

28 February 2011

MF Global Company Update

Jubilant Foodworks Ltd.

FMCG

JUBI IN: SELL

RS 527

Business model of Dunkin Donuts (DD) in India: JFL will open 80-100 stores over 5 years with a size of 700–750 sq. ft and commissary of 2000–10,000 sq. ft. DD's product menu will be all-day part food solutions with ~70%-Food and 30%-Beverages, similar to DD's Asian business model. DD will have takeaway and on-premise dining. Capex will be funded from internal accruals. The management has stated the possibility of a store payback period in line with JFL's internal law of 3 years with cash breakeven within 12 months.

Comparison of DD's planned business model with JFL's Dominos' model: JFL's Dominos store size at ~1200 sq. ft. is 2x DD's store size and JFL's Dominos commissary size is 20000–25000 sq. ft. DD's food products are ready-to-eat and is a dine-in model, hence, investment on equipment is lower with no cost on Vehicles for delivery. Employee costs for DD outlets will be lower as compared to Dominos Pizza delivery outlets as DD outlets will not have dedicated employees for home delivery. Rental costs per sq. ft. will be higher in the initial years of operation as DD outlets will be based in Metro cities with high store concentration in prime locations. Management has stated that capex per store will be lower than JFL's Rs 7mn.

Cost synergies: JFL will share current business functions with DD, which will result in savings on general administrative expenses.

Key analytics: JFL has strong competency in developing a nascent food QSR category with Dominos Pizza (Revenue CAGR of 45% in FY07-12) and DD has similar market potential and dynamics. Local competitor, Café Coffee Day (CCD) in FY10 had revenue per store of Rs 5mn (918 stores), operating margins of ~23% (no royalty) and capex of Rs 8mn with revenue growth of 25%–30% similar to JFL on margins, growth and capex, however, Dominos revenue per store is higher at Rs 19.8mn in FY11E on account of higher ticket size.

Current valuations: JFL currently trades at 47.3x and 35.9x on FY11E and FY12E earnings, respectively. We will wait for further clarity on the business model details before inclusion in our estimates but we believe the impact on near to medium term will be fairly limited. We see the current valuations completely capture the long term positives of the agreement with DD. Hence, we maintain our Sell rating.

VALUATION SUMMARY

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
TOTAL INCOME	2,806	4,239	6,631	8,910	11,161
TOTAL INCOME GROWTH, %	32.9	51.1	56.4	34.4	25.3
CORE EBIDTA	330	666	1,188	1,761	2,244
EBIDTA MARGINS, %	11.8	15.7	17.9	19.8	20.1
NET PROFIT	67	334	708	934	1,212
PAT MARGINS, %	2.4	7.9	10.7	10.5	10.9
EPS, RS	1.2	5.6	11.1	14.7	19.0
EPS GROWTH, %	(13.5)	386.0	98.5	31.8	29.8
PER, X	456.8	94.0	47.3	35.9	27.7
EV/EBIDTA, X	95.3	46.1	25.1	16.6	12.5
EV/NET SALES, X	11.2	7.2	4.5	3.3	2.5
PRICE/BOOK VALUE, X	128.0	26.7	17.9	12.0	8.4
ROIC, %	34.3	58.0	81.6	92.9	104.2
ROE, %	33.5	47.2	46.4	39.9	35.6

Source: Company, MF Global India Research Estimates

TARGET RS 430 (-18%)

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	64MN
MARKET CAP (RS) :	33.9BN
MARKET CAP (USD) :	749MN
52 - WK HI/LO (RS) :	671/ 219
LIQUIDITY 3M (USD) :	13.8MN
FACE VALUE (RS) :	10

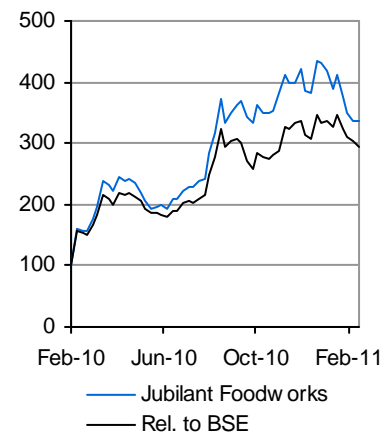
SHARE HOLDING PATTERN, %

PROMOTERS :	21.1
FII / NRI :	8.8
FI / MF :	3.6
NON-PROMOTER CORP. HOLDINGS :	62.1
PUBLIC & OTHERS :	4.5

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-11.1	-9.7	135.2
REL TO BSE	-4.4	-1.4	126.3

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

FINANCIALS

INCOME STATEMENT

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
NET SALES	2,806	4,239	6,631	8,910	11,161
GROWTH, %	32.9	51.1	56.4	34.4	25.3
OTHER OPERATING INCOME	0	0	0	0	0
TOTAL INCOME	2,806	4,239	6,631	8,910	11,161
OPERATING EXPENSES	-2,476	-3,573	-5,442	-7,149	-8,918
EBITDA	330	666	1,188	1,761	2,244
GROWTH, %	26.0	101.9	78.5	48.2	27.4
MARGIN, %	11.8	15.7	17.9	19.8	20.1
DEPRECIATION	-169	-243	-304	-369	-436
EBIT	160	422	885	1,393	1,808
GROWTH, %	26.0	101.9	78.5	48.2	27.4
MARGIN, %	11.8	15.7	17.9	19.8	20.1
INTEREST RECEIVED/(PAID)	-89	-91	0	0	0
OTHER INCOME	4	4	0	0	0
PRE-TAX PROFIT	75	335	885	1,393	1,808
TAX PROVIDED	-8	-1	-176	-459	-597
PROFIT AFTER TAX	67	334	708	934	1,212
MF NET PROFIT	67	334	708	934	1,212
GROWTH, %	-13.5	397.4	112.1	31.8	29.8
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	0	0	0	0	0
UNADJ. SHARES (M)	58	64	64	64	64
WTD AVG SHARES (M)	58	64	64	64	64

CASH FLOW

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
PRE-TAX PROFIT	75	335	885	1,393	1,808
DEPRECIATION	169	243	304	369	436
CHG IN WORKING CAPITAL	-9	118	391	2	330
TOTAL TAX PAID	-8	-1	-176	-459	-597
OTHER OPERATING ACTIVITIES	40	17	0	0	0
CASH FLOW FROM OPERATING ACTIVITIES	267	713	1,403	1,304	1,977
CAPITAL EXPENDITURE	-538	-517	-566	-700	-773
CHG IN INVESTMENTS	0	0	0	0	0
CHG IN MARKETABLE SECURITIES	0	0	0	0	0
OTHER INVESTING ACTIVITIES	0	0	0	0	0
CASH FLOW FROM INVESTING ACTIVITIES	-538	-517	-566	-700	-773
FREE CASH FLOW	-271	196	837	604	1,205
EQUITY RAISED/(REPAID)	0	605	-4	-4	-4
DEBT RAISED/(REPAID)	308	-739	0	-86	0
DIVIDEND (INCL. TAX)	0	0	0	0	0
OTHER FINANCING ACTIVITIES	0	0	0	0	0
CASH FLOW FROM FINANCING ACTIVITIES	308	-133	-4	-90	-4
NET CHG IN CASH	37	62	832	514	1,201

BALANCE SHEET

AS AT 31ST MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
CASH & BANK	30	70	901	1,413	2,613
MARKETABLE SECURITIES AT COST	0	0	0	0	0
DEBTORS	12	29	59	60	89
INVENTORY	55	71	149	229	216
LOANS & ADVANCES	239	362	362	414	515
OTHER CURRENT ASSETS	0	0	0	0	0
TOTAL CURRENT ASSETS	336	533	1,471	2,116	3,433
INVESTMENTS	0	0	0	0	0
GROSS FIXED ASSETS	1,710	2,276	2,842	3,542	4,314
LESS: DEPRECIATION	644	873	1,176	1,545	1,981
ADD: CAPITAL WIP	89	26	26	26	26
NET FIXED ASSETS	1,155	1,428	1,691	2,023	2,360
OTHER NON-CURRENT ASSETS	0	0	0	0	0
TOTAL ASSETS	1,491	1,961	3,162	4,138	5,792
CURRENT LIABILITIES	398	663	1,157	1,288	1,731
PROVISIONS	0	0	0	0	0
TOTAL CURRENT LIABILITIES	398	663	1,157	1,288	1,731
NON-CURRENT LIABILITIES	824	86	86	0	0
TOTAL LIABILITIES	1,251	787	1,286	1,335	1,782
PAID-UP CAPITAL	582	636	636	636	636
RESERVES & SURPLUS	-342	538	1,232	2,164	3,375
SHAREHOLDERS' EQUITY	240	1,174	1,876	2,804	4,012
TOTAL EQUITY & LIABILITIES	1,491	1,962	3,162	4,139	5,794

PER-SHARE DATA

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
MF EPS (INR)	1.2	5.6	11.1	14.7	19.0
GROWTH, %	-13	386	98	32	30
BOOK NAV/SHARE (INR)	4.1	19.7	29.5	44.1	63.1
FDEPS (INR)	1.2	5.2	11.1	14.7	19.0
CEPS (INR)	4.1	9.7	15.9	20.5	25.9
CFPS (INR)	3.8	11.6	22.0	20.5	31.1

FINANCIAL STRUCTURE

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
TOTAL DEBT/EQUITY (%)	344.2	7.3	4.6	0.0	0.0
NET DEBT (CASH)/EQUITY (%)	331.6	1.3	-43.4	-50.4	-65.1

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
RETURN ON ASSETS (%)	9.9	22.7	27.6	25.6	24.4
RETURN ON EQUITY (%)	33.5	47.2	46.4	39.9	35.6
RETURN ON INVESTED CAPITAL (%)	34.3	58.0	81.6	92.9	104.2
ROIC/COST OF CAPITAL (X)	3.3	5.5	7.7	8.8	9.8
ROIC - COST OF CAPITAL (%)	23.8	47.4	71.0	82.3	93.6
RETURN ON CAPITAL EMPLOYED (%)	14.0	32.8	42.9	38.5	35.0
COST OF CAPITAL (%)	10.5	10.6	10.6	10.6	10.6
ROCE - COST OF CAPITAL (%)	3.5	22.2	32.3	27.9	24.4
ASSET TURNOVER (X)	3.3	3.7	5.7	7.0	7.7
SALES/TOTAL ASSETS (X)	2.2	2.5	2.6	2.4	2.2
SALES/NET FA (X)	2.9	3.3	4.3	4.8	5.1
WORKING CAPITAL/SALES (X)	0.0	0.0	-0.1	-0.1	-0.1
FIXED CAPITAL/SALES (X)	0.0	0.0	0.0	0.0	0.0
RECEIVABLE DAYS	1.5	2.5	3.2	2.5	2.9
INVENTORY DAYS	7.2	6.1	8.2	9.4	7.1
PAYABLE DAYS	58.7	67.7	77.6	65.8	70.8
CURRENT RATIO (X)	0.8	0.8	1.3	1.6	2.0
QUICK RATIO (X)	0.7	0.7	1.1	1.5	1.9
INTEREST COVER (X)	1.8	4.6			
PER (X)	456.8	94.0	47.3	35.9	27.7
PEG (X) - Y-O-Y GROWTH	-33.9	0.2	0.5	1.1	0.9
PRICE/BOOK (X)	128.0	26.7	17.9	12.0	8.4
YIELD (%)	0.0	0.0	0.0	0.0	0.0
EV/NET SALES (X)	11.2	7.2	4.5	3.3	2.5
EV/EBITDA (X)	95.3	46.1	25.1	16.6	12.5
EV/EBIT (X)	95.3	46.1	25.1	16.6	12.5
EV/NOPLAT (X)	106.7	46.2	31.4	24.8	18.7
EV/CE	28.8	23.6	14.9	10.3	6.9
EV/IC (X)	36.6	26.8	25.6	23.0	19.4

Source: Company, MF Global India Research Estimates

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET, RS	CMP, RS	DATE
SELL	430	497	9-FEB-2011
SELL	440	551	8-NOV-2010
SELL	305	374	3-AUG-2010
SELL	265	331	12-MAY-2010
SELL	190	277	11-MAR-2010

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