Jubilant Foodworks

BSE SENSEX	S&P CNX
17,831	5,412
Bloomberg	JUBI IN
Equity Shares (m)	63.5
52-Week Range (INR)	1,050/469
1,6,12 Rel. Perf. (%)	22/21/113
M.Cap. (INR b)	65.5
M.Cap. (USD b)	1.3

CMP: INR1,031 **TP: INR875** **Neutral**

Year End	Net Sales (INR m)	Adj PAT (INR m)	EPS (INR)	EPS Growth (%)	P/E (X)	P/BV (X)	RoE (%)	RoCE (%)	EV/ Sales	EV/ EBITDA
03/10A	4,242	334	5.3	318.3	-	-	28.5	76.9	-	-
03/11A	6,783	720	11.2	112.4	92.4	34.7	37.6	74.3	9.7	54.9
03/12E	10,235	1,032	16.0	43.3	64.5	23.8	36.8	78.3	6.4	35.0
03/13E	14,613	1,547	24.0	49.9	43.0	16.4	38.2	78.1	4.4	23.6

Concall highlights: Higher marketing spends boost sales; higher prices protect margins

- Strong SSS growth has been a function of healthy demand across cities and step-up in marketing and promotion spends; the step-up in spends has compensated for the slight slowdown in demand. The management expects to end FY12 with over 25% SSS growth.
- Jubilant hiked prices by 5% in November (12% YTD); inflationary pressures are now softening, and it does not expect to raise prices again in 4Q.
- Store rollout in FY13 is unlikely to be less than 75. The relocation of commissaries in the West and East, and new commissary in Chandigarh will all be operational by 1QFY13.
- The one store in Sri Lanka is performing well; one more store will be added by March.
- **Dunkin Donuts:** The first store in Delhi and the CML (central manufacturing location) will be opened in 1Q. Most metrics have been decided, including menu development and location of the first few stores.

Valuation and view: Raising estimates by 4-8%; Neutral

- We raise our estimates for FY12 and FY13 by 4-8% to factor in (1) higher store openings - from 80 to 85 in FY12 and 70 to 75 in FY13, and (2) higher operating leverage led improvement in EBITDA margin. Our revised EPS estimates are INR16 for FY12 (INR15.4 earlier) and INR24 for FY13 (INR22.2 earlier).
- We remain positive on the QSR growth opportunity, the strength of the Dominos brand, and the USP of delivery-based own store model. We remain uncomfortable with valuations of 64.5x FY12E and 43x FY13E EPS. **Neutral**.

Quarterly Performance (INR Million)

Y/E March	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
No of Stores	320	338	364	378	392	411	438	458	378	463
Cities Covered	74	77	87	90	93	96	100	100	90	100
LTL Growth (%)	37.0	43.8	35.7	33.2	36.7	26.7	30.1	30.0	37	30
Net Sales	1,356	1,634	1,857	1,937	2,169	2,404	2,770	2,891	6,783	10,235
YoY Change (%)	59.5	67.1	58.2	56.1	60.0	47.1	49.2	49.3	59.9	50.9
Gross Profit	1,023	1,229	1,383	1,442	1,617	1,769	2,066	2,155	5,077	7,606
Gross Margin (%)	75.5	75.2	74.5	74.5	74.5	73.6	74.6	74.5	74.9	74.3
Other Expenses	772	932	1,061	1,112	1,203	1,341	1,551	1,647	3,876	5,742
% of Sales	56.9	57.0	57.1	57.4	55.5	55.8	56.0	57.0	57.1	56.1
EBITDA	251	297	323	330	414	427	516	508	1,202	1,865
EBITDA Growth %	108	95	63	79	65	44	60	54	82	55
Margins (%)	18.5	18.2	17.4	17.1	19.1	17.8	18.6	17.6	17.7	18.2
Depreciation	63	69	78	83	87	93	96	118	293	394
Interest	2	1	0	0	0	0	0	0	3	11
Other Income	1	3	6	9	12	14	14	29	19	69
PBT	187	229	251	257	339	348	434	418	924	1,528
YoY Change (%)	409.3	204.6	119.1	146.6	81.4	51.6	72.9	62.8	176	65.4
Tax	34	45	61	64	108	111	139	139	204	497
Rate (%)	18.3	19.7	24.4	24.7	31.7	32.0	32.1	33.2	22.1	32.5
Adjusted PAT	153	184	190	193	232	237	295	279	720	1,032
YoY Change (%)	346.2	137.3	66.3	85.8	51.6	28.4	55.4	44.6	115.5	43.3

E: MOSL Estimates

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Jubilant Foodworks' 3QFY12 Adj PAT grew 55% to INR295m

- Same store sales (SSS) growth at 30.1% is healthy, especially considering the environment of high inflation and pressure on growth in discretionary categories. Same store orders grew 23-24% (20% in 2Q) with ticket size growth of 6-7% which is indicative of inferior sales mix and cutback in order size as price increase has been ~12-13%.
- Price hikes led to 100bp QoQ pick up in gross margins; operating leverage led to 80bp QoQ and 120bp YoY EBITDA margin expansion; higher other expenditure (up 90bp) is due to higher branding expenses to compensate for the weak operating environment and provide for the faster store rollout (28 stores in 3Q v/s 33 in 1H).
- JUBI has increased its FY12 store opening target for Dominos to 85 (80 earlier). For FY13, a store rollout of less than 75 stores looks unlikely
- SS orders growth has been in the ~20% range over the last 2 quarters and is unlikely to accelerate from these levels in the coming quarters as we approach 4Q FY12 and 1QFY13 which have very high base due to Cricket world cup and IPL. The company has mentioned that some weakness in consumer demand is visible; we believe this increases the risk for slowdown in SSS growth in Dominos.
- **Dunkin Donuts:** JUBI has provided INR8.7m loss in 3Q and INR24.4m in 9M on pre-operational expenses on Dunkin Donuts. The first store in Delhi and the CML (Central manufacturing location) will be opened in 1QFy13. We are cautious on planned launch and rollout of Dunkin Donuts stores in India; we would take a call on that after getting more details on Menu, positioning and pricing. We expect JUBI to undertake extensive brand building and promotion activities which is a threat to neat term profit growth. Our estimates don't factor in any capex and expenses of Dunkin Donuts rollout.
- We raise our estimates by 4-8% for FY12E and FY13E to factor 1) higher store openings from 80 to 85 in FY12 and 70 to 75 in FY13, 2) higher operating leverage led improvement in EBITDA margins. Our revised EPS is INR16 for FY12 (INR15.4 earlier) and INR24 for FY13 (INR22.2 earlier).
- We remain positive on the QSR growth opportunity and strength of Dominos brand and USP in delivery based own store model. We remain uncomfortable with valuations of 64.5x FY12E and 43x FY13E EPS. **Neutral**.

Conference call highlights: Marketing and sales promotion boosts sales; higher prices protect margins

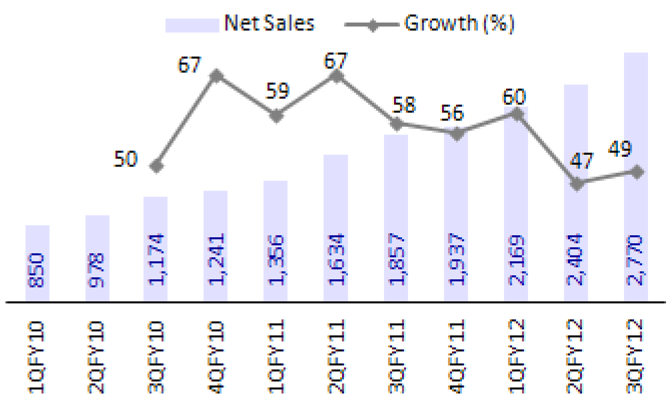
- **Strong SSS growth** has been a function of continued healthy demand across cities and step up in marketing and promotion activities. The operating environment in terms of consumer demand has remained stable over last few months; the step up in marketing spends has compensated for the slight slowdown in demand. The management expects to end the year with over 25% SSS growth.
- **Strong pick up in online ordering** has also contributed to SSS growth; its contribution to overall sales is still in single digits as compared to developed countries where it constitutes ~40% of sales.
- **JUBI hiked prices by 5% in November** (12% YTD); inflationary pressures are now softening, and it does not expect to raise prices again in 4Q.

- **FY13 store rollout is not likely to be less than 75.** The relocation of commissaries in the west and east and new commissary in Chandigarh will all be operational by 1QFY13.
- **The one store opened in Sri Lanka is performing well;** one more store will be added by March.
- **Dunkin Donuts:** The first store in Delhi and the CML (Central manufacturing location) will be opened in 1Q; as compared to the Dominos model where one commissary is required for one region, each city will have its own manufacturing location due to perishable nature of the products. Most metrics have been decided including menu development and location of first few stores.

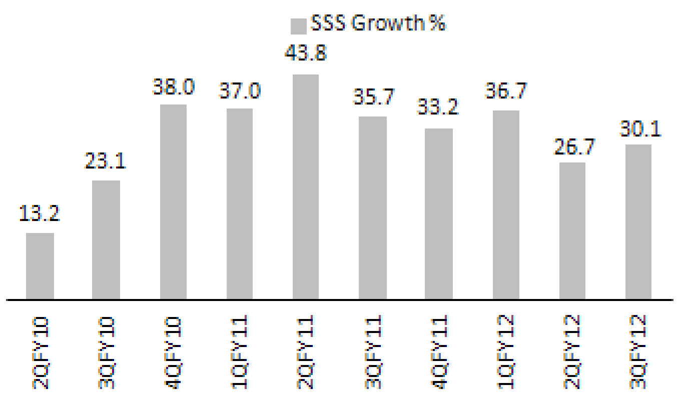
3QFY12: SSS growth at 30.1%; margins expand on price increases and operating leverage

- Net sales grew 49.2% YoY to INR2.77b (est INR2.7b); SSS growth for the quarter was 30.1% (est 26%). We estimate same store volume growth at 19-21%, which is in line with 2Q; we note that the company had taken a 4-5% price increase in November which has boosted SSS growth.
- Gross margin was up 10bp YoY at 74.6% and 100bp QoQ as benefits of price increases boosted profitability.
- Staff cost was 19.1% of sales down 160bp YoY v/s 40bp increase in 1HFY12. 1,510 employees were added in 3Q, taking the total to 15,049.
- Rent declined 40bp YoY to 7.1% of sales (7.6% of sales in 1HFY12, down 70bp YoY); Other expenditure expanded 80bp to 29.8% of sales (v/s 110bp decline to 28.3% of sales in 1HFY12), partly due to rising overheads on new store launches.
- EBITDA margin expanded 120bp YoY and 80bp QoQ to 18.6% (est 17.5%). Cost towards commissioning Dunkin Donuts stores was INR8.7m for 3Q; for 9MFY12 the amount was INR24.2m. To that extent, EBITDA margins are lower by 30bp for the quarter and nine months.
- Tax rate rose from 24.4% to 32.1% as the benefit of accumulated losses was fully realized in FY11 and the company is on full tax rate from FY12.

Sales growth of 49% on back of .....



....30.1% SSS growth

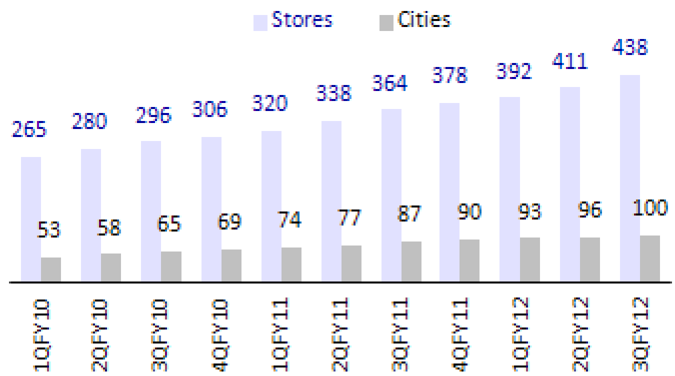


Source: Company/MOSL

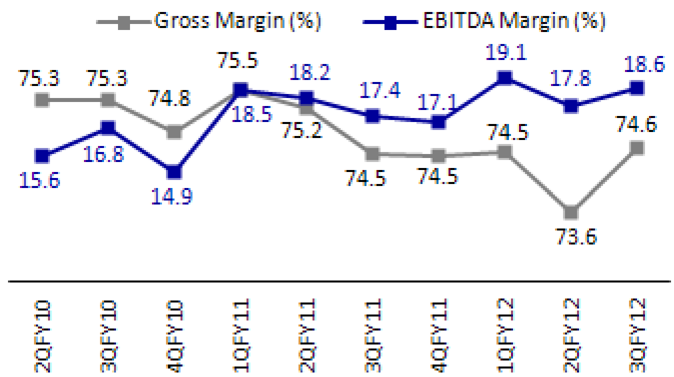
Menu and Store expansion continues unabated; increases store opening guidance from 80 to 85

- JUBI opened 28 more Dominos stores in 3Q taking the total to 438 stores. It revised the guidance of new store openings to 85 in FY12 from earlier level of 80. It has also increased store presence from 96 cities to 100, which we believe, is positive for operating leverage and economies of scale.
- **Dominos continued to launch new products;** 3Q saw the launch of 3-Cheese Pizza and Nutty Chocó Lava cake, both positioned as premium extensions.

28 stores added during the quarter; enters 4 new cities

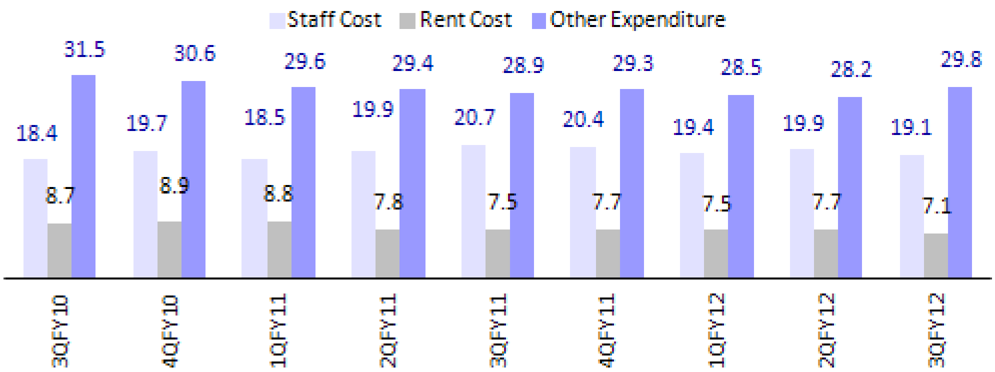


Gross margins expand 100bp QoQ.. EBITDA margins expand 80bp QoQ



Source: Company/MOSL

90bp YoY increase in other expenses due to higher marketing spends



Source: Company/MOSL

Dunkin Donuts: First store to be opened in 1QFY13 in New Delhi; initial focus on metros

- **Dunkin Donuts' operational costs were INR24.4m** for the quarter. JUBI plans to launch the first store in 1QFY13. The initial focus will be on opening stores in metros, with the first store likely to be opened in New Delhi. The company maintains its target of opening 80-100 stores in the first 5 years of operation.
- **The menu will focus on donuts** with other sweet and savory items. Along with this, it will also offer hot and cold beverages.
- **Sales mix:** JUBI expects Dunkin Donuts to have 70% sales from all-day food and 30% from beverages including coffee. We note that this positioning is very different from that in US where 60% sales is from coffee.

- **We expect losses to increase** in the initial phase of rollout; investments in brand building will be higher for Dunkin in an environment of stiff competition from incumbents and increasing competition from new players like Starbucks which will enter India around the same time.

Valuation and view: SSS growth trend key factor to watch out for; Dunkin rollout costs to increase; Neutral

- SS volume growth has been in the ~20% range over the last 2 quarters; we do not expect acceleration from these levels in the near term. The company has mentioned that some weakness in consumer demand is visible; we believe this increases the risk for slowdown in SSS growth in Dominos and slower acceptance of Dunkin Donuts in initial launch year.
- We raise our estimates by 4-8% for FY12E and FY13E to factor 1) higher store openings from 80 to 85 in FY12 and 70 to 75 in FY13, 2) higher operating leverage and consequent improvement in EBITDA margin. Our revised EPS estimate is INR16 for FY12 (INR15.4 earlier) and INR24 for FY13 (INR22.2 earlier).
- We remain positive on the QSR growth opportunity and strength of Dominos brand and USP in delivery based own store model. We remain uncomfortable with valuations of 64.5x FY12E and 43x FY13E EPS. **Neutral**.

Jubilant Foodworks: an investment profile

Company description

Jubilant Foods is the master franchisee of Dominos Pizza Inc in India with 50% market share of organized Pizza market. The Company is the market leader in the organized pizza market with a 50% overall market share and 70% share in the home delivery segment in India. JFL focuses on a home delivery and takeaway oriented business model, which offers its customers the convenience of eating in the comfort of their own homes and workspaces. The company also holds master franchise of Dominos in Sri Lanka, Nepal and Bangladesh.

Key investment arguments

- The company has been the franchisee of Dominos in India for the last 15 years, and post the recent renewal it would continue to be the exclusive franchise for another term of 15 yeas (with an option to extend for 10 more years).
- The company continues to expand its product offerings (Choco Lava cake, Pasta, Butterscotch mousse cake etc) to offer wide range of options to its customers. We believe these add-ons are likely to increase the average bill size.
- Operating margins are expected to expand on account of strong same store sales growth due to operating leverage in rentals, staff cost and overheads.

Key investment risks

- The company targets to expand in Tier II and Tier III cities; acceptance of Pizza as a food option in smaller towns would be crucial in expansion plans of the company

Recent developments

- The company opened 28 stores during the quarter, taking its total to 439.
- The company launched 3 cheese pizza and nutty choc lava cake during the quarter.

Valuation and view

- Our estimates stand upgraded by 4-8% to INR16 for FY12 and INR24 for FY13
- We believe valuation at 64.5xFY12E and 43xFY13E continues to remain stretched. Maintain **Neutral**.

Sector view

- We are positive on the sector. We expect the sector to clock a revenue growth of 30-35% CAGR over the next five years.
- We believe QSR as a segment holds immense potential due to the unfolding demographic dividend (Income distribution, age mix, working women) and swift lifestyle changes among the Middle Income class in Metros, Tier I and Tier II cities.

Comparative valuations

		Jubilant Foodworks	Shoppers Stop	Titan Industries
P/E (x)	FY12E	64.5	42.7	31.9
	FY13E	43.0	34.4	25.8
EV/EBITDA (x)	FY12E	35.0	19.9	23.0
	FY13E	23.6	15.5	18.2
EV/Sales (x)	FY12E	6.4	1.5	2.0
	FY13E	4.4	1.1	1.6
P/BV (x)	FY12E	23.8	4.4	13.1
	FY13E	16.4	4.0	9.7

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	16.0	16.2	-1.5
FY13	24.0	23.7	1.5

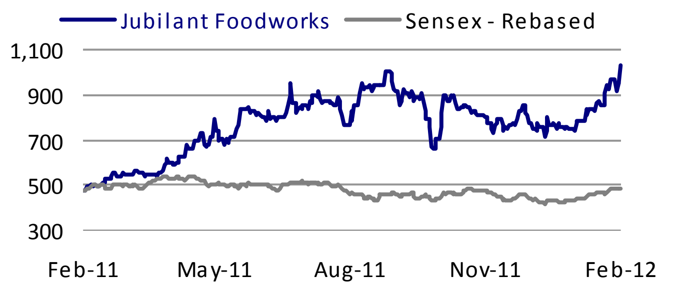
Target price and recommendation

Current Price (Rs)	Target Price (INR)	Upside (%)	Reco.
1,031	875	-15.1	Neutral

Shareholding pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	57.7	58.0	61.3
Domestic Inst	0.6	1.3	9.6
Foreign	36.0	35.9	21.1
Others	5.7	4.9	8.0

Stock performance (1 year)



Financials and Valuation

Income Statement					(INR Million)
Y/E March	2009	2010	2011	2012E	2013E
Net Sales	2,810	4,242	6,783	10,235	14,613
Change (%)	33.0	51.0	59.9	50.9	42.8
Material Consumed	718	1,050	1,706	2,629	3,775
Gross Profit	2,091	3,192	5,077	7,606	10,838
Gross Margin %	74.4	75.3	74.9	74.3	74.2
Operating expenses	1,752	2,532	3,876	5,742	8,125
EBITDA	339	660	1,202	1,865	2,713
Change (%)	29.0	94.6	82.0	55.2	45.5
Margin (%)	12.1	15.6	17.7	18.2	18.6
Depreciation	169	243	293	394	519
Int. and Fin. Ch.	89	83	3	11	11
Other Non-recurring I	0	1	19	69	125
PBT	81	335	924	1,528	2,308
Change (%)	-3.5	313.4	176.0	65.4	51.0
Margin (%)	2.9	7.9	13.6	14.9	15.8
Tax	8	1	204	497	762
Tax Rate (%)	9.9	0.2	22.1	32.5	33.0
Adjusted PAT	73	334	720	1,032	1,547
Change (%)	-5.4	357.6	115.5	43.3	49.9
Margin (%)	2.6	7.9	10.6	10.1	10.6
Reported PAT	73	334	720	1,032	1,547

Balance Sheet					(INR Million)
Y/E March	2009	2010	2011	2012E	2013E
Share Capital	582	636	645	645	645
Reserves	-342	538	1,272	2,155	3,405
Share Premium	391	941	955	955	955
P&L Balance	-733	-403	317	1200	2450
Net Worth	240	1,174	1,917	2,800	4,050
Loans	853	109	99	100	100
Capital Employed	1,093	1,283	2,016	2,900	4,150
Gross Block	1,710	2,276	2,904	4,015	5,005
Less: Accum. Depn.	644	872	1,103	1,497	2,016
Net Fixed Assets	1,065	1,403	1,801	2,517	2,989
Lease Deposits	211	279	330	424	518
Capital WIP	89	26	36	41	47
Investments	0	0	516	1,212	2,372
Derered Tax assets			31	0	0
Curr. Assets, L&A	125	254	351	485	857
Inventory	55	71	142	216	310
Account Receivables	12	29	45	66	95
Cash and Bank Balan	30	70	89	131	365
Others	28	83	76	71	86
Curr. Liab. and Prov.	398	679	1,050	1,779	2,633
Current Liabilities	369	640	986	1,485	2,122
Provisions	29	39	65	294	510
Net Curr. Assets	-273	-425	-699	-1,294	-1,776
Appl. of Funds	1,093	1,283	2,016	2,900	4,150

E: MOSL Estimates

Ratios					
Y/E March	2009	2010	2011	2012E	2013E
Basic (INR)					
EPS	1.3	5.3	11.2	16.0	24.0
BV/Share	4.1	18.5	29.7	43.4	62.8
DPS	0	0	0	2.0	4.0
Payout %	0	0	0	12.5	16.7
Valuation (x)					
P/E	-	-	92.4	64.5	43.0
EV/Sales	-	-	9.7	6.4	4.4
EV/EBITDA	-	-	54.9	35.0	23.6
P/BV	-	-	34.7	23.8	16.4
Dividend Yield (%)	-	-	0.0	0.2	0.4
Return Ratios (%)					
RoE	30.5	28.5	37.6	36.8	38.2
RoCE	54.7	76.9	74.3	78.3	78.1
Working Capital Ratios					
Debtor (Days)	2	3	2	2	2
Asset Turnover (x)	2.6	3.3	3.4	3.5	3.5
Leverage Ratio					
Debt/Equity (x)	3.6	0.1	0.1	0.0	0.0

Cash Flow Statement					(INR Million)
Y/E March	2009	2010	2011	2012E	2013E
OP/(loss) before Tax	81	335	924	1,528	2,308
Int./Div. Received	0	1	19	69	125
Depreciation and Am	169	243	293	394	519
Interest Paid	89	83	3	11	11
Direct Taxes Paid	8	1	204	497	762
Incr in WC	-34	-193	-292	-638	-716
CF from Operations	187	688	1,321	2,122	2,896
Extraordinary Items	0	0	0	0	0
Incr in FA	511	502	639	1,115	997
Increase in lease De	72	68	51	94	93
Pur of Investments	0	0	516	695	1,160
CF from Invest.	583	570	1,206	1,905	2,250
Issue of Shares	0	605	22	0	0
Incr in Debt	337	-745	-10	1	0
Dividend Paid	0	0	0	0	148
Others	67	62	-110	-190	-294
CF from Fin. Activity	404	-78	-97	-189	-443
Incr/Decr of Cash	8	40	18	27	203
Add: Opening Balanc	22	30	70	89	131
Closing Balance	30	70	89	116	334

Disclosures

Disclosure of Interest Statement	Jubilant Foodworks
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

Analyst Certification

Regional Disclosures (outside India)

For U.K.

For U.S.

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