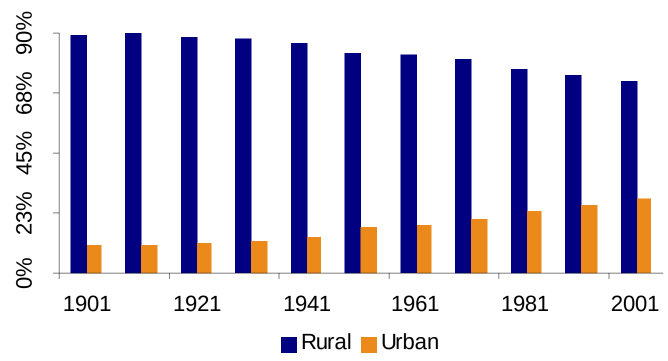
Growth in woman work force - Working women population in India has increased from 14% to 17% (as a % of urban working population) during years 2000 to 2005. Since cooking is a woman centric job in Indian families, rise in working woman population will create additional growth opportunity for QSR business.

Growth in young population - better acceptance - It is observed that the QSR business is positively benefited by younger population- owing to higher acceptance of food formats like QSR, Dining, Bar, Lounge, Café, etc. With +65% of India's population aged below 35 years, QSR business is in a sweet spot to experience long-term sustainable growth.

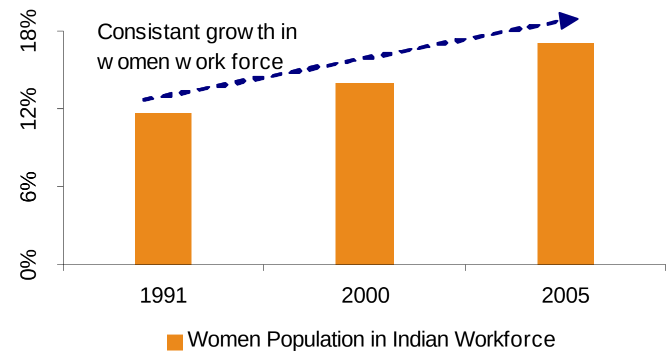
Per capita income increased at 5.9% CAGR during FY01-09



Urbanization has increased continuously over the period

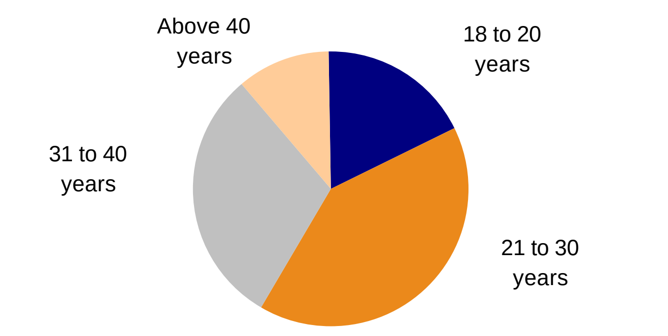


Woman population in work force continues to increase



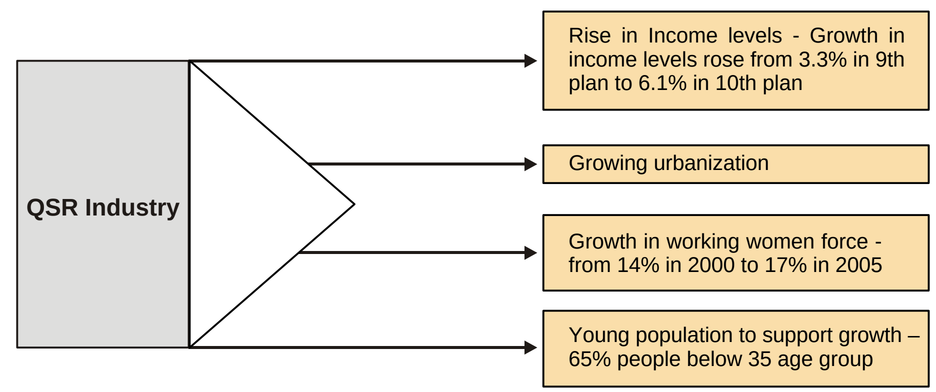
Source: Company, Emkay Research

Age group profile of those who eat out



Source: Company, Emkay Research

Macro triggers in place for the growth of food industry



Source: Company, Emkay Research

JFL is the master chef of QSR business

JFL has perfectly implemented the 4 main pillars of QSR business i.e. Supply Chain, Site Selection, People Management and Sales & Marketing

We believe that JFL has already mastered the QSR business - through expansion of the Domino's franchisee in India. The testimony to this is achieving top position amongst Domino's franchisees globally for three consecutive years CY2006, CY2007 and CY2008 - with a cumulative OER score (Operational Excellence Report) of 89.3%, 92.4% and 85.0% respectively. JFL has perfectly implemented the 4 main pillars of QSR business i.e. Supply Chain, Site Selection, People Management and Sales & Marketing.

Strong supply chain - JFL has successfully implemented centralized distribution systems to supply key raw materials like Pizza Breads, Cheese, Vegetables and Packaging Boxes to various outlets. This helps in standardizing food quality and service levels - key to successful branding in QSR business.

Site selection - With +10 years in business, JFL has gathered expertise in site selection -as QSR is a mix of smart site selection and culinary tricks. We believe that outlet selection drives both business volumes and profitability. Till December 2009, JFL has 296 company-owned outlets with presence across 65 cities in India.

People management - QSR is a service-intensive business and hence people's business in all respects. JFL has a high employee base of 9500 spread across commissaries, outlets and head office functions. JFL has perfectly executed people management - reflected from regular featuring of JFL in 'Hewitt's India Employer Survey'. Considering high employee base and service-nature of the business - we believe that the company has achieved huge success in employee management.

Sales & Marketing - QSR is an extremely competitive industry where success depends on sales & marketing strategies due to lack of product differentiation. JFL has always implemented winning strategies and successful campaigns. The company's advertising campaigns like - "Hungry Kya?", "30 minutes or free" and "Khushiyon Ki Home Delivery" has geared the business to achieve multi-fold expansion. We believe that, JFL is ahead of competition on its ability to connect with the consumers on regular basis.

Impressive free cash flow - The main ingredient of the value crust

JFL's ability to generate significant cash flow, we believe that going ahead, internal cash flows would meet its fund requirements for store expansion plans

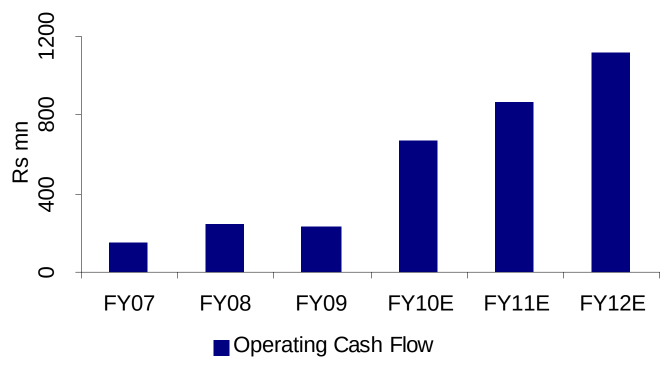
JFL has reported sustained growth in cash flows, alongside the expansion in stores network. The company generated operating cashflow of Rs180 mn, Rs300 mn, Rs321 mn and Rs401 mn in FY07, FY08, FY09 and H1FY10. The store network also expanded from 129 Nos to 181 Nos to 241 Nos in FY07, FY08 and FY09 respectively. We like this cash generating ability of its business model - operating cashflow of Rs1.5 mn per outlet on annual basis against capital expenditure of Rs5.5-6.0 mn per outlet - which indicates a payback period of less than 4 years. Considering this and the company's ability to generate significant cash flow, we believe that going ahead, internal cash flows would meet JFL's fund requirements for store expansion plans. We expect JFL to generate operating cash flow of Rs668 mn, Rs863 mn and Rs1.1 bn in FY10E, FY11E and FY12E - representing 181%, 29.2% and 29.1% yoy growth in respective years.

Cash flow (Rs mn)

	FY08	FY09	FY10E	FY11E	FY12E
Cash flow from operating activities	246.0	237.9	667.7	862.7	1114.0
Cash flow from Investment activities	-432.5	-542.4	-585.9	-631.0	-676.1
Cash flow from finance activities	171.1	311.3	-55.4	-232.5	-120.9
Cash flow during the year	-15.3	6.9	26.4	-0.8	317.0
Opening balance	36.2	20.9	30.1	56.5	55.7
Closing balance	20.9	27.8	56.5	55.7	372.7

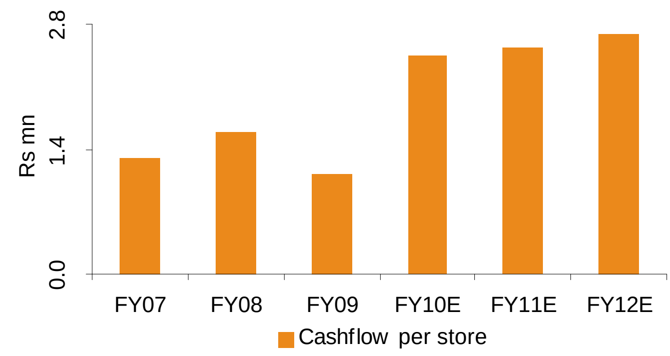
Source: Emkay Research

Continuous growth in operating cash flow



Source: Company, Emkay Research

Cash flow per store would improve continuously



Source: Company, Emkay Research

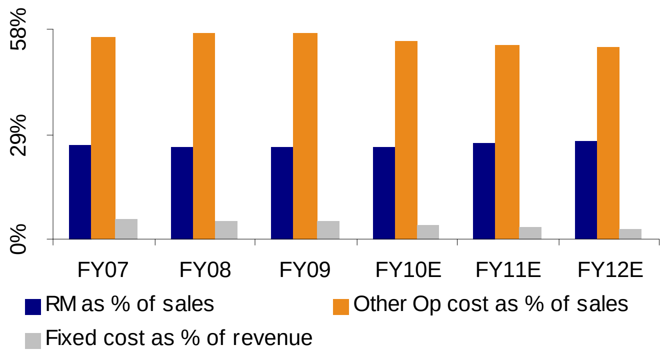
Headroom for expansion in operating margin and return ratios- Main topping

JFL is likely to gain from fall in fixed costs as % of revenues in ensuing years and thereby show faster traction in operating performance

We like the QSR business model in general owing to its ability to generate operating leverage alongside sustained growth in business volumes. An even closer scrutiny of Domino's model offers tremendous scope for operating leverage - with improvement in operating margins and return ratios in the long run. JFL has reported EBIDTA margins of 12.5% in FY09 versus 11.0% in FY05 - and there is substantial upside from current levels. Our argument is purely based on operating leverage in the business, especially in marketing spends (gain from centralized marketing spends), commissaries costs (centralized sourcing and manufacturing operations) and fixed costs per store (store specific costs)- which do not move in tandem with revenue growth. Thus, JFL is likely to gain from fall in fixed costs as % of revenues in ensuing years and thereby show faster traction in operating performance.

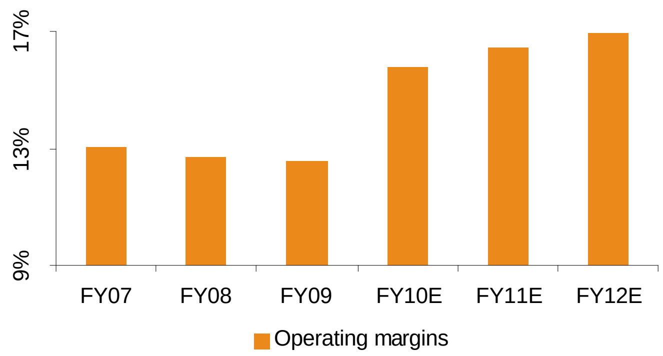
Considering the above, operating margins are likely to expand by 400 bps from 12.5% in FY09 to 15.8% in FY10E and further to 17.0% in FY12E. Moreover, the company's return ratios are likely to improve in ensuing years alongside improvement in profitability. The ROCE is expected to increase from 17.7% in FY09 to 50.2% in FY12E, whereas ROE is expected to remain firm at 34.6% over the same period.

Fixed costs fall with rise in revenues



Source: Company, Emkay Research

Operating margins to increase from 12.5% to 17.0% in FY09-12



Source: Company, Emkay Research

Alongside growth in new geographies, we expect the following growth avenues to help Domino's cash in on the immense growth potential of the pizza segment

Multiple growth avenues - Wide range of extra toppings

Given the conducive growth environment for companies in the QSR segment, we expect JFL to fully capitalize its stronghold on the pizza and pasta subsegment. There are ample growth avenues available to JFL to further consolidate its position in the pizza segment and also grow the segment itself. Alongside growth in new geographies, we expect the following growth avenues to help Domino's cash in on the immense growth potential of the pizza segment.

Huge scope for penetration in existing markets - Though, present in 59 cities with 286 outlets, we believe that there is immense potential left in the business to expand in existing geographies. Considering that merely 2% of total food expenditure is on pizza category and non-home dining is just 7-times a month in urban households, the company can continue to setup new stores in existing markets without having any adverse impact on current sales.

Expand in to new cities - Domino's brand has largely expanded into Tier 1 and Class A towns at this stage. There is tremendous growth opportunity in Tier 2 and Tier 3 cities in ensuing years- on rising awareness and higher urbanization.

Explore new distribution channels - Domino's can explore new distribution formats like Railways, Airports, Petrol Pumps, Malls, etc to augment growth in the business.

Enter new geographies - JFL has licensed the Domino's brand for India, Nepal, Srilanka and Bangladesh. JFL currently has operations in India and Sri Lanka. Considering the huge acceptance for the brand in these geographies, JFL can expand its business in Nepal and Bangladesh as well.

Enhancing revenue from existing outlet - JFL can sweat the existing outlets i.e. increasing the food offerings, increasing the bill per customer and attracting more customers. There is tremendous scope to increase the current revenue per outlet of Rs1.5 mn.

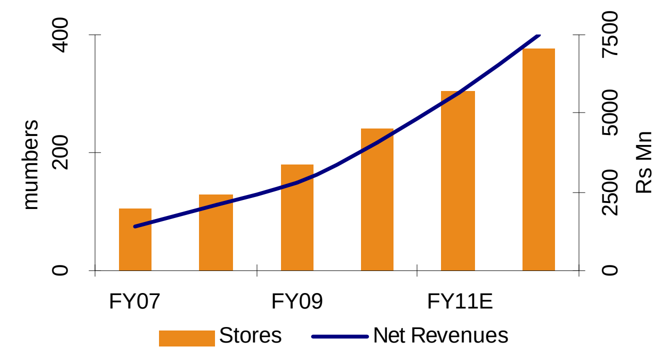
Thus, considering the above drivers, we believe that JFL would clock revenue CAGR of 38.7% in FY09-12E. We expect net revenues from JFL to increase from Rs2.8 bn in FY09 to Rs7.5 bn in FY12E.

We expect JFL to open 65, 70 and 75 stores in FY10E, FY11E and FY12E respectively

Expect continued expansion of store network

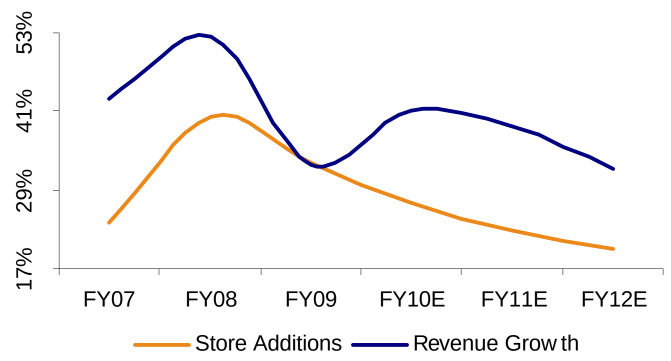
Currently, JFL has a network of 296 outlets spread across 65 cities in India- i.e. run rate of 21 outlets per year for the last 13 years. JFL has opened 60 outlets in FY09, 52 outlets in FY08 and 25 outlets in FY07 - implying that 50% of outlets have been set-up in the last 3 years. The aggressive expansion in the last 3 years has been undertaken after achieving stabilization in operations and confidence to record profitable growth in the business. The same stores growth is also encouraging at 22.2%, 19.9% and 6.0% in FY07, FY08 and FY09 respectively. The aggressive expansion is likely to continue for the next 5 years - considering the tremendous opportunity in India owing to under penetration of the category. Also, JFL is likely to explore the growth potential of neighboring markets. We expect JFL to add 65, 70 and 75 outlets in FY10E, FY11E and FY12E. Company will explore new distribution channels like Airports, Railways, Office Complexes and Malls to augment the overall growth.

Revenues increased with the growth in stores



Source: Company, Emkay Research

Same store growth - hand in hand with net revenue growth



Source: Company, Emkay Research

Investment Negatives

QSR industry is very competitive

The QSR industry is very competitive, owing to little-or-no product differentiation. In India, strong players like Pizza Hut, Papa John's, Smokin Joe's and Pizza Corner, as well as other quick service restaurant chains such as McDonald's and Subway, compete in the business. We believe that, success in the QSR industry depends on getting 4 key things in place i.e. (1) supply chain (2) site selection (3) people management and (4) marketing strategies - mastering these areas is a key challenge.

Cost control is very difficult

Raw material costs and labor costs are difficult to manage in the QSR business. The continuous inflation in the raw material and labor costs is a key challenge for the QSR players. Further, employee attrition is biggest risk to the business- it destabilizes the business for the short-medium term.

Financials

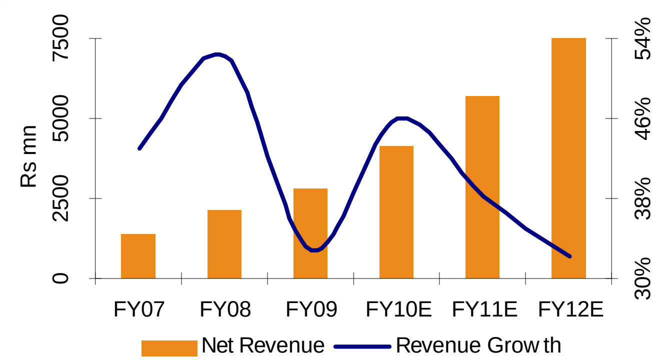
Revenue to increase to Rs7.5 bn in FY12E

We expect net revenues to increase at 38.7% CAGR in FY09-12E

Net revenues have grown at a CAGR of 39.7% in FY05-09 period from Rs736 mn in FY05 to Rs2.8 bn in FY09. This growth was triggered by expansion of store network and addition of new product categories. JFL has expanded its store network from 129 outlets in FY07 to 181 outlets in FY08 and 241 outlets in FY09. JFL has added another 55 stores in April-December 2009, resulting in a total store count of 296 by December 2009. JFL earns healthy revenue of Rs 11-15 mn per outlet, depending on the location of the outlet. Also, JFL has recorded healthy same-store sales growth of 22.2%, 19.9% and 6.0% in FY07, FY08 and FY09 respectively.

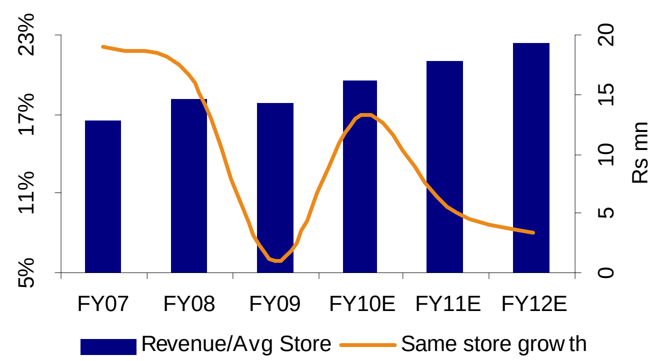
Considering the under penetration of QSR formats and pizza category in particular, there is ample opportunity to report sustainable growth in ensuing years. The growth will come from expansion of store network and sweating of existing outlets. We expect 65, 70 and 75 store additions in FY10E, FY11E and FY12E respectively, taking the total store count to 451 in FY12E. We expect revenues to increase in line with their store expansion. We believe that JFL would achieve revenues of Rs4.1 bn, Rs5.7 bn and Rs7.5 bn in FY10E, FY11E and FY12E - representing 45.9%, 38.3% and 32.2% yoy growths respectively.

Revenue is expected to reach to Rs7.5 bn in FY12E



Source: Company, Emkay Research

Same store growth to remain high



Source: Company, Emkay Research

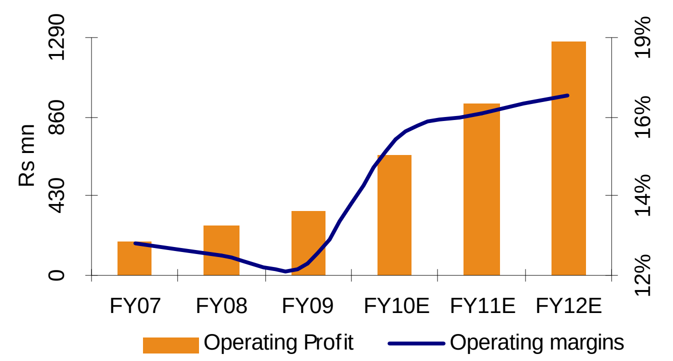
Good traction in operating performance- scope for further improvement

We expect JFL's operating profit to grow at a CAGR of 53.3% to Rs1.3 bn during FY09-12E - ahead of revenue growth

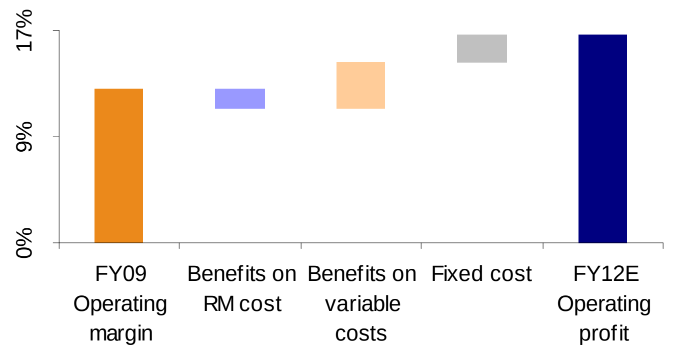
Operating profit has grown at a 44.5% CAGR in FY05-09 period, driven by robust growth in net revenues and partial benefits of operating leverage. Consequently, the operating margins jumped by 150 bps from 11.0% in FY05 to 12.5% in FY09. APAT growth was also higher at 114.7% CAGR in FY05-09 period from Rs3.5 mn in FY05 to Rs79 mn in FY09 - benefiting from strong operational performance and comparatively lower growth in depreciation and interest charges.

There is further scope to improve operating performance in ensuing years, considering the operating leverage in the business - especially in marketing spends, commissaries costs and fixed costs per store - which do not move in tandem with revenue growth. Thus, JFL is likely to gain from fall in fixed costs as % of revenues in ensuing years and thereby show much faster traction at operating levels. We expect JFL's operating profit to grow at a CAGR of 53.3% to Rs1.3 bn during FY09-12E - ahead of revenue growth. Consequently, the operating margins are likely to expand by 440 bps from 12.5% in FY09 to 17.0% in FY12E. The APAT is expected to grow at a CAGR of 100.0% to Rs634 mn during FY09-12E. We expect earnings of Rs5.0/Share, Rs7.7/Share and Rs10.0/Share for FY10E, FY11E and FY12E respectively.

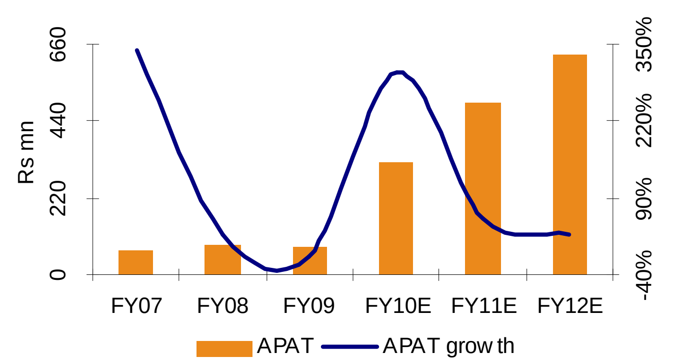
Operating profit to grow at a CAGR of 53.3% to Rs1.3 bn in FY09-12



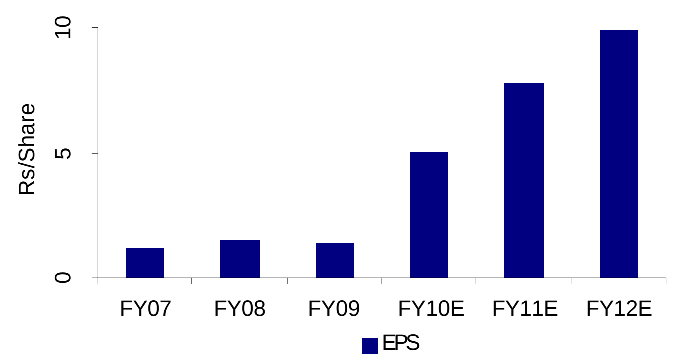
Operating efficiency - Lead contributor for margin expansion



APAT to increase at 100.0% CAGR in FY09-12E



Expect EPS of Rs10.0/Share in FY12E



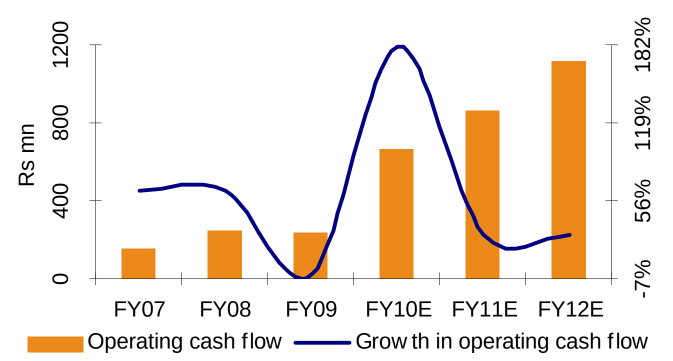
Source: Company, Emkay Research

Source: Company, Emkay Research

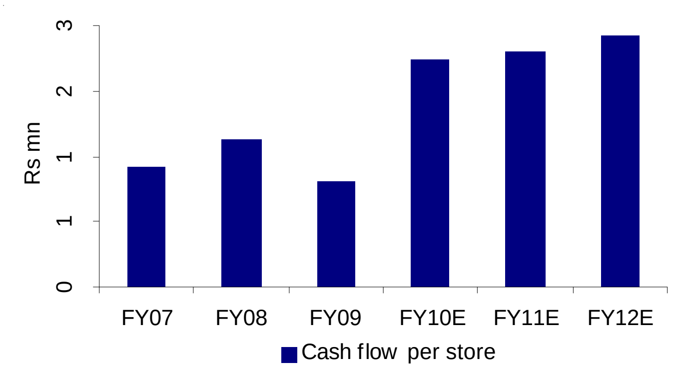
Give thumbs up to cash generating ability of business

The company generated operating cash flow of Rs180 mn, Rs300 mn, Rs321 mn and Rs401 mn in FY07, FY08, FY09 and H1FY10. We give thumbs up to the cash generating ability of its business model - operating cash flow of Rs1.5 mn per outlet on annual basis against capital expenditure of Rs5.5-6.0 mn per outlet - which indicates payback period of less than 4 years. Expansion of store network and sweating of existing outlets promises strong cash flow generation in ensuing years. Going ahead, we believe that JFL would generate operating cash flow of Rs668 mn, Rs863 mn and Rs1.1 bn in FY10E, FY11E and FY12E - representing 181%, 29.2% and 29.1% yoy growth in respective years.

JFL would generate operating cash flow of Rs1.1 bn in FY12E



Cash flow per store would remain high, going ahead



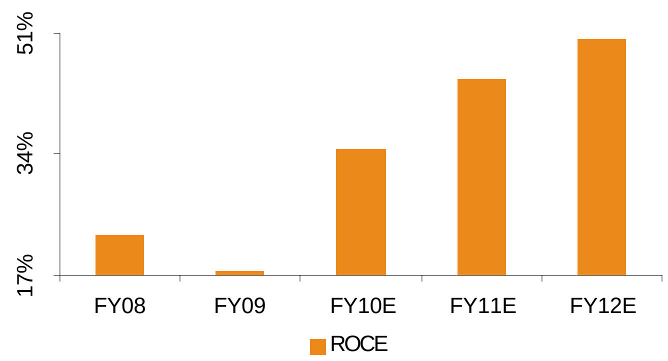
Source: Company, Emkay Research

Source: Company, Emkay Research

Impressed by return ratios in business

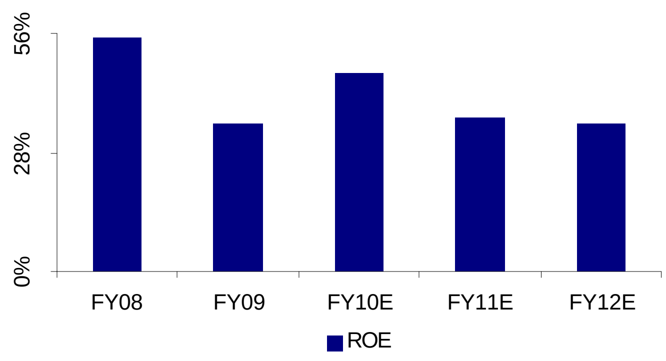
JFL earns strong return on investments and very few business models have similar return ratios. JFL clocked a ROE of 48.2% in FY05, 52.5% in FY08 and 32.1% in FY09. We are quite impressed by its high return ratios on a sustainable basis. JFL earned ROCE of 8.4% in FY05, 22.0% in FY08 and 17.1% in FY09. Alongside improvement in operating performance in ensuing years, we expect improvement in return ratios. We believe that the company's ROE would increase to 46.7% and 36.3% in FY10E and FY11E and then would stabilize at 34.6% in FY12E. The ROCE is expected to increase to 34.7%, 44.4% and 50.2% during the same period.

ROCE is expected to increase from 17.7% to 50.2% in FY09-12E



Source: Company, Emkay Research

Expect ROE to stabilize to 34.6% in FY12E



Source: Company, Emkay Research

	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY09-12E CAGR
Net revenue	1,386.8	2,111.5	2,806.1	4,094.7	5,661.8	7,483.8	38.7%
Operating Profit	181.0	268.5	351.9	645.9	932.7	1,269.0	53.3%
APAT	68.2	88.3	79.3	319.7	492.4	633.5	100.0%
Operating Margin	13.1%	12.7%	12.5%	15.8%	16.5%	17.0%	150 bps
APAT Margin	4.9%	4.2%	2.8%	7.8%	8.7%	8.5%	190 bps
Cash Flow from operations	150.3	246.0	237.9	667.7	862.7	1114.0	67.3%
ROCE	23.9%	22.6%	17.7%	34.7%	44.4%	50.2%	1080 bps
RONW	82.1%	55.0%	34.7%	46.7%	36.3%	34.6%	0 bps

Source: Emkay Research

Valuation

Expect sustainable growth in earnings

We expect JFL to report earnings of Rs5.0/Share, Rs7.7/Share and Rs10.0/Share in FY10E, FY11E and FY12E respectively

JFL is expected to gain traction in operational performance based on (1) favorable business environment (2) changing socio-economic factors (3) high acceptance of its products and (4) reduction in fixed costs (as % of revenues) with growth in revenues. With improvement in operational performance, we expect the company to report high and sustained earnings growth in the coming years. We expect JFL to report earnings of Rs5.0/Share, Rs7.7/Share and Rs10.0/Share in FY10E, FY11E and FY12E respectively - representing yoy growths of 268.7%, 54.0% and 28.7% during the same periods.

Scarcity premium in the business

JFL is amongst the few companies to get listed in the food-service industry. Hence, there is no like-to-like comparison. We expect a scarcity premium to be assigned by investors for short-to-medium term - just as it happened in public offerings of Page Industries, Mahindra Holiday Resorts, etc.

No like to like comparison

JFL is currently trading at Rs245/Share - at a PER valuation of 48.6X FY10E earnings, 31.5X FY11E earnings and 24.5X FY12E earnings. We believe that direct comparison with valuations of listed peers in the international space like Papa Jones, Domino's Plc, etc is not appropriate - since the growth potential and operating parameters are completely different.

Very expensive on preliminary analysis/screening

At the current price of Rs245/Share, JFL looks expensive on preliminary screening tools like PER - at 48.6X FY10E earnings, 31.5X FY11E earnings and 24.5X FY12E earnings. Considering the nature of the business and growth opportunity ahead, we believe that the business should be valued by a valuation tool that captures its true value. We believe that the commonly used screening tools fail to capture its true potential.

Conventional tools do not capture the key positives of its business model

We are impressed by the cash generating ability of its business model - and its ability to grow stupendously on internal accruals. We are impressed by the self sustaining model with cash break-even of less than 4 years - operating cash flow of Rs1.5 mn per outlet against capital expenditure of Rs5.5-6.0 mn per outlet. We believe that conventional tools such as PER do not capture these positives of its business model.

Cash flow is the focal point; valuations are cheap on P/CF

Considering the business model, the company offers tremendous scope for operating leverage - promising expansion in operating margins and return ratios in ensuing years. Thus, valuation of 23X FY10E operating cash flow, 18X FY11E operating cash flow and 14X FY12E operating cash flow is relatively cheap versus consumer companies trading at average Price to Operating Cash flow of 22X FY10E operating cash flow, 20X FY11E operating cash flow and 19X FY12E operating cash flow.

Attractive valuation v/s consumer companies

JFL is available at 25.9% discount to consumer companies - extremely attractive making it a candidate for lucrative medium-to-long term gains.

As JFL is the only listed company in the space, we would compare its valuations with the consumer companies - as they both share a lot of similarities. The only difference in the two business models is the extent of cyclicality and competition (relatively higher in QSR business against traditional consumer business) - for which JFL is available at 25.9% discount to consumer companies. Thus, valuations are extremely attractive making it a candidate for lucrative medium-to-long term gains.

Initiate 'BUY' with price target of Rs298/Share

We have arrived at a price target of Rs298/Share - with potential upside of 22.0% from the current level

Considering JFL's nature of business and its ability to generate cash, we have valued JFL on P/OCF basis. The company is expected to generate operating cash flow of Rs10.5/ Share, Rs13.6/Share and Rs17.5/Share in FY10E, FY11E and FY12E respectively. We have assigned a P/OCF multiple of 17X FY12E operating cash flow - 10% discount to consumer companies. Thus, we have arrived at a price target of Rs298/Share - with potential upside of 22.0% from the current level.

FY12E	JFL	HUL	APL	GCPL	Marico
Market Price	245	233	1969	252	99
Market Cap (Rs bn)	15.5	566	189	66	61
Operating Cashflow (Rs bn)	1.1	31.7	8.8	3.0	3.6
P/OCF	**13.9**	**17.9**	**21.5**	**22.0**	**17.0**

Source: Emkay Research

Income Statement

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
Net Sales	**2,806**	**4,095**	**5,662**	**7,484**
Growth (%)	32.9	45.9	38.3	32.2
Expenses	**2,454**	**3,449**	**4,729**	**6,215**
Growth (%)	33.2	40.5	37.1	31.4
Raw Materials	718	1,040	1,499	2,039
% Of Sales	25.6	25.4	26.5	27.2
Employee Cost	556	766	992	1,256
% Of Sales	19.8	18.7	17.5	16.8
Manufacturing Exps	906	1,265	1,716	2,223
% Of Sales	32.3	30.9	30.3	29.7
Admin Expenses	141	162	187	202
% Of Sales	5.0	4.0	3.3	2.7
Selling & Distribn Exp	133	217	335	496
% Of Sales	4.7	5.3	5.9	6.6
Ebidta	**352**	**646**	**933**	**1,269**
Growth (%)	31.1	83.5	44.4	36.1
Ebidta%	12.5	15.8	16.5	17.0
Other Income	4	4	7	15
Interest	99	90	46	46
Depreciation	169	239	297	364
PBT	87	321	597	873
Tax	8	1	104	240
PAT (Before EO Item)	**79**	**320**	**492**	**634**
Growth (%)	-10.3	303.4	54.0	28.7
Net Margin%	2.8	7.8	8.7	8.5
E/O Item	6	0	0	0
Reported PAT	73	320	492	634

Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
Equity Share Capital	582	636	636	636
Reserves	-354	506	936	1,449
Networth	**228**	**1,142**	**1,572**	**2,085**
Secured Loans	825	175	5	5
Unsecured Loans	0	0	0	0
Loan Funds	**825**	**175**	**5**	**5**
Net Deferred Tax	0	0	0	0
Capital Employed	**1,053**	**1,317**	**1,577**	**2,089**
Gross Block	1,710	2,296	2,927	3,603
Less: Depreciation	651	890	1,187	1,552
Net Block	**1,059**	**1,406**	**1,739**	**2,051**
Capital Work In Progress	89	89	89	89
Goodwill	2	3	4	5
Investments	0	0	0	0
Current Assets	**336**	**467**	**633**	**1,112**
Inventories	55	65	125	165
Debtors	12	19	26	35
Cash & Bank	30	56	56	373
Loans & Advances	239	326	426	539
Other cur assets	0	0	0	0
Current Liabilities & Prov	**431**	**645**	**885**	**1,162**
Net Current Assets	**-95**	**-178**	**-252**	**-51**
Miscellaneous Expenditure	0	0	0	0
Capital Deployed	**1,053**	**1,317**	**1,577**	**2,089**

Cash Flow Statement

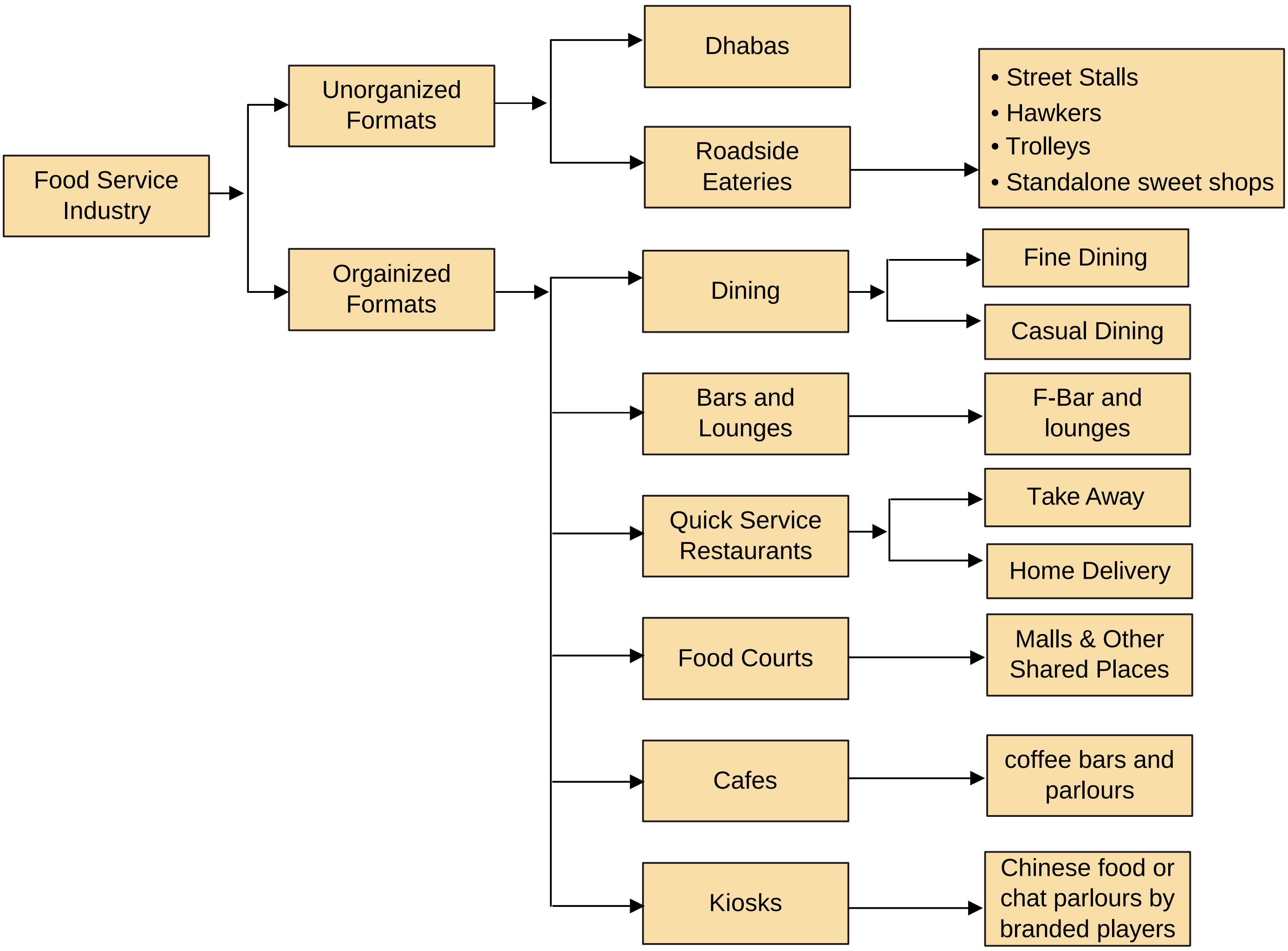
Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
Pre-Tax Profit	**81**	**321**	**597**	**873**
Depreciation	169	239	297	364
Non Cash	6	0	0	0
Chg in Working Cap	-10	109	73	116
Tax Paid	-8	-1	-104	-240
Operating Cash Flow	**238**	**668**	**863**	**1,114**
Capex	-541	-586	-631	-676
Free Cash Flow	**-303**	**82**	**232**	**438**
Investments	-2	0	0	0
Equity Capital	0	55	0	0
Loans	311	-650	-170	0
Dividend	0	0	-63	-121
Others	0	0	0	0
Net Change in Cash	**7**	**26**	**-1**	**317**
Opening Cash Position	**21**	**30**	**56**	**56**
Closing Cash Position	**28**	**56**	**56**	**373**

Key Ratios

Y/E, Mar	FY09	FY10E	FY11E	FY12E
Profitability %				
Ebidta Mgn	12.5	15.8	16.5	17.0
PAT Mgn	2.8	7.8	8.7	8.5
ROCE	17.7	34.7	44.4	50.2
ROE	34.7	46.7	36.3	34.6
Per Share Data				
EPS	1.4	5.0	7.7	10.0
BVPS	3.9	18.0	24.7	32.8
DVPS	0.0	0.0	0.0	0.0
Valuations (X)				
PER	179.0	48.6	31.5	24.5
P/BV	62.2	13.6	9.9	7.4
Ev/Sales	5.3	3.8	2.7	2.0
Ev/Ebidta	42.1	24.1	16.5	11.8
Dividend Yield (%)	0.0	0.0	0.4	0.8
Turnover (X Days)				
Debtor TO Days	1.5	1.5	1.5	1.5
Inventory TO Days	7.2	7.2	7.2	7.2
Gearing Ratio				
Net Debt/Equity	1.4	0.2	-0.1	-0.6
Total Debt/Equity	27.4	3.1	0.1	0.0

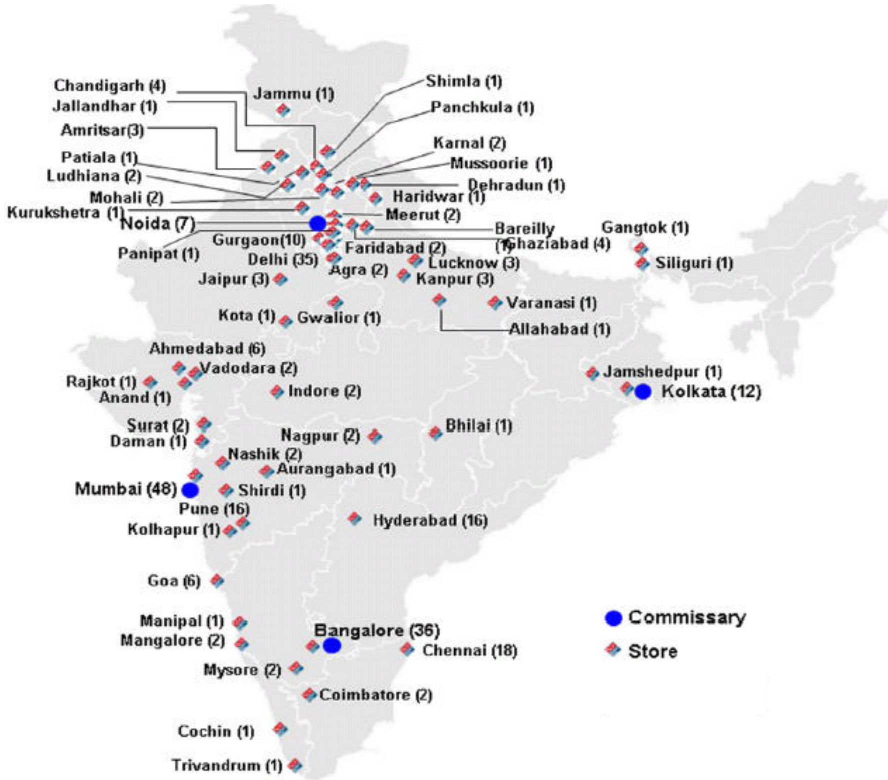
Annexure

Structure of Indian Food Industry



Source: Company, Emkay Research

JFL's footprints



Source: Company, Emkay Research

Domino's branding

Source: Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (stock price depreciation) of upto (-)10% within the next 12-18 months.
SELL	The stock is believed to under perform the broad market indices or its related universe within the next 12-18 months.