Deutsche Bank

30 November 2010

Jubilant Foodworks

Reuters: **JUBI.BO** Bloomberg: **JUBI IN** Exchange: **BSE** Ticker: **JUBI**

Fresh from the oven; initiating with Buy

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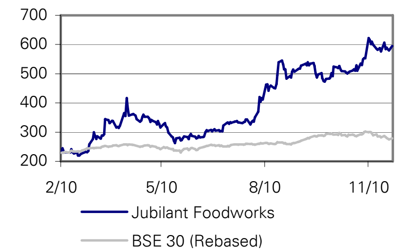
Coverage Change

Buy

Price at 29 Nov 2010 (INR)	**595.40**
Price target - 12mth (INR)	**810.00**
52-week range (INR)	**622.25 - 220.05**
BSE 30	**19,405**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*16.6*	*23.3*	*–*
BSE 30	*-3.1*	*7.8*	*16.7*

Stock data

Market cap (INRm)	**37,880**
Market cap (USDm)	**825**
Shares outstanding (m)	**63.6**
Major shareholders	**–**
Free float (%)	**39**
Avg daily value traded (USDm)	**0.0**

Key indicators (FY1)

ROE (%)	**55.4**
Net debt/equity (%)	**-35.7**
Book value/share (INR)	**27.82**
Price/book (x)	**21.4**
Net interest cover (x)	**132.9**
Operating profit margin (%)	**16.9**

Generating free cashflow
A 65% market share in the under-penetrated Indian Quick Service Restaurant sector, an exclusive franchisee of a globally successful brand and solid execution (in terms of both new store openings and robust supply chain) drive a 42% revenue CAGR (FY11-13E), 70% gross margin, negative working capital (~11% of revenue) and FY11-13E 60% FCF CAGR. While the near-term valuation factors in aggressive growth, our FY12E EPS is higher than consensus by 18%. We see material upside potential: initiating coverage with a Buy.

Exclusive franchisee of a globally successful brand
Jubilant Foodworks (JFL) operates its pizza stores pursuant to a Master Franchise Agreement with Domino's International, which provides it with the exclusive right to develop and operate Domino's pizza delivery stores in India, Nepal, Bangladesh and Sri Lanka. It is this association with Domino's that provides JFL with the technical, marketing and operational expertise to compete successfully with other restaurants in the QSR industry in India. JFL has a dominant 65% market share in the organised pizza home delivery segment in India.

Robust supply chain; ranked top among Domino's franchisees worldwide
The cornerstone of JFL's operational success is based on its efficient supply chain that drives negative working capital. Its operations rank among the top three within Domino's global operations. JFL has centralised the sourcing, warehousing and distribution of its raw materials, as well as the production of dough at its commissaries. This reduces the storage space required at its stores, thereby enabling JFL to minimise its store operating costs, without incurring significant additional expenses at the commissary level. The effects of its efficient supply chain are reflected in its relatively high gross margins and negative working capital.

Initiate with a Buy and a target price of INR810
Our DCF-based target price of INR810 is based on a cost of equity of 13.6% and 4.5% terminal growth. Downside risks include increase in royalty charge to Domino's International and execution risk in the opening up of new stores.

Forecasts and ratios

Year End Mar 31	2009A	2010A	**2011E**	2012E	2013E
Sales (INRm)	2,806.1	4,239.3	**6,097.6**	8,602.6	12,314.2
EBITDA (INRm)	335.8	666.1	**1,335.3**	1,982.0	2,976.1
Reported NPAT (INRm)	81.1	334.1	**815.9**	1,073.6	1,696.7
Reported EPS FD(INR)	1.39	5.25	**12.82**	16.88	26.67
DB EPS FD (INR)	1.39	5.25	**12.82**	16.88	26.67
DB EPS growth (%)	–	276.6	**144.2**	31.6	58.0
PER (x)	–	51.1	**46.4**	35.3	22.3
EV/EBITDA (x)	–	25.6	**27.9**	18.4	11.7
DPS (net) (INR)	0.00	0.00	**3.00**	5.00	10.00
Yield (net) (%)	–	0.0	**0.5**	0.8	1.7

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Deutsche Bank AG/Hong Kong

Model updated:29 November 2010

Running the numbers

Asia

India

Food & Beverage

Jubilant Foodworks

Reuters: JUBI.BO Bloomberg: JUBI IN

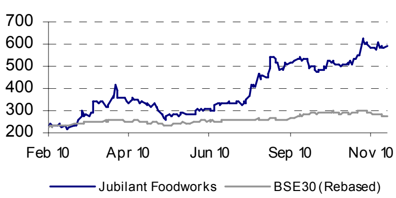
Buy

Price (29 Nov 10)	INR 595.40
Target price	INR 810.00
52-week Range	INR 220.05 - 622.25
Market Cap (m)	INRm 37,880 USDm 825

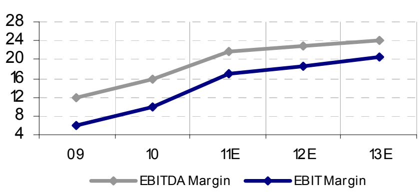
Company Profile

Jubilant Foodworks ltd has the Master Franchisee Rights for Domino's Pizza for India, Nepal, Sri Lanka and Bangladesh. It has a countrywide network of more than 300 stores across 79 cities with a team of over 9,000 people.

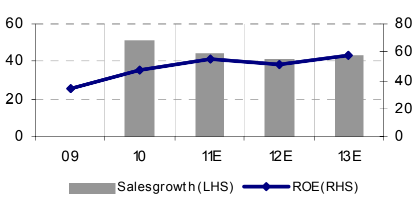
Price Performance



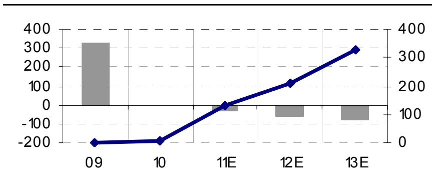
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Financial Summary					
DB EPS (INR)	1.39	5.25	12.82	16.88	26.67
Reported EPS (INR)	1.39	5.25	12.82	16.88	26.67
DPS (INR)	0.00	0.00	3.00	5.00	10.00
BVPS (INR)	4.1	18.5	27.8	38.9	54.0
Weighted average shares (m)	58	64	64	64	64
Average market cap (INRm)	na	17,070	37,880	37,880	37,880
Enterprise value (INRm)	na	17,085	37,248	36,400	34,899
Valuation Metrics					
P/E (DB) (x)	na	51.1	46.4	35.3	22.3
P/E (Reported) (x)	na	51.1	46.4	35.3	22.3
P/BV (x)	0.00	16.99	21.40	15.30	11.02
FCF Yield (%)	na	1.0	2.3	3.2	5.9
Dividend Yield (%)	na	0.0	0.5	0.8	1.7
EV/Sales (x)	nm	4.0	6.1	4.2	2.8
EV/EBITDA (x)	nm	25.6	27.9	18.4	11.7
EV/EBIT (x)	nm	40.4	36.2	22.6	13.7
Income Statement (INRm)					
Sales revenue	**2,806**	**4,239**	**6,098**	**8,603**	**12,314**
Gross profit	**1,942**	**2,969**	**4,192**	**5,661**	**7,867**
EBITDA	**336**	**666**	**1,335**	**1,982**	**2,976**
Depreciation	169	243	308	372	436
Amortisation	0	0	0	0	0
EBIT	**166**	**423**	**1,028**	**1,610**	**2,540**
Net interest income(expense)	-89	-91	-8	-8	-8
Associates/affiliates	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	4	4	0	0	0
Profit before tax	**81**	**335**	**1,020**	**1,602**	**2,532**
Income tax expense	0	1	204	529	836
Minorities	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	**81**	**334**	**816**	**1,074**	**1,697**
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	**81**	**334**	**816**	**1,074**	**1,697**
Cash Flow (INRm)					
Cash flow from operations	**232**	**696**	**1,468**	**1,816**	**2,836**
Net Capex	-539	-522	-600	-600	-600
Free cash flow	**-307**	**174**	**868**	**1,216**	**2,236**
Equity raised/(bought back)	0	605	0	0	0
Dividends paid	0	0	-220	-367	-735
Net inc/(dec) in borrowings	314	-739	0	0	0
Other investing/financing cash flows	2	0	0	0	0
Net cash flow	**9**	**40**	**648**	**848**	**1,501**
Change in working capital	*-10*	*118*	*344*	*370*	*703*
Balance Sheet (INRm)					
Cash and other liquid assets	30	70	718	1,566	3,067
Tangible fixed assets	1,155	1,429	1,721	1,949	2,113
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	0	0	0	0	0
Other assets	306	462	510	590	685
Total assets	**1,491**	**1,962**	**2,949**	**4,106**	**5,866**
Interest bearing debt	824	86	86	86	86
Other liabilities	427	702	1,094	1,544	2,342
Total liabilities	**1,251**	**787**	**1,180**	**1,630**	**2,428**
Shareholders' equity	240	1,174	1,770	2,476	3,438
Minorities	0	0	0	0	0
Total shareholders' equity	**240**	**1,174**	**1,770**	**2,476**	**3,438**
Net debt	*794*	*16*	*-632*	*-1,480*	*-2,981*
Key Company Metrics					
Sales growth (%)	nm	51.1	43.8	41.1	43.1
DB EPS growth (%)	na	276.6	144.2	31.6	58.0
EBITDA Margin (%)	12.0	15.7	21.9	23.0	24.2
EBIT Margin (%)	5.9	10.0	16.9	18.7	20.6
Payout ratio (%)	0.0	0.0	23.4	29.6	37.5
ROE (%)	33.9	47.3	55.4	50.6	57.4
Capex/sales (%)	19.2	12.3	9.8	7.0	4.9
Capex/depreciation (x)	3.2	2.1	2.0	1.6	1.4
Net debt/equity (%)	331.6	1.3	-35.7	-59.8	-86.7
Net interest cover (x)	1.9	4.6	132.9	208.3	328.5

Source: Company data, Deutsche Bank estimates

Investment thesis

Outlook

A 65% market share in the under-penetrated Indian Quick Service Restaurant sector, an exclusive franchisee of a globally successful brand and solid execution (in terms of both new store openings and robust supply chain) drive a 42% revenue CAGR (FY11-13E), 70% gross margin, negative working capital (~11% of revenues) and 60% FCF CAGR over FY11-13E. While the near-term valuation factors in aggressive growth, our FY12E EPS (the basis of our DCF-derived target price) is 18% higher than consensus.

JFL operates its pizza stores pursuant to a Master Franchise Agreement with Domino's International, which provides it with the exclusive right to develop and operate Domino's pizza delivery stores and the associated trademarks in the operation of pizza stores in India, Nepal, Bangladesh and Sri Lanka. This has provided JFL with the ability to use Domino's globally recognised brand name, as well as operational support for pizza and food technology (such as recipes), commissary and logistics management support, global marketing and vendor development know-how. It is this association with Domino's that provides JFL with the technical, marketing and operational expertise to compete successfully with other restaurants in the QSR industry in India. JFL has a dominant 65% market share in the organised pizza home delivery segment in India.

Valuation

Our DCF-derived target price of INR810 per share is based on the following assumptions:

- Risk-free rate of 6.4% (Deutsche Bank estimate), market risk premium of 7.2% (Deutsche Bank estimate) and Beta of 1, implying a cost of equity of 13.6%.
- Growth in the stable phase of 4.5% (which is the long-term growth rate in the number of households in India). Our valuation for Jubilant Foodworks works out at INR810 per share.

At our target price of INR810 per share, the shares would trade at 30x FY13E earnings.

Risks

Significant dependence on the master franchise agreement with Domino's International

The master franchise agreement between JFL and Domino's International was renewed in September 2009 for another term of 15 years, which will continue until 31 December 2024 and is further extendable for a period of ten years (subject to certain conditions). Should JFL default on the provisions of the agreement, then Domino's International would have the right to terminate the agreement.

Royalty to Domino's may increase

JFL paid a royalty of 3% on its revenues in FY10. While the agreement with Domino's is valid until 2024, it is possible that after that date the royalty may increase. The company also pays USD5,000 per new store opened.

Key investment positives

Exclusive franchisee of a globally successful brand

JFL operates its pizza stores pursuant to a Master Franchise Agreement with Domino's International, which provides it with the exclusive right to develop and operate Domino's pizza delivery stores and the associated trademarks in the operation of pizza stores in India, Nepal, Bangladesh and Sri Lanka. Over its 49-year history, the Domino's business has grown into a global network of over 9,000 pizza stores in more than 60 countries, involving more than 2,000 franchisees. This has provided the JFL with the ability to use Domino's International's globally recognised brand name, as well as operational support for pizza and food technology (such as recipes), commissary and logistics management support, global marketing and vendor development know-how. It is this association with Domino's that provides JFL with the technical, marketing and operational expertise to compete successfully with other restaurants in the QSR industry in India. JFL has a dominant 65% market share in the organised pizza home delivery segment in India.

Robust supply chain; ranked top among Domino's franchisees worldwide

The cornerstone of JFL's operational success is based on its efficient supply chain that drives a negative working capital. Its operations rank among the top three within Domino's global operations. JFL operates four regional supply chain centres, or commissaries, located in Noida (Delhi NCR), Mumbai, Bangalore and Kolkata. These commissaries primarily manufacture dough (pizza bases) and act as warehouses for most of the other ingredients. The primary raw materials used in the preparation of the pizzas, such as cheese, vegetables and meat, are sourced and supplied to the stores by their commissaries, except for a few stores which procure vegetables locally from vendors within their geographic area. This helps JFL to ensure consistent quality and also ensure timely delivery of raw materials to its stores. Furthermore, as the purchase function is centralised and the company purchases large volumes of ingredients and packaging such as cheese, sauce and pizza boxes, it allows JFL to maximise leverage and negotiate better prices with its suppliers.

For most of its key ingredients, JFL follows a multi-vendor policy to minimise reliance on any single vendor and has entered into annual agreements with certain key vendors to ensure the steady supply of ingredients. In addition, JFL has a dedicated fleet of hired trucks at its disposal to ensure timely delivery of raw materials to its stores. These trucks are refrigerated to ensure that the ingredients are supplied in a temperature-controlled environment, which is monitored during transit to ensure quality and minimise wastage. The effects of its efficient supply chain are reflected in its relatively high gross margins and negative working capital (see Financials section starting on page 13)

Effective site selection and project management focusing on ROI

One of the major factors behind JFL's continued growth has been its ability to open and then operate most of its new stores profitably. A robust store selection process that takes into consideration various factors such as location visibility, presence of competition, household count as well as presence of corporate and other institutions that would enable it to operate these pizza stores in a profitable manner is a key differentiator between JFL and its QSR competitors.

As of 30 September 2010, JFL operated 339 stores in India across 79 cities located in 22 states and union territories, and, through a sub-franchisee, DP Lanka Private Limited, five stores in Sri Lanka. These included entry into 22 new cities in FY10. Domino's has mentioned a store target of 700 stores for its India operations. At present, its competitors include Pizza Hut (~150 stores pan-India), KFC (~50 stores pan-India) and McDonalds (~170 stores).

JFL also conducts a return-on-investment analysis based on projected sales and profitability to determine the financial feasibility of the store. The company's internal project management system is designed to ensure that they purchase standardised equipment from selected vendors, plan in detail the procurement of the standard equipments prior to lease signing as well as designing standardised processes for all functions related to store openings. This has enabled JFL to reduce its store opening time to between 35 and 45 days on average from the date of possession of the premises for a new store location.

Figure 1: 50% of the stores near commissaries

Area	Number of stores	Cumulative number of stores	Cumulative percentage
NCR	68	68	19%
Mumbai/Thane	55	123	35%
Bangalore	39	162	46%
Chennai	22	184	52%
Pune	19	203	57%
Hyderabad	18	221	62%
Kolkata	14	235	66%
Ahmedabad	6	241	68%
Goa	6	247	69%
Chandigarh	4	251	71%
Lucknow	4	255	72%
Vadodra	4	259	73%
Amritsar	3	262	74%
Coimbatore	3	265	74%
Jaipur	3	268	75%
Kanpur	3	271	76%
Mangalore	3	274	77%
Mysore	3	277	78%
Nagpur	3	280	79%
Surat	3	283	79%
Agra	2	285	80%
Bhopal	2	287	81%
Cochin	2	289	81%
Indore	2	291	82%
Kamal	2	293	82%
Ludhiana	2	295	83%
Meerut	2	297	83%
Mohali	2	299	84%
Nasik	2	301	85%
Panchkulla	2	303	85%
Trivandrum	2	305	86%
Others (Single store cities)	51	356	100%

Source: Company data

New product introductions and innovative marketing drive revenues

JFL utilises three distinct marketing platforms, (a) national marketing campaigns on television, print and radio, (b) local store marketing and (c) customer relationship management. Its innovative marketing strategy that emphasised delivery within 30 minutes of an order's being taken or no charge would be made has become a marketing case study whereby delayed public services are being compared unfavourably to efficient pizza delivery.

JFL's local store marketing is aimed at increasing customer penetration by targeting new customers and increasing the frequency of repeat orders from existing customers. The strategy includes address mapping of an entire delivery area to precisely identify key demand areas for a store as well as intensive coverage of households and corporates within a store's sales area using store-specific door hangers and fliers. JFL also utilises details of customers' past transactions from its point of sales software system to provide customised communication including mobile text messages and offers, relevant to each consumer thereby maximising returns from individual customer relationships by increasing the frequency of orders.

JFL's product innovation and value promotions are another driver for footfall frequency. For example, the company began offering a limited number of pasta dishes at the stores and launched its own low-cost pizza – Pizza Mania. JFL, on a continuous basis, keeps evaluating increasing dine-in space at selected existing pizza stores. This is quite apart from periodically refurbishing its stores, and it intends to continuously upgrade its facilities and general pizza store ambience.

Expansion using new distribution channels

Traditionally, JFL's pizza stores have generally been located in neighbourhood markets in urban areas. As it seeks new ways to grow its business operations, it has sub-franchised two stores into India's expanding infrastructure network of airports. In addition, metro stations offer a distinct new channel for growth. As the company anticipates that its revenues from these stores would be driven by commuters at these locations, the intention is to use a menu of off-the-shelf pizzas.

JFL has integrated other distribution channels with its pizza stores' operations, such as web and mobile technology, to expand its sales. In August 2009, it launched – on a pilot basis – an online ordering facility for residents in Bangalore and it intends to gradually extend this service to other locations. JFL also opened pizza stores on certain corporate campuses and in certain food courts.

Cost consciousness driven by employee compensation structure

In line with its philosophy that the store manager is the CEO of the store, the compensation for its store managers is driven by the sales and profitability of their respective stores. Also, all costs attributable to a store are charged at the store-level and the store manager has discretion to take action in order to increase sales or reduce costs. The policy of centralised sourcing from an optimal number of vendors further facilitates cost efficiencies, enabling the company to reduce manufacturing costs.

Leveraging its market position to launch new food services brands in India

JFL has mentioned that it intends to leverage its current market position and experience in the food services industry to launch new international food services brands in India. These could include QSR such as Burger King and Starbucks although no formal announcements are expected until at least the next two quarters.

Strong financials

High gross margins and negative working capital are the key drivers of JFL's FCF

Figure 2: High gross profit with negative working cycle for Jubilant Foodworks

	FY09	FY10	FY11E	FY12E	FY13E
Gross profit margin	69%	70%	69%	66%	64%
Inventory turnover (days)	7	6	6	6	6
Debtors turnover (days)	2	3	3	3	3
Creditors turnover (days)	42	47	47	47	47
Cash conversion cycle (days)	(33)	(39)	(39)	(39)	(39)

Source: Deutsche Bank, company data

Negative working capital driven by centralised sourcing

JFL has centralised the sourcing, warehousing and distribution of its raw materials, as well as the production of dough at its commissaries, this reduces the storage space required at its stores, thereby enabling JFL to minimise its store operating costs, without incurring significant additional expenses at the commissary level. The effects of its efficient supply chain are reflected in its relatively high gross margins and negative working capital.

Efficiency in capex is a driver of FCF

JFL opened 60 stores in fiscal 2009 of which 44 stores were opened in cities where JFL already had stores and of the 70 stores opened in fiscal 2010, 31 stores were in cities where JFL already had stores. To minimise additional capital expenditure and ensure quality control, JFL plans to open new stores in cities and towns that would be located within less than one day's travel distance of its existing commissaries. For new stores where JFL cannot serve efficiently from its commissaries, the company has developed a back-end production facility model which should enable the company to service two to three stores in a city. These back-end production facilities procure vegetables and other perishables locally. JFL believes that its future growth will be driven by its new stores in Tier 2 and Tier 3 towns and, therefore, its back-end production facilities will play a key role in its success in these cities.

Attractive features of Indian Quick Service Restaurants

In our opinion, the prospective growth opportunities for quick service QSR, coffee shops, and casual dining remain attractive. We base this on several factors: i) low penetration of modern restaurant outlets; ii) potential to take market share away from informal or more traditional restaurants; iii) development of casual dining concept; iv) continuing growth of shopping centres and strip malls that supports the opening of QSR and casual dining units; vi) still low share of the market for food & beverages consumed away from home; vii) attractive demographics; and viii) low participation of US restaurant chain brands in India

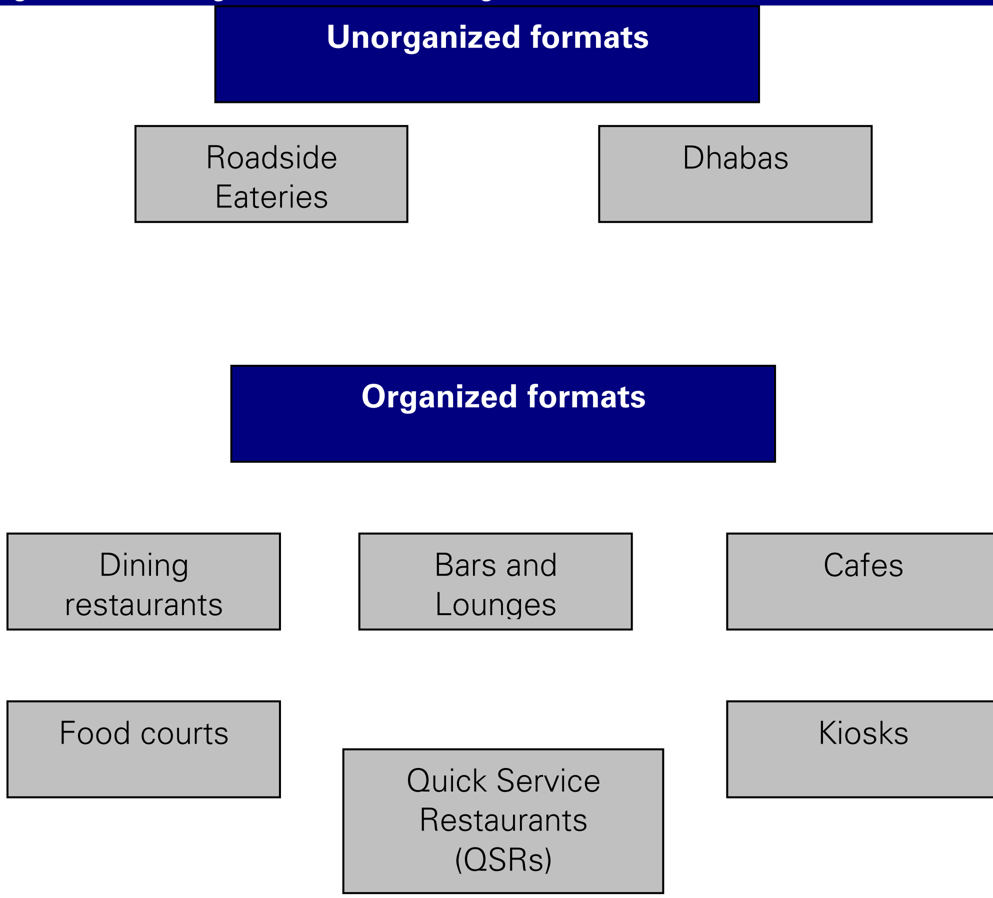
Low penetration of modern restaurant outlets

India and the rest of South Asia have a low penetration of modern restaurants compared to more developed markets (Japan, Canada, the US). Most developed markets have more than 0.5 outlets per 1,000 people – Japan has 1.1, Canada has 1.0 and the US has 0.7 – while the penetration in most South Asian countries is equal to (as in India's case) 0.2. This represents a growth opportunity for Jubilant Foods (JFL) in India where competition and the entrance of new players via franchises have intensified over the past five years

Potential to gain market share from the more informal or traditional restaurants

The traditional restaurant sector in India comprises those restaurants that are not part of a chain of outlets, whose scope is quite ample: from fine dining, low-price restaurants, to street stands or informal venues. In India, the traditional restaurant sector represents 50% of total restaurant sales by 2010 (source: Federation of Hotels and Restaurants Association of India). This percentage tends to be higher where international brands in QSR have not expanded rapidly. Thus, the share of the traditional sector is continuing to decline, comparing unfavourably vs. 2004 when it accounted for 55% of total restaurant sales in India. We anticipate formal (chain) restaurants to continue to gain market share from the traditional sector due to: i) higher organic growth from existing franchisees or local players; ii) increasing health concerns (affecting street vendors); iii) the entrance of new players.

Figure 3: The organised and unorganised food service segments are divided into various formats



Source: Deutsche Bank

Continuing growth of shopping centres and shopping malls

Even though real estate developers and retailers temporarily stalled expansion of shopping malls in 2008-2009 in all markets, we expect a gradual acceleration of organic growth from 2010 onwards as penetration opportunities abound. These new shopping malls constitute future growth opportunities for QSR, coffee shops, and casual dining units.

Figure 4: With 44% vacancy rentals are expected to remain stable

Million sq ft of retail space to become operational in 2010 and 2011	**29.5**
Million sq ft of absorption of retail space forecast for 2010 and 2011	16.4
Percentage vacancy	44.4%

Source: Jones Lang LaSalle

Still low share of the market for food & beverages consumed away from home

We see clear opportunities for QSR players like JFL to encourage eating out, given the low base in India. Food and drinks consumed outside the home (restaurants, street stands) represent only 19% of total food and drinks spending, well below the rate in developed markets, some emerging markets and even below historical levels. For example, food and beverages on premises represented 24% of total consumption in 2009; and we believe this share should return to these levels (or even higher) in the medium term.

Only 2% of monthly expenditure on food bought from outside or ordered-in by households in India is spent on pizzas and pastas on a monthly basis.

Attractive demographics

India enjoys attractive demographics in terms of population growth, a large younger base (the under-25 age group represents close to 54% of the total population), and a growing middle class emerging from the D segments – lower socio economic segments. In our view, these factors are all contributing positively to the development of QSR.

India could become the next natural market for US brands

Overall, India is a small market for US brands which have felt more comfortable expanding into other developed markets such as Canada, Western Europe or Japan. However, among emerging markets, we believe India represents a viable (culturally) and attractive opportunity for US chain restaurants. India represents roughly only 1.5% of total sales of Domino's. India is by far Domino's most important market in South Asia via which it will participate in Sri Lanka, Bangladesh and Nepal. JFL has the master franchise in India Sri Lanka, Bangladesh and Nepal.

Relatively low average ticket

JFL's consolidated average ticket hovers around INR300 (USD6), which is considered below average among India's large diversified restaurant operators. A relatively low average ticket serves as a defensive attribute in the case of consumption in India. (An average ticket size for a fine dining restaurant would be INR1,000 (USD20)

We do not believe the growth in average ticket will exceed inflation, and it may even be lower in some formats with high sensitivity to prices, in coming years. The improvements in SSS should rather come from an increase in orders as consumers gain confidence in eating/drinking outside the home. However, there are initiatives to partly improve average ticket at Domino's by innovating on marketing and by continuing to add food (Mexican wrap and Chocolava cake) to the menu.

Key investment concerns

Significant dependence on the master franchise agreement with Domino's International

At present, JFL relies to a large extent on its agreement with Domino's International with respect to its business operations. The master franchise agreement was renewed in September 2009 for another term of 15 years which will continue until 31 December 2024 and is further extendable for a period of ten years (subject to the fulfilment of certain conditions). Should JFL default on the provisions of the agreement, then Domino's International has the right to terminate the agreement.

Royalty to Domino's may increase

JFL paid a royalty of 3% on its revenues in FY10 and a sum of USD5,000 for each new store opened. While the agreement with Domino's is valid until 2024, it is possible that the royalty may increase after that date. However, management clarified that the terms of agreement are valid until 2024. The company also collects royalties from its sub-franchisee in Sri Lanka, DP Lanka, which it shares with Domino's. We believe that this amount is not material given that the Indian operations are far bigger than the current operations in Sri Lanka.

Execution risks in new store openings

JFL's store sales depend on same store sales and new store openings. The same store sales growth refers to year-over-year growth in sales for stores in operation for the whole of the year in both the years. Same store sales account for a smaller portion of the company's store sales as compared with sales from new store openings. The opening of new stores reduces the delivery area for the existing stores, hence resulting in a reduction of sales of the existing store and overall same store sales growth. In order to expand JFL's business operations' successfully, new stores need to be opened on schedule and operated in a profitable manner.

Financials: generating FCF

Sustainable growth driven by pizza

JFL sold 19m pizzas in FY09 and 27m pizzas in FY10. We believe that as the acceptability and affordability of pizza as a meal option increases, more stores will be required. JFL aims to cater to roughly 20,000 homes per Domino's store. There are about 220m households in India and out of that 3.2% is Socio Economic Class A (SEC A) and 5.1% is SEC-B. Assuming 75% of SEC-A and 50% of SEC-B to be the target population, we get a total addressable number of households of about 11m or 5% of total households in India. To be able to cater to these households, approximately 550 stores would be needed (20,000 households per store). The company currently has 339 stores (a shortfall of 211 stores). At the current rate of 60 stores per year they would require 3.5 years to cover just the current shortfall. During that time given 8%+ GDP growth and a rise in per capita income, more households would become part of the addressable market. For every 1% shift from SEC-C (or lower) categories, currently 92% of the households, to SEC-A/SEC-B would require 110 additional stores.

High gross margins and negative working capital are the key drivers of FCF

JFL has centralised the sourcing, warehousing and distribution of its raw materials, as well as the production of dough at its commissaries; this reduces the storage space required at its stores, thereby enabling JFL to minimise its store operating costs without incurring significant additional expenses at the commissary level. The effects of its efficient supply chain are reflected in its relatively high gross margins and negative working capital.

Figure 5: High gross profit with negative working cycle for Jubilant Foodworks

	FY09	FY10	FY11E	FY12E	FY13E
Gross profit margin	69%	70%	69%	66%	64%
Inventory turnover (days)	7	6	6	6	6
Debtors turnover (days)	2	3	3	3	3
Creditors turnover (days)	42	47	47	47	47
Cash conversion cycle (days)	(33)	(39)	(39)	(39)	(39)

Source: Deutsche Bank, company data

Efficiency in capex is a driver of FCF

JFL opened 60 stores in fiscal 2009 of which 44 stores were opened in cities where JFL already had stores and of the 70 stores opened in fiscal 2010, 31 stores were in cities where JFL already had stores. To minimise additional capital expenditure and ensure quality control, JFL plans to open new stores in cities and towns that would be located within less than one day's travel distance from its existing commissaries. For new stores where JFL cannot serve efficiently from its commissaries, the company has developed a back-end production facility model that would enable it to service two to three stores in a city. These back-end production facilities procure vegetables and other perishables locally. JFL believes that its future growth would be driven by its new stores in Tier 2 and Tier 3 towns and, therefore, its back-end production facilities will play a key role for its success in these cities.

Home delivery model implies control over rentals

Unlike Pizza Hut and McDonalds, which follow a footfall driven dining out model, JFL has emphasised its home delivery-led model. This implies smaller-size stores and consequently lower rentals. In India, typically, space, particularly in the cities, is at a premium and historically mass market retailers in India struggle to make profits, primarily due to relatively higher rentals. JFL's rentals have been around 9.0% of sales and we believe that as JFL expands in the Tier 1 and Tier II cities, rental costs as a proportion of its revenue will remain under control.

Figure 6: Rent as a percentage of sales

	FY09	FY10	FY11E	FY12E	FY13E
Rent (INRm)	267	392	549	731	985
Rent as a % of sales	9.5%	9.3%	9.0%	8.5%	8.0%

Source: Deutsche Bank, company data

Full tax rate factored into our estimates from FY12

We factor in a 57% growth in JFL's pre-tax profits between FY11 and FY12. This would imply no tax shelter due to accumulated losses and hence JFL becomes a full tax paying company with effect from FY12. In the first half of FY11 the company has provided for 19% effective tax rate and we have assumed an FY11 tax rate at 20%.

Figure 7: 33% tax rate assumption for FY12, FY13

INRm	FY09	FY10	FY11E	FY12E	FY13E
Profit before tax	81	335	1,020	1,602	2,532
Tax	0	1	204	529	836
Profit after tax (INRm)	81	334	816	1,074	1,697
Effective tax rate	0.0%	0.2%	20.0%	33.0%	33.0%

Source: Deutsche Bank, company data

Strong operational cash flows, negative working capital imply an FCF machine

We factor in 80% growth in JFL's FCF between FY11 and FY13 driven by a doubling of operating cash flow. We have factored in a capex of INR600m over the next seven years implying that the company will be able to open 60 stores each year until FY18. (The company opened 33 stores in the first half of FY11.) While management guided to a capex of INR7m per store, we factored capex of INR10m into our estimates.

Figure 8: FCF for Jubilant Foodworks

Cash flow (INRm)	FY09	FY10	FY11E	FY12E	FY13E
Cash flow from operations	232	696	1,468	1,816	2,836
Net Capex	-539	-522	-600	-600	-600
Free cash flow	-307	174	868	1,216	2,236

Source: Deutsche Bank, company data

Comparison with its Asian peers

We also compare JFL to its Asian peers in terms of financial parameters across the past five years. While gross margins across the food retail space are similar with margins ranging from 50% to 70%, what we find more interesting is the variation in the ROE profile. With a 30%-plus ROE profile JFL is at the higher end of the spectrum.

Figure 9: International comparables

	CY06/FY07	CY07/FY08	CY08/FY09	CY09/FY10	1HCY10/FY11
Ajisen (HKDm)					
Number of stores	120	210	315	398	450
Revenue	598	1082	1673	1986	1188
Net profit	113	232	221	314	193
gross margin	63.3%	68.2%	67.8%	69.7%	69.1%
ROE		10.5%	10.0%	12.8%	
Café de coral (HKDm)					
Number of stores	562	584	581	584	
Revenue	3440	3885	4290	4674	2386
Net profit	320	370	420	442	221
Gross margin	15.6%	69.3%	68.7%	70.1%	67.5%
ROE	19.5%	20.2%	19.2%	20.4%	
Fairwood (HKDm)					
Number of stores		99	106	111	117
Revenue		1205	1433	1466	1562
Net profit		85	101	80	93
Gross margin		73%	71%	71%	72%
ROE		25.4%	27.3%	21.3%	22.6%
YUM China (USDm)					
Number of stores		2558	3013	3453	3590
Revenue		1887	2840	3407	1595
Net profit					
Gross margin		65%	63%	66%	65%
ROE					
Country Style Cooking (USDm)					
Number of stores		9	43	81	101
Revenue		44.195	231.463	494.459	326.425
Net profit		-35.287	24.181	37.679	27.718
Gross margin		50.7%	50.3%	51.6%	44.9%
ROE			0.268	0.295	
Little Sheep (CNYm)					
Number of stores		347	375	454	480
Revenue	703	949	1272	1570	755
Net profit	80	91	129	155	38
gross margin	60.5%	60.3%	58.8%	58.6%	57.7%
ROE	37.6%	31.7%	14.7%	16.0%	3.8%
Tao Heung (HKDm)					
Number of stores		54	65	74	79
Revenue		2085	2444	2610	1392
Net profit		203	192	210	105
Gross margin		65.8%	67.8%	68.0%	67.5%
ROE		21.7%	18.6%	18.6%	9.0%

Source: Deutsche Bank, company data

Figure 10: International comparables (continued)

	CY06/FY07	CY07/FY08	CY08/FY09	CY09/FY10	1HCY10/FY11
Quan Ju De (CNYm)					
Number of stores			79	84	
Revenue					
Net profit					
gross margin		54.5%	54.6%	57.7%	58.0%
ROE		9.4%	10.5%	11.5%	7.4%
85 Degree C (TWDm)					
Number of stores			353	422	
Revenue		2811	3526	6283	
Net profit					
Gross margin		37.8%	40.3%	50.5%	
ROE		70.2%	63.8%	37.8%	
Jubilant Foodworks (INRm)					
Number of stores		181	241	306	339
Revenue			2806	4239	2988
Net profit			81	334	337
Gross margin			69.2%	70.0%	75.0%
ROE			33.9%	28.5%	44.6%

Source: Deutsche Bank, company data

Valuation

We base our DCF derived target price of INR810 per share on the following assumptions: .

- Risk-free rate of 6.4% (Deutsche Bank estimates), market risk premium of 7.2% (Deutsche Bank estimates) and Beta of 1, implying a cost of equity of 13.6%.
- Growth in the stable phase of 4.5% (which is the long-term growth rate in the number of households in India). Our value for Jubilant Foodworks works out at INR810 per share.

(*Please see Figure 15.)*

At our target price of INR810, the shares would trade at 30x FY13E earnings. A comparison with the listed Domino's franchisees internationally shows the India franchise is growing the fastest and consequently obtaining a relatively higher multiple.

Figure 11: International comparison

			Revenues		Net profit		PE		EV/EBITDA
(USD m)		Mcap	2011E	2012E	2011E	2012E	2011E	2012E	(2011E EBITDA)
Domino's US	DPZ US Equity	895	1572.2	1600.2	81.1	85.8	11	10	10
Domino's UK	DOM LN Equity	1354	284.7	315.3	40.9	46.4	33	29	22
Domino's Australia	DMP AU Equity	407	247.6	259.3	20.1	23.0	20	18	11
Jubilant Foodworks*	JUBI IN Equity	804	134.0	189.1	17.9	23.6	45	34	27

*Source: Bloomberg Finance LP, *Deutsche Bank*

Typically, high growth companies are rewarded with higher multiples and we believe that JFL would be no exception. Comparative examples within consumer and retail would be Nestle and Titan.

Nestle: The food and beverage major has grown revenues 6x over the past 15 years. It is still growing Maggi noodle volumes by 25% per annum. Pricing power in milk products and coffee (cumulative accounting for 60% of revenues) remains strong. On an average, Nestle has grown earnings by 25% per annum.

Titan: The jewellery and watches company has grown earnings by 35% per annum over the past five years. Growth has been led by pricing power in gold jewellery and volumes in watches. In India, Titan has a 90% share of organized jewellery market and 25% of watch market. An established brand and higher ROEs have been key drivers of the relatively high multiples at which Titan has traded.

Figure 12: Market assigns a premium to consistently high growth results

Company	Target price/ current price	Mkt cap (USD m)	Period (CY)	Sales growth%	EBITDA Margin %	EPS grth (%)	ROCE (%)	PE (X)	EV/EBITDA	Payout ratio (%)
Titan Industries Ltd	INR3,825	1,225	FY08	43.2	8.4	34.0	29.9	35.5	23.1	22.4
	INR3,675		FY09	27.0	7.8	7.3	29.2	26.3	15.5	20.8
Buy			FY10	22.9	8.4	49.1	42.6	22.9	14.4	26.3
			FY11E	25.6	11.3	66.5	52.7	38.7	24.5	15.8
			FY12E	18.7	13.1	33.8	48.7	28.9	17.6	11.8

Source: Deutsche Bank, company data

Where we are vs. consensus

Our earnings estimates are higher than consensus by 17.7% in FY11 and 18.1% in FY12. This is driven primarily by higher margins, which is a function of the operating leverage being driven by relatively tight fixed costs due to expansion in scale.

Figure 13: Deutsche Bank estimates vs consensus

	FY11E			FY12E		
INRm	Deutsche Bank estimates	Consensus	% difference	Deutsche Bank estimates	Consensus	% difference
Sales	6,098	6,483	-5.9%	8,603	9,048	-4.9%
EBITDA	1,335	1,194	11.8%	1,982	1,747	13.5%
PAT	816	693	17.7%	1074	909	18.1%

Source: Deutsche Bank, Bloomberg Finance LP

Figure 14: DCF valuation for Jubilant Foodworks

Cost of Equity =	13.60%

Proportion of Debt: Capital Spending (DR)=	3.35%
Proportion of Debt: Working Capital (DR)=	3.35%

Current Earnings per share=	16.9
(Capital Spending - Depreciation)*(1-DR)	3.5
Change in Working Capital * (1-DR)	5.6
Current FCFE	7.8

Growth Rate in Earnings per share

	Growth Rate	*Weight*
Historical Growth =	64.65%	16.50%
Outside Estimates =	40.00%	0.00%
Fundamental Growth =	30.51%	83.50%
Weighted Average	*36.15%*	

Growth Rate in capital spending, depreciation and working capital

	High Growth	*Stable Growth*
Growth rate in capital spending	36.15%	4.50%
Growth rate in depreciation =	36.15%	4.50%
Growth rate in revenues =	36.15%	4.50%

Working Capital as percent of revenues =	-11%	(in percent)

The FCFE for the high growth phase are shown below (upto 6 years)

INR/share	1.00	2.00	3.00	4.00	5.00	6.00
Earnings	23.0	31.3	42.6	58.0	78.9	107.5
- (CapEx-Depreciation)*(1-DR)	4.7	6.4	8.7	11.9	16.2	22.1
-Chg. Working Capital*(1-DR)	- 6.0	- 8.1	- 11.0	- 15.0	- 20.5	- 27.8
Free Cashflow to Equity	24.2	33.0	44.9	61.1	83.2	113.2
Present Value	21.3	25.5	30.6	36.7	44.0	52.7

Growth Rate in Stable Phase =	4.50%
FCFE in Stable Phase =	117.02
Cost of Equity in Stable Phase =	13.60%
Price at the end of growth phase (INR/share) =	1,286

Present Value of FCFE in high growth phase (INR/share)=	211
Present Value of Terminal Price (INR/share) =	598
Value of the stock (INR/share)=	809

Estimating the value of growth (INR/share)

Value of assets in place =	57
Value of stable growth =	32
Value of extraordinary growth =	720
Value of the stock =	809

Source: Deutsche Bank

Company management and background

Jubilant Foodworks Limited holds the Master Franchisee Rights for Domino's Pizza for India, Nepal, Sri Lanka and Bangladesh. The promoters of the company are Mr. Shyam S Bhartia, Mr. Hari S Bhartia and Jubilant Enpro Private Ltd. Domino's Pizza opened its first store in India in January 1996, at New Delhi. Currently, Jubilant Foodworks has grown into a countrywide network of more than 330 stores with a team of over 9,000 people. According to the India Retail Report 2009, the company is the largest Pizza chain in India and was the fastest-growing multinational fast food chain between 2006-2007 and 2008-2009 in terms of number of stores. The company currently has a 65% market share in the organised pizza home delivery segment in India.

Figure 15: Ownership structure of Jubilant Foodworks

Company Name	Jubilant Foodworks Ltd.
Promoters' holding (%)	61.4%
Non-promoters' holdings (%)	38.6%
Mutual funds	7.4%
FIIs	20.8%
Corporates	4.6%
Individuals	5.2%
Others	0.7%
Total equity holding (%)	100.0%

Source: Company data

Jubilant Foodworks' management team includes professionals with extensive experience in the food and beverage industry as well as finance and marketing functions. The senior management team includes former senior employees from TNT Express, Cadbury, Whirlpool, American Express (now Vodafone), Wimpy's and PepsiCo India. In addition, four out of the seven key managerial personnel have been associated with the company for over 12 years.

Key management personnel

***Mr. Shyam S. Bhartia**,* aged 57 years, is the Chairman and founder director. He holds a bachelor's degree in commerce from St. Xaviers College, Calcutta University. He is also a fellow member of the ICWAI. Mr. Shyam S. Bhartia has over 22 years of experience in the pharmaceuticals and specialty chemicals, food, oil and gas, aerospace and IT sectors. He also serves on the board of several companies such as Chambal Fertilizers and Chemicals Limited, Vam Holdings Limited and Zuari Industries Limited. Mr. Shyam S. Bhartia has also served on the board of Air India Limited and is currently a member of the executive committee of FICCI. He has also served as a member of the board of Governors of the Indian Institute of Technology, Mumbai and the Indian Institute of Management, Ahmedabad. He joined the Board on 16 March 1995.

Mr. Hari S. Bhartia, aged 53 years, is the co-Chairman and founder director. He holds a bachelor's degree in chemical engineering from the Indian Institute of Technology, Delhi. Mr. Hari S. Bhartia has over 20 years of experience in the pharmaceuticals, food, oil and gas, aerospace and information technology sectors. He also serves on the Board of several companies such as Television Eighteen India Limited, GeoEnpro Petroleum Limited, Shriram Pistons & Rings Limited and Vam Holdings Limited. Mr. Hari S. Bhartia's institutional work includes his role as Chairman, Board of Governors, Indian Institute of Technology, Kanpur (1997-2003), in various capacities with Indian Institute of Technology, Delhi and Vice-President, Confederation of Indian Industry (CII) in 2009-10. He joined the Board on 16 March 1995.

Mr. Ajay Kaul, aged 46 years, is the Chief Executive Officer and a full-time director. He holds a bachelor's degree in technology from Indian Institute of Technology, Delhi and a maters degree in business administration from XLRI, Jamshedpur. Mr. Ajay Kaul has over 20 years experience in industries such as financial services, airlines, express distribution and logistics and food retail. Prior to joining the Company, he worked with Modiluft and American Express TRS. He took over as the Chief Executive Officer of the Company from 7 February 2005 and was appointed as an additional director on the Board with effect from 14 March 2005.

Mr. Vishal Marwaha, aged 46, is an independent director. He holds a bachelor's degree in commerce from the University of Delhi and is a qualified chartered accountant. Since 2001, Mr. Vishal Marwaha has been working with Henderson Equity Partners as a senior partner where he is principally responsible for investments in India. He also jointly oversees Henderson Equity Partners Asian operations. He has over 22 years of private equity and investment banking experience having previously led Hong Kong and Shanghai Banking Corporation's South Asia private equity operations. He joined the Board on 5 October 2009.

Ms. Ramni Nirula, aged 57, is an independent director. She holds a bachelor's degree in economics and a master's degree in business administration from University of Delhi. Ms. Ramni Nirula is currently a senior general manager with ICICI Bank and has over 20 years of experience in the banking and finance industry. Having joined ICICI Bank in 1976 in the project appraisal division, during the course of her career she held various leadership positions such in areas of project financing, strategy, corporate banking and planning and resources. She has also served as the managing director and chief executive officer of ICICI Securities Limited Ms. Ramni Nirula has also served on the board of various companies including 3i Infotech Limited, Haldia Pertochemicals Limited, Crompton Greaves Limited and Eicher Limited. She joined the Board on 5 October 2009.

Mr. Arun Seth, aged 57, is an independent director. He holds a bachelor's degree in engineering from Indian Institute of Technology, Kanpur as well as a MBA from Indian Institute of Management, Calcutta. He has over 30 years of commercial and technical expertise in IT and telecommunications industry in India. Mr. Arun Seth has been working with British Telecom for over 14 years having set up British Telecom's office in India in 1995 as its country manager. He was associated with British Telecom's information technology and BPO sourcing programmes. Mr. Seth is also a member of the executive committee of the NASSCOM, India's leading industry association for IT and BPO, and is the founding Chairman of the BPO forum for NASSCOM. He joined the Board on 5 October 2009.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
Jubilant Foodworks	JUBI.BO	595.40 (INR) 29 Nov 10	NA

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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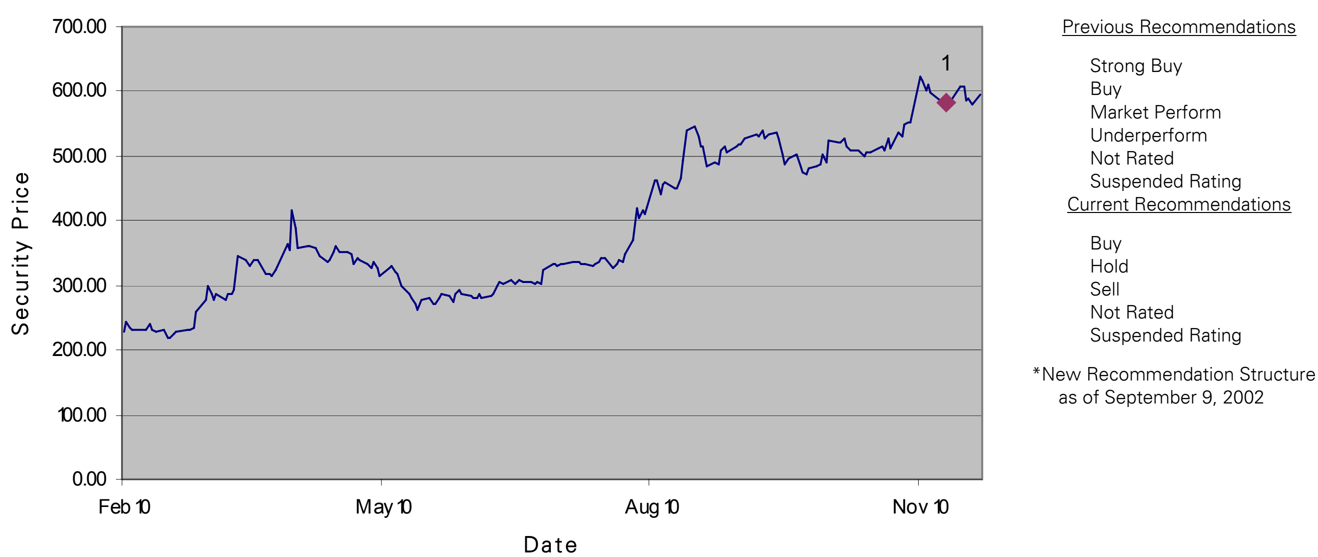
Historical recommendations and target price: Jubilant Foodworks (JUBI.BO)

(as of 29/11/2010)



1. 17/11/2010: Transferred to sector coverage.

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock
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Notes:
1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:
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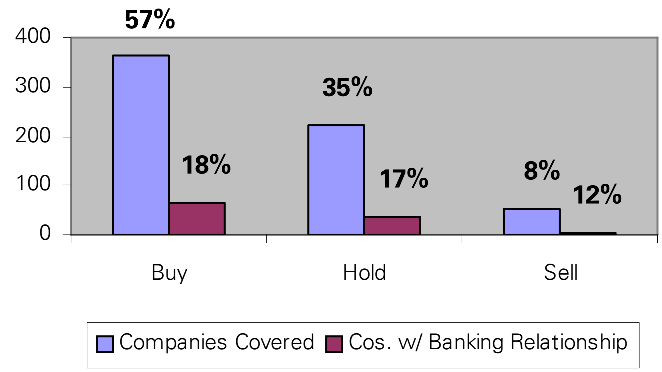
   Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
   Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



Asia-Pacific Universe

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