

Food, Beverage & Tobacco/India IPO Grading Report

Jubilant FoodWorks Limited

Fitch IPO Grade 3(ind)

Fitch has assigned a grade of '3 (ind)' out of a maximum of '5 (ind)' to the proposed IPO of Jubilant FoodWorks Limited (JFL). The grade indicates the average fundamentals of the issue relative to other listed equity securities in India

IPO Details

Jubilant FoodWorks Limited proposes an IPO of its up-to-22,670,447 equity shares of INR10 each. This includes fresh issuance of 4,000,000 shares and offers for sale of 12,002,431 and 6,668,016 shares by the India Private Equity Fund (Mauritius) and Indocean Pizza Holding Limited, respectively (selling shareholders)

Financial Snapshot

Jubilant FoodWorks Limited		
	2009	2008
Revenues (INRm)	2,806	2,112
Operating EBITDA (INRm)	339	257
Operating EBIT (INRm)	169	138
Net income (INRm)	73	85
Total debt (INRm)	824.5	516.6
Total adjusted debt (INRm)	2,697	1,794
Net worth (INRm)	239.6	166.5
Op. EBITDA margin (%)	12.1	12.2
Op. EBIT margin (%)	6.0	6.5
Net income margin (%)	2.6	4.0
Earnings per share	1.26	1.47
Total adjusted debt/equity	11.3	10.8

Analysts

Shashi Kant Ranjan
+91 11 4356 7252
Shashikant.ranjan@fitchratings.com

Ashish Upadhyay
+91 11 4356 7245
Ashish.upadhyay@fitchratings.com

Shareholding Pattern

	Pre-issue (m)		Post-issue (m)	
	No. of shares	(%)	No. of shares	(%)
Promoters and Promoter Group	39.49	66.24	39.49	62.07
Indocean Pizza Holding Limited	6.67	11.18	-	-
India Private Equity Fund	12.00	20.13	-	-
Arvind Nair	1.18	1.97	1.18	1.85
Employees (shared granted after exercise of ESOPs)	0.28	0.47	0.28	0.44
Public	-	-	22.67	35.68
Total	59.62	100.00	63.62	100.00

Source: Company, Fitch

Grading Rationale

The grading assigned to Jubilant FoodWorks Limited (JFL, formerly Dominos Pizza India Limited) reflects its established presence in the "organised" pizza industry in India, holding the largest market share. JFL has been Domino's Pizza Overseas Franchising's (DP Overseas) exclusive master franchisee in India since 1995. The grading is underpinned by JFL's strong pan-India network and expanding operations; its track record of managing the pizza business; efficient working capital management; and its strong brand recall. The grading also factors in the experienced promoter background. The business of JFL, which operates primarily in the "quick service" restaurant format, has been supported by changing demographic profiles, rising income levels, growth of the middle class, rising urbanisation, an increase in the number of nuclear families, a rising proportion of women in the workforce, and an expanding younger population base — all of which have contributed to an increased trend towards home-delivery services and growth in the pizza industry.

JFL has been growing considerably over the last four years — both in operations and revenue. During financial years ending March 2006 to March 2009 (FY06-FY09), operating revenue grew at a compound annual growth rate (CAGR) of over 42% — from INR970.4m in FY06 to INR2.8bn in FY09. JFL is currently (December 2009) the largest player in the Indian "organised" pizza industry, with 241 operational stores at financial year-end 2009 (FYE09), up from 105 at FYE06. In September 2009, JFL renewed its master franchise from DP Overseas for the period up to 2024, and has an ambitious plan for expanding its chain in the coming years.

Fitch expects the food services industry to continue to grow, particularly in home-delivery services. Increasing competition between pizza players, and from quick-service restaurants not playing in the pizza segment (eg McDonalds, KFC), could affect JFL's growth — and might also result in a loss of market share and reduced profitability. As JFL continues to expand its operational network, future performance will greatly depend on its ability to generate revenues from new locations as anticipated, continue to grow same-store sales, effectively manage the operational management issues arising from the expansion, and the ability to execute the growth plan in a timely manner without incurring cost overruns. Fitch also notes that JFL's net accumulated losses at FYE09 were INR732.72m.

The proposed IPO includes fresh issuance of 4,000,000 shares and offers for sale of 12,002,431 and 6,668,016 shares by the India Private Equity Fund (Mauritius) (IPEF) and Indocean Pizza Holding Limited (IPHL), respectively (selling shareholders). The net proceeds of the issue are expected to go towards the prepayment of existing

loans to the extent of INR350m, and the remainder towards general corporate purposes.

Key Grading Issues

Areas of Strength

- Leader in the national “organised” pizza industry, with the largest market share and largest network of operational stores.
- Exclusive franchisee of a global brand, with strong brand recall.
- Continuing growth in the food services industry; driven by changing demographics, rising income levels and changing consumer preferences.
- Healthy operating margins.

Areas of Concern

- Increasing competition could lead to loss of market share and reduced profitability.
- Future performance will be tied to management’s ability to drive same-stores sales growth, and capture anticipated revenue levels from new locations.
- Significant net accumulated losses.

Company Background

JFL was incorporated in 1995 under the name of Domino’s Pizza India Private Limited, and later renamed Jubilant FoodWorks Limited in 2009. JFL has Master Franchise rights from Domino’s Pizza Overseas Franchising B. V. for developing and operating Domino’s Pizza delivery stores in India, Sri Lanka, Bangladesh and Nepal. The master franchise agreement was renewed in September 2009 for the period up to 2024, extendable by another 10 years at the option of JFL. The franchise agreement provides for the exclusivity in the territories assigned to JFL.

Promoters

JFL is a Jubilant Bhartia Group company, and is promoted by Mr. Shyam S Bhartia, Mr. Hari S Bhartia and Jubilant Enpro Private Limited (JEPL). These parties hold 1, 1 and 34,655,452 equity shares of JFL, respectively – collectively holding a majority stake of 58.13%. The promoters and promoter group combined have a stake of 66.24%, with the remainder being held primarily by the selling shareholders IPEF and IPHL. Post-IPO, the promoters and promoter group’s holding is expected to decrease to 62.07%.

The management team is well-qualified and experienced in the food and beverage industry, as well as in other related functions.

Competition

JFL is well-positioned to face competition, with its well-known brand and the largest chain of quick-service restaurants in the country. Competition has reached significant levels, with a number of national and international pizza chains such as *Pizza Hut*, *Papa John’s*, and *Smokin’ Joe’s*. JFL nevertheless leads the organized pizza market, and the increasing inclination of “new-age” customers towards quick-service “Western”-style food choices, coupled with the promotions by all pizza players, continue to drive growth in the pizza industry which currently looks far from saturation. However, as JFL and other pizza players expand further, the intensified competition could lead to downward pressure on prices, slimmer margins, and loss of market share. JFL also faces significant competition from other quick service restaurants such as *Mc Donald’s*, *KFC*, and, to a small extent, also from fine dining restaurants.

Business Overview

JFL is engaged in the business of selling Domino's pizzas via its quick service restaurants, catering primarily to the takeaway and delivery segments. The company leads the organized home delivery segment with a market share of over 65% as per Food Franchising Report 2009. As of 31 October 2009, the company had 283 operational stores which are backed by its own commissaries (4 in number) located in four metros - Delhi, Mumbai, Kolkata and Chennai to cater to its all India operations. JFL also operates in Sri Lanka through its sub-franchisee DP Lanka Private Limited which currently operates five stores and pays royalty bases on sales achieved, which in turn is shared between JFL and Domino's International.

Financial Performance

JFL incurred net losses up to FY05, and carried accumulated losses totalling INR733m at FYE09. However, revenues have grown at a CAGR of 42.5% from FY06 to FY09. Revenue in FY09 rose to INR2.8bn, up 33% from the previous year's INR2.1bn. A significant portion (46%) of the growth in revenues was contributed by the new stores opened in the year; the company added 60 new stores during FY09, while one was closed down. The growth in same-store sales was lower in FY09 at 6%, against 20% and 22% in FY08 and FY07 respectively. Net income for FY09 was INR73m, down from INR85.5m in FY08 — due to increased interest costs on account of significant debt-funded capex.

Despite the significant growth in operational size, the emphasis on operational efficiency, cost consciousness, a robust supply chain management, and the ability to pass on the rise in raw material prices to end-customers, have helped the company to maintain its operating margin (operating EBITDA/revenues) at around 12% during FY06-FY09. Operating EBITDAR/revenues during this period ranged between 20%-22%.

Though the company had positive cash flow from operations (CFO), free cash flow (FCF) has remained negative on account of the significant capex outflows — which totalled INR541.6m in FY09. The company plans to add a further 65 to 70 stores in FY10, with corresponding capex planned to be funded from internal accruals — and will continue to add a significant number of new stores in the medium term.

With improving net profits, earnings per share have improved from INR0.2 in FY06 (the first year of net profit) to INR1.26 in FY09. EBIT margins have, however, declined over the last three years (FY07-FY09) due to increasing depreciation costs, and were down to 6% in FY09 against 6.5% a year ago. Consequently, return on capital employed as measured by EBIT/capital employed also declined to 15.5% in FY09 from 19.7% in FY08. The debt/equity ratio has been improving from its historical levels, and stood at 3.4x at FYE09.

The equity base has been reduced due to accumulated losses, and total balance sheet debt at FYE09 was INR824.45m. Adjusting for rental expenses from operating leases as per Fitch's methodology, however, makes total adjusted debt equal to INR2,696.93m, taking total adjusted debt/net worth to 11.3x.

For the half-year period ending September 2009, the company generated INR1.8bn in revenue, up 42% from INR1.3bn for the corresponding period in 2008. Net profit increased to INR111.9m against INR20.8m, while total debt also increased to INR836.38m.

Outlook

The continued growth in Indian economy, rising income levels and favourable changes in customer preferences provides promising growth prospects for the pizza industry. Coupled with JFL's established market presence and expanding network, this is expected to lead to strong revenue growth and accretion to shareholder

wealth in the medium term. However, with considerably increased operational size after medium term, incremental accretions will largely depend on the company's ability to drive same store sales growth.

Annex 1 – Financial Performance
Jubilant FoodWorks Limited

(INRm)	Fiscal year ended			
	Mar 09	Mar 08	Mar 07	Mar 06
Summary income statement				
Gross revenues (+)	2,806.09	2,111.60	1,386.80	970.40
Revenue growth (%)	32.89	52.26	42.91	
Operating EBITDA (before income from associates)	338.62	256.85	176.20	112.00
Operating EBITDA margin (%)	12.07	12.16	12.71	11.54
Operating EBITDAR	606.12	439.35	291.20	196.80
Operating EBITDAR margin (%)	21.60	20.81	21.00	20.28
Operating EBIT	169.15	137.77	98.50	23.90
Operating EBIT margin (%)	6.03	6.52	7.10	2.46
Gross interest expense	85.66	47.60	29.90	21.70
Pretax income	81.02	92.17	50.50	14.40
Net income	73.03	85.47	46.80	11.10
Summary balance sheet				
Cash and equivalents	30.21	21.77	37.10	28.80
Working capital	-92.37	-103.21	-55.90	-40.30
Accounts receivable	250.31	175.84	110.20	75.80
Inventory	55.29	38.82	30.00	19.50
Accounts payable	397.98	317.87	196.10	135.60
Total debt with equity credit	824.45	516.64	360.20	271.80
Short-term debt	19.78	23.80	9.80	10.00
Long-term senior secured debt	804.68	489.24	332.30	229.20
Long-term senior unsecured debt	0.00	3.60	18.10	32.60
Long-term subordinated debt	0.00	0.00	0.00	0.00
Other debt	0.00	0.00	0.00	0.00
Equity credit	0.00	0.00	0.00	0.00
Fitch adjustment for lease equivalent debt	1,872.48	1,277.50	805.00	593.60
Total adjusted debt with equity credit	2,696.93	1,794.14	1,165.20	865.40
Summary cash flow statement				
Operating EBITDA	338.62	256.85	176.20	112.00
Cash interest	-86.99	-54.00	-29.90	-21.40
Cash tax	-7.84	-6.70	-3.70	-3.80
Non-controlling interest	0.00	0.00	0.00	0.00
Other items before FFO	0.51	0.45	-26.30	-5.90
Funds flow from operations	244.30	196.60	116.30	80.90
Change in working capital	-10.50	49.30	33.90	11.00
Cash flow from operations	233.80	245.90	150.20	91.90
Total non-operating/non-recurring cash flow	0.00	0.00	0.00	0.00
Capital expenditures	-541.61	-433.60	-246.40	-92.50
Common dividends	0.00	0.00	0.00	0.00
Free cash flow	-307.81	-187.70	-96.20	-0.60
Free cash flow margin (%)	-10.97	-8.89	-6.94	-0.06
Net acquisitions and divestitures	0.77	1.20	2.00	0.70
Other cash flow items	0.00	0.00	0.00	0.00
Cash flow from investing	-540.84	-432.40	-244.40	-91.80
Net debt proceeds	315.41	156.44	88.40	-8.30
Net equity proceeds	0.00	0.00	0.00	0.00
Cash flow from financing	315.49	171.17	102.50	1.10
Total change in cash	8.45	-15.33	8.30	1.20
Coverage ratios (x)				
FFO interest coverage	3.85	5.13	4.89	4.73
FFO fixed charge coverage	1.69	1.85	1.80	1.76
Operating EBITDAR/gross interest expense + rents	1.72	1.91	2.01	1.85
Operating EBITDAR/net interest expense + rents	1.72	1.91	2.01	1.85
Operating EBITDA/gross interest expense	3.95	5.40	5.89	5.16
Leverage ratios (x)				
Total adjusted debt/operating EBITDAR	4.45	4.08	4.00	4.40
Total adjusted net debt/operating EBITDAR	4.40	4.03	3.87	4.25
Total debt with equity credit/operating EBITDA	2.43	2.01	2.04	2.43
FFO adjusted leverage	4.51	4.20	4.46	4.62
FFO adjusted net leverage	4.46	4.15	4.32	4.46

Jubilant FoodWorks Limited (cont.)

(INRm)	Fiscal year ended			
	Mar 09	Mar 08	Mar 07	Mar 06
Other relevant ratios				
Net worth	239.55	166.50	81.30	34.50
Net income/net worth (%)	30.49	51.33	57.56	32.17
Total balance sheet debt/net worth (x)	3.44	3.10	4.43	7.88
Total adjusted debt/net worth (x)	11.26	10.78	14.33	25.08
EBIT/capital employed (%)	15.48	19.71	21.83	7.64
Basic earnings per share (INR)	1.26	1.47	0.80	0.19

Source: JFL, Fitch

Reproduction or retransmission in whole or part is prohibited except by permission. All rights reserved. The above grading ("Grading") assigned by Fitch is largely based on Fitch's assessment of the fundamental financial strength of the issuer. The Grading does not constitute a credit rating by Fitch. Our procedures for issuing a credit rating differ from the procedures used to issue the Grading. The Grading has been arrived at based on information and documents provided to us by the issuer and other parties. Fitch relies on these parties for the accuracy of such information and documents. Fitch did not audit or verify the truth or accuracy of any such information and does not take responsibility for the appropriateness of the information provided and used in our analysis. The Grading is provided "as is" and Fitch does not represent, warrant or guarantee (i) the accuracy, correctness, integrity, completeness or timeliness of any part of the Grading, or (ii) that the Grading (or any credit rating) and the information and analyses contained in, and constituting a part thereof, will fulfill any person's particular purposes or needs. The Grading reflects the opinion of Fitch as at the date of publication and will not be monitored, and therefore will not be updated to reflect changed circumstances or information that may affect the Grading. The report providing the Grading is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of securities. The Grading does not comment on the suitability of the issue process, the adequacy of market price, the suitability of any investment, loan or security for a particular investor (including, without limitation, any accounting and/or regulatory treatment), or the tax-exempt nature or taxability of payments made in respect of any investment, loan or security. Fitch is not providing any financial advice, or any legal, auditing, accounting, appraisal, valuation or actuarial services. The Grading should not be viewed as a replacement for such advice or services. In providing the Grading, Fitch is not making any recommendation or suggestion, directly or indirectly, to any person to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security of any issuer. Any person who uses the Grading does so entirely at its own risk. Investors are advised to obtain individual financial advice based on their risk profile before taking any action based on the Grading. There is no fiduciary relationship between us and any third party, including, without limitation, any user of the Grading. Fitch is not responsible for any underwriting, credit, loan, purchase, strategic or investment decision, or damages or other losses resulting from use of the Grading. None of Fitch, its officers, employees, affiliated companies and their officers and employees shall have any liability in contract, tort, or otherwise (including, without limitation, for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits) in relation to the use of the Grading by any third party. Fitch receives fees from the issuer for performing the Grading exercise. Such fees vary from US\$5000 to US\$150000 per issue. Due to the relative efficiency of electronic publishing and distribution, the Grading may be available to electronic subscribers up to three days prior to print subscribers.