

February 08, 2012

 Gautam Duggad
 gautamduggad@plindia.com
 +91-22-66322233

Rating	Reduce
Price	Rs945
Target Price	Rs800
Implied Upside	-15.3%
Sensex	17,707
Nifty	5,368

(Prices as on February 08, 2012)
Trading data

Market Cap. (Rs bn)	61.0
Shares o/s (m)	64.5
3M Avg. Daily value (Rs m)	1264.7

Major shareholders

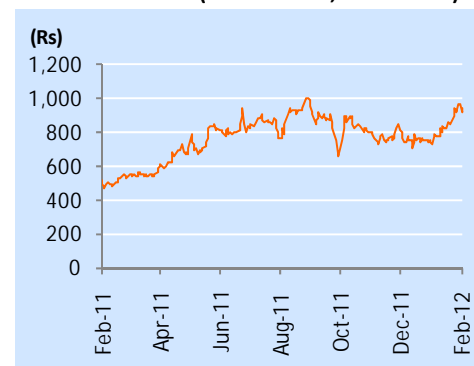
Promoters	57.74%
Foreign	35.90%
Domestic Inst.	0.59%
Public & Other	5.77%

Stock Performance

(%)	1M	6M	12M
Absolute	25.8	23.6	91.3
Relative	14.2	19.4	91.7

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	24.1	22.4	7.6
2014	31.8	31.7	0.5

Price Performance (RIC: JUBI.BO, BB: JUBI IN)


Source: Bloomberg

■ **Same-store sales (SSS) grow 30%:** Jubilant FoodWorks (JUBI) reported robust performance with Q3FY12 Sales, EBITDA and PAT of Rs2.77bn (up 49 %), Rs524m (up 62% YoY) and Rs295m (up 55% YoY) as against our expectations of Rs2.63bn, Rs467m and Rs269m, respectively. SSS growth of 30%, on the base of 35.7% in Q3FY11, is quiet healthy. During the quarter, JUBI opened 28 new stores, taking the total store count to 439. Management upped the guidance of opening new stores during FY12e from 80 to 85 stores. First *Dunkin* store will be rolled out in H1CY12, beginning with the metros. JUBI is building the foundation for Dunkin's rollout, with focus on menu designing and back-end work e.g. vendor and supply chain etc. JUBI now covers 100 cities vis-à-vis 87 a year ago. It entered newer cities such as Shillong, Kodaikanal, Rohtak & Burdwan.

■ **Gross margins improve QoQ; op leverage drives 120 bps margin expansion:** JUBI's gross margins remained flat YoY; however, expanded 100bps sequentially, reflecting the twin impact of price hikes as well as stable RM prices. Operating leverage is reflected in 160bps and 40bps reduction in staff costs and rentals, respectively. For the 12 months ended Dec'11, JUBI added 2587 employees and ended the quarter at 15,049 employees (QoQ addition of 1510). Part of the addition is temporary in nature; to manage the festive season driven demand.

■ **Maintain REDUCE on expensive valuations; look for better entry point:** Strong same store performance on high base reflects the superiority of JUBI's capital-efficient model. We expect JUBI to continue to benefit from the evolving QSR space, given its brand equity and deeper reach v/s competitors. QSR industry is expected to do well, aided by confluence of favourable income and demographic factors. However, valuations fully capture the positives, in our view and leave limited room for upside/outperformance. At 38x and 298x FY13e and FY14e earnings, risk-reward continues to remain unfavourable in our view. Maintain **REDUCE**, with a TP of Rs800. Call scheduled tomorrow 4:00pm.

Key financials (Y/e March)

	2011	2012E	2013E	2014E
Revenues (Rs m)	6,781	9,945	13,981	18,500
Growth (%)	59.9	46.7	40.6	32.3
EBITDA (Rs m)	1,196	1,963	2,805	3,532
PAT (Rs m)	717	1,070	1,556	2,053
EPS (Rs)	11.1	16.6	24.1	31.8
Growth (%)	118.6	49.2	45.4	31.9
Net DPS (Rs)	—	—	—	—

Profitability & Valuation

	2011	2012E	2013E	2014E
EBITDA margin (%)	17.6	19.7	20.1	19.1
RoE (%)	46.5	45.5	45.0	40.9
RoCE (%)	44.3	44.4	44.3	38.6
EV / sales (x)	9.0	6.1	4.3	3.2
EV / EBITDA (x)	50.9	30.9	21.4	16.7
PE (x)	85.0	57.0	39.2	29.7
P / BV (x)	31.9	21.8	14.8	10.3
Net dividend yield (%)	—	—	—	—

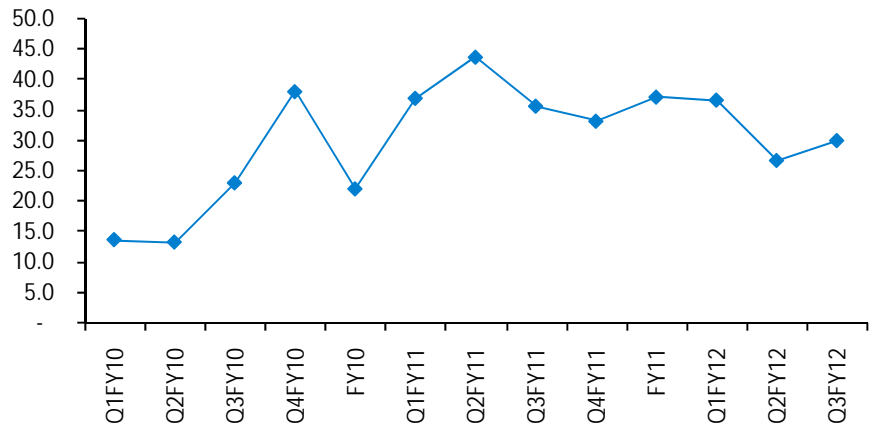
Source: Company Data; PL Research

Exhibit 1: Q3FY12 Result Overview (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Net sales	2,770	1,856	49.2	2,403	7,342	4,845	51.5
Total income	2,770	1,857	49.2	2,404	7,343	4,846	51.5
Consumption of raw material	565	396	42.7	504	1,532	1,012	51.4
Purchase of traded goods	139	78	78.7	131	360	200	79.6
Staff costs	529	384	38.0	475	1,426	960	48.5
Rent	197	140	40.6	185	545	387	41.0
Other expenses	824	537	53.5	673	2,115	1,417	49.3
EBIDTA	516	323	59.8	436	1,366	871	56.8
Depreciation	96	78	23.2	93	276	210	31.2
EBIT	420	245	71.5	343	1,090	661	64.9
Interest	-	0		-	-	3	
Other income	14	6		14	41	10	
PBT	434	251	72.9	357	1,130	668	69.3
Taxes	139	61		111	358	141	
PAT	295	190	55.4	237	763	527	44.9
As % of net revenue							
Consumption of raw material	25.4	25.5		26.4	25.8	25.0	
Staff costs	19.1	20.7		19.8	19.4	19.8	
Rent	7.1	7.5		7.7	7.4	8.0	
Other expenses	29.8	28.9		28.0	28.8	29.2	
Total expenditure	81.4	82.6		81.9	81.4	82.0	
EBIDTA	18.6	17.4		18.1	18.6	18.0	
Net profit	10.6	10.2		9.8	10.4	10.9	
Tax rate	32.1	24.4		31.1	31.7	21.1	

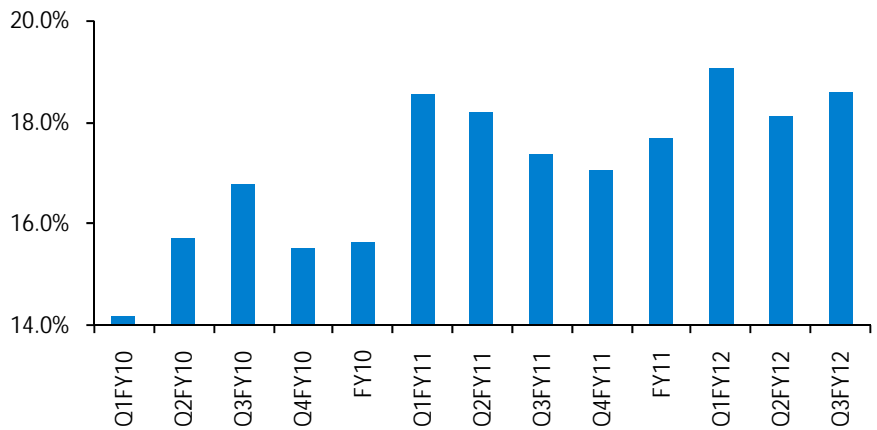
Source: Company Data, PL Research

Exhibit 2: SSS growth of 30% is on the base of 35.7% in Q3FY11



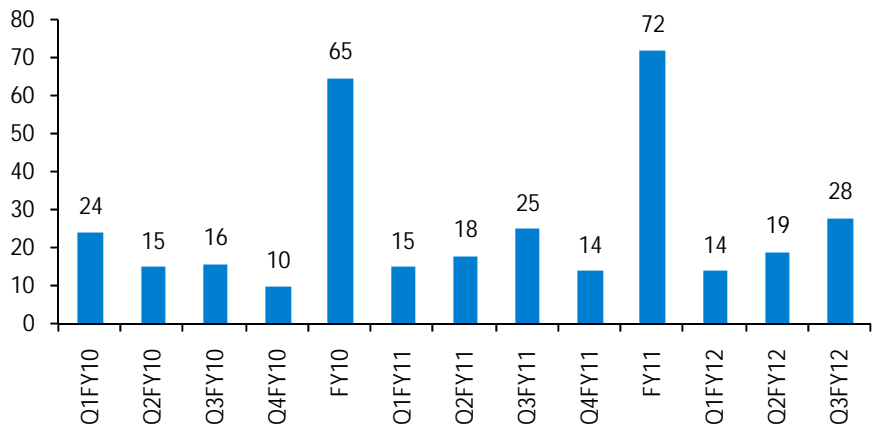
Source: Company Data, PL Research

Exhibit 3: EBITDA margins up 150bps YoY



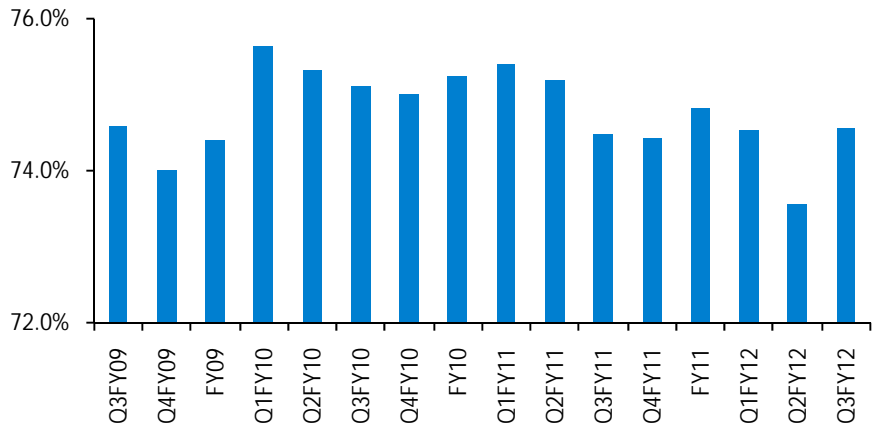
Source: Company Data, PL Research

Exhibit 4: Added 28 stores in Q3FY12; ups the store opening guidance to 85 from 80



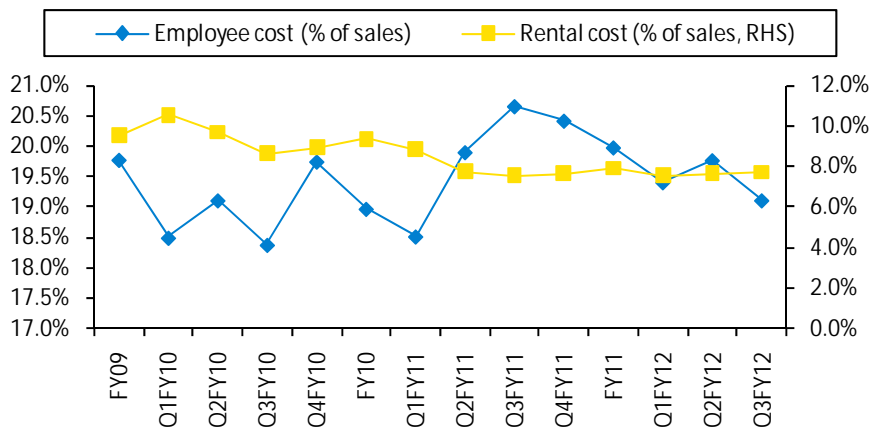
Source: Company Data, PL Research

Exhibit 5: Gross margins up 100bps QoQ but flat YoY



Source: Company Data, PL Research

Exhibit 6: Employee and rental costs reflect operating leverage at play



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	6,781	9,945	13,981	18,500
Raw Material Expenses	1,706	2,476	3,411	4,569
Gross Profit	5,075	7,469	10,570	13,930
Employee Cost	1,356	1,969	2,740	3,626
Other Expenses	2,522	3,536	5,025	6,772
EBITDA	1,196	1,963	2,805	3,532
Depr. & Amortization	293	402	517	640
Net Interest	3	—	—	—
Other Income	22	36	35	171
Profit before Tax	922	1,598	2,323	3,063
Total Tax	204	527	767	1,011
Profit after Tax	717	1,070	1,556	2,053
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	717	1,070	1,556	2,053
Avg. Shares O/S (m)	64.5	64.5	64.5	64.5
EPS (Rs.)	11.1	16.6	24.1	31.8

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	1,289	1,491	2,295	2,921
C/F from Investing	(899)	(1,129)	(1,415)	(1,559)
C/F from Financing	(67)	(189)	(227)	(265)
Inc. / Dec. in Cash	323	173	653	1,098
Opening Cash	70	90	242	895
Closing Cash	90	242	895	1,993
FCFF	399	411	1,180	1,863
FCFE	314	411	1,180	1,863

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	59.9	46.7	40.6	32.3
EBITDA (%)	81.8	64.1	42.8	25.9
PAT (%)	117.6	49.2	45.4	31.9
EPS (%)	118.6	49.2	45.4	31.9
Profitability				
EBITDA Margin (%)	17.6	19.7	20.1	19.1
PAT Margin (%)	10.6	10.8	11.1	11.1
RoCE (%)	44.3	44.4	44.3	38.6
RoE (%)	46.5	45.5	45.0	40.9
Balance Sheet				
Net Debt : Equity	—	(0.1)	(0.2)	(0.3)
Net Wrkng Cap. (days)	(213)	(198)	(198)	(213)
Valuation				
PER (x)	85.0	57.0	39.2	29.7
P / B (x)	31.9	21.8	14.8	10.3
EV / EBITDA (x)	50.9	30.9	21.4	16.7
EV / Sales (x)	9.0	6.1	4.3	3.2
Earnings Quality				
Eff. Tax Rate	22.2	33.0	33.0	33.0
Other Inc / PBT	2.4	2.3	1.5	5.6
Eff. Depr. Rate (%)	10.1	10.0	10.0	10.0
FCFE / PAT	43.7	38.4	75.8	90.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	1,914	2,795	4,124	5,912
Total Debt	—	—	—	—
Other Liabilities	—	—	—	—
Total Liabilities	1,914	2,795	4,124	5,912
Net Fixed Assets	1,845	2,560	3,193	3,783
Goodwill	—	—	—	—
Investments	205	305	605	1,105
Net Current Assets	(167)	(70)	327	1,024
<i>Cash & Equivalents</i>	90	242	895	1,993
<i>Other Current Assets</i>	894	1,174	1,486	1,966
<i>Current Liabilities</i>	1,150	1,486	2,055	2,935
Other Assets	31	—	—	—
Total Assets	1,914	2,795	4,124	5,912

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	1,937	2,169	2,403	2,770
EBITDA	330	413	436	515
<i>% of revenue</i>	<i>17.1</i>	<i>19.1</i>	<i>18.1</i>	<i>18.6</i>
Depr. & Amortization	83	87	93	96
Net Interest	—	—	—	—
Other Income	9	12	14	14
Profit before Tax	257	339	357	433
Total Tax	64	108	111	139
Profit after Tax	193	231	236	294
Adj. PAT	193	231	236	294

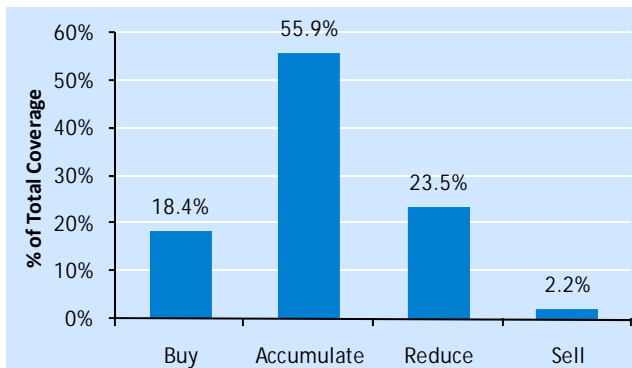
Key Operating Metrics

Y/e March	2011	2012E	2013E	2014E
Same Store Sales Gr.	37.2	20.0	18.0	16.0
Pricing Gr.	14.3	2.0	2.0	1.0
Gross margins	74.8	75.1	75.6	75.3
Employee costs (as a % of Sales)	20.0	19.8	19.6	19.6
Store Addition	72.0	80.0	80.0	70.0

Source: Company Data, PL Research.

Prabhudas Lilladher Pvt. Ltd.
3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.