

Jubilant Foodworks

Revenue momentum continues with 25 new stores this quarter



analysis adds up

India Equity Research | Retail

February 8, 2011

Results update

- Jubilant Foodworks (JUBI) reported strong top-line growth at 58% y-y driven by 25 new stores (an all-time high) in 3Q FY11 and a high same store value growth (SSG) of 35.7% for the quarter. JUBI is well on track to opening 70 new stores in FY11 with 58 new stores already opened in 9M. The number of cities covered has also increased to an impressive 87 from 65 in 3Q FY10. We believe strong revenue momentum is likely to continue on the back of increased penetration and continued consumer spending on out of home eating.
- Despite high food inflation, the company could maintain a gross margin of 74.5%, due to increased economy of scale and improved efficiency in logistics. JUBI hiked prices marginally in 3Q FY11, not enough to offset increased RM costs.
- We see margin headwinds building up as food inflation continues to run at high level of ~16% in 4Q to date. An 18% sequential rise in staff costs does not fully reflect the impact of an 18-20% wage hike in 2Q FY11 and a ~16% addition to the workforce to 12,462 in the reported quarter. At 20.7% of revenue, staff costs as a % of revenue were the highest in the past seven quarters. In 3Q FY11, the company reported an EBITDA margin of 17.4%, a second consecutive quarter of sequential EBITDA decline, an unusual event for the company, which has exhibited a strong margin expansion trajectory since its listing in Feb2010. We believe margin expansion is likely to decelerate and the effect is likely to become evident once revenue growth starts moderating from the next quarter as SSG returns to a more sustainable range of 18-20%. The management has indicated that the company will move towards a full tax rate beginning FY12.

Store expansion on track, with 58 added in 9M FY11: JUBI's total store count has reached 364 during the quarter. Management has maintained its guidance of new store openings at 70. With 58 new stores already opened in 9M, we believe there is potential for a positive surprise on this front.

New products continue do well, International Brand tie-up in offing: Domino's Pizza launched the new delicious Double Burst Pizza in 3Q FY11. This double temptation pizza has received a positive response from its customers. This adds to its recent new product offerings of Pasta Italiano and Mexican Wrap that continue to do well. JUBI is in talks with multiple international brands for a potential tie-up and is likely to make an announcement in the next 4-6 months.

Reiterate SELL and maintain our 12-month PT of Rs418: The company has reserved its guidance for FY12E till next quarter and hence we leave our estimates unchanged. We shall revise our estimates for the company post 4Q FY11 results as we get more clarity on store opening and costs trajectory by then. Our two-stage DCF model (at a cost of equity of 16.6% and a terminal growth rate of 5%) values the company at Rs418/share, given estimated 70 new stores openings per year, 20% SSG with an EBIT margin of 14% for the next 13years. Such rapid expansion will take the total number of JUBI stores to 1,286. We see no material change to our medium term assumptions for now.

Risks: Sustained high SSG, faster-than expected new stores roll out and margin expansion once food inflation subsides pose as major risks to the call.

Exhibit 1: Financials and valuation summary

	Revenue		EBITDA		Adjusted net income		EPS (Rs/share)	ROaCE (%)	ROaE (%)	PE (x)	EV/EBITDA (x)
	(Rs mn)	Growth(%)	(Rs mn)	Growth(%)	(Rs mn)	Growth(%)					
2010	4,239	51.1	666	98.4	330	351.5	5.5	36.2	46.6	95.0	47.1
2011E	6,532	54.1	1,088	63.3	637	93.3	10.0	42.2	42.9	49.2	28.2
2012E	8,835	35.3	1,556	43.1	864	35.6	13.6	38.7	38.7	36.2	19.2
2013E	11,355	28.5	2,005	28.8	1163	34.6	18.3	35.8	35.8	26.9	14.3

Note: prices as on 8 February 2010. Source: Company data, Quant Global Research estimates

SELL

Rs493

Reuters: JUBI.BO

Bloomberg: JUBI IN

12-month price target

Rs418

Kalpesh Makwana

Kalpesh.makwana@quantcapital.co.in

+91 22 3954 1489

Tulasi Trivedi

tulasi.trivedi@quantcapital.co.in

+91 22 3954 1481

Market cap: Rs31.8 bn (US\$703 mn)
 52-week high/low: Rs672/160
 Share o/s: 64.5 mn
 Avg daily trading vol (3m): 1216.4 ('000)
 Avg daily trading val (3m): Rs728.9 mn (US\$16 mn)

	Buy(s)	Hold(s)	Sell(s)
Nos	2	3	5

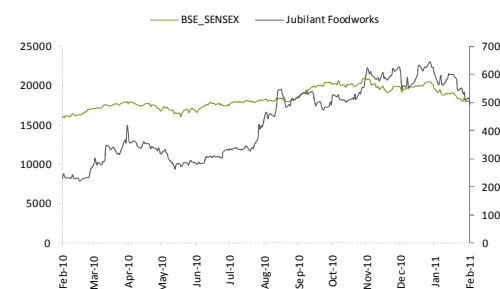
Source: Bloomberg

Shareholding pattern

	Dec10	Sep10	Jun10
Promoter	61.3	61.4	61.8
FIs	21.1	20.8	17.4
MFs/FIs/Banks	9.6	7.4	10.7
Others	8.0	10.4	10.1

Source: BSE

Relative price performance



Source: Bloomberg

Strong top-line growth with 25 new store openings

Exhibit 2: 3Q FY11 quarterly results

Rs (mn)	3QFY10	2QFY11	3QFY11	y-y (%)	q-q (%)	Comments
Net Sales/ Income from Operations	1,171	1,633	1,856	58%	14%	Strong SSG of 34%, 25 new stores opening, increased penetration to 87 cities and festive season driving strong topline growth
Other Operating income	2	1	1			
Total Income	1,174	1,634	1,857	58%	14%	
Expenditure:						
(Increase)/ Decrease in Inventories	(2)	(1)	(12)			
Consumption of Raw Materials & Provisions	261	347	408	56%	18%	
Purchase of Traded Goods	31	59	78	152%	32%	
Raw Materials and Provisions consumed	290	405	474	63%	17%	This comprises of cost of cheese, chicken and other raw materials consumed
Gross Profit	882	1,228	1,383	57%	13%	
Staff cost	216	325	384	78%	18%	Higher on account of wage hike taken in Sep 2010
Rent	102	127	140	38%	10%	
Others	369	480	537	45%	12%	
Manufacturing and Other expenses	471	606	677			
Total	976	1,337	1,535	57%	15%	
EBITDA	197	297	323	64%	9%	
Depreciation	62	69	78	25%	12%	
EBIT	135	228	245	81%	7%	
Interest	21	1	0	-99%	-85%	Interest expense lower on term loan repayment
Other Income	0	3	6			
PBT	114	229	251	120%	9%	
Tax Expense						
Current Tax	1	45	61			
Fringe Benefit Tax	-	-	-			
Total	1	45	61			
Net Profit for the period	114	184	190	67%	3%	

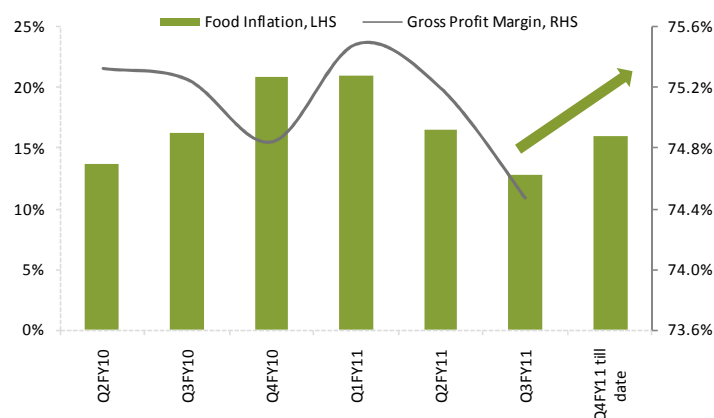
Source: Company data, Quant Global Research

Exhibit 3: Expanding its reach across Pan-India

	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Total stores	296	306	320	339	364
Cities covered	65	69	74	79	87

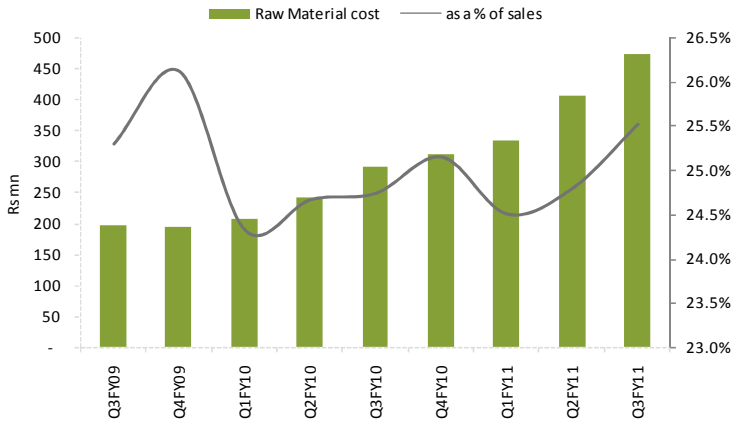
Source: Company data, Quant Global Research

Exhibit 4: Cost pressure may get aggravated based on higher RM cost



Source: CEIC, Company data, Quant Global Research

Exhibit 5: RM costs under check despite high inflation



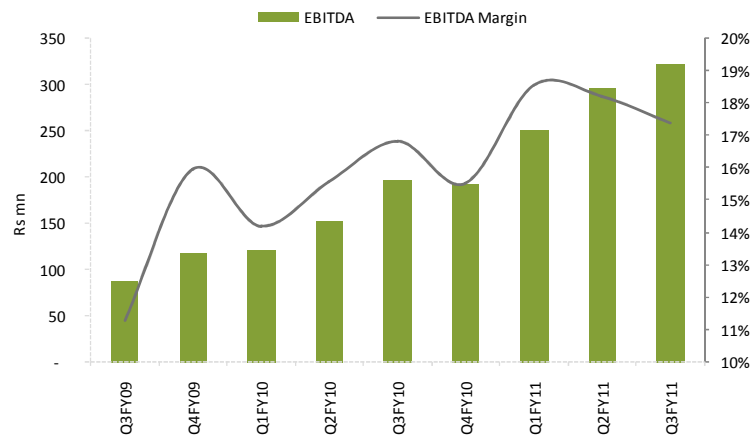
Source: Company data, Quant Global Research

Exhibit 6: Staff cost moves up on a wage hike



Source: Company data, Quant Global Research

Exhibit 7: EBITDA margin declines for the second consecutive quarter



Source: Company data, Quant Global Research

Financial summary

Exhibit 8: Financial statements (Rs mn)

Income statement	FY10	FY11E	FY12E	FY13E	Balance sheet	FY10	FY11E	FY12E	FY13E
Net revenues	4,239	6,532	8,835	11,355	Equity capital	636	636	636	636
Expenditure	(3,573)	(5,444)	(7,279)	(9,350)	Reserves and surplus	538	1,163	2,028	3,191
Operating expenses	(1,050)	(1,641)	(2,177)	(2,799)	Deferred tax liability	-	-	-	-
Employee expenses	(805)	(1,201)	(1,592)	(2,049)	Total Equity	1,174	1,800	2,664	3,827
Other expenditure	(1,719)	(2,603)	(3,510)	(4,501)	Secured loans	86	-	-	-
EBITDA	666	1,088	1,556	2,005	Unsecured loans	-	-	-	-
Depreciation	(243)	(305)	(383)	(457)	Total borrowings	86	-	-	-
EBIT	423	783	1,173	1,548	Current liabilities	702	1,083	1,395	1,793
Non-operating income	4	22	61	114	Total capital	1,962	2,882	4,058	5,620
Interest expenses	(91)	(9)	-	-	Cash	70	666	1,391	2,611
Adjusted pre-tax profits	330	796	1,235	1,662	Inventory	71	88	106	124
Unusual or infrequent items	-	-	-	-	Debtors	29	46	62	79
Reported pre-tax profits	330	796	1,235	1,662	Other current assets	362	411	481	551
Current taxes	(1)	(159)	(370)	(499)	Total current assets	533	1,211	2,040	3,366
Deferred taxes	-	-	-	-	Gross block	2,276	2,848	3,578	4,271
Reported net income	329.7	637	864	1,163	Less: Depreciation	(872)	(1,177)	(1,560)	(2,017)
Adjusted net income	329.7	637	864	1,163	Net block	1,403	1,671	2,018	2,254
EPS (Rs), based on wtd avg shares	5.5	10.0	13.6	18.3	Add: Capital work-in-process	25	-	-	-
EPS (Rs), based on fully diluted shares	5.5	10.0	13.6	18.3	Total fixed assets	1,429	1,671	2,018	2,254
Year-end shares outstanding (mn)	63.6	63.6	63.6	63.6	Investments	-	-	-	-
Weighted average shares outstanding (mn)	60.9	63.6	63.6	63.6	Miscellaneous expenditure	-	-	-	-
Fully diluted shares outstanding (mn)	63.6	63.6	63.6	63.6	Total assets	1,961	2,882	4,058	5,620
						0	0	0	0
Cash flow statement	FY10	FY11E	FY12E	FY13E	Ratios (%)	FY10	FY11E	FY12E	FY13E
Cash flow from operating activities					Effective tax rate	0.2%	20.0%	30.0%	30.0%
PBT	330	796	1,235	1,662	EBITDA margins	16%	17%	18%	18%
Add: Depreciation	243	305	383	457	EBIT margins	10.0%	12.0%	13.3%	13.6%
Add: Non cash expenses	10	-	-	-	Net debt/equity	0.0	(0.4)	(0.5)	(0.7)
Less: net interest	90	(13)	(61)	(114)	ROAE	47%	43%	39%	36%
Less: Taxes paid	(42)	(159)	(370)	(499)	ROACE	36%	42%	39%	36%
Less: Working capital changes	157	298	208	293					
Total operating cash flow	789	1,227	1,394	1,799	Key assumptions	FY10	FY11E	FY12E	FY13E
Operating Cash flow w/o working capital	632	928	1,186	1,506	New stores added	65	70	70	70
					SSG	22.0%	40.0%	25.0%	20.0%
					GPM	75.2%	74.9%	75.4%	75.3%
					Rent/ store growth	13%	15%	12%	10%
					Wage hike	-	20.0%	10.0%	10.0%
					Valuations (X)	FY10	FY11E	FY12E	FY13E
					Price to Diluted earnings	95.0	49.2	36.2	26.9
					EV/EBITDA	47	28	19	14
					EV/Sales	7.4	4.7	3.4	2.5
					M.cap/Sales	7.4	4.8	3.6	2.8
					EV/store (Rs)	115	92	76	65
					EV/store (US\$)	3	2	2	1
					Per share numbers (Rs)	FY10	FY11E	FY12E	FY13E
					Reported Earnings	5.5	10.0	13.6	18.3
					Diluted Earnings	5.5	10.0	13.6	18.3
					Cash earnings	9.4	14.8	19.6	25.5
					Free cash	4.2	10.7	10.4	17.4
					Book	18.5	28.3	41.9	60.2
Net change in cash	37	613	725	1,220					
Opening cash	28	65	678	1,403					
Closing cash	70	666	1,391	2,611					

Source: Company data, Quant Global Research estimates

Ratings and other definitions

Stock rating system

BUY. We expect the stock to deliver >15% absolute returns.

ACCUMULATE. We expect the stock to deliver 6-15% absolute returns.

REDUCE. We expect the stock to deliver +5% to -5% absolute returns.

SELL. We expect the stock to deliver negative absolute returns of >5%.

Not Rated (NR). We have no investment opinion on the stock.

Sector rating system

Overweight. We expect the sector to relatively outperform the Sensex.

Underweight. We expect the sector to relatively underperform the Sensex.

Neutral. We expect the sector to relatively perform in line with the Sensex.

"We, Kalpesh Makwana and Tulasi Trivedi, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report."

Quant Group generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Quant Group generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

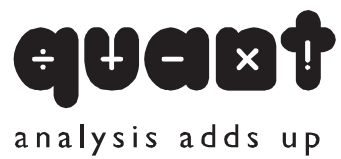
This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Quant Group. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Quant Group does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market maker or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or advisory services for or relating to those companies and may also be represented in the supervisory board or any other committee of those companies.

For the purpose of calculating whether Quant Group and its affiliates hold, beneficially own, or control, including the right to vote for directors, 1% or more of the equity shares of the subject, the holding of the issuer of a research report is also included.

Quant Group and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, affectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this material may be (i) copied, photocopied, or duplicated in any form by any means or (ii) redistributed without Quant Group's prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.



612, maker chambers IV, nariman point, mumbai 400 021, india
phone 91 22 4088 0100, 3025 0100 fax 91 22 4088 0198, 3025 0198