

# Barbeque Nation Hospitality

Estimate change	↑
TP change	↔
Rating change	↔

Bloomberg	BARBEQUE IN
Equity Shares (m)	39
M.Cap.(INRb)/(USD\$)	57.1 / 0.8
52-Week Range (INR)	1950 / 481
1, 6, 12 Rel. Per (%)	4/48/-
12M Avg Val (INR M)	249

## Financials & Valuations (INR b)

Y/E March	2022E	2023E	2024E
Sales	8.8	12.7	15.3
Sales Gr. (%)	72.9	45.0	20.0
EBITDA	1.4	2.3	2.9
Margins (%)	16.2	18.3	19.2
Adj. PAT	-0.2	0.1	0.6
Adj. EPS (INR)	-6.2	3.3	16.3
EPS Gr. (%)	N/M	L/P	388.7
BV/Sh.(INR)	129.0	132.3	148.6

## Ratios

RoE (%)	-4.8	2.5	11.0
RoCE (%)	3.1	5.6	10.9

## Valuation

P/E (x)	N/M	440.5	90.1
P/BV (x)	11.4	11.1	9.9
EV/EBITDA (x)	37.6	23.0	18.2

## Shareholding pattern (%)

As On	Dec-21	Sep-21
Promoter	34.5	34.6
DII	17.0	16.8
FII	11.6	11.3
Others	36.9	37.3

FII Includes depository receipts

**CMP: INR1468 TP: INR1600 (+9%) Neutral**

## Commendable performance as dine-in recovers and delivery sustains

- BARBEQUE delivered a strong all-round performance in 3QFY22 as the increase in mobility and upbeat festive sentiment drove a strong recovery in its dine-in business to 108% of pre-COVID levels. While the recovery is flat on a per store basis, it is still commendable considering QSR players are considerably lagging in terms of a recovery in the dine-in channel. At the same time, the delivery channel continues to hold up well, meeting the management's FY22 sales guidance of INR1.5b sales in 9M itself.
- Although the company raised prices by 5-6% to beat commodity inflation, gross margin expanded by 20bp YoY. The gain of 180bp YoY in operating margin was largely led by operating leverage.
- While the near term headwinds on account of the Omicron COVID wave will impact its 4QFY22 performance, its medium term prospects remain intact. With its unique offerings and value proposition, BARBEQUE is well placed to deliver sustainable growth in both dine-in and delivery, as highlighted in our recent [initiating coverage](#) note on the company.
- Considering the CDR format of the business, we do not expect it to trade at a premium to QSRs. Current valuations at 18.2x FY24E EV/EBITDA limit any upside, hence we maintain our **Neutral** rating.

## Big beat on a strong recovery

- **Sales grew 47.1% YoY to INR2.9b.** (est. INR2.5b), with SSSG of 42.7% (est. 20%). EBITDA grew 59.6% YoY to INR657m (est. INR469m). Adjusted PAT stood at INR146m as against a loss of INR34m in 3QFY21.
- **It opened seven Barbeque Nation (BBQN) stores and closed a store.** This takes its BBQN store count to 157 in India at the end of 3QFY22. It added three restaurants in Jan'22, taking its total YTD count to 160. It added four extension kitchens for BBQN, taking its total count to 12 in 3QFY22.
- BARBEQUE opened one outlet of Toscano in 3QFY22, taking its total count to 11 outlets.
- **Gross margin rose 20bp YoY to 65.8%.** EBITDA margin expanded by 180bp YoY to 18.7% (est. 18.5%).
- **EBITDA (including other income) adjusted for Ind AS 116 grew 72.8% YoY** to INR442m in 3QFY22. EBITDA margin expanded by 230bp YoY to 15.4% in 3QFY22.

## Highlights from the management commentary

- COVID-related restrictions returned at the end of Dec'21 and impacted the business in Jan'22 as well. Some of these restrictions have now been rescinded.
- The company is seeing unprecedented RM inflation, especially in meat cost. It raised prices by 5-6% in 3QFY22.
- The management is confident of achieving its target of 20 new restaurants in FY22. It aims to add 10-12 stores in 4QFY22 and 35-40 stores annually.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

## Valuation and view

- We raise our FY22E/FY23E/FY24E EBITDA estimate by ~20%/~20%/~10% on account of the company's sustainable topline and margin performance.
- BARBEQUE's medium term growth outlook remains attractive, driven by dine-in growth, delivery boosting ADS, opportunity to enter new markets, and stable mid-teen operating margin potential.
- With the advantages of QSRs over CDRs (higher affordability and scalability, strong delivery platform, and robust technological back-end), we do not think that BARBEQUE has the potential to trade at a relative premium to QSRs. Its current valuations seem fair and limits any upside from a one-year perspective. Hence, we maintain our **Neutral** rating with a TP of INR1,600/share (20x FY24E EV/EBITDA).

## Quarterly performance

Y/E March	FY21				FY22				(INR m)		
									FY21	FY22E	FY22E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE
<b>SSSG (%)</b>	-95.8	-66.9	-21.2	19.9	960.0	184.0	42.7	13.0	-44.3	67.3	20.0
<b>No. of stores</b>	162	162	163	164	166	167	174	184	164	184	175
<b>Net Sales</b>	98	761	1,948	2,263	1,020	2,209	2,867	2,674	5,071	8,769	2,533
YoY change (%)	-	-	-	18.5	939.1	190.3	47.1	18.1	-40.1	72.9	30.0
<b>Gross profit</b>	30	473	1,278	1,508	600	1,450	1,886	1,738	3,288	5,674	1,646
Margin (%)	30.1	62.1	65.6	66.6	58.9	65.6	65.8	65.0	64.8	64.7	65.0
<b>EBITDA</b>	-361	-42	412	455	-178	413	657	526	464	1,418	469
EBITDA growth (%)	-	-	-	82.0	N/M	N/M	59.6	15.6	-71.8	205.7	13.8
Margin (%)	-367.6	-5.5	21.1	20.1	-17.5	18.7	22.9	19.7	9.1	16.2	18.5
Depreciation	306	301	313	291	289	304	340	375	1,212	1,308	310
Interest	222	224	217	186	166	153	172	195	849	686	150
Other Income	152	117	86	106	74	85	45	68	460	272	60
<b>PBT</b>	-736	-451	-32	83	-559	41	190	25	-1,136	-303	69
Tax	-131	-86	2	19	-120	10	44	5	-197	-61	0
Rate (%)	17.8	19.1	-5.4	23.0	21.5	24.9	23.2	20.0	17.3	20.2	0.0
<b>Adjusted PAT</b>	-605	-365	-34	64	-439	31	146	20	-940	-242	69
YoY change (%)	-	-	-	N/M	N/M	L/P	L/P	L/P	-	-	-

E: MOFSL estimates

## Key performance indicators

Y/E March	FY21				FY22		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
<b>Channel mix (%)</b>							
Dine-in	57.7	78.8	85.4	87.4	45.0	76.8	83.7
Delivery	42.3	21.2	14.6	12.6	55.0	23.2	16.3
<b>Average growth in the last two-years (%)</b>							
Sales	-	-	-	18.5	939.1	190.3	47.1
EBITDA	-	-	-	82.0	-	-	59.6
PAT	-	-	-	-	-	-	-
<b>As a percentage of sales</b>							
COGS	69.9	37.9	34.4	33.4	41.1	34.4	34.2
Operating Expenses	397.8	67.7	44.5	46.5	76.3	46.9	42.9
Depreciation	311.6	39.6	16.1	12.9	28.3	13.8	11.9
<b>YoY change (%)</b>							
COGS	-	-	-	10.7	511.9	163.5	46.4
Operating Expenses	-	-	-	7.8	99.4	101.3	41.8
Other Income	-	-	-	-2,457.1	-51.5	-27.1	-47.6
EBIT	-	-	-	-152.9	-29.9	-131.7	221.6

E: MOFSL estimates



## Key takeaways from the management interaction

### Store network

- The management is confident of achieving its target of 20 new restaurants in FY22. It aims to add 10-12 stores in 4QFY22 and 35-40 stores annually.
- It takes four-to-five months to develop a store.
- The management said it is seeing the best rental deals in the market.

### Channels

- It has already achieved delivery sales of INR1.5b in 9M, which was its guidance for FY22. The management expects to achieve INR2b in delivery sales in FY22.
- It aims to grow the delivery business by 20-25% annually going forward and take its contribution to sales to 15-20%.
- The first four months of FY22 saw higher delivery sales due to the lockdown restrictions imposed due to the second COVID wave. It is now seeing stability in its delivery business.
- As the delivery business is maturing, BARBEQUE is optimizing costs.
- The management explained that Barbeque-in-a-Box is driven by occasion led demand, while a-la-carte demand is impulse led.
- While a recovery in dine-in is 108% overall, it is flat on a per store basis.

### Impact from the Omicron COVID variant

- COVID-related restrictions returned at the end of Dec'21 and impacted the business in Jan'22 as well. Some of these restrictions have now been rescinded.
- Over 90% of its outlets were fully operational in 3QFY22.

### International market

- The company will add 1-2 stores annually in the international market.
- It achieved more than 20% corporate EBITDA in the international business.

### Toscano

- BARBEQUE is investing INR170m in Toscano at a valuation of INR880m. This investment will raise its stake to 68.81% from 61.35% and will be on a diluted basis due to the primary infusion.
- The management aims to take its store network to 20-25 outlets in two years from 11 currently.
- It is looking to enter new markets like Mumbai from its current presence in Bengaluru and Pune.

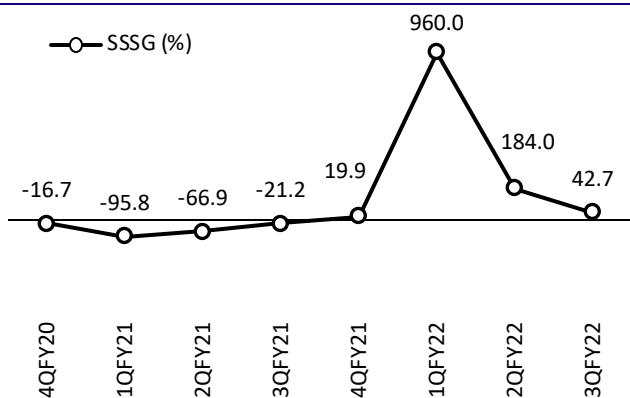
### Financials

- The gap between ROM and EBITDA has fallen to 5.3%. The management doesn't expect it to go below 5% at the most.
- The company is seeing unprecedented RM inflation, especially in meat cost. It raised prices by 5-6% in 3QFY22.
- It doesn't see any need to raise prices further.
- The management said the bottlenecks in global supply chains are easing now.
- It has a WC debt of INR200-230m and a net cash of ~INR900m. This does not include its Toscano investment.

- BARBEQUE had reduced headcount at the store level by 10% during the COVID-19 outbreak. The management said it cannot opt for part-time/contract workers as its business model is service oriented and it needs to train its employees.
- It has avoided spending on A&P and instead prefers to deliver value to the customer. The company has historically depended on word-of-mouth publicity. It will now consider some brand investments to drive footfalls on certain promotional days.

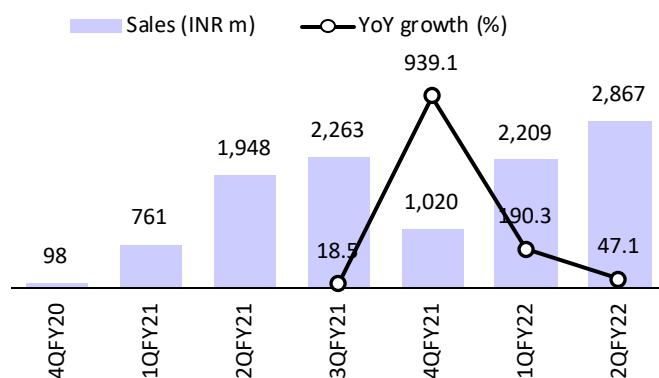
## Key exhibits

Exhibit 1: SSSG stood at 42.7% YoY in 3QFY22



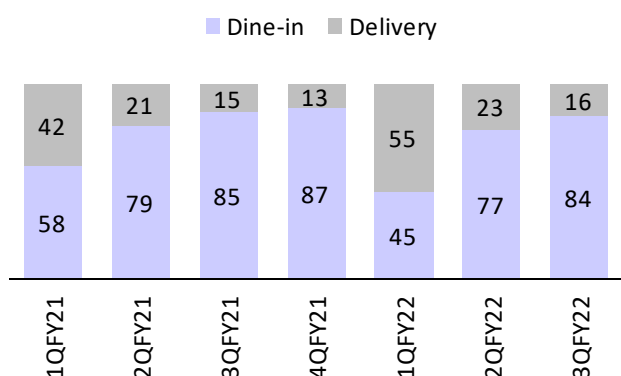
Source: Company, MOFSL

Exhibit 2: Net sales grew 47.1% YoY to INR2.9b in 3QFY22



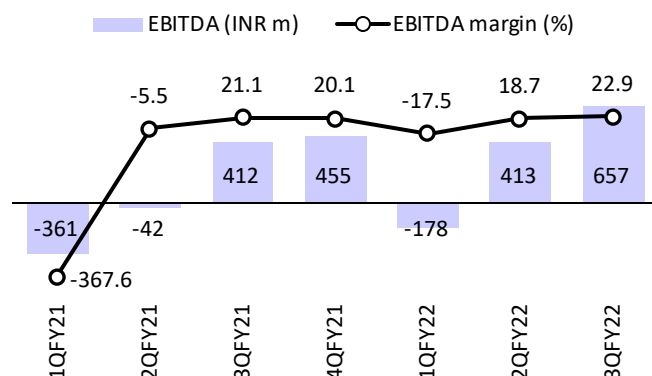
Source: Company, MOFSL

Exhibit 3: Dine-in contribution at 84% in 3QFY22



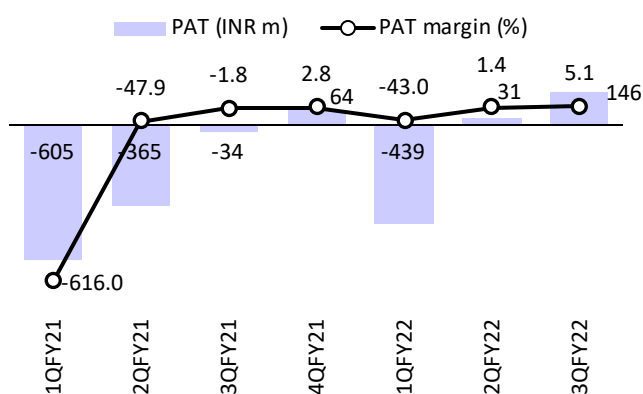
Source: Company, MOFSL

Exhibit 4: EBITDA margin expands by 180bp YoY to 22.9%



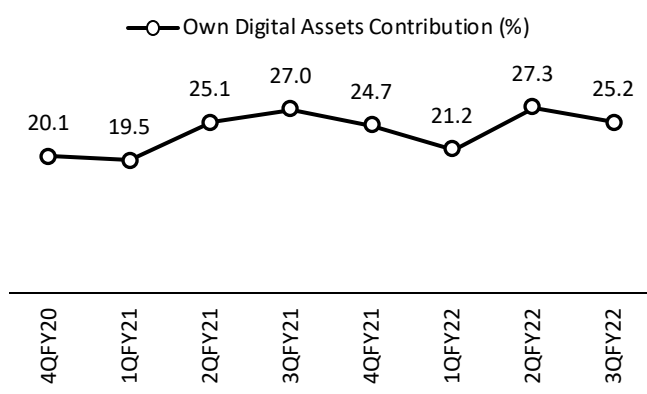
Source: Company, MOFSL

Exhibit 5: Adjusted PAT margin expands 690bp YoY to 5.1% in 3QFY22



Source: Company, MOFSL

Exhibit 6: Contribution from its own digital assets stood at 25.2% in 3QFY22



Source: Company, MOFSL

### Valuation and view

- We raise our FY22E/FY23E/FY24E EBITDA estimate by ~20%/~20%/~10% on account of the company's sustainable topline and margin performance.
- BARBEQUE's medium term growth outlook remains attractive, driven by dine-in growth, delivery boosting ADS, opportunity to enter new markets, and stable mid-teen operating margin potential.
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**Exhibit 7: Raise our EBITDA forecast for FY22E/FY23E/FY24E by ~20%/~20%/~10%**

	New estimate			Old estimate			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Sales	8,769	12,717	15,262	8,339	12,518	15,043	5.2	1.6	1.5
EBITDA	1,418	2,324	2,934	1,180	1,944	2,675	20.2	19.5	9.7
PAT	(242)	129	631	(282)	(202)	389	-	-	62.2

Source: Company, MOFSL

## Financials and valuations

Income Statement								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Sales</b>	<b>4,895</b>	<b>5,863</b>	<b>7,390</b>	<b>8,470</b>	<b>5,071</b>	<b>8,769</b>	<b>12,717</b>	<b>15,262</b>
Change (%)	21.4	19.8	26.0	14.6	-40.1	72.9	45.0	20.0
Material Consumed	1,742	1,978	2,476	2,922	1,782	3,096	4,362	5,189
<b>Gross Profit</b>	<b>3,153</b>	<b>3,885</b>	<b>4,914</b>	<b>5,548</b>	<b>3,288</b>	<b>5,674</b>	<b>8,355</b>	<b>10,073</b>
Gross Margin (%)	64.4	66.3	66.5	65.5	64.8	64.7	65.7	66.0
Operating expenses	1,977	2,522	3,455	3,906	2,825	4,256	6,031	7,139
<b>EBITDA</b>	<b>1,176</b>	<b>1,363</b>	<b>1,459</b>	<b>1,642</b>	<b>464</b>	<b>1,418</b>	<b>2,324</b>	<b>2,934</b>
Change (%)	139.8	15.9	7.0	12.6	-71.8	205.7	63.9	26.2
Margin (%)	24.0	23.2	19.7	19.4	9.1	16.2	18.3	19.2
Depreciation	627	703	895	1,340	1,212	1,308	1,669	1,671
Int. and Fin. Ch.	438	536	564	756	849	686	680	726
Other Non-recurring Inc.	20	41	35	38	460	272	198	127
<b>PBT</b>	<b>131</b>	<b>165</b>	<b>35</b>	<b>-415</b>	<b>-1,136</b>	<b>-303</b>	<b>173</b>	<b>664</b>
Tax	64	124	144	78	-197	-61	43	33
Tax Rate (%)	49.2	74.9	416.8	-18.8	17.3	20.2	25.2	5.0
<b>Adjusted PAT</b>	<b>66</b>	<b>41</b>	<b>-109</b>	<b>-493</b>	<b>-940</b>	<b>-242</b>	<b>129</b>	<b>631</b>
Change (%)	12.8	-37.5	P/L	-	-	-	L/P	388.7
Margin (%)	1.4	0.7	-1.5	-5.8	-18.5	-2.8	1.0	4.1
Non-rec. (Exp.)/Inc.	-48	-99	-275	164	21	0	0	0
Minority interest	-3	0	0	-5	-14	0	0	0
<b>Reported PAT</b>	<b>21</b>	<b>-58</b>	<b>-384</b>	<b>-324</b>	<b>-905</b>	<b>-242</b>	<b>129</b>	<b>631</b>

Balance Sheet								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	135	138	140	140	170	194	194	194
Reserves	925	1,312	1,176	-81	2,269	4,803	4,932	5,563
<b>Net Worth</b>	<b>1,060</b>	<b>1,450</b>	<b>1,316</b>	<b>59</b>	<b>2,439</b>	<b>4,997</b>	<b>5,126</b>	<b>5,757</b>
Loans	854	1,277	1,579	2,450	1,528	400	400	400
Lease Liabilities	2,707	3,507	4,200	4,816	4,498	5,583	6,037	6,459
Others	0	0	0	52	38	38	38	38
<b>Capital Employed</b>	<b>4,622</b>	<b>6,234</b>	<b>7,095</b>	<b>7,377</b>	<b>8,503</b>	<b>11,018</b>	<b>11,601</b>	<b>12,654</b>
Gross Block	5,579	7,446	9,619	11,910	12,049	13,444	15,570	17,757
Less: Accum. Depn.	1,517	2,197	2,986	4,507	5,456	6,763	8,432	10,104
<b>Net Fixed Assets</b>	<b>4,062</b>	<b>5,249</b>	<b>6,634</b>	<b>7,404</b>	<b>6,593</b>	<b>6,681</b>	<b>7,138</b>	<b>7,654</b>
Capital WIP	150	185	159	109	60	60	60	60
Goodwill	230	230	190	723	723	723	723	723
Investments	28	0	0	0	0	2,459	1,921	1,600
Deferred tax assets	0	0	0	0	0	0	0	0
<b>Curr. Assets, L&amp;A</b>	<b>818</b>	<b>1,568</b>	<b>1,209</b>	<b>1,319</b>	<b>4,002</b>	<b>3,492</b>	<b>4,484</b>	<b>5,653</b>
Inventory	161	190	193	149	202	240	383	502
Account Receivables	41	56	49	22	26	48	80	84
Cash and Bank Balance	53	436	120	147	2,455	1,489	1,792	2,171
Others	564	886	847	1,001	1,319	1,714	2,229	2,897
<b>Curr. Liab. and Prov.</b>	<b>623</b>	<b>945</b>	<b>1,057</b>	<b>2,167</b>	<b>2,855</b>	<b>2,376</b>	<b>2,705</b>	<b>2,979</b>
Other Current Liabilities	109	152	141	894	1,237	1,261	1,325	1,351
Creditors	417	673	768	1,125	1,468	961	1,219	1,463
Provisions	98	120	148	148	150	153	161	164
<b>Net Curr. Assets</b>	<b>195</b>	<b>623</b>	<b>152</b>	<b>-848</b>	<b>1,147</b>	<b>1,116</b>	<b>1,779</b>	<b>2,674</b>
Current tax liabilities	-43	-53	-40	-11	-20	-20	-20	-20
<b>Appl. of Funds</b>	<b>4,622</b>	<b>6,234</b>	<b>7,095</b>	<b>7,377</b>	<b>8,503</b>	<b>11,018</b>	<b>11,601</b>	<b>12,690</b>

E: MOFSL estimates

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>								
EPS	2.5	1.5	-3.9	-17.6	-27.7	-6.2	3.3	16.3
BV/Share	39.2	52.5	47.0	2.1	71.9	129.0	132.3	148.6
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Valuation (x)

P/E	597.6	976.8	N/M	N/M	N/M	N/M	440.5	90.1
EV/Sales	8.3	7.1	5.8	5.1	9.6	6.1	4.2	3.5
EV/EBITDA	34.4	30.4	29.2	26.4	105.4	37.6	23.0	18.2
P/BV	37.4	27.9	31.2	694.6	20.4	11.4	11.1	9.9

### Return Ratios (%)

RoE	6.3	2.9	-8.3	-833.5	-38.5	-4.8	2.5	11.0
RoCE	9.1	3.2	-28.5	5.6	-3.0	3.1	5.6	10.9
RoIC	9.4	3.3	-28.7	5.2	-9.4	1.4	6.6	14.4

### Working Capital Ratios

Debtor (Days)	3	3	2	1	2	2	2	2
Inventory (Days)	12	12	10	6	15	10	11	12
Creditor (Days)	31	42	38	48	106	40	35	35
Asset Turnover (x)	1.1	0.9	1.0	1.1	0.6	0.8	1.1	1.2

### Leverage Ratio

Debt/Equity ratio (x)	0.8	0.9	1.2	41.4	0.6	0.1	0.1	0.1
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### Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(loss) before Tax	104	66	-295	-251	-1,115	-303	173	664
Int./Div. Received	23	8	207	-149	-412	-272	-198	-127
Depreciation and Amort.	650	753	1,022	1,340	1,212	1,308	1,669	1,671
Interest Paid	-368	-472	-488	-659	-739	-686	-680	-726
Direct Taxes Paid	87	145	143	78	-12	-61	43	33
Inc./(Dec.) in WC	-18	-121	57	-291	-244	935	360	517
<b>CF from Operations</b>	<b>1,077</b>	<b>1,275</b>	<b>1,223</b>	<b>1,811</b>	<b>679</b>	<b>544</b>	<b>1,920</b>	<b>2,384</b>
Inc./(Dec.) in FA	-716	-1,010	-1,299	-840	-143	-695	-1,016	-1,017
<b>Free Cash Flow</b>	<b>361</b>	<b>266</b>	<b>-76</b>	<b>971</b>	<b>536</b>	<b>-151</b>	<b>904</b>	<b>1,367</b>
Others	-54	42	7	-678	71	298	-818	-980
Pur of Investments	3	3	0	0	0	-2,459	538	322
<b>CF from Invest.</b>	<b>-767</b>	<b>-965</b>	<b>-1,292</b>	<b>-1,518</b>	<b>-72</b>	<b>-2,856</b>	<b>-1,296</b>	<b>-1,676</b>
Issue of Shares	124	478	320	1	1,495	2,800	0	0
Incr. in Debt	232	405	302	876	73	-1,128	0	0
Dividend Paid	-24	-33	-34	-34	0	0	0	0
Others	-600	-778	-836	-1,109	133	-327	-321	-367
<b>CF from Fin. Activity</b>	<b>-268</b>	<b>73</b>	<b>-247</b>	<b>-265</b>	<b>1,700</b>	<b>1,345</b>	<b>-321</b>	<b>-367</b>
<b>Incr./Decr. in Cash</b>	<b>42</b>	<b>384</b>	<b>-316</b>	<b>27</b>	<b>2,308</b>	<b>-966</b>	<b>303</b>	<b>342</b>
Add: Opening Balance	11	53	436	120	147	2,455	1,489	1,792
<b>Closing Balance</b>	<b>53</b>	<b>436</b>	<b>120</b>	<b>147</b>	<b>2,455</b>	<b>1,489</b>	<b>1,792</b>	<b>2,134</b>

E: MOFSL estimates



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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