Food & Beverage | India

Jubilant Foodworks JUBI IN

BUY

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COMPANY QUICK COMMENT

Commentary during the conference call surrounded the 'slowdown' in SSSG to 27% in Q2FY12. While this number was lower than what the company has been delivering in the past 6-7 quarters, this was primarily on the back of tough comps from last year. Also it still represents a solid underlying performance with consumer offtake continuing to remain strong. Margin pressures should start to ease into H2FY12, which should help the company deliver another year of robust earnings growth. Maintain Buy.

Price target: 1100.0 INR **Price (03 Nov 2011): 814.05 INR**

Research analyst: Manish Jain **+91 22 4037 4186** **manish.jain@nomura.com**

Research analyst: Anup Sudhendranath **+91 22 4037 5406** **anup.sudhendranath@nomura.com**

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Continuing to deliver

Same store sales growth slowdown largely due to tough comps: Although the company delivered a strong SSSG number of 27% this quarter, this was a step-down from the 37% that the company delivered in Q1FY12. The company attributed this to the high comps from last year when SSSG in Q2FY11 was ~44%. However, the key thing to highlight here is that on a H1FY12 vs. HYFY11 basis, company continues to report robust SSSG.

Food inflation very severe: Food inflation has been one of the highest this year as compared to the last several years. This has had an impact on gross margins, but the company is seeing signs of stabilization in input prices and with price hikes already taken so far, along with benefits of economies of scale, they should be able to manage their gross margins better in H2FY12.

Price increase still in the offing: Management said they had taken three price increases in the last year or so. First one of 2.5-3% in Nov '10, another one of 5% in April '11 and the most recent one of 2.5-3% taken in August '11. They are planning another round of price increases in November this year, but have not decided on the quantum yet. Management was confident that these price increases together will enable them to offset the gross margin pressures.

Consumer slowdown: Management mentioned that there were some initial signals of an impact on consumer offtake on account of the high inflation and slowing macro economic trends. However, at this stage, they are not seeing anything alarming and continue to see good traction from consumers across the tier 1 and tier 2 cities.

Increased A&P spends: Company has stepped up their marketing spends this quarter and will continue to keep them at elevated levels. Management mentioned that they are getting aggressive in the online channels, where they are seeing strong consumer traction in terms of order generation. Company remains very excited and committed to increasing their focus on this channel and sees it as one of the key methods of order initiation in the medium to long term.

Store expansion on track: Jubilant opened 19 new stores this quarter and 33 stores during H1FY12. Company has also got signed deals on 29 new stores, which will open in the next couple of months. On their target of 80 stores for the full year, management said they were 'more than confident' on that for FY12. This signals a step-up in store openings in H2FY12, which gives us confidence that any slowdown in consumer offtake, if any, is only at the margins.

Dunkin donuts on track: Company's plans for Dunkin Donuts remains on track and in this quarter they have booked a total of Rs. 9.2mn as costs relating to operationalisation towards the Dunkin Donut stores. Management reiterated their target to open the first Dunkin Donut store in H1CY12 and to make it an all-day part food play in the Indian market.

Guidance for FY reaffirmed: Management was confident of delivering in line with their guidance of 'at least 20% SSSG in FY12'. This again re-affirms our belief that the company will be able to deliver strong underlying SSSG for the rest of the year.

Margin performance muted: The one negative from the quarter has been the EBITDA margin performance. Gross margins decreased by 160bps y-y, which offset the positive impact from overheads. However, even after such unprecedented gross margin pressures, EBITDA margins were flat on a y-y basis. We do expect this to pick up into H2FY12 on the back of price increases planned for November as well as stabilization in input costs over the last month or so.

Overall, while 27% SSSG may seem like a slowdown from the 37% number delivered in Q1FY12, it was on the back of comps that were very high. Importantly, this represents a strong underlying performance, which we expect to continue in the near to medium term. Margin performance this quarter was impacted by high input costs, but we expect a swift recovery in the next couple of quarters on that front. We regard Jubilant as remaining the best way to gain exposure to the food retail story in India and we reiterate our Buy rating on the stock.

Valuation Methodology and Investment Risks: see below

Note: Ratings and Price Targets are as of the date of the most recently published report (http://go.nomuranow.com/research/globalresearchportal) rather than the date of this email.

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Issuer Specific Regulatory Disclosures

Mentioned companies

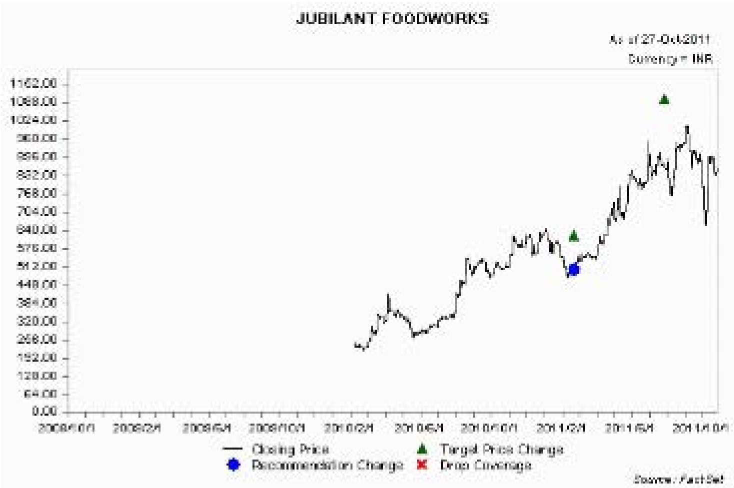
Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Jubilant Foodworks	JUBI IN	814.05 INR	03 Nov 2011	Buy	

Previous Rating

Issuer name	Previous Rating	Date of change
Jubilant Foodworks	Not Rated	21 Feb 2011

Jubilant Foodworks (JUBI IN) **814.05 INR (03 Nov 2011)** Buy

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
28-Jul-2011		1100.00	863.45
21-Feb-2011		620.00	501.25
21-Feb-2011	Buy		501.25

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We use a DCF-based valuations approach to arrive at our target price of INR1,100. Key underlying assumptions are 24% medium-term growth followed by 15% long-term growth and 6% terminal growth. Our cost of equity assumption is 12.5%.

Risks that may impede the achievement of the target price Higher-than-expected raw material prices and slowing same-store sales growth are key risks.

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STOCKS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009

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Nomura Structured Finance Services Private Limited, India Tel: 91 22 3053 2345

Nomura, 9th Flr, Hiranandani Business Park
Powai, Mumbai – 400076, INDIA Fax: 91 22 3053 2111

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