

MID CAP

Share Data

Reuters code	JUBI.BO
Bloomberg code	JUBI IN
Market cap. (US\$ mn)	1,350
6M avg. daily turnover (US\$ mn)	5.1
Issued shares (mn)	65
Target price (Rs)	1,606

Performance (%)	1M	3M	12M
Absolute	10	3	21
Relative	8	(1)	(10)

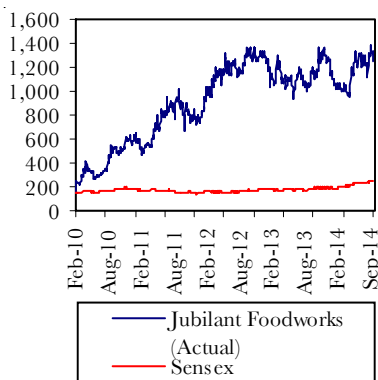
Valuation ratios (Consolidated)

Yr to 31 Mar	FY15E	FY16E	FY17E
EPS (Rs)	20.2	31.2	43.1
+/- (%)	11.7	54.2	38.4
PER (x)	62.1	40.3	29.1
PBV (x)	12.0	9.3	7.0
EV/Sales (x)	3.7	2.9	2.2
EV/EBITDA (x)	30.3	20.5	14.7

Major shareholders (%)

Promoters	50
FII's	46
MF's	1
Public & Others	3

Relative performance



Jubilant FoodWorks

Maintain Outperformer

Price: Rs 1,255

BSE Index: 26,631

18 September 2014

Strengthening foundations for the next growth wave!

Key points from the annual report

New initiatives being taken to increase sales coverage

- Pizza Theater:** Jubilant FoodWorks (JUBI) is rolling out a new restaurant format called 'Pizza Theater'. This format is larger than a normal Domino's Pizza (DP) restaurant, has more seating, and has a visible kitchen area. The restaurant's interiors have also been refreshed with a new look. The focus of this format is to increase more walk-ins. As on May 2014, there were 69 Pizza Theaters in JUBI's network. Going forward, all new DP restaurants will follow a similar format.
- Kiosk:** JUBI is also experimenting with a new flexi-format called 'Kiosk'. Through this model, JUBI intends to target customers in high footfall zones by providing them with an additional point of sale away from restaurants. Orders from these points will be catered by nearby restaurants. JUBI set up 9 such kiosks in FY14 and is currently in experimenting with this format (in terms of viability and sustainability).
- Online ordering systems:** JUBI continues to innovate and roll out its electronic ordering systems, both online and mobile based. Online ordering (OLO) constitutes almost ~20% of total delivery sales as of FY14 and ~16% of OLO sales come from mobile phone based applications.
- Product offerings:** 10 new pizzas have been recently added to the menu (some pizzas have been removed) and a host of new side orders (like Calzone Pockets, Lebanese Rolls, Taco Mexicana, etc.) were introduced during FY14. In April 2014, JUBI launched the 'Junior Joy Box', a meal combo for kids (similar to McDonald's Happy Meal). The Joy Box has been very popular and is currently contributing to ~10% of sales.

Restaurant network expansion on track; supply chain enhancement ongoing

- Network spreading across the country:** As of FY14 end, there were 726 DP restaurants in India across 150 cities. (772 restaurants in 158 cities as of early August 2014). During the year, 150 new restaurants were opened. 90 of the 150 cities have only one restaurant indicating the potential growth available for expansion in such markets. The company also opened 16 new Dunkin' Donuts & More (DD) restaurants during the fiscal taking the DD network to 26 (34 total DDs as of early August 2014) across 9 cities.
- New commissaries to come online in FY15:** JUBI commenced the construction of three new commissaries in Nagpur, Hyderabad, and a smaller facility in Guwahati to support restaurants in its surrounding regions. It will also relocate its Noida commissary to a larger facility later this year. Currently, JUBI has six commissaries to supply its restaurants.

- **Restaurant targets for FY15:** For FY15, JUBI plans to open 150 new DP restaurants (46 opened as of early August 2014). JUBI also plans to open 25 new DD restaurants during this fiscal (8 already opened as of early August 2014). Primarily in the north, JUBI brought DD to the Mumbai market in May 2014 and entered the Bengaluru market recently in September.
- **Focus on high footfall zones:** JUBI plans to increase its focus in high footfall zones like transit locations (airports, metros, etc.) and malls. Its kiosk model is a step in this direction.

Miscellaneous highlights

- DP now has 70%+ market share in the organized chain pizza market in India (according to a report by Euromonitor released in early 2014).
- Domino's India is the second largest market for Domino's outside the US in terms of number of restaurants. It is also the fastest growing market for seven consecutive years.
- JUBI is the first food service company to successfully launch an online and mobile ordering platform across India.
- JUBI has expanded its DP business in Sri Lanka to 11 restaurants in FY14 (5 new restaurants during the year). The business witnessed moderate growth due to the overall prevailing macroeconomic environment in that country as well as increased competition.

Outlook and valuation

JUBI is currently witnessing hard times on account of poor discretionary consumer environment as well as the company's rapid restaurant expansion in such an environment. However, with an improving market and increasing number of mature restaurants in their network, JUBI's profits can post a CAGR of ~39% in the FY14-24E period.

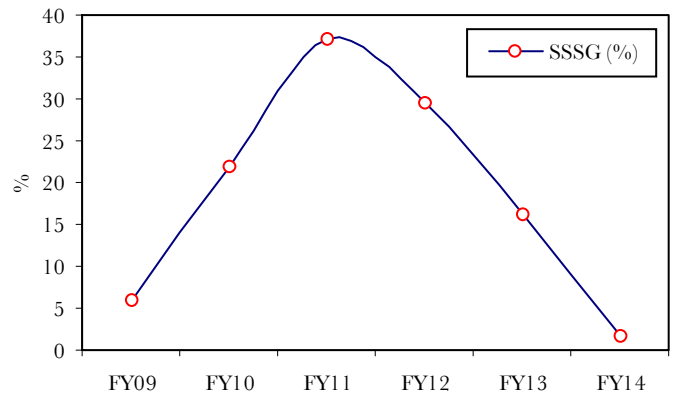
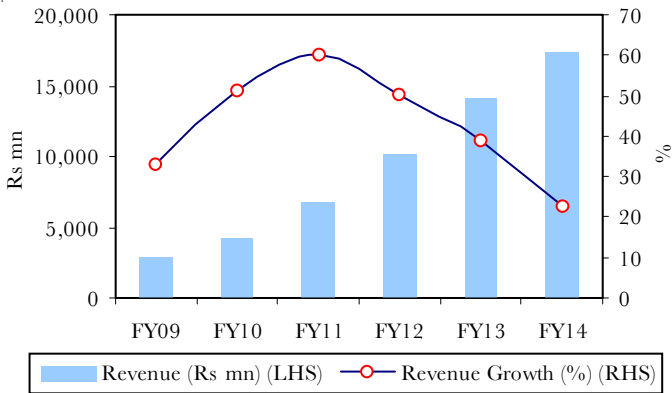
We believe there is tremendous growth opportunity ahead and the stock price can easily grow at 20%+ levels per year if held for the long-term. Given the nascent nature of the fast growing organised eating out market, and the strong competitive position that JUBI has, we are confident about the company's long-term business prospects. We recommend buying the stock for a long-term horizon.

According to FCFF, our FY17E price target for JUBI comes to Rs 1,606. Assigning a P/E multiple of 37.5x, we arrive at a similar price target. We maintain our Outperformer rating on the stock and remain bullish on this company as well as the industry in general.

Financial statement analysis

Revenue has grown over the years, but the pace of growth has slowed down since FY11. In FY14, most of the revenue growth could be explained by new restaurant additions (up 26% YoY)

SSSG has been under pressure since the high point of FY11 due to a combination of reduced discretionary spending, lower consumer confidence, and high inflation

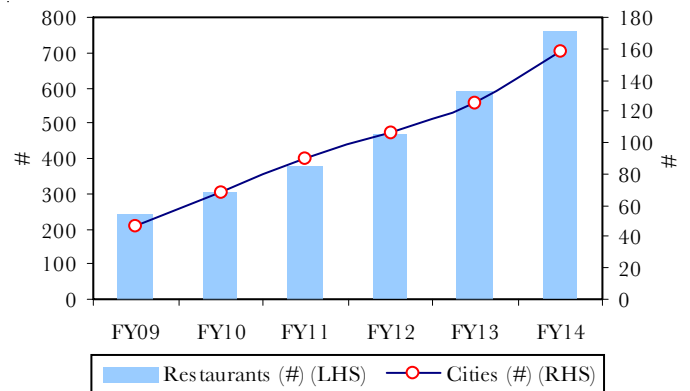
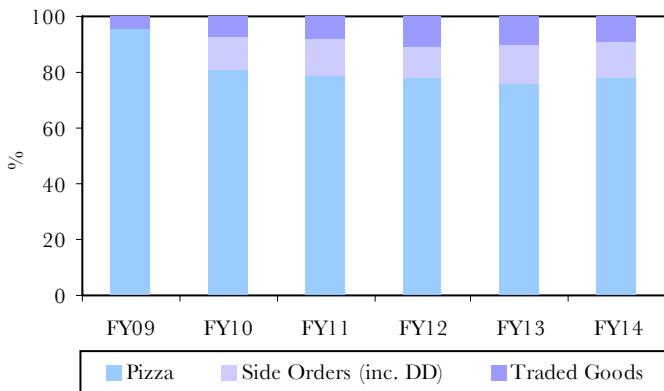


Revenue: Growth witnessing headwinds due to the poor macroeconomic environment in the country

Source: Company, B&K Research

Pizzas continue to contribute the bulk of total revenue. While the contribution of higher margin side orders is slowly increasing over the years, its proportion has fallen to ~13% in FY14 (versus ~14% in FY13)

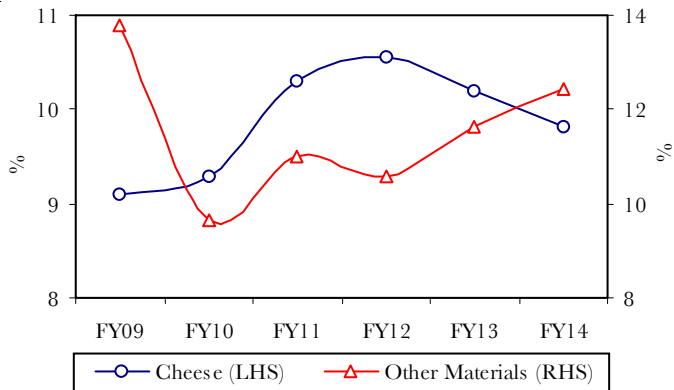
Restaurant roll outs across cities has increased at a healthy clip over the years. In FY14, JUBI entered 27 new markets and opened 150 DP (plus 6 in Sri Lanka) and 16 DD restaurants



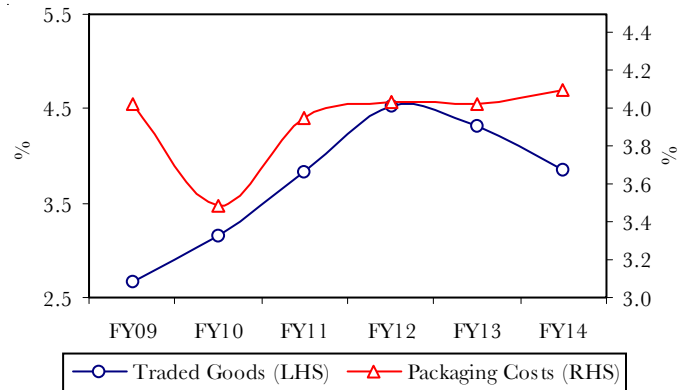
Source: Company, B&K Research

(No non-pizza data available for FY09).

Cheese costs continue to remain at ~10%, although it has reduced from its FY12 level. Inflation pressures are visible across raw materials



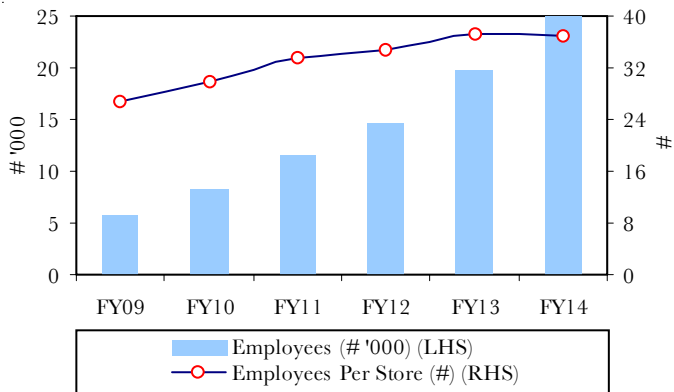
Traded goods cost has reduced as a % of sales due to a change in accounting treatment (discounts applied at gross margin level itself unlike earlier). Packaging costs have remained steady at the ~4% level



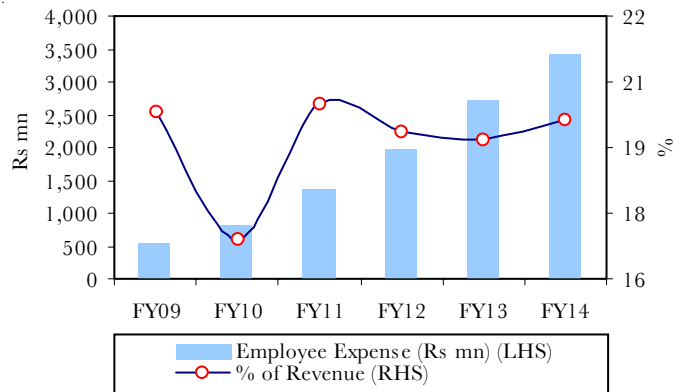
Cost of goods sold: Food inflation pressures evident in raw material costs; packaging costs steady

Source: Company, B&K Research

Average number of employees per store has trended upwards over the years from 27 in FY09 to 37 in FY14



Employee costs as a % of revenue has steadied over the FY12-14 period. It still remains one of the highest costs for JUBI

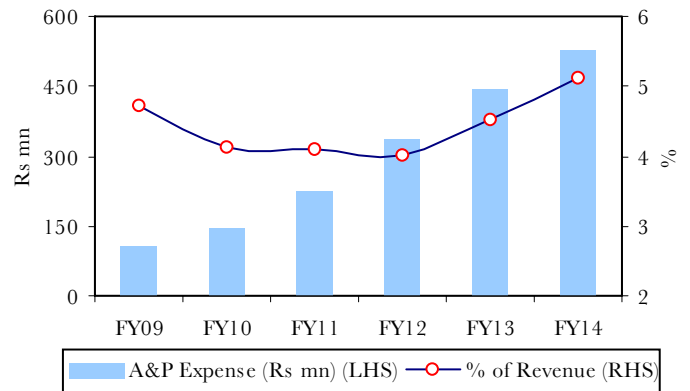
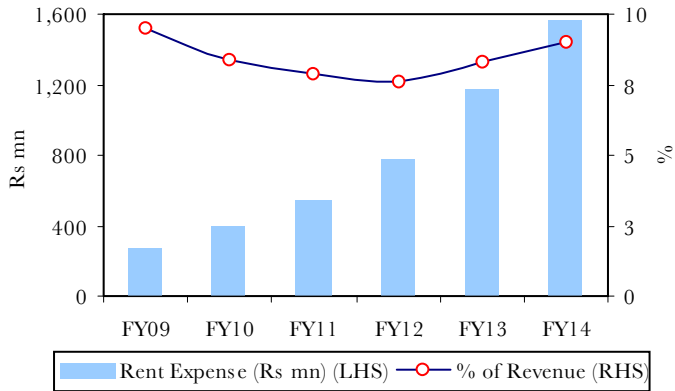


Employee expenses: Steady as a % of revenue; grown in line with restaurant additions

Source: Company, B&K Research

Rent expenses are trending higher, reflecting the increased rental costs of prime locations, especially in new markets where upscale locations are important to build the company's brand

Advertising and promotion costs have crept upwards over the last three fiscals, reflecting the intense competition in the marketplace for the fewer people willing to eat outside

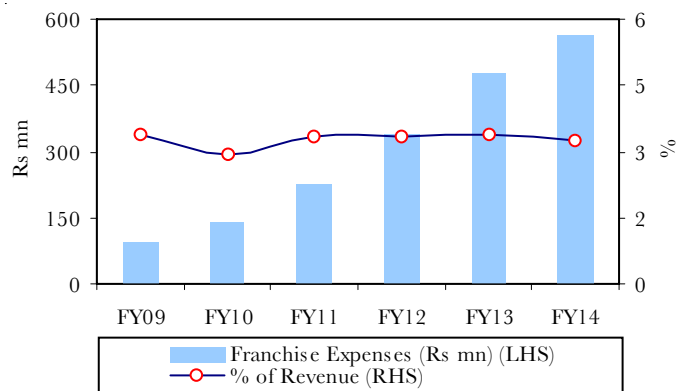
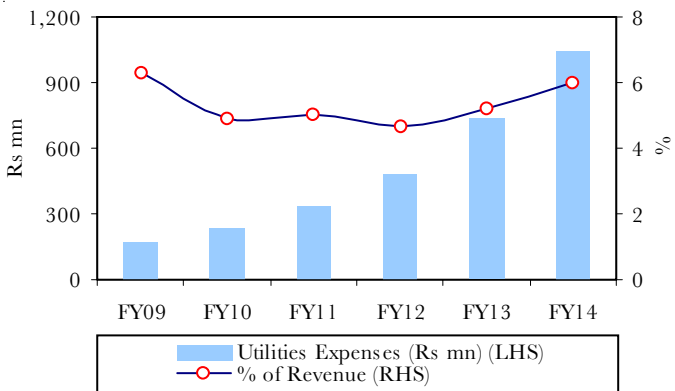


Rent & Advertising expenses: Impact of expensive real estate and competition visible

Source: Company, B&K Research

Power & fuel costs have risen as a % of sales, in line with the inflationary scenario in the country

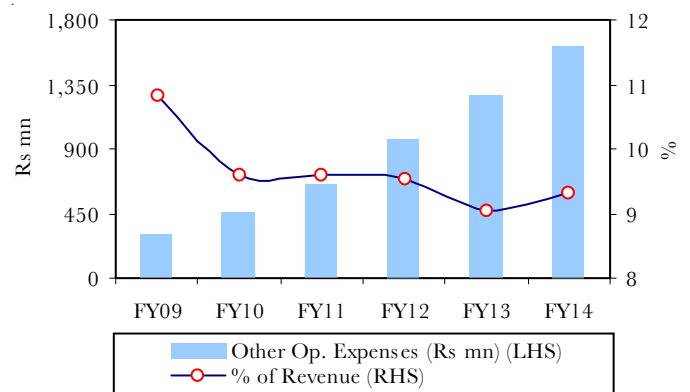
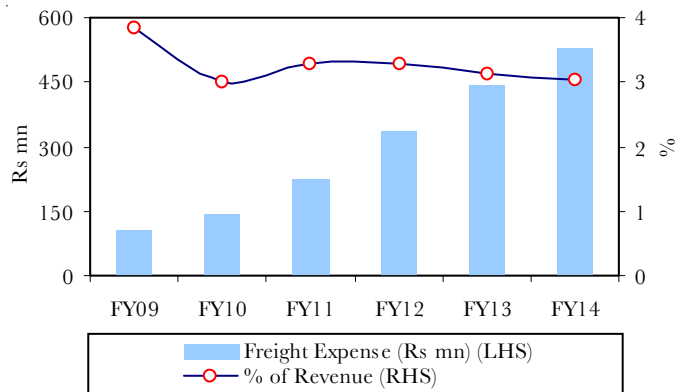
Franchise fees are steady at ~3.1% and are expected to stay at that level for now



Source: Company, B&K Research

Freight and delivery expenses steady at ~3% levels reflecting better utilisation of back-end and higher delivery volumes (~50% sales are delivery)

All other costs are under control although they have risen YoY in FY14



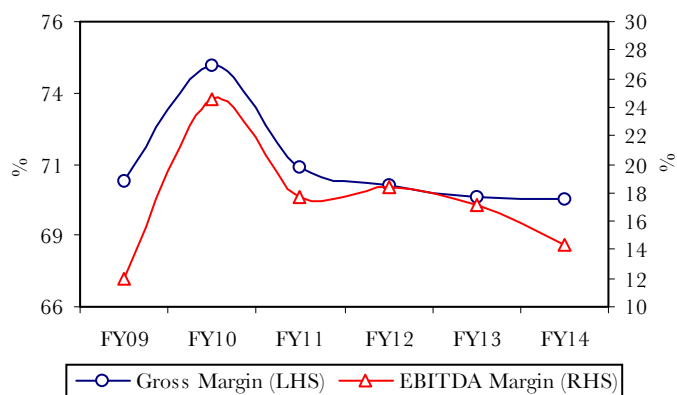
Moderate increase in other expenses

Source: Company, B&K Research

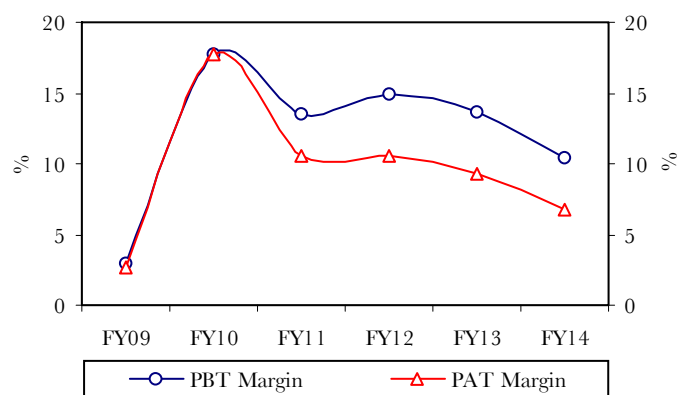
Expense break-up

(%)	FY09	FY10	FY11	FY12	FY13	FY14
Revenue	100.0	100.0	100.0	100.0	100.0	100.0
Raw materials	22.9	18.9	21.3	21.2	21.8	22.3
Traded goods	2.7	3.2	3.8	4.5	4.3	3.9
Packaging costs	4.0	3.5	4.0	4.0	4.0	4.1
COGS	29.6	25.6	29.1	29.7	30.2	30.2
Gross margin	70.4	74.4	70.9	70.3	69.8	69.8
Employees	19.8	16.9	20.0	19.4	19.2	19.6
Rent	9.5	8.3	7.9	7.6	8.3	9.0
A&P	4.7	4.1	4.1	4.0	4.5	5.1
Utilities	6.3	4.9	5.0	4.7	5.2	6.0
Franchise/Royalty	3.4	3.0	3.3	3.3	3.4	3.2
Freight	3.9	3.0	3.3	3.3	3.1	3.0
Other G&A	10.8	9.6	9.6	9.6	9.0	9.3
EBITDA margin	12.0	24.6	17.7	18.4	17.1	14.4

Gross margin steady due to regular price hikes (~5% a year).
EBITDA margin feeling the heat due to increased costs and falling SSSG



SSSG decline impact is visible on the bottom-line as well



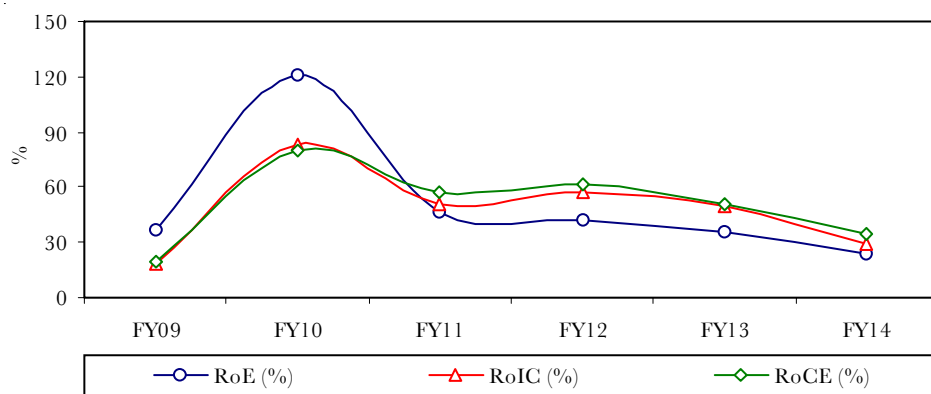
Profitability: Gross margins steady despite increasing raw material costs; SSSG decline weighing in on EBITDA and net income

Source: Company, B&K Research

Working capital cycle: Comfortably negative; cash conversion cycle is also healthy

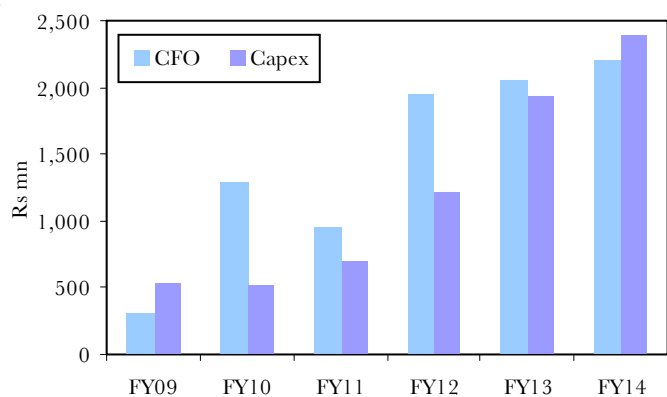
Working capital cycle (Days)	FY09	FY10	FY11	FY12	FY13	FY14
Receivable days	2	2	2	2	2	2
Inventory days	21	19	20	20	18	20
Payable days	147	130	118	111	102	105
Cash conversion cycle days	(124)	(109)	(96)	(89)	(82)	(83)
Working capital cycle days (ex. cash)	(16)	(18)	(27)	(43)	(40)	(41)

Return ratios: SSSG decline's impact is visible on return ratios, but still at a comfortable level currently

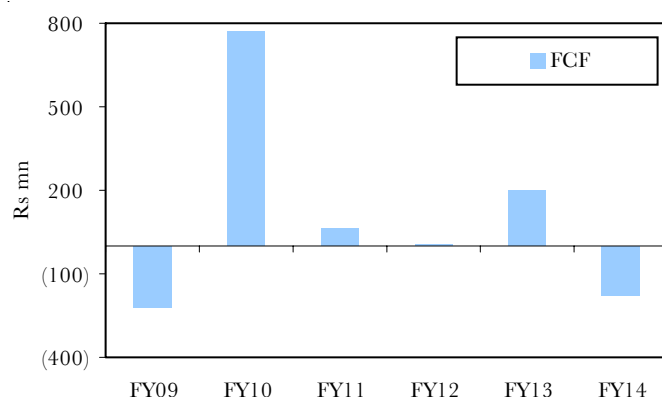


Source: Company, B&K Research

Capex slightly higher than CFO in FY14



FCF low to negative since FY11



Cash flow: Generating enough to fund capex needs over the years; FCF dips into the negative in FY14

Source: Company, B&K Research

Income Statement (Consolidated)

Period end (Rs mn)	Mar 14	Mar 15E	Mar 16E	Mar 17E
Net Sales	17,363	21,736	27,884	35,707
<i>Growth (%)</i>	22.8	25.2	28.3	28.1
Operating Expenses	(14,867)	(19,048)	(23,950)	(30,268)
Operating Profit	2,496	2,688	3,934	5,439
EBITDA	2,496	2,688	3,934	5,439
<i>Growth (%)</i>	3.3	7.7	46.4	38.2
Depreciation	(787)	(920)	(1,088)	(1,300)
Other Income	94	69	68	93
EBIT	1,803	1,837	2,914	4,232
Profit Before Tax	1,803	1,837	2,914	4,232
Tax (Current + Deferred)	(620)	(514)	(874)	(1,409)
P/(L) For The Period	1,182	1,323	2,040	2,822
Reported Profit/(Loss)	1,182	1,323	2,040	2,822
Adjusted Net Profit	1,182	1,323	2,040	2,822
<i>Growth (%)</i>	(9.8)	11.9	54.2	38.4

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 14	Mar 15E	Mar 16E	Mar 17E
Share Capital	654	654	654	654
Reserves & Surplus	4,846	6,167	8,207	11,029
Shareholders' Funds	5,500	6,821	8,861	11,684
Non-Current Liabilities	464	464	486	516
Other Non-Current Liabilities	464	464	486	516
Current Liabilities	2,656	3,078	3,886	4,761
Other Current Liabilities	2,656	3,078	3,886	4,761
Total (Equity and Liab.)	8,620	10,363	13,234	16,961
Non-Current Assets	6,741	9,006	10,952	13,271
Fixed Assets (Net Block)	5,660	7,600	9,188	10,948
Long-Term Loans and Advances	1,077	1,402	1,761	2,319
Other Non-Current Assets	4	4	4	4
Current Assets	1,878	1,357	2,281	3,690
Cash & Current Investments	1,180	683	1,411	2,215
Other Current Assets	699	674	870	1,475
Total (Assets)	8,620	10,363	13,234	16,961
Capital Employed	5,964	7,285	9,348	12,200

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 14	Mar 15E	Mar 16E	Mar 17E
Profit Before Tax	1,803	1,837	2,914	4,232
Depreciation	787	920	1,088	1,300
Change in Working Capital	151	124	237	(273)
Total Tax Paid	(446)	(514)	(874)	(1,409)
Others	(85)	(67)	(65)	(89)
Operating Cash Flow (a)	2,209	2,300	3,299	3,761
Capital Expenditure	(2,478)	(2,861)	(2,660)	(3,076)
Change in Investments	3	700	0	0
Others	84	67	65	89
Investing Cash Flow (b)	(2,391)	(2,094)	(2,595)	(2,986)
Free Cash Flow (a+b)	(182)	205	705	774
Equity Raised / (Repaid)	15	0	0	0
Others	35	(2)	23	29
Financing Cash Flow (c)	49	(2)	23	29
Net Chg in Cash (a+b+c)	(133)	203	728	804

Key Ratios (Consolidated)

Period end (%)	Mar 14	Mar 15E	Mar 16E	Mar 17E
Adjusted EPS (Rs)	18.1	20.2	31.2	43.1
Growth	(10.1)	11.7	54.2	38.4
CEPS (Rs)	30.1	34.3	47.8	63.0
Book Value / Share (Rs)	84.1	104.2	135.4	178.5
EBITDA Margin	14.4	12.4	14.1	15.2
EBIT Margin	10.4	8.5	10.5	11.9
Tax Rate	34.4	28.0	30.0	33.3
RoCE	34.3	27.7	35.0	39.3
Net Debt / Equity (x)	(0.2)	(0.1)	(0.2)	(0.2)
Du Pont Analysis - ROE				
Net Profit Margin	6.8	6.1	7.3	7.9
Asset Turnover (x)	2.3	2.3	2.4	2.4
Leverage Factor (x)	1.5	1.5	1.5	1.5
Return on Equity	24.1	21.5	26.0	27.5

Valuations (Consolidated)

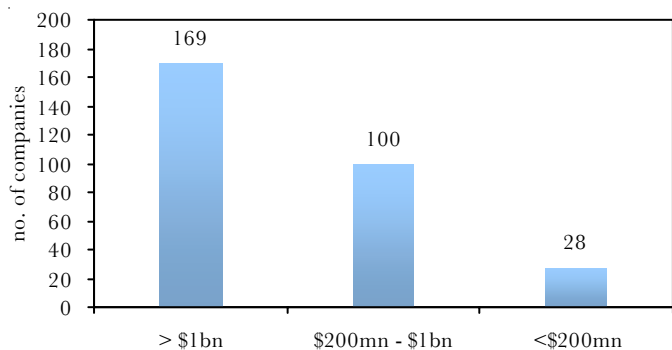
Period end (x)	Mar 14	Mar 15E	Mar 16E	Mar 17E
PER	58.8	62.1	40.3	29.1
PCE	35.3	36.6	26.3	19.9
Price / Book	12.6	12.0	9.3	7.0
EV / EBITDA	27.4	30.3	20.5	14.7

Resham Jain, CFA
resham.jain@bksec.com
+91-22-4031 7133

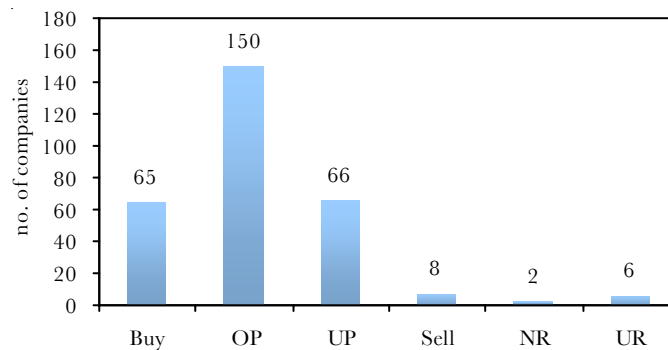
Aasim Bharde
aasim.bharde@bksec.com
+91-22-4031 7135

B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Bativala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings

- | | | | |
|------------------------------------|---------------------------|---------------------------------------|---------------------------|
| 1. BUY: Potential upside of | > +25% (absolute returns) | 3. UNDERPERFORMER: | 0 to -25% |
| 2. OUTPERFORMER: | 0 to +25% | 4. SELL: Potential downside of | < -25% (absolute returns) |

Disclaimer: This report was prepared, approved, published and distributed by Bativala & Karani Securities India Private Limited ("B&K") located outside of the United States (a "non-US Group Company"), which accepts responsibility for its contents. It is distributed in the U.S. by Enclave Capital, a U.S. registered broker dealer, on behalf of B&K, only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization. Outside the United States, this report is distributed by B&K or an authorized affiliate of B&K.

The report has been compiled or arrived from sources believed to be reliable and in good faith, but no representation or warranty, express or implied is made as to their accuracy, completeness or correctness. B&K has not verified the factual accuracy, assumptions, calculations or completeness of the information. Accordingly, B&K accepts no liability whatsoever for any direct or consequential loss or damage arising from (i) the use of this communication (ii) reliance of any information contained herein, (iii) any error, omission or inaccuracy in any such Information or (iv) any action resulting there from. B&K provides the information for the purpose of the intended recipient's analysis and review and recipients are advised to verify the factual accuracy, assumptions, calculations and completeness of the information.

This report was produced by B&K solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions. This document does not constitute an offer of, or an invitation by or on behalf of B&K or its affiliates or any other company to any person, to buy or sell any security.

Analyst Certification: Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Important US Regulatory Disclosures on Subject Companies

- B&K or its Affiliates have not recently been the beneficial owners of 1% or more of the securities mentioned in this report.
- B&K or its Affiliates have not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
- B&K or its Affiliates have not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
- However, one or more person of B&K or its affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon either on their own account or on behalf of their clients.
- B&K or its Affiliates may, to the extent permitted by law, act upon or use the above material or the conclusions stated above or the research or analysis on which they are based before the material is published to recipients and from time to time provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.
- As of the publication of this report, Enclave Capital does not make a market in the subject securities.

Enclave Capital is the distributor of this document in the United States of America. Any US customer wishing to effect transactions in any securities referred to herein or options thereon should do so only by contacting a representative of Enclave Capital and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital (19 West 44th Street, suite 1700, New York, NY 10036).

B & K SECURITIES INDIA PRIVATE LTD.

Equity Research Division: City Ice Bldg, 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.
Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.