COMPANY REPORT

Jubilant Foodworks Ltd.

Take a bite…

ACCUMULATE

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Nifty: 5,463; Sensex: 18,223

CMP	**Rs553**
Target Price	**Rs600**
Potential Upside/Downside	**+8%**

Key Stock Data

Sector	FMCG
Bloomberg / Reuters	JUBI IN / JUBI.BO
Shares o/s (mn)	64.4
Market cap. (Rs mn)	35,665
Market cap. (US$ mn)	791
3-m daily average vol.	2,42,889

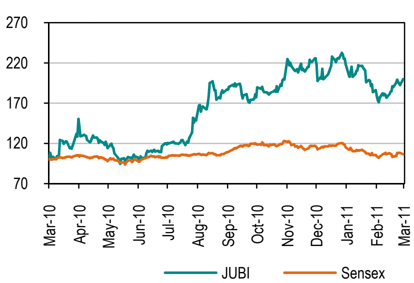
Price Performance

52-week high/low		Rs671/252	
	-1m	-3m	-12m
Absolute (%)	7	(12)	100
Rel to Sensex (%)	6	(3)	93

Shareholding Pattern (%)

Promoters	61.3
FIIs/NRIs/OCBs/GDR	21.1
MFs/Banks/FIs	9.6
Non Promoter Corporate	3.0
Public & Others	5.0

Relative to Sensex



Source: Capitaline

Summary

Jubilant Foodworks Ltd. (JUBI), the only listed player in India's QSR space, is a direct play on the India consumption story. The company has been instrumental in bringing the pizza culture in India and has demonstrated strong growth traction over the past few years, along with consistently improving profitability, led by robust same store growth (SSG), rapid store rollout and efficient cost management. We believe that with India growth story here to stay, Domino's brand equity and years of demonstrated service efficiency, JUBI has transcended itself to a self-sustained growth mode. ACCUMULATE.

Investment highlights

Master Franchisee of Domino's, Dunkin': in a sweet spot in India's QSR space

JUBI is a Master Franchisee (MF) of Domino's Inc., which provides it exclusive right to develop and operate Domino's stores in India, Sri Lanka, Nepal and Bangladesh till 2024, extendable to 2034 at the company's option. In addition, it has recently tied up with Dunkin' Donuts as MF for India till 2026, extendable for 10 more years, which broadens JUBI's operations from being a meal replacement model to an all day parts model. We believe that these tie ups place JUBI in a sweet spot in India's QSR space.

Market leader in the under-penetrated US$2 bn pizza market

Pizzas/pastas form <2% of India's food services industry (FSI) vs. 4%/8%/9% for UK/US/Russia. This under-penetration, along with high growth potential (FSI growing at ~20% CAGR, while pizzas/pastas are outpacing this trend) augurs well for JUBI, with ~67% share in the organized pizza home delivery segment.

1,000 stores potential over the medium term

Management estimates that each Domino's store in India can cater to ~20k households (vs. 5-6k households in developed markets) and there are 38-40 mn target households in India. Assuming that only 50% of these households buy Domino's pizza, ~1,000 Domino's stores would be required (vs. 364 stores as on December 2010), implying store potential of ~3x. In addition, with changing culture and consumer habits in India, the 20k households' threshold is also likely to trend towards 5-6k level of developed countries, signifying huge growth potential over the long term.

46% revenue CAGR, 61% PAT CAGR over FY10-13E

Having established itself as market leader with strong brand equity and wide geographic presence (87 cities as on December 2010), JUBI has transcended itself into self sustained growth mode with average store addition of ~65 stores over FY08-11E. We expect the company to grow at 46%/61% revenue/PAT CAGR over FY10-13E, on the base of 45%/102% revenue/PAT CAGR over FY06-10, led by 20-25% SSG, 200 store addition and 200bps margin expansion over FY11-13E.

Outlook and Valuation

We like JUBI's sustainable growth model and its demonstrated ability to influence Indian consumer's tastes and preferences over the past decade. We believe that the company has been instrumental in bringing the pizza culture in India. The stock trades at 36x/25x FY12E/13E. **We value JUBI at Rs600 per share on DCF basis** (small trading history and no comparable Indian peer make valuation comparison difficult), with WACC of 13% and terminal growth rate of 5%. At our target price, the stock trades at 27.6x FY13E (PEG of 0.4x), which in our view is justified, considering high growth trajectory (61% PAT CAGR), strong brand, market leadership and scarcity premium (only listed QSR player). **Initiate coverage with ACCUMULATE.**

Table: Financial snapshot **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY10	4,239	666	15.7	334	5.5	100.8	49.5	47.3	36.4
FY11E	6,826	1,218	17.8	739	11.6	47.9	27.9	47.9	58.4
FY12E	9,776	1,739	17.8	978	15.2	36.4	19.7	43.3	61.4
FY13E	13,269	2,353	17.7	1,400	21.8	25.4	14.1	45.3	63.2

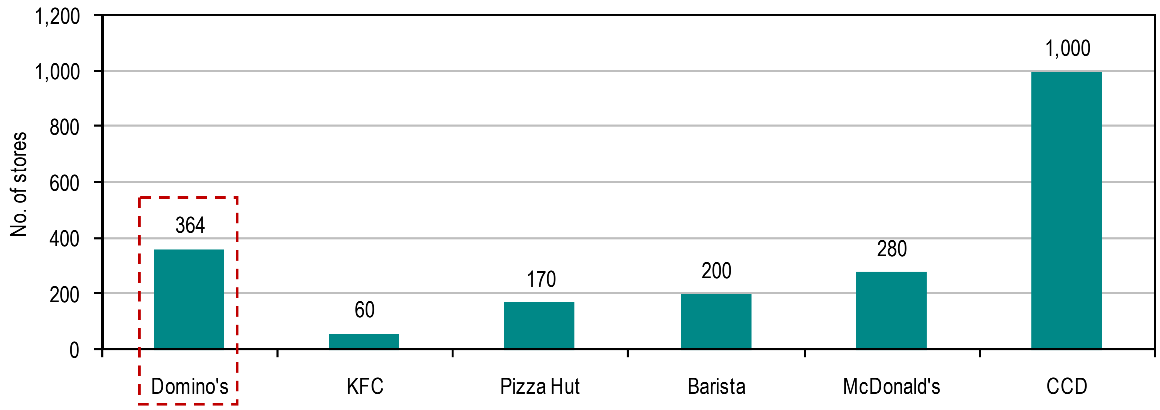
Source: Company; IDBI Capital Research

Company background

Master Franchisee of Domino's International till 2024

Jubilant Foodworks (JUBI) has strong presence in India's Quick Service Restaurant (QSR) space and operates Domino's Pizza stores through franchisee route in India. The company has entered into Master Franchise Agreement (MFA) with Domino's International (US parent), which provides it exclusive right to develop and operate Domino's Pizza delivery stores and associated trademarks in the operation of stores in India, Sri Lanka, Nepal and Bangladesh till 2024, which is extendable to 2034 at JUBI's option. As part of MFA, the company pays royalty fees at ~3% of sales and store opening fees at ~US$5,000 for every new store, to Domino's International. Based on our discussion with JUBI's management, we gather that Domino's International has history of long standing relationships with most of its franchisees worldwide, which bodes well for JUBI's future as well. The company had 364 stores (362 company owned, 2 sub-franchisees) as of December 2010, which compares well with other QSR players like Pizza Hut (~170+ stores), KFC (60+ stores), Barista (~200 stores) and McDonalds (~280 stores).

Figure: QSR players in India



Source: Company, IDBI Capital Research

Parent has strong global presence and years of experience

Founded in 1960, Domino's International operates a network of company-owned and franchise-owned stores in the United States and international markets. The company is the largest pizza delivery chain in the US, with 20% market share, ~5,000 domestic outlets, >4,000 international outlets and presence in >60 countries as of September 2010. Following table depicts Domino's International strong presence in key geographies:

Table: Strong presence in key geographies

Top 10 markets	Stores as on CY10	Delivery market position	Potential store count
Mexico	590	1	700
UK	586	1	1,100
Australia	419	1	550
South Korea	337	2	400
Canada	332	3	400
India	**337**	**1**	**700**
Japan	177	3	700
France	175	1	700
Turkey	151	1	400
Taiwan	132	2	150
Total	**3,236**		**5,800**

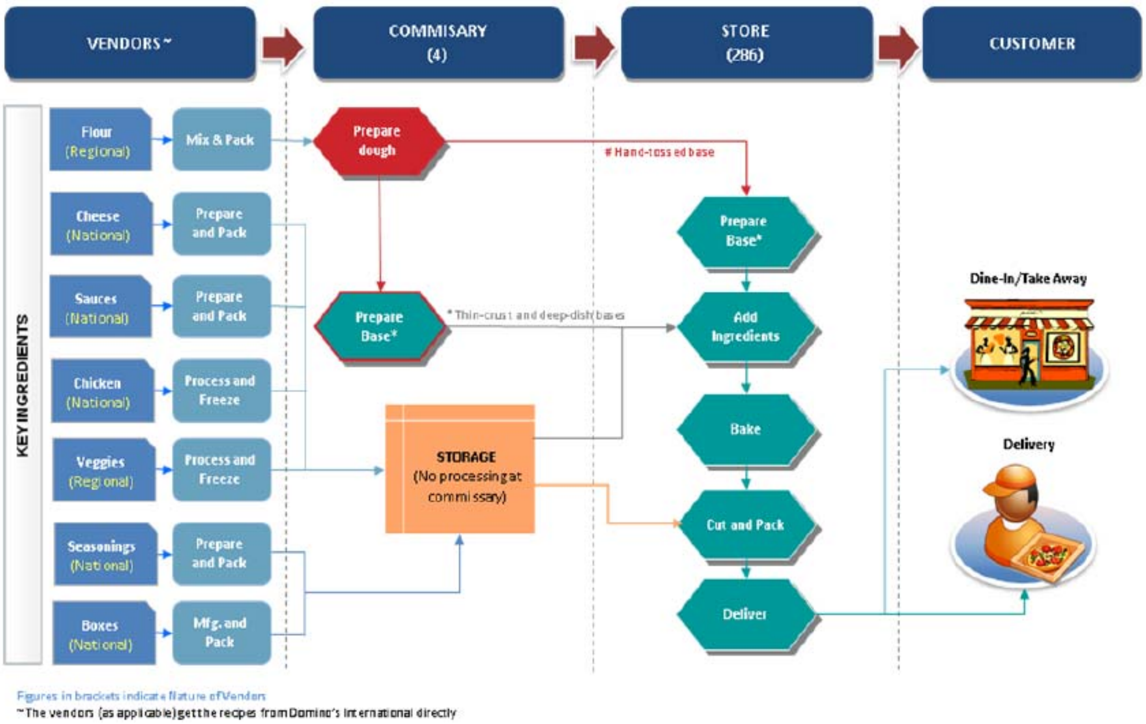
Source: Domino's International presentation

This strong global parentage has enabled JUBI to establish dominant footprint in India's QSR space.

Hub-n-spoke model with efficient supply chain

JUBI operates through a hub-n-spoke model, wherein it has four regional supply chain centers, or commissaries (hub), located in Noida, Mumbai, Bangalore and Kolkata. The primary raw materials used in the preparation of pizzas, such as dough, cheese, vegetables and meat, are sourced and supplied to the company's stores (spoke) across India by these commissaries. This centralized sourcing ensures consistent quality, better prices from vendors and timely delivery of items to the stores. The following chart illustration JUBI's supply chain:

Diagram: Efficient supply chain management



Source: Company, IDBI Capital Research

Widespread distribution with pan India presence

Having established itself in the tier I cities, JUBI has increased its focus on tier II/III cities. The company boasts of wide geographic reach, with tier II/III cities accounting for ~30% of its total stores as on December 2010.

Table: Store network

Area	No. of stores	Cumulative no. of stores
NCR	69	69
Mumbai/Thane	56	125
Bangalore	39	164
Chennai	22	186
Pune	19	205
Hyderabad	18	223
Kolkata	14	237
Ahmedabad	6	243
Goa	6	249
Chandigarh	4	253
Lucknow	4	257
Vadodara	4	261
Amritsar	3	264
Coimbatore	3	267
Jaipur	3	270
Kanpur	3	273
Mangalore	3	276
Mysore	3	279
Nagpur	3	282
Surat	3	285
Agra	2	287
Bhopal	2	289
Cochin	2	291
Indore	2	293
Karnal	2	295
Ludhiana	2	297
Meerut	2	299
Mohali	2	301
Nasik	2	303
Panchkulla	2	305
Trivandrum	2	307
Others (single store cities)	57	364

~50% of existing stores near commissaries

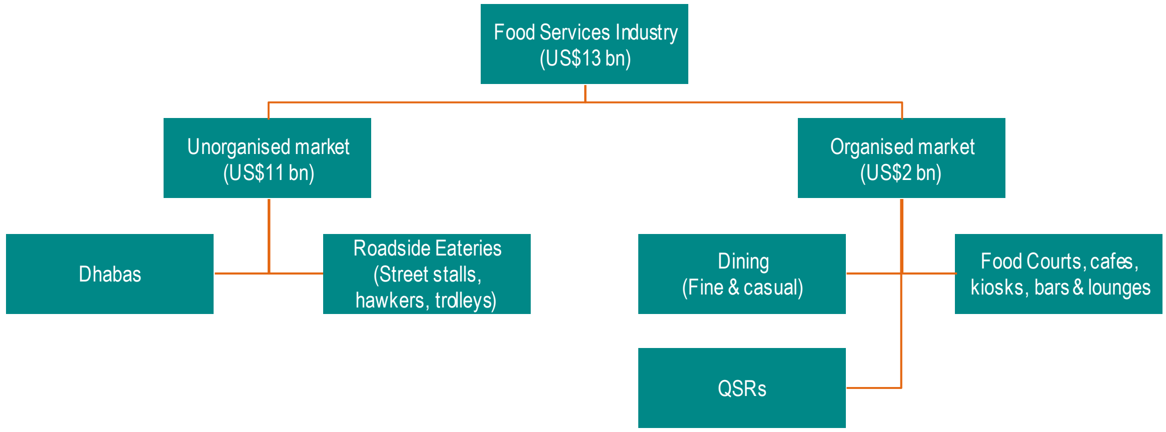
Source: Company; IDBI Capital Research

Investment rationale

Pizzas still a nascent category even in tier I cities

Food Franchising Report 2009 (source: Company RHP) estimates the food services industry (FSI) in India to be worth US$13 bn in 2008, of which US$2 bn or ~15% was accounted for by the organised sector. India's food services industry is estimated to be growing at ~20% CAGR and is likely to maintain this growth trajectory going forward.

Diagram: India's Food Services Industry growing at ~20% CAGR



Source: Company

The Technopak Report 2009 estimates that <2% of the monthly expenditure on food bought from outside or ordered-in by households in India is spent on pizzas and pastas. This is low when compared to pizza penetration (as % of food services industry) for other countries. Even QSR as % of food services industry is low in India (see charts below).

Figure: Pizzas/pastas as % of FSI still low

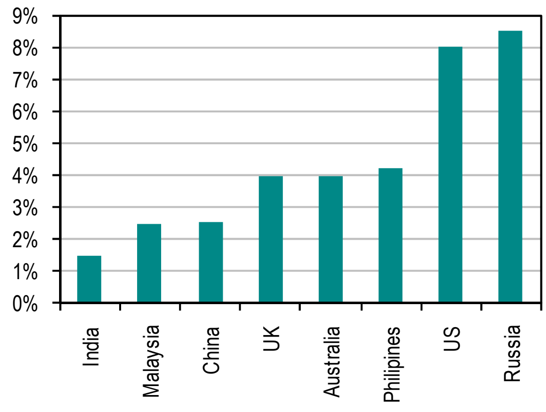
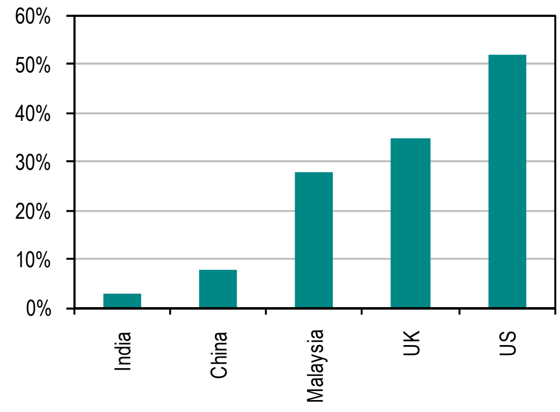


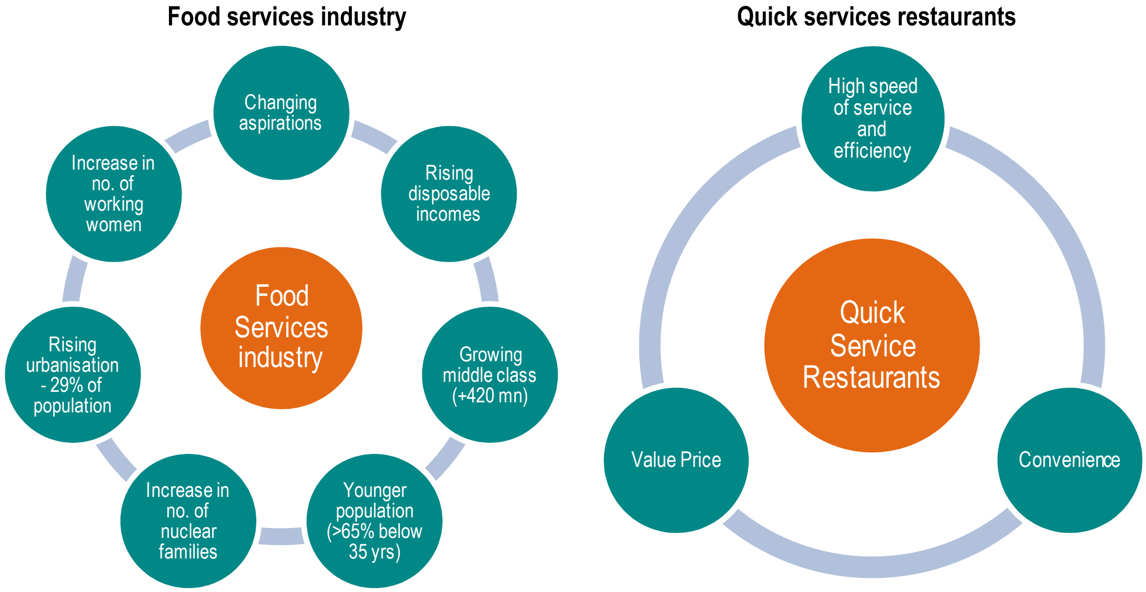
Figure: QSR as % of FSI: long way to go



Source: Company, Industry, IDBI Capital Research

The report also estimates that 80% of India's population eats out at least once a month and these patterns are likely to get stronger with wider availability of options coupled with willingness amongst the consumer group to experiment. This indicates that the QSR space, which is highly under penetrated and still a nascent category, has strong growth potential as India's economy continues to grow at robust pace and eating habits of people in India undergo a change in favour of convenience and high speed of service and efficiency.

Figure: Key growth drivers



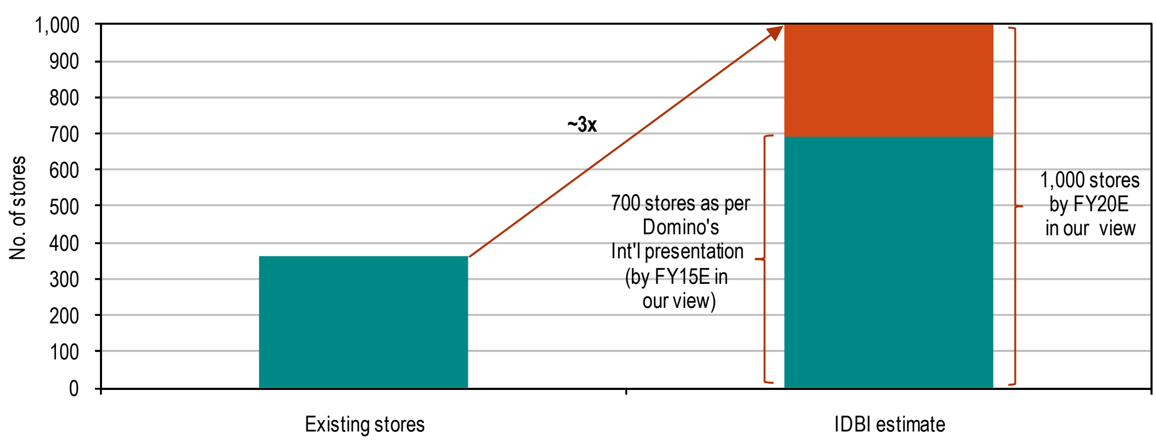
Source: Company, IDBI Capital Research

We believe that JUBI, a leader in QSR space, with pan India presence, operational proficiency and brand equity is likely to be one of the best suited to capitalize on the growth potential in India's QSR space.

1,000 stores potential over the medium term

Management estimates that each Domino's store in India can cater to ~20,000 households (vs. 5,000-6,000 households in developed markets) and that there are 38-40 mn target households in India. Assuming that only 50% of these households buy Domino's pizza, ~1,000 Domino's stores (vs. 364 stores as on December 2010) would be required, implying growth potential of ~3x. Similar growth potential is reflected in Domino's International presentation, where the company has indicated potential of ~700 stores in India in the medium term. In addition, with changing culture and consumer habits in India, the 20k households' threshold is also likely to trend towards 5-6k level of developed countries over the long term.

Figure: Store expansion potential is huge…



Source: Company; IDBI Capital Research

- **Unique positioning in the home delivery segment**

JUBI has positioned itself as a leading QSR player with focus on home delivery as compared to peers (in the pizza and allied segment) like Pizza Hut and Papa John's, who focus on dine-in. In addition, we believe Domino's is well ahead of local home delivery focused players like Garcia's and Smoking Joe's, led by brand equity, years of experience and expertise (locally and globally) and wide reach. This leadership is reflected in JUBI enjoying ~67% market share in the organized pizza home delivery segment. Though, recently JUBI has increased its focus on dine-in segment as well, led by its increased reach in tier II/III cities, where the concept of home delivery is still at a nascent stage and people continue to prefer dining in. For instance, seating capacity at Domino's stores in tier II/III cities is 40-60 seats vs. 20-25 seats for Delhi/Mumbai and ~35 seats for cities like Bangalore, Hyderabad, Chennai. Nonetheless, we expect JUBI to remain predominantly a pizza home delivery company (where it has carved a niche for itself); with dine-in facility to cater to the requirements of small towns and cities.

- **Favourable demographics: >50% population is young (less than 25 years old)**

JUBI is a direct play on changing Indian demographics and its impact on India's food services industry. We believe the industry has reached an inflection point and is emerging as a fast growing industry (15-20% CAGR), led by India's robust economy, favourable macro environment and rising per capita income levels. Emergence of modern retail through expansion of supermarkets/hypermarkets across India has also contributed to growth in this industry. This along with favourable demographics with >50% population below the age of 25 years, India's burgeoning middle class and working population going up to 68% in 2020 from 63% in FY08 augur well for a consumption led player like JUBI.

Figure: Increasing affordability

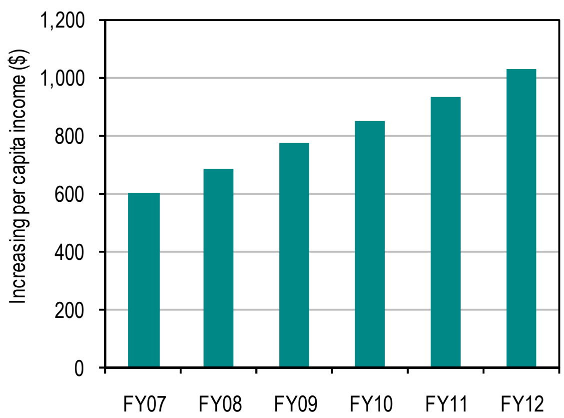
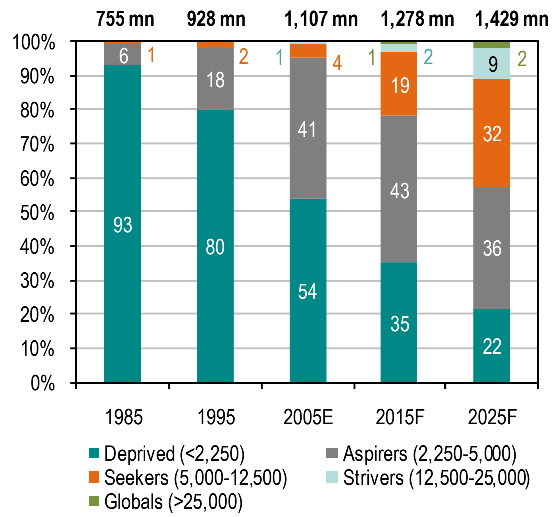
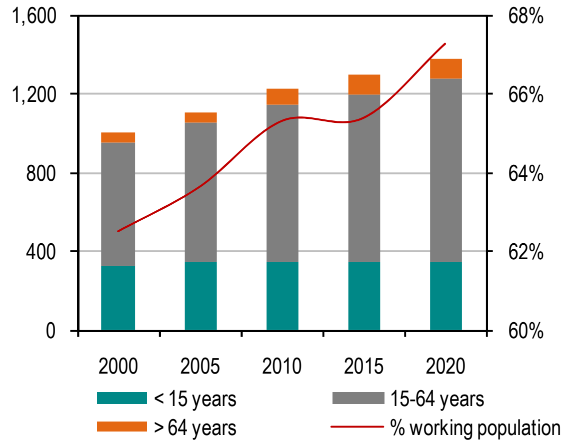


Figure: Burgeoning middle class (India population)



Note: Annual household income brackets (US$)

Figure: Working population – India



Source: Company

Innovative marketing demonstrates management understanding of Indian consumer

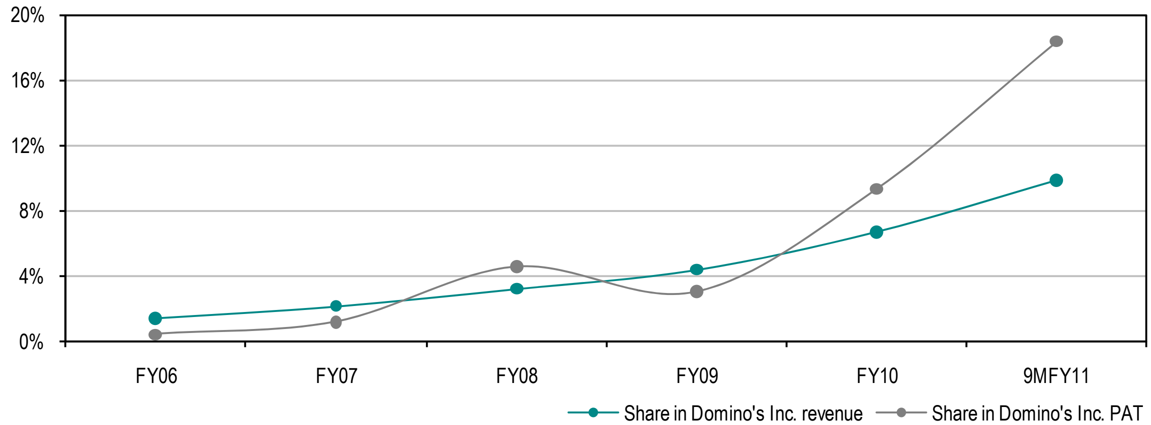
Over the years, JUBI has focused on developing a marketing strategy that seeks to leverage on the strength of Domino's brand to establish a distinctive image in the minds of its customers of quality, reliability, value for money, variety and customer service. The company utilizes 3 distinct marketing platforms - (i) national marketing campaigns on television, print and radio, (ii) local store marketing and (iii) customer relationship management. We believe that national advertising campaigns and innovative marketing, which include "Hungry Kya?", "30 minutes or free" and "Khusiyon Ki Home Delivery" (Happiness Delivered Home) campaigns based on consumer insights, have resulted in customer loyalty and contributed significantly to JUBI's robust business growth, especially since we believe it is easier for pizza customers to switch to other brands simply out of product fatigue. Few of the marketing accolades that the company has recently won are:

- "Best New Product Launch & Advertising Campaign" from Domino's International in 2006 across 55 countries.
- It was ranked as one of the Top 10 Marketers in India, 2010 by The Financial Express. The criteria for ranking were marketing ingenuity, innovations and impactful launches through the year.
- It won the India's Top 50 Marketers Awards, 2010 presented by Pitch – a Marketing Journal. JUBI got the award in 'Value for Money' Category for dramatically increasing access to its brand through the Pizza Mania range of Pizzas.

India significance on the rise within Domino's International

According to the India Retail Report, 2009, JUBI was the largest pizza chain in India and one of the fastest growing multi-national fast food chains between 2006-2007 and 2009-2010, in terms of number of stores. The Food Franchising Report 2009 has estimated that it was one of the largest and fastest growing international food brands in South Asia. JUBI has been consistently ranked among the top 3 franchisees globally for operational excellence by Domino's International in the last 4 years. Domino's India's share in revenue/PAT of Domino's International has grown to 9.9%/18.4% in 9MFY11 from 1.4%/0.4% in FY06.

Figure: JUBI's increasing clout in Domino's International



Source: Company; IDBI Capital Research

Company owned stores and home delivery model imply better control over operations

JUBI predominantly operates through owned stores (only 2 of 364 stores are on sub-franchisee basis) vs. franchisee route for peers like Pizza Hut, Smoking Joe's and Garcia's. This ensures better control over operations. In addition, the company's home delivery model helps in controlling rental costs as stores require less seating space.

Dunkin' Donuts tie up enhances product portfolio

JUBI has entered into a master franchisee agreement (MFA) with Dunkin' Donuts (DD), with exclusive rights to develop and operate DD restaurants in India for 15 years, renewable for 10 more years at the company's option. JUBI will also have the first right of refusal for store rollout in Sri Lanka, Bangladesh and Nepal. DD tie up would operate as separate division under JUBI. MFA restricts JUBI from entering into predominantly coffee and donuts business.

DD, owned by Carlyle Group, Bain Capital and Thomas H. Lee Partners, is the world's leading baked goods and coffee chain with global system wide sales of US$6 bn and serves ~3 mn customers every day. Besides coffee, the company has wide range of food products such as donuts, bagels, muffins, breakfast sandwiches, flatbread sandwiches, hash browns and more. It has more than 9,700 restaurants globally in 31 countries. Of this, it has ~900 stores in Korea (market leader with 25+ years of existence), ~600 stores in Philippines (market leader with 25+ years of existence), and 290 stores in Indonesia (market leader with 20+ years of existence). DD has rapidly expanded in 2010, opening 574 net new global locations, making it the fastest growing QSR in the world in 2010. The company has earned the No. 1 ranking for customer loyalty in the coffee category by Brand Keys for five years running. DD operates under dine-in/take away all day parts meal model vs. meal replacement lunch and dinner model for Domino's.

- **MFA terms similar to that under Domino's MFA**

  Under the MFA with DD, JUBI will be required to pay country opening fees (one time), store opening fees (for every new store opened) and royalty fees (as % of sales). Though exact details are not known, management indicated that these terms would be similar to the ones under their MFA with Domino's International.

- **80-100 stores over next 5 years**

  Management indicated that the first DD store in India would open in Q1CY12 and the company plans to rollout 80-100 stores in the first five years of operations. The MFA provides for opening up of minimum 500 stores over next 15 years.

- **Cash positive from 1st year, payback of <3 years**

  Though not too much information on DD's financials is available as none of the DD franchisees globally are listed, management is confident of DD stores turning cash positive in the first 12 months of operations and expects payback period of <3 years (similar to Domino's stores). DD stores will have negative working capital from Day 1 of operations.

- **Lower capex per store than Domino's**

  Capex per store would be lower for DD as compared to Domino's stores in India (Rs7 mn capex per Domino's store) as average size for DD store is 700-750 sq. ft. vs. ~1,200 sq. ft. for Domino's. The store size requirement is lower for DD as it only requires coffee machine and serving area and does not require any significant balancing equipment or other machinery. ~70% of DD store area can be utilized to accommodate customers for dine-in facility.

  Even commissaries required for DD stores would be much smaller than those for Domino's stores – size could vary from 2k-10k sq. ft. vs. 14k-20k sq. ft. for Domino's. JUBI management is confident of funding all capex requirements through internal accruals. We concur with that view as we expect JUBI to generate free cash flow (after capex on Domino's business) of Rs0.9/1.5 bn in FY12E/13E as against estimated capex of Rs0.3-0.4 bn p.a. for DD stores.

- **Other highlights**

  - The MFA provides for significant flexibility to JUBI for its India operations. It allows creating products suitable to the Indian taste and can technically go to any extent in terms of product modification, depending on consumer taste and preferences.
  - JUBI will import coffee in the initial phase of the tie up. However, it has flexibility to source coffee beans/roasted coffee locally. Nonetheless, local sourcing would need DD's approval, thereby ensuring adherence to global standards.
  - Distribution network/stores won't be shared between Dominos and DD, except in case of few malls.

- Management expects India to follow Asia's trend in revenue for DD stores, wherein 30% revenue comes from beverages (including coffee), while 70% comes from food products vs. 60% from beverages in case of US.
- Management expects revenue per store to be lower in case of DD vs. Domino's. Employee cost would also be lower in case of DD as one DD store would require 5-7 employees vs. ~25 employees for Domino's store.

We believe that this tie up places JUBI in a sweet spot in India's QSR space, by significantly strengthening its product portfolio. With expertise and experience in operating Domino's stores, we believe it is well placed to capitalize on DD's brand franchisee and wide product portfolio. We have tried to analyse the synergies and concerns of the tie up as under:

- **Synergies**
  - The tie up is likely to (i) leverage JUBI's management bandwidth and years of experience and expertise in understanding the psyche of Indian consumer and (ii) benefit from efficient supply chain management, especially commissaries.
  - The MFA will enhance JUBI's product profile through presence in low ticket order size vs. focus on high ticket order size at present (typically pizza order would have ticket size starting from Rs300, while coffee/donuts would cost Rs40-50). This will broad base its business from being a meal replacement model to an all day parts model.
  - We also believe that this tie up will ensure efficient utilisation of expected cash generation over FY11-13E (Rs3.1 bn free cash flow).
- **Concerns**
  - Creating market demand for donuts, which is at a nascent stage even in Indian metros. Nonetheless, with JUBI's demonstrated track record of pioneering pizza culture in India, we would be more optimistic than pessimistic on its ability to replicate that success in donuts and coffee.

We believe that based on initial details available from the management on DD's financials, the tie up would not be RoCE/margin dilutive as the company has indicated that DD stores will be adhering to the internal benchmarks set for Domino's stores. We will be factoring in earnings from this tie up at a later stage. Management has also indicated that discussions with other international brands have been put on the back burner for 1.5-2 years, following the DD tie up.

P&L analysis

Same store sales growth (20-25% over FY11-13E) and new store addition (200 stores over FY11E-13E) to lead to 46% revenue CAGR over FY10-13E. Margin expansion of 200bps through FY13E to 17.7%, led by operating leverage and efficient raw material cost management (strong bargaining power with suppliers, led by high volume offtake). Earnings to outpace revenue with 61% CAGR over FY10-13E, led by strong operating performance and other income (on strong cash flow generation), despite higher tax rate at 33% each in FY12/13 vs. 22% in FY11.

Table: Profit and loss statement **(Rs mn)**

Year-end: March	FY09	FY10	FY11E	FY12E	FY13E
Net sales	**2,806**	**4,239**	**6,826**	**9,776**	**13,269**
Growth (%)	*32.9*	*51.1*	*61.0*	*43.2*	*35.7*
Operating expenses	(2,470)	(3,573)	(5,609)	(8,037)	(10,915)
EBITDA	**336**	**666**	**1,218**	**1,739**	**2,353**
Growth (%)	*28.3*	*98.4*	*82.8*	*42.8*	*35.4*
Depreciation	(169)	(243)	(290)	(351)	(398)
EBIT	**166**	**423**	**928**	**1,388**	**1,956**
Interest paid	(89)	(91)	(5)	(0)	(0)
Other income	4	4	25	72	135
Pre-tax profit	**81**	**335**	**948**	**1,459**	**2,090**
Tax	(8)	(1)	(209)	(482)	(690)
Effective tax rate (%)	*9.9*	*0.2*	*22.0*	*33.0*	*33.0*
Net profit	**73**	**334**	**739**	**978**	**1,400**
Adjusted net profit	**73**	**334**	**739**	**978**	**1,400**
Growth (%)	*(5.9)*	*357.6*	*121.3*	*32.2*	*43.2*
Shares o/s (mn nos)	*58*	*60*	*62*	*64*	*64*

Source: Company; IDBI Capital Research

Same store sales and store addition to drive revenue

We expect JUBI to grow 46% CAGR over FY10-13E, driven by strong same store sales growth of 20-25% over FY11-13E and 200 new stores addition over FY11E-13E, taking the total store tally to 506 stores by FY13 end. We expect pizza to continue leading the revenue share with 78.9% contribution in FY13 vs. 80.4% in FY10, followed by add-ons with 17.3% vs. 15.7% and beverages with 3.8% vs. 3.9%.

Figure: Strong revenue traction

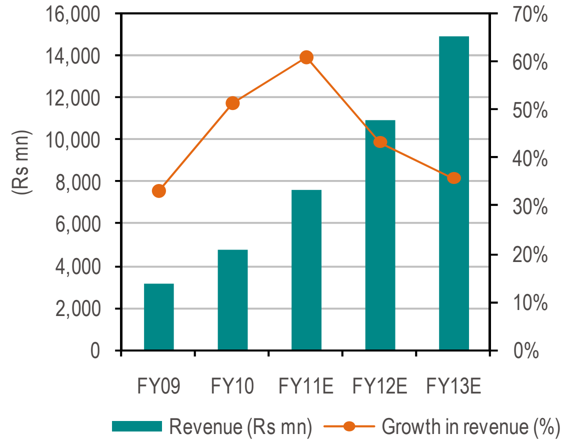
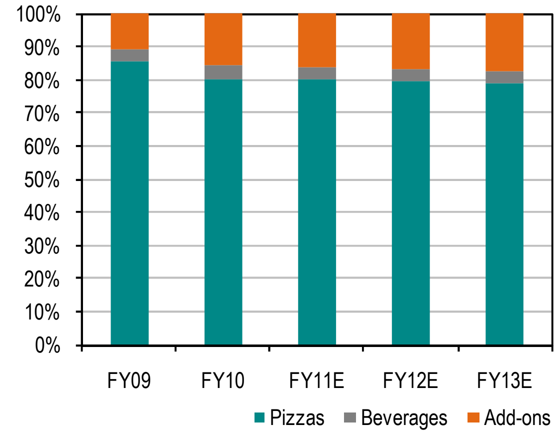
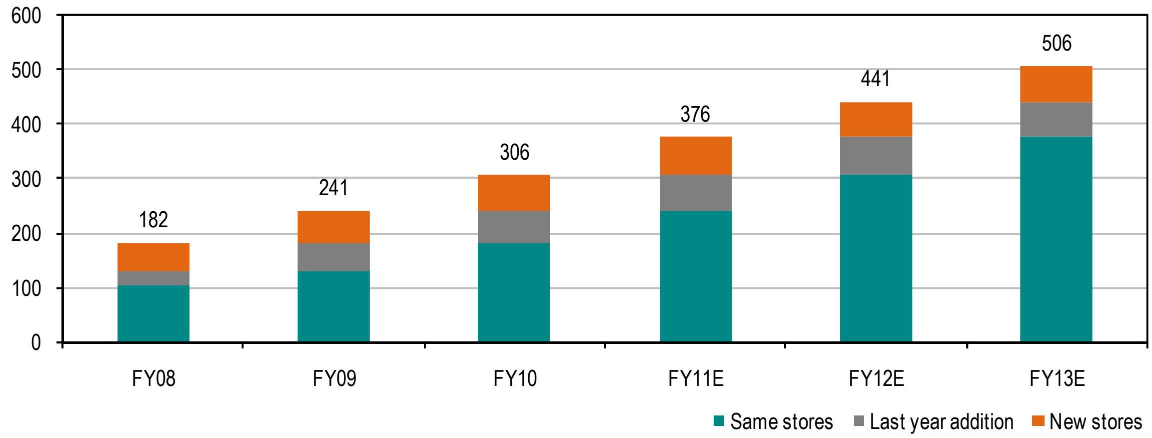


Figure: Pizzas to dominate revenue mix



Source: Company; IDBI Capital Research

Figure: Rapid store expansion (no. of stores)



Source: Company; IDBI Capital Research

Gross margin to decline only marginally on efficient raw material management

JUBI has been able to maintain gross margin at stable levels over the past 3-4 years, despite price volatility in major raw materials like cheese, meat, dough, vegetables among others. This is led by efficient raw material management with strong bargaining power with its vendors, backed by assurance of high volume offtake. In addition, the company has demonstrated strong pricing power, with price hikes of 2-2.5% every six months. Consequently, we expect gross margin to decline only marginally by 90bps over FY10-13E to 74.3%, despite expectation of rising input costs.

Figure: Gross margin largely stable…

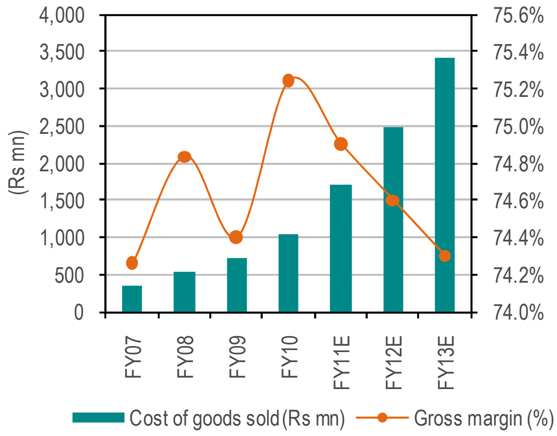
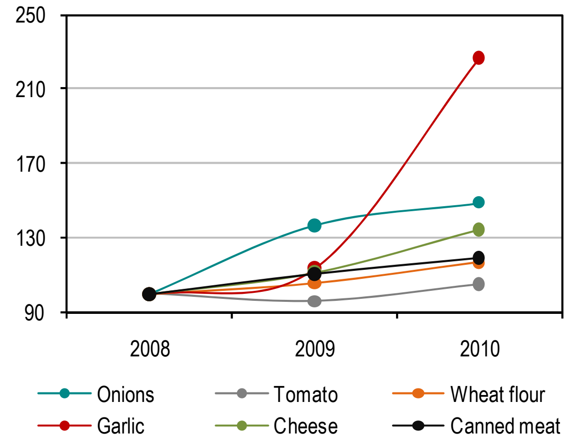


Figure: …despite rising input costs (indexed)



Source: Company; Government of India, IDBI Capital Research

EBITDA margin expansion of 200bps led by operating leverage

The company has grown at 45% revenue CAGR over FY06-10 led by same store sales growth and store addition. Improved operating leverage along with efficient raw material management has enabled EBITDA margin expansion of 420bps to 15.7% over FY06-10.

We expect JUBI to grow at 46% revenue CAGR over FY10-13E, which will further aid in bringing down operating costs as % of sales as operating leverage benefits continue. We expect rentals as % of sales to fall 160bps to 7.7% and selling & distribution cost to fall 40bps to 7% in FY13. This will lead to EBITDA margin expansion of 200bps to 17.7% in FY13E, despite employee cost as % of sales expected to rise 60bps to 19.6% (on higher no. of employees and wage revision for retaining employees). Nonetheless, we believe we have been conservative in our margin estimate for FY11/12/13E at 17.8%/17.8%/17.7% (vs. 18% during 9MFY11) as we believe there is greater scope for margin expansion for the company, led by operating leverage benefits (39% revenue CAGR over FY11-13E), which will more than compensate for higher input costs.

Figure: Operating cost as % of sales declining

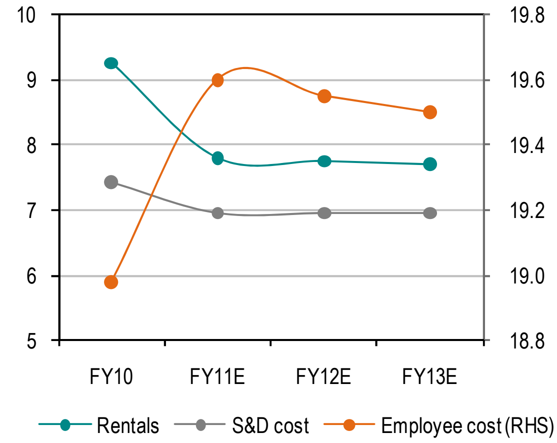
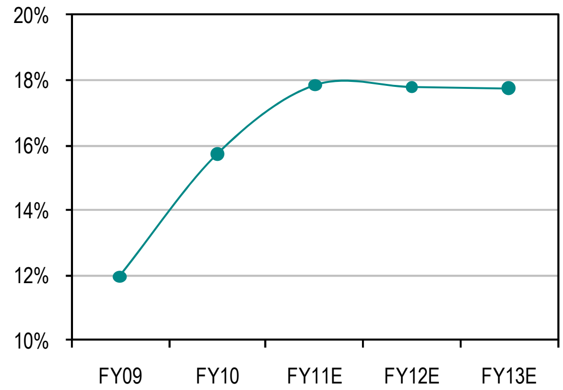


Figure: EBITDA margin expansion to continue

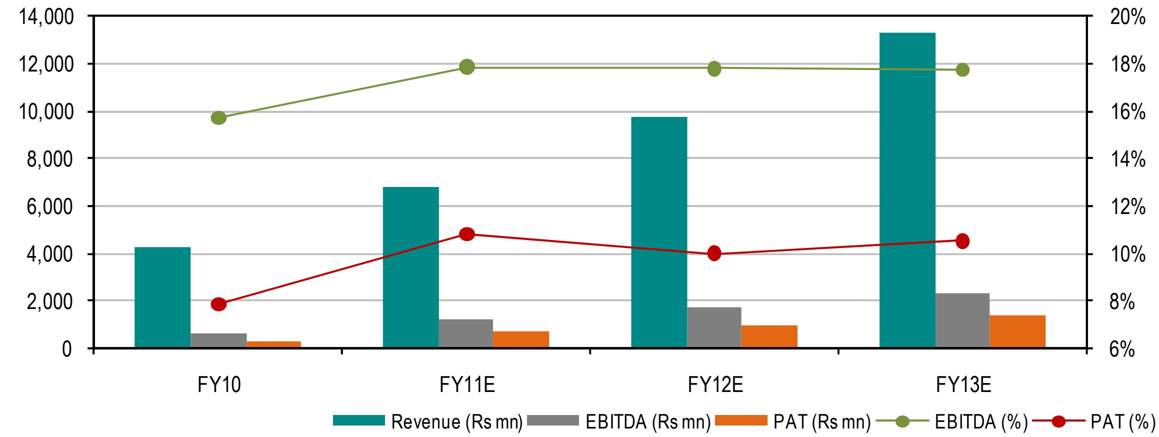


Source: Company; IDBI Capital Research

- **Earnings to outpace revenue with 61% CAGR**

Strong revenue CAGR of 46%, EBITDA margin expansion of 200bps, higher other income and lower interest cost would enable 61% earnings CAGR over FY10-13E, despite company paying full tax from FY12 onwards vs. ~22% in FY11.

Figure: Robust earnings growth



Source: Company; IDBI Capital Research

Balance sheet analysis

Net cash of Rs2.4 bn in FY13E, with cash per share of Rs37 is comforting. With FY13E net cash/equity of 0.7x, cash forming 41% of JUBI's assets, negative working capital and no significant capex expected, we expect the trend of healthy liquidity and strong balance sheet profile to continue. This will aid in continued strong new store rollout and any inorganic bets in existing or new categories that the company may want to look for in the medium term. 61% earnings CAGR over FY10-13E and lower capital requirement would enable return ratios to strengthen (RoCE of 63%, RoE of 45%, Asset turnover of 2.6x in FY13E).

Table: Balance sheet statement **(Rs mn)**

Year-end: March	FY09	FY10	FY11E	FY12E	FY13E
Net fixed assets	1,155	1,429	1,859	2,013	2,120
Current assets	**336**	**533**	**1,320**	**2,236**	**3,698**
Inventories	55	71	114	163	221
Sundry Debtors	12	29	47	68	92
Cash and Bank	30	71	635	1,256	2,367
Loans and advances	239	362	524	750	1,018
Total assets	**1,491**	**1,962**	**3,179**	**4,249**	**5,818**
Shareholders' funds	**240**	**1,174**	**1,914**	**2,598**	**3,578**
Share capital	582	636	643	643	643
Reserves & surplus	(342)	538	1,270	1,954	2,935
Total Debt	**824**	**86**	**4**	**4**	**4**
Secured loans	824	86	4	4	4
Unsecured loans	-	-	-	-	-
Other liabilities	824	86	4	4	4
Curr Liab & prov	**427**	**702**	**1,261**	**1,647**	**2,236**
Current liabilities	398	663	1,125	1,500	2,037
Provisions	29	39	137	147	199
Total liabilities	**1,251**	**787**	**1,266**	**1,652**	**2,240**
Total equity & liabilities	**1,491**	**1,962**	**3,179**	**4,249**	**5,818**
Book Value (Rs)	**4**	**19**	**30**	**40**	**56**

Source: Company; IDBI Capital Research

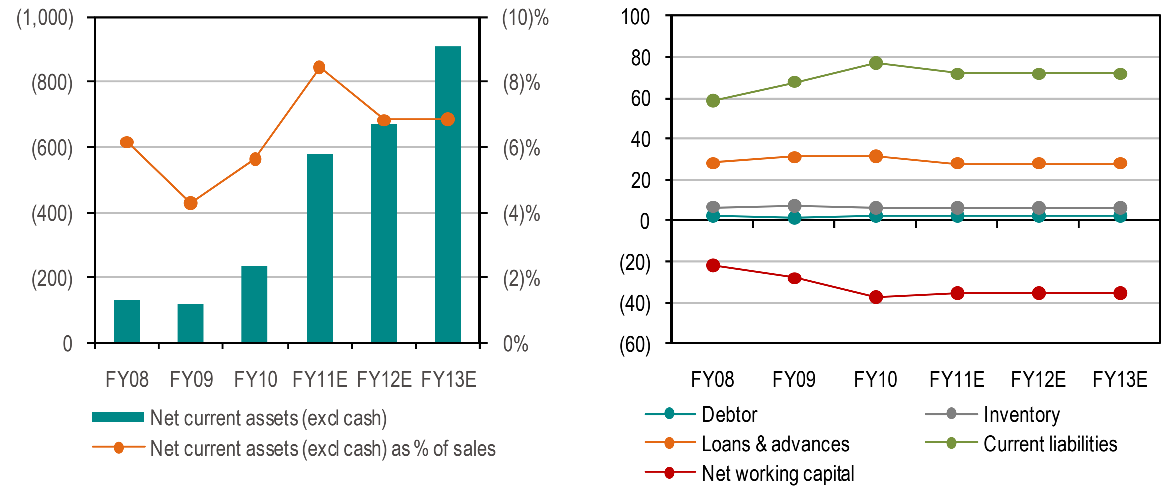
- ### Interest cost to remain miniscule; other income to jump

  JUBI raised ~Rs580 mn through its IPO (proceeds from fresh equity issuance) in January 2010. The company repaid ~Rs740 mn during FY10 from the IPO proceeds plus internal accruals. This has resulted in interest cost coming down to Rs3 mn during 9MFY11 from Rs91 mn in FY10 and is likely to remain miniscule over FY11E-13E. In addition, the company enjoys negative working capital scenario, which along with virtually debt free balance sheet will aid in interest cost to continue at minimal levels. With average cash and marketable securities of Rs1.8 bn in FY13E, we expect other income to jump to Rs135 mn (average yield of ~7.5%) in FY13 from Rs4 mn in FY10.

Efficient working capital management and strong liquidity

The company has efficiently managed its working capital over the years, which is reflected in the net current assets (excluding cash) as % of sales ratio, which has hovered in the range of negative 4-6% and we expect the trend to continue over FY10-13E. The major contributor to the negative working capital is the company's structure of operations, wherein most sales take place on cash basis (debtor days have remained at 2-3 days in the past). In addition, JUBI's centralized sourcing, warehousing and distribution of its raw materials, and production of dough at its commissaries, reduces the storage space required at its stores, enabling lower money blocked in inventories - inventory levels are at 6-7 days. While it enjoys credit of 55-65 days from suppliers, mainly led by bulk sourcing and hence greater bargaining power.

Figure: Negative working capital strengthens balance sheet profile

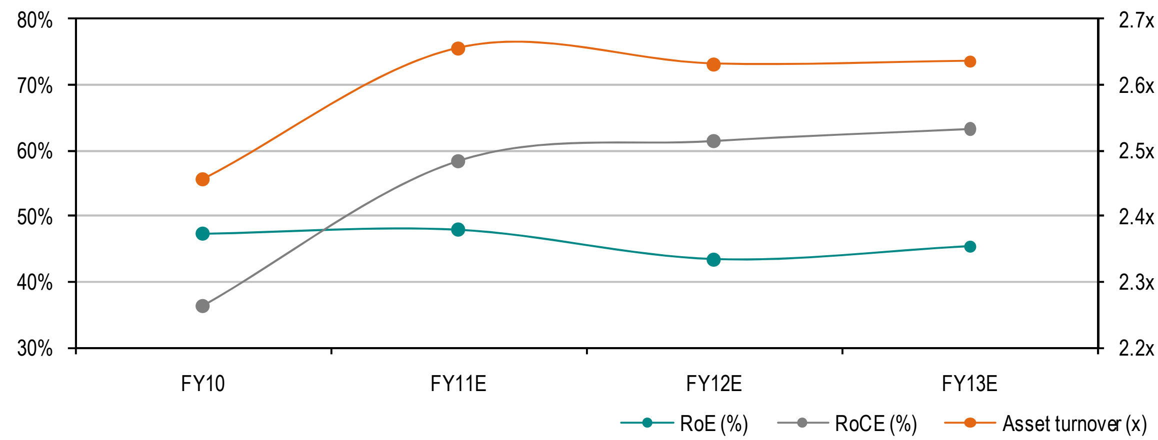


Source: Company; IDBI Capital Research

Return ratios slated to strengthen

We expect JUBI's return ratio profile to enhance further led by strong revenue traction, improved profitability and lower capital requirements. We expect RoCE/Asset turnover to expand 2,690/20bps to 63.2%/2.6x.

Figure: Strong return ratio profile



Source: Company; IDBI Capital Research

Rs4.8 bn of cash generation from operations over FY11E-13E

Improved profitability (earnings growth of 61% over FY10-13E - PAT of Rs0.7/1/1.4 bn in FY11E/12E/13E) and cash rich, zero debt balance sheet will generate Rs4.8 bn of cash from operations after adjusting for working capital over FY11-13E.

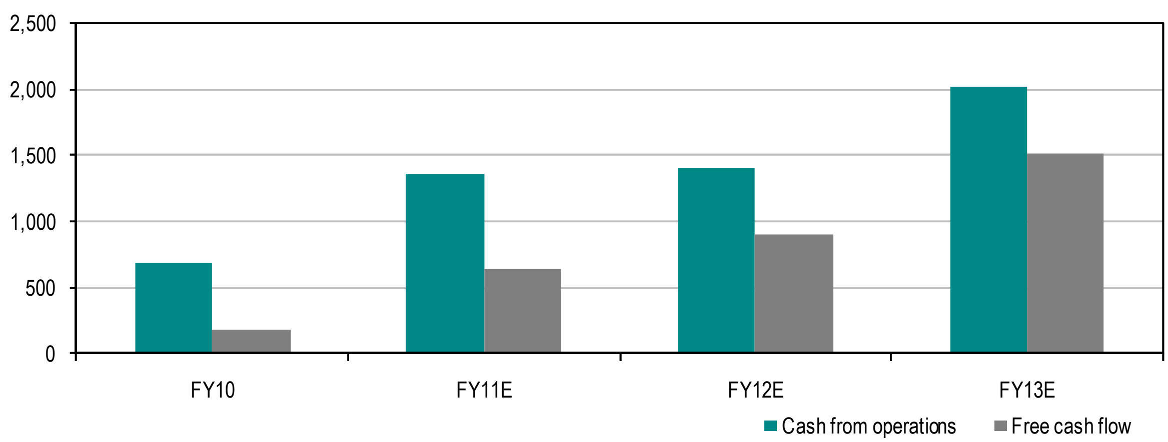
Table: Cash flow statement **(Rs mn)**

Year-end: March	FY09	FY10	FY11E	FY12E	FY13E
Pre-tax profit	81	335	948	1,459	2,090
Depreciation	142	228	290	351	398
Tax paid	(8)	(1)	(209)	(482)	(690)
Chg in working capital	(9)	118	337	90	238
Other operating activities	-	-	-	-	-
Cash flow from operations (a)	**206**	**681**	**1,366**	**1,419**	**2,036**
Capital expenditure	(511)	(502)	(720)	(505)	(505)
Chg in investments	-	-	-	-	-
Other investing activities	6	7	(8)	-	-
Cash flow from investing (b)	**(505)**	**(495)**	**(1,025)**	**(805)**	**(805)**
Equity raised/(repaid)	-	593	7	(0)	(0)
Debt raised/(repaid)	308	(739)	(81)	-	-
Dividend (incl. tax)	-	-	-	(293)	(420)
Chg in minorities	-	-	-	-	-
Other financing activities	-	-	-	-	-
Cash flow from financing (c)	**308**	**(145)**	**(74)**	**(293)**	**(420)**
Net chg in cash (a+b+c)	**9**	**40**	**267**	**320**	**811**

Source: Company; IDBI Capital Research

The company is slated to generate free cash flow of Rs3.1 bn over FY11-13E - Rs0.6/0.9/1.5 bn in FY11E/12E/13E vs. PAT of Rs0.7/1/1.4 bn in FY11E/12E/13E. This indicates that significant part of profits is in the form of cash. We expect the company to adopt a liberal dividend policy considering strong cash generation adjusted for all capex requirements.

Figure: Strong cash generation



Source: Company; IDBI Capital Research

Outlook and valuation

JUBI, the only listed player in India's QSR space, is a direct play on India consumption story and has demonstrated strong growth traction over the past few years, along with ever improving profitability. The company has been fairly successful in bringing the pizza culture in India, with pizzas now being considered as meals as against snacks earlier. We believe that with India growth story here to stay and Domino's brand equity and years of demonstrated service efficiency, JUBI has transcended itself to a self-sustained growth mode. The recent tie up with DD places the company in a sweet spot in India's QSR space by broad-basing its product portfolio. In addition, since DD stores are likely to adhere to the internal benchmarks set for Domino's stores (as indicated by the management), we believe that this tie up will not be RoCE/margin dilutive and will not lead to any PE de-rating for the company.

The company was listed in February 2010 and hence does not have sufficient trading history to arrive at any meaningful valuation multiple. In addition, since it's the only Indian listed QSR player, direct peer comparison is also not available. Hence, we have valued the company on DCF basis.

DCF value of Rs600 per share

We have assigned risk-free rate of 8% (given that 10-year G-Sec yields at hovering 8%). Market risk premium is taken at 5% (given strong balance sheet and earnings visibility) and beta at 1.2x (20% premium to broader market), which gives a WACC of 13%. Our terminal growth rate is a conservative 5%. This translates to DCF value of Rs600 per share.

Table: DCF Valuation

Particulars	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E
Capital expenditure	(720)	(505)	(505)	(400)	(400)	(400)	(400)
Profit after tax	739	978	1,400	1,969	2,669	3,536	4,639
Depreciation	290	351	398	437	470	501	530
Net change in W Cap	337	90	238	275	316	379	459
Net Cash flow	646	914	1,531	2,281	3,055	4,015	5,228
Terminal Cash Flow	-	-	-	-	-	-	68,401
Total Cash flow	646	914	1,531	2,281	3,055	4,015	73,629
NPV (Rs mn)	**38,576**						
Total no. of shares	**64**						
Fair value per share	**600**						
Terminal growth rate (%)	*5%*						
WACC (%)	*13.0%*						

Source: Company; IDBI Capital Research

Table: WACC Calculation

	(%)
Risk-free rate	8.0
Risk premium	5.0
Beta (x)	1.2
Cost of Equity	*13.8*
Weight of equity	*90.0*
Cost of Debt	10.0
Tax Rate	35.0
Post-tax cost of debt	*6.5*
Weight of debt	*10.0*
WACC	***13.0***

Source: Company; IDBI Capital Research

Table: WACC

Terminal Growth Rate	WACC: 11.0%	12.0%	13.0%	14.0%	15.0%
3.0%	664	574	503	445	398
4.0%	741	631	546	479	424
5.0%	844	704	600	520	456
6.0%	987	801	669	571	495
7.0%	1,202	937	761	637	543

Source: Company; IDBI Capital Research

In addition, we have also compared the company with global peers in the QSR space. Considering size and scale of operations, return ratios, and profitability and growth expectations, we expect JUBI to continue trading at premium to its global peers. It also tends to command scarcity premium, since institutional investors can play India's QSR story only through JUBI. In addition, when compared to Indian retail players (Trent and Pantaloon), JUBI trades at a discount despite better profitability and return ratios.

Table: Peer comparison **(Rs mn)**

		Revenue		PAT		ROE (%)		P/E (x)		EV/EBITDA (x)	
	Mkt Cap	CY10E / FY11E	CY11E / FY12E	CY10E / FY11E	CY11E / FY12E	CY10E / FY11E	CY11E / FY12E	CY10E / FY11E	CY11E / FY12E	CY10E / FY11E	CY11E / FY12E
Ajisen China	80,095	15,006	19,304	2,450	3,143	16.4	19.1	32.1	24.9	17.2	13.2
Cafe de Coral	57,856	31,451	35,474	2,970	3,333	18.0	19.0	19.8	17.7	10.9	9.5
McDonald's Corp	3,583,289	1,095,910	1,156,841	225,978	237,811	36.0	36.0	16.6	15.2	10.1	9.4
Domino's Pizza Inc	46,087	71,236	72,605	3,683	3,936	NA	NA	12.6	11.7	9.5	9.3
Domino's Pizza UK	55,898	13,404	14,990	1,962	2,246	51.6	53.0	28.0	24.6	19.0	16.7
Domino's Pizza ANZ	20,267	11,591	12,272	954	1,103	20.0	21.5	21.7	19.0	11.6	10.3
Papa John's	33,808	50,487	53,360	2,156	2,414	24.8	24.9	16.5	14.0	7.3	6.7
Yum! Brands Inc	1,069,900	516,453	534,556	55,071	62,153	85.8	75.8	20.0	17.8	10.8	9.8
Starbucks Corp	1,128,453	471,587	510,973	42,025	51,132	25.5	29.1	22.5	18.9	10.8	9.5
Jubilant Foodworks	**35,665**	**6,826**	**9,776**	**739**	**978**	**47.9**	**43.3**	**47.9**	**36.4**	**27.9**	**19.7**
Trent Ltd	17,638	15,714	18,831	218	265	3.6	4.2	79.2	64.7	47.7	39.7
Pantaloon Retail	57,206	25,249	140,840	598	2,971	NA	8.5	28.5	20.0	10.3	8.4
Nestle India	367,596	61,618	74,570	8,122	9,941	120.3	106.0	45.7	37.9	29.7	24.1
Titan Industries	152,299	16,800	76,787	896	5,428	NA	42.8	35.4	28.1	25.1	20.1

Source: Company; IDBI Capital Research

During the past one year, the stock has traded in the 1-yr forward P/E range of 21x-45x. We believe that P/E multiple of 27.6x FY13E earnings (at our DCF value of Rs600), translating into PEG of 0.4x is reasonable for a high growth company like JUBI (61% earnings CAGR over FY10-13E), with market leadership and Domino's brand equity.

We also note that for high growth companies such as Nestle and Titan, the market has historically paid higher valuation multiple. Hence, even when at every given point, such companies have looked expensive compared to peers, they continue to command valuation premium, led by strong brand franchisee, higher than industry growth and robust business model. We believe JUBI falls into this category and hence premium valuation for the company is justified. **Initiate coverage with ACCUMULATE.**

Risks and concerns

- **Intensifying competitive landscape**

  The food service industry is characterized by large number of players vying for the huge industry potential. Its competitors include international and domestic pizza chains operating in India, such as Pizza Hut, Papa John's, Smokin Joe's, Garcia's and Pizza Corner, as well as other quick service restaurant chains such as McDonald's, KFC and Subway, and local restaurants in the quick service restaurant segment. Though, we believe that industry potential is huge enough to accommodate large number of players, increasing competitive intensity could impact players' profitability going forward.

- **Supply chain issues as the company expands its reach**

  The company operates through 4 regional commissaries, which cater to 364 stores as of December 2010. We believe that as the company enhances its presence in tier II/III cities and remote towns (accounting for ~30% of total stores as of December 2010), it will need to boost its supply chain, with more commissaries/warehouses, in order to maintain its service and efficiency levels. Management is aware of the same and is looking at expanding its commissary network over the medium term.

- **Raw material cost pressures**

  The primary raw materials used in the preparation of pizzas, such as dough, cheese, vegetables and meat, have witnessed significant price uptick over the past few quarters. Our analysis and interactions with industry participants indicate that this upward price momentum is not likely to cool off in the coming quarters as India's food situation continues to face tight demand supply. This in turn will put gross margin of JUBI under pressure. Nonetheless, the company commands pricing power (4-5% annual price hike), which along with strong bargaining power with its suppliers (assured large offtake) will keep margin pressure under check.

Financial summary

Profit & Loss Account (Rs mn)

Year-end: March	FY09	FY10	FY11E	FY12E	FY13E
Net sales	**2,806**	**4,239**	**6,826**	**9,776**	**13,269**
Growth (%)	*32.9*	*51.1*	*61.0*	*43.2*	*35.7*
Operating expenses	(2,470)	(3,573)	(5,609)	(8,037)	(10,915)
EBITDA	**336**	**666**	**1,218**	**1,739**	**2,353**
Growth (%)	*28.3*	*98.4*	*82.8*	*42.8*	*35.4*
Depreciation	(169)	(243)	(290)	(351)	(398)
EBIT	**166**	**423**	**928**	**1,388**	**1,956**
Interest paid	(89)	(91)	(5)	(0)	(0)
Other income	4	4	25	72	135
Pre-tax profit	**81**	**335**	**948**	**1,459**	**2,090**
Tax	(8)	(1)	(209)	(482)	(690)
Effective tax rate (%)	*9.9*	*0.2*	*22.0*	*33.0*	*33.0*
Net profit	**73**	**334**	**739**	**978**	**1,400**
Adjusted net profit	**73**	**334**	**739**	**978**	**1,400**
Growth (%)	*(5.9)*	*357.6*	*121.3*	*32.2*	*43.2*
Shares o/s (mn nos)	*58*	*60*	*62*	*64*	*64*

Cash Flow Statement (Rs mn)

Year-end: March	FY09	FY10	FY11E	FY12E	FY13E
Pre-tax profit	81	335	948	1,459	2,090
Depreciation	142	228	290	351	398
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Dividend (incl. tax)	-	-	-	(293)	(420)
Chg in minorities	-	-	-	-	-
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Net chg in cash (a+b+c)	**9**	**40**	**267**	**320**	**811**

Balance Sheet (Rs mn)

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Book Value (Rs)	**4**	**19**	**30**	**40**	**56**

Financial Ratios

Year-end: March	FY09	FY10	FY11E	FY12E	FY13E
Adj EPS (Rs)	1.3	5.5	11.6	15.2	21.8
Adj EPS growth (%)	(5.9)	337.1	110.6	31.5	43.2
EBITDA margin (%)	12.0	15.7	17.8	17.8	17.7
Pre-tax margin (%)	2.9	7.9	13.9	14.9	15.7
ROE (%)	36.5	47.3	47.9	43.3	45.3
ROCE (%)	19.1	36.4	58.4	61.4	63.2
Turnover & Leverage ratios (x)					
Asset turnover (x)	2.2	2.5	2.7	2.6	2.6
Leverage factor (x)	6.3	2.4	1.7	1.6	1.6
Net margin (%)	2.6	7.9	10.8	10.0	10.6
Net Debt/Equity (x)	3.3	0.0	(0.3)	(0.5)	(0.7)
Working Capital & Liquidity ratios					
Inventory days	7	6	6	6	6
Receivable days	2	3	3	3	3
Payable days	48	56	65	60	60

Valuation

Year-end: March	FY09	FY10	FY11E	FY12E	FY13E
PER (x)	440.7	100.8	47.9	36.4	25.4
Price / Book value (x)	134.3	28.7	18.5	13.7	9.9
PCE (x)	132.7	58.3	34.4	26.8	19.8
EV / Net sales (x)	11.8	7.8	5.0	3.5	2.5
EV / EBITDA (x)	98.2	49.5	27.9	19.7	14.1
Dividend Yield (%)	0.0	0.0	0.0	0.8	1.2

Source: Company; IDBI Capital Research

Notes

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Key to Ratings

Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

IDBI Capital Market Services Ltd. (A wholly owned subsidiary of IDBI Ltd.)

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