PINC RESEARCH

Jubilant Foodworks Ltd

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IPO Note

Global cuisine delivered locally

Jubilant Food Works (JFW) is the master franchisee of Domino's in India with >280 stores across 55 cities. JFW is on track to leverage the strong operational and supply chain backbone. We estimate sales CAGR of >33% over FY09-12 driven by higher penetration and favorable demographics (younger and richer India).

Unique and scalable business model

JFW's focus on quick delivery rather than on the ambience of the restaurant augurs well for its ability to grow rapidly and achieve higher penetration of Pizzas. JFW receives technical and operational inputs from Domino's International on its processes and supply chain management giving JFW a sustainable advantage over competition.

Strong growth and visibility

Given the under-penetration of Pizzas in India (<2% of expenditure on eating out is spent on Pizzas) and a favourable macro environment (growing number of young and working force coupled with higher tendency to eat out), we believe Pizza delivery segment can grow rapidly. Same store sales have grown at a CAGR of 37% over FY07-09.

Stringent RoI based store selection process

JFW has a stringent process to select the location for new stores and typically most stores are EBITDA positive from day one. The fact that JFW has closed just 2 stores (that too for non commercial reasons) over the last 4 years despite opening >200 indicates the rigor involved in selecting new store locations.

Valuations – Listed Domino's franchisees in UK, US, Germany, Australia and Mexico trade between 8-12x one year forward EV/EBITDA and 8-18x one year forward P/E. UK and Australia are more relevant for comparison with JFW since the US listed franchise has 90% of its store sub-franchisees. We argue for a 20% premium to the average EV/EBITDA to these franchisees. **Key Risks** include 1) Discretionary nature of demand 2) Consumer choices can change 3) Constant innovation needed to the menu to avoid customer fatigue.

KEY FINANCIALS (Rs mn)

	FY08	FY09	FY10E	FY11E	FY12E
Net Sales	2,112	2,806	3,832	5,109	6,689
YoY Gr. (%)	52.3	32.9	36.6	33.3	30.9
Op. Profit	262	346	621	919	1,324
Op. Marg. (%)	12.4	12.3	16.2	18.0	19.8
Adj. Net Profit	84	73	265	486	637
YoY Gr.(%)	33.3	(13.2)	263.8	83.7	30.9

KEY RATIOS (@ Rs145/share)

	FY08	FY09	FY10E	FY11E	FY12E
Dil. EPS (Rs)	1.3	1.1	4.2	7.7	10.0
ROCE *(%)*	21.0	16.6	22.7	30.4	37.6
RoE (%)	52.2	31.9	24.4	30.9	28.8
PER (x)	109.8	126.5	34.8	18.9	14.5
EV/ Net Sales (x)	4.6	3.6	2.4	1.8	1.3
EV /EBDITA (x)	37.1	28.9	15.0	9.9	6.6

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ISSUE SNAPSHOT

No. of shares offered	22.6mn* (FV Rs10)
Proposed Price band	Rs135-145
Proposed Issue size	Rs3.1-3.3bn
Issue period	18-21 Jan, 2010
Mkt Cap (Rs mn)	Rs8.6-9.2bn
Listing	BSE & NSE
Equity pre issue	59.5mn shares
Equity post issue	63.5mn shares

* Includes 18.6mn shares offer for sale

PROMOTERS OF THE ISSUE

Promoters : Hari S. Bhartia
Shyam S. Bhartia
Jubilant Enpro Pvt Limited

SHAREHOLDING PATTERN

	Pre Issue (%)	Post Issue (%)
Promoters	58.23	54.56
Others		
IPEF	20.17	-
Indocean Pizza Holding	11.20	-
Weston Investment Ltd	8.13	7.62
Others	2.27	37.82
Total	**100**	**100**

Content

Global cuisine delivered locally

Unique and scalable business model

Jubilant Foodworks (JFW) has a unique business model in that it focuses on delivery and takeaway of Pizzas in India, Bangladesh, Sri Lanka and Nepal. It is the master franchise of the global Pizza chain – Domino's in these countries. JFW's focus on quick delivery rather than on the ambience of the restaurant augurs well for its ability to grow rapidly and achieve higher penetration of Pizzas.

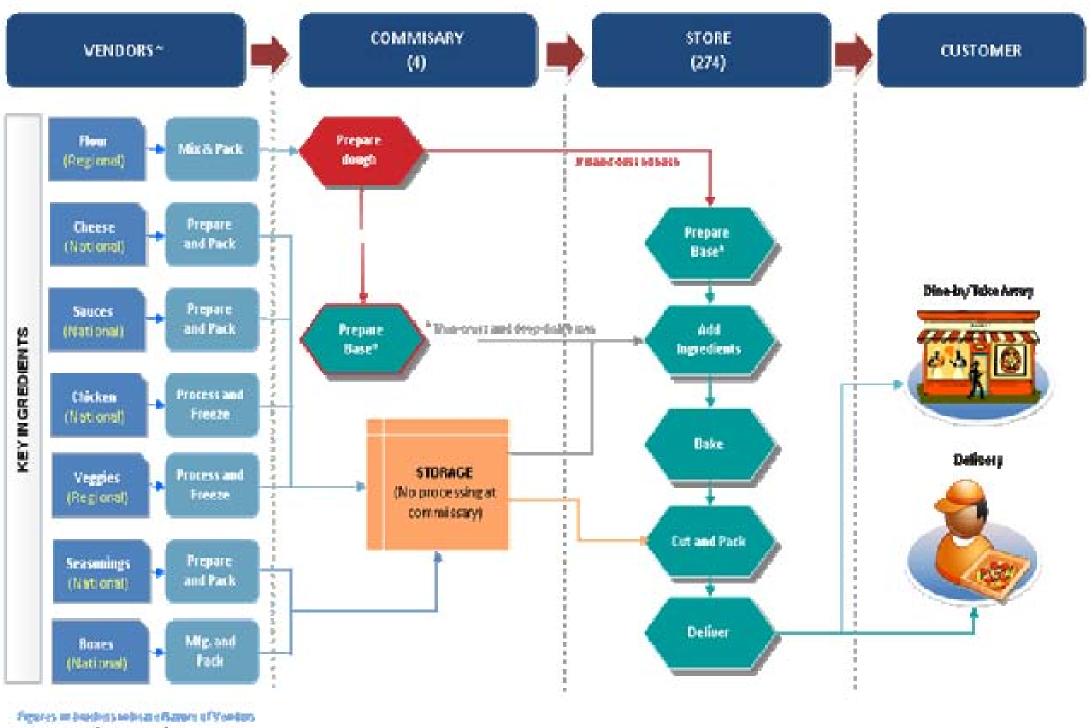
In 2004, JFW advertised a concept of "30 minutes nahi toh free" wherein it undertakes to deliver the pizza in 30 minutes from the time the order is taken or else the pizza is delivered free. This challenge has till date not been matched by any other QSR chain – either serving Pizzas or otherwise.

In 2008, JFW introduced the Pizza Mania where in it reduced the ticket size of a pizza to Rs35. This allowed it to reach out to the consumers, which were hitherto unable to consume Pizza due to the high price point (Rs200 for Pizza sufficient for 2 persons).

Sustainable advantage

JFW receives technical and operational inputs from Domino's International on its processes and supply chain management. JFW takes 22.5 minutes on an average to deliver a Pizza which indicates the strong processes. No competitor has been able to match JFW's 30 minutes promise in the last 5 years. This gives JFW a sustainable advantage over competition. JFW's operations have been ranked no. 1 in the Domino's global operations among the countries with 100 or more stores in 2006 and 2007 and amongst the top three in 2008, with a cumulative Operations Evaluation Report ("OER") score of 89.30%, 92.40% and 85.00% for 2006, 2007 and 2008, respectively.

Exhibit 1 - Strong supply chain



Source: DRHP

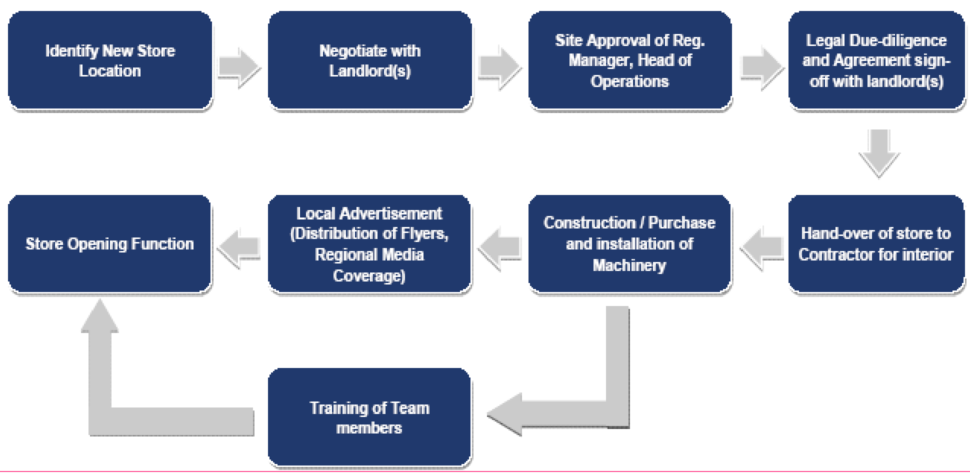
Strong growth and visibility

Given the under-penetration of Pizza's in India (less than 2% of expenditure on eating out is spent on Pizzas) and a favourable macro environment (growing number of young and working force coupled with higher tendency to eat out), we believe that there is a potential for Pizza delivery to grow rapidly. Same store sales have grown at a CAGR of 37% over FY07-09 indicating the strong momentum in the business.

Stringent RoI based store selection process

JFW has a stringent process to select the location for new stores which ensures that typically most stores are EBITDA positive from day one. Each of the store is run independently like a profit centre with fairly strong operational powers for each individual store manager to look at the revenue and profit hurdles without compromising on the quality of the product and service offering to the customer. This flexibility allows for efficient usage of capital and also ensures standardization of product. The fact that JFW has closed just 2 stores over the last 4 years despite opening >200 indicates the rigor involved in selecting locations for new stores.

Exhibit 2 - Store selection process



Source: DRHP

Other international chains could be added

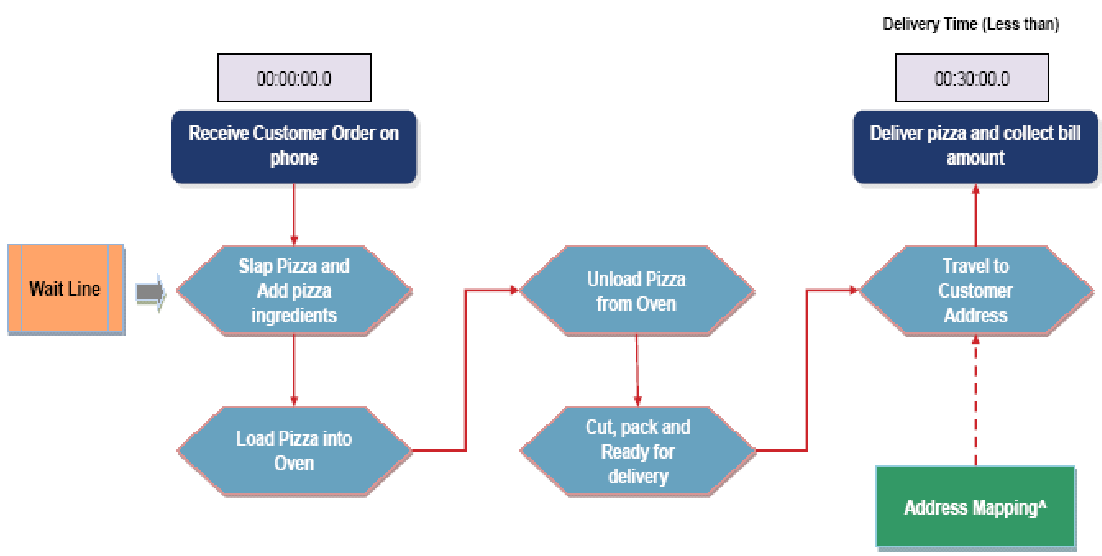
JFW's success with Domino's Pizza could be replicated with other international chains for other kinds of food. As part of its master franchise agreement with Domino's International JFW cannot enter into franchise agreement for Pizza or fast food with anyone else till 2024. This still leaves a large number of international food chains that could be available to tap the huge food service market of India. We note that Alsea (ALSEA* MM Equity, M Cap – USD472mn) in Mexico is an example of such a business model wherein it is the master franchisee for Mexico for more than 5 international food chains including Burger King, Starbucks etc.

Business Profile

Jubilant Food Works operates Domino's Pizza stores in India and through a sub-franchisee in Sri Lanka. It is the largest Pizza chain in India with a 65% market share in the organised pizza delivery segment. Founded in 1995, JFW opened its first Domino's pizza store in January 1996. Domino's pizza stores in India are generally located in neighbourhood markets in urban areas. With more than 270 stores across 55 cities in India, JFW has a pan India presence. JFW's operations have been ranked no. 1 in the Domino's global operations among the countries with 100 or more stores in 2006 and 2007 and amongst the top three in 2008, with a cumulative Operations Evaluation Report ("OER") score of 89.30%, 92.40% and 85.00% for 2006, 2007 and 2008, respectively.

JFW utilizes three distinct marketing channels for its marketing efforts viz. 1) national marketing campaigns on television, print and radio, (2) local store marketing and (3) customer relationship management. Also, JFW has 9,500 employees across the stores indicating the strong human element involved in the business.

Exhibit 3 - Delivery process



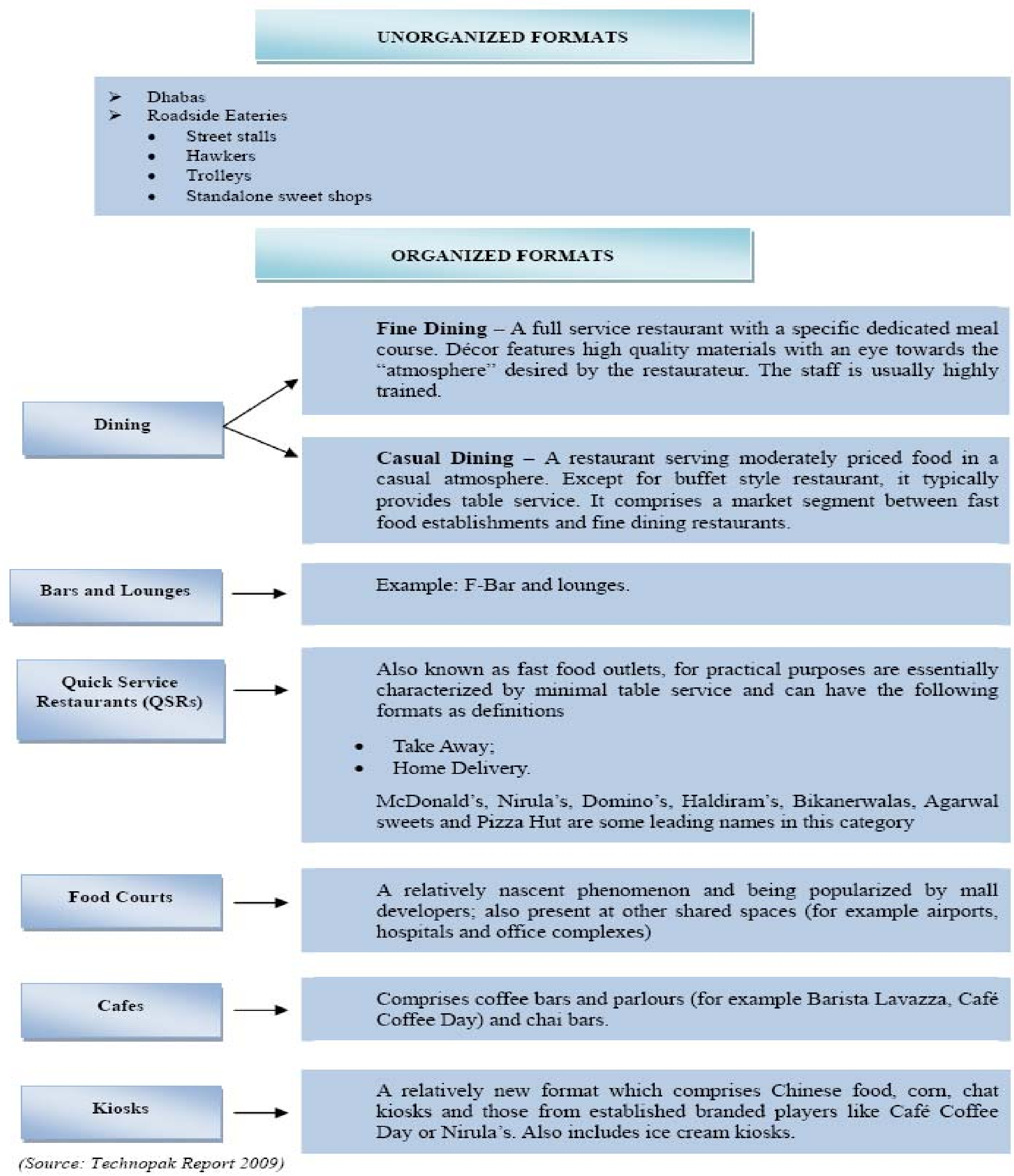
Source: DRHP

Industry Overview

Food Service – large opportunity

According to a Technopak 2009 report, Food industry in India is at USD200bn in FY07 is slated to grow at 5% CAGR to USD300bn in 2015 due to the increase in population and higher affordability. Out of this, Food service industry stands at USD13bn characterised by a large unorganised sector with organised food service at USD1.5-2bn. Organised food service is also growing rapidly at ~20% levels. Within the organized food service, it is the 'quick service restaurants' (QSR) that are growing at a faster pace than the rest of the industry. Jubilant Food works belongs to the QSR segment of organised food service.

Exhibit 4 - Food Service Industry

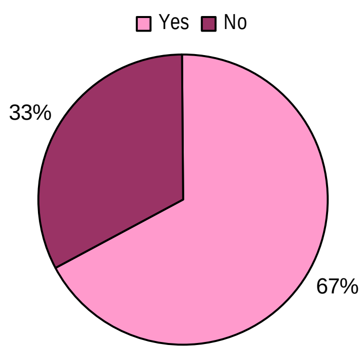


Source: DRHP

Penchant for fast food rising

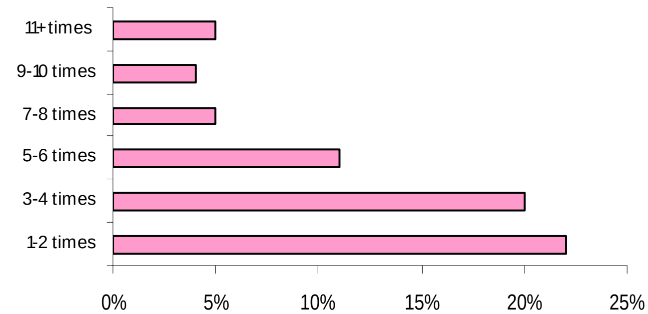
Changing demographics (a much younger India) along with an improving affordability (a richer India) is fuelling rapid growth in the eating out segment in India. As evident in exhibit 5, more than 2/3rd of Indians ordered food from outside every month. In fact more than 25% Indians eat outside 2-3times every month.

Exhibit 5 - Percentage of ordered-in food (monthly basis)



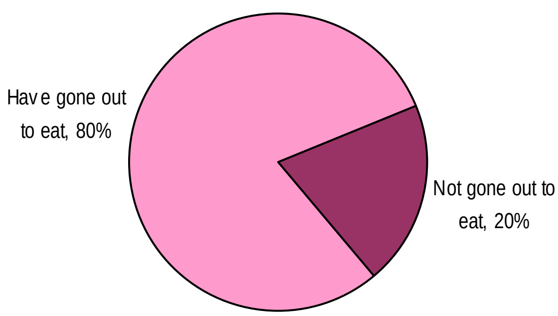
Source: Technopak study, Food retailing report, DRHP

Exhibit 6 - No. of times food ordered-in (monthly basis)



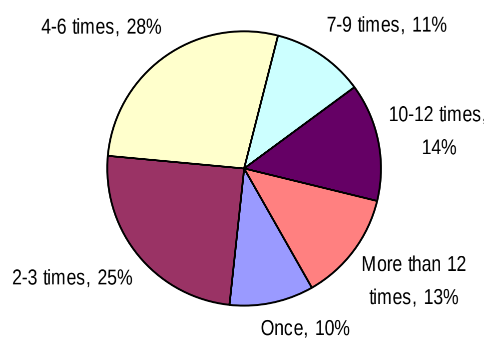
Source: Technopak study, Food retailing report, DRHP

Exhibit 7 - Incidence of eating out on a monthly basis



Source: Technopak study, Food retailing report, DRHP

Exhibit 8 - Frequency of eating out on a monthly basis



Source: Technopak study, Food retailing report, DRHP

Quick service restaurants (QSR) growing fast

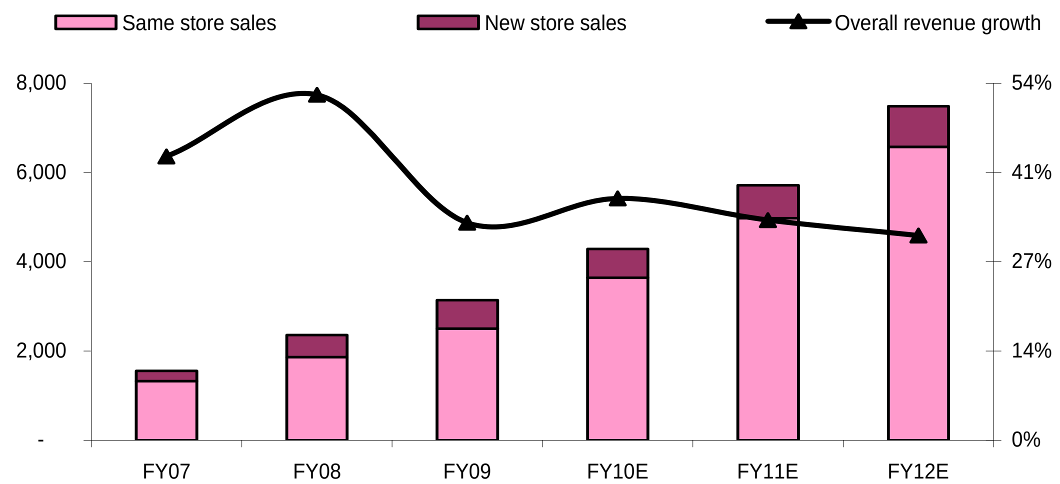
Quick service restaurants have a limited menu on service and are charaterised by speed of delivery and convenience. Average check amounts for a typical QSR outlet are lower as compared to regular restaurants. QSR outlets also do not spend much on ambience and real estate. Increasing urbanization coupled with more and more younger Indians working ordering food has become a trend that has caught on fast, much like the developed world. As such the macro environment remains favourable for strong growth in the QSR segment of food services industry.

Financial Analysis

Revenue growth trajectory to remain strong

Aided by strong store expansion, JFW's sales increased at a CAGR of 42% over FY07-09. We believe that revenue will grow 33% over the next 3 years on the back of more stores as well as higher same store growth.

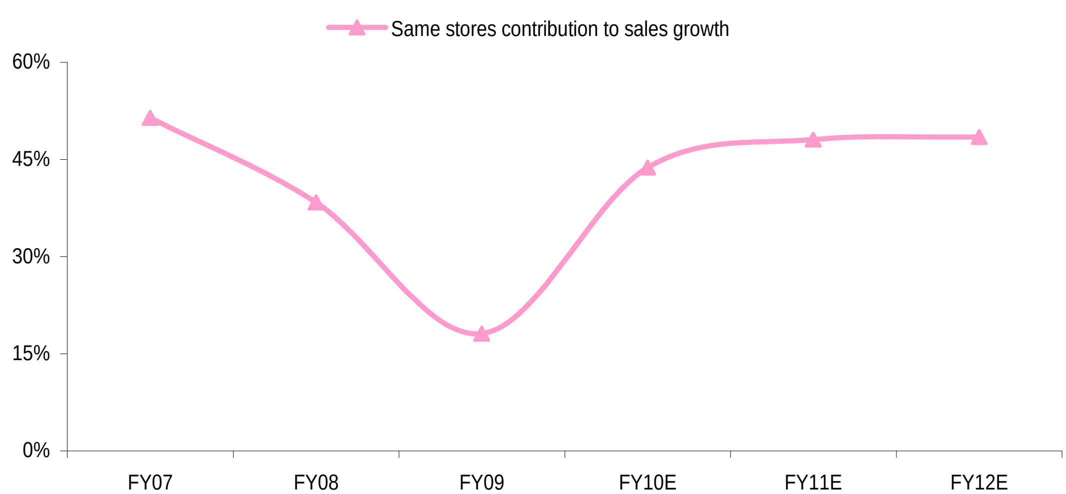
Exhibit 9 - Sales (Rs mn) from same and new stores and overall revenue growth (%)



Source: Company, PINC Research

Same store growth over the last few years has been strong at 37%. As is evident in the exhibit 10, over the next 3 years same store growth will be a bigger contributor to overall growth than new stores. We expect same store growth rate at 16-18% over the next 3 years.

Exhibit 10 - Contribution to growth from same strores (%)

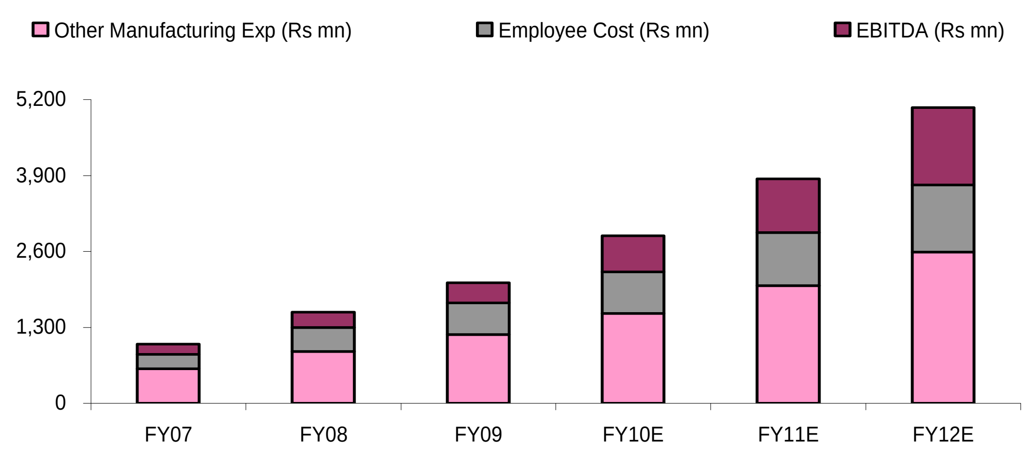


Source: Company, PINC Research

Operating leverage to boost margins

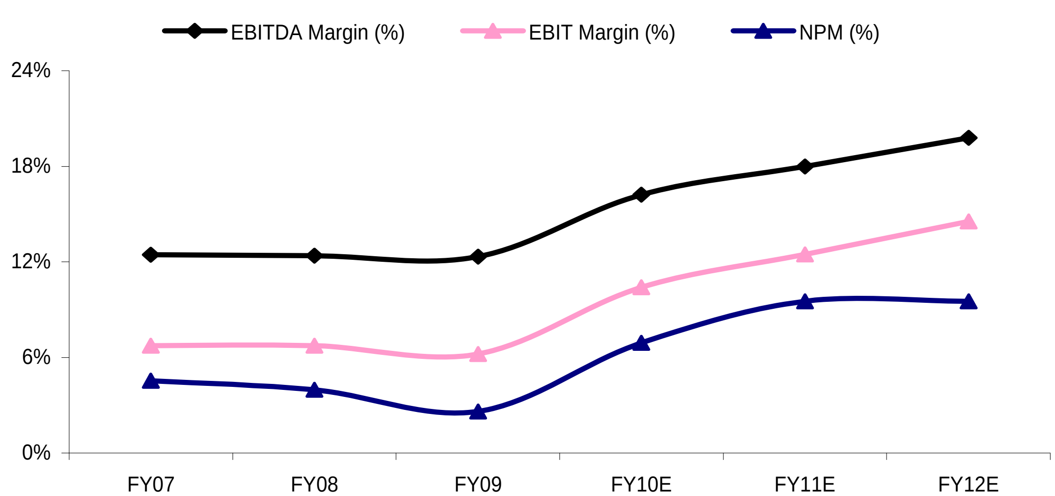
Gross margins have been stable at ~74-75% levels with prices for cheese and chicken (2 large contributors to total RM cost) being fairly stable. However high costs related to expansion has led to higher fixed costs in the form of employee costs and manufacturing related expenses. This has led to drain on EBITDA margins. However, we expect that as the same store growth kicks in on a larger base of revenue with negligible incremental costs margins will improve from the 12% levels in FY09 to c20% in FY12. We estimate EBITDA growth over FY09-12 to be at a robust 56%.

Exhibit 11 - Split of gross profit



Source: Company, PINC Research

Exhibit 12 - Margin Movement (%)



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Source: Company, PINC Research

Decline in capital costs to boost earnings

Both interest and depreciation are expected to come down as equity issue will go towards repayment of debt and capex per store will also decline. Consequently, we estimate a 105% CAGR in EPS over FY09-12.

Balance Sheet to improve substantially

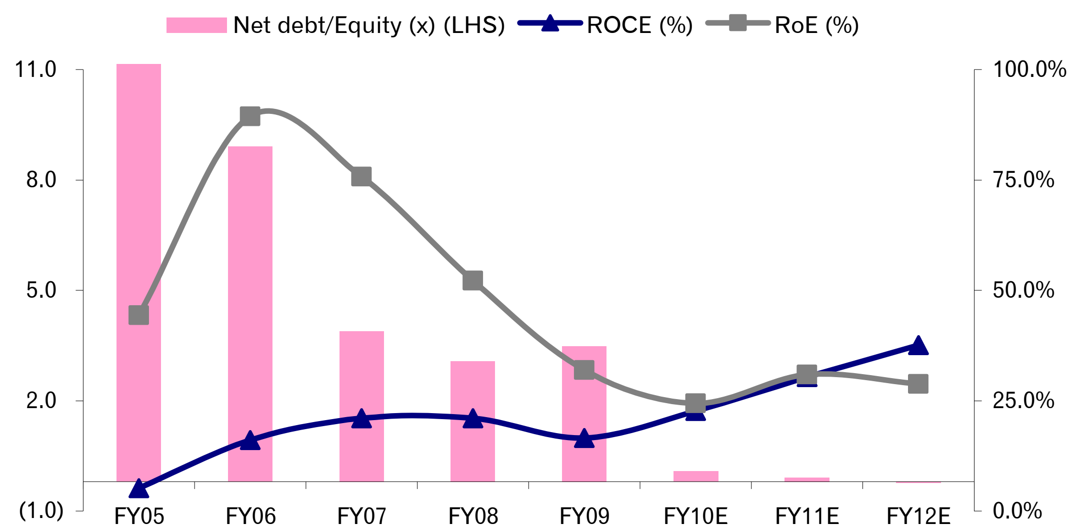
Debt equity to come down

The equity issued will be used to retire debt to the extent of Rs350mn. Future free cash flow from operations will also go towards retirement of debt. Subsequently, the overall debt to equity will come down from the 3.5x in FY09 to almost zero in FY11.

Return ratios to improve

As the asset turns remain steady at the 3.0x levels, improved margins will lead to an improvement in RoCE by ~2,100bps to 37%. Despite higher margins and steady asset turns, RoEs will fall owing to the issue of equity and retirement of debt.

Exhibit 13 - Balance Sheet improvement (Return ratios and Debt Equity)



Source: Company, PINC Research

Valuations

No comparables in India, some clue from international franchisees listed

Valuing JFW is a challenge since there are no listed comparables either in the restaurants' or in the quick service segment. However, Domino's franchisees are listed in Australia, UK and US. While the US franchisee is not strictly comparable since more than 90% of it stores are sub-franchised and not company-owned. Hence they derive only royalty income from the sub franchisee. In contrast JFW owns the entire store in India.

Alsea which is franchisee of Domino's in Mexico is a franchises' of several other international chains including *Burger King, Starbucks* etc.

Exhibit 14 - Domino's franchisees listed in other parts of the world

Name	Bloomberg Tickers	M CAP (USD Mn)	Sales (USD Mn)	EV/EBITDA (x)			PE (x)			PINC Comments
		14/01/10	CY08	CY09	CY10	CY11	CY09	CY10	CY11	
Domino's Pizza UK & IRL	DOM LN Equity	824	217	16.7	15.0	13.6	23.9	21.3	19.3	Model similar to JFW with company owned stores
Domino's Pizza Enterprises (ASX)	DMP AU Equity	331	221	11.4	9.9	9.0	20.1	17.3	15.4	
Domino's Pizza Inc (US)	DPZ US Equity	601	1,422	10.4	10.1	9.6	12.6	11.2	9.3	Not strictly comparable to JFW as >90% of the stores are sub-franchised and not company owned
Alsea Sab de CV (Mexico)	ALSEA* MM Equity	472	616	7.6	6.5	5.4	62.6	31.3	23.1	Is a franchisee for number of other international food chain
Jubilant Foodworks Ltd*		203	62	15.0	9.9	6.6	34.8	18.9	14.5	
Weighted Avg. (by M Cap)				12.3	11.1	10.1	28.5	20.1	16.8	
Average				11.5	10.4	9.4	29.8	20.3	16.8	

Source: Company, PINC Research
** Financials are March ended and discounted at Rs145/share price*

Higher growth rates command a premium over international peers

JFW has a substantially higher growth trajectory for the next 3 years compared to the other listed Domino's franchisees. Hence we argue for a 20% premium for JFW. Accordingly, we believe JFW should trade in a range of 12-13x one year forward EV/EBITDA.

FMCG – a loose comparison

We recognise that FMCG is not directly comparable to JFW's model given the higher element of discretionary nature of demand for JFW's product. Nevertheless we also recognise that for the want of other options available we compare our target 12x FY11e EV/EBITDA multiple to mid cap FMCG companies and conclude that it is not unreasonable to expect JFW to trade at that multiple given the strong earnings momentum.

Exhibit 15 - FMCG Valuation Map

Company	Bloomberg ticker	Mkt Cap (Rs bn)	Sales (Rs mn)	EV/EBITDA (x)			PE (x)		
			FY09/CY08	CY09/FY10	CY10/FY11	CY11/FY12	CY09/FY10	CY10/FY11	CY11/FY12
Hindustan Unilever	HUVR IN Equity	561	174,950	20.0	19.6	19.6	24.5	24.5	21.6
ITC	ITC IN Equity	954	161,901	15.0	12.8	15.0	23.9	20.2	17.5
Nestle	NEST IN Equity	247	41,778	22.6	18.7	22.6	34.7	29.0	24.3
Dabur	Dabur IN Equity	140	28,054	21.1	17.2	na	29.0	24.0	na
Colgate	CLGT IN Equity	93	16,952	18.7	15.9	na	25.6	22.0	na
GSK Consumer	SKB IN Equity	59	17,014	16.7	14.3	16.7	24.5	21.4	18.9
Jyothy Labs	JYL IN Equity	12	5,287	12.6	10.0	12.6	17.9	14.6	na
Titan Industries	TTAN IN Equity	67	39,276	19.8	16.4	19.8	32.3	26.2	20.6
Marico	MRCO IN Equity	65	23,884	17.9	15.4	na	27.7	23.6	na

Source: Bloomberg, PINC Research

Risks

Discretionary nature of demand

The demand for Pizzas is impulsive and highly discretionary in nature and as such vulnerable to shocks in consumer sentiment. This was seen in H2FY09 when same store fell off the mid teens seen in the earlier years to a decline of high single digits.

Consumer choices can change

Demand for Pizzas is dependant on Pizza as a choice of food by consumer. This preference by consumer is driving growth since it is currently a relatively new concept. However this can change over a period of time.

Constant innovation needed to the menu to avoid customer fatigue

In order to avoid customer fatigue and attract repeat customers regularly most restaurants have to innovate their menu. JFW has been able to do this in the past by adjusting Pizzas to Indian taste buds or offering newer items like Pastas.

Earnings estimates are vulnerable to same store growth

Given the high base of current stores v/s new stores, over the next 3 years the contribution of same store growth to overall revenue growth will increase substantially. As such any negative impact on the same can have a substantial risk to our estimates. A 400bps decline in the same store growth in FY11 (from our base case of 16%) would lead to a 15% decline in EBITDA estimates for FY11.

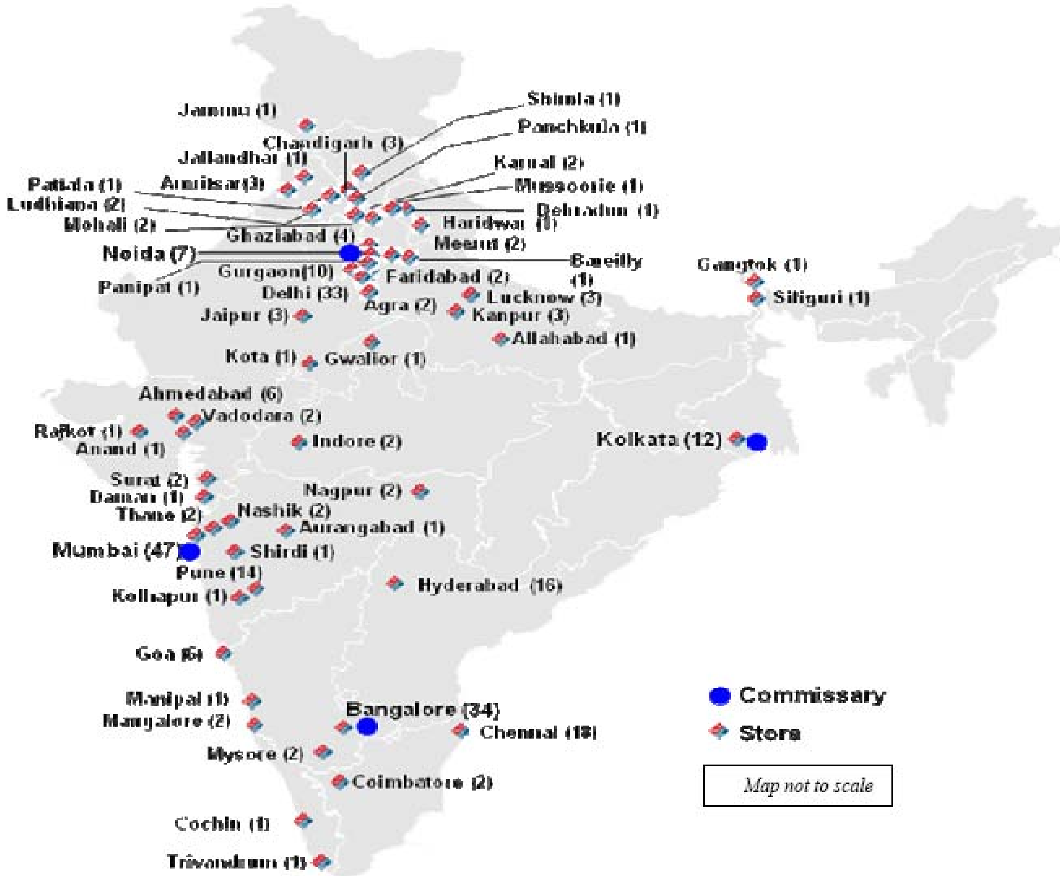
Annexure

Exhibit 16 - JFW's Market Presence

State/Union Territory	Cities	No. of Stores
Andhra Pradesh	1	16
Chandigarh	1	3
Daman	1	1
Goa	1	6
Gujarat	5	12
Haryana	5	16
Himachal Pradesh	1	1
J&K	1	1
Karnataka	4	39
Kerala	2	2
Madhya Pradesh	2	3
Maharashtra	7	68
New Delhi	1	33
Punjab	5	9
Rajasthan	2	4
Sikkim	1	1
Tamill Nadu	2	20
Uttar Pradesh	8	23
Uttarakhand	3	3
West Bengal	2	13
Total		
20	55	274

Source: DRHP

Exhibit 17 - Locations in India



Source: DRHP

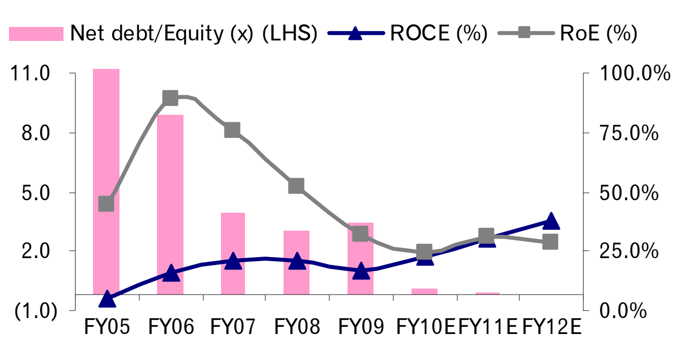
Income Statement (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Gross Sales	2,360	3,139	4,287	5,715	7,483
Net sales	2,112	2,806	3,832	5,109	6,689
Growth (%)	*52.3*	*32.9*	*36.6*	*33.3*	*30.9*
EBITDA	262	346	621	919	1,324
Growth (%)	*51.8*	*32.1*	*79.7*	*48.0*	*44.0*
Depreciation	121	173	224	284	353
Other Income	2	2	2	2	2
EBIT	142	174	399	637	972
Interest Paid	58	99	105	84	63
PBT (before E/o items)	84	75	294	553	909
Tax Provision	7	8	29	66	273
E/o income/(loss)	(6)	(5)	-	-	-
Reported Net Profit	78	67	265	486	637
Adjusted Net Profit	84	73	265	486	637
Growth (%)	*33.3*	*(13.2)*	*263.8*	*83.7*	*30.9*
Diluted EPS (Rs)	1.3	1.1	4.2	7.7	10.0
Diluted EPS Growth (%)	*33.3*	*(13.2)*	*263.8*	*83.7*	*30.9*

Cash Flow Statement (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Pre-tax profit	84	75	294	553	909
Depreciation	121	173	224	284	353
Total Tax Paid	*(7)*	*(9)*	*(29)*	*(66)*	*(273)*
Chg in working capital	54	(7)	146	72	82
Other operating acivities	*47*	*89*	*105*	*84*	*63*
Cash flow from oper (a)	300	321	739	927	1,135
Capital Expenditure	(432)	(541)	(527)	(608)	(689)
Chg in investments	-	-	-	-	-
Other investing activiies	0	(1)	-	-	-
Cash flow from inv.(b)	(432)	(542)	(527)	(608)	(689)
Free cash flow (a+b)	(132)	(221)	212	319	446
Equity raised/(repaid)	0	-	594	-	-
Debt raised/(repaid)	171	311	(150)	(150)	(150)
Interest paid	(54)	(83)	(105)	(84)	(63)
Dividend (incl. Tax)					
Cash flow from fin. (c)	*117*	*228*	*339*	*(234)*	*(213)*
Net chg in cash (a+b+c)	(15)	7	551	85	233

Balance Sheet (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Equity Share Capital	582	582	635	635	635
Reserves & surplus	(421)	(354)	451	938	1,574
Shareholders' funds	161	228	1,086	1,573	2,209
Minorities interests	-	-	-	-	-
Total Debt	517	825	675	525	375
Capital Employed	678	1,053	1,761	2,097	2,584
Net fixed assets	786	1,148	1,451	1,774	2,109
Cash & Cash Eq.	22	30	581	666	900
Net Other current assets	(130)	(125)	(271)	(343)	(425)
Investments	-	-	-	-	-
Net Deferred tax Assets	-	-	-	-	-
Total Assets	678	1,053	1,761	2,097	2,584

Key Ratios	FY08	FY09	FY10E	FY11E	FY12E
OPM (%)	12.4	12.3	16.2	18.0	19.8
Net Margin (%)	4.0	2.6	6.9	9.5	9.5
Div. Yield (%)	-	-	-	-	-
Net debt/Equity (x)	3.1	3.5	0.1	(0.1)	(0.2)
Net Working Capital (days)	(22)	(16)	(26)	(24)	(23)
ROCE (%)	21.0	16.6	22.7	30.4	37.6
RoE (%)	52.2	31.9	24.4	30.9	28.8
EV/Net Sales (x)	4.6	3.6	2.4	1.8	1.3
EV/EBITDA (x)	37.1	28.9	15.0	9.9	6.6
PER (x)	109.8	126.5	34.8	18.9	14.5
PCE (x)	44.9	37.5	18.9	11.9	9.3
Price/Book (x)	57.3	40.4	8.5	5.9	4.2

Debt Equity (x) and Return Ratios (%)



Key Assumptions	FY08	FY09	FY10E	FY11E	FY12E
Stores addition (No.)	51.0	60.0	65.0	75.0	85.0
Same store sales (%)	19.9%	6.0%	16.0%	16.0%	15.0%
New stores sales (Rs mn)	497	638	646	742	911
Gr. in Realisation/Pizza (%)	-12.5%	-4.5%	1.0%	1.0%	1.0%
Gr. in Pizza/Store per day (%)	24.7%	4.6%	6.5%	6.0%	6.0%
Employee cost /Store	2.3	2.2	2.3	2.4	2.5
Other Exp/Store	4.9	4.9	5.0	5.3	5.6
EBITDA Margin (%)	12.4%	12.3%	16.2%	18.0%	19.8%
NPM (%)	4.0%	2.6%	6.9%	9.5%	9.5%
Capex (Rs mn)	(434)	(542)	(527)	(608)	(689)

PINC RESEARCH

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