

India

Food Retailers & Wholesalers

12-month rating **Sell**
Prior: Not Rated
12m price target **Rs800.00/US\$17.44**
Price **Rs944.35/US\$20.59**

RIC: JUBI.BO BBG: JUBI IB

2 September 2011
Trading data (local/US\$)

52-wk range	Rs953.00-470.70/US\$21.32-10.29
Market cap.	Rs60.9bn/US\$1.33bn
Shares o/s	64.4m (ORD)
Free float	39%
Avg. daily volume ('000)	982
Avg. daily value (m)	Rs837.9

Balance sheet data 03/12E

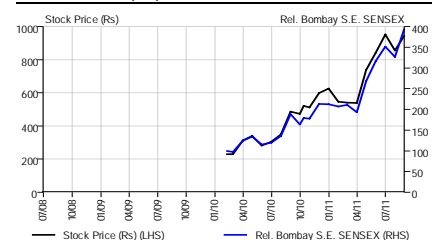
Shareholders' equity	Rs2.91bn
P/BV (UBS)	21.0x
Net Cash (debt)	Rs0.26bn

Forecast returns

Forecast price appreciation	-15.3%
Forecast dividend yield	0.0%
Forecast stock return	-15.3%
Market return assumption	13.3%
Forecast excess return	-28.6%

EPS (UBS, Rs)

	03/12E		Cons.	03/11 Actual
	From	To		
Q1E	-	3.59	-	2.39
Q2E	-	3.81	-	2.87
Q3E	-	4.45	-	2.94
Q4E	-	3.57	-	2.95
03/12E	-	15.39	-	-
03/13E	-	23.03	-	-

Performance (Rs)

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Expensive pizza

■ Dominant pizza and food services company

Jubilant FoodWorks (JUBI) has the exclusive franchise for Domino's Pizza in India. It is the market leader in the formal pizza market with a 50% share and a 70% share in the pizza home delivery segment in India. We believe JUBI is well positioned to benefit from its strong presence in this high-growth market. We forecast a 25% CAGR for the formal food services industry over FY11-16, with an implied 45% CAGR for the pizza market over the same period.

■ Strong earnings growth and ROE

JUBI's FY06-11 EBITDA CAGR was 61%, driven by a 48% revenue CAGR. We forecast a FY11-13 earnings CAGR of 44%, based on our assumptions of a 43% revenue CAGR, a 170bp improvement in the EBITDA margin over the same period, and an FY12 ROE of 411%.

■ Increasing competition

JUBI will likely face increasing competition (Yum! Brands plans to open 300 Pizza Hut Delivery [PHD] outlets in India by 2015, up from 27 currently). While this might not impact JUBI's FY12-13 earnings, the long-term growth outlook has a significant impact on the valuation for a company with high earnings growth.

■ Valuation: initiate coverage with a Sell rating and a PT of Rs800.00

JUBI is trading at 41x FY13E PE, a significant premium to UBS's India consumer universe, implying that either its growth rates are sustainable beyond the next three years, or that the company will beat consensus estimates by a wide margin. However, our analysis suggests a change in consumer preference beyond what we think is reasonable at this stage would be required for JUBI's growth rates to beat forecasts for the next five to seven years. We base our price target on 35x FY13E PE.

Highlights (Rsm)	03/10	03/11	03/12E	03/13E	03/14E
Revenues	4,239	6,781	9,852	13,917	18,765
EBIT (UBS)	412	906	1,454	2,197	3,067
Net Income (UBS)	330	717	993	1,486	2,071
EPS (UBS, Rs)	5.54	11.16	15.39	23.03	32.10
Net DPS (UBS, Rs)	0.00	0.00	0.00	0.00	0.00

Profitability & Valuation	5-yr hist av.	03/11	03/12E	03/13E	03/14E
EBIT margin %	8.5	13.4	14.8	15.8	16.3
ROIC (EBIT) %	40.8	64.5	81.6	102.8	121.1
EV/EBITDA (core) x	-	24.7	32.6	21.8	15.5
PE (UBS) x	-	41.7	61.4	41.0	29.4
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs944.35 on 30 Aug 2011 23:38 HKT

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 28.

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Investment Thesis

We initiate coverage of Jubilant FoodWorks (JUBI) with a Sell rating and a price target of Rs800.00 (15% below the current share price). JUBI is the market leader in the formal pizza market with a 50% share and a 70% share in the pizza home delivery segment in India. It has the exclusive franchise for Domino's Pizza in India and recently entered into an agreement with Dunkin' Donuts for the exclusive franchise to operate outlets in India.

While we believe JUBI is well positioned to benefit from its strong presence in a high-growth market, the growth story appears to be fully reflected in its share price (41x FY13E PE). We believe the share price implies that either the company will continue to beat consensus estimates (consensus and we forecast a 44% EPS CAGR for FY11-13) by a wide margin, or that the current high growth levels can be sustained beyond the next three years. However, our analysis suggests a change in consumer preference beyond what we think is reasonable at this stage would be required for JUBI's growth rates to beat forecasts for next five to seven years (see Table 7).

We think maintaining high growth rates will be challenging because of increasing competition (Yum! Brands plans to open 300 Pizza Hut Delivery [PHD] outlets in India by 2015, up from 27 currently). While this might not impact our FY11-13 growth estimates, we think the long-term growth outlook has a significant impact on the valuation for a company in a high-growth market.

Food services companies in developed markets tend to de-rate once they have passed the high growth phase, especially in economic downturns.

At 41x FY13E PE, JUBI is trading at a 75% premium to the UBS India consumer universe. We believe the stock will de-rate from the current level.

Key catalysts

Negative catalysts

- **Slower-than-expected same-store-sales growth (SSSG) due to economic downturns:** The consumption of JUBI's products is discretionary and therefore affected by economic downturns (as in FY09 when its SSSG was 6%). We expect SSSG of 20% and 18% in FY12 and FY13, respectively
- **Increasing competition:** We expect competition to intensify significantly in the formal and informal food services markets and in the pizza delivery segment. Yum! Brands plans to increase PHD outlets from 27 to 300 by 2015. Om Pizza & Eats, the franchisee for Papa Johns, has raised funds of Rs500m from TVS Capital for expansion.
- **Slowdown in outlet expansion:** Outlet expansion can pose execution challenges, especially as newer outlets tend to be more dispersed and in tier-2 cities.

JUBI is the market leader in the formal pizza market with a 50% market share and a 70% share in the pizza home delivery segment in India

Increasing competitive intensity could dampen growth

Positive catalysts

- **Faster rollout of Dunkin' Donuts:** We have not built in potential revenue from the Dunkin' Donuts rollout. JUBI targets to open around 80 outlets in the next five years, with the first opening planned for Q4 FY12. We do not expect Dunkin' Donuts to have a material impact on earnings over our forecast period.
- **Margin expansion ahead of estimates:** JUBI's EBITDA margin increased more than 200bp YoY in FY11 to 17.6%. It expanded further to 19.1% in Q1 FY12, due mainly to strong SSSG. Management noted that the Q1 FY12 margin was not sustainable; however, its FY12 margin might be higher than in FY11.

Better-than-estimated operating leverage could drive share price

Risks

- **Economic slowdown:** An economic slowdown or slower growth in disposable income would limit discretionary spending and negatively impact pizza sales. In FY09, JUBI's SSSG fell to 6% and earnings declined 6% on account of the economic downturn.
- **Competition:** We expect competition to intensify significantly in the formal food services market as well as the pizza delivery segment. Rising investments from private equity investors in formal food service businesses, and especially in the pizza home delivery format, suggest a more competitive market for JUBI.
- **Cost pressure leading to lower margins:** The cost of cheese, which constitutes 30% of the total raw material cost, has increased substantially in FY11 causing a 40bp decline in the gross margin. The staff cost (20% of sales) CAGR was 53% over FY06-11 compared with a 48% revenue CAGR for the same period. Although JUBI increases its prices twice a year by 4-5%, it also needs to maintain its product competitiveness to sustain high growth rates and market share.
- **Changing tastes of customers:** We believe the initial phase of penetration by the pizza market in India was easier (there are many vegetarian options and the pizzas are hot on delivery—key culinary parameters for Indian consumers). However, we think penetration will become more difficult as pizza is not an indigenous food.
- **Termination of master franchise agreement or higher franchise fee.** JUBI has exclusive rights to the Domino's brand in India, Sri Lanka, Bangladesh and Nepal until 31 December 2024 and is renewable for a period of 10 years. Termination of the master agreement by Domino's International presents significant risk, although we think this is unlikely. In addition, franchise fees have been constant at around 3% of sales; any increase in the fee could affect margins.

Higher raw material costs could hamper margins

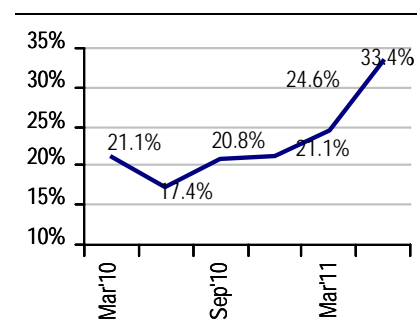
Valuation and basis for our price target

We base our price target on 35x FY13E PE (the average mean multiple is 38x). JUBI's share price has rerated significantly since listing in February 2010, as it continued to beat consensus estimates for outlet additions and earnings growth. The re-rating is also reflected in the increase in FII ownership, from 17% in June 2010 to 33% in June 2011. It now trades at a standard deviation of almost + 2 to its historical (albeit limited) trading range. At FY12E/FY13E PE of 60x/41x, JUBI is trading at a 75% premium to the UBS India consumer universe.

We believe the current share price implies that either the company will continue to beat estimates (consensus and we forecast a 44% EPS CAGR for FY11-13) by a wide margin or that it can sustain the current high growth levels beyond the next two to three years. We undertook a sensitivities analysis of different growth scenarios for JUBI where we tried to reconcile JUBI's high growth rates with the implied market size of the pizza segment and the formal food services segment. However, our analysis suggests a change in consumer preference beyond what we think is reasonable at this stage would be required for JUBI's growth rates to continue to beat forecasts for next five to seven years. Our price target is based on 35x FY13E PE.

We think the higher multiples for JUBI, compared with global food services companies, are justified, given the early stage of the growth cycle of the formal food services market in India and JUBI's position to benefit from this.

Chart 1: FII ownership trend



Source: BSE

Table 1: UBS India consumer coverage universe

	Year end	Share price (Rs)	Market cap (Rs m)	PE (x)		RIC post-tax (%)		EV/EBITDA (x)		ROE (%)		EPS CAGR	
				FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY6-10	FY11-13E
Jubilant FoodWorks	Mar	944.35	1,322	61.4	41.0	50.1	63.2	32.6	21.8	41.2	40.7	99%	44%
United Breweries	Mar	421.80	2,255	45.7	29.9	10.6	13.9	21.8	15.1	18.0	21.1	-	44%
Emami Ltd	Mar	459.25	1,510	24.9	19.8	32.0	34.9	23.1	18.4	35.3	34.5	31%	24%
Page Industries	Mar	2,580.00	625	36.1	25.8	30.3	35.1	23.1	16.7	56.2	60.4	32%	38%
Asian Paints Ltd.	Mar	3,287.15	6,850	30.2	24.6	43.4	43.6	18.8	15.4	42.9	43.5	39%	23%
Dabur India Ltd.	Mar	110.50	4,171	28.3	24.2	33.2	34.5	22.9	19.2	42.0	37.8	22%	18%
Godrej Consumer Products	Mar	425.20	2,989	22.0	19.0	16.9	19.0	18.3	15.5	33.0	32.0	20%	24%
Hindustan Unilever	Mar	320.90	15,210	30.0	25.3	425.6	292.8	26.5	21.3	78.2	73.3	10%	13%
ITC	Mar	200.00	33,237	24.7	20.8	48.7	56.5	14.6	12.1	35.5	35.5	15%	21%
Nestle India Ltd.	Dec	4,387.75	9,191	39.7	34.1	314.5	250.3	25.2	21.0	139.5	165.2	21%	22%
Pantaloon Retail (India) Ltd.	Jun	293.75	1,385	20.8	14.8	9.8	10.8	6.7	5.7	7.0	9.1	32%	44%
Titan Industries	Mar	205.55	3,964	29.2	24.9	60.8	59.7	22.6	18.9	50.9	43.9	26%	30%
United Spirits Ltd	Mar	895.45	2,443	21.2	17.4	9.7	10.5	9.3	7.9	14.0	8.7	-4%	28%

Note: For companies with December year-end, FY12E represents 2011E and FY13E represents 2012E. Above data as at 30 August 2011.

Source: Reuters, UBS estimates

Chart 2: Jubilant—one-year forward PE



Source: Reuters, UBS estimates

Chart 3: Jubilant—one-year forward EV/EBITDA

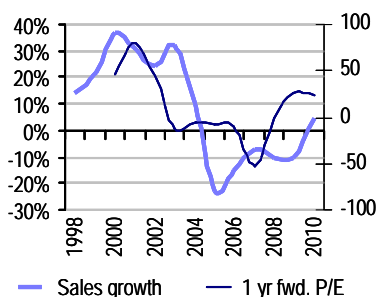


Source: Reuters, UBS estimates

Food services companies in other markets have tended to de-rate once they have passed the high growth phase (see the Krispy Kreme and Alsea charts below; for other companies see the Appendix), especially in economic downturns. But even in developed markets, food services companies can continue to trade at high PE multiples if a company is able to create a high-growth niche; for example, Chipotle, which is trading at 37x 2012 PE, with 28% YoY EPS growth for 2012 (its earnings CAGR was 45% over 2006-10).

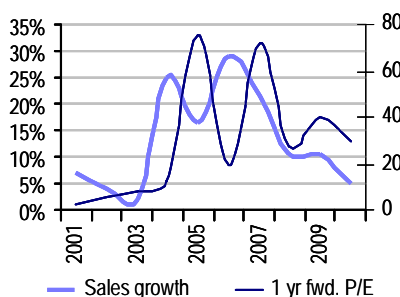
Food services companies in the developed markets have de-rated once passed the high growth phase

Chart 4: Krispy Kreme: sales growth, one-year forward PE



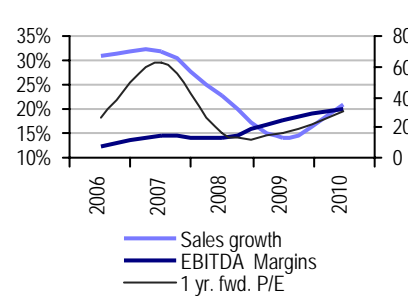
Source: Bloomberg

Chart 5: Alsea: sales growth, one-year forward PE



Source: Bloomberg

Chart 6: Chipotle: sales growth, one-year forward PE and EBITDA margins



Source: Bloomberg

We base our price target of Rs800.00 on 35x FY13E PE. This is supported by our FY11-13E EPS CAGR of 44% and average ROE of 43%. The target multiple is slightly below JUBI's average trading level since its listing in February 2010. This target multiple is also at a 50% premium to the UBS India consumer universe, which we think is justified by its higher earnings growth and less penetrated market.

We also ran a scenario analysis of the potential share price at end-FY15 (about 3.5 years from now), under different assumptions for our FY11-16 EPS CAGR and PE estimates. This, we believe, would enable a better appreciation of the risks and rewards of buying the shares of a stock in a high-growth industry at high multiples, albeit with rising competition.

Table 2: Potential share price in FY15E under different EPS CAGR assumptions

EPS CAGR (FY11-16E), PE FY15E	15x	20x	25x	30x	35x	40x	50x
19%	336	448	560	671	783	895	1,119
29%	464	618	773	927	1,082	1,236	1,545
39%	665	887	1,108	1,330	1,552	1,773	2,216
49%	825	1,100	1,375	1,650	1,925	2,201	2,751
59%	1,070	1,427	1,783	2,140	2,497	2,853	3,567

Source: UBS estimates

UBS versus consensus

Our estimates are largely in line with consensus estimates. Other brokerages have five sells, six buys and four neutral ratings on JUBI, according to Bloomberg. The consensus numbers below are standalone estimates and, like consensus, we have also not built in the Sri Lanka operations in our estimates.

Table 3: Jubilant FoodWorks—UBS versus consensus

(Rs m)	UBS	Consensus	Difference (%)
FY12E			
Net sales	9,852	10,056	-2%
EBITDA	1,839	1,901	-4%
EPS	15.4	16.1	-3%
FY13E			
Net sales	13,917	13,763	1%
EBITDA	2,699	2,662	0%
EPS	23.0	23.0	0%

Source: Bloomberg, UBS estimates

Sensitivity analysis

We have undertaken a sensitivity analysis of earnings to changes in our outlet additions and SSSG estimates. The following tables show that JUBI's earnings are more sensitive to our SSSG assumptions than to our outlet addition assumptions.

Table 4: Sensitivity of earnings to changes in outlet addition assumptions

	FY12E	FY13E	FY14E
Base case—number of outlets added every year	77	82	87
EPS	15.4	23.0	32.1
Accelerated—number of outlets added every year	82	92	102
EPS	15.7	24.1	34.8
Difference	2%	5%	8%

Source: UBS estimates

Table 5: Sensitivity of earnings to changes in our SSSG assumptions

	FY12E	FY13E	FY14E
Base case—SSSG	20%	18%	15%
EPS	15.4	23.0	32.1
Bull case (+5% to base case)	25%	23%	20%
Difference	10%	19%	28%
Bear case (-5% to base case)	15%	13%	10%
Difference	-10%	-19%	-28%

Source: UBS estimates

Competitive analysis

Assessment of industry attractiveness

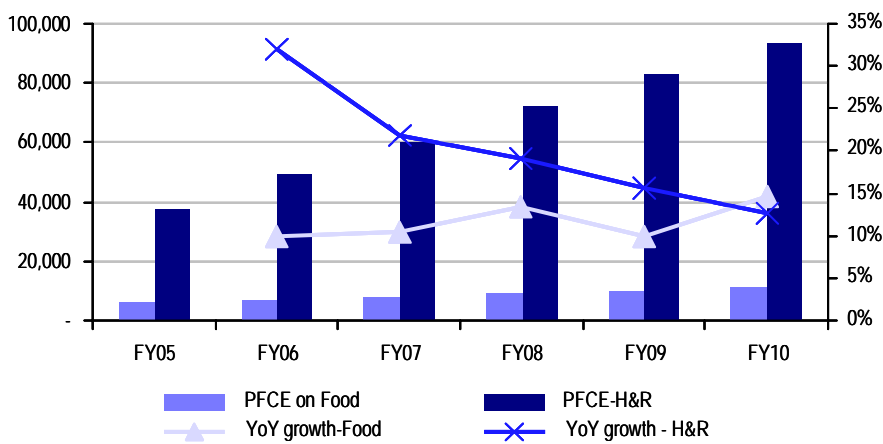
Pizza and formal food services market to grow strongly

Private final consumption expenditure (PFCE) on food in India was Rs11.3trn in FY10 (source: CMIE) with a 12% CAGR over the past five years. Of the total food expenditure, expenditure on hotels and restaurants was Rs940bn, with a higher CAGR of 20% during the same period. We estimate the food services industry was worth Rs688bn in FY10. According to JUBI, the formal segment is around 10% of the total food service industry in India.

Based on JUBI data, we estimate the formal pizza market is worth Rs8.5bn, 1.2% of the total food services industry and 12% of the formal food services industry. Based on the company's data, the implied CAGR for the pizza market for the past four years (FY06-10) would be 32%.

We estimate the formal pizza market was worth Rs.8.5bn, 1.2% of India's food services industry

Chart 7: PFCE trend in food and hotels & restaurants (Rs bn) and YoY growth (%)



Source: CMIE

We forecast the formal food services market to grow 25% over FY11-16, faster than the 12% growth in total food expenditure. We believe favourable demographics are the key driver of this growth:

- According to the National Council of Applied Economic Research (NCAER), the CAGR for the number of middle-income households (annual income of US\$7,500-38,000) will be 9% over FY10-16, from 32m in FY10 to 53m in FY16.
- We expect the rising number of middle-income households, coupled with a 2% FY10-16 CAGR for the population in the age group of 20-34 years (source: UN), to boost the pizza market in India, especially as the young are the dominant pizza consumers.
- The rising proportion of women in the workforce is another important driver of the growing popularity of restaurants, and home-delivered food. According to the MasterCard Worldwide Index of Women Advancement, 43% of women participate in the workforce in India (the lowest among other Asian countries) an increase from 25% (source: Registrar General of India) in 2001.

How much faster can pizza market grow and for how long?

Pizza is more amenable to Indian taste than most other international foods, especially within home delivery services, in our view. This is because pizza is available in a wide range of vegetarian options and is hot on delivery—key culinary parameters for Indian consumers.

In the section below we discuss the sensitivity of Domino's implied market share to changes in our formal pizza market growth assumption—other factors (growth of the food industry, the food service industry, formal food services industry and our revenue assumptions for JUBI) remaining constant, see Table 6). Our analysis suggests a change in consumer preference beyond what we think is reasonable at this stage would be required for JUBI's growth rates to beat forecasts for next five to seven years.

We think JUBI will find it challenging to maintain its high growth rates

Table 6: Base-case CAGR assumptions

	FY05-10	FY11-16E
Total food expenditure in India	12%	12%
Total foodservice industry in India	NA	18%
Formal food service industry in India	NA	25%
JUBI revenue	42%	36%*

Note: JUBI's revenue CAGR broken down to FY11-13 at 43% and FY13-16 at 31%.

Source: CMIE, company data, UBS estimates

Table 7: Domino's market share under different CAGR assumptions for the formal pizza market in India

CAGR of 45% (base case)	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E
Domino's market share	55%	55%	54%	50%	45%	40%
Pizza market as a % of total food services	2%	2%	2%	3%	3%	4%
Pizza market as a % of formal food services	14%	16%	18%	21%	25%	28%
CAGR of 55%						
Domino's market share	52%	48%	44%	38%	32%	27%
Pizza market as a % of total food services	2%	2%	3%	4%	5%	6%
Pizza market as a % of formal food services	15%	18%	22%	28%	34%	43%
CAGR of 35%						
Domino's market share	59%	64%	67%	67%	64%	61%
Pizza market as a % of total food services	1%	2%	2%	2%	2%	3%
Pizza mkt. as % of formal food services	13%	14%	15%	16%	17%	19%

Source: UBS estimates

The global pizza market

The Mexico pizza market constitutes 3.2% of the country's total fast food segment. In the US, the pizza segment accounts for 11.7% of all restaurants and more than 10% of total food services sales (source: Pizza Franchise Industry Report).

Rising competition

We expect competition to increase significantly, in both the formal food services market as well as in the pizza segment. Rising investments from private equity investors in formal food service businesses, especially in the pizza home delivery format, imply a more competitive market for JUBI. According to *Food Franchising*, a report by Franchise India and FICCI, private equity investors invested more than US\$100m in the food services sector in H111 (US\$372m in 2010).

Rising investments from private equity investors is increasing competition in the food services industry

Table 8: Recent private equity investments in food services in India

Private equity investor	Investment (US\$ m)	Group
ICICI Venture	33	Devyani International
New Silk Route	75	Coffee Day Holdings
TVS Capital	11	Om Pizza & Eats
Indian Equity Partner	35	Sagar Ratna

Note: Om Pizza & Eats owns the Papa Johns, Chili's Grill & Bar, and The Great Kebab Factory franchises. Sagar Ratna is a restaurant chain in southern India.

Source: TVS Capital, Food Franchising, 2011, Franchise India and FICCI, as reported in Financial Express, 23 August 2011.

Globally, Yum! Brands is aggressively rolling out its Pizza Hut home delivery format outlets, named Pizza Hut Delivery (PHD). In India, it plans to increase PHD outlets from 27 currently to 300 by 2015, in addition to 200 Pizza Hut restaurants. We estimate there would be 700-800 Domino's outlets by then. Domino's is the market leader in the home delivery format with a 70% market share.

Table 9: Expansion plans of key food services operators in India

	2010	Projection	Comments
Pizza Hut	144	200	By 2015
Pizza Hut Delivery	27	300	By 2015
KFC	105	500	By 2015
Café Coffee Day	1,185	2,000	By 2014

Source: Yum! Brands, *Economic Times*

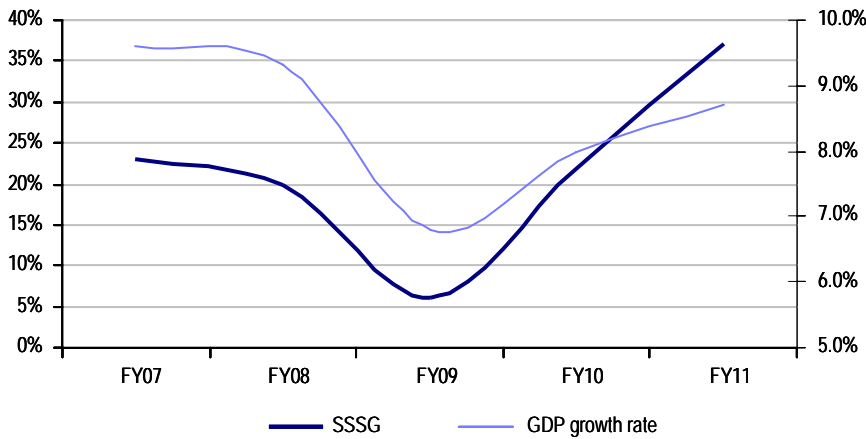
We believe JUBI is well placed to meet the rising competition, given its early-mover advantage in establishing a strong brand and its wide outlet network. Given its aggressive outlet expansion plans, we believe JUBI is likely to remain a dominant leader, and any market share erosion is likely to be gradual.

Susceptible to economic cycles

The economic environment affects demand for quick service restaurants, including pizza. JUBI's SSSG dipped to 6%, causing a 6% decline in earnings in FY09, when there was an economic downturn (GDP grew 6.8% in FY09, compared with the average 9.5% over FY06-08). Pizza is part of discretionary spending, with the average price for a medium-sized pizza ranging from Rs250-400, depending on vegetarian or meat options. It is not a staple, which is defensive in economic cycles. During economic downturns, corporates cut back on recruitment, and sometimes downsize; this could affect a large proportion of pizza consumers.

Pizza is part of discretionary spending, not a staple food

Chart 8: Decline in Domino's SSSG in an economic downturn



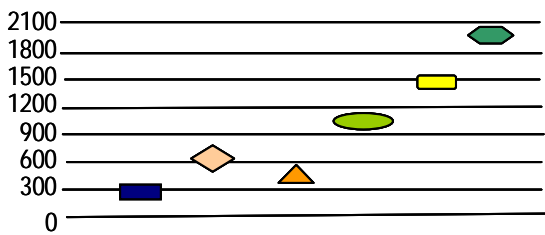
Source: Company data, UBS

Pizza delivery format attractive on financial parameters

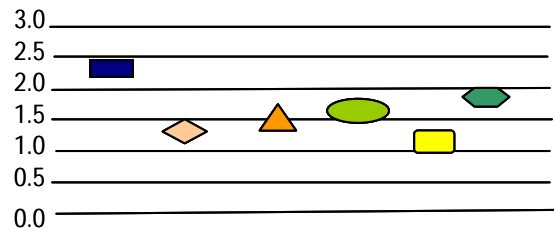
Domino's compares favourably in terms of outlet-level operating metrics such as investments and return on investment (see Figure 1). Although the data is for Mexico, we think it indicates the superiority of Domino's operating format.

Figure 1: Outlet operating metrics of various formats

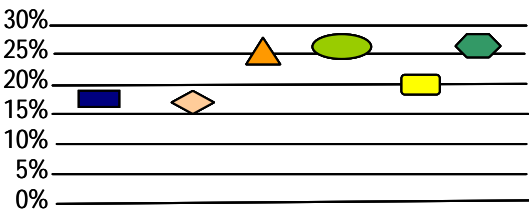
Average investment (US\$ '000)



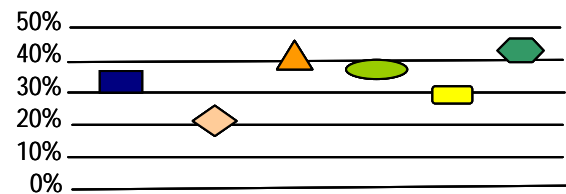
Annual revenue/investment



EBITDA margin-store level



Annual revenue/investment



- Dominos
- ◇ Burger King
- ▲ Starbucks
- Chili's
- California Pizza
- ◇ P.F. Chang's

Note: Data for the past 12 months as of December 2010. Base on an exchange rate of US\$: pesos12.38, CPK Satellite outlet excluded from the analysis, ROI is EBITDA at outlet level divided by investment.

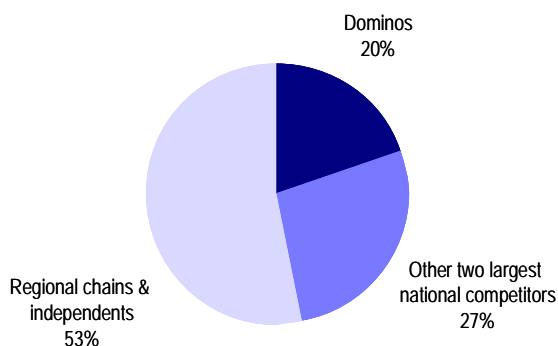
Source: Alsea

Competitive strengths

Exclusive franchise of global brand Domino's: JUBI has a master franchise agreement with Domino's International to produce, market, and distribute Domino's pizza in India, Sri Lanka, Bangladesh and Nepal. Domino's is a strong brand internationally. It has a 20% market share of the pizza delivery segment in the US. In Australia and Mexico, where Domino's International has listed master franchisees, it has a 46% and a 50% market share, respectively.

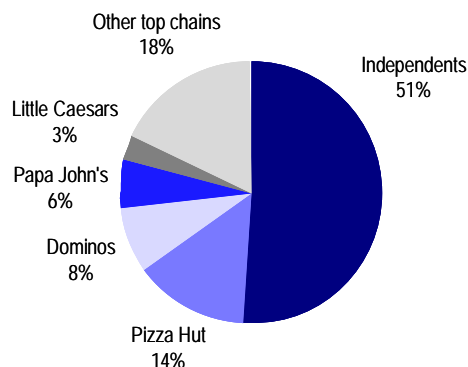
Domino's is a strong international brand

Chart 9: Domino's market share in pizza delivery (US)



Source: Domino's International

Chart 10: Domino's market share in pizza market (US)



Source: Pizza Franchise Industry report, FranchiseDirect

Dominant market share in India: Domino's market share has increased significantly in India, from 35% in FY06 to 50% currently, due mainly to early-mover advantages in a fast growing industry, in our view. It has established itself successfully in the home delivery segment with a 70% market share. There are 392 Domino's outlets; 170 Pizza Hut, including PHD outlets, and 25 Papa Johns. We believe its competitors might find it difficult to replicate JUBI's Domino's model in a short time, although competitive intensity is likely to increase.

Scale benefits: JUBI's wide network of Domino's outlets (392) outlets at end-Q1 FY12 is much bigger than its competitors'. We believe its scale will help JUBI to further strengthen its competitive position as this would help ensure the company's ability to spend more on marketing (4% of sales) and thus sustain Domino's brand positioning.

JUBI has a wide network of Domino's outlets, much bigger than its competitors

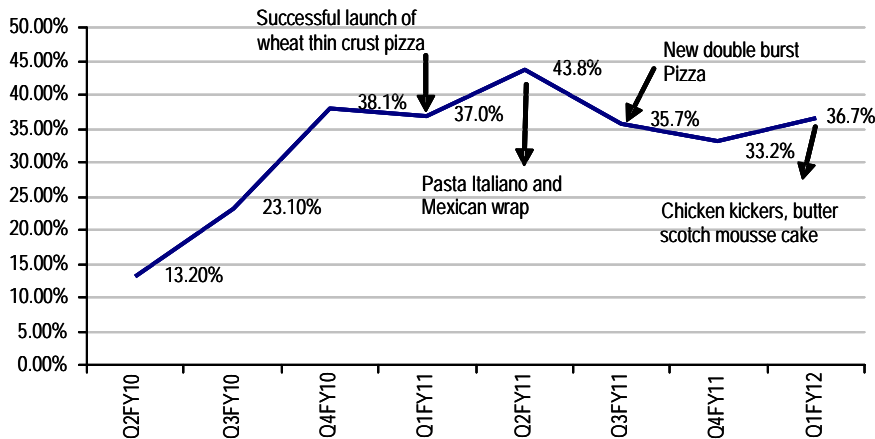
Strong operations and back-end facilities: JUBI operates four regional commissaries (supply chain centres), in Noida (Delhi NCR), Mumbai, Bangalore and Kolkata (it plans to open a fifth commissary in Chandigarh in FY12). These commissaries manufacture the pizza dough and act as warehouses for primary ingredients such as cheese, vegetables and meat that it sources and supplies to the outlets. This helps JUBI to maintain consistent quality, negotiate better prices with vendors, and ensure it meets the 30-minute delivery promise. For cities and towns that are not reachable in one day from the commissary location, the company develops a back-end production facility, which sources the vegetables and other perishables locally. One commissary serves two to three outlets in a city or town.

Strong back-end facilities help to maintain quality, consistency and meet the 30-minute delivery promise

Ability to launch new products: The company rolls out two to three new products every year and exits products that require more effort than the average product portfolio. In the past year, Domino’s has introduced Pasta Italiano, Mexican Wrap, a new Double-burst Pizza and Chicken Kickers and butterscotch mousse cake. These launches have also helped increase SSSG.

The company rolls out two to three new products every year

Chart 11: New product launch timeline in the past two years



Source: Company data

30-minute delivery promise: JUBI started its “30-minutes or free” campaign in 2004 to build a competitive edge. To achieve the 30-minute delivery target, the delivery area of each pizza outlet is restricted to an area within 9-10 minutes travel time during peak hours.

JUBI launched its “30-minutes or free” campaign in 2004 to create a competitive edge

Pizza Hut (currently with a limited share in the home delivery segment but with plans to expand) launched a similar campaign in August, ‘Hot on the dot pizzas’, promising that that if the heat-sensitive sticker is not red at the time of delivery, the buyer would not have pay for the pizza.

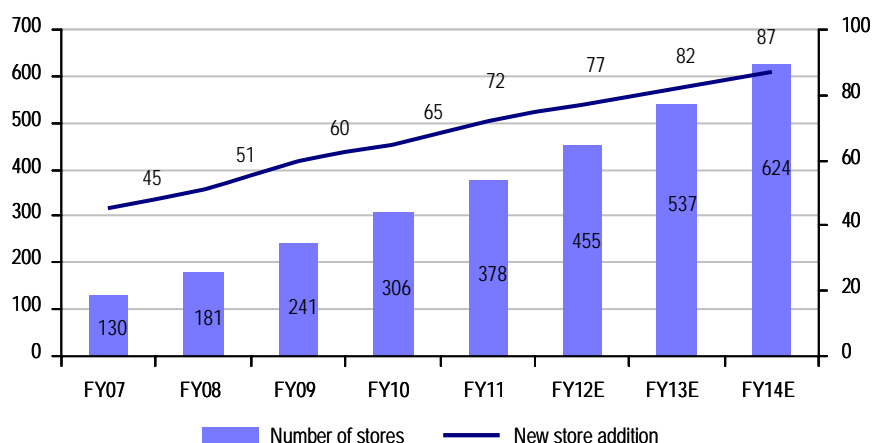
Management strategy

Outlet expansion strategy: For new formats, management plans to stabilise its operations by opening few outlets initially and expanding later. It has established Domino’s and is now in the phase of accelerated outlet expansion. Management has guided for the opening 80 outlets in FY12, with plans for 700-750 outlets in next four to five years. We forecast 815 outlets by FY16.

For new formats, management plans to stabilise operations by opening few outlets initially and expanding later

To achieve the 30-minute delivery target, the delivery area of each pizza outlet is restricted to an area within 9-10 minutes travel time during peak hours. In addition, management plans to add an outlet which has 20,000 households (that can afford pizza) within the 9-10 minute travel time. The criteria for the 20,000 households help the company to achieve a payback period of three years (globally, the benchmark is 5,000-6,000 households). According to NCAER, middle income households (largest consumers in the food services industry) could increase from 32m in FY10 to 53m in FY16. We think this implies that Domino’s outlets would increase to 2,660 in FY16 from 1,600 in FY10.

Chart 12: JUBI outlet expansion trend



Source: Company data, UBS estimates

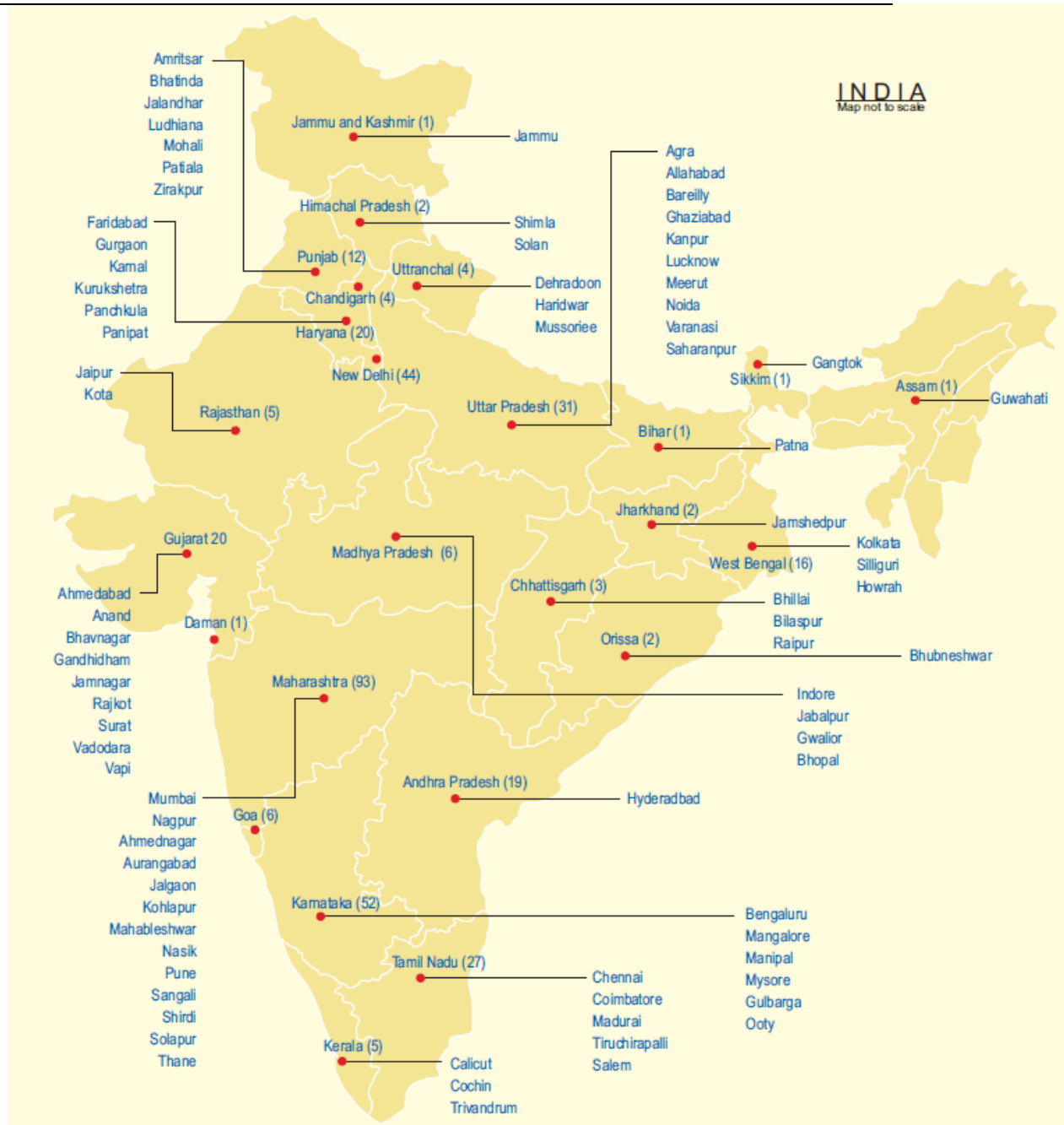
Target tier 2 and 3 cities and towns: According to management, growth will also be driven by new outlets in tier 2 and tier 3 towns. The company changed its outlet model six years ago, based on customer responses to its survey. In the new model, it opens bigger (especially in tier 2 and 3 cities with seating capacity for 70 in some of the larger outlets) and more high street outlets.

In order to minimise additional capex and to ensure quality control, the company plans to open new outlets in cities and towns that are located within a one-day distance from the existing commissaries. In cities where commissary services are not possible, JUBI has developed a back-end production facility model that serves two to three outlets in a city by procuring vegetables and perishables locally to ensure freshness. Despite its strategy of establishing back-end production facilities, we believe the logistics could be challenging (vis-à-vis the three to four metropolitan cities) as the outlets will be more dispersed and there will be fewer outlets per city and town.

As the market in Delhi, Mumbai and Bangalore, the major markets for JUBI (contributing 40-45% of revenue) is still growing rapidly because of increasing repeat consumption, we think JUBI will continue to focus on these cities. The number of outlets has increased from 50 to 130 in the past five years.

According to management, growth would be driven by new outlets in tier 2 and tier 3 towns

Figure 2: JUBI: Domino's outlets (as at the end of 31 March 2011)



Note: The number of outlets is as at 31 March 2011. The number was 392 on 30 June 2011.

Source: Company data

Enhance delivery and customer experience: In addition to the promise to deliver pizza within 30 minutes, management’s other initiatives such as online orders (launched recently) and single national call number help JUBI to remain ahead of the competition, in our view.

New formats and brands: JUBI plans to leverage its market position and experience in the food services industry to launch new international food services brands in India. Accordingly, it entered into a master franchise agreement with Dunkin’ Donuts in February 2011.

Dunkin' Donuts: Dunkin' Donuts operates 9,700 outlets in over 31 countries serving donuts, sandwiches and beverages. Dunkin' Donuts is the market leader in Korea, Philippines and Indonesia with 900, 600 and 280 outlets, respectively.

Agreement terms: The agreement is an exclusive franchise arrangement for a period of 15 years with the option for renewal for a further 10 years. The agreement provides JUBI with the exclusive Dunkin' Donuts rights in India with the first right of refusal in Nepal, Bangladesh and Sri Lanka.

Strategy for Dunkin' Donuts: We think JUBI will likely underplay the café side and focus more on the food part (beverages comprise 60% of sales in the US, whereas food makes up 70-80% of sales in Southeast Asia). Management is planning and developing the menu and outlet design.

Management plans to roll out Dunkin' Donuts outlets in a phased manner, which according to management, is key to generating sustainable profitability. It aims to open a small number of outlets in the first year of operation and 80-100 outlets in the following five years, likely launching the first outlet in 2012. Initially, it intends to focus on the metropolitan cities.

According to management, the capex for outlet expansion will be funded through internal accruals and there would be no need for external financing. Management targets a three-year payback period for opening a Dunkin' Donut outlet, similar to its Domino's outlets.

JUBI plans to first stabilise its Dunkin' Donuts operations and then explore other franchises.

We believe a successful Domino's franchise has given JUBI a platform to add other formats. However, we think a dine-in format such as Dunkin' Donuts is very different from a primarily home delivery format like Domino's, which has different processes and customer expectations. It would thus need different management skills, which the company is in the process of developing. This is the reason for our not building in the valuation option of this new format. We will monitor the progress.

Financials

Our forecasts do not include the Dunkin' Donuts operations (under a master franchisee agreement with Dunkin' Donuts, signed in February 2011) and the Sri Lanka subsidiary, as we believe these would be insignificant in our FY12-14 estimates at this stage. The Dunkin' Donuts business model and outlet format are being finalised and publicly disclosed data is inadequate to make any forecasts with reasonable confidence.

Profit and loss

We forecast a FY11-13 earnings CAGR of 44%, driven by an estimated 43% revenue CAGR, a 170bp improvement in its EBITDA margin estimate, partially offset by a higher tax rate.

We forecast a 44% FY11-13 earnings CAGR

We estimate revenue growth would be driven primarily by the opening of new outlets and strong SSSG; JUBI's SSSG has been strong (22%, 37% and 37% in FY10, FY11 and Q1 FY12, respectively). However, we believe this will moderate for the rest of the year (we forecast SSSG of 20% and 18% for FY12 and FY13) against a backdrop of a high base and an increasing proportion of mature outlets (older than three years).

Table 10: Jubilant FoodWorks: outlet and SSSG growth trend

	FY09	FY10	FY11	FY12E	FY13E	FY14E
Number of outlets	241	306	378	455	537	624
New outlets	60	65	72	77	82	87
Revenue growth (%)	33%	51%	60%	45%	41%	35%
SSSG (%)	6%	22%	37%	20%	18%	15%

Source: Company data, UBS estimates

We expect a positive impact from operating leverage on margin expansion (we forecast 100bp and 70bp margin expansion in FY12 and FY13, respectively). We believe rent, advertising and power and fuel (17% of total sales) will be key drivers of operating leverage. Raw material costs are 25% of sales (small compared with other sectors) and have grown in line with revenue. There has not been much leverage from raw material costs in the past few years when margins have more than doubled.

Key to margin expansion is also the higher proportion of older outlets. JUBI opens outlets on criteria for a three-year payback period. Margins at the outlet level expand as the company opens more outlets.

Table 11: Proportion of mature outlets in total mix rising, yielding better margins

	FY09	FY10	FY11	FY12E	FY13E	FY14E
>3yrs	25%	28%	34%	40%	45%	49%
1-3yrs	50%	51%	47%	43%	40%	37%
<1yr	25%	21%	19%	17%	15%	14%

Source: Company data, UBS estimates

Table 12: Breakdown of JUBI's operating costs

(Rs m)	FY09	FY10	FY11	FY12E	FY13E	FY14E
Raw material costs	718	1,050	1,706	2,479	3,504	4,725
<i>as % of sales</i>	25.6%	24.8%	25.2%	25.2%	25.2%	25.2%
Advertising	140	196	278	389	541	714
<i>as % of net sales</i>	5.0%	4.6%	4.1%	3.9%	3.9%	3.8%
Rent	267	392	536	718	962	1,279
<i>as % of net sales</i>	9.5%	9.3%	7.9%	7.3%	6.9%	6.8%
Staff costs	556	805	1,356	1,970	2,783	3,753
<i>as % of net sales</i>	19.8%	19.0%	20.0%	20.0%	20.0%	20.0%
Outlets and packaging	146	221	366	532	752	1,013
<i>as % of net sales</i>	5.2%	5.2%	5.4%	5.4%	5.4%	5.4%
Freight + delivery	108	144	224	335	473	638
<i>as % of net sales</i>	3.9%	3.4%	3.3%	3.4%	3.4%	3.4%
Franchisee fee	95	140	225	325	459	619
<i>as % of net sales</i>	3.4%	3.3%	3.3%	3.3%	3.3%	3.3%
Power & fuel	176	233	341	480	658	873
<i>as % of net sales</i>	6.3%	5.5%	5.0%	4.9%	4.7%	4.7%
Others	264	401	553	785	1,086	1,446
<i>as % of sales</i>	9.4%	9.5%	8.2%	8.0%	7.8%	7.7%
Depreciation	169	243	293	387	502	638
<i>as % of sales</i>	6.0%	5.7%	4.3%	3.9%	3.6%	3.4%

Source: Company data, UBS estimates

Balance sheet and cash flow

Strong earnings growth and negative working capital requirement have helped JUBI to generate adequate free cash flow to repay debt. A concern is that it does not have a clear dividend policy, despite having more than sufficient cash for expansion. Management has stated that it expects to deploy the cash to expand the number of Domino's and Dunkin' Donuts outlets. Historically, JUBI has been generating healthy ROE and ROCE and this provides some comfort.

According to the company, it requires capital investment of Rs8m/outlet with a three-year payback period. We assume capex/outlet to increase 8% YoY due to inflation. Our capex estimates assume the company will open 77 and 82 outlets in FY12 and FY13, respectively. In addition, our capex estimate for FY12 includes Rs100m for a new commissary it plans to open in Chandigarh.

Strong earnings growth and negative working capital requirement have helped generate adequate free cash flow to repay debt

Table 13: Jubilant FoodWorks: summary balance sheet

(Rs m)	FY09	FY10	FY11	FY12E	FY13E	FY14E
Net tangible fixed assets	1,148	1,429	1,845	2,376	2,960	3,601
Net working capital	(125)	(239)	(257)	(462)	(660)	(897)
Total invested capital	1,023	1,190	1,589	1,913	2,300	2,704
Investments/other assets	-	-	236	736	1,736	2,736
Total capital employed	1,023	1,190	1,824	2,649	4,035	5,439
Net (cash)/debt	794	16	(90)	(258)	(358)	(1,025)
Shareholders' funds	228	1,174	1,914	2,907	4,393	6,464
Total capital employed	1,023	1,190	1,824	2,649	4,035	5,439
Fixed asset growth	46%	24%	29%	29%	25%	22%
Working capital growth	n.m	n.m	n.m	n.m	n.m	n.m
Capital employed growth	56%	16%	53%	45%	52%	35%

Source: Company data, UBS estimates

Table 14: Jubilant FoodWorks working capital profile

(Rs m)	FY09	FY10	FY11	FY12E	FY13E	FY14E
Accounts receivable	12	29	45	54	76	103
Inventory	55	71	142	204	288	388
Other current assets	239	362	707	895	1,261	1,697
Accounts payable	(402)	(663)	(1,086)	(1,566)	(2,211)	(2,982)
Other short term liabilities	(29)	(39)	(65)	(50)	(74)	(104)
Net working capital	(125)	(239)	(257)	(462)	(660)	(897)
Days of receivables	2	3	2	2	2	2
Days of Inventory	28	25	30	30	30	30
Days of payables	52	57	58	58	58	58
Days of NWC	(16)	(21)	(14)	(17)	(17)	(17)

Source: Company data, UBS estimates

Table 15: Jubilant FoodWorks: summary cash flow statement

(Rs m)	FY09	FY10	FY11	FY12E	FY13E	FY14E
EBIT	169	412	906	1,454	2,197	3,067
Depreciation	169	243	293	387	502	638
Change in working cap	(12)	137	262	206	198	236
Other operating	(3)	(25)	42	23	15	15
Operating cash flow	324	769	1,503	2,069	2,912	3,957
Interest	(83)	(96)	(3)	5	7	9
Taxes paid	(8)	(1)	(204)	(489)	(732)	(1,020)
Capex	(541)	(521)	(716)	(917)	(1,086)	(1,278)
Free cash flow	(308)	151	579	668	1,100	1,667
Share issues/buybacks	-	605	22	-	-	-
Other	9	22	(496)	(500)	(1,000)	(1,000)
Cash flow (inc)/dec in net debt	(299)	779	105	168	100	667
Free cash flow yield		0.9%	1.9%	1.1%	1.8%	2.8%
Dividend yield		NA	0.0%	0.0%	0.0%	0.0%
Capex/sales	19.3%	12.3%	10.6%	9.3%	7.8%	6.8%
Net debt to equity	348.1%	1.3%	-4.7%	-8.9%	-8.1%	-15.9%

Source: Company data, UBS estimates

Return on capital

We think the company's ROE and ROCE (post tax) of 41% and 44%, respectively, in FY11 are attractive. We expect margin improvement and strong asset turns will help increase ROIC.

Table 16: Jubilant FoodWorks: return ratios

	FY09	FY10	FY11	FY12E	FY13E	FY14E
EBIT ROIC	20.3%	37.4%	65.9%	82.9%	103.5%	121.7%
ROIC post-tax	18.3%	37.3%	49.1%	55.5%	69.3%	81.5%
ROE	37.5%	47.0%	46.5%	41.2%	40.7%	38.2%

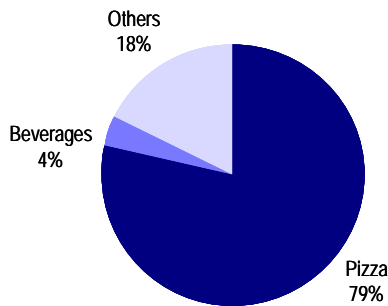
Source: Company data, UBS estimates

Appendix

Company background

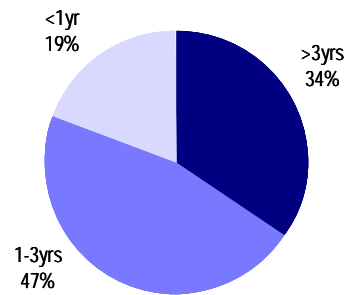
Jubilant FoodWorks (JUBI) is the largest food services company in India, with a network of 392 outlets (as of 30 June 2011). JUBI has the exclusive franchise for Domino's Pizza in India, Nepal, Bangladesh and Sri Lanka. It is the market leader in the formal pizza market with a 50% share and a 70% share in the pizza home delivery segment in India. It has expanded its portfolio by entering into an alliance with Dunkin' Donuts to develop Dunkin' Donuts operations in India, and by operating restaurants in India.

Chart 13: FY11 sales by product



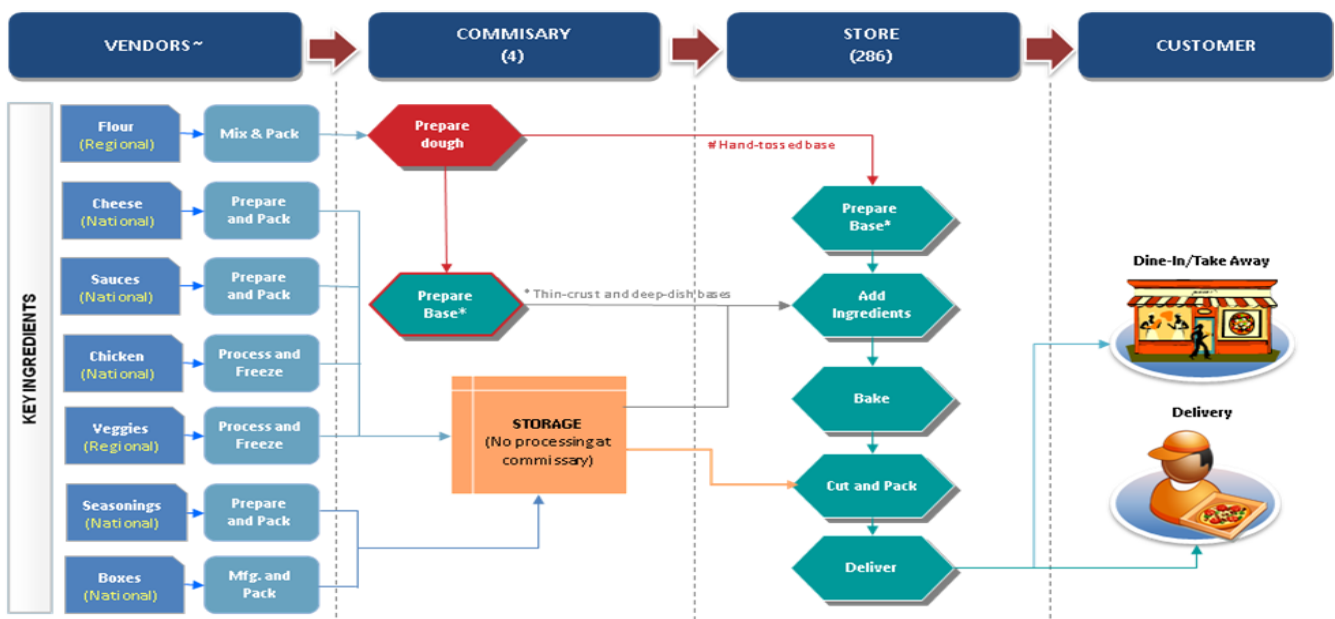
Source: Company data

Chart 14: FY11 outlets: maturity profile



Source: Company data, UBS estimates

Figure 3: Domino's Pizza preparation and delivery model

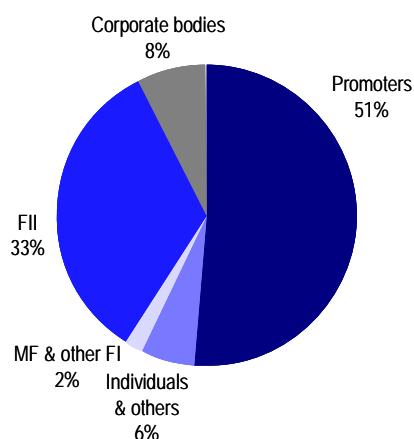


Note: This is an exhibit from the company's listing prospectus, dated 6 January 2010, and has not been updated since. The outlets mentioned in the diagram (286) are as at the end of H1 FY09. It had 392 outlets on 30 June 2011.

Source: Company data

Shareholding structure

Chart 15: Shareholding structure as at 30 June 2011



Note: MF = mutual funds, FI = financial institutions, FII = foreign institutional investors.

Source: Bombay Stock Exchange

Key management

Table 17: Key management personnel

Name	Designation	Comments
Shyam S. Bhartia	Chairman	Shyam Bhartia, founder director of Jubilant FoodWorks, holds a bachelor degree in commerce from St. Xavier's College, Calcutta University and is a fellow member of the Institute of Cost and Works Accounts of India (ICWAI). He has experience in diverse fields including food, oil & gas, pharmaceuticals and speciality chemicals. He also sits on the board of several companies and is a member of the executive committee of the Federation of Indian Chambers of Commerce and Industry (FICCI).
Hari S. Bhartia	Co-Chairman	Hari Bhartia is co-founder of Jubilant. He holds a degree in chemical engineering from IIT, Delhi.
Ajay Kaul	Director, CEO	Mr Kaul holds a Bachelor's degree in technology from IIT, Delhi and a Master's degree from Xaviers Labour Relations Institute, Jamshedpur. He has experience in financial services, airlines, express distribution and logistics and food retail sectors. He was appointed CEO in February 2005 and joined the board in March 2005.
Ravi Gupta	President Finance & CFO	Mr Gupta holds a Bachelor's degree in commerce from Sri Ram College of Commerce, Delhi University. He is a fellow member of the Institute of Chartered Accountants and associate member of the Institute of Company Secretaries. He has 19 years experience in corporate finance, strategy, accounting, IT and legal and secretarial. Mr Gupta joined Jubilant in April 2002

Source: Company data

DCF valuation

We cross check our PE multiple-based valuation with DCF, where we explicitly forecast long-term valuation drivers using UBS's VCAM tool. We assume a WACC of 13.5% and long-term revenue growth of 8%.

Table 18: UBS-VCAM Valuation Summary for Jubilant FoodWorks [JUBI.BO]

Relative year	+1E	+2E	+3E	+4E	+5E	+6E	+7E	+8E	+9E	+10E
Fiscal year	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
EBIT	1,454	2,197	3,067	4,129	5,386	6,743	8,284	10,075	12,126	14,444
D&A*	387	502	638	796	979	1,169	1,447	1,773	2,149	2,579
Capex	(917)	(1,086)	(1,278)	(1,473)	(1,705)	(3,118)	(3,979)	(5,022)	(6,269)	(7,738)
Chg. in wkg. cap.	409	539	643	756	892	1,032	1,240	1,457	1,689	1,932
Tax (operating)	(480)	(725)	(1,012)	(1,362)	(1,777)	(2,225)	(2,734)	(3,325)	(4,002)	(4,766)
Other	(49)	(65)	(78)	(91)	(108)	(125)	(148)	(174)	(201)	(229)
Free Cash Flow	803	1,362	1,981	2,754	3,667	3,476	4,110	4,783	5,493	6,221
growth		69.5%	45.4%	39.0%	33.2%	-5.2%	18.2%	16.4%	14.8%	13.3%

Valuation	
PV of explicit cash flow	30,214
PV of terminal value (yr. 20)	15,899
Enterprise Value	46,114
% terminal	34%
Associates & other	411
- Minority interests	0
Surplus cash**	30
- Debt***	0
Equity value	46,555
Shares outstanding [m]	65.6
Equity per share (Rs/sh)	710.02
Cost of equity	13.46%
Dividend yield	0.00%
1-year Price Target (Rs/sh)	805.59

Long Term Assumptions			
Relative year	+10E	+15E	+25E
Sales growth	20.0%	15.0%	8.0%
EBIT margin	16.8%	13.8%	7.3%
Capex/sales	9.0%	10.0%	3.0%
ROIC	96.5%	45.7%	26.7%

Valuation-Implied Metrics			
Fiscal year	2012E	2013E	1-yr Fwd.
EV / EBITDA	25.1x	17.1x	21.0x
EV / EBIT	31.7x	21.0x	26.2x
FCF Yield	1.7%	3.0%	2.2%
P / E (PV)	46.9x	31.3x	38.9x
P / E (Target)	53.3x	35.6x	44.2x

WACC	
Risk free rate	8.30%
ERP	5.0%
Beta	1.03
Debt / equity***	0.0%
Marg. tax rate	33.0%
Cost of equity	13.5%
Cost of debt	8.3%
WACC	13.5%

Terminal Assumptions	
VCH (years)	20
Impl. FCF gr.	2.9%
Incr. ROIC	13.7%

Figures in Rs m, unless noted otherwise.

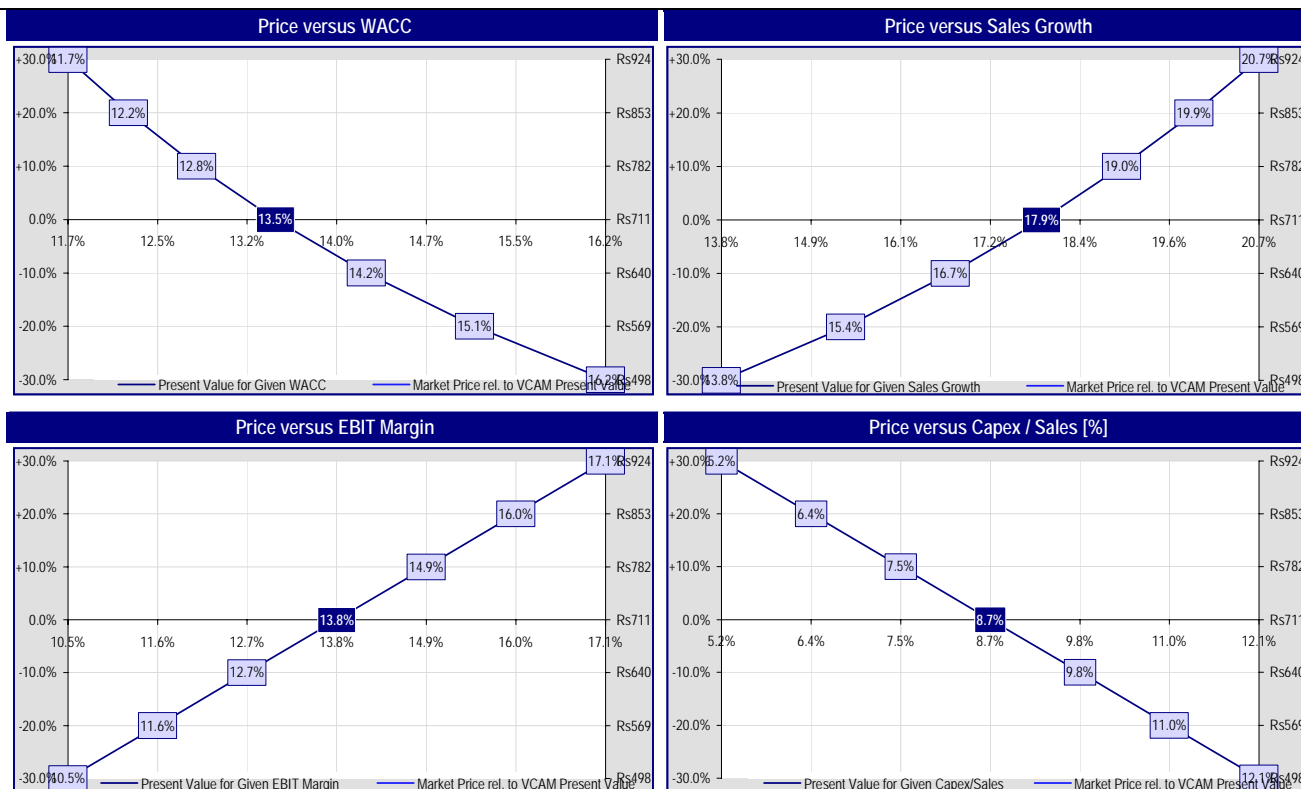
* Depreciation and non-goodwill amortization

** The portion of cash not required to maintain operations

*** Assumes market value of equity and includes market value/seasonal adjustments for debt and debt-deemed obligations.

Source: UBS-VCAM

Chart 16: UBS-VCAM Sensitivities for Jubilant FoodWorks [JUBI.BO]



Notes: Sensitivities are derived from assuming Sales Growth, EBIT Margin, or Capex / Sales is flat annually for years 6 through the VCH (year 20). Explicit estimates in years 1 through 5 do not vary, and always represent the assumptions on the Inputs Page. For each chart, one parameter is varied while the others are held constant. Those held constant are set as they appear on the Inputs Page.

Source: UBS-VCAM

Table 19: UBS restaurant and food services coverage universe

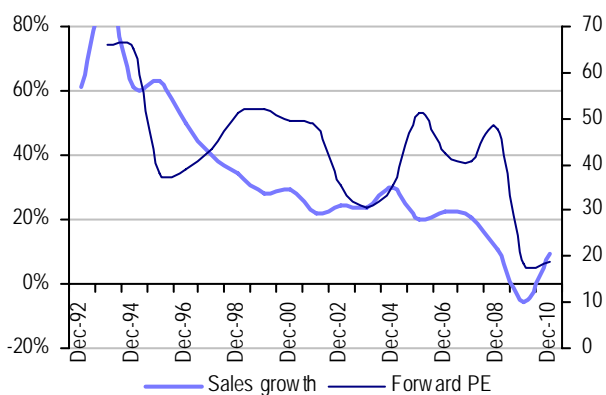
	Year-end	Share price (LC)	Market cap US\$ m	PE (x)		RoIC post-tax (%)		EV/EBITDA (x)		ROE (%)		EPS CAGR	
				FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY6-10	FY11-13E
Alsea	Dec	11.88	590	30.3	17.5	9.2	13.2	6.8	5.5	8.2	13.5	-17%	65%
Domino's Pizza	Jun	7.05	514	18.8	16.9	28.4	31.2	9.5	8.5	23.8	25.2	5%	15%
Yum! Brands Inc.	Dec	53.85	25,172	18.4	16.3	51.7	51.6	9.9	9.0	73.4	64.6	14%	13%
McDonalds Corp.	Dec	90.07	93,970	17.1	15.2	26.1	28.0	10.2	9.4	36.6	39.3	18%	13%
Starbucks Corp.	Sep	38.19	28,627	20.1	16.2	76.2	93.5	9.3	7.7	30.5	32.6	15%	24%
The Wendy's Company	Dec	4.95	2,074	34.4	12.8	5.1	7.5	8.5	7.5	2.7	6.8	-	65%
Brinker International	Jun	22.04	1,869	11.8	9.8	22.9	27.4	5.4	4.9	34.8	38.1	-5%	20%
The Restaurant Group	Dec	290.00	938	11.6	11.6	21.1	23.6	6.8	5.9	26.5	26.4	20%	12%
Minor International	Dec	12.80	1,394	13.4	13.4	11.2	13.8	9.6	8.1	18.0	19.3	5%	58%
China Mengniu Dairy	Dec	27.60	5,534	18.9	18.9	14.0	15.2	12.2	9.7	15.1	16.5	19%	30%
Tingyi Cayman Islands	Dec	22.25	15,989	25.4	25.4	18.2	21.4	15.0	11.2	23.6	28.3	33%	24%
China Foods	Dec	6.59	2,363	20.8	20.8	11.7	13.8	12.5	10.3	10.8	13.3	-4%	44%
Uni-President China Holdings	Dec	4.41	2,039	19.1	19.1	5.1	7.9	10.1	7.4	6.0	9.5	23%	15%
China Yurun Food	Dec	18.64	4,344	12.0	12.0	14.9	15.5	11.5	9.6	14.5	16.7	21%	25%
Chipotle*	Dec	309.17	9,755	45.0	35.2	22.5	-	21.8	17.4	24.4	27.3	29%	24%

Note: For companies with December year-end, FY12E represents 2011E and FY13E represents 2012E. Data as of 1 September 2011.
 Source: *Bloomberg, UBS estimates

International comparisons

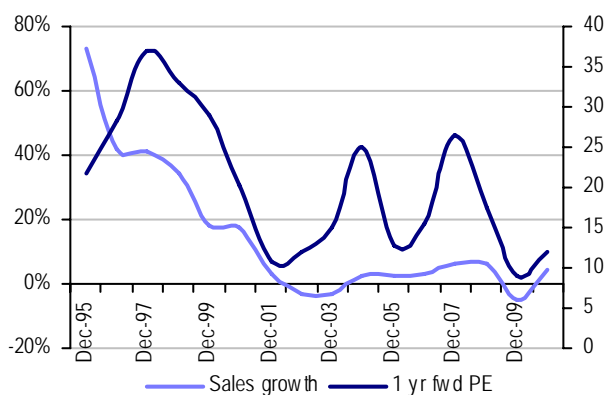
Food services companies in developed markets have de-rated once they are past high growth phase.

Chart 17: Starbucks sales growth vs. one yr. forward PE



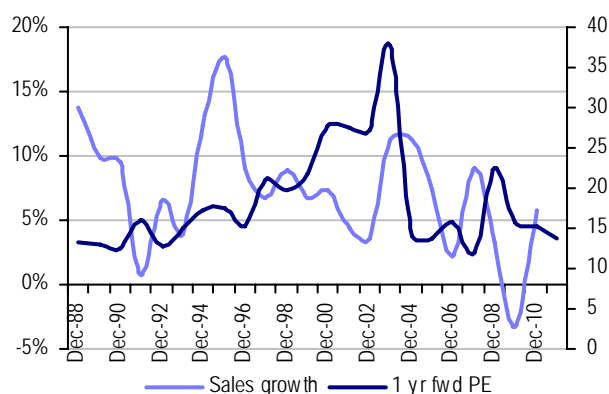
Source: Bloomberg

Chart 18: Papa Johns sales growth vs. one yr. forward PE



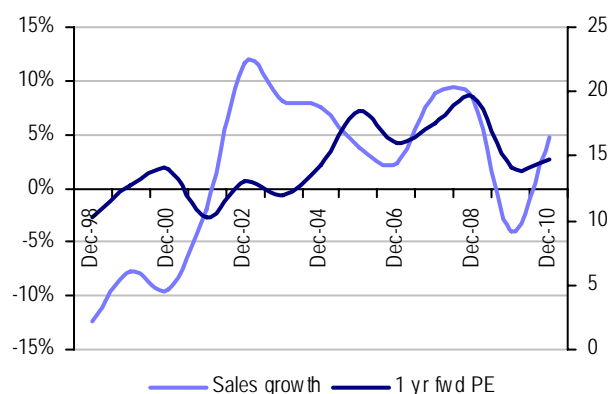
Source: Bloomberg

Chart 19: McDonalds sales growth vs. one yr. forward PE



Source: Bloomberg

Chart 20: Yum! Brands sales growth vs. one yr. forward PE



Source: Bloomberg

See tables below for the revenue growth and EBITDA margin trends of some key food services companies globally.

Table 20: Revenue growth trend

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Star Bucks	29%	22%	24%	24%	30%	20%	22%	21%	10%	-6%	10%
McDonalds	7%	4%	4%	11%	11%	7%	2%	9%	3%	-3%	6%
Yum Brands	-9%	-2%	12%	8%	8%	4%	2%	9%	8%	-4%	5%
Papa Johns	17%	3%	-3%	-3%	3%	3%	3%	6%	6%	-5%	4%
Dominos Australia			15%	22%	67%	29%	19%	-4%	1%	-20%	11%
Dominos London		35%	21%	11%	21%	15%	16%	21%	18%	14%	21%
Alsea		7%	4%	2%	25%	16%	29%	21%	10%	10%	5%
Dominos International		8%	1%	5%	8%	5%	-5%	2%	-3%	-1%	12%
Ajisen China					123%	48%	41%	86%	55%	19%	35%
Chipotle					49%	33%	31%	32%	23%	14%	21%

Source: Bloomberg

Table 21: EBITDA margin trend

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Star Bucks	15.4%	16.2%	15.3%	15.8%	16.3%	16.8%	15.6%	15.3%	12.2%	13.7%	17.4%
McDonalds	30.5%	26.8%	20.5%	23.2%	24.9%	25.6%	28.2%	29.6%	32.6%	35.2%	36.5%
Yum Brands	17.2%	17.5%	17.7%	17.1%	17.1%	16.7%	18.0%	17.8%	17.3%	19.8%	21.4%
Papa Johns	12.9%	12.4%	12.1%	12.0%	10.0%	9.5%	10.0%	11.0%	10.0%	9.1%	10.1%
Dominos Australia		11.6%	14.0%	14.9%	11.1%	12.5%	7.9%	11.5%	11.6%	17.2%	19.6%
Dominos London	10.3%	9.9%	11.0%	13.0%	14.8%	14.6%	15.6%	16.8%	18.9%	20.3%	21.4%
Alsea	15.2%	13.6%	13.8%	14.5%	14.7%	15.2%	16.7%	16.3%	13.2%	11.6%	11.1%
Dominos International	12.6%	12.7%	14.6%	14.2%	14.0%	15.3%	17.1%	15.4%	15.7%	15.2%	16.0%
Ajisen China				20.0%	21.9%	20.4%	22.3%	26.9%	21.6%	25.8%	27.2%
Chipotle				2.3%	5.9%	9.9%	12.2%	14.5%	14.0%	17.8%	19.8%

Source: Bloomberg

Jubilant FoodWorks

Income statement (Rsm)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
Revenues	1,387	2,112	2,806	4,239	6,781	9,852	45.3	13,917	41.3	18,765	34.8
Operating expenses (ex dephn)	(1,214)	(1,850)	(2,470)	(3,586)	(5,584)	(8,013)	43.5	(11,218)	40.0	(15,059)	34.2
EBITDA (UBS)	172	262	339	656	1,199	1,841	53.5	2,699	46.6	3,705	37.3
Depreciation	(80)	(121)	(169)	(243)	(293)	(387)	31.8	(502)	29.8	(638)	27.1
Operating income (EBIT, UBS)	93	141	169	412	906	1,454	60.6	2,197	51.1	3,067	39.6
Other income & associates	1	2	1	1	19	23	17.5	15	-34.4	15	0.0
Net interest	(34)	(58)	(89)	(83)	(3)	5	-	7	32.1	9	37.5
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	60	84	81	330	922	1,482	60.8	2,219	49.7	3,091	39.3
Tax	(4)	(7)	(8)	(1)	(204)	(489)	139.4	(732)	49.7	(1,020)	39.3
Profit after tax	56	78	73	330	717	993	38.4	1,486	49.7	2,071	39.3
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	56	78	73	330	717	993	38.4	1,486	49.7	2,071	39.3
Net Income (UBS)	56	78	73	330	717	993	38.4	1,486	49.7	2,071	39.3
Tax rate (%)	6	8	10	0	22	33	48.9	33	0.0	33	0.0
Pre-abnormal tax rate (%)	6	8	10	0	22	33	48.9	33	0.0	33	0.0
Per share (Rs)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
EPS (local GAAP)	0.96	1.33	1.26	5.54	11.16	15.39	38.0	23.03	49.7	32.10	39.3
EPS (UBS)	0.96	1.33	1.26	5.54	11.16	15.39	37.8	23.03	49.7	32.10	39.3
Net DPS	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	2.33	3.42	4.17	9.63	15.73	21.38	35.9	30.81	44.1	41.98	36.2
BVPS	1.31	2.53	3.59	18.45	29.70	45.04	51.7	68.08	51.1	100.17	47.1
Balance sheet (Rsm)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
Net tangible fixed assets	481	786	1,148	1,429	1,845	2,376	28.7	2,960	24.6	3,601	21.6
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	(75)	(130)	(125)	(239)	(226)	(432)	90.9	(630)	45.9	(866)	37.5
Other liabilities	0	0	0	0	0	0	-	0	-	0	-
Operating invested capital	407	656	1,023	1,190	1,619	1,944	20.1	2,330	19.9	2,734	17.3
Investments	0	0	0	0	205	705	244.0	1,705	141.9	2,705	58.7
Total capital employed	407	656	1,023	1,190	1,824	2,649	45.2	4,035	52.3	5,439	34.8
Shareholders' equity	83	161	228	1,174	1,914	2,907	51.9	4,393	51.1	6,464	47.1
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	83	161	228	1,174	1,914	2,907	51.9	4,393	51.1	6,464	47.1
Net debt / (cash)	323	495	794	16	(90)	(258)	187.2	(358)	38.8	(1,025)	186.4
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	407	656	1,023	1,190	1,824	2,649	45.2	4,035	52.3	5,439	34.8
Cash flow (Rsm)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
Operating income (EBIT, UBS)	93	141	169	412	906	1,454	60.6	2,197	51.1	3,067	39.6
Depreciation	80	121	169	243	293	387	31.8	502	29.8	638	27.1
Net change in working capital	20	68	(12)	137	262	206	-21.7	198	-3.6	236	19.3
Other (operating)	(10)	(11)	(3)	(25)	42	23	-45.0	15	-34.4	15	0.0
Operating cash flow (pre tax/interest)	183	319	324	769	1,503	2,069	37.7	2,912	40.7	3,957	35.9
Net interest received / (paid)	(30)	(54)	(83)	(96)	(3)	5	-	7	32.1	9	37.5
Dividends paid	0	0	0	0	0	0	-	0	-	0	-
Tax paid	(4)	(7)	(8)	(1)	(204)	(489)	139.4	(732)	49.7	(1,020)	39.3
Capital expenditure	(244)	(432)	(541)	(521)	(716)	(917)	28.0	(1,086)	18.5	(1,278)	17.7
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	0	0	0	1	(485)	(500)	3.1	(1,000)	100.0	(1,000)	0.0
Share issues	0	0	0	605	22	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	(95)	(174)	(308)	758	116	168	44.3	100	-40.4	667	566.4
FX / non cash items	15	2	9	21	(11)	0	-	0	-	0	-
Balance sheet (inc)/dec in net debt	(80)	(172)	(299)	779	105	168	59.6	100	-40.4	667	566.4
Core EBITDA	172	262	339	656	1,199	1,841	53.5	2,699	46.6	3,705	37.3
Maintenance capital expenditure	(12)	(22)	(27)	(26)	(36)	(46)	28.0	(54)	18.5	(64)	17.7
Maintenance net working capital	10	15	20	25	30	35	16.7	40	14.3	45	12.5
Operating free cash flow, pre-tax	170	255	332	655	1,193	1,830	53.4	2,685	46.7	3,686	37.3

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Sell

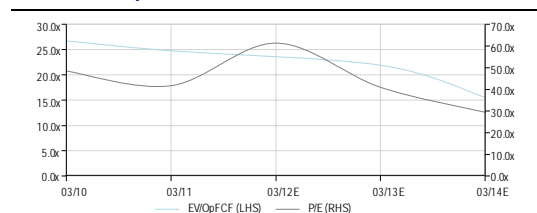
12m price target

Rs800.00

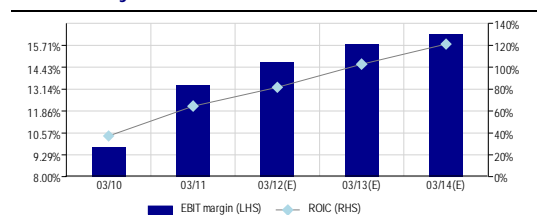
Company profile

Jubilant FoodWorks (JUBI) is largest food service company in India, with a network of 392 outlets (as of 30 June 2011). JUBI has the exclusive franchise for Domino's Pizza in India, Nepal, Bangladesh and Sri Lanka. It is the market leader in the formal pizza market with a 50% market share and a 70% share in the pizza home delivery segment in India. It has expanded its portfolio by entering into an alliance with Dunkin' Donuts to develop Dunkin' Donuts' operations in India, and by operating restaurants in India.

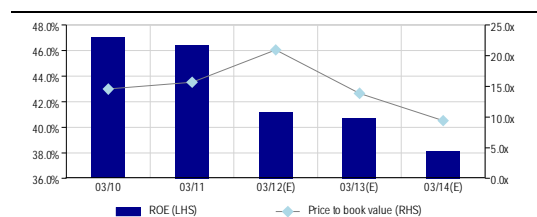
Value (EV/OpFCF & P/E)



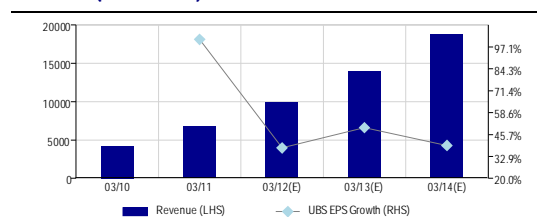
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
P/E (local GAAP)	-	49.8	42.4	62.4	41.7	29.9
P/E (UBS)	-	48.5	41.7	61.4	41.0	29.4
P/CEPS	-	27.9	29.6	44.2	30.6	22.5
Net dividend yield (%)	-	0.0	0.0	0.0	0.0	0.0
P/BV	-	14.6	15.7	21.0	13.9	9.4
EV/revenue (core)	-	4.1	4.4	6.1	4.2	3.1
EV/EBITDA (core)	-	26.7	24.7	32.6	21.8	15.5
EV/EBIT (core)	-	NM	NM	NM	26.8	18.7
EV/OpFCF (core)	-	26.7	24.8	NM	21.9	15.6
EV/op. invested capital	-	NM	NM	NM	NM	NM

Enterprise value (Rsm)	03/10	03/11	03/12E	03/13E	03/14E
Average market cap	17,090	29,826	60,854	60,854	60,854
+ minority interests	0	0	0	0	0
+ average net debt (cash)	405	(37)	(174)	(308)	(691)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	0	(205)	(705)	(1,705)	(2,705)
Core enterprise value	17,495	29,584	59,975	58,841	57,458

Growth (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
Revenue	48.7	51.1	59.9	45.3	41.3	34.8
EBITDA (UBS)	62.4	93.7	82.8	53.5	46.6	37.3
EBIT (UBS)	76.7	143.8	119.6	60.6	51.1	39.6
EPS (UBS)	84.7	NM	101.5	37.8	49.7	39.3
Cash EPS	61.2	130.9	63.3	35.9	44.1	36.2
Net DPS	-	-	-	-	-	-
BVPS	118.3	NM	60.9	51.7	51.1	47.1

Margins (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
EBITDA / revenue	14.0	15.5	17.7	18.7	19.4	19.7
EBIT / revenue	8.5	9.7	13.4	14.8	15.8	16.3
Net profit (UBS) / revenue	5.7	7.8	10.6	10.1	10.7	11.0

Return on capital (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
EBIT ROIC (UBS)	40.8	37.3	64.5	NM	NM	NM
ROIC post tax	-	37.2	50.2	54.7	68.9	NM
Net ROE	59.1	47.0	46.5	41.2	40.7	38.2

Coverage ratios (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
EBIT / net interest	NM	4.9	NM	-	-	-
Dividend cover (UBS EPS)	-	-	-	-	-	-
Div. payout ratio (% , UBS EPS)	-	-	-	-	-	-
Net debt / EBITDA	0.6	0.0	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
Revenue / op. invested capital	4.1	3.8	4.8	5.5	6.5	7.4
Revenue / fixed assets	3.5	3.3	4.1	4.7	5.2	5.7
Revenue / net working capital	NM	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
OpFCF / EBIT	1.5	1.6	1.3	1.3	1.2	1.2
Capex / revenue (%)	14.2	12.3	10.6	9.3	7.8	6.8
Capex / depreciation	2.7	2.1	2.4	2.4	2.2	2.0

Capital structure (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
Net debt / total equity	43.2	1.3	(4.7)	(8.9)	(8.1)	(15.9)
Net debt / (net debt + equity)	30.2	1.3	(4.9)	(9.7)	(8.9)	(18.8)
Net debt (core) / EV	-	2.3	(0.1)	(0.3)	(0.5)	(1.2)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs944.35 on 30 Aug 2011 23:38 HKT Market cap(E) may include forecast share issues/buybacks.

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■ Jubilant FoodWorks

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■ Statement of Risk

We believe key risks for Jubilant FoodWorks are an economic slowdown, and increasing competition and cost pressures as these would have a negative impact on growth and margins.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	54%	39%
Neutral	Hold/Neutral	39%	35%
Sell	Sell	7%	14%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	25%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

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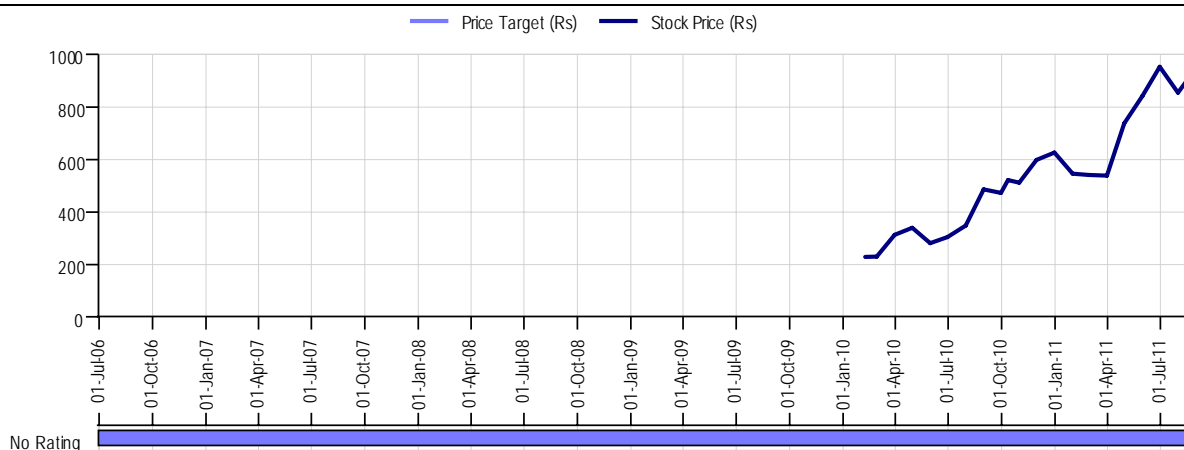
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Jubilant FoodWorks	JUBI.BO	Not Rated	N/A	Rs944.35	30 Aug 2011

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Jubilant FoodWorks (Rs)



Source: UBS; as of 30 Aug 2011

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