Contents of this Note :

Hypermarket Chains of India – All Major Chains Covered

(No. of Stores, Area Under Operation, FY11 Revenues, Same-Store-Sales Growth)

Pantaloon

(Big Bazaar)

Spencer Retail

(Hyper)

Reliance Retail

(Reliance Mart)

Trent

(Star Bazaar)

Bharti Retail

(EasyDay Market)

Aditya Birla Retail

(More)

Shoppers Stop

(Hypercity)

Max Retail

(SPAR)

Jubilant Industries

(Total)

NOTE :

Fellow members interested to procure latest presentation of 'Total Hypermarkets" or anything else can mail us back. We will immediately provide them with the requested material. We have already attached with this Research Note :

Annual Report **(2011 - pdf form),**

Corporate Sustainability Report – as per GRI Standards – Rated A+, Audited by Ernst & Young **(2011- pdf form),**

Jubilant Industries Ltd.

BSE Code – 533320	NSE Code - JUBLINDS

Operational Segments :	Management Quality :
Consumer Products (***2nd Largest after Pidilite***) **Food Polymer** (***3rd Largest in World***) **VP Latex** (***3rd Largest in World***) **Agri Inputs** (***4th Largest in India***) **Retail** (***2nd Largest in Bangalore***)	Mr. Hari Bhartia, Chairman (President CII ; Chairman IIM, Raipur) Mr. Priyavrat Bhartia, Director (Director HT Media) Mr. Ananda Mukherjee, CEO (ex. Vice President Havells India) Mr. Ghanshyam Dass, Independent Director (Senior Advisor KPMG ; ex. M.D. NASDAQ OMX) Mr. S. K. Roongta, Independent Director (Chairman FICCI – Reforms in PSU & Steel Committee)

Valuation Parameters			
Price-to-BookValue (P/BV)	=	**0.54**	Promoters' Holding :- **65.5 %** (47.51 % + 18 % via Acquisition of Retail Business)
EV/Sales	=	**0.22**	Current Mcap :- Rs. **220.24 cr.** (on expanded capital)
MCap/Sales	=	**0.28**	FY11 Sales : **Rs. 554 cr.** (FY10 - 419 cr.)
EV / EBITDA	=	**2.50**	FY11 EBITDA : **Rs. 46.82 cr.**
P / E	=	**5.40**	FY11 EPS : **Rs. 35.7**
Debt-to-Equity (D / E)	=	**0.02**	FY12e Sales – **Rs. 854 cr.**
Cash & Investments (FY11)	=	**Rs. 77.80 cr.**	FY13e Sales – **Rs. 1125 cr.**

Valuation Grading

(**Refer Sum-of-the-Parts (SOTP) Valuation given on Page 16 for details**)

Undervalued Till	**234** (0.5xFY11.Sales, 6.55xFY11.EPS 0.32xFY12e.Sales 0.25xFY13e.Sales)
Reasonably Valued @	**234-325** (0.7xFY11.Sales, 9.1xFY11.EPS 0.45xFY12e.Sales 0.34xFY13e.Sales)
Fairly Valued @	**392** (0.84xFY11.Sales, 10.98xFY11.EPS 0.55xFY12e.Sales, 0.41xFY13e.Sales)

Why Jubilant Industries Ltd. deserves to be a part of one's core portfolio ? :

(1) Clean & Credible Management led by Mr. Hari Bhartia [***current President of Confederation of Indian Industry (CII)***] and backing of a strong US$ 3 bn. Jubilant Bhartia Group (***promoters of Jubilant Foodworks, Jubilant Lifesciences & Jubilant Energy-AIM Listed***) are the first and foremost factors that go in favour of Jubilant Industries Ltd.

(2) High Corporate Governance followed by the company, which is evident from the fact that it is one of the few top-notch Indian & MNC companies which has voluntarily chosen to publish comprehensive annual Corporate Sustainability Report (CSR) as per **Global Reporting Initiative (GRI)** standards and its CSR2011 has attained the **highest rating A+** and is audited by Ernst & Young.

(3) Leadership Position (not only domestic but a **world-leadership**) in each of the Operational Segment is the other highlight of the company. Before going into its details lets briefly analyse company's positioning in each of the operational segment :

- ***2nd Largest Brand*** *(Jivanjor) next to* **Pidilite's Fevicol** *in Indian Consumer Adhesives Segment*
- ***1st position*** *in* India *(90 % share) and* ***3rd position Globally*** *in Food Polymer Segment (Solid PVA)*
- ***1st Position*** *in India &* ***3rd Position*** *Globally in Vinyl Pyridine Latex (VP Latex)*
- ***4th Largest Brand*** *(Ramban) in Indian SSP Fertilizer Segment*
- ***2nd Largest Hypermarket*** *Chain with 20 % marketshare in Bangalore*

(4) Revenues of Performance Polymer Segment (which includes Consumer Products-Jivanjor Brand, Food Polymer & Latex Business) has grown over last five years at a ***CAGR of 17.8 %*** backed by a 8.3 % CAGR in actual volumes. If we exclude here the low-margin Application Polymer business, which the company has disposed off in FY11, then, the actual volume and sales performance of Consumer Products, Food Polymer and Latex Business is really heartening and signals robust demand for company's products in each of the segment.

(5) Now, we will go into slight detail of each of the operational segment of Jubilant Industries Ltd. starting with Consumer Products Segment.

(6) Consumer Products Segment (***Jivanjor Brand***) contributed ~Rs. 120 cr. to FY11 revenues of the company. Under this segment, company manufactures and sells consumer & woodworking adhesives, footwear adhesives, epoxy sealants and wood finishes. Its Jivanjor Brand in adhesives segment, which, the company has built over last many years, has withstood the pressure from the likes of ***Pidilite*** and ***Huntsman*** and progressed to become **2nd Largest Brand after Pidilite's Fevicol** in Organised Indian Consumer Adhesives Market.

(7) Company has renewed the thrust on R&D and considerably strengthened distributor network in last few months to aggressively penetrate further deep into the Indian Market so as to make Jivanjor an even stronger No.2 Brand and capture some marketshare out of the peers. A case in point here is its recent ***launch of its super premium category adhesive*** 'Lamino', which is first of its kind adhesive launched by any company in India designed specifically for laminates. Its recent launch in Delhi, Mumbai, Hyderabad, Chandigarh and other major towns of India met with tremendous positive response and this product is expected to contribute handsomely in second half of FY12.

(8) To move to the second operational segment, viz., ***Food Polymers***, under which company manufactures and is a global supplier of Solid PVA which is used to make gum base of chewing gum and bubble gum. It is the only manufacturer in India commanding **~ 90 % marketshare** domestically and is the **3rd largest supplier** to global chewing gum and bubble gum industry.

(9) It is worthwhile to note here that Gum Industry worldwide is highly concentrated with top 6 players accounting for ~85 % market. Jubilant counts amongst its international clients, Wrigley's, Perffetti and GumLink which together account for ***~50 % of the world gum market***.

(10) Also, the Solid PVA market itself is a very concentrated one with top 4 manufacturers supplying 75 % of the global demand. Jubilant atpresent occupies 3rd largest position in global Solid PVA suppliers list and with the recent doubling of capacity of its plant, the company is set to **become the 2nd largest Solid PVA manufacturer of the world** after Wacker Chemie of Germany. Its ***entire expanded capacity is booked*** which augurs very well for the visibility of growth in this segment till FY15.

(11) Third operational segment of the company is **Latex** under which it manufactures and is a global supplier of synthetic lattices like VP Latex, SBR Latex and NBR Latex. This segment contributed ~Rs. 80 cr. to FY11 revenues of the company. It is worthwhile to note here that ***Jubilant was amongst the first companies to introduce VP Latex in India*** and is currently occupying **No.1 position domestically** and **No.3 position globally** in VP Latex. Company has recently expanded its capacity of Latex manufacture by 15 % in FY11 considering high demand for its products and the increased capacity utilisation is expected to show benefit in current FY12.

(12) **Agri-Inputs** is the fourth operational segment of the company which is dominated by ***'Ramban' Brand***. This segment contributed ~Rs. 261 cr. to FY11 revenues of the company. Here again the company's acumen of building strong brands becomes evident as its Ramban brand occupies the **fourth largest SSP fertilizer brand position in India**. SSP fertilizer industry, which got a fillip because of the new NBS policy of Indian Government, is expected to reap rich rewards because of SSP fertilizer's positioning in the entire complex fertilizer landscape. Favourable treatment in NBS policy has made SSP fertilizer the cheapest and most effective amongst the lot becuase of which SSP fertilizer consumption in India is projected to grow to **6 mn. MT by FY13 from current 3.5 mn. MT**. This is the basic reason why major Urea producers like Chambal Fertilizer and Tata Chemicals have recently decided to set-up new plant and expand existing capacities for SSP manufacture to ***capitalise on the opportunity this sector has in store for coming few years***.

(13) With an expected annual industry growth of ~35 % (especially SSP Fertilizer) for coming two fiscals, Agri-Input segment of Jubilant is expected to be a steady cash generator as the company improves capacity utilisation based on higher demand. It is worthwhile to note here that when other major peers in this segment (SSP) like Liberty and Khaitan have choose to aggresively expand the capacity of their plants as also to set-up new plants in anticipation of demand, Jubilant has decided to play safe by only concentrating on improving utilisation of its existing capacities so that this segment remains steady cash generator to ***feed the exponential growth of Retail (Hypermarket), Food Polymer and Consumer Products (Jivanjor Brand)*** segments.

(14) The last but most promising operational segment of the company viz., **Retail (Mall cum Hypermarket)** is the result of Jubilant Industries' recent acquisition of a group firm which runs a Hypermarket chain under brand 'Total' and has, as on date, ~8,25,000 **sq.ft**. under opration in **5 mall-cum-hypermarkets** with another 1,12,000 **sq.ft.** getting operational by Decemember'2011 which will make it the **3rd largest hypermarket chain of India** and **Largest (No.1) hypermarket chain of Bangalore** in terms of area under operation. All the other hypermarket chains of India except (Pantaloon) including **Hypercity** (Shoppers Stop), **Trent** (Star Bazaar), **Bharti Retail** (EasyDay Market), **Reliance Retail** (Reliance Mart), **Max Retai**l (SPAR Hypermarket), **RPG group** (Spencer Hyper) and **Aditya Birla Retail** (More) have less than 9,00,000 sq.ft. under operation as on date [**Refer Page 18 for all Hypermarket Chains details**]. Although, like-to-like comparision here is improper since the format of Jubilant (Total) is of mall-cium-

hypermarket which no one else follows but, still, such a huge area of operation will bring in lot of cost efficiency and drive exponential growth from FY13 onwards.

(15) FY11 revenues of Retail segment was **Rs. 315 cr.**

(16) The most interesting aspect here, which speaks highly of the transparent and ethical practices followed by the management of Jubilant is evident from the fact that inspite of Retail division of the group currently being 100 % owned by the promoters of Jubilant Industries as also exuberant valuations at which listed retail companies are trading at present on the bourses where, even Hypercity (the only pure comparable peer) was acquired by Shoppers Stop at **more than 0.5 times sales** just last year, the company has decided to issue only 0.38 cr. (38.35 lacs) shares as consideration for 100 % acquisition of Retail business, which, at current market price of Jubilant Industries, works out to be only **Rs. 71 cr**.

(17) To ***acquire such promising Retail business at just 0.2 times FY11 sales*** inspite of it having one of the largest areas under operation in India with a leadership position in Bangalore commanding 20 % marketshare, signifies a great deal of justice done with minority shareholders of Jubilant Industries for which the management deserves an applaud.

(18) Retail Segment is expected to see an exponential jump in revenues starting this fiscal (FY12) as 2 Hypermarkets covering area of ~2,50,000 **sq.ft.** are getting operational in this fiscal itself (***one already got operational in June'2011***) and another 4 hypermarkets are planned to be opened up in coming two years to take the **total stores under operation in Bangalore to 10**.

(19) This will also bring in a lot of cost efficiencies therby considerably improving margins as there will be **no additional backend required** apart from the set-up which company already has of **1,10,000 sq.ft. Distribution Centre, 5500 sq.ft. Collection & Consolidation Centre** and **2200 sq. ft. Sourcing presence in APMC yard**. This will significantly reduce backend cost from the current level of ***8.7 % of revenues to 2.7 % of revenues*** by FY13.

(20) Debt, which is a major constraint for Hypermarket Chains to expand, will not be a major problem for Jubilant Industries as no significant additional debt will be required apart from the Rs. 160 cr. debt which retail division already has. This is because, the listed entity, Jubilant Industries, is a **debt-free company** with cash & investments on balance sheet (FY11) of **Rs. 77.8 cr.** With the current fiscal, FY12, also expected to bring in a conservative PAT of atleast Rs. 35 cr., all the additional 4 stores planned to be set-up in coming two years can ***get funded by the cash of listed Jubilant Industries***.

(21) Hence, to sum up, Jubilant Industries, by FY14, will have ~15,00,000 (*1.5 mn.*) **sq.ft.** In ***10 stores*** under operation with a market leadership position in Bangalore without burdening balance sheet to a considerable extent and improving profitability margins because of heavy reduction in backend cost by ~68 % because of better utilisation of current backend infrastructure. This is the basic reason why, contrary to its peers who concentrate on national expansion, Jubilant has choose to expand in Bangalore itself, where it already enjoys 20 % marketshare with No.2 position, by setting up additional stores so that without much additional costs or raising much additonal debt, profitability could be attained on back of cost efficiences. Its a wise strategy and its likely to ***make Jubilant Industries a rare niche player in Retail industry***.

To conclude, With such ----

- High **Corporate Governance** standards,
- most Credible & Efficient Management at the helm,

- backing of a strong US$ 3 bn. Jubilant Bhartia group which has already demonstrated their will & ability of **generating exceptional stakeholders' returns** in all their companies like ***Jubilant Foodworks, Jubilant Lifesciences & Jubilant Energy (listed at AIM)***

- Strong Brand like Jivanjor under its belt whose only listed peer **Pidilite** with brand Fevicol is commanding a valuation of 3.11 x FY11Sales, TTM P/E of 26.8, P/BV of 6.63 & EV/EBITDA of 16.41

- Leadership position in each of the Operational Segment

- FY12e Revenues of Rs. 850 cr. with FY13e Revenues most likely to scale upto more than Rs. 1100 cr.

---- Jubilant Industries should have traded with a premium, but, what we have is, its currently trading at :

- **0.28 x FY11 Sales** of Rs. 554 cr.

- **EV/Sales** of just 0.22

- **Price-to-BookValue** of just 0.54

- **P/E** of just 5.43 on TTM FY11 EPS of Rs. 35.7

- **EV/EBITDA** of just 2.6

This is an anomaly which can't remain for long and it has to atleast get corrected upwards to trade at Rs. 325 where still it will be only reasonably valued but undervalued compared to its peers.

A comprehensive **Sum-of-the-Parts (SOTP) valuation** by taking into account the valuation of each of the operational segment separately of Jubilant Industries Ltd. is given on Page 16-17 of this Research Note. Members are requested to refer that to have a clear idea of current undervaluation and prospect valuation of the company.

Views are invited from fellow members to understand and assess the company as well its operational segments better.

Important Sections of this Note Still To be Read :

Brief Overview of the Company

Jubilant Industries Ltd. is a Jubilant Bhartia Group company which counts amongst its group, successful Indian-listed companies like ***Jubilant Foodworks, Jubilant Lifesciences*** and AIM-listed ***Jubilant Energy***. Jubilant Industries was formed as a result of demerger of Agri & Polymer Business of erstwhile

Jubilant Organosys Ltd. (now Jubilant Lifescience) because of which it automatically got listed on Indian bourses on February 14 2011. At the time of demerger, the implied valuation of the demerged business, based on share allotment ratios, was put at **~Rs. 300 cr.** The demerger was done to enable the parent company, viz., Jubilant Organosys to concentrate on Pharma & CRAMS business and let the new company viz., Jubilant Industries, which had in its fold, ***strong brands*** like Jivanjor (2nd largest after Pidilite) and Ramban (4th largest in India) as well as ***world leadership position*** in Food Polymer & VP latex segments, to pursue independent growth strategy by concentrating on these growing segments. Application Polymers business, which was also a part of demerged entity, was subsequently discontinued w.e.f. 14th February 2011 as this business was an extremely low-margin business with least growth prospects.

After getting demerged from parent company, Jubilant Industries significantly ***enhanced its distribution network*** for Jivanjor brand as also ***expanded capacities*** in Food Polymer and Latex business segments. The efforts made by the management enabled Jubilant Industries to acquire ***visibility of steady cash generation with decent growth in topline over next many years***.

To channelise the cash resources expected to accrue in the company (in coming few fiscals) towards productive use, as well as to make a strong foundation for exponential future growth, management decided to acquire Jubilant Bhartia group's Retail business which has, as on date, ***5 mall-cum-hypermarkets*** under operation with **2nd largest position in Bangalore** commanding **20 % marketshare** with FY11 revenues of Rs. 315 cr.. In consideration of the acquisition, 0.38 cr. (38.35 lacs) equity shares of listed Jubilant Industries Ltd. are to be issued which, at current market price, totals up to Rs. 71 cr.. Post issuance of shares, equity capital of Jubilant Industries will go up to Rs. 11.84 cr. from current 8.01 cr. with 65.5 % promoter holding.

Retail business at present has Rs. 183 cr. as equity and Rs. 160 cr. as debt with 100 % holding of Jubilant Bhartia group. With the listed entity being almost debt-free having ***Rs. 77.8 cr. of Cash & Investments*** as at 31st March 2011 and ~35 cr. PAT expected for FY12, it was a wise decision on part of management to merge **cash-generating (but steadily growing)** & **cash-requiring (but exponentially growing)** entities of the group so as to drive exponential growth in topline in immediate future and tremendous growth in profitability over medium-to-long term. Retail Division, after getting merged into Jubilant Industries, plans to open 4 additional hypermarkets to take the total number of hypermarkets under operation to 10 with ~15,00,000 (1.5 mn.) sq.ft. under operation.

The logic behind acquisition of Retail business by cash-rich listed entity is clear so that with no additional raising of funds (by using cash of listed entity), the expansion to 10 stores from current 5 can be undertaken thereby **driving profitability very fast and ensuring exponential growth of listed entity**. Management has a very well charted growth path for Jubilant Industries Ltd. wherein it is expanding only in Bangalore so that backend infrastructure (already present and no cost to be incurred) can be utilised to fullest thereby reducing cost as % of revenues which is critical to drive profitability of any Retail business.

Brief Overview of Operational Segments of the Company

Knowledge regarding operational segments can be best acquired by reading latest 2011 Annual Report as well Corporate Sustainability Report (CSR2011) of Jubilant Industries which is attached alongwith this Research Note. Still, here we will provide a brief overview of each of the operational segment as well as peers in each of the segment.

Consumer Products
(Jivanjor Brand -- 2nd Largest Brand of India) :

Under this segment, company produces a range of products for woodworking adhesives, wood finishes, footwear adhesives and epoxy sealants. It manufactures three types of woodworking adhesives :

premium adhesives which is used by consumers/architects;
mid segment adhesives which is majorly used in projects, and
economy adhesives that is consumed by furniture manufacturers.

Company's *Wood finishes* is used to improve the aesthetics of wood substrate,

Footwear Adhesives are used by architects and manufacturers depending on the end use, and

Epoxy Sealants are used to fill leakages in sanitary ware and water pipes.

Company has a pan India presence via strong distribution network which, in turn, caters to Retailers throughout the country. Regarding manufacturing, Wood Adhesives are manufactured at company's plant at Gajraula, Uttar Pradesh while Footwear Adhesives are manufactured at company's Sahidabad plant at Uttar Pradesh.

The products under this segment are sold under the umbrella brand called "Jivanjor" and it occupies 2nd Largest Brand status in Indian Consumer Adhesives market after Pidilite.

Now, to talk regarding peer of this operational segment – **the strongest peer here is Pidilite** followed by Huntsman. Since Pidilite is listed on Indian bourses, given below is the valuation commanded by Pidilite vis-a-vis Jubilant Industries alongwith important financial parameters for reference :

(***Note*** :- Since Pidilite is peer in only one of the operational segment of Jubilant, it is better to look at Sum-of-the-Parts valuation provided on Page 16-17 of this Research Note wherein valuation of each of the Operational Segment depending on its FY11 Revenues is considered separately)

	Mcap-to-Sales (FY11)	EV/Sales	P/E (FY11)	EV/EBITDA	Price-to-BookValue (P/BV)	RoE	RoCE	Debt-to-Equiy (D/E)
Pidilite	3.11	3.27	26.84	16.41	6.63	29.3	30.7	0.41
Jubilant Industries	0.28	0.22	5.43	2.6	0.54	10.22	14.79	0.02

Food Polymer
(Solid PVA -- 90 % marketshare in India & World's 3rd Largest Supplier) :

Under this segment, company manufactures and markets solid poly vinyl acetate ("**SPVA**"), which is used as an ingredient in making gum base for chewing gum and bubble gum. Synthetic polymers, of which solid PVA is but one type, are the main gum base constituent in 90% of the gum base manufactured worldwide.

Company has strong relationships with world's leading gum producers like Wrigley's, Perffetti and GumLink which together account for ***~50 % of the world gum market***. Manufacturing is done at company's plant at Gajraula, Uttar Pradesh. Recently, **company has doubled the production capacity of this segment and almost entire expanded capacity is already booked for supply.**

The products under this segment are sold under the umbrella brand called "Vamipol" and it occupies **3nd Largest Supplier** status **worldwide** for this segment.

Now, to talk regarding peer of this operational segment – in India, Jubilant is the only producer of SPVA and so the ***only strongest peer for this segment is Wacker Chemie of Germany*** which happens to be the world's largest producer of Solid PVA. Wacker Chemie is listed on Frankfurt Stock exchange. Given below is the valuation commanded by Wacker Chemie vis-a-vis Jubilant Industries alongwith important financial parameters for reference :

(***Note*** :- Since Wacker Chemie is peer in only one of the operational segment of Jubilant, it is better to look at Sum-of-the-Parts valuation provided on Page 16-17 of this Research Note wherein valuation of each of the Operational Segment depending on its FY11 Revenues is considered separately)

	Mcap-to-Sales (FY11)	EV/Sales	P/E (FY11)	EV/EBITDA	Price-to-BookValue (P/BV)	RoE	RoCE	Debt-to-Equiy (D/E)
Wacker Chemie (Germany)	0.74	0.7	7.88	3.04	1.65	23.77	19.19	2.81
Jubilant Industries	0.28	0.22	5.43	2.6	0.54	10.22	14.79	0.02

Latex
(VP Latex -- Largest in India & World's 3rd Largest Supplier) :

Under this segment, company manufactures and markets three kinds of latex namely, Vinyl Pyridine (VP), Styrene Butadiene Rubber ("**SBR**") and Nitrile Butadiene ("**NBR**"). Vinyl Pyridine and SBR are used in dipping of tyre cord and conveyor belt fabric by tyre manufacturers who have in-house dipping facilities and also by tyre cord fabric dippers. In addition, they are also used to manufacture SBR Latex tyre carcasses, V-belts and conveyor belts. NBRs are used in automotive gasket binding applications. If we talk in detail, specifically regarding VP Latex, for which Jubilant is the Largest manufacturer in India and 3rd Largest in the world, VP Latex is used to impregnate man made fabrics and enable the adhesion of fabrics to the rubber of automobile tyres and conveyor belts. Globally, the consumption of VP Latex in tyre cord fabric dipping is **growing at 2-3 percent per annum**. Inspite of automotive industry recession worldwide, the market is holding well because of the replacement tyres market demand and the growth in China, India and the rest of Asia. In fact, the Indian market for tyres has shown **growth rates of 8-9 % per annum** and therefore offers potential for growth of Latex segment.

Company's latex products are sold directly to either tyre manufacturers who have in house dipping facilities and to tyre cord fabric dippers in both the domestic and overseas markets. Company also exports latex products to countries in Asia, Europe and Latin America. Manufacturing is done at company's Samlaya, plant in Gujarat. Recently company has increased the production capacity of this segment by 15 %.

Now, to talk regarding peer of this operational segment – the ***only strongest peer here is Apcotex Industries Ltd.*** which also has a strong presence in Latex business in India. Apcotex Industries is listed on Indian bourses and given below is the valuation commanded by Apcotex vis-a-vis Jubilant Industries alongwith important financial parameters for reference :

(***Note*** :- Since Apcotex is peer in only one of the operational segment of Jubilant, it is better to look at Sum-of-the-Parts valuation provided on Page 16-17 of this Research Note wherein valuation of each of the Operational Segment depending on its FY11 Revenues is considered separately)

	Mcap-to-Sales (FY11)	EV/Sales	P/E (FY11)	EV/EBITDA	Price-to-BookValue (P/BV)	RoE	RoCE	Debt-to-Equiy (D/E)
Apcotex	0.43	0.58	7.73	5.16	1.12	15.8	19.1	0.34
Jubilant Industries	0.28	0.22	5.43	2.6	0.54	10.22	14.79	0.02

Agri Inputs
(Ramban Brand -- 4th Largest brand in India) :

Under this segment, company manufactures and markets four broad categories of products namely, crop nutrition, plant growth regulators, crop protection and industrial chemicals. All of the company's products under this segment are sold under the brand name, "Ramban" and sales are primarily to the North and Central part of India and the brand is well known in these markets by the farming community for its quality, consistency and reliability. **Company is the fourth largest producer of SSP fertilizer in India next to Khaitan Chemicals, Liberty Phosphate and Rama Phosphate.**

SSP fertilizer industry, which got a fillip because of the new NBS policy of Indian Government, is expected to reap rich rewards because of SSP fertilizer's positioning in the entire complex fertilizer landscape. Favourable treatment in NBS policy has made SSP fertilizer the cheapest and most effective amongst the lot becuase of which SSP fertilizer consumption in India is projected to grow to **6 mn. MT by FY13 from current 3.5 mn. MT**. This is the basic reason why major Urea producers like Chambal Fertilizer and Tata Chemicals have recently decided to set-up new plant and expand existing capacities for SSP manufacture to ***capitalise on the opportunity this sector has in store for coming few years***.

Company's agricultural products are distributed through regional distributors, who further channel the products through institutional buyers, such as agricultural agencies or co-ops, or through private resellers, who ultimately sell or provide the product to farmers. Regarding manufacturing, crop nutrition products and industrial chemicals are manufactured in-house at company's facilities located at Gajraula, Uttar Pradesh and Kapasan, Rajasthan.

Now, to talk regarding peers of this operational segment – there are ***three major peers in SSP fertilizer space*** viz., ***Khaitan Chemicals & Fertilizers Ltd., Liberty Phosphate Ltd. & Rama Phosphates Ltd.*** Although these companies don't deal in other agri-products which Jubilant deals in, but, still its better to benchmark the valuation of these peers rather than other big companies like Tata Chemicals, etc. which trade at a much higher valuation. All the three companies viz., Khaitan, Liberty & Rama are listed on Indian bourses and given below is the valuation commanded by each of the company vis-a-vis Jubilant Industries alongwith important financial parameters for reference :

(***Note*** :- Since Khaitan, Liberty & Rama are peer in only one of the operational segment of Jubilant, it is better to look at Sum-of-the-Parts valuation provided on Page 16-17 of this Research Note wherein valuation of each of the Operational Segment depending on its FY11 Revenues is considered separately)

	Mcap-to-Sales (FY11)	EV/Sales	P/E (FY11)	EV/EBITDA	Price-to-BookValue (P/BV)	RoE	RoCE	Debt-to-Equiy (D/E)
Khaitan	0.35	0.64	3.72	3.51	1.08	34.03	29.29	1.4
Liberty	0.39	0.52	6.6	4.21	0.77	13.2	16.4	0.67
Rama	0.59	1.01	2.5	7.52	5.54	1.01	3.21	2.18
Jubilant Industries	0.28	0.22	5.43	2.6	0.54	10.22	14.79	0.02

Retail -- Mall-cum-Hypermarkets
(2nd Largest Hypermarket Chain in Bangalore, India) :

This segment is the result of Jubilant Industries' recent acquisition of a group firm which runs a Hypermarket chain under brand 'Total' and has, as on date, ~8,25,000 **sq.ft**. under opration in **5 mall-cum-hypermarkets** with another 1,12,000 **sq.ft.** getting operational by Decemember'2011 which will make it the **<u>3rd</u>** **<u>largest hypermarket chain of India</u>** and **<u>Largest (No.1) hypermarket chain of Bangalore</u>** in terms of area under operation. All the other hypermarket chains of India [**Refer Page 18 for all Hypermarket Chains details**] except (Pantaloon) including **Hypercity** (Shoppers Stop), **Trent** (Star Bazaar), **Bharti Retail** (EasyDay Market), **Reliance Retail** (Reliance Mart), **Max Retail** (SPAR Hypermarket), **RPG group** (Spencer Hyper) and **Aditya Birla Retail** (More) have less than 9,00,000 sq.ft. under operation as on date. Although, like-to-like comparision here is improper since the format of Jubilant (Total) is of mall-cium-hypermarket which no one else follows but, still, such a huge area of operation will bring in lot of cost efficiency and drive exponential growth from FY13 onwards..

Hypermarkets share in Organised Retail is 11% currently, estimated to rise to 45% by 2015 with revenues of 202 billion USD. As per recent ICRIER Report, there is ***potential of additional 70 Hypermarkets in Bangalore alone by FY15*** with Value Retail projected to be the primary route to adoption of modern retail. In case FDI in multibrand retail is approved by the Government, all the 10 major hypermarket chains of India including Jubilant are expected to see foreign tie-ups very fast as world Retailers, having already studied Indian markets over last many years, are eager to enter India. However, even without FDI, hypermarkets are expected to maintain healthy growth atleast in next decade becuase of which each of the major retail chain of India is expanding aggresively in Hypermarkets format.

The main constraint of aggresive expansion of Hypermarkets is the profitability because of which internal funds are very difficult to come by as a result of which external debt keeps on piling. Investment turnover ratio in Retail segment is 1.6 to 2 which simply means that companies need to keep on infusing funds for aggressive national expansion thereby sacrificing on profitability as there is no focus on it. This is the strategy followed by almost all the major hypermarket chains of India. However, Jubilant is an exception here as by this **current move of merging Retail business with cash-rich listed company, the company has turned its focus on profitability** rather than aggressive national expansion.

The **<u>strategy here is to achieve No.1 position in home ground Bangalore and make the operations there profitable</u>** by effectively utilising the back-end infrastructure that company has built over last 6 years. No additional backend infrastructure is required by raising the number of operating stores from current 4 to 10. In effect, what will happen is, the backend costs, which form 8.7 % of the revenue at present will get reduced to 2.7 % of the revenue with 10 stores under operation. With all the other factors not changing considerably because of cash-rich status of listed entity, what in effect will happen is that, **expansion will itself drive the profitability** and generate considerable profits for Jubilant Industries. Seldom such profitability focus is adopted by any Indian Retail player and this will make Jubilant a **<u>rare Niche Retail Player in Indian arena</u>**.

Now, without going into further detail regarding the segment and Jubilant's strategy thereof, we will straightaway go for a look at valuation commanded by each of the major Indian listed peer vis-a-vis Jubilant. However, the key thing to note here is that all the retail peers mentioned here are present in multiple formats of retail as compared to Jubilant's only Mall-cum-Hypermarket format. The **only strict comparable peer to Jubilant is Hypercity which is a subsidiary of Shoppers Stop**. It is worthwhile to note here that Shoppers Stop has acquired a 51 % stake in Hypercity at more than 0.5 times Revenues (revenues at the time of acquisition – transaction happened in 2010).

Given below are the valuation commanded by three companies viz.,Pantaloon, Shoppers Stop and Trent which are listed on Indian bourses alongwith important financial parameters for reference :

	Mcap-to-Sales (FY11)	EV/Sales	P/E (FY11)	EV/EBITDA	Price-to-BookValue (P/BV)	RoE	RoCE	Debt-to-Equiy (D/E)
Pantaloon	0.44	1.01	40.2	10.65	3.33	1.65	8.68	1.35
Shoppers Stop	1.25	1.34	70.04	24.95	4.74	4.73	13.73	0.65
Trent	1.37	1.72	48.03	46.03	1.83	2.39	1.39	0.35
Jubilant Industries	0.28	0.22	5.43	2.6	0.54	10.22	14.79	0.02

Summarisation of Valuation Commanded by Peer in Each of the Operational Segment of Jubilant Industries

(Important Benchmarks like RoE, RoCE, D/E, EV/EBITDA, EV/Sales, P/E, Mcap/Sales Included)

Consumer Products (Jivanjor Brand -- 2nd to Pidilite's Fevicol)

[Jubilant Revenues from this Segment for FY11 ~ Rs. 120.3 cr.]

	Mcap-to-Sales (FY11)	EV/Sales	P/E (FY11)	EV/EBITDA	Price-to-BookValue (P/BV)	RoE	RoCE	Debt-to-Equiy (D/E)
Pidilite	3.11	3.27	26.84	16.41	6.63	29.3	30.7	0.41

Food Polymer (Solid PVA)

[Jubilant Revenues from this Segment for FY11 ~ Rs. 59 cr.]

	Mcap-to-Sales (FY11)	EV/Sales	P/E (FY11)	EV/EBITDA	Price-to-BookValue (P/BV)	RoE	RoCE	Debt-to-Equiy (D/E)

Wacker Chemie **(Germany)**	0.83	0.7	7.88	3.04	1.65	23.77	19.19	2.81

Latex Business

[Jubilant Revenues from this Segment for FY11 ~ Rs. 78.1 cr.]

	Mcap-to-Sales (FY11)	EV/Sales	P/E (FY11)	EV/EBITDA	Price-to-BookValue (P/BV)	RoE	RoCE	Debt-to-Equiy (D/E)
Apcotex	0.43	0.58	7.73	5.16	1.12	15.8	19.1	0.34

Agri Business (SSP Fertilizer)

[Jubilant Revenues from this Segment for FY11 ~ Rs. 261.3 cr.]

	Mcap-to-Sales (FY11)	EV/Sales	P/E (FY11)	EV/EBITDA	Price-to-BookValue (P/BV)	RoE	RoCE	Debt-to-Equiy (D/E)
Khaitan	0.35	0.64	3.72	3.51	1.08	34.03	29.29	1.4
Liberty	0.39	0.52	6.6	4.21	0.77	13.2	16.4	0.67
Rama	0.59	1.01	2.5	7.52	5.54	1.01	3.21	2.18

Retail Business (To be Merged – Appointed Date 1st April 2011)

[Jubilant Revenues from this Segment for FY11 ~ Rs. 315 cr.]

	Mcap-to-Sales (FY11)	EV/Sales	P/E (FY11)	EV/EBITDA	Price-to-BookValue (P/BV)	RoE	RoCE	Debt-to-Equiy (D/E)
Pantaloon	0.44	1.01	40.2	10.65	3.33	1.65	8.68	1.35
Shoppers Stop	1.25	1.34	70.04	24.95	4.74	4.73	13.73	0.65
Trent	1.37	1.72	48.03	46.03	1.83	1.38	2.3	0.35

Comprehensive Sum-of-the-Parts (SOTP) Valuation for Jubilant Industries

Given on Next Page

Comprehensive **Sum-of-the-Parts (SOTP) Valuation** for Jubilant Industries

This is the most crucial section wherein a fair conservative estimate is made in case each of the operational segment of Jubilant Industries Ltd. were to be a separate listed entity and therefore the valuation commanded by it having got pitched against its respective peer of each operational segment.

Here, we have made the most conservative estimate by taking into account various factors like size of Jubilant's operational segment vis-a-vis its peer, positioning of Jubilant vis-a-vis its peer, etc. We have included in the table **"Valuation Basis Used"** as well as **"Justification of such Valuation"** to let you assess for yourself asto whether Jubilant's respective operational segment deserves the given valuation as compared to the valuation commanded by its respective peer of that segment. Other parameters like debt-to-equity, RoE, RoCE, EV/EBITDA, etc. of each of the peer are given before in the Research Note for reference.

Comprehensive **Sum-of-the-Parts (SOTP) Valuation** for Jubilant Industries

Business Segment	FY11 Revenues of Respective Segment	Valuation Basis Used (Justification of such Valuation)	Reasonable Valuation of Respective Segment
Consumer Products (Jivanjor Brand)	120.3 cr.	**1.0 x Revenues** (Only Peer in the Segment **Pidilite** commands >3.0 x Revenues)	120.3 cr.
Food Polymers (Solid PVA)	59 cr.	**0.5 x Revenues** (Only two Peers in the Segment including **Wacker Chemie** commands >0.8 x Revenues)	29.5 cr.
Latex Business	78.1 cr.	**0.4 x Revenues** (Only formidable Listed Peer in the Segment **Apcotex** commands 0.43 x Revenues)	31.2 cr.
Agri Business	261.3 cr.	**0.3 x Revenues** (All Listed **SSP Fertilizer Peers** in the Segment command >0.35 x Revenues)	78.3 cr.
Total Valuation Based on the Current Core Business			INR 259.3 cr. +
Retail Business		**0.4 x Revenues**	

(Mall cum Hypermarkets proposed to be Merged)	315 cr.	(All Peers in the Segment command >0.4 x Revenues as also Acquisition of **Hypercity** , the only pure comparable player, by Shoppers Stop was at much higher valuation than 0.5 x Sales)	126 cr.
Total Fair Valuation			**=** INR 385.3 cr.

As can be seen from the above, the conservative valuation of the existing core business of Jubilant Industries Ltd., viz., Consumer Products (Jivanjor Brand), Food Polymer, Latex & Agri Input segments works out to be Rs. 259.3 cr.. Now, since the existing core business is on an equity capital of Rs. 8.01 cr. (0.801 cr. shares) with almost nil debt, the **conservative per share pricing** on the existing equity capital works out to be **Rs. 323** for it to command a market capitalization of Rs. 259.3 cr..

Now, here if we expand the equity capital by 0.3835 cr. shares which are to be issued for 100 % acquisition of Retail Business, then, the expanded equity capital works out to be Rs. 11.84 cr. (1.184 cr. shares). On such expanded equity capital, the **conservative per share pricing** based on adding the exisiting core business plus the acquired Retail business (for which the shares are issued & capital gets expanded) works out to be **Rs. 325** for it to command a market capitalization of Rs. 385.3 cr..

Hence, anyway we look at it, Jubilant Industries Ltd. has a fair conservative per share pricing of Rs. 325 which signifies the groos undervaluation of the company on the bourses at present.

Like-to-Like Comparision of each of the Hypermarket Chain of India

with Critical Parameters like No. of Operational Hypermarket Stores (as at 31st March 2011), Sq.Ft. Area Under Operation, FY11 Revenues as also Latest Same-Store-Sales Growth %

Given on Next Page

Like-to-Like Comparision of each of the Hypermarket Chain of India

with Critical Parameters like No. of Operational Hypermarket Stores (as at 31st March 2011), Sq.Ft. Area Under Operation, FY11 Revenues as also Latest Same-Store-Sales Growth %

Hypermarket Chain	No. of Stores	Area Under Operation	FY11 Revenues (Same-Store-Sales-Growth)
Pantaloon (Brand – Big Bazaar & Food Bazaar)	149 + 56	~76,40,000 + 5,50,000	6900 cr. (SSSG ~ 7.5 %)
Spencer Retail (Brand - Spencer Hyper)	25	~6,20,000 sq.ft.	NA (SSSG ~ 14.5 %)
Reliance Retail (Brand – Reliance Mart)	13	~7,80,000 sq.ft.	619 cr. (SSSG ~ 25 %)
Trent (Brand - Star Bazaar)	11	~8,00,000 sq.ft.	520 cr. (SSSG ~ 20 %)
Bharti Retail (Brand – EasyDay Market)	11	~5,80,000 sq.ft.	NA (SSSG ~ NA)
Aditya Birla Retail (Brand – More)	10	~6,00,000 sq.ft.	NA (SSSG ~ 15 %)
Shoppers Stop (Brand – Hypercity)	9	~8,00,000 sq.ft.	600 cr. (SSSG ~ 27.5 %)
Max Retail (Brand – SPAR Hypermarket)	9	~5,50,000 sq.ft.	300 cr. (SSSG ~ 20 %)
Jubilant Retail (Brand - Total)	4	6,83,306 sq.ft. (+ 1,42,000 sq.ft. = 8,25,306) [5th Store with 1,42,000 sq.ft. area got operational in June'11]	315 cr. (SSSG ~ 60 %)

Note – Same-Store-Sales-Growth (SSSG) is a critical parameter used in Retail industry to assess the growth attained by stores which are under operation for more than a year. Growing same-store sales leads to improved gains and lower dependence on opening new stores to boost sales and profits.