Burger King India

VP Research: Sachin Bobade
Tel: +91 22 40969731
E-mail: sachinb@dolatcapital.com

Associate: Nikhat Koor
Tel: +91 22 40969764
E-mail: nikhatk@dolatcapital.com

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Burger King India

Buy

Initiating Coverage

King in the making….

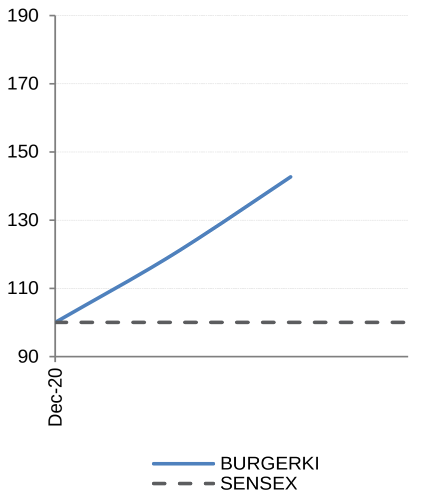
Burger King India, a globally recognized brand, is one of the fastest growing international QSR brands in India to reach 200+ restaurants within the first 5 years of its operations. The company would to open at least 700 restaurants by CY26 implying 2.5x growth from current level. We believe that BKIL has a well-defined store expansion strategy which gives better revenue visibility in long term. Favorable demographics, change in customer preference, surge in online ordering are expected to boost prospects of QSR industry. Furthermore, strong customer value proposition, professional management team, pan India presence, efficient supply chain is likely to augur well for the company. As the parent company has delivered in multiple countries, we believe that growth in domestic market would not be a challenge, going ahead. We initiate coverage on BKIL and value the stock on DCF to arrive at a TP of Rs 212.

CMP	Rs 175
Target / Upside	Rs 212 / 21%
NIFTY	13,740

Scrip Details

Equity / FV	Rs 3,817mn / Rs 10
Market Cap	Rs 67bn
	USD 908mn
52-week High/Low	Rs 194/ 108
Avg. Volume (no)	89,322,400
Bloom Code	BURGERKI IN

BURGERKI Relative to SENSEX



Strong growth potential

50% of BKIL's revenue is generated from Northern region while West and South combined are the second largest contributors. We believe that the West and South regions have higher appetite for BKIL's products compared to its current positioning. With higher urbanization, changing consumer habits and the company's impetus to expand strategically in these regions would aid strong growth. As other categories like pizza, pasta have already gained traction in urban centers, we believe that burger category and BKIL in particular would grow fast.

Huge headroom for margin expansion

BKIL generates 12-14% EBITDA margin at the store level, however, due to higher corporate overheads and fixed expenses the company posted net losses. Nevertheless, the company has exhibited break-even at the EBITDA level in FY19 with strong SSSG. With IPO proceeding the company would increase its store count to 700 by CY26, which would result in significant growth in revenues. We believe that with the increase in revenues, fixed costs and variable costs like A&P, rent, employee expenses would decline gradually resulting in improvement in EBITDA margins. We are estimating 360bps expansion in EBITDA margin over FY20-23E.

Valuations

The QSR category is expected to continue strong growth momentum. We believe that the category would command higher premium compared to other discretionary categories as the opportunity for growth in the domestic market is humongous. As the company is loss making and is very young compared to peers, we have valued it on DCF basis. We initiate BKIL with TP of Rs 212 and recommend BUY.

FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	6,327	8,412	4,419	12,482	15,715
Growth(%)	67.3	33.0	(47.5)	182.5	25.9
EBITDA	790	997	(640)	1,680	2,417
OPM(%)	12.5	11.8	(14.5)	13.5	15.4
PAT	(383)	(766)	(2,440)	(299)	(2)
Growth(%)	(53.4)	99.9	218.6	(87.8)	(99.3)
EPS(Rs.)	(1.0)	(2.0)	(6.4)	(0.8)	0.0
Growth(%)	(53.4)	99.9	218.6	(87.8)	(99.3)
ROANW(%)	(15.2)	(27.5)	(62.1)	(6.0)	0.0
ROACE(%)	1.1	(1.2)	(14.8)	2.6	5.9

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E-mail: nikhatk@dolatcapital.com

Company Overview

...Background

Founded in 1954 in the USA, the Burger King® brand is the second largest fast food burger brand globally with a robust network of over 18,000 restaurants in more than 100 countries. It is owned by Burger King Corporation, a subsidiary of Restaurant Brands International Inc., which holds a portfolio of renowned fast food brands like Burger King, Tim Horton's and Popeyes. Burger King India is one of the fastest growing international QSR brands in India to reach 200 restaurants during the first 5 years of its operations, and currently operates 268 restaurants in 17 states across the country. Under the Master Franchise and Development Agreement, the company has exclusive pan India franchisee rights (till December, 2039), with a favourable royalty fee capped at 5% sales. The company has wide range of vegetarian and non-vegetarian offerings across price points to suit wide spectrum of consumers. During FY17-20, revenue grew at a CAGR 54.1% to Rs 8.4bn.

Exhibit 1: BKIL presence

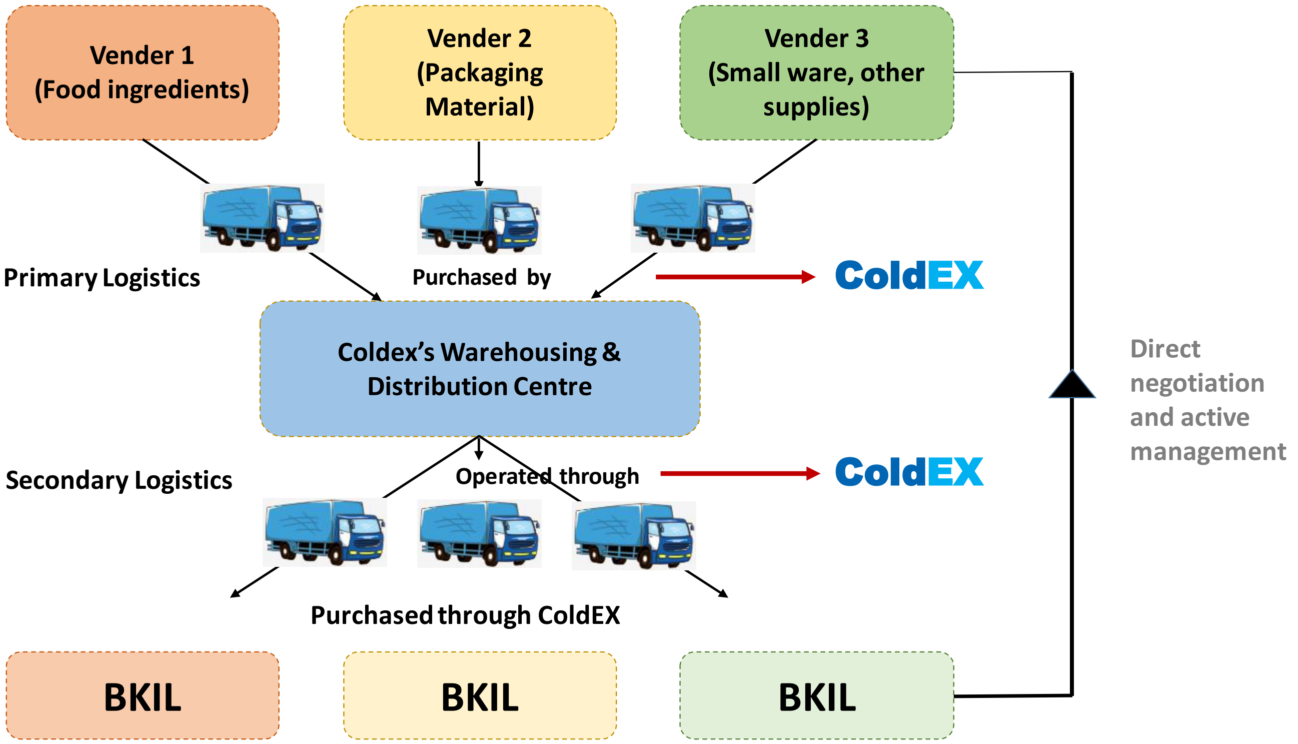
Cluster	Cities	Number of stores
Cluster 1	Delhi NCR, UP ,Rajasthan	86
Cluster 2	Mumbai, Pune, Gujarat	66
Cluster 3	Punjab, Haryana	45
Cluster 4	Bangalore, Chennai, Kerala	39
Cluster 5	Hyderabad, AP	16
Cluster 6	Kolkata, Odisha	9
Total		**261**

*Source: Company, DART, *As of September FY20*

Process

Burger King benefits from a vertically managed and scalable supply chain model in which it individually negotiates with and actively manages suppliers of ingredients and packaging materials. Substantially all of the ingredients used in the preparation of the food are purchased locally from known suppliers that comply with Burger King food quality standards. Burger King also receives the support of BK AsiaPac through its globally defined and thorough approval process for suppliers. Its suppliers include Hyfun Foods, Mrs. Bectors, OSI Vista, PepsiCo, Schreiber, Veeba and Venky's. The company's arrangement with third-party distributors (Coldex) gives access to distributor's multiple warehousing space and extensive logistics network across the country, which helps support penetration strategy in a cost effective manner and helps to lower costs and achieve further economies of scale through operational leverage. This arrangement also helps to reduce working capital requirements since third-party distributor purchases from suppliers and holds the ingredients and required packaging materials as its own inventory, until it delivers the product to Burger King Restaurants. Consequently, gross margin has consistently improved from 60% in FY16 to 64% in FY20.

Exhibit 2: Burger King India supply chain



Source: Company, DART

Investment Thesis

Book your burger when it's in making

We believe that BKIL has very strong business model and has the potential to exhibit performance similar to Jubilant Foodworks. We are confident about the QSR industry growth in India and believe that the industry has potential to accommodate large number of players in the Industry. Taking clues from the historical performance of JFL, we have analysed few similarities in the business –

Loss making in the early period

JFL was at similar revenue level in FY11 and tripled its revenues till FY15. During this period the company increased its store count 378 to 876 – 2.3x increase in store count. BKIL would start adding sizable number of stores from FY22 and increase its store count to 700 compared to 268 currently. We believe that the company would demonstrate similar revenue performance going ahead.

Margin improvement visibility

JFL when was loss making in the initial phase was able to generate 9% operating margin in FY05. Operating margin increased to 18.7% in FY12 with the growth in revenues. We believe that in the initial phase margins would remain low for BKIL but would increase constantly with the increase in revenues.

Long time frame for maturity of stores

Our analysis suggests that the average revenue per store for JFL has increased by +60% over FY10-15. This shows that the old stores take longer time – 5-7 years to become mature or generate peak revenues. BKIL is comparatively very young and has a lot of time to show peak revenues.

BKIL has higher per store revenue generation vs JFL

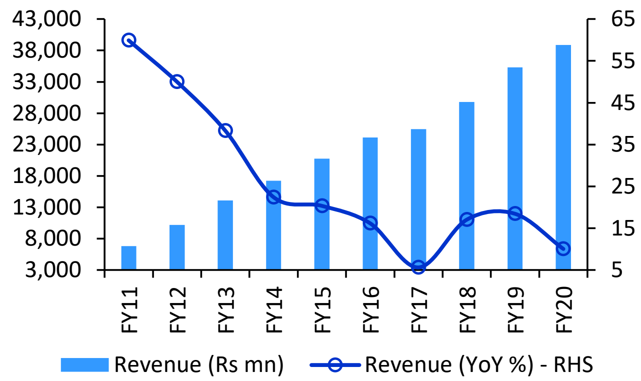
BKIL generates Rs 100-110K revenue per day compared to Rs 65-75K for JFL. This shows higher revenue generation capability for BKIL compared to JFL. Though BKIL generates lesser per store margin compared to JFL, we believe that the margins would increase with the increase in per store revenues.

Room for higher number of store additions

JFL has added more than 100 stores per year in the past and still was able to increase its margins. We believe that the BKIL would add 70-90 stores annually and would improve margins with increase in revenues.

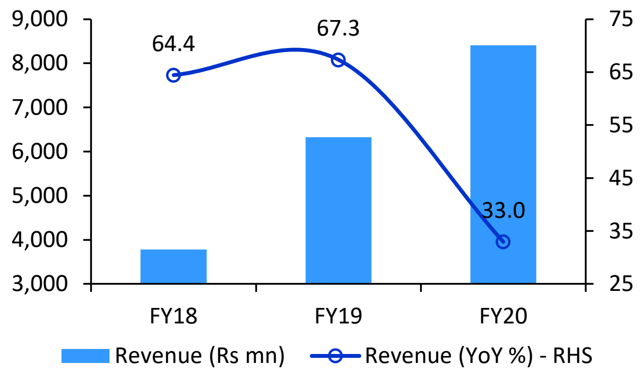
From above analysis, with its strong business model, we believe that the company has potential to become a major player in the QSR space.

Exhibit 3: Jubilant Foodworks Revenue growth



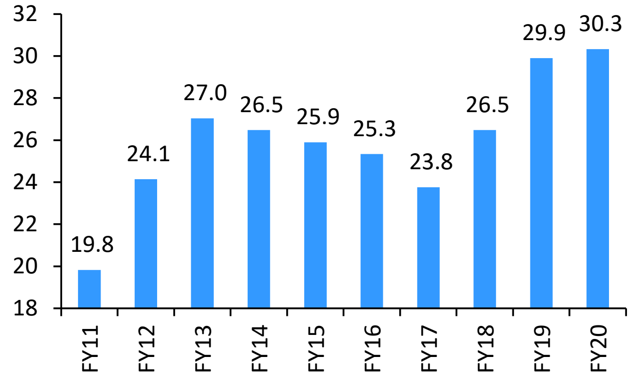
Source: Company, DART

Exhibit 4: Burger King Revenue growth



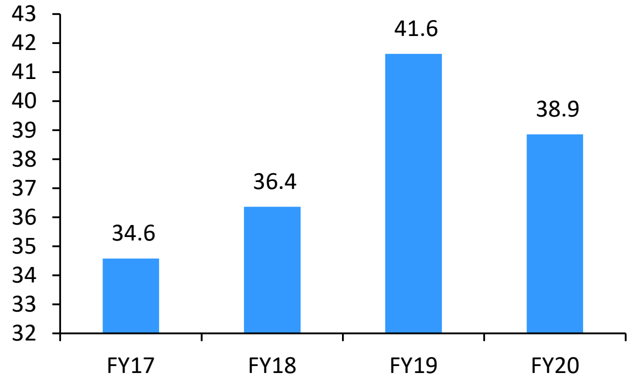
Source: Company, DART

Exhibit 5: Jubilant Foodworks Revenue/store (Rs mn)



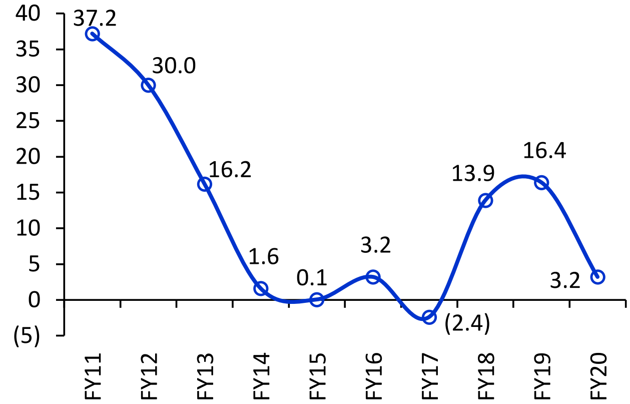
Source: Company, DART

Exhibit 6: Burger King Revenue/store (Rs mn)



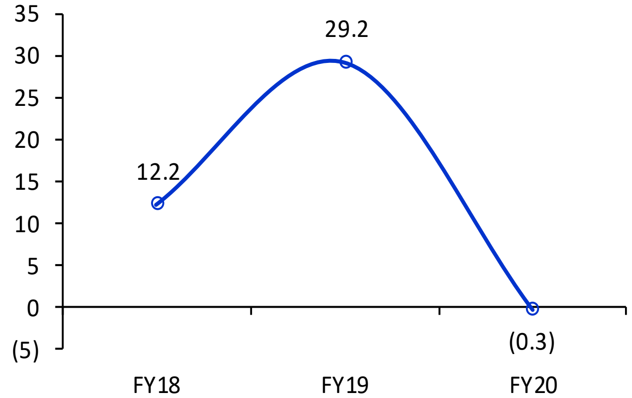
Source: Company, DART

Exhibit 7: Jubilant Foodworks SSSG (%)



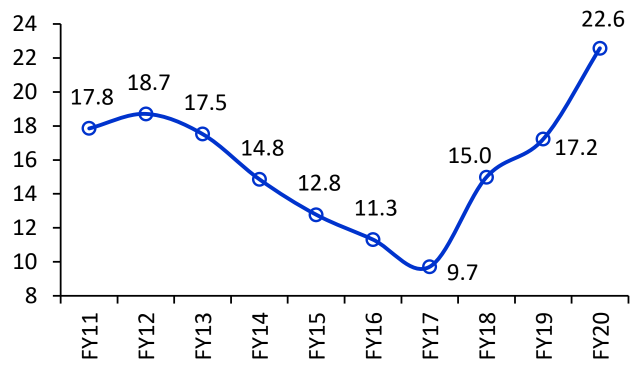
Source: Company, DART

Exhibit 8: Burger King SSSG (%)



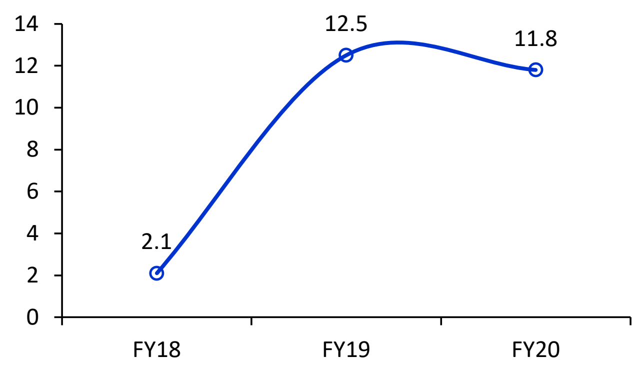
Source: Company, DART

Exhibit 9: Jubilant Foodworks EBITDA margin (%)



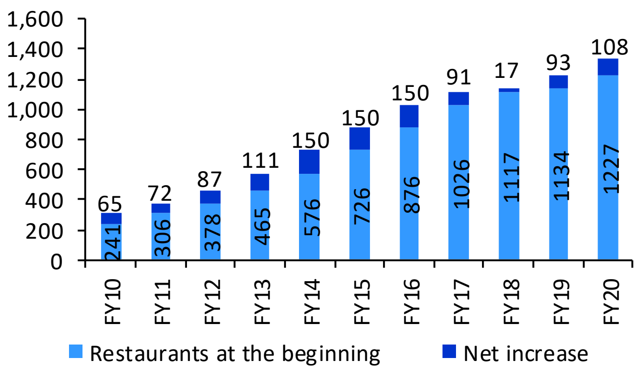
Source: Company, DART

Exhibit 10: Burger King EBITDA margin (%)



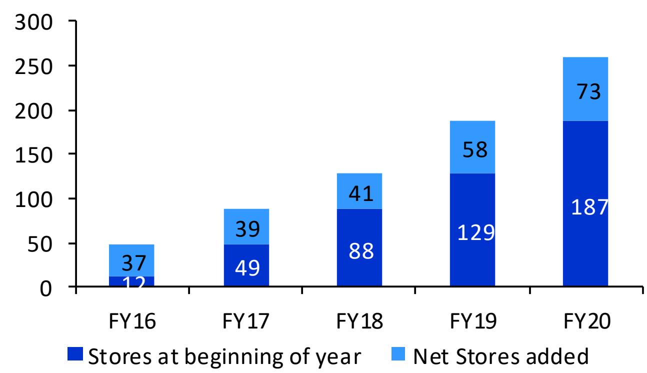
Source: Company, DART

Exhibit 11: Store addition in Jubilant Foodworks



Source: Company, DART

Exhibit 12: Store addition in Burger King

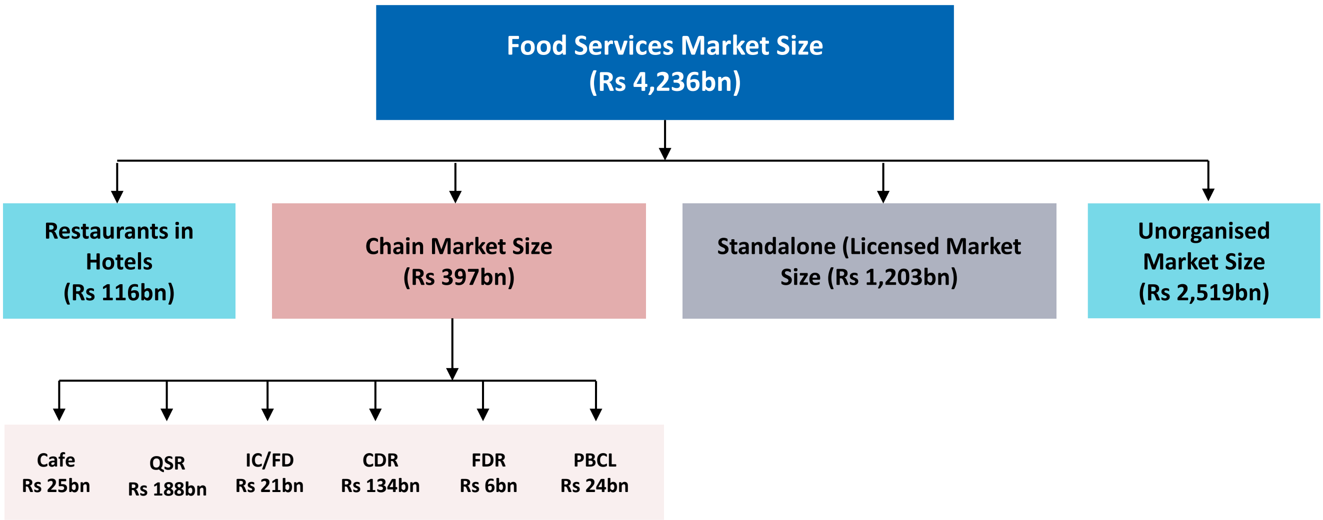


Source: Company, DART

QSR industry offers multi-year growth potential

During FY15-20, the chain QSR sub-segment in India grew by 19.0% CAGR to Rs 188 bn and is projected to grow at a CAGR of 23% to Rs 524 bn by FY25E. We believe that the QSR industry is highly underpenetrated in India and offers substantial multi-year growth opportunity. According to reports, in India there were only 18 QSR restaurant chains per one million residents in FY20, compared to 170+ and 760+ in China and the United States respectively. The organized QSR business, especially QSR restaurant chains are expected to grow faster till FY25E compared to other formats in the industry. According to reports, the contribution of QSR restaurant chains is expected to increase from 47% in FY20 to 54% in FY25E.

Exhibit 13: Indian food services market classification (FY20)



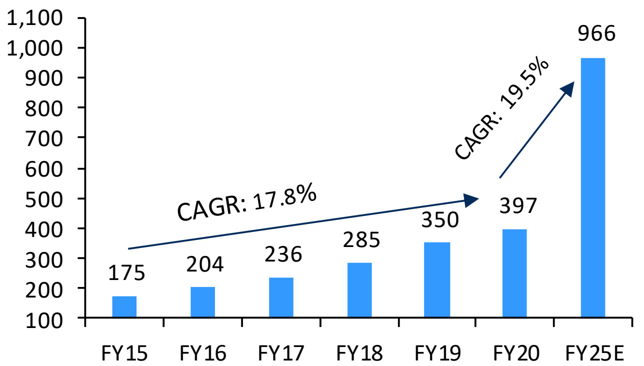
Source: Company, DART

Indian food services market size and CAGR

Format (Rs bn)	FY15	FY20	FY25E	CAGR (%) FY15-20	CAGR (%) FY2020-25E
Unorganized Market	1,950	2,519	3,075	5	4
Organized Standalone Market	660	1,203	2,309	13	14
Chain Market	175	397	966	18	19
Restaurant in Hotels	80	116	156	8	6

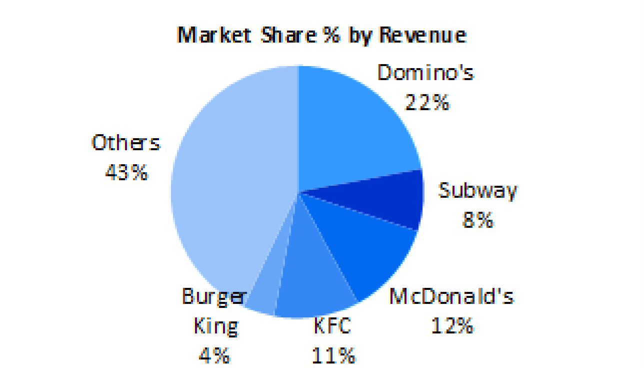
Source: Company, DART

Exhibit 14: Indian chain market size (Rs bn)



Source: Company, DART

Exhibit 15: Market share of QSR's



Source: Company, DART

Exhibit 16: Sub segments - Chain food services

Format	FY15 (Rs bn)	FY20 (Rs bn)	FY25E (Rs bn)	CAGR (%) FY15-20	CAGR (%) FY20-25E
Quick Service Restaurants	78 (45%)	188 (47%)	524 (54%)	19	23
Casual Dining Restaurants	56 (32%)	134 (34%)	302 (31%)	19	18
Café	17 (10%)	25 (6%)	37 (4%)	8	8
Frozen Dessert/ Ice Cream	10 (6%)	21 (5%)	43 (4%)	16	15
Pub/Bars/Club/Lounge	9 (5%)	24 (6%)	53 (5%)	22	17
Fine Dining Restaurants	5.2 (3%)	6 (2%)	6.2 (1%)	3	1

Source: Company, DART, Note: ( ) % contribution to chain food services

All ingredients in place for the growth in QSR industry

We believe that the QSR industry has all required ingredients and macro triggers in place to trigger sustainable and robust growth. The macro triggers like – (1) nuclearization of families leading to increased dependence on outside food, (2) rising disposable incomes – capability to eat out, (3) India's growing workforce, especially female workforce – demand for outside food (4) urbanization – awareness, (5) changing consumption patterns, (6) favorable demographic mix (60% in age group from 15 to 34 years old) and (7) improved connectivity and mobility

Rising income levels – increase ability to eat out: Rise in income levels naturally results in higher discretionary spends like cinema, QSR, etc.

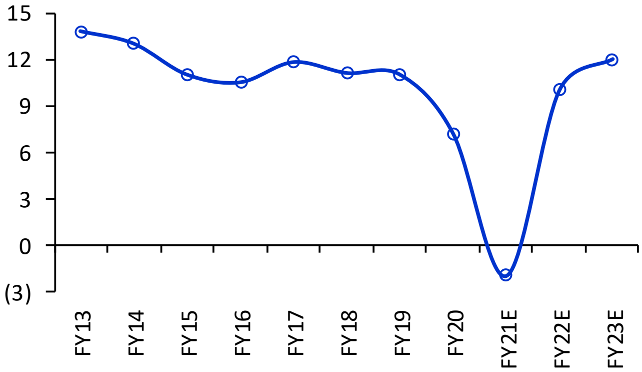
India's growing female workforce – demand for outside food: As contribution of women workforce is increasing continuously (barring Covid-19 data), women get less time to cook at home. This naturally increases demand for outside food.

Urbanization – awareness: As urbanization is on uptrend, additional population is getting access to new products which in turn is supporting growth.

Favorable demographic mix (60% in age group from 15 to 34 years old): It is observed that the QSR business is positively benefited from the young population – owing to acceptance of new formats like Café, QSR, dining, lounge, etc.

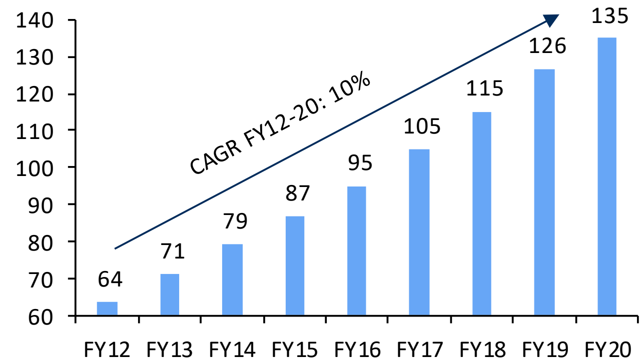
Improved connectivity and mobility: In order to capitalize on the rising demand of online food delivery service, Burger King launched BK mobile app and increased collaboration with delivery aggregators, Zomato and Swiggy. We believe this step will help leverage fixed cost and increase topline.

Exhibit 17: GDP growth (%) at current prices



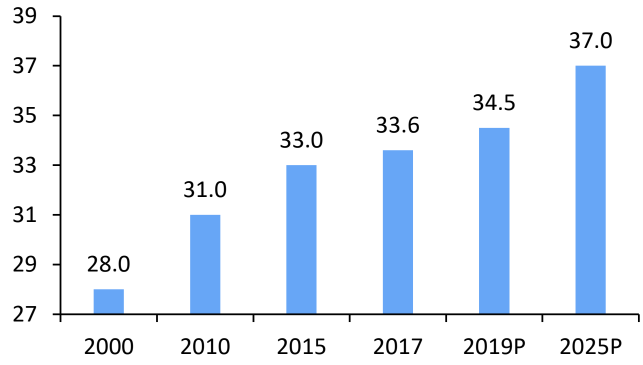
Source: RBI, IMF

Exhibit 18: Annual per capita income ('Rs 000)



Source: MOSPI

Exhibit 19: Urbanization (%)



Source: World Bank

Exhibit 20: Eating-out and ordering frequency

Age group	Eating out freq/month	Ordering-in freq/month	Avg. spend / outing (Rs)	Avg. spend Per order (Rs)
15- 24 yrs.	2.3	0.9	230	124
25-34 yrs.	1.9	0.7	225	118
> 35 yrs.	1.5	0.3	303	107

Source: Company, DART

Multiple growth avenues – toppings for tasty food

We believe that BKIL is very young and would post strong growth in the coming years with multiple strengths it possesses.

Huge scope for growing in existing cities

BKIL has highest contribution from North region where it is present across 5 cities and has 131 stores in place. We believe that the company can further penetrate this market considering huge population base and higher opportunity to increase per capita consumption. In India reports suggest that the per capita consumption on outside food is yet low, presenting high opportunity for new store rollouts.

Expand in new cities

As the company has higher contribution attributed from North market, West and South presents an opportunity to expand. We believe that these markets have already given good response to other QSR chains like Domino's, Westlife, should present opportunities to BKIL.

New distribution channels

In order to capitalize on the rising demand of online food delivery service, Burger King launched BK mobile app and increased collaboration with delivery aggregators, Zomato and Swiggy. We believe this step will help leverage fixed cost and increase topline.

Enhance revenues from existing stores

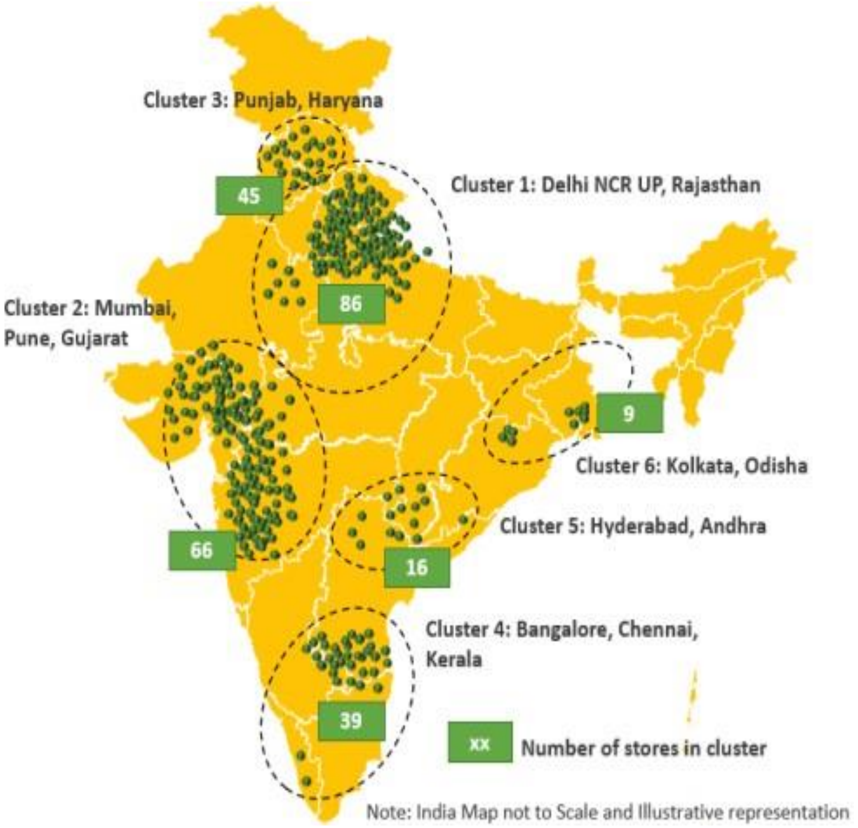
Taking clues from JFL and Westlife performance, we believe that per store revenue of strong QSR chains increase with time. Our analysis suggest that JFL was able to increase its per store revenue by +60% over FY10-15 while Westlife reported +25% growth over FY15-20. As BKIL is very young, we believe that the company has huge room for increase in revenues from existing stores.

Considering above benefits, we believe that BKIL would report 23.2% revenue CAGR over FY20-23E.

Opportunity to grow across India

BKIL has presence across India compared to presence in West and South for Westlife Development. In the burger business, we believe that the scope for growth for BKIL is much higher as it has the opportunity to become a dominant player across India. Currently, Northern market is the highest contributor (50%) whereas the contribution of West and South together is 47%. Hence we believe that the base for growth in west and south is favorable for BKIL. As it is mandatory for the company to increase store count to 700 by CY26, it would expand across geographies compared to current scenario.

Exhibit 21: Burger King Footprint



Source: Company, DART

Exclusive franchise rights in India

Being the master franchisee of the Burger King brand in India, the company has exclusive rights to develop, establish, operate and franchise Burger King branded restaurants in India. The master franchisee arrangement, expires on December 31, 2039, enabling the company to use 'Burger King' brand name to grow business in India, while leveraging the technical, marketing and operational expertise associated with the global brand. Additionally, sub-franchise rights also provide the company with the additional flexibility to sub-franchise restaurants in locations where access to direct ownership of restaurants may be restricted due to the type of location, such as in airports and certain shopping malls where one party directly owns all the outlets. Favorable royalty rates capped at 5% are likely to aid faster business growth and drive sales and profitability.

Experienced and professional management team

Burger King's management team has considerable work experience in the food and beverage industry, retail and major FMCG brands.

Burger King is a globally recognized brand and has presence across +100 countries. BKIL's current CEO, Mr Rajeev Varman has experience of setting up and growing Burger King Business in Canada and Northwest Europe.

Mr. Ajay Kaul was the pioneer in building Jubilant Foodworks business and is appointed as non-executive director on the board of BKIL. We believe his expertise in store expansion would help BKIL to increase store count rapidly. We believe that the management is highly skilled to expand the brand in the domestic market. Further, the brand has strong positioning in the foods business which would help it to gain traction.

Exhibit 22: BKIL's management

Shivakumar Pullaya Dega (Chairman and Independent Director)	Currently serving as the Group Executive President for corporate strategy and business development of Aditya Birla Management. Previously he was the Chairman and CEO of PepsiCo India and Managing Director of Nokia India.
Mr. Rajeev Varman (CEO and Whole Time Director)	He has 20+ years' experience in F&B industry. He has worked with Tricon/Taco Bell brand, Lal Enterprises Inc., and Burger King Corporation. He was involved in setting up and growing Burger King business in Canada and Northwest Europe.
Mr Sumit Zaveri (CFO)	He has 18 years of work experience in finance control, budgeting and management information systems. He has worked with Natures Basket, Tata Starbucks, Tata Global Beverages, and Indian Hotels.
Mr. Abhishek Gupta (Chief of Business Development and Operations Support Officer)	He has 18 years of work experience in talent management, operations and business development. Previously, he has worked with Tata Starbucks, Tata Services, Indian Hotels, Career Forum, North Delhi Power.
Ajay Kaul (Non-Executive Director)	He has significant work experience in the F&B industry. Prior to joining BKIL, he was the CEO and whole time director of Jubilant Foodworks.

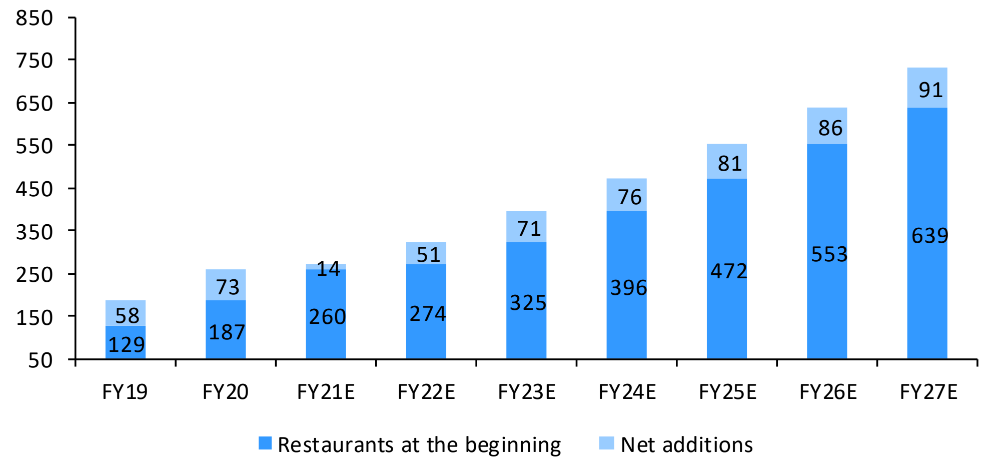
Well defined restaurant roll-out and development process

Burger King follows a cluster approach and penetration strategy for expanding its restaurant network. It launches brand from flagship locations in high traffic and high visibility locations in metros and then develops new restaurants within that cluster. This approach helps manage logistics efficiently and drive down costs, due to the proximity of restaurants to each other and to the distribution centers. ~70% revenue growth is realized from existing market while 30% is from new market.

Since opening of first restaurant in November 2014, Burger King has grown into a pan-India QSR chain with 268 restaurants, including (259 owned and 9 franchised), across 17 states and union territories and 57 cities across India. Restaurant count increased significantly at CAGR of 85% during the last five years. Further, BKIL targets 370 restaurants by CY22 and 450 by CY23 and 700 by CY26. Although same-store sales grew at 29.2% in FY19, same-store sales decreased by 0.30% in FY20 and by -56.9% in H1FY21 due to Covid-19 led restrictions.

Going ahead, we believe that reaching to store count of 700 by CY26 would not be a difficult task for BKIL as the market has potential to accommodate new player. In terms of execution, the company has non-executive directors like Ajay Kaul who can be a good asset for store addition guidance.

Exhibit 23: Expected store roll-out



Source: Company, DART

Financial Analysis

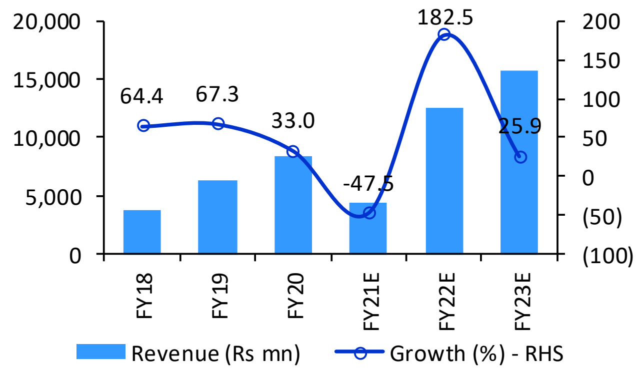
Expect revenues to grow at 88.6% CAGR over FY21-23E

Revenue increased at a CAGR of 54.1% from Rs 2.3bn in FY17 to Rs 8.4bn in FY20. This is attributed to increase in store count from 88 at the end of FY17 to 260 at the end of FY20. The company posted SSSG of 12.2% and 29.25% in FY18 and FY19 respectively. However, same-store sales decreased by 0.3% in FY20 due to Covid-19 pandemic led disruption in Q4FY20. In H1FY21, revenue declined significantly by 68% YoY to Rs 1352mn with same store sales decline of 56.9%.

We expect revenue to decline by 47.5% YoY to Rs 4.4bn in FY21E with 55.0% reduction in same store sales due to the nationwide lockdowns in H1. Also pace of store addition slowed significantly due to the pandemic with only 8 restaurants added (268 total) as of 25th Nov'20, which will gradually improve as economy stabilizes. With improvement in consumer sentiment, we expect footfalls and online ordering to significantly increase which is likely to result in strong revenue CAGR of 88.6% during FY21E-23E. Moreover, QSR segment has potential to grow at 20%+ is the next five years, which will augur well for Burger King.

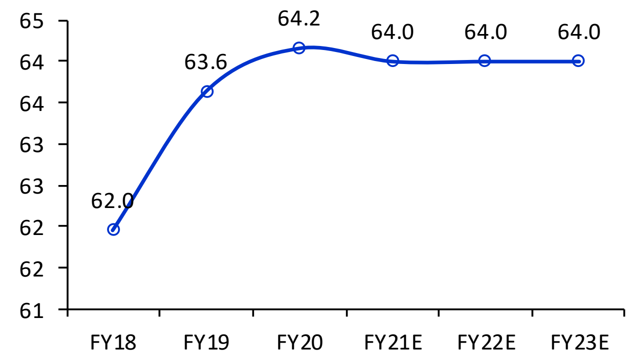
We expect net Burger King Restaurant additions of 51 (+18.6% YoY) and 71 (+21.8% YoY) in FY22E and FY23E respectively.

Exhibit 24: Net Sales and Growth



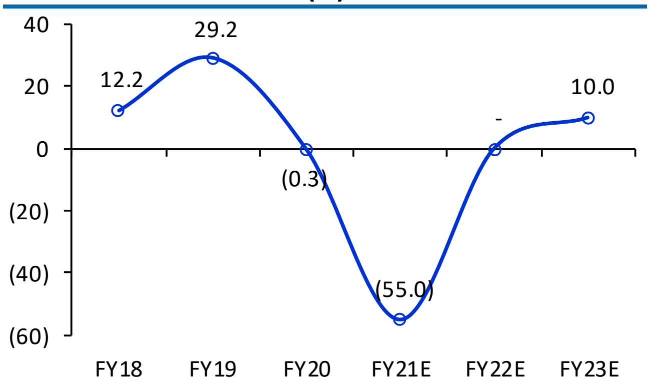
Source: DART, Company

Exhibit 25: Gross margin (%)



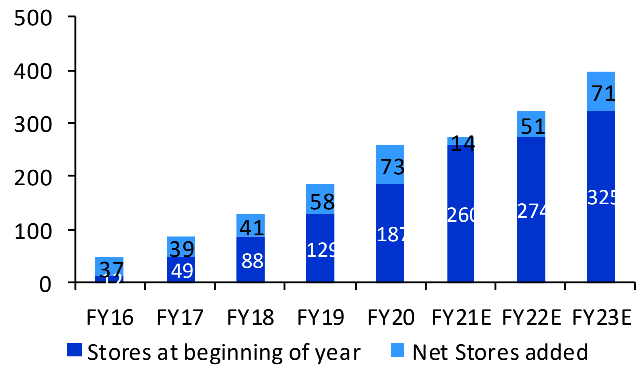
Source: DART, Company

Exhibit 26: SSSG Growth (%)



Source: DART, Company

Exhibit 27: Store Addition Trend

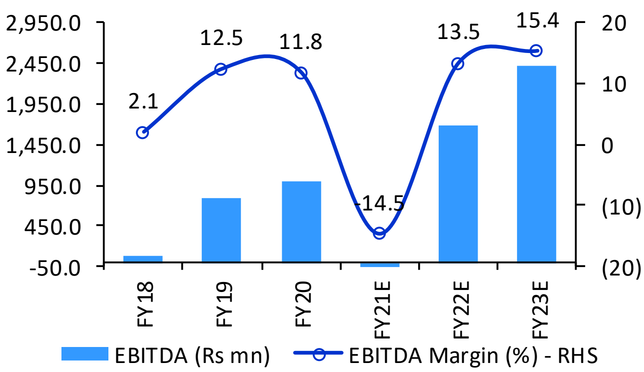


Source: DART, Company

EBITDA margins are expected to expand by 360bps

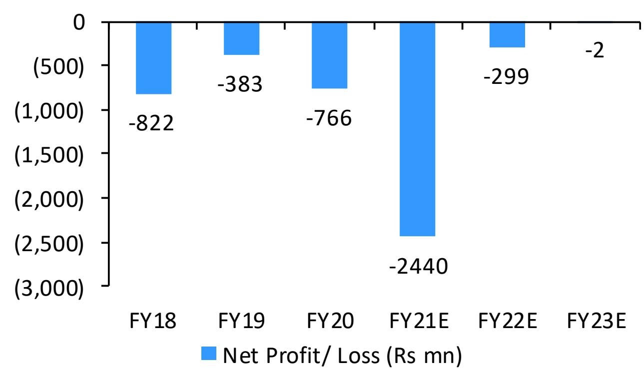
BKIL follows a cluster penetration approach which enables it to achieve economies of scale through operating leverage with respect to RM cost and increased purchasing power. EBITDA increased steadily from Rs 81.3mn in FY18 to Rs 996.6mn in FY20. EBITDA margin increased from 2.1% in FY18 to 12.5% in FY19 due to strong operating leverage, however it came down to 11.8% in FY20 due to lockdown in Q4FY20. We expect BKIL to register operating loss in FY21E due to negative operating leverage on account of lockdown. In H1FY21, operating loss was Rs 160mn compared to operating profit of Rs 570mn in H1FY20. However, company is likely to clock EBITDA of Rs 1.7bn and Rs 2.4bn in FY22E and FY23E respectively. We believe that with the increase in revenues, fixed costs and variable costs like A&P, rent, employee expenses would decline gradually, resulting in 360bps improvement in EBITDA margins during FY20-23E.

Exhibit 28: EBITDA and EBITDA Margin



Source: DART, Company

Exhibit 29: Net Profit/ Loss (Rs mn)



Source: DART, Company

Valuations

Expect sustainable revenue growth

We believe that BKIL would be able to increase its revenues driven by increasing per store sales and addition of new stores. In addition, favorable macros would help the company to growth revenues. We believe that the company would be able to grow at a CAGR of 23.1% over FY20-23E. We have factored in 50 and 70 new COCO store additions for FY22E and FY23E.

Scarcity premium for the business

We believe that the QSR industry has potential to grow multi-fold in the coming years but has very limited number of players listed on the exchange. We also believe that the scarcity premium to remain attached with the stock like in the case of JFL, Page, etc. considering high growth business model.

Conventional tool does not capture potential

As the company is not profit making and still very young compared to other companies we cannot value it on PE basis as we value it for other listed entities. Further Market cap/Sales would not be able to capture margin performance of the business. Hence we have valued the stock on DCF basis.

Initiate coverage with BUY and TP of Rs 212

We believe that BKIL is very young and offers huge growth opportunity. We also believe that the growth would remain consistant and multi-fold compared to other consumer companies on the street. Valuing the stock on DCF, we have arrived at a TP of Rs 212.

Exhibit 30: DCF analysis

(All figures in Rs mn, unless specified)	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E
Key financial data									
Revenues	**6,327**	**8,412**	**4,419**	**12,482**	**15,715**	**18,575**	**23,015**	**28,539**	**34,853**
EBITDA	**790**	**997**	**(640)**	**1,680**	**2,417**	**2,901**	**3,726**	**4,828**	**6,015**
EBITDA margin (%)	12.5	11.8	(14.5)	13.5	15.4	15.6	16.2	16.9	17.3
EBIT	81	(111)	(1,776)	337	775	937	1,417	2,150	2,946
EBIT margin (%)	1.3	(1.3)	(40.2)	2.7	4.9	5.0	6.2	7.5	8.5
Net income	**(383)**	**(766)**	**(2,440)**	**(299)**	**(2)**	**8**	**326**	**888**	**1,502**
Cash & cash equivalent	160	41	2,778	1,660	2,444	3,405	4,981	7,368	10,613
Total assets	8,237	10,717	13,336	12,374	13,946	15,640	17,764	20,563	24,088
Debt	5,740	1,788	1,788	-	-	-	-	-	-
Shareholder’s equity	2,497	2,754	5,104	4,805	4,803	4,811	5,137	6,025	7,526
Total liabilities and equity	8,237	10,717	13,336	12,374	13,946	15,640	17,764	20,563	24,088
Free cash flow (FCF) analysis									
NOPLAT	81	(111)	(1,776)	337	775	792	1,197	1,817	2,490
Depreciation and amortization	822	1,164	1,214	1,444	1,766	2,111	2,479	2,870	3,284
Change in working capital	66	108	(212)	503	188	180	298	372	441
Capex	(1,655)	(2,275)	(385)	(1,602)	(2,243)	(2,524)	(2,826)	(3,153)	(3,506)
FCF	**(685)**	**(1,115)**	**(1,158)**	**682**	**486**	**559**	**1,148**	**1,906**	**2,709**
Discount factor			0.97	0.87	0.78	0.70	0.63	0.56	0.50
PV of FCF			(1,123)	593	379	391	720	1,073	1,368

Source: Company, DART

Exhibit 31: DCF valuation

Particulars (Rs mn)	
Sum of Present Value of UFCF	3,401
Present Value of Terminal Value	47,018
Enterprise value	**50,419**
less : minority interest and other provisions	-
add: cash equivalents and investments	10,191
add: non-core investments	3,925
Net equity value	**81,096**
No. of share (Cr)	382
12-month fair value (Rs/share)	**212**
Current market price (Rs)	175
Upside/(Downside)	**21.3%**

Source: Company, DART

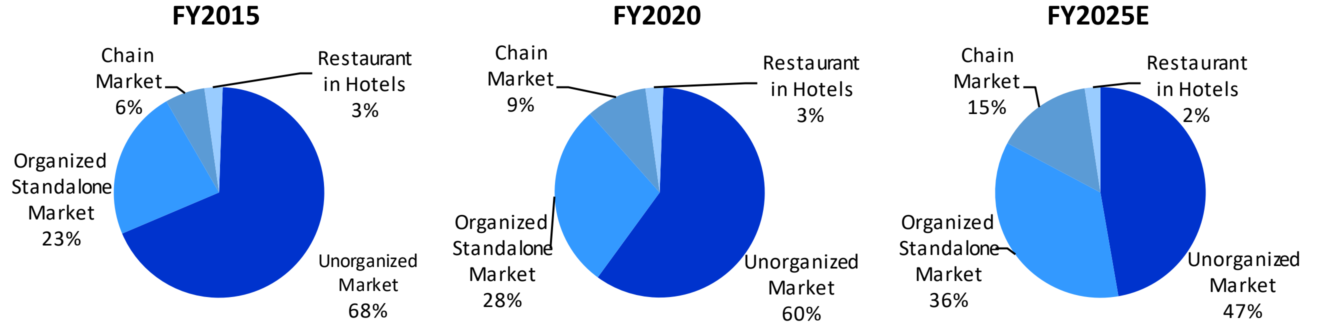
Industry Analysis

The food services market in India was estimated at Rs 4,236 bn in FY20 and is projected to grow at a CAGR of 9.0% to reach Rs 6,505 bn by FY25E. Unorganized segment constitutes ~60% of the market and is likely to decline to 47% by FY25E. The chain market in India was estimated at Rs 397 bn in FY20, up 18% during last five years and is projected to grow at a CAGR of 20% to Rs 966 bn by FY25E driven by increase in presence of international brands, strengthening of back end infrastructure, changing customer tastes and preferences, etc.

The chain QSR's grew strongly at a CAGR of 19% between FY15-20, and are expected to grow at a CAGR of 23% to Rs 524bn in next five years. International brands such as Domino's Pizza, McDonald's, Burger King, KFC, and Subway, combined, accounted for ~ 45% of the total chain QSR outlets in India.

The QSR sub segment which was ~47% of the chain food market in FY20 is likely to grow to +50% by FY25E. This will be supported by increasing nuclearization of families, rising disposable incomes, India's growing workforce, urbanisation, changing consumption patterns and improved connectivity and mobility. Additionally, the growing millennial population (~60% in age group of 15-34 years) and tech savvy consumers will drive demand going ahead.

Exhibit 32: Indian food service market share (%): Declining unorganized market share



Source: Company, DART

Peer Information

Heads	Domino's	Mc Donalds	KFC	Subway	Burger King	Pizza Hut	BBQ Nation
Format	QSR	QSR	QSR	QSR	**QSR**	CDR	CDR
Outlet Count	1,264	310	400	660	**202**	432	126
Avg. Ticket Value (Rs)	500-550	550-600	500-550	250-300	**500-550**	1,450 -1,550	3,500 - 3,750
COGS	22-23%	34-36%	34-36%	32-34%	**35-36%**	25-26%	34-35%
Gross Margins	77-78%	64-66%	64-66%	66-68%	**64-65%**	74-75%	65-66%
Advertisement	4-5%	5-6%	6-7%	4-5%	**~5%**	4-5%	NA
Royalty	3-4%	4-5%**	7-8%	7-8%	**4-5%**	7-8%	NA
Store EBITDA	21-23%	13-15%	14-16%	20-22%	**12-14%**	17-19%	20-21%
Capex for Initial Build	150-200 L	350-400 L	300-350 L	40-50 L	**200-250L**	200-250 L	250-300 L
Avg. Store Size (in sq.ft.)	1400-1600	2600-3200	2500-3000	750-1000	**1300-1400**	2600-3200	4800-5400
Average sales /Day	0.75-0.80 L	1.2-1.3 L	1.2-1.3 L	0.30-0.35 L	**1.1-1.2 L**	0.7-0.8 L	1.5-1.6 L

*Source: Company, DART (QSR-Quick service restaurant; CDR- Casual Dining Restaurant) (** can contractually increase to 8% from FY25E)*

Risks to Valuation

- Advertisement expenses have declined from 14.1% in FY18 to 5.8% in FY20. In order to gain market share, increase brand awareness and remain competitive, Burger King will have to invest in A&SP expenses which will impact margins going ahead.
- Price fluctuation due to inflation, seasonality, demand, in raw material prices like cheese, chicken, packaging materials etc. is likely to impact gross margins.
- Another Covid-19 pandemic wave and resulting lockdowns would significantly hamper business operations.
- Failure to generate profits in coming years may adversely affect return ratios, ability to raise capital for expansion and dividend payment.
- Stiff competition with other QSR chains like Dominos, Mc Donalds with respect to location, advertising, price points, discounts, range of products, etc. may impact topline performance and erode margins.
- BKIL has to identify suitable locations and successfully develop and roll out new restaurants in a timely, cost effective manner. BK AsiaPac may terminate the Master franchise agreement if BKIL fails to achieve the cumulative opening target for any development year or fails to cure the shortfall, if applicable, subject to certain force majeure. This would have material impact on business, financials and future prospects.
- Currently, BKIL depends heavily on food aggregators, while it is also developing its own delivery network. Extending or renewing contracts with aggregators may be a challenge as aggregators offer higher discounts to attract customers or raise their fee as their business matures. Footfalls in restaurants would be significantly impacted if food delivery through delivery aggregators continues to increase.
- Failure to address changes in consumer preferences and food habits may have a material impact on business operations.
- BKIL relies on a single third-party distributor, Coldex, for logistics services across India. If it has to depend on alternative distributor, in case of unforeseen circumstances, deliveries may be disrupted or delayed impacting operations

Peer Comparison

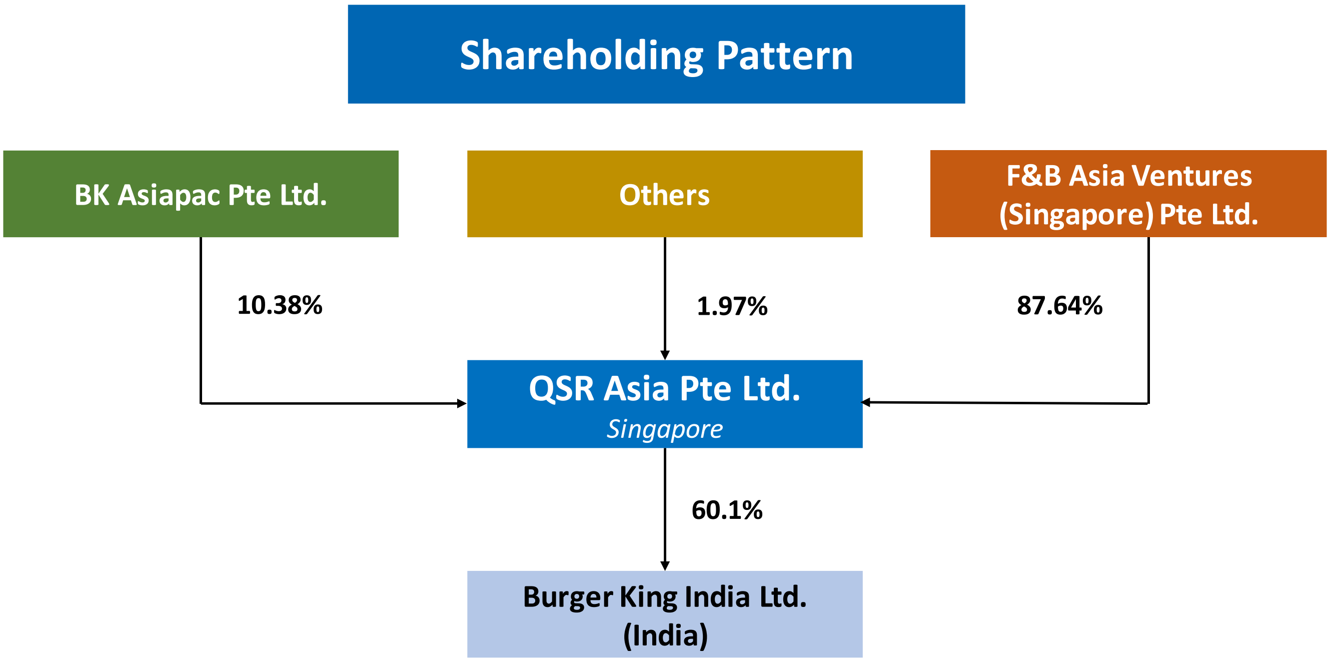
	MCap	EV/EBITDA (x)				Mcap/sales (%)				RoCE (%)				ROE (%)			
	(Rs bn)	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Burger King	67	74.5	(112.2)	43.0	30.2	7.9	15.1	5.4	4.2	(1.2)	(14.8)	2.6	5.9	(27.5)	(62.1)	(6.0)	0.0
Jubilant Foodworks	341	39.8	44.1	28.8	25.0	8.8	10.6	7.4	6.7	23.4	13.6	21.5	21.6	22.0	17.3	32.2	29.4
Westlife Development*	65	33.4	115.6	30.3	23.9	4.2	6.1	3.9	3.4	9.5	(10.1)	12.2	19.7	1.6	(14.8)	8.5	13.6

Source: Company, DART

	Sales				EBITDA				EBITDA Mrg (%)				Net profit/loss			
Rs mn	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Burger King	8,412	4,419	12,482	15,715	997	(640)	1,680	2,417	11.8	(14.5)	13.5	15.4	(766)	(2,440)	(299)	(2)
Jubilant Foodworks	38,858	32,174	45,726	51,144	8,771	7,772	11,661	13,129	22.6	24.2	25.5	25.7	3,203	2,153	4,804	5,644
Westlife Development*	15,478	10,694	16,636	19,289	1,974	630	2,404	3,052	12.8	5.9	14.5	15.8	(73)	(735)	537	852

Source: Company, DART (Consensus estimates)*

APPENDIX



Source: Company, DART

Geographical contribution

Brands	Total Outlet Count	Mega Metros (%)	Mini Metros (%)	Tier I (%)	Tier II & Others (%)
Domino's	1,249	25	34	22	19
Subway	660	30	35	22	13
McDonald's	470	36	34	19	11
KFC	400	19	37	25	19
Wow! Momo	221	29	62	5	4
Burger King	202	44	27	13	16
Jumbo King	128	80	14	5	1
La Pino'z	88	27	19	41	13
Haldiram	73	66	3	21	10
Bikanervala	64	59	11	11	19
Smokin Joe's	60	48	27	3	22
Taco Bell	38	29	52	16	3
Street food by Punjab Grill	37	41	30	16	13

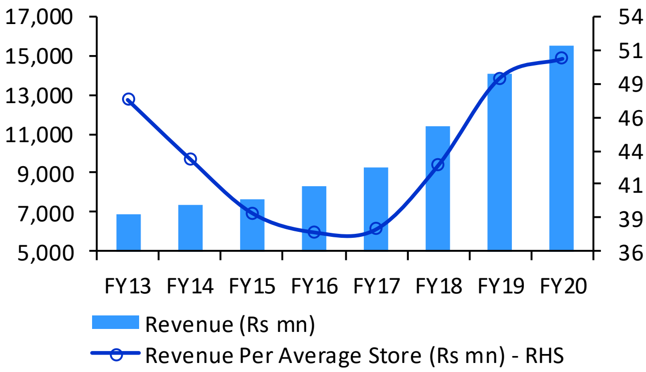
Source: Company, DART (Note: Stores of both McDonalds operators in India)

Brands	Total Outlet Count	Cities	North (%)	South (%)	East (%)	West (%)
Domino's	1,249	276	31	30	11	28
Subway	660	105	35	29	7	29
McDonald's*	470	90	32	29	2	37
KFC	400	56	31	40	14	15
Burger King	202	47	47	24	1	28

Source: Company, DART (As on FY19)

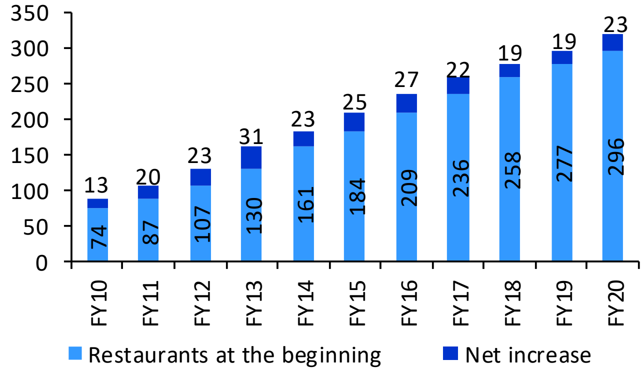
Westlife Development

Exhibit 33: Revenue and Revenue per store



Source: DART, Company

Exhibit 34: Store addition



Source: DART, Company

Exhibit 35: Same Store Sales Growth of key brands

Company	FY15	FY16	FY17	FY18	FY19	FY20
Domino's	0.1	3.2	(2.4)	13.9	16.4	3.2
Westlife Development	(5.9)	1.8	4.0	15.7	17.4	4.0
Burger King India	-	-	-	12.2	29.2	(0.3)

Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	**8,412**	**4,419**	**12,482**	**15,715**
Total Expense	**7,416**	**5,059**	**10,802**	**13,298**
COGS	3,015	1,591	4,494	5,657
Employees Cost	1,365	1,075	1,809	2,212
Other expenses	3,036	2,393	4,500	5,429
EBIDTA	**997**	**(640)**	**1,680**	**2,417**
Depreciation	1,164	1,214	1,444	1,766
EBIT	**(167)**	**(1,854)**	**235**	**650**
Interest	655	664	635	777
Other Income	56	79	102	124
Exc. / E.O. items	44	0	0	0
EBT	**(722)**	**(2,440)**	**(299)**	**(2)**
Tax	0	0	0	0
RPAT	(722)	(2,440)	(299)	(2)
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**(766)**	**(2,440)**	**(299)**	**(2)**

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	2,777	3,817	3,817	3,817
Minority Interest	0	0	0	0
Reserves & Surplus	(23)	1,287	989	987
Net Worth	**2,754**	**5,104**	**4,805**	**4,803**
Total Debt	7,963	8,232	7,569	9,142
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	**10,717**	**13,336**	**12,374**	**13,946**
Applications of Funds				
Net Block	**10,367**	**9,537**	**9,695**	**10,172**
CWIP	476	476	476	476
Investments	0	500	1,000	1,500
Current Assets, Loans & Advances	**939**	**3,561**	**2,740**	**3,682**
Inventories	94	50	140	176
Receivables	32	17	48	60
Cash and Bank Balances	41	2,778	1,660	2,444
Loans and Advances	207	218	258	315
Other Current Assets	140	74	208	262
Less: Current Liabilities & Provisions	**1,065**	**737**	**1,536**	**1,883**
Payables	816	429	1,211	1,524
Other Current Liabilities	249	308	325	359
sub total				
Net Current Assets	(125)	2,824	1,203	1,798
Total Assets	**10,717**	**13,336**	**12,374**	**13,946**

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	64.2	64.0	64.0	64.0
EBIDTA Margin	11.8	(14.5)	13.5	15.4
EBIT Margin	(2.0)	(42.0)	1.9	4.1
Tax rate	0.0	0.0	0.0	0.0
Net Profit Margin	(8.6)	(55.2)	(2.4)	0.0
(B) As Percentage of Net Sales (%)				
COGS	35.8	36.0	36.0	36.0
Employee	16.2	24.3	14.5	14.1
Other	36.1	54.2	36.1	34.5
(C) Measure of Financial Status				
Gross Debt / Equity	2.9	1.6	1.6	1.9
Interest Coverage	0.0	0.0	0.0	0.0
Inventory days	4	4	4	4
Debtors days	1	1	1	1
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	35	35	35	35
Working Capital days	(5)	233	35	42
FA T/O	0.8	0.5	1.3	1.5
(D) Measures of Investment				
AEPS (Rs)	(2.0)	(6.4)	(0.8)	0.0
CEPS (Rs)	1.0	(3.2)	3.0	4.6
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	7.2	13.4	12.6	12.6
RoANW (%)	(27.5)	(62.1)	(6.0)	0.0
RoACE (%)	(1.2)	(14.8)	2.6	5.9
RoAIC (%)	(1.8)	(17.5)	2.2	5.9
(E) Valuation Ratios				
CMP (Rs)	175	175	175	175
P/E	(87.2)	(27.4)	(223.7)	(31044.9)
Mcap (Rs Mn)	66,780	66,780	66,780	66,780
MCap/ Sales	7.9	15.1	5.4	4.2
EV	74,277	71,810	72,263	73,054
EV/Sales	8.8	16.2	5.8	4.6
EV/EBITDA	74.5	(112.2)	43.0	30.2
P/BV	24.2	13.1	13.9	13.9
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	33.0	(47.5)	182.5	25.9
EBITDA	26.2	(164.2)	(362.5)	43.9
EBIT	413.5	1009.8	(112.7)	176.4
PBT	76.9	237.8	(87.8)	(99.3)
APAT	99.9	218.6	(87.8)	(99.3)
EPS	99.9	218.6	(87.8)	(99.3)

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	888	(1,438)	1,649	1,953
CFI	(2,066)	(885)	(2,102)	(2,743)
CFF	1,059	5,059	(664)	1,574
FCFF	(1,387)	(1,822)	47	(291)
Opening Cash	160	41	2,778	1,660
Closing Cash	41	2,778	1,660	2,444

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

DART Team

Purvag Shah	**Managing Director**	**purvag@dolatcapital.com**	**+9122 4096 9747**
Amit Khurana, CFA	**Head of Equities**	**amit@dolatcapital.com**	**+9122 4096 9745**

CONTACT DETAILS

Equity Sales	**Designation**	**E-mail**	**Direct Lines**
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	**Designation**	**E-mail**	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu
Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com