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16 May 2011

India
Consumer

 Reuters JUBI.BO
 Bloomberg JUBI IN

Priced on 13 May 2011

India Sensex @ 18,531.3

12M hi/lo Rs804.00/251.10

12M price target Rs750.00

±% potential +6%

Target set on 13 May 11

Shares in issue 64.5m

Free float (est.) 39.8%

Market cap US\$1,018m

3M average daily volume

Rs304.1m (US\$6.8m)

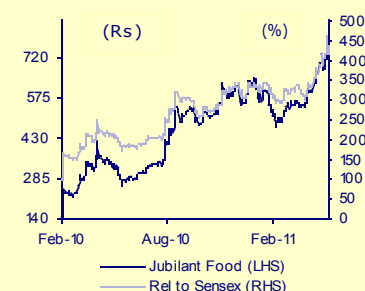
Major shareholders

Promoter 60.2%

FII 24.6%

Stock performance (%)

	1M	3M	12M
Absolute	12.5	41.1	134.6
Relative	17.7	39.1	115.2
Abs (US\$)	11.0	43.1	136.7



Source: Bloomberg

www.cls.com

4QFY11 results

Jubilant reported in-line 4Q results with sales growth of 56% YoY and net profit growth of 86% YoY. Same store growth was better than expected at 33% despite the tough base of 38% in 4Q10. Ebitda margins were up 150bps YoY but down 30bps QoQ, supported by flat QoQ gross margins despite food inflation pressures. The company is targeting 80 store openings in FY12 in Domino's alongside 20% same store sales growth and at least flat margins. We have made modest upgrades to our forecasts and increased our target price to Rs750, 6% upside. However, the 29% rise in the stock since our initiation drives a downgrade to O-PF.

Healthy top line growth; cost pressures under control

Jubilant's 56% YoY sales growth in 4QFY11 was underpinned by 33% same store sales growth. This was delivered against a base of 68% sales growth and 38% same store sales in 4QFY10. Jubilant added 14 stores during the quarter, taking the base to 378, and is now present in 90 cities. Ebitda grew 72% YoY while PBT grew 147%. Net profit growth was a more modest 86% due to taxes. Gross margins were down 40bps YoY at 74.5% and were flat QoQ despite the inflationary trend in food prices. Whilst rent and other costs grew slower than sales on a YoY basis, staff cost increases were higher at 61% YoY. On a QoQ basis, overall operating costs grew faster than sales and drove an Ebitda margin decline of 30bps. Looking ahead, the ~5.5% price hike taken in April should ease the cost pressures. The company is guiding for 20% same store sales growth and at least flat Ebitda margins in FY12.

Accelerating expansion plans; balance sheet healthy

Jubilant is targeting 80 new stores for FY12 in the Domino's format against the 70 in FY10 and 72 in FY11, signalling acceleration in store growth. The company is targeting the "all day part food" segment through the Dunkin' Donuts format. Whilst Jubilant is targeting 80-100 openings over five years, expansion will be phased with the first store expected to open only in 4QFY12. Jubilant's balance sheet and underlying cash generation is strong enough to support this. The company had no debt, Rs89m of cash and Rs216m of investments at the year end. Worryingly, the company did lend out ~Rs310m of inter-corporate deposits to an undisclosed recipient.

Earnings upgrades from extra stores

Given the higher store openings, we have upgraded our revenue, Ebitda and net profit estimates for FY12-13 by 1-3%. This also drives a 3% increase in our DCF based target price to Rs750 (FY13 PE of 34x and EV/Ebitda of 18.6x). Over FY11-14, we expect revenue to become 2.6x and PBT 3.1x. Whilst we remain firmly convinced about the long term potential of the business, the 29% share price run up since our initiation in March limits near term upside. We downgrade Jubilant Foods to O-PF from BUY earlier.

Financials

Year to 31 Mar	09A	10A	11CL	12CL	13CL
Revenue (Rsm)	2,806	4,239	6,781	9,674	13,296
Net profit (Rsm)	73	330	720	958	1,418
EPS (Rs)	1.3	5.4	11.2	14.8	22.0
CL/consensus (8) (EPS%)	-	-	97	100	105
EPS growth (% YoY)	(5.9)	331.3	107.5	32.1	48.0
PE (x)	560.9	130.1	62.7	47.4	32.0
Dividend yield (%)	0.0	0.0	0.0	0.4	0.6
FCF yield (%)	(0.7)	0.4	0.7	1.5	2.5
PB (x)	171.0	38.2	23.7	17.1	12.2
ROE (%)	36.5	46.6	46.6	41.9	44.4
Net debt/equity (%)	331.6	1.3	(4.6)	(22.3)	(39.1)

Source: CLSA Asia-Pacific Markets

4QFY11 results

Figure 1

Jubilant Foodworks - 4QFY11 performance

	Mar-11	Mar-10	YoY	Dec-10	QoQ
Net sales	1,937	1,241	56%	1,856	4%
Raw material costs	495	312	59%	474	4%
Gross profit	1,442	929	55%	1,383	4%
Gross margin	74.5%	74.8%	-0.4%	74.5%	0.0%
Staff cost	396	245	61%	384	3%
Rent	149	111	34%	140	6%
Others	567	380	49%	537	6%
Total Expenditure	1,606	1,048	53%	1,535	5%
EBITDA	331	193	72%	322	3%
Ebitda margin	17.1%	15.5%	1.5%	17.3%	-0.3%
Depreciation	83	69	20%	78	
Operating profit	247	123	100%	244	1%
Other income	9	1		7	
Interest	0	20		0	
PBT	257	104	147%	251	2%
Tax	64	0		61	
PAT	193	104	86%	190	2%
% of sales					
Staff cost	20.4%	19.7%	0.7%	20.7%	-0.2%
Rent	7.7%	8.9%	-1.3%	7.5%	0.1%
Others	29.3%	30.6%	-1.3%	28.9%	0.4%

Source: CLSA Asia-Pacific Markets

Top line growth driven by
33% same store growth

Gross margins being
managed well, some
pressure visible on staff
cost

Tax rate close to normal
now

Figure 2

Steady pace of store expansion

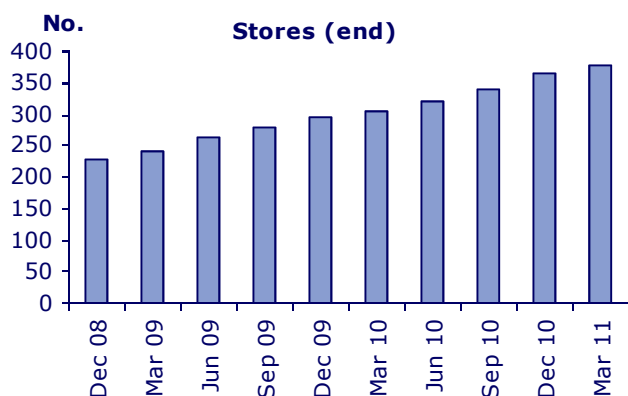
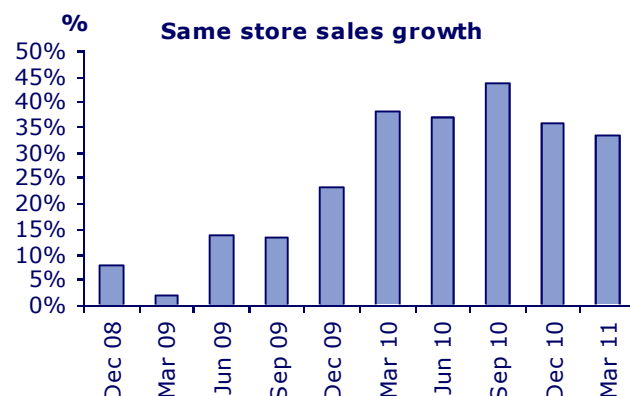


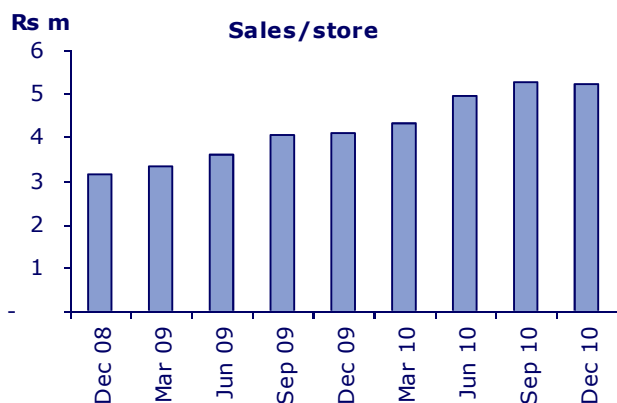
Figure 3

Same store growth of 33% on a tough base



Source: CLSA Asia-Pacific Markets, Company

Figure 4

Sales/Store dipped QoQ due to seasonality


Source: CLSA Asia-Pacific Markets, Company

Figure 5

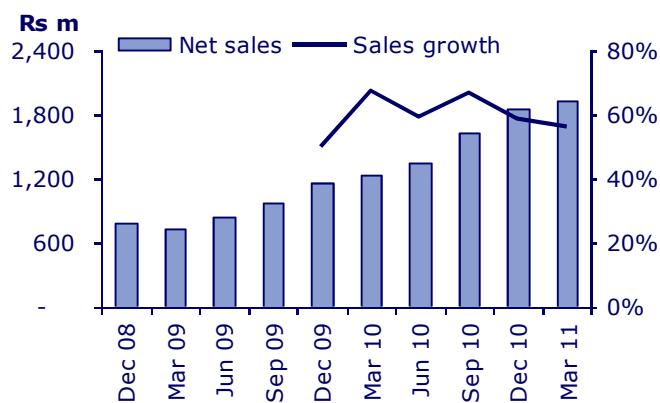
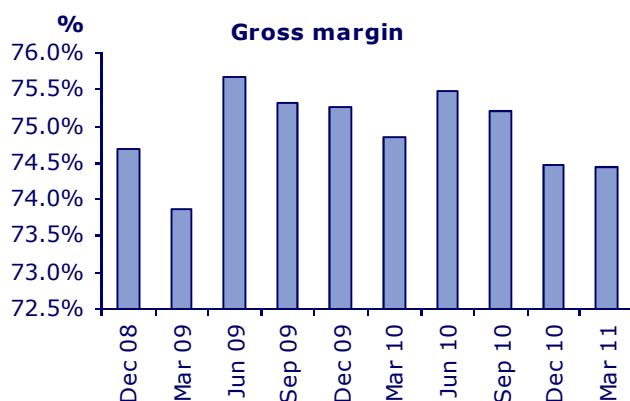
Overall sales growth remains healthy


Figure 6

Gross margins maintained QoQ


Source: CLSA Asia-Pacific Markets, Company

Figure 7

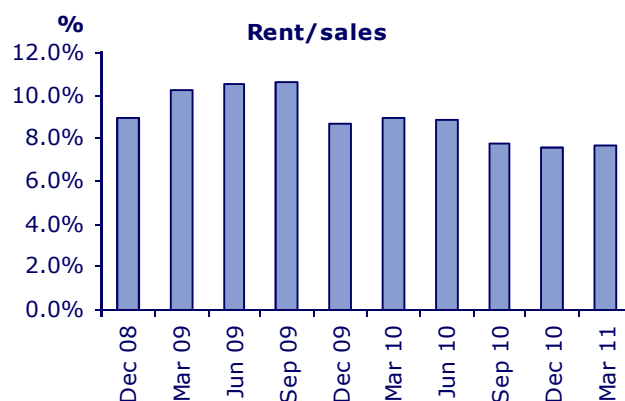
Rent ratio inched up


Figure 8

Staff cost ratio remains elevated


Source: CLSA Asia-Pacific Markets, Company

Figure 9

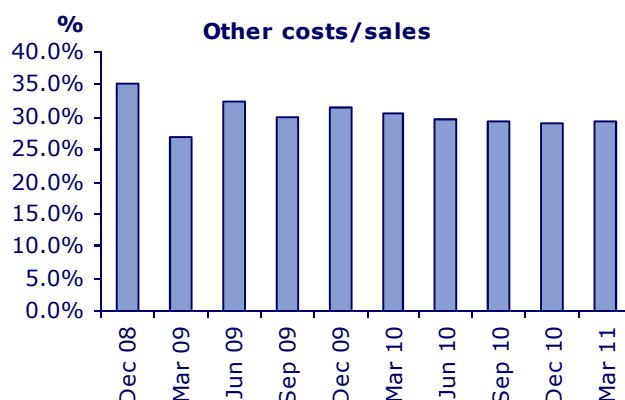
Other costs under control


Figure 10

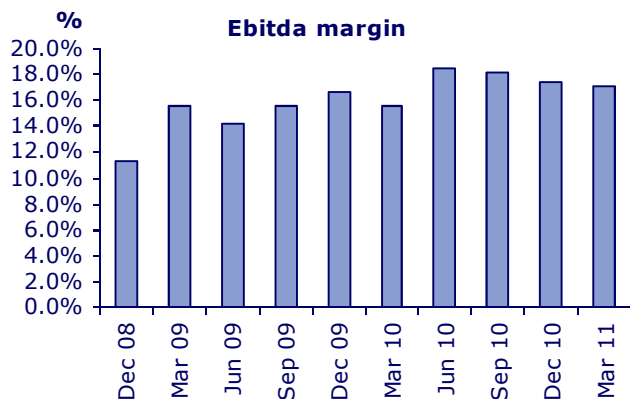
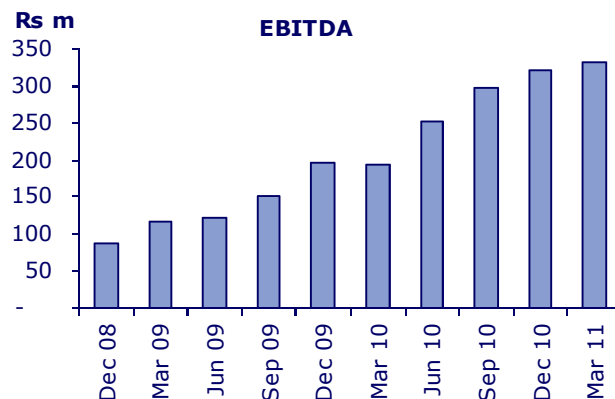
Ebitda margin base will toughen in 1Q


Figure 11

Ebitda up QoQ despite adverse seasonality


Source: CLSA Asia-Pacific Markets, Company

Figure 12

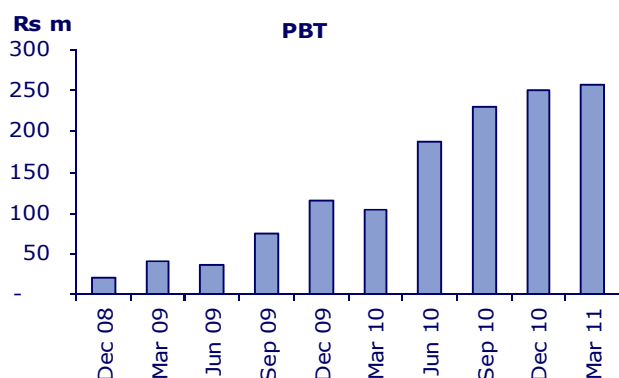
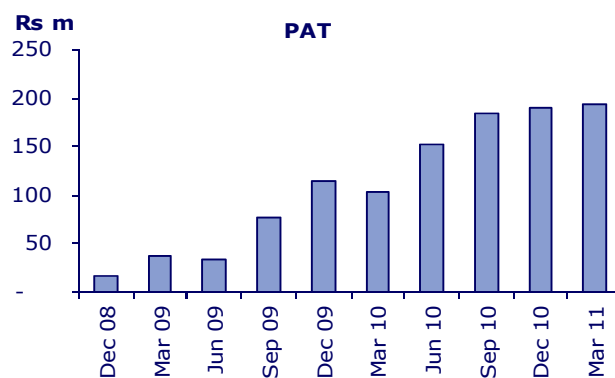
PBT growth high


Figure 13

PAT depressed by rising taxes


Source: CLSA Asia-Pacific Markets, Company

Jubilant is debt free now

Loans and advances saw a sharp increase on the back of ~Rs310m of inter corporate deposits

Figure 14

Jubilant Foods - 4QFY11 Balance Sheet

Rs m	4QFY11	4QFY10	YoY	2QFY11	HoH
Share capital	645	636		643	
Share application money	0	12		5	
Reserves and surplus	1,272	929	37%	949	34%
Total shareholders equity	1,917	1,577	22%	1,597	20%
Loan funds	0	86		4	
Total liabilities	1,917	1,663	15%	1,601	20%
Total fixed assets	1,838	1,429	29%	1,608	14%
Investments	216	0	NM	298	-27%
Deferred tax asset	31	0	NM	18	68%
Current assets, L&A					
Inventories	142	71	101%	100	42%
Sundry debtors	45	29	51%	44	2%
Cash and bank	89	70	26%	153	-42%
Other current assets	9	0	NM	0	NM
Loans and advances	697	362	93%	480	45%
Total	981	533	84%	777	26%
Less: liab and prov					
Current liabilities	1,085	663	64%	1,016	7%
Provisions	65	39	67%	150	-57%
Total	1,149	702	64%	1,166	-1%
Net current assets	(168)	(169)	-1%	(389)	-57%
P&L account (accumulated losses)	0	403		66	
Total assets	1,917	1,663	15%	1,601	20%

Source: CLSA Asia-Pacific Markets

Change in forecasts, key assumptions

Figure 15

Change in forecasts

	Old		New		Change	
	12CL	13CL	12CL	13CL	12CL	13CL
No. of stores (no.)	446	516	458	538	3%	4%
Revenue/store	23.6	27.1	23.6	27.1	0%	0%
Revenue	9,524	12,851	9,674	13,296	2%	3%
Gross profit	7,118	9,617	7,240	9,950	2%	3%
Staff cost	1,879	2,530	1,938	2,655	3%	5%
Rent	726	952	740	987	2%	4%
Other costs	2,762	3,686	2,790	3,789	1%	3%
Ebitda	1,750	2,450	1,772	2,518	1%	3%
Ebitda margin	18.4	19.1	18.3	18.9	-6bps	-13bps
Depreciation	389	468	391	492	1%	5%
Other income	27	52	28	59	4%	13%
Interest	1	1	-	-		
Norm. PBT	1,387	2,033	1,409	2,085	2%	3%
Tax	444	651	451	667	2%	3%
Net profit	943	1,383	958	1,418	2%	3%

Source: CLSA Asia-Pacific Markets

Upgrades driven by more store openings

**Staff and raw materials
are key cost items for
Jubilant**

Figure 16

Jubilant: operating P&L						
	FY09	FY10	11CL	12CL	13CL	14CL
No. of stores (no.)	241	306	378	458	538	618
Revenue/store	13.6	15.9	20.3	23.6	27.1	30.7
YoY (%)	(2.5)	16.3	27.6	16.5	15.0	13.0
Revenue	2,806	4,239	6,781	9,674	13,296	17,477
YoY (%)	32.9	51.1	59.9	42.7	37.4	31.4
Gross profit	2,088	3,190	5,075	7,240	9,950	13,079
Gross margin (%)	74.4	75.2	74.8	74.8	74.8	74.8
Staff cost	556	805	1,355	1,938	2,655	3,483
% of sales	19.8	19.0	20.0	20.0	20.0	19.9
Rent	267	392	536	740	987	1,271
% of sales	9.5	9.3	7.9	7.6	7.4	7.3
Other costs	929	1,327	1,985	2,790	3,789	4,970
% of sales	33.1	31.3	29.3	28.8	28.5	28.4
Ebitda	336	666	1,199	1,772	2,518	3,355
Ebitda margin	12.0	15.7	17.7	18.3	18.9	19.2
Depreciation	169	243	293	391	492	597
Other income	4	4	22	28	59	98
Interest	89	91	3	-	-	-
Norm. PBT	81	335	924	1,409	2,085	2,856
Extraordinaries	-	4	-	-	-	-
Tax	8	1	204	451	667	914
Net profit	73	330	720	958	1,418	1,942

Source: CLSA Asia-Pacific Markets

Figure 17

Jubilant Foodworks: DCF valuation

	2012CL	2013CL	2014CL	2015CL	2016CL	2017CL	2018CL	2019CL	2020CL
Revenue	9,674	13,296	17,477	22,184	27,385	33,254	39,807	47,053	54,985
Ebitda	1,772	2,518	3,355	4,312	5,296	6,398	7,579	8,864	10,232
Ebitda margin	18.3	18.9	19.2	19.4	19.3	19.2	19.0	18.8	18.6
Add: other income	28	59	98	121	122	123	124	125	126
Less: working capital	228	185	213	240	263	297	331	366	401
Less: Tax	(451)	(667)	(914)	(1,192)	(1,464)	(1,769)	(2,095)	(2,451)	(2,829)
Less: Capex	(850)	(893)	(937)	(984)	(936)	(1,056)	(1,180)	(1,304)	(1,428)
FCF	727	1,202	1,815	2,497	3,280	3,992	4,759	5,601	6,502
Discounted FCF	727	1,063	1,421	1,730	2,012	2,167	2,286	2,381	2,446
WACC	13.0%								
Terminal growth	5%								
Terminal value	32,103								
EV	47,609								
Implied share price (end FY12)	750								

Source: CLSA Asia-Pacific Markets

Summary financials

Year to 31 March	2009A	2010A	2011CL	2012CL	2013CL
Summary P&L forecast (Rsm)					
Revenue	2,806	4,239	6,781	9,674	13,296
Op Ebitda	336	666	1,199	1,772	2,518
Op Ebit	166	423	906	1,380	2,027
Interest income	0	0	0	0	0
Interest expense	(89)	(91)	(3)	0	0
Other items	4	(1)	22	28	59
Profit before tax	81	330	924	1,409	2,085
Taxation	(8)	(1)	(204)	(451)	(667)
Minorities/Pref divs	0	0	0	0	0
Net profit	73	330	720	958	1,418

Summary cashflow forecast (Rsm)					
Operating profit	166	423	906	1,380	2,027
Operating adjustments	3	8	(7)	0	0
Depreciation/amortisation	169	243	293	391	492
Working capital changes	(10)	157	18	228	185
Net interest/taxes/other	(91)	(138)	(208)	(451)	(667)
Net operating cashflow	238	693	1,002	1,549	2,036
Capital expenditure	(542)	(521)	(703)	(850)	(893)
Free cashflow	(304)	172	299	699	1,143
Acq/inv/disposals	1	0	(216)	0	0
Int, invt & associate div	0	1	22	28	59
Net investing cashflow	(541)	(520)	(897)	(822)	(834)
Increase in loans	311	(739)	(86)	0	0
Dividends	0	0	0	(224)	(335)
Net equity raised/other	0	605	0	0	0
Net financing cashflow	311	(133)	(86)	(224)	(335)
Incr/(decr) in net cash	8	40	18	503	866
Exch rate movements	0	0	0	0	0
Opening cash	22	30	70	89	592
Closing cash	30	70	89	592	1,459

Summary balance sheet forecast (Rsm)					
Cash & equivalents	30	70	89	592	1,459
Debtors	12	29	45	64	87
Inventories	55	71	142	203	279
Other current assets	0	0	9	9	9
Fixed assets	1,155	1,429	1,838	2,296	2,697
Intangible assets	0	0	0	0	0
Other term assets	239	362	697	880	1,210
Total assets	1,491	1,962	3,036	4,260	5,957
Short-term debt	0	0	0	0	0
Creditors	398	663	1,085	1,548	2,127
Other current liabs	29	39	65	92	127
Long-term debt/CBs	824	86	0	0	0
Provisions/other LT liabs	0	0	(31)	(31)	(31)
Minorities/other equity	0	0	0	0	0
Shareholder funds	240	1,174	1,917	2,651	3,734
Total liabs & equity	1,491	1,962	3,036	4,260	5,957

Ratio analysis

Revenue growth (% YoY)	32.9	51.1	59.9	42.7	37.4
Ebitda growth (% YoY)	28.3	98.4	80.0	47.8	42.1
Ebitda margin (%)	12.0	15.7	17.7	18.3	18.9
Net profit margin (%)	2.6	7.8	10.6	9.9	10.7
Dividend payout (%)	0.0	0.0	0.0	20.2	20.5
Effective tax rate (%)	9.9	0.2	22.1	32.0	32.0
Ebitda/net int exp (x)	3.8	7.3	350.5	0.0	0.0
Net debt/equity (%)	331.6	1.3	(4.6)	(22.3)	(39.1)
ROE (%)	36.5	46.6	46.6	41.9	44.4
ROIC (%)	17.7	37.9	50.9	55.3	71.8
EVA@/IC (%)	4.6	24.7	37.9	42.4	58.8

Source: CLSA Asia-Pacific Markets

Recommendation history - Jubilant Foodworks Ltd JUBI IN

Date	Rec level	Closing price	Target
13 May 2011	O-PF	693.70	750.00
15 March 2011	BUY	544.70	730.00

Source: CLSA Asia-Pacific Markets

Key to CLSA investment rankings: **BUY** = Expected to outperform the local market by >10%; **O-PF** = Expected to outperform the local market by 0-10%; **U-PF** = Expected to underperform the local market by 0-10%; **SELL** = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).

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Note: In the interests of timeliness, this document has not been edited.

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