22 December 2020

Initiating Coverage | Sector: Retail

Westlife Development

Promising McProspects

Dhairya Dhruv – Research analyst (Dhairya.Dhruv@motilaloswal.com)

Research analyst: Krishnan Sambamoorthy (Krishnan.Sambamoorthy@MotilalOswal.com) / **Kaiwan Jal Olia** (kaiwan.o@motilaloswal.com)

Contents: Promising McProspects

Westlife Development

BSE SENSEX	S&P CNX
46,007	13,466

Stock Info

Bloomberg	WLDL IN
Equity Shares (m)	156
M.Cap.(INRb)/(USDb)	65.4 / 0.9
52-Week Range (INR)	500 / 267
1, 6, 12 Rel. Per (%)	5/6/10
12M Avg Val (INR M)	118
Free float (%)	40.9

Financials Snapshot (INR b)

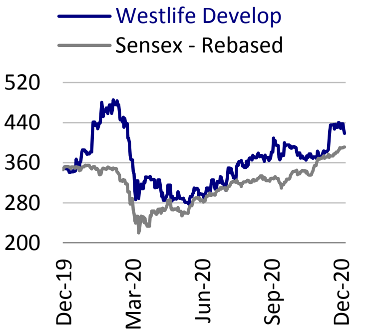
Y/E Dec	2020	2021E	2022E
Sales	15.5	9.4	15.1
Sales Gr. (%)	10.4	-39.2	60.0
EBITDA	2.1	0.1	1.8
Margins (%)	13.8	1.5	11.8
Adj. PAT	0.1	-1.2	0.0
Adj. EPS (INR)	0.6	-7.7	0.2
EPS Gr. (%)	-56.4	P/L	L/P
BV/Sh.(INR)	0.0	0.0	0.0
Ratios			
RoE (%)	1.6	-23.1	0.6
RoCE (%)	9.4	-8.2	10.3
Valuations			
P/E (x)	703.9	NM	NM
P/BV (x)	11.3	14.3	14.2
EV/EBITDA (x)	31.4	468.4	37.6

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	59.1	59.1	62.1
DII	19.4	18.6	8.1
FII	10.0	10.1	17.8
Others	11.5	12.2	11.9

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR420 TP: INR440 (+5%) Neutral

Westlife Development (WLDL) is one of India's fastest growing players in the quick service restaurant (QSR) sector. It is focused on establishing and operating McDonald's restaurants across West and South India through its wholly-owned subsidiary Hardcastle Restaurants Pvt (HRPL). McDonald's operates via various formats including standalone restaurants, drive-through (drive-thrus), mall food courts, delivery, and takeaways. It also has three thriving brand extensions: McDelivery, McCafé and McBreakfast.

Promising McProspects

We are loving it – Initiate coverage with a Neutral rating

WLDL offers an exciting investment opportunity in the Indian QSR space on account of the following factors:

- **The large Indian Food Service Industry (FSI) is expected to deliver 9% CAGR in the coming years, and QSRs are best placed to tap this opportunity. With their affordability, aspirational branding, higher convenience, scale benefits, and technological edge, QSRs are expected to grow at 19% CAGR over FY20-25E.**
- **With the unorganized segment severely affected due to COVID-19, QSRs can make further gains due to their better hygiene standards and well-positioned alternate channels, especially delivery.**
- **WLDL offers strong growth potential with 3x store network expansion potential, robust SSSG performance led by brand extensions, profitable and improving unit economics, and improvement in return ratios.**
- **We are encouraged by the long term structural opportunity. However, the current valuations seem to fully price in the near term upside. We initiate coverage with a Neutral rating and target price of INR440.**

Large opportunity in the FSI with QSRs established right-to-win

The INR4.2t (USD58b) Indian FSI is expected to grow by ~9% CAGR over FY20-25E. Within FSI, QSRs with a size of INR348b (USD4.7b) have been the fastest growing segment. At present, they constitute just 8% of FSI and 22% of organized FSI. QSRs are expected to grow at 19% CAGR over FY20-25E. The advantages for QSRs include: a) affordability; b) globally well-known and aspirational brands; c) different cuisines to cater to the evolving tastes of the youth that have been adapted to Indian tastes; d) benefits of scale and better sourcing; e) convenience and quick service; and f) technological edge over peers. Their products have high volume intensity and are amenable to prompt delivery. In the post-COVID world, where 30-40% of restaurants are expected to shut down permanently, QSRs are likely to emerge stronger and are well placed to gain share from other FSI segments.

McDonald's well placed to capture the QSR opportunity

With its Vision 2022 plan, WLDL has set out to achieve all-round growth driven by store network expansion, double-digit SSSG, and improving unit economics. The company's strengths include: a) offering an affordable value proposition, which helps consumers to shift from the unorganized segment, b) continuous innovation in the menu to cater to local tastes and drive acceptability, c) successful brand extensions (McDelivery, McCafé, McBreakfast), which increase consumption occasions while simultaneously driving premiumization, SSSG and margin improvement, and d) a robust supply chain built from scratch creating a 'farm-to-fork' model.

Proven performance; promising prospects

Over FY15-20, WLDL delivered 15.2%/69.8% CAGR in sales/EBITDA, with a significant improvement in PAT. Its SSSG saw a significant improvement in this period, partially supported by tailwinds from GST implementation. While EBITDA in FY20 was partially boosted by Ind AS, EBITDA margin has improved to 13.8% in FY20 from 2% in FY15. **The opportunity for WLDL in West and South India remains high with the potential to triple the number of stores to 900-1,100 over the long term.** The trend of improving profitability, better RoCEs, operating cash flows, and free cash flows are likely to continue over the medium term. We expect WLDL to deliver 15%/21%/93% sales/EBITDA/PAT CAGR over FY20-25E.

Valuation and view

- We expect all listed Indian QSRs – WLDL, Jubilant FoodWorks (JUBI), and Burger King India (BKI) – to be significant beneficiaries of the strengthening tailwinds in favor of QSR players. Even as the Indian FSI industry is likely to witness the shutdown of 30-40% restaurants in FY21, QSR players are likely to witness net addition over FY22 and substantial additions thereafter. JUBI will remain: a) the most profitable player in the Indian QSR market over the next few years, b) the player with the highest RoCEs, and c) recover faster than peers due to its higher (70%) delivery proportion.
- At the same time, WLDL ticks all the boxes as an attractive investment from a potential topline and earnings growth perspective. It has already demonstrated strong performance in recent years. Performance has been admirable in terms of both sustained strong SSSG as well as significant EBITDA margin improvement before the COVID-19 disruption. It is only near-term valuations (mainly led by delayed recovery post-COVID due to 50% of sales accruing from dine-in and high metro exposure) that prevent us from recommending a Buy. Once the company emerges out of the COVID-led disruptions, this is one of the few businesses among consumer/retail peers that can compound earnings at 20% or higher. This is reflected in our forecasts of ~20% EBITDA CAGR over FY20-25E. There is, therefore, a compelling case for investment over the next three years.
- We initiate coverage on WLDL with a **Neutral** rating and **TP of INR440** per share valuing the company at 22x FY23E EV-to-EBITDA (discount to JUBI). From a 3 year perspective, we arrive at a TP of INR810 per share (24.5% CAGR), assuming no multiple expansion.

McDonald's in India

Huge opportunity, great pedigree, admirably adapted to India

- McDonald's, the American fast food giant, has more than 38,000 stores across the world with a system-wide sales of over USD100b as of CY19.
- It entered India in the early-1990s with two JVs – Hardcastle Restaurants Pvt (HRPL) and Connaught Plaza Restaurants Pvt (CPRPL) led my Mr. Amit Jatia and Mr. Vikram Bakshi, respectively.
- HRPL manages West and South India, while CPRPL takes care of North and East regions.
- HRPL is a wholly-owned subsidiary of Westlife Development (WLDL).
- The first McDonald's store in India was launched in 1996 and has grown to a network of more than 480 stores across the country, of which 320 are managed by HRPL.
- Post a protracted legal battle with Mr. Bakshi, McDonald's bought out his stake in CPRPL. In Feb'20, Mr. Sanjeev Agrawal, Chairman of MMG Group, was named as new partner for the North and East India. His company – Moon Beverages – is Coca-Cola India's largest franchisee bottler.

Opportunity in India's food services industry is large

- According to the industry estimates, the Indian FSI's market size was pegged at INR4.2t in FY20 and is expected to touch INR6.5t by FY25 (registering 9% CAGR).
- The organized sector of India's FSI consists of players that possess three characteristics: a) accounting transparency, b) organized operations with quality control and sourcing norms, and c) outlet penetration. The organized sector has been growing faster than the industry and has seen its contribution increase to 38% in FY20 from 29% in FY15. It is expected to deliver 15.4% CAGR over FY20-25E. Consequently, its share is expected to increase further to 50% by FY25E.
- These estimates were before the COVID-19 outbreak. After the initial blip due to the temporary store closure and a gradual recovery in dine-in, we expect the trend towards the organized sector to intensify further in the post-COVID world due to: a) faster growth rates v/s unorganized players, and b) permanent shutting down of weaker FSI peers. According to industry estimates, 30-40% of restaurants across India are likely to shut down permanently in FY21.
- Growth drivers for FSI include (refer to Annexure for details):
  a) Rising population of youth
  b) Higher income levels
  c) Changing lifestyles with greater frequency of eating out
  d) Wider internet penetration
  e) Increasing availability of retail space
  f) Growth of online food delivery and food tech
  g) Urbanization and nuclear families

QSR sector at an advantage

- The QSR segment is focused on service speed, affordability and convenience. It includes dine-in, takeaways, delivery, drive-thru and on-the-go sub formats.
- The sector is estimated to have clocked 17% CAGR over FY15-20 to INR348b and is expected to deliver 19% CAGR over FY20-25E to INR825b. While these were

pre-COVID estimates, we believe these growth rates are sustainable as their competition is suffering significantly (Source: BKI).

- The growth of chain QSRs is primarily driven by international brands such as Domino's Pizza, McDonald's, Burger King, KFC, and Subway, which combined account for ~45% of the total chain outlets in India.
- Most QSR players have adapted themselves to cater to the unique attitudes and needs of Indian consumers. This has helped them gain consumer acceptance and thereby achieve scale. Their initiatives include:
  a) Addition of vegetarian menus,
  b) Opening vegetarian only restaurants in some parts of the country,
  c) No beef or pork items on their menus,
  d) Separation of vegetarian and non-vegetarian cooking areas,
  e) Introduction of local flavors in the menu,
  f) Offering home delivery (generally at no additional cost),
  g) Affordable pricing and value propositions, and
  h) Low entry pricing, which is competitive in the unorganized sector.

Competitive advantages for QSRs

In this fast growing industry, QSRs have established their right-to-win through their competitive advantages which include:

a) **Scale:** Chain QSRs benefit from economies of scale on multiple fronts. As they expand their geographical presence, awareness among consumers increases. They have a better cost profile than smaller players on account of:
   i) Direct sourcing, cutting out middlemen, creating a 'farm-to-fork' model,
   ii) Rising scale, offering them better bargaining power with suppliers,
   iii) Concomitant growth of suppliers along with the fast growth of QSRs is leading to further economies of scale in the value chain.

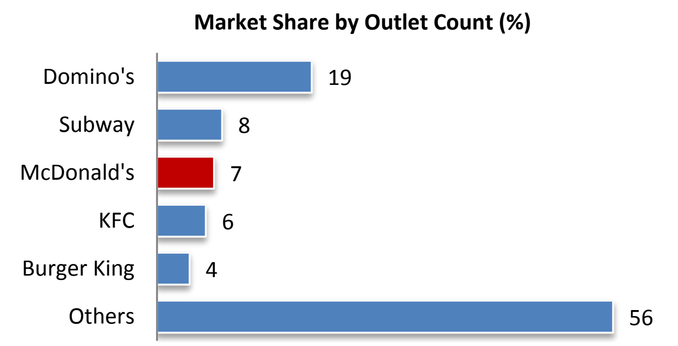
   These advantages help them offer products at affordable prices, which in turn helps drive volumes higher. India being a highly price sensitive market, it is critical to get the pricing right. Higher volumes further drive growth and market share expansion, thereby creating a virtuous loop.
b) **Aspirational positioning** appeals to consumers.
c) **Offering new cuisines:** Being exposed to Western lifestyle through the media and travel, consumers are open to experiment with new cuisines and flavors.
d) **On-the-go and in-transit consumption:** With fast moving lifestyles, there is a rise in on-the-go consumption, where consumers have their meals on their way to work/home. QSRs can cater to this demand as they can dispense food faster than casual dining restaurants (CDRs). They are also well placed to capture in-transit consumers at highways, airports, metros, etc. These offer a win-win proposition for QSR players and consumers as: i) consumers are serviced faster, in-line with their need to spend less time on food/breaks during transit, and ii) QSRs gain better visibility, particularly in the case of highways, as higher visibility and brand awareness helps to penetrate smaller towns.
e) **Higher trust:** With the hygiene standards of unorganized players being questionable, QSRs offer a much better trust proposition to the consumer.
f) **The COVID** situation has been extremely challenging for the FSI as consumers are avoiding dining out. Industry estimates suggest that as many as 30-40% of restaurants across India are likely to shut down. While the dine-in channel for

QSRs too has been affected temporarily, the delivery channel has registered strong momentum and is driving the recovery. Their balance sheet strength is helping them survive in these tough times. A combination of higher trust, lower competition, and fewer alternatives for consumers to indulge in has led to an advantage for QSRs during COVID-19 times.

Competitive landscape

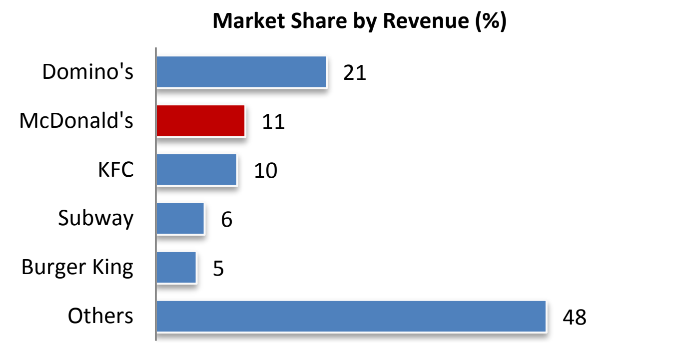
- Domino's is the market leader among chain QSRs, both in terms of number of outlets as well as by revenue. In FY20, Domino's market share by outlet count stood at 19%, while its market share by revenue was higher at 21%.
- In terms of revenue, McDonald's came in second, with a market share of 11%, despite lower (7%) share by outlet count.

Exhibit 1: Chain QSR segment is dominated by Domino's…



Source: MOFSL, BKI

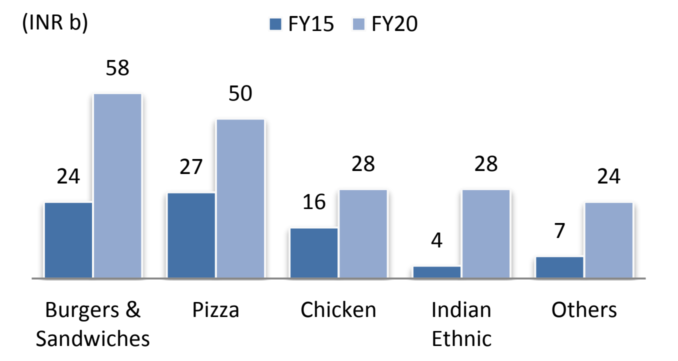
Exhibit 2: …both in terms of outlet count and revenue



Source: MOFSL, BKI

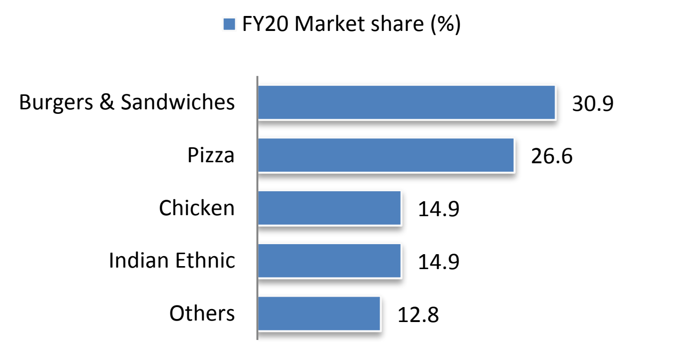
- Of the INR188b chain QSR market in FY20, burgers and sandwiches contributed INR58b (31% market share), followed by pizza and chicken (fried chicken).

Exhibit 3: Burgers and sandwiches dominate chain QSRs…



Only QSR, does not include other formats like CDR

Exhibit 4: …with a market share of 31%



Source: MOFSL, BKI

Vision 2022 to drive all-round growth

- In 2017, WLDL outlined its growth plan termed as Vision 2022 (corresponds to FY23). Under this plan, it aims to grow its market share and margin by:
  a) Growing its baseline sales, and
  b) Broadening accessibility of the McDonald's brand.
- Under this plan, it aims to achieve a topline of INR20-25b with EBITDA margin growing from mid-single digit levels to low-to-mid teens. At the same time, it aims to improve restaurant economics to achieve restaurant level cash returns greater than 20%.

  a) Growing baseline sales

  The aim is to grow average unit volume through improving same store sales growth (SSSG), dining occasions and better brand experience.

	Metric	Vision 2022 Goals	Progress till date
1	SSSG	Mid-to-high single digits	❖ Achieved 16-17% SSSG in FY18-19 but SSSG was only 4% in FY20 due to the lockdown, muted consumer sentiment, and high base.
2	McCafé	Increasing to 300-350 from 75	❖ 224 McCafés out of 320 McDonald's stores (70% coverage).
3	McDelivery	Increasing to 300-350 from 124	❖ 269 delivery hubs out of 320 McDonald's stores (84% coverage).
4	EoTF stores*	80-100 restaurants	❖ 70 as of FY20
5	Brand extensions	Leverage brand extensions and menu	❖ Expanding occasions through McBreakfast and dessert kiosks.

*(details on page 16)

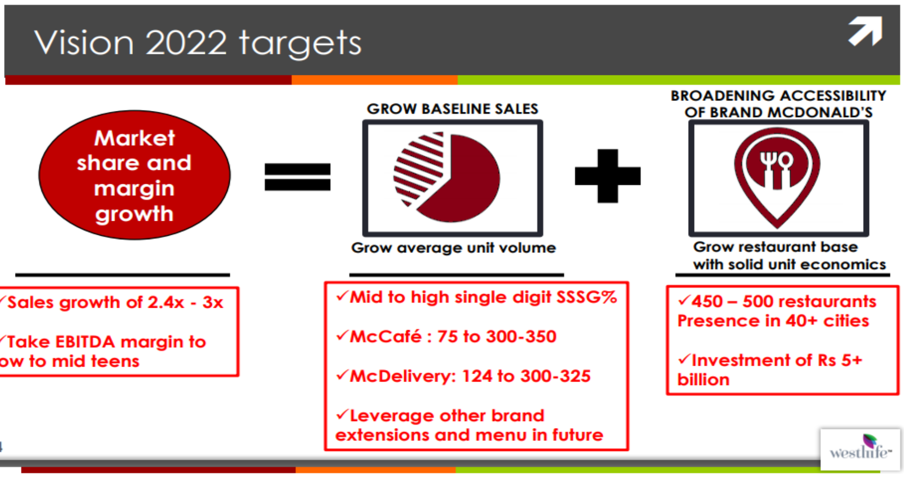
  b) Broadening accessibility of brand McDonald's

  The aim is to grow the restaurant base with strong unit economics.

	Metric	Vision 2022 Goal	Progress till date
1	No. of restaurants*	400-500 restaurants in over 45 cities	❖ 311 stores in 43 cities as of 2QFY21.
2	Investment	Investment of over INR5b	❖ Invested INR3.7b over FY18-20.

*revised from 450-500 restaurants in over 40 cities initially

Exhibit 5: Vision 2022 targets outlined by the company



Source: Company, MOFSL

Future outlook

- In a COVID hit environment, not only has FY21 been drastically impacted, but the recovery is also likely to be gradual as WLDL has a higher reliance on the dine-in channel. While the management aims to achieve margin and RoE targets as per Vision 2022, there could be a 6-12 month delay in store expansion and sales targets.
- While there would be store closures in FY21, store expansion should gather pace from FY22 onwards. During FY18-20, it added only 61 stores, while incurring a capex of INR3.7b. It will have to put in higher investments going forward as it seeks to add another 130-180 stores.
- On the SSSG front, the company can deliver mid-teens growth in FY23E and sustain it at double-digit levels on a steady state basis. This should be accentuated by the addition of brand extensions: McCafé, McDelivery, McBreakfast and dessert kiosks. SSSG growth would be further aided by changes in industry dynamics in a post-COVID environment.

Value proposition key to successful business model for QSRs

- With high fixed costs in India, a successful retail business can be built if one of the three conditions are fulfilled:
  a) Achieving higher volumes,
  b) Selling higher value products, and
  c) Leveraging the delivery channel.
- For QSRs, a successful business model can be built by driving volumes and simultaneously leveraging delivery. Providing a mass value proposition is key to scale up the business.
- McDonald's offerings are at an extremely affordable price point. In fact, it is at par with the unorganized sector, including street food, at the entry level. This increases accessibility and helps a mass consumer to shift from the unorganized sector. Further, due to the aspirational quotient of an American brand, consumers would be willing to shell out a slightly higher sum. The entry point on core products for McDonald's is also lower than most of its peers.
- Assured hygiene standards have been and are increasingly becoming a more important factor for QSRs v/s other restaurants and street food.
- McDonald's also ladders its offerings by pricing them in intervals of INR10-15, making it easier for consumers to climb up to the next priced product.

Exhibit 6: Entry prices (in INR) of core products (veg and non-veg) as of Sep'20

McDonald's*	Burger King*	KFC*	Domino's	Subway
McAloo Tikki Burger - 44/49	Crispy Veg Burger - 45/55	Cheesy Crunch Burger - 99/NA	Pizza Mania Tomato - 59	Veggie Delite Sub - 150
Mexican McAloo Tikki Burger - 49/56	Crispy Veg Makhani Burger - 50/50	Veg Zinger Burger - 125/140	Margherita Pizza - 99	Mexican Patty Sub - 150
Grilled Schezwan Chicken Burger - 69/79	Crispy Chicken Burger - 69/79	Chicken Popcorn - 79/109	Pizza Mania Chicken Sausage - 95	Roasted Chicken Strips Sub - 205
Chicken Kebab Burger - 74/85	Crispy Chicken Makhani Burger - 74/NA	4 Pc Hot Wings - 120/150	Chicken Sausage Pizza - 165	Chicken Slice Sub - 205

*Restaurant/delivery prices

Source: Company, MOFSL

Bundling strategy further drives affordability while increasing throughput

- QSR players have been employing a bundling strategy to offer combos consisting of core products, sides, and beverages. Bundles are generally priced at a discount to the sum of individual products in it. This improves affordability while increasing throughput.
- WLDL has a wide range of bundled offerings with combo meals, family meals, and happy meals with a bundling discount of 10-20%. Discounts are higher on combos of lower priced core products. The average discount is 15-16%.
- A bundle's attractiveness arises especially when a customer wants to buy two of the three products in a combo. For example, when a consumer buys a McVeggie burger and a medium beverage, the cost would be INR196 (INR109 + INR87). At this point, medium fries costing INR98 can be added for only INR48. This gives the consumer an impression that she has realized a 51% discount on the fries, or an overall discount of 17% on the combo.
- In a hyper-price sensitive market like India, the combos can be seen as key to improving consumer satisfaction.

Innovation at the core of WLDL's DNA

The first-ever vegetarian burger introduced by McDonald's USA was the McAloo Tikki burger in 2018, which was developed in India by WLDL
Source: Media

- WLDL has made innovations across its business to cater to the Indian consumer.
- It was among the first players to introduce separate kitchens for vegetarian and non-vegetarian preparations – a masterstroke – that considered consumer sensitivity and helped address concerns, and drive brand adoption.
- The menu is where WLDL's innovation streak truly stands out. Some examples:
  a) Introducing vegetarian products to its offerings, which required WLDL to start product development and building up its supply chain from scratch.
  b) No beef or pork on the menu due to consumer's religious sensitivities.
  c) Introducing products with localized flavors.
  d) Consistently introducing products while maintaining the freshness quotient.

Exhibit 7: Consistently refreshing the menu with new introductions across categories

	FY15	FY16	FY17	FY18	FY19	FY20	FY21*
Food: Veg	3	5	7	5	9	0	2
Food: Non-veg	5	2	2	6	6	0	3
Beverages (incl. McCafé)	0	11	6	9	8	7	0
Desserts	1	8	3	0	1	2	0
Total	**9**	**26**	**18**	**20**	**24**	**9**	**5**

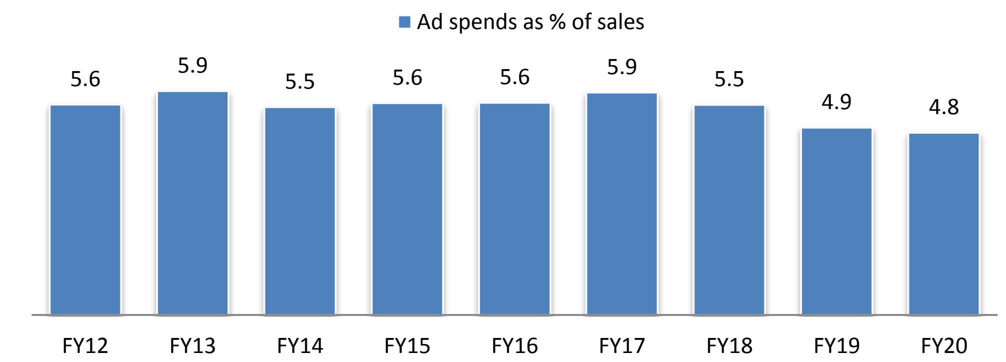
*till date
Source: Company, MOFSL

'Sabka Combo Chalega' campaign of 2019
Source: adgully.com

Backing up launches with advertising campaigns

- WLDL has been backing up new launches with ad campaigns to drive awareness. Historically, it has been spending 5.5-6% of sales on advertisements over the years. This seems to have been rationalized in FY19/FY20 to 4.8%/4.9% of sales.

Exhibit 8: WLDL spends 5-6% of sales on advertisements



Source: Company, MOFSL

McBreakfast

Brand extensions increase consumption occasions, thus boosting sales

- Over the years, WLDL has introduced several brand extensions to increase consumption occasions and consumer engagement with the brand. These include:
  a) **McCafé**: Given the growing trend of coffee culture among the youth, WLDL started adding McCafé kiosks to its existing store network, a globally successful strategy. McCafé offers desserts and beverages. Besides providing an additional occasion for the consumers to visit McDonald's, especially during the erstwhile non-peak hours, it helped drive premiumization, boosting gross margin (details on page 15).
  b) **McDelivery**: Launched in 2005, to provide additional convenience to consumers, it offers delivery services via web, mobile app, and aggregator platforms. McDelivery Services (MDS) have been a strong growth driver for the company (details on page 18).
  c) **McBreakfast**: To further increase consumption occasions for consumers, WLDL introduced McBreakfast with healthy offerings.
  d) **Dessert kiosks**: McDonald's has installed booths outside restaurants that offer customers a variety of desserts. Besides increasing consumption occasions, they also maximize visibility for the McDonald's brand.

McDonald's Dessert kiosk

Premiumization while maintaining affordability helps improve margin

- WLDL's premiumization strategy rests on two pillars:
  a) Addition of premium products to existing categories.
  b) Addition of premium extensions – largely driven by McCafé currently.

a) Premiumization of existing categories

- WLDL has ensured that its entry point on core products remains accessible to mass consumers shifting from the unorganized sector.
- It has also added premium products at the top end of its portfolio to cater to the premium consumer.

Exhibit 9: Adding products at the top end of the portfolio while widening the price range

Category	Sub-category	Entry point	Premium point
Core	Veg burgers and wraps	40	289
	Non-veg burgers and wraps	79	299
Sides	Veg sides	20	128
	Non-veg sides	82	360

Source: Company, MOFSL

Exhibit 10: Premium burgers and wraps launched by McDonald's

Veg burgers	Price (INR)	Non-veg burgers	Price (INR)
McVeggie Double Patty Burger	159	McSpicy Chicken Burger	172
McSpicy Paneer Burger	167	McChicken Double Patty Burger	209
Big Spicy Paneer Wrap	204	Chicken Maharaja Mac	215
Veg Maharaja Mac	204	Big Spicy Chicken Wrap	215
McSpicy Paneer Double Patty Burger	289	Filet O Fish Double Patty Burger	279
		McSpicy Chicken Double Patty Burger	299

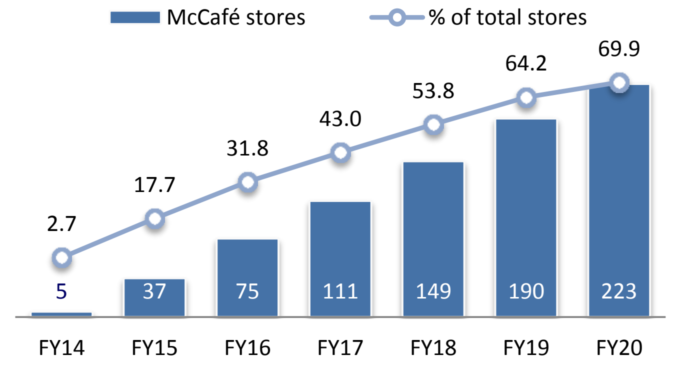
Source: Company, MOFSL

b) McCafé

McCafé offerings include desserts and hot and cold beverages

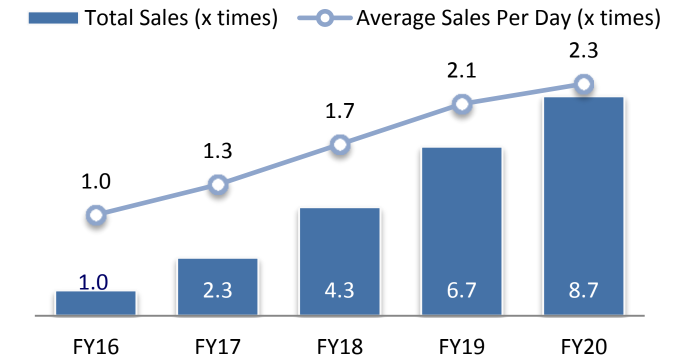
- In line with McDonald's global successful strategy, WLDL started introducing McCafé to its existing McDonald's store network in FY14. There are more than 15,000 McCafés across more than 38,000 McDonald's stores globally.
- As per media reports, the café chain retail market in India should deliver 6.9% CAGR over FY18-23 to INR45.4b. While the COVID-19 outbreak has affected business, the long-term prospects for the category remain bright. The drivers for this industry include growing coffee culture among the younger generation, rising incomes, increasing urbanization, changing lifestyles, and changing food and beverage preferences.
- Café Coffee Day is the market leader in India. However, it is grappling with several issues, which has been exacerbated due to the COVID-19 outbreak. This has led to the company shutting down 280 stores recently.
- While Starbucks is the global leader in retail coffee with over 30,000 outlets, it has 191 stores in India v/s 224 McCafés.
- Although it takes an incremental investment of just INR2.5-3m to set up a McCafé kiosk in an existing McDonald's store, the potential returns from brand extension are multi-fold.
- Under McCafé, WLDL offers desserts and a range of more than 45 hot and cold beverages, including coffee, non-aerated, dairy, and fruit-based beverages.
- McCafé significantly improves its unit store economics as it offers the following benefits:
  - i) Premium products improve sales per store.
  - ii) Better gross margin on McCafé products improve restaurant margins.
  - iii) Addition of evening consumption, a previously under-utilized time slot.
  - iv) Cross-selling opportunity having a mutually positive rub-off on the core business and vice versa.

Exhibit 11: Continuous focus on McCafé…



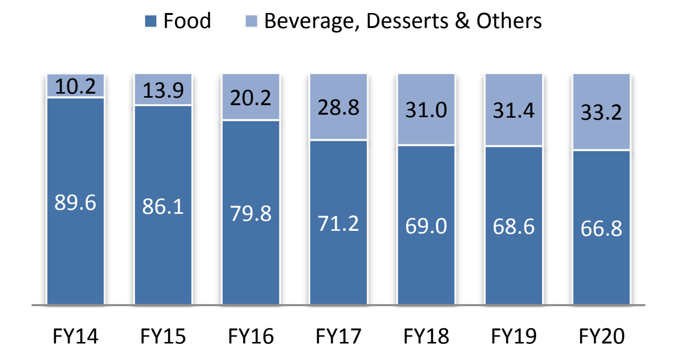
Source: Company, MOFSL

Exhibit 12: …led to a surge of 8.7x in FY16 sales…



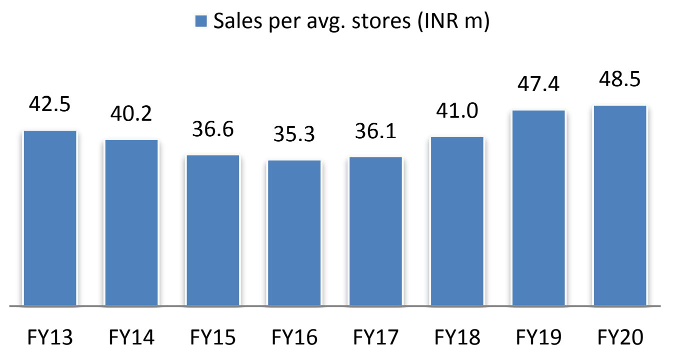
Source: Company, MOFSL

Exhibit 13: …leading to shifting product mix…



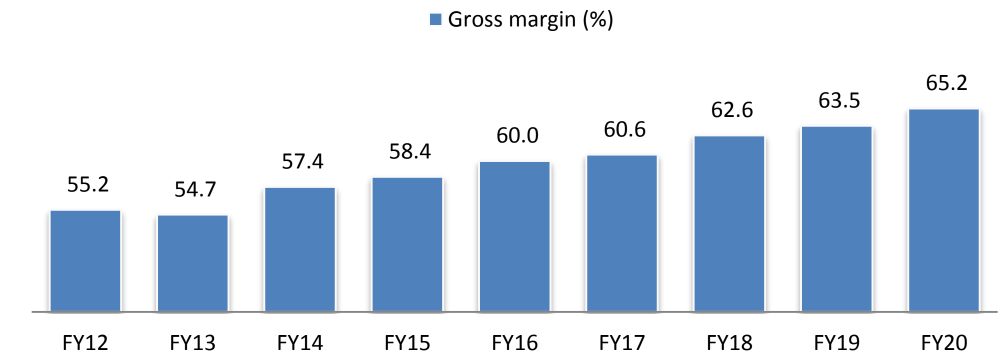
Source: Company, MOFSL

Exhibit 14: …and improving sales per average stores…



Source: Company, MOFSL

Exhibit 15: …thereby improving gross margin to record highs



Source: Company, MOFSL

Self-ordering kiosks

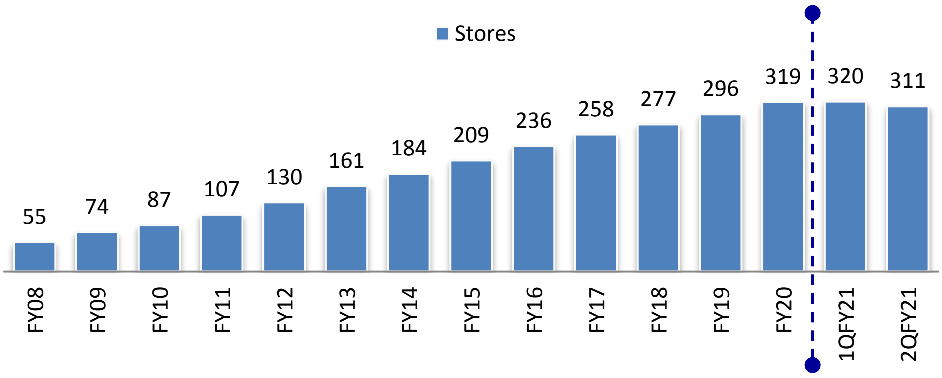
EOTF stores to improve consumer experience

- WLDL is upgrading its existing stores to Experience of the Future (EOTF) stores, with enhanced Digital capabilities to improve consumer experience. This is in line with its strategy of rapid adoption of Digital and technology by consumers.
- The features of an EOTF store include self-ordering kiosks, table service and introduction of healthy items on the menu.
- The incremental capex required for upgrading the stores is INR2.5-3m.
- Started in Mar'17, there are 70 EOTF stores as of Mar'20.

High potential for expansion of store network

- WLDL has added 232 stores in the past decade. As at Sep'20, the total number of stores stood at 311. The company closed nine stores in 2QFY21 as it chose to shut down unprofitable stores affected severely by COVID-19. We expect it to return to expanding its store count from FY22 onwards.
- WLDL is highly urban centric with six large cities (Bengaluru, Hyderabad, Pune, Mumbai, Chennai, and Ahmedabad) currently contributing over 70% of sales.

Exhibit 16: Store network at 311 as of 2QFY21



Source: Company, MOFSL

What is the potential number of stores that WLDL could open in India?

- India has among the lowest number (just 0.3 stores/mn people) of McDonald's stores per million people among large economies.
- An estimated 580m people reside in WLDL's licensed territory of 10 western and southern states. If we exclude Chhattisgarh, which has a relatively weaker economy, the total population would be ~550m in the remaining nine states.
- **Assuming a modest 1.8-2 stores/m people in these nine states, we estimate a potential of 980-1,100 stores in the region, indicating a significant runway for network expansion. This is more than 3x the current store count.**
- Affordability of McDonald's products is a huge factor for the high potential of the number of stores. South and West India are also economically better off than the national average.
- WLDL has scope to expand to new cities and deepen its penetration in existing ones.

Exhibit 17: India has the lowest number of stores/m people…

Country	Population in mn	McDonald's stores	Stores per mn people
India	**1,380**	**480**	**0.3**
Indonesia	274	217	0.8
China	1,439	3,383	2.4
Thailand	70	235	3.4
Venezuela	28	120	4.2
Brazil	213	1,023	4.8
South Africa	59	299	5.0

Store counts as of Dec'19 Source: Company, MOFSL

Exhibit 18: …among large developing/developed countries

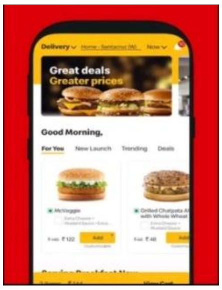
Country	Population in mn	McDonald's stores	Stores per mn people
The Philippines	110	669	6.1
Malaysia	32	295	9.1
Taiwan	24	398	16.7
UAE	10	179	18.1
Japan	126	2,910	23.0
Hong Kong	7	246	32.8
United States	331	13,837	41.8

Source: Company, MOFSL

McDelivery

Drive Thru

On The Go



McDelivery app
Source: Google Play Store

Convenience platform to fortify business model

- WLDL's convenience platform offers alternate channels besides dine-in for the consumer. These include:
  - a) McDelivery Services (MDS),
  - b) Drive-thru,
  - c) On-the-Go (recently added due to the COVID-19 situation to over 250 restaurants by converting them to virtual drive-thrus).

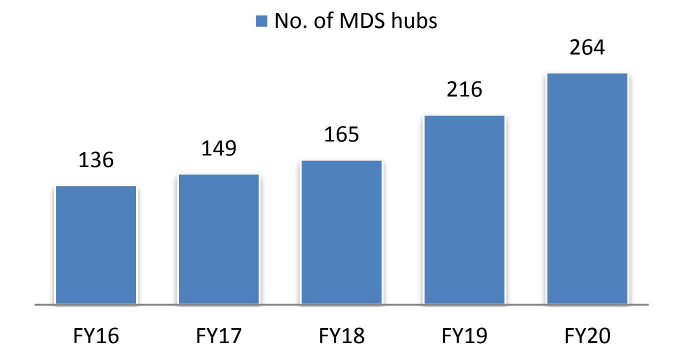
Alternate channels necessary for improving unit economics…

- As highlighted previously, strong contribution of a convenience platform is crucial to drive unit economics and build a successful QSR business model in the Indian market.
- As a store matures, the dine-in channel is likely to witness saturation in volumes. Although several levers for value growth exist in this channel, it is important to develop alternate channels to boost volumes, and thereby unit profitability.
- Dine-in is likely to slowly recover once the COVID-19 pandemic ends, increasing the growth opportunity as well as WLDL's focus on the convenience platform.

…and driving growth, especially in a post-COVID world

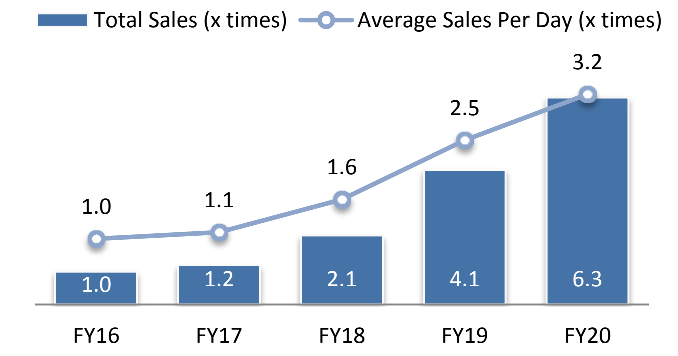
- MDS was launched by WLDL in 2005 to provide added convenience to consumers, but has been a key focus area only in recent years. It has been ramped up further as a part of Vision 2022. As of Jun'20, MDS service was available at 276 hubs via web, app, and aggregator platforms. The McDelivery app had ~4m downloads as of 2QFY21.
- It has been a strong growth driver, far outperforming the company's overall sales over the past five years. With the number of delivery hubs growing to 264 in FY20 from 136 in FY16, average daily sales (ADS) rose to 3.2x of that in FY16. Consequently, MDS has grown to 6.3x during the same period.

Exhibit 19: No. of MDS hubs surge ~2x over FY16-20…



Source: Company, MOFSL

Exhibit 20: …and ADS up 3.2x leading to sales growth of 6.3x



Source: Company, MOFSL

COVID-19 crisis a catalyst for convenience channels

- Before COVID-19, convenience channels contributed ~50% to sales (v/s JUBI's 70%). However, the COVID-19 situation has led to an additional boost for the convenience channels as consumers are avoiding outdoor consumption.
- After the lifting of lockdown restrictions, convenience channels have seen strong recovery. WLDL's sales from delivery/drive-thru have recovered to 90%/75-90% of pre-COVID levels in 2QFY21.
- In the current scenario, contribution of convenience platform would have undoubtedly spiked as dine-in would be operating at much lower levels. In a post-COVID world, we believe convenience platform may see some normalization, though it would be higher than pre-COVID levels.

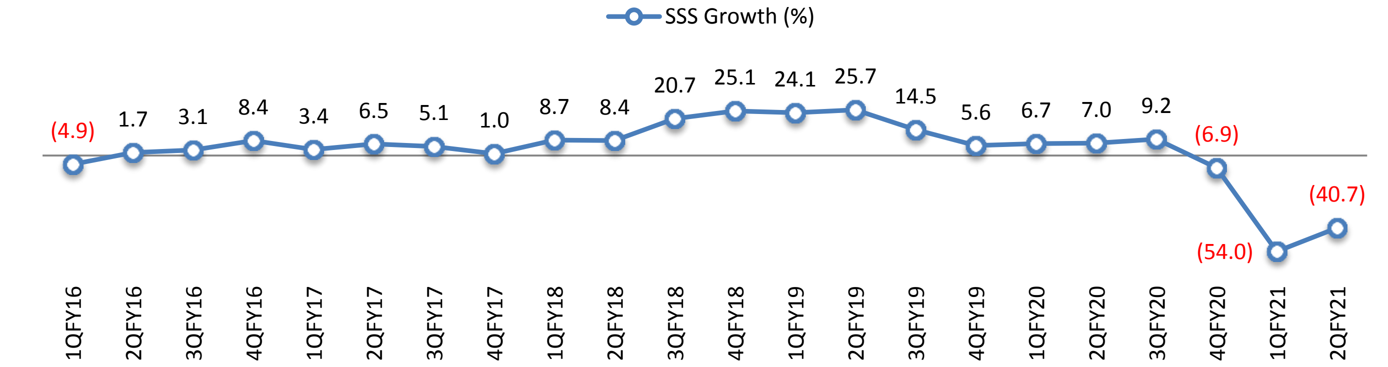
Impact on margin

- Gross margin in convenience channels is slightly lower than that of dine-in due to weaker mix. While the company relies on third-party apps for order generation, it does not bear the deep discounts offered on these platforms.
- The operating margins in delivery are at similar levels as that in dine-in. While the company has to pay commission to its delivery partners, the margin impact is offset by the higher ticket size of delivery orders. Average ticket size of delivery orders is higher as consumers order for more individuals than in the case of dine-in.
- While delivery margin is similar to dine-in on a per order basis, the higher volumes generated by the convenience channels lead to better absorption of overhead expenses, thereby improving restaurant unit economics.

Strong historical SSSG performance indicative of right fundamentals

- Same Store Sales Growth (SSSG) is a key metric for retail players, particularly QSRs, which determines the profitability of a business. When strong SSSG is allied with store additions, it leads to healthy sales growth at the company level.
- It is important to note that a certain amount of cannibalization is natural when new stores are opened in the vicinity of existing stores. Yet if the SSSG increase is impressive, it is truly commendable.
- WLDL has realized consistently positive SSSG for 18 quarters from 2QFY16 to 3QFY20 before the COVID-19 impact in 4Q.

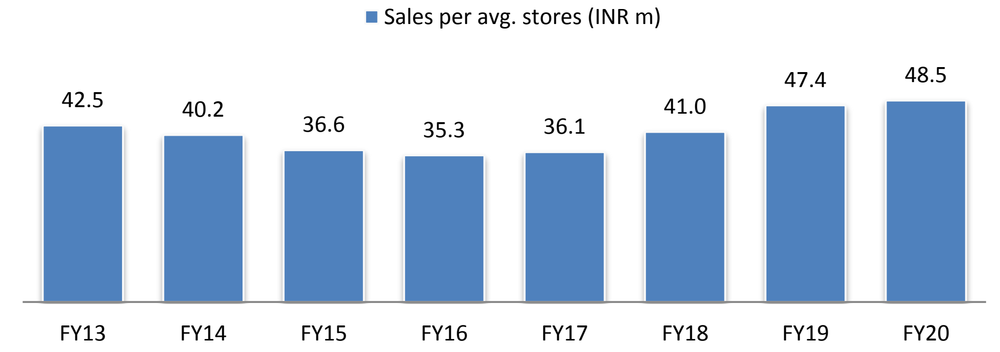
Exhibit 21: 18 quarters of positive SSSG halted by COVID-19 lockdown in 4QFY20 and 1QFY21



Source: Company, MOFSL

- The drivers for WLDL's strong SSSG performance include:
  a) Volume growth driven by combos,
  b) Brand extensions – McCafé, McDelivery, and McBreakfast,
  c) Plugging product gaps and premiumization in the core portfolio,
  d) Growth of alternate channels in the convenience platform,
  e) New launches and campaigns, and
  f) Annual price hikes of 3-4% on an average.
- With improvement in SSSG, there has also been an improvement in sales per average stores.

Exhibit 22: See improvement in sales per average stores



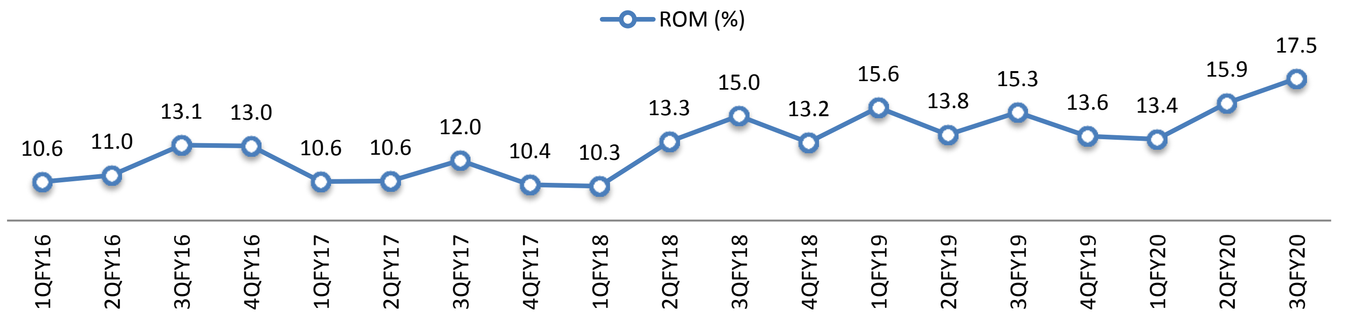
Source: Company, MOFSL

- Under Vision 2022, WLDL started witnessing a sharp SSSG performance during FY18-19, aided by industry tailwinds like GST implementation.
- FY20 saw moderation in SSSG on account of: a) muted consumer sentiment, b) the COVID-19 led lockdown, and c) high base. Nevertheless, SSSG was on an improving trajectory even in FY20 (5.6%/6.7%/7% in 1Q/2Q/3Q). 4QFY20 was seeing a further improvement with SSSG at 12.3% in Jan-Feb'20, supported by a relatively softer base. However, the complete shutdown in Mar'20 led to a sharp hit, with the overall quarter's SSSG coming in at -6.9%.

Strong SSSG with cost optimization leads to improving ROMs

- It is important to analyze SSSG v/s inflation in key per store cost items like material costs, employee costs, and lease rentals.
- As long as SSSG outpaces the inflation trend in these costs, the profitability trend, as reflected by Restaurant Operating Margins (ROMs), would improve (details on page 22).

Exhibit 23: With strong SSSG and cost optimization, ROM was improving before Covid disruption

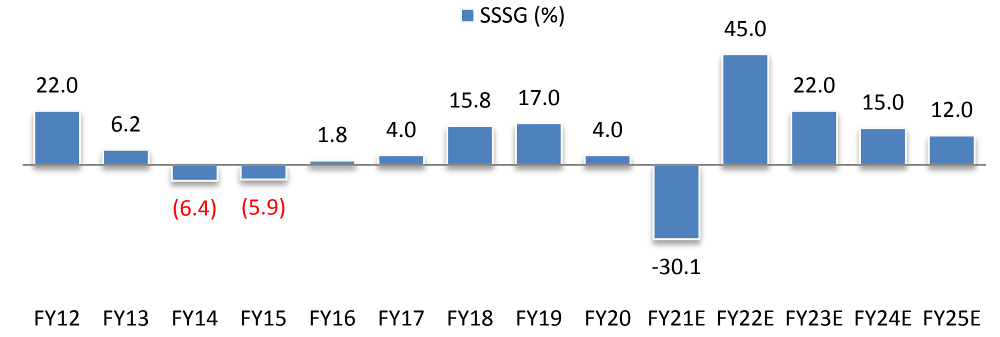


Source: Company, MOFSL

Outlook for the future appears promising

- With high reliance (50%) on dine-in before COVID-19, a recovery in SSSG would be gradual in the near term for WLDL. Recovery is likely to be driven by the convenience platform led by delivery.
- We believe WLDL can deliver SSSG in mid-teens in FY23 and sustain at double-digit levels on a steady state basis. This will be aided by brand extensions and by COVID-related tailwinds for the organized industry.

Exhibit 24: Strong momentum seen in SSSG in FY18-19, but FY20 witnesses multiple challenges. Expect strong performance from FY22E onwards



Source: Company, MOFSL

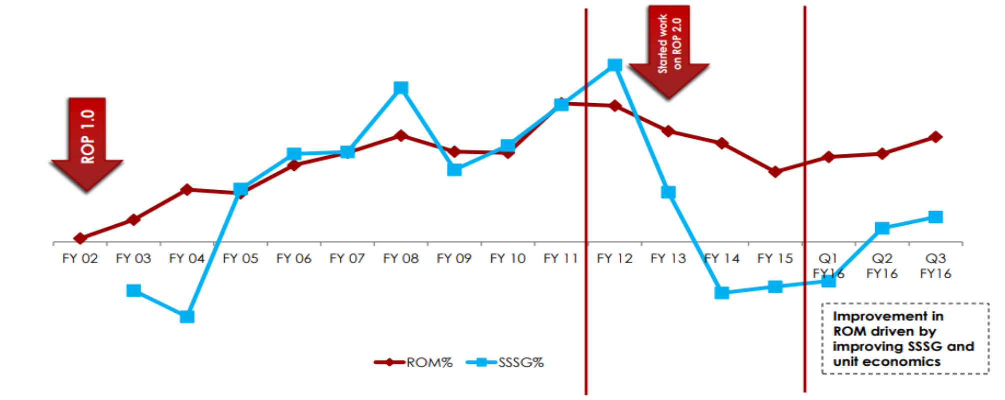
Robust supply chain a key advantage

- With a Western product as its core offering, WLDL needed to establish a stable supply chain at its back end. This turned out to be an extremely challenging task on account of the alien ingredients and necessity for quality raw materials.
- For example, one of the key ingredients for burgers – lettuce – could be initially grown only during the winter months in India. With serious efforts and breakthroughs, the vegetable is now being grown throughout the year. Similarly, the quality of potatoes desired for French fries was not available in India and required considerable efforts for indigenization.
- WLDL has deeply engaged with farmers and vendors to ensure the right quality of raw materials are supplied to it at all times. With direct sourcing, WLDL has created a 'farm-to-fork' model.
- Besides raw material, WLDL also localized the kitchen equipment in stores.
- As a result, over 90% of its requirements, including equipment, and more than 95% of its food products are localized.
- WLDL's model has helped in significantly cutting down costs on account of: a) localization, b) direct sourcing, which eliminates middlemen, and c) economies of scale realized by vendors as they grow with the company.
- Cost optimization is crucial for maintaining affordable pricing, which is the most critical part of the QSR strategy for scaling up.

ROP 2.0 optimizing costs and improving ROMs

- On account of elusive profitability at the restaurant level, WLDL introduced a Restaurant Operating Platform (ROP) 1.0 in FY02 with a goal to optimize costs, raking in efficiencies and thereby improving margin.
- Initiatives under ROP 1.0 included: a) building up of local supply chains for foods as well as equipment, b) right sizing of restaurants, c) optimizing kitchen capacity, d) tax rationalization, and e) increased supplier capacity through third-party business. Compared to 1996, this led to a 60% reduction in the average development cost, and along with strong SSSG resulted in a 2,240bp improvement in Restaurant Operating Margins (ROM) in FY03.
- However, new challenges emerged in FY13-14 with slowing GDP growth, low consumer sentiment, high double-digit food inflation, and 20% rise in utility rates and minimum wages.
- WLDL conceptualized ROP 2.0 in 2013 and launched it in 2016. The goal was to reduce capex and opex through focus on three areas: a) restaurant design, b) equipment options, and c) operating costs.
- Initiatives taken under ROP 2.0 involved:
  a) Changes in restaurant design through localization, leading to an upgraded look with lower costs,
  b) Localization of kitchen equipment, which helped reduce capex.
  c) Initiatives to reduce operating costs such as: 1) energy saving initiatives like LED lighting, 2) solar powered heaters and waterless urinals, 3) redesign of HVAC for lower unit consumption, and 4) labor productivity improvements.
- The early results of ROP 2.0 saw a 20-25% reduction in both capex and opex. This led to restaurant cash breakeven decreasing to 12-18 months from 24 months and cash-on-cash ROI to over 20% in 24-30 months. ROM improved by 300-350bp for new restaurants.

Exhibit 25: ROM started to improve from FY16 onwards with ROP 2.0 and better SSSG



Source: Company, MOFSL

Exhibit 26: ROP 2.0 generates better-than-expected results

	2013-14	ROP 2.0 target	ROP 2.0 actual
Average development cost	1x	0.8x	0.7x
Cash breakeven (months)	24	12-18	~12
ROM (%)	Negative margin	Breakeven	Positive margin and cash flows

Source: Company, MOFSL

Business unit economics (pre-COVID) geared towards a fast breakeven

- A new store required an average initial investment of INR25-30m.
- Stores typically need 2-3 years to establish, depending on brand awareness in the catchment area.
- The first year sees positive contribution to ROM (%) with a cash ROI of over 10%.
- The third year sees sales of INR40-45m with a cash ROI of over 20%.

Employee expenses rationalized in recent years

- We have split employee expenses into two components: a) restaurant employee expense, and b) corporate employee expense.
- The average employee expense per restaurant has been largely growing in mid-to-high single-digits. This seems to be the annual wage hike trend of WLDL.
- Taking the balance of the total employee expense as a corporate employee expense, this expense has largely been growing in double-digits YoY.
- As a percentage of sales, total employee expense seems to have peaked out at 15% and seem to be on a downward trajectory.

Exhibit 27: Movement of employee expense

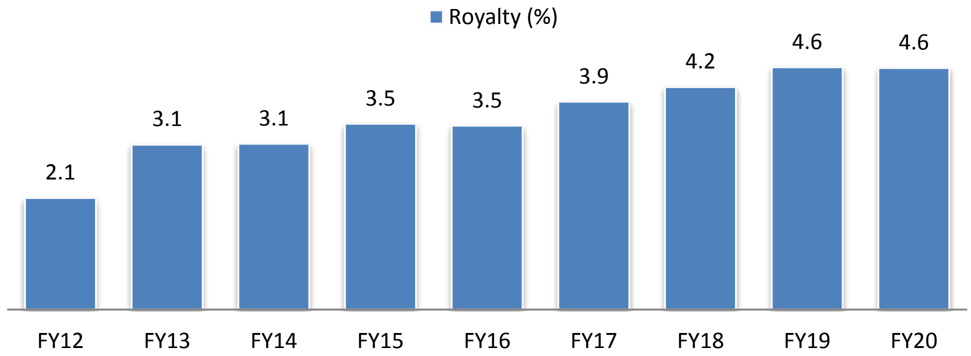
(INR m)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
No. of employees	7,586	7,527	7,298	6,907	7,786	8,712	9,537	9,908
Total employee expense	**763**	**963**	**1,137**	**1,240**	**1,407**	**1,716**	**1,975**	**2,192**
% of sales	11.2	13.0	14.9	14.9	15.1	15.1	14.1	14.2
Restaurant employee expense	576	720	862	913	1,089	1,311	1,453	1,690
% of sales	8.4	9.7	11.3	11.0	11.7	11.6	10.4	10.9
Average employee expense per restaurant	4.0	4.2	4.4	4.1	4.4	4.9	5.1	5.5
YoY growth (%)		5.1	5.0	-6.5	7.5	11.1	3.5	8.3
Corporate employee expense	187	242	275	328	318	404	521	502
YoY growth (%)		29.4	13.3	19.3	-3.0	27.2	28.8	-3.7
% of sales	2.7	3.3	3.6	3.9	3.4	3.6	3.7	3.2

Source: Company, MOFSL

Royalty rates in line with peers till FY25

- The royalty rates have been increasing as per the master franchise agreement with the parent organization.
- According to the agreement, royalty rates are expected to increase gradually to 5% until FY25 and at 8% thereafter.
- The 8% royalty rate is considerably higher than the ~5% rate paid by several other MNCs operating in India. We believe this could prove to be an overhang on the stock in the medium term unless the parent organization renegotiates the rates post FY25, considering the strategic importance of the Indian market.

Exhibit 28: Royalty rates (incl. taxes) have been increasing as per agreement with parent



Source: Company, MOFSL

Exhibit 29: Royalty rates (excl. taxes) as per an agreement with McDonald's Corporation

	FY20	FY21	FY22	FY23	FY24	FY25	FY26-30	FY30-40*
Royalty rates (%)	4.0	4.0	4.5	4.5	5.0	5.0	8.0	8.0

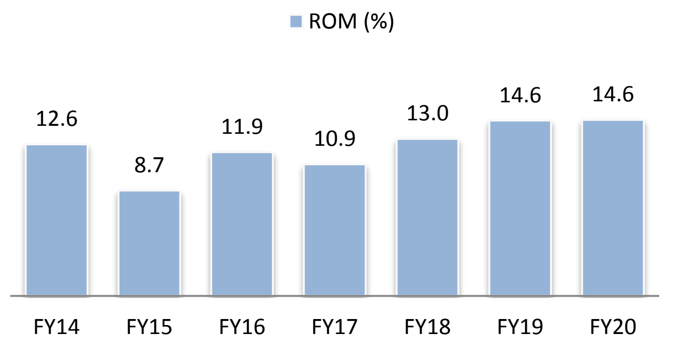
*if agreement is extended

Source: Company, MOFSL

Improving Restaurant Operating Margins (ROM)

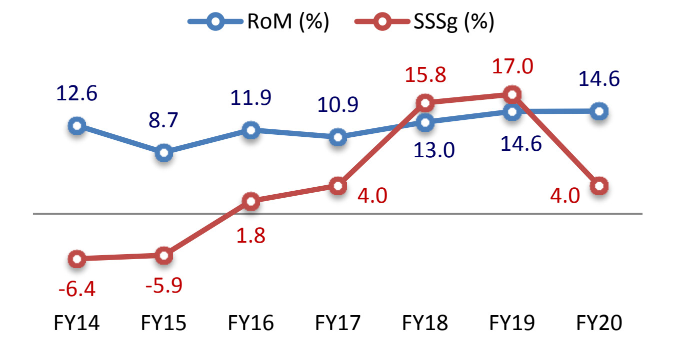
- ROM is a measure of restaurant-level operating profit and is driven by SSSG and operating costs. With an improvement in SSSG, ROMs have improved.
- Efforts on premiumization, improving productivities, and driving efficiencies has helped boost ROM.

Exhibit 30: ROM started improving from FY16 onwards…



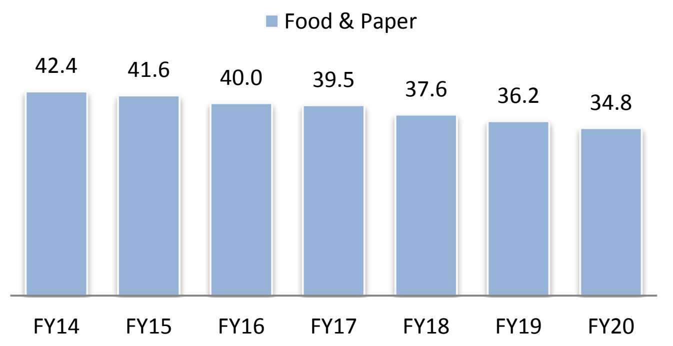
Source: Company, MOFSL

Exhibit 31: …driven by SSSG



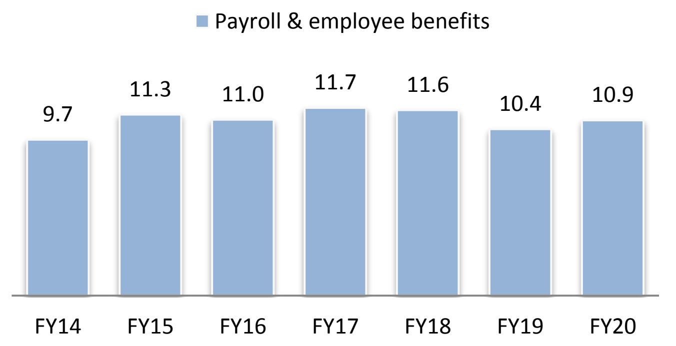
Source: Company, MOFSL

Exhibit 32: Food and paper costs decline due to premiumization efforts, leading to better gross margin



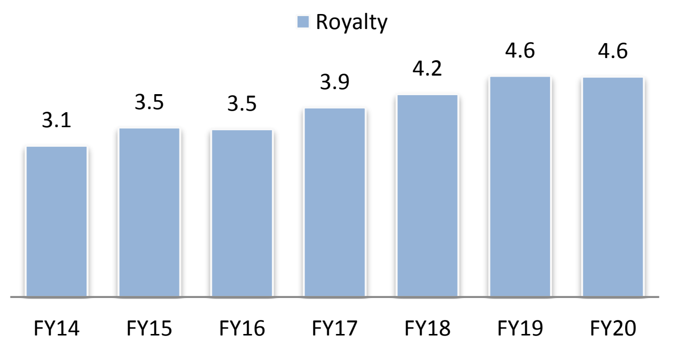
Source: Company, MOFSL

Exhibit 33: Restaurant-level employee expenses decline due to higher employee productivity



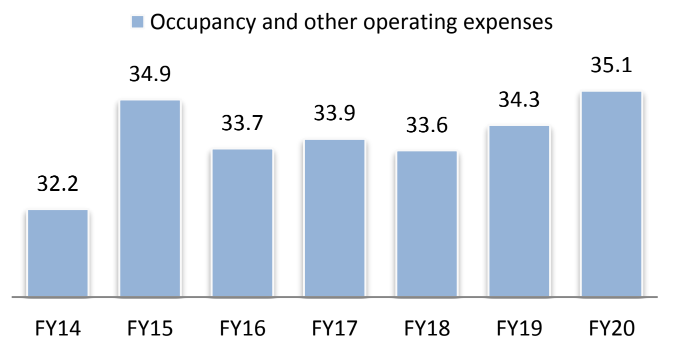
Source: Company, MOFSL

Exhibit 34: Royalty expense increase in line with master agreement



Source: Company, MOFSL

Exhibit 35: Occupancy and other operating costs were optimized with ROP 2.0



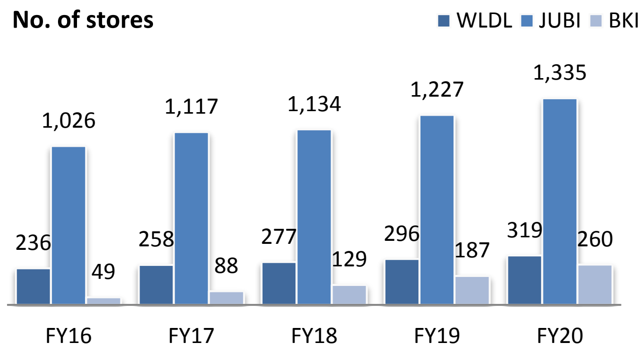
Source: Company, MOFSL

In charts: WLDL v/s JUBI and BKI

We compare the WLDL vs JUBI and BKI performance over the past five years.

- JUBI has a larger store network and is also expanding faster than WLDL. BKI has been aggressively adding stores since entering the market in 2014.
- WLDL marginally outperformed JUBI in SSSG in recent years. BKI registered a strong SSSG in FY19 but witnessed a steeper decline in FY20 due to lockdown.

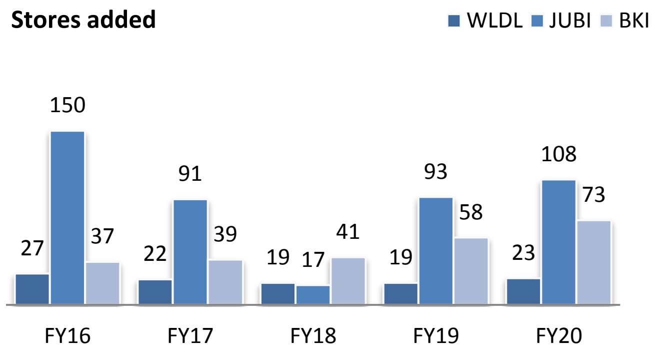
Exhibit 36: JUBI has a larger store network than WLDL*…



* JUBI is pan-India while WLDL is only in West and South India

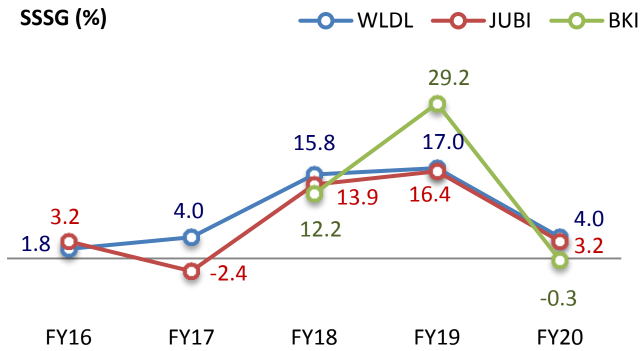
Source: Companies, MOFSL

Exhibit 37: …and has also been expanding at a faster rate



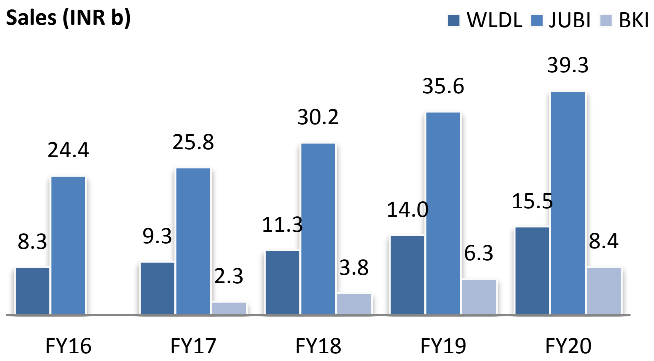
Source: Companies, MOFSL

Exhibit 38: WLDL outperforms JUBI in SSSG



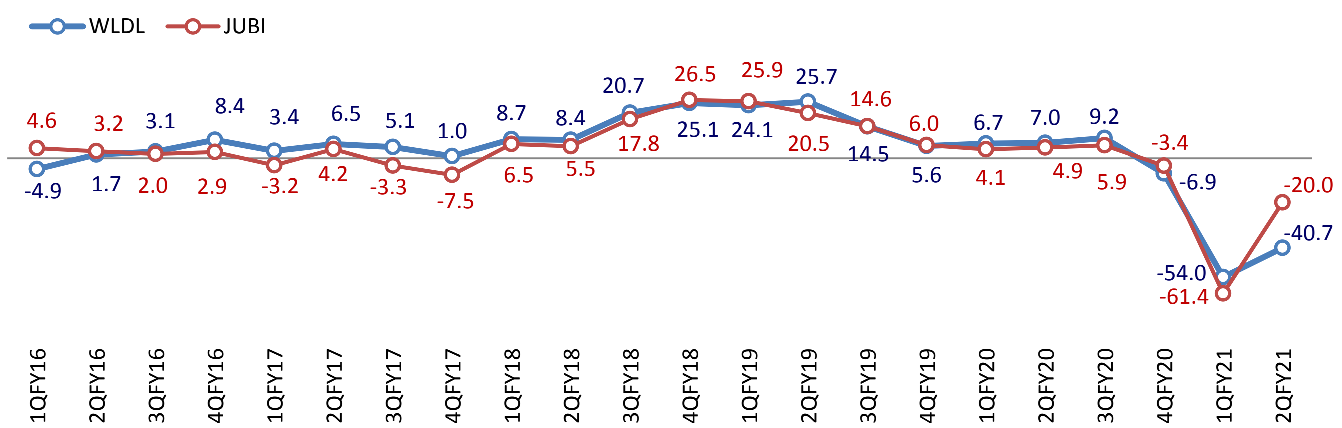
Source: Companies, MOFSL

Exhibit 39: JUBI has much higher sales than WLDL and BKI



Source: Companies, MOFSL

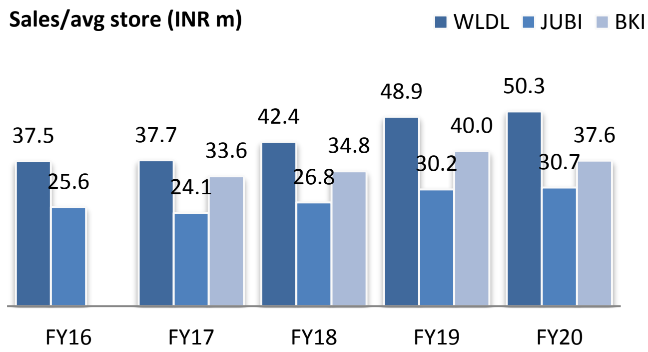
Exhibit 40: In most of the past 20 quarters, WLDL outperformed JUBI on SSSG (%)



Source: Companies, MOFSL

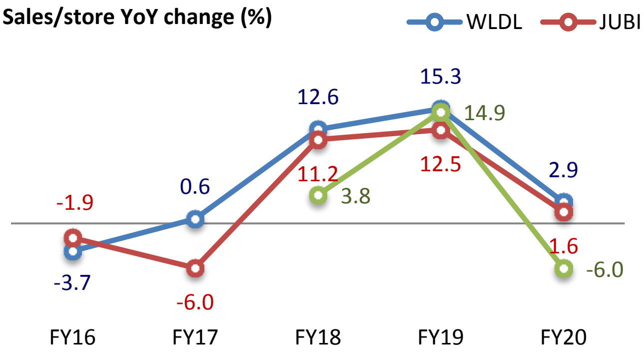
- Sales per average store, however, is higher for WLDL and is increasing as well.
- With its larger store size (over 2x) to that of a Domino's, WLDL needs this fast growth to improve its profitability metric and RoCEs further.

Exhibit 41: Sales per average store is higher for WLDL…



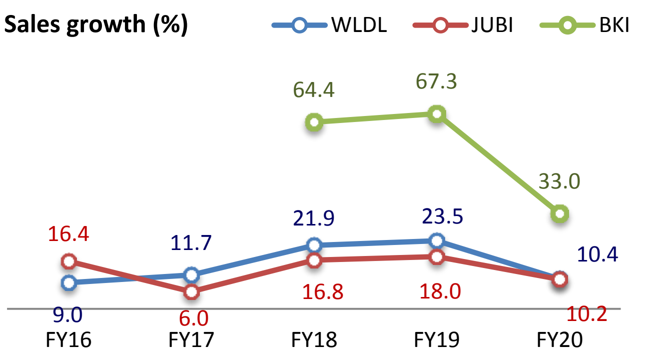
JUBI includes Dunkin but its contribution would not be meaningful

Exhibit 42: …and is growing at a faster pace than both peers



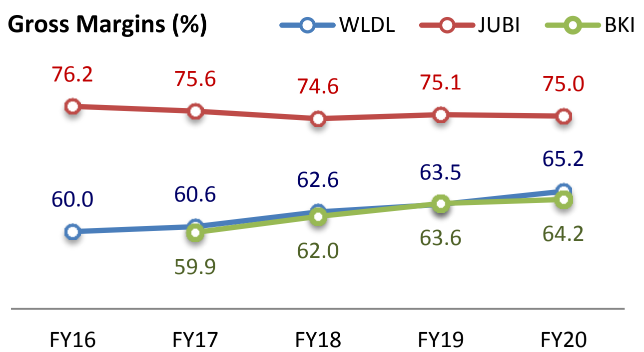
Source: Companies, MOFSL

Exhibit 43: WLDL outperforms JUBI in sales growth; BKI registered strong growth off small base



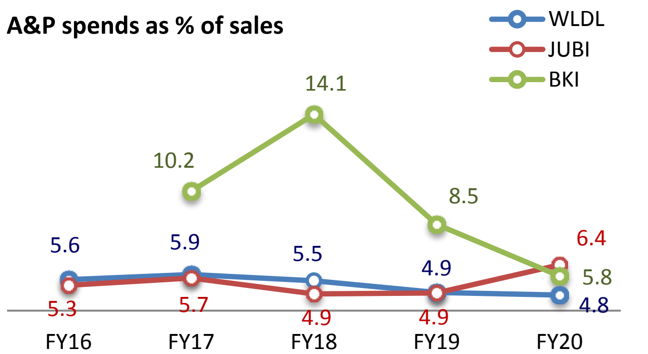
Source: Companies, MOFSL

Exhibit 44: WLDL's gross margin is lower than JUBI but similar to BKI; WLDL and BKI gross margins are improving



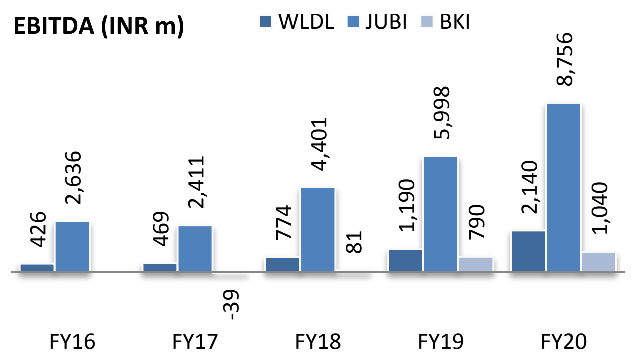
Source: Companies, MOFSL

Exhibit 45: WLDL investing more than JUBI in A&P; BKI A&P spends are higher as it is in early investment phase



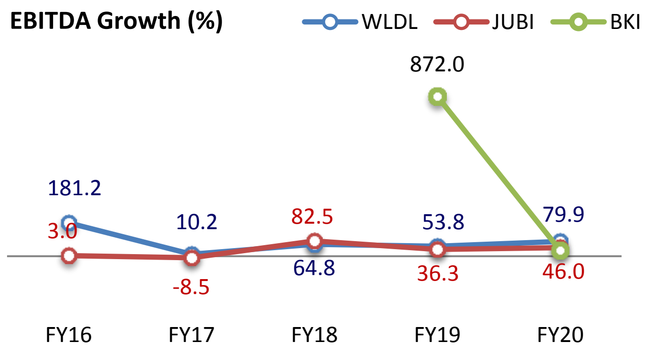
Source: Companies, MOFSL

Exhibit 46: All players have been seeing sharp EBITDA growth though…



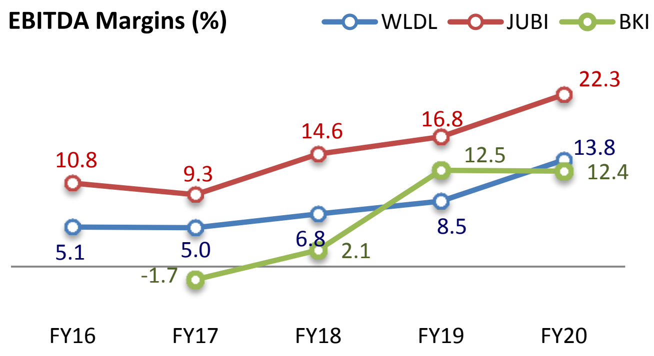
Source: Companies, MOFSL

Exhibit 47: …FY20 was also boosted by Ind AS accounting



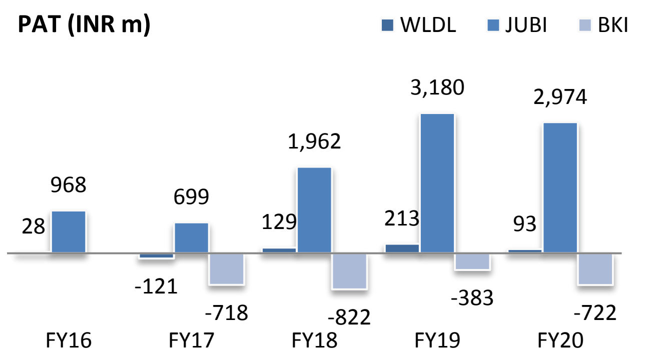
Source: Companies, MOFSL

Exhibit 48: WLDL's EBITDA margin is improving…



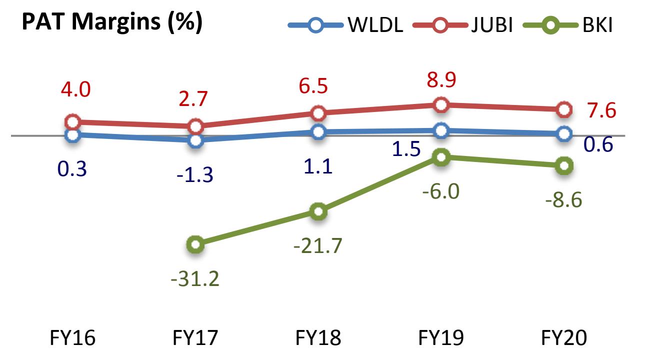
Source: Companies, MOFSL

Exhibit 49: …but PAT turned positive only in FY18



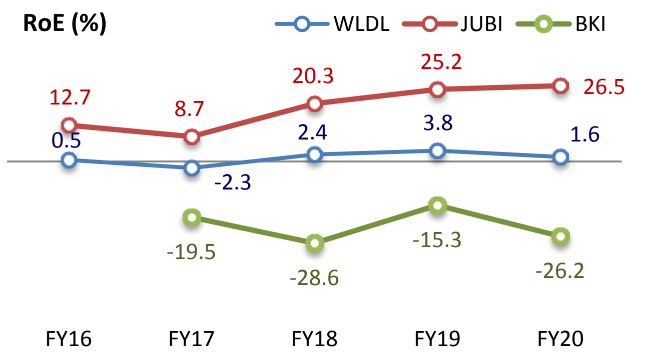
Source: Companies, MOFSL

Exhibit 50: PAT margin remains weak, but likely to improve



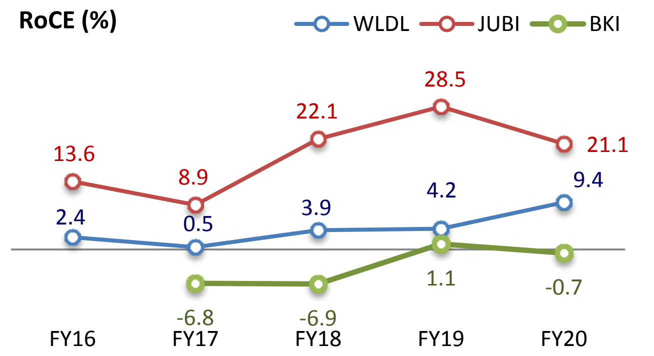
Source: Companies, MOFSL

Exhibit 51: JUBI has a better return profile on both RoE…



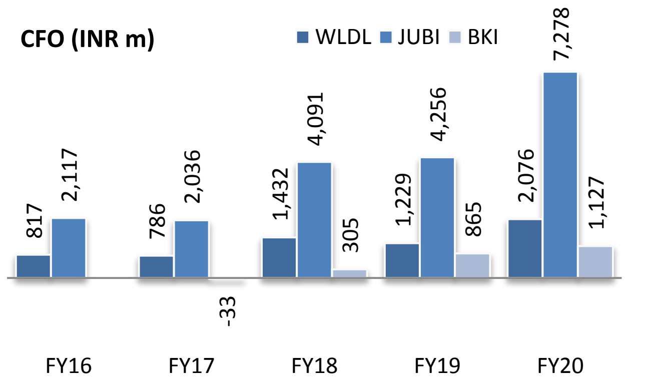
Source: Companies, MOFSL

Exhibit 52: …and RoCE than WLDL and BKI



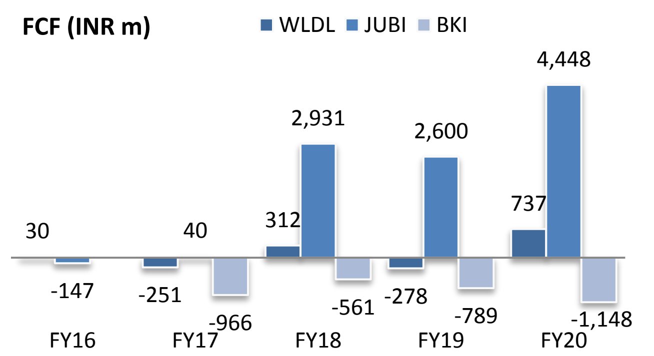
Source: Companies, MOFSL

Exhibit 53: WLDL has strong operating cash flows…



Source: Companies, MOFSL

Exhibit 54: …but high capex has muted FCF



Source: Companies, MOFSL

Financial assumptions – Double-digit SSSG, rapidly improving margins

Exhibit 55: Expect store addition to pick up pace from FY22E onwards

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
No. of stores	236	258	277	296	319	300	325	350	380	415
Net additions YoY	27	22	19	19	23	-19	25	25	30	35
Addition %	12.9	9.3	7.4	6.9	7.8	-6.0	8.3	7.7	8.6	9.2
SSSG (%)	1.8	4.0	15.8	17.0	4.0	-30.1	45.0	22.0	15.0	12.0

- Due to COVID-19, some unprofitable stores are expected to be closed in FY21E. However, we expect store additions to pick up pace from FY22E onwards.
- On the SSSG and sales growth front, we expect FY21E to witness a steep decline and a subsequent sharp recovery in FY22E on account of the low base. Post FY22E, WLDL could deliver double-digit SSSG on a sustainable basis.

Exhibit 56: Summary financials

(INR m)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
Net sales	8,334	9,308	11,349	14,020	15,478	9,415	15,064	20,337	25,421	30,884
YoY change (%)	9.0	11.7	21.9	23.5	10.4	-39.2	60.0	35.0	25.0	21.5
Gross profit	5,001	5,645	7,099	8,905	10,095	5,884	9,566	13,361	16,854	20,692
Gross margin (%)	60.0	60.6	62.6	63.5	65.2	62.5	63.5	65.7	66.3	67.0
Employee expenses	1,240	1,407	1,716	1,975	2,192	1,830	2,112	2,645	3,241	3,875
% of sales	14.9	15.1	15.1	14.1	14.2	19.4	14.0	13.0	12.7	12.5
A&P spends	467	547	630	693	745	377	738	1,017	1,195	1,421
% of sales	5.6	5.9	5.5	4.9	4.8	4.0	4.9	5.0	4.7	4.6
Royalty	290	365	477	641	706	429	773	1,043	1,449	1,760
% of sales	3.5	3.9	4.2	4.6	4.6	4.6	5.1	5.1	5.7	5.7
EBITDA	426	469	774	1,190	2,140	144	1,785	3,084	4,207	5,544
YoY change (%)	181.2	10.2	64.8	53.8	79.9	-93.3	1,141.3	72.8	36.4	31.8
EBITDA margin (%)	5.1	5.0	6.8	8.5	13.8	1.5	11.8	15.2	16.6	18.0
Profit before tax	31	-121	129	352	79	-1,507	36	1,191	2,169	3,333
Adjusted PAT	28	-121	129	213	93	-1,194	27	891	1,622	2,493
YoY change (%)	L/P	P/L	L/P	66	-56	P/L	L/P	3,238	82	54
PAT margin (%)	0.3	-1.3	1.1	1.5	0.6	-12.7	0.2	4.4	6.4	8.1

- With strong store expansion and SSSG, we expect WLDL to deliver robust double-digit topline growth over FY23-25E.
- With dine-in impacted in FY21, gross margin too has come under pressure due to McCafé taking a big hit. With a recovery in McCafé from FY22 onwards, we expect the premiumization momentum to resume, leading to consistent gross margin expansion.
- With higher growth and productivity, employee expense should decrease as a percentage of sales from FY23E onwards.
- We expect advertisement and promotion (A&P) spends to stabilize at 4.6% of sales, a necessary investment for driving consumer awareness and engagement with the brand.
- Accordingly, EBITDA margin is likely to improve from FY22E onwards and reach high-teens.
- PAT margin is likely to be low on account of leverage. However, they should improve as the company resumes cash generation and starts deleveraging.

Exhibit 57: WLDL likely to turn a net cash company by FY22E

(INR m)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
Debt	1,495	1,904	1,835	2,339	1,837	2,037	1,837	1,487	987	287
Cash	70	71	109	92	30	34	50	69	81	119
Investments	1,562	1,700	1,843	2,046	1,576	1,497	1,864	2,386	3,054	3,909
Net debt	-136	133	-117	201	231	506	-77	-968	-2,147	-3,741

Source: Company, MOFSL

- With cash generation impacted in FY21, we expect WLDL to raise debt to meet its cash needs.
- However, as the management sees a recovery in FY22 and strong growth thereafter, cash generation should lead to deleveraging.
- We expect WLDL to turn net cash in FY22.

Exhibit 58: Strong working capital cycle

(INR m)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
Inventory	278	302	337	410	411	413	578	780	975	1,185
Receivables	42	49	64	98	47	29	46	62	78	94
Payables	994	1,114	1,397	1,487	1,594	1,032	1,551	2,094	2,618	3,181
Days (year-end basis)										
Inventory days	12	12	11	11	10	16	14	14	14	14
Receivables days	2	2	2	3	1	1	1	1	1	1
Payables days	44	44	45	39	38	40	38	38	38	38
Cash conversion cycle	**-30**	**-30**	**-32**	**-25**	**-27**	**-23**	**-22**	**-22**	**-22**	**-22**
Days (average basis)										
Inventory days	11	11	10	10	10	16	12	12	13	13
Receivables days	2	2	2	2	2	1	1	1	1	1
Payables days	37	41	40	38	36	51	31	33	34	34
Cash conversion cycle	**-23**	**-28**	**-28**	**-26**	**-25**	**-33**	**-18**	**-20**	**-20**	**-20**

Source: Company, MOFSL

- With low receivables and inventory days, WLDL has been a negative working capital cycle company.
- Deterioration in the cash conversion cycle (CCC) (on year-end basis) from -30 days in FY16 to -27 days in FY20 has largely been driven by reduction in payable days.
- We expect CCC to improve further in FY21 as the company strives to maintain cash levels. This is expected to normalize from FY22E onwards.

Exhibit 59: COVID-19 sharply affected RoE and RoCE, but expect an improvement from FY22E onwards

(%)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
RoE	0.5	-2.3	2.4	3.8	1.6	-23.1	0.6	17.6	25.7	29.8
RoCE	2.4	0.5	3.9	4.2	9.4	-8.2	10.3	23.6	31.4	36.6

Source: Company, MOFSL

- The company had been witnessing steadily improving RoCE in recent years. While COVID-19 has sharply affected return ratios in FY21, with business expected to recover FY22 onwards, return ratios are likely to improve as well.
- Improvement in RoE would be driven by a sharp jump in profitability. In addition to that, deleveraging of its Balance Sheet would boost RoCEs.

Exhibit 60: Strong cash flow generation from FY22E onwards

(INR m)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
CFO	799	657	1,371	1,148	1,996	111	2,002	2,747	3,442	4,258
Capex	-769	-908	-1,059	-1,426	-1,259	-100	-1,100	-1,500	-1,900	-2,300
FCF	30	-251	312	-278	737	11	902	1,247	1,542	1,958

Source: Company, MOFSL

- FY21E to see muted cash flows, with a lower level of business operations.
- CFO and FCF to normalize from FY22E onwards.

Valuation and view

Exhibit 61: Expect WLDL to become a net cash company by FY23E

(INR m)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
EBITDA	**426**	**469**	**774**	**1,190**	**2,140**	**144**	**1,785**	**3,084**	**4,207**	**5,544**
Debt	1,495	1,904	1,835	2,339	1,837	2,037	1,837	1,487	987	287
Cash	70	71	109	92	30	34	50	69	81	119
Investments	1,562	1,700	1,843	2,046	1,576	1,497	1,864	2,386	3,054	3,909
Net debt	-136	133	-117	201	231	506	-77	-968	-2,147	-3,741

Source: Company, MOFSL

- We expect all listed Indian QSRs – WLDL, Jubilant FoodWorks (JUBI), and Burger King India (BKI) – to be significant beneficiaries of the strengthening tailwinds in favor of QSR players. Even as the Indian FSI industry is likely to witness the shutdown of 30-40% restaurants in FY21, QSR players are likely to witness net addition over FY22 and substantial additions thereafter. JUBI will remain: a) the most profitable player in the Indian QSR market over the next few years, b) the player with the highest RoCEs, and c) recover faster than peers due to its higher (70%) delivery proportion.
- At the same time, WLDL ticks all the boxes as an attractive investment from a potential topline and earnings growth perspective. It has already demonstrated strong performance in recent years. Performance has been admirable in terms of both sustained strong SSSG as well as significant EBITDA margin improvement before the COVID-19 disruption. It is only near-term valuations (mainly led by delayed recovery post-COVID due to 50% of sales accruing from dine-in and high metro exposure) that prevent us from recommending a Buy. Once the company emerges out of the COVID-led disruptions, this is one of the few businesses among consumer/retail peers that can compound earnings at 20% or higher. This is reflected in our forecasts of ~20% EBITDA CAGR over FY20-25E. There is, therefore, a compelling case for investment over the next three years.
- We initiate coverage on WLDL with a **Neutral** rating and **TP of INR440** per share valuing the company at 22x FY23E EV-to-EBITDA (discount to JUBI). From a 3 year perspective, we arrive at a TP of INR810 per share (24.5% CAGR), assuming no multiple expansion.

Exhibit 62: Target valuation

	One year	Three year
Target multiple (x)	22	22
Target enterprise value (INR b)	67.9	122.0
Implied market capitalization (INR b)	68.8	125.7
Current m-cap (INR b)	65.4	65.4
Upside/(downside) (%)	4.8	92.9
Target price	**440**	**810**
Expected CAGR	4.8	24.5

Source: Company, Company, MOFSL

Risks to our investment case

- **Delay in dine-in recovery once the COVID-19 pandemic ebbs:** Our forecasts take into account a very gradual recovery in customer confidence in dine-in over the course of the next two years. We expect the convenience platform (50% of sales) to pick up momentum, particularly in FY22E, to offset the gradual recovery in dine-in. This would eventually lead to sales returning to FY20 levels in FY22E. While we have been conservative, any further delay would affect improvement in profitability and return ratios v/s current expectations.
- **Aggregators affecting the economics of delivery and food tech:** If bargaining power shifts to aggregators like Swiggy and Zomato as well as the recently launched Amazon Eats, companies like WLDL, which lack their own delivery system, could get affected. However, if McDonald's continues to scale up as per expectations, the dependence will be mutual, thus leading to no material alteration in its bargaining power. With 30-40% restaurants expected to shut down in FY21 and a significant amount of non-QSRs facing an existential crisis, a shift in the balance of power towards aggregators is unlikely. Since WLDL does not have its own delivery system (it does have a remarkably effective app for order generation), it is not prone to risk of higher employee cost at the delivery level. This could arise due to any increase in payment to delivery staff of aggregators to combat a possible rise in wages of other e-commerce delivery employees. With robust (3-4x growth) e-commerce sales for consumer companies over the past few years (particularly over the last six months), there has been a sustainable rise in wages of e-commerce delivery employees.
- **Delays in an economic recovery:** As an emerging market, India needs to get back to high single-digit GDP growth. Due to the COVID-19 pandemic, GDP growth is expected to remain tepid over FY20-22E. However, a delay in GDP recovery from FY23E could affect consumption growth in discretionary products. While there are tailwinds in favor of QSRs, low-priced QSRs like McDonald's should benefit. This is because GDP growth will ensure that the overall FSI pie would increase at a healthy pace rather than witnessing low/declining growth.
- **Health concerns:** Frequency of consumption even among regular customers is still very low in India. McDonald's targets the youth segment, which constitutes ~75% of its customer base. Demographics in India are highly favorable on this front. The number of its first-time customers are far more than those who are likely to reduce consumption due to health concerns. However, if consumption preferences shift substantially toward healthy foods, then McDonald's may be impacted. Over the last few years, McDonald's in India has made substantial efforts to make its products healthier. It may have to double down its efforts on healthier menu options, if consumers demand more healthy options.
- **Execution risk:** The opportunity for growth is massive and WLDL has executed this very well, particularly in recent years, with consistently strong SSSG growth before the COVID-19 pandemic. The impact of COVID-19 is likely to lead to flattish sales over FY20-22E. The tailwind in case of QSR players like McDonald's is particularly led by the convenience platform, which means higher growth in FY23E and beyond that than envisaged before COVID-19. Companies like WLDL, which offer hygienically prepared food conveniently at attractive price points stand to gain the most. Efficient execution of the opportunity is crucial and will determine the trajectory of revenue growth and earnings.

SWOT analysis

- High affordability of McDonald's products, with low-entry points, helps with customer acquisition and expansion to smaller towns.
- Successful brand extensions offer consumers more consumption occasions and drives premiumization (McCafé), leading to strong growth, margin expansion, and improvement in unit economics.
- The convenience platform offers an alternate channel to consumers.
- A farm-to-fork supply chain ensures better control and lower costs, thereby ensuring affordability – critical for the success of QSRs.
- Localization of menus has led to consumer acceptance.

- Relatively higher dependence on dine-in led to lower margin and return ratios. Sales mix is shifting toward convenience platform, which should improve the same metrics ahead.
- Weak return ratios are expected to worsen in FY21E amid challenging times. However, these should improve from FY22E onwards.
- High royalty rate (8%) post-FY25 can be an overhang.

- The network expansion potential is at least 3x its current network, offering a long runway for growth.
- Low but the increasing frequency of eating out among Indians provides a long-term growth opportunity.
- Shift from unorganized sector is likely to accelerate due to the COVID-19 impact.

- Healthy food trends, if they gain strong traction, could impact WLDL as it is perceived as a fast food brand. It will have to pivot its menu toward healthy offerings to beat those trends.
- A slow post-COVID recovery could impact consumers' discretionary incomes, affecting their discretionary spends.

Bull and Bear Case

Bull Case

- ☑ We assume accelerated store additions and higher SSSG over FY22-25E.
- ☑ This would lead to strong sales growth and margin expansion.
- ☑ Assuming a target EV-to-EBITDA multiple of 25x (Base Case: 22x), we arrive at a target price of INR595 per share, at 41.7% upside.

Bear Case

- ☑ We assume slower store additions and relatively lower SSSG over FY22-25E.
- ☑ This would lead to mid-to-high-teen sales growth and slower margin expansion.
- ☑ Assuming a target EV-to-EBITDA multiple of 20x (Base Case: 22x), we arrive at a target price of INR360 per share, at 14.3% downside.

Scenario analysis - Bull Case

(INR b)	FY20	FY21E	FY22E	FY23E
Stores added	23	-19	30	30
SSSG (%)	4.0	-30.1	50.0	25.0
Sales (INR m)	15,478	9,415	16,006	22,408
YoY growth (%)	10.4	-39.2	70.0	40.0
EBITDA (INR m)	2,140	144	2,032	3,667
YoY growth (%)	79.9	-93.3	1,312.8	80.5
Margin (%)	13.8	1.5	12.7	16.4
EV-to-EBITDA multiple				25.0
Target price (INR)				595
Upside/ (downside) (%)				41.7

Source: Company, MOFSL

Scenario analysis – Bear Case

(INR b)	FY20	FY21E	FY22E	FY25E
Stores added	23	-22	20	23
SSSG (%)	4.0	-30.5	45.0	18.0
Sales (INR m)	15,478	9,353	14,965	19,455
YoY growth (%)	10.4	-39.6	60.0	30.0
EBITDA (INR m)	2,140	138	1,683	2,773
YoY growth (%)	79.9	-93.6	1,122.1	64.8
Margin (%)	13.8	1.5	11.2	14.3
EV-to-EBITDA multiple				20.0
Target price (INR)				360
Upside/ (downside) (%)				-14.3

Source: Company, MOFSL

Management profiles

Mr. Amit Jatia, Vice Chairman

Mr. Amit Jatia has over 25 years of experience in the QSR industry. He has been responsible for all aspects of the establishment and operations of McDonald's restaurants in West and South India, including site location and acquisition, site development and equipment installation, supply-chain management, product development, and marketing strategy. He has a degree in Business Administration from the Marshall School of Business at the University of Southern California, Los Angeles. He has attended several sessions of YPO/Harvard President's Program at HBS.

Ms. Smita Jatia, Managing Director

Ms. Smita Jatia has more than two decades of experience in the QSR industry. She has been instrumental in launching, indigenizing, and building the McDonald's brand over the last 18 years. She is a commerce graduate from Sydenham College, Mumbai, and has completed an 18-week Executive Management program from Harvard Business School, Boston. She has also undergone a Marketing and Restaurant Leadership program from the Hamburger University, US.

Mr. Pankaj Roongta, CFO

Mr. Pankaj Roongta joined WLDL in Apr'20 as CFO. He has previously worked across different geographies and companies such as L'Oreal, Johnson & Johnson (J&J), Castrol India, and Abbott India. He has a Bachelor of Commerce degree from Sydenham College of Commerce & Economics and is a qualified Chartered Accountant.

Mr. Saurabh Kalra, COO & VP – Business Operations, Strategy and Marketing

Mr. Saurabh Kalra has been working with WLDL for over 18 years. He holds a Diploma in Hotel Management & Catering Technology from IHM Ahmedabad, and has completed two PGPMS – Business Management and advanced – courses from Welingkar Institute of Management, Mumbai.

Mr. Vikram Ogale, Senior Director – Supply Chain, Quality Systems and New Product Development

Mr. Vikram Ogale joined the company in 2012 and has previously worked with Sony DADC, Marico, Asian Paints, and Eicher Consulting. He holds a Mechanical Engineering degree from Mumbai University and has a post-graduate Diploma in Industrial Engineering, Supply Chain Management and Operations and Logistics from NITIE.

Mr. Sanjay Soni, Senior VP – Development

Mr. Sanjay Soni has been working with WLDL since 1997 and has an overall experience of more than three decades. He has previously worked with Tangerine Computers and Bennett, Coleman and Co (Times Group). He is a civil engineer and has a Diploma in Real Estate Management from NICMAR.

Ms. Namrata Mathur, VP – People Resources

Ms. Namrata Mathur joined WLDL in Oct'20 and has over two decades of senior HR experience across organizations like Glenmark Pharmaceuticals, J&J, Diageo, and Procter & Gamble (P&G). She is currently a visiting faculty at TISS, Mumbai. She has completed her BA Honors (History) from Lady Sri Ram College, New Delhi and an MBA in HR from Delhi, Delhi School of Economics.

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Total Income from Operations	**8,334**	**9,308**	**11,349**	**14,020**	**15,478**	**9,415**	**15,064**	**20,337**
Change (%)	9.0	11.7	21.9	23.5	10.4	-39.2	60.0	35.0
Materials Consumed	3,333	3,663	4,250	5,116	5,382	3,531	5,498	6,976
Gross profit	5,001	5,645	7,099	8,905	10,095	5,884	9,566	13,361
Margin (%)	60.0	60.6	62.6	63.5	65.2	62.5	63.5	65.7
Operating Expenses	4,575	5,175	6,325	7,715	7,955	5,741	7,781	10,277
EBITDA	**426**	**469**	**774**	**1,190**	**2,140**	**144**	**1,785**	**3,084**
Change (%)	181.2	10.2	64.8	53.8	79.9	-93.3	1,141.3	72.8
Margin (%)	5.1	5.0	6.8	8.5	13.8	1.5	11.8	15.2
Depreciation	577	637	673	797	1,384	1,365	1,431	1,537
EBIT	**-150**	**-168**	**101**	**393**	**757**	**-1,221**	**354**	**1,547**
Int. and Finance Charges	150	154	150	177	808	775	861	926
Other Income	331	200	178	136	130	490	542	569
PBT bef. EO Exp.	**31**	**-121**	**129**	**352**	**79**	**-1,507**	**36**	**1,191**
Total Tax	3	0	0	139	-14	-313	9	300
Tax Rate (%)	8.5	0.0	0.0	39.5	16.2	20.7	25.2	25.2
Reported PAT	**28**	**-121**	**129**	**213**	**-73**	**-1,194**	**27**	**891**
Adjusted PAT	**28**	**-121**	**129**	**213**	**93**	**-1,194**	**27**	**891**
Change (%)	L/P	P/L	L/P	65.7	-56.4	P/L	L/P	3,238.3
Margin (%)	0.3	-1.3	1.1	1.5	0.6	-12.7	0.2	4.4

Consolidated - Balance Sheet								(INR m)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Equity Share Capital	311	311	311	311	311	311	311	311
Total Reserves	5,070	4,964	5,111	5,525	5,459	4,264	4,291	5,182
Net Worth	**5,381**	**5,275**	**5,422**	**5,837**	**5,770**	**4,576**	**4,602**	**5,493**
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	1,495	1,904	1,835	2,339	1,837	2,037	1,837	1,487
Deferred Tax Liabilities	0	0	0	-63	-214	-214	-214	-214
Capital Employed	**6,876**	**7,179**	**7,258**	**8,113**	**7,394**	**6,399**	**6,226**	**6,767**
Gross Block	7,175	7,984	8,795	7,242	8,439	8,539	9,639	11,139
Less: Accum. Deprn.	2,617	3,143	3,722	1,761	2,538	3,904	5,334	6,871
Net Fixed Assets	**4,559**	**4,842**	**5,073**	**5,480**	**5,900**	**4,635**	**4,304**	**4,267**
Goodwill on Consolidation	466	466	466	466	466	466	466	466
Capital WIP	184	172	197	284	226	226	226	226
Total Investments	**1,562**	**1,700**	**1,843**	**2,046**	**1,576**	**1,497**	**1,864**	**2,386**
Curr. Assets, Loans and Adv.	**1,608**	**1,623**	**1,712**	**1,901**	**9,249**	**7,941**	**9,261**	**10,939**
Inventory	278	302	337	410	411	413	578	780
Account Receivables	42	49	64	98	47	29	46	62
Cash and Bank Balance	70	71	109	92	30	34	50	69
Loans and Advances	1,218	1,201	1,201	1,301	8,760	7,466	8,587	10,028
Curr. Liability and Prov.	**1,502**	**1,624**	**2,034**	**2,065**	**10,023**	**8,366**	**9,895**	**11,518**
Account Payables	994	1,114	1,397	1,487	1,594	1,032	1,551	2,094
Other Current Liabilities	435	442	565	498	8,330	7,273	8,246	9,292
Provisions	73	68	72	80	100	61	97	131
Net Current Assets	**106**	**0**	**-322**	**-164**	**-774**	**-425**	**-634**	**-578**
Appl. of Funds	**6,876**	**7,179**	**7,258**	**8,112**	**7,394**	**6,399**	**6,226**	**6,767**

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)								
Adj. EPS	**0.2**	**-0.8**	**0.8**	**1.4**	**0.6**	**-7.7**	**0.2**	**5.7**
Cash EPS	3.9	3.3	5.2	6.5	9.5	1.1	9.4	15.6
BV/Share	34.6	33.9	34.9	37.5	37.1	29.4	29.6	35.3
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	2,324.9	N/M	508.2	306.6	703.9	N/M	2,448.7	73.4
Cash P/E	108.1	126.6	81.5	64.7	44.2	382.6	44.8	26.9
P/BV	12.1	12.4	12.0	11.2	11.3	14.3	14.2	11.9
EV/Sales	8.0	7.2	5.9	4.8	4.3	7.2	4.5	3.3
EV/EBITDA	156.7	143.1	86.7	56.8	31.4	468.4	37.6	21.6
Return Ratios (%)								
RoE	0.5	-2.3	2.4	3.8	1.6	-23.1	0.6	17.6
RoCE	2.4	0.5	3.9	4.2	9.4	-8.2	10.3	23.6
RoIC	-2.8	-3.3	2.0	4.4	11.3	-19.0	6.1	28.3
Working Capital Ratios								
Fixed Asset Turnover (x)	1.2	1.2	1.3	1.9	1.8	1.1	1.6	1.8
Asset Turnover (x)	1.2	1.3	1.6	1.7	2.1	1.5	2.4	3.0
Inventory (Days)	12	12	11	11	10	16	14	14
Debtor (Days)	2	2	2	3	1	1	1	1
Creditor (Days)	44	44	45	39	38	40	38	38
Leverage Ratio (x)								
Current Ratio	1.1	1.0	0.8	0.9	0.9	0.9	0.9	0.9
Interest Cover Ratio	-1.0	-1.1	0.7	2.2	0.9	-1.6	0.4	1.7
Net Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.1	0.0	-0.2

Consolidated - Cash Flow Statement **(INR m)**

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	31	-121	129	393	-88	-1,507	36	1,191
Depreciation	577	637	673	797	1,384	1,365	1,431	1,537
Interest & Finance Charges	145	148	145	175	780	286	319	356
Direct Taxes Paid	-4	3	-23	-26	-163	313	-9	-300
(Inc)/Dec in WC	68	120	508	-110	164	-346	226	-37
CF from Operations	**817**	**786**	**1,432**	**1,229**	**2,076**	**111**	**2,002**	**2,747**
Others	-18	-130	-60	-80	-80	0	0	0
CF from Operating incl EO	**799**	**657**	**1,371**	**1,148**	**1,996**	**111**	**2,002**	**2,747**
(Inc)/Dec in FA	-769	-908	-1,059	-1,426	-1,259	-100	-1,100	-1,500
Free Cash Flow	**30**	**-251**	**312**	**-278**	**737**	**11**	**902**	**1,247**
(Pur)/Sale of Investments	-1	34	-59	-73	569	79	-367	-522
Others	-30	-42	4	4	18	490	542	569
CF from Investments	**-800**	**-915**	**-1,115**	**-1,495**	**-672**	**468**	**-925**	**-1,453**
Issue of Shares	3	1	2	2	10	0	0	0
Inc/(Dec) in Debt	153	409	-69	504	-508	200	-200	-350
Interest Paid	-158	-150	-151	-177	-152	-775	-861	-926
Dividend Paid	0	0	0	0	0	0	0	0
Others	0	0	0	0	-737	0	0	0
CF from Fin. Activity	**-2**	**260**	**-217**	**330**	**-1,387**	**-575**	**-1,061**	**-1,276**
Inc/Dec of Cash	**-3**	**1**	**39**	**-17**	**-62**	**4**	**16**	**19**
Opening Balance	73	69	71	109	92	30	34	50
Closing Balance	**69**	**71**	**109**	**92**	**30**	**34**	**50**	**69**

E: MOFSL Estimates

Annexure

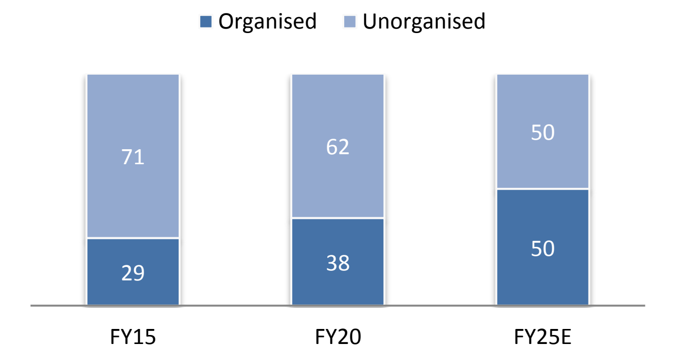
- According to industry estimates, the Indian FSI's market size was estimated at INR4.2t in FY20 and is expected to touch INR6.5t by FY25E (9% CAGR).
- The organized sector of India's FSI consists of players that possess three characteristics: a) accounting transparency, (b) organized operations with quality control and sourcing norms, and c) outlet penetration. The organized sector has been growing faster than the industry and has seen its contribution increase to 38% in FY20 from 29% in FY15. It is expected to deliver 15.4% CAGR over FY20-25E. Consequently, its share is expected to increase further to 50% by FY25E.
- These estimates were made before the COVID-19 pandemic. We expect the trend toward the organized sector to intensify further in the COVID-19 and post-COVID world due to: a) faster growth rates v/s the unorganized players, and b) shutting down of weaker restaurants. According to various experts, 30-40% of restaurants across India are likely to shut down permanently in FY21.

Exhibit 63: Organized market to grow faster than industry…

	CAGR FY15-20	CAGR FY20-25E
Unorganized market	5%	4%
Organized standalone market	13%	14%
Chain market	18%	19%
Restaurant in hotels	8%	6%

Source: MOFSL, BKI

Exhibit 64: …leading to increasing share in FSI



Source: MOFSL, BKI

FSI is highly urban centric

- The mega metros (Delhi and Mumbai) contributed 21.9%, while the top 29 cities contributed 53.5% of the total FSI revenues in FY20. In the case of chain restaurants, the contribution of urban areas is sharply higher.
- However, chain restaurants in smaller cities and towns are seeing their contribution to revenue increase as players are expanding to these geographies to usher in their next leg of growth.

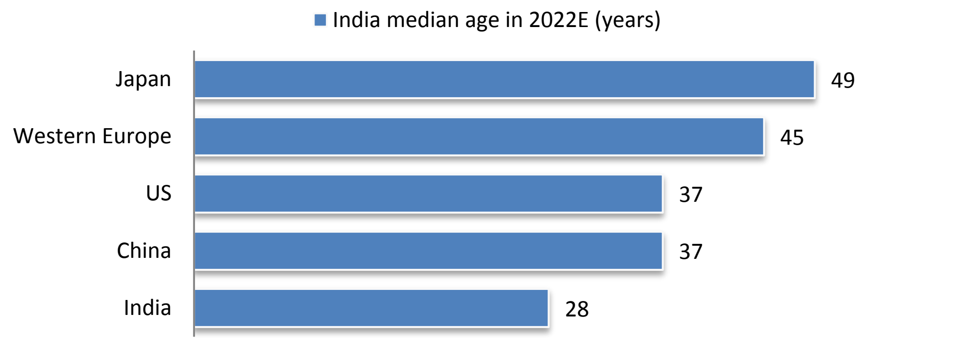
Exhibit 65: Chain restaurants are extensively urban centric

Source: MOFSL, BKI

Growth drivers

- The growth drivers for FSI include:
  a) **Increasing young population:** According to the Economic Survey of India 2019-20, 62% of India's population is in the 15-60 years age bracket with a further 30% under 15 years. India is poised to enjoy the benefits of a substantial working age population for a long period of time. India's median age is much lower than that of China and other large economies.

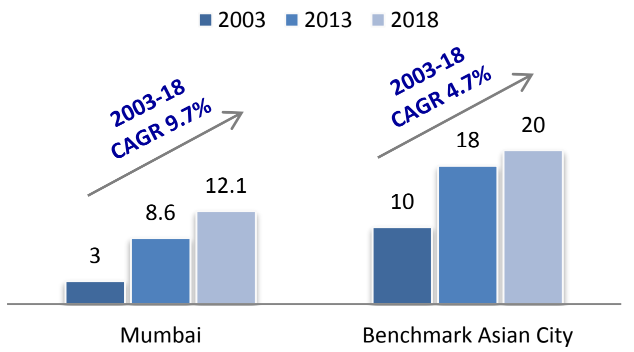
Exhibit 66: India's median age in 2022 is pegged at 28 years v/s 37 years in China



Source: MOFSL, Media

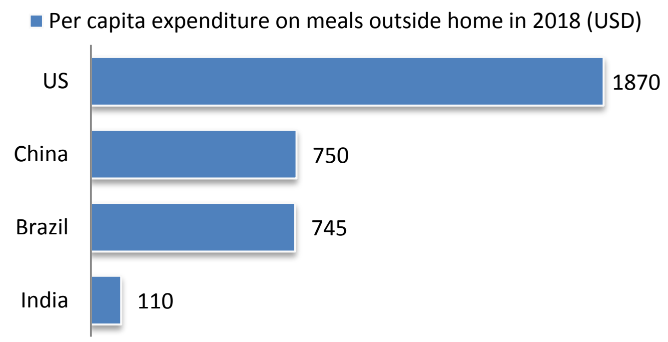
  b) **Rising income levels:** India's middle class has increased to 350m in 2019 from 160m individuals in 2011. While COVID-19 has disrupted the economy's growth momentum, the middle class is set to swell further once the economy reverts to mid-single digit or higher growth trajectory. The aspirational middle class seeks better services and experiences, thereby driving consumption.
  c) **Changing lifestyles with higher eating out frequency**: Informal eating out is a rising trend among Indians as eating out is becoming more acceptable and affordable. There is also an increasing preference for ordering-in due to higher convenience and busy lifestyles. With a low monthly eating out frequency, India's per capita expenditure on meals outside the home is significantly lower than other developing countries.

Exhibit 67: Eating out frequency in Mumbai is improving, but lagging behind benchmark Asian city



Source: MOFSL, WLDL

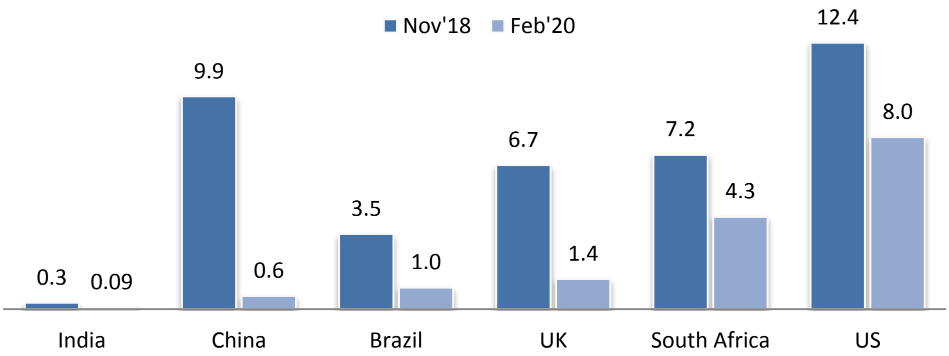
Exhibit 68: Per capita expenditure on meals outside homes in India is way lower than even other developing countries



Source: MOFSL, JUBI

d) **Higher penetration of the internet:** Internet penetration is growing at a fast pace, aided by cheap mobile data. According to Kantar, the number of monthly active internet users in India grew 24% YoY to 574m in 2019, with an internet penetration of 41%, and is estimated to touch 639m in 2020. Internet access increases consumer awareness of brands, trends and new cuisines, and also connects them to food aggregators and delivery apps. This is further accentuated by the rise of social media, which offers brands to communicate and engage with consumers directly.

Exhibit 69: Cost of 1GB mobile data (USD) in India is among the cheapest in the world



Source: MOFSL, cable.co.uk

e) **Increasing availability of retail space:** With food courts being highly successful in malls, it is estimated that 20-25% of total mall space was leased to FSI players in FY18. Besides malls and high streets, FSI players have expanded to other locations such as office complexes, educational institutes, highways, hospitals, etc. Pre-COVID, over 2msqft of retail space was estimated to get added for FSI in the top seven cities over FY19-21.

f) **Growth of online food delivery and food tech:** There are two business models in India, namely:

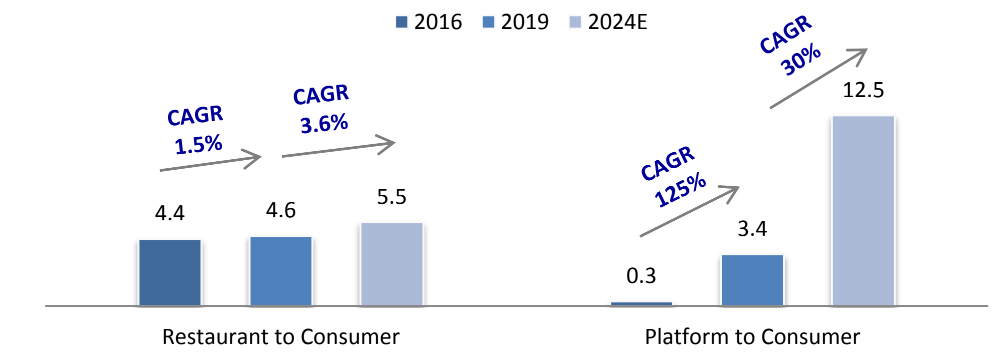
   i) Direct restaurant-to-consumer, with orders placed on restaurant apps/websites (e.g. Domino's), and

   ii) Platform-to-consumer, with orders placed on third-party platforms and also delivered by them, barring a few exceptions (e.g. Swiggy/Zomato).

   The overall food delivery market in India is pegged to grow by 18% CAGR to USD18b by FY24, led by massive growth in platform-to-consumer. Pre-COVID, the segment was expected to deliver 30% CAGR over FY19-24. We now expect it to grow only faster due to COVID-19.

   The online delivery market significantly adds to consumer convenience, while providing better reach, visibility, and consumer engagement to restaurants. In order to develop the market, aggregator platforms offer deep discounts, further pleasing consumers. In the COVID and post-COVID world, the role of online delivery has become even more crucial as it offers assured safety along with convenience to consumers.

Exhibit 70: Platform-to-consumer model is likely to grow sharply

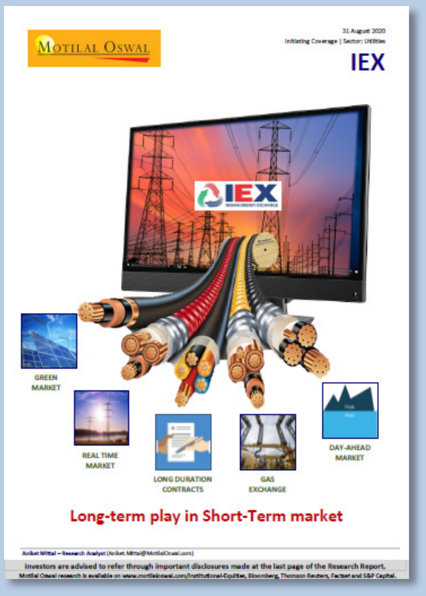


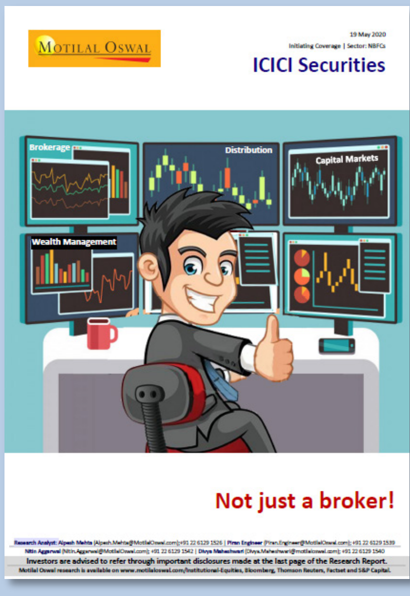
Source: MOFSL, BKI

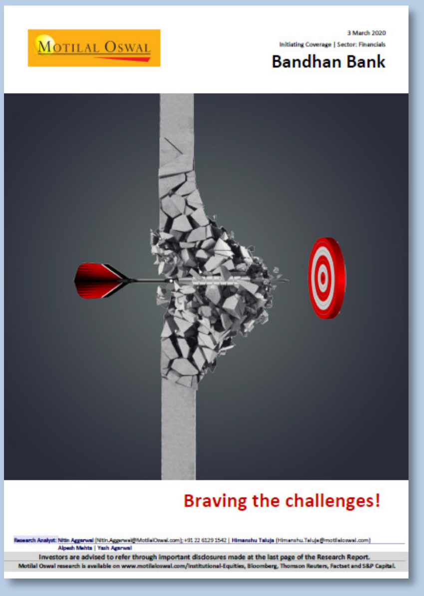
a) **Urbanization and nuclear families:** India's urban population was 28% in FY05, which increased to 34% in FY18. It is estimated to touch 40% by 2030. At the same time, there is an increase in independent households and nuclear families. Urbanization and nuclearization have led to a shift in the consumption patterns. There is greater consumption of outside food by these consumers on account of higher convenience and changing lifestyles.

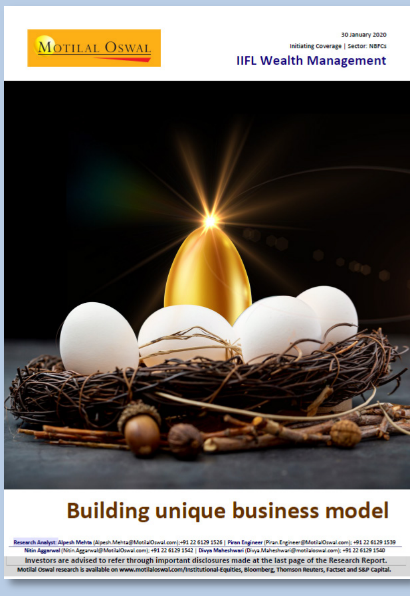
NOTES

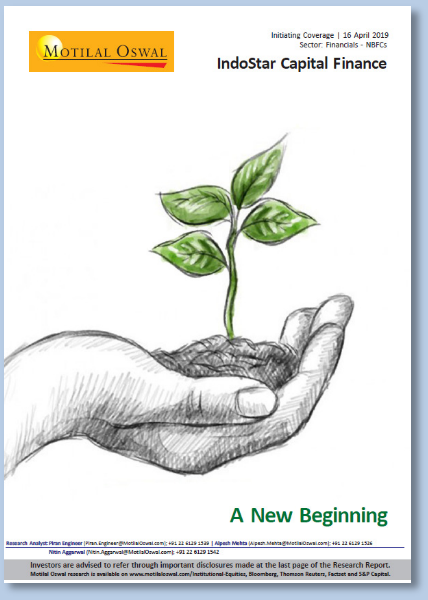
REPORT GALLERY











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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOFSL is a subsidiary company of Passionate Investment Management Pvt. Ltd.. (PIMPL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOFSL (erstwhile Motilal Oswal Securities Limited - MOSL) is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) National Securities Depository Limited (NSDL),NERL, COMRIS and CCRL and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products and Insurance Regulatory & Development Authority of India (IRDA) as Corporate Agent for insurance products. Details of associate entities of Motilal Oswal Financial Services Limited are available on the website at http://onlinereports.motilaloswal.com/Dormant/documents/List%20of%20Associate%20companies.pdf

MOFSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report

MOFSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOFSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Details of pending Enquiry Proceedings of Motilal Oswal Financial Services Limited are available on the website at https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOFSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOFSL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S.

Motilal Oswal Financial Services Limited (MOFSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the"1934 act") and under applicable state laws in the United States. In addition MOFSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOFSL , including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOFSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

In Singapore, this report is being distributed by Motilal Oswal Capital Markets Singapore Pte Ltd ("MOCMSPL") (Co.Reg. NO. 201129401Z) which is a holder of a capital markets services license and an exempt financial adviser in Singapore.As per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisors Act (CAP 110) provided to MOCMSPL by Monetary Authority of Singapore. Persons in Singapore should contact MOCMSPL in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "Institutional Investors", of which some of whom may consist of "accredited" institutional investors as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform MOCMSPL.

Specific Disclosures

1 MOFSL, Research Analyst and/or his relatives does not have financial interest in the subject company, as they do not have equity holdings in the subject company.
2 MOFSL, Research Analyst and/or his relatives do not have actual/beneficial ownership of 1% or more securities in the subject company
3 MOFSL, Research Analyst and/or his relatives have not received compensation/other benefits from the subject company in the past 12 months
4 MOFSL, Research Analyst and/or his relatives do not have material conflict of interest in the subject company at the time of publication of research report
5 Research Analyst has not served as director/officer/employee in the subject company
6 MOFSL has not acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
7 MOFSL has not received compensation for investment banking/ merchant banking/brokerage services from the subject company in the past 12 months
8 MOFSL has not received compensation for other than investment banking/merchant banking/brokerage services from the subject company in the past 12 months
9 MOFSL has not received any compensation or other benefits from third party in connection with the research report
10 MOFSL has not engaged in market making activity for the subject company

The associates of MOFSL may have:

- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company
- received compensation/other benefits from the subject company in the past 12 months
- other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

The associates of MOFSL has not received any compensation or other benefits from third party in connection with the research report
Above disclosures include beneficial holdings lying in demat account of MOFSL which are opened for proprietary investments only. While calculating beneficial holdings, It does not consider demat accounts which are opened in name of MOFSL for other purposes (i.e holding client securities, collaterals, error trades etc.). MOFSL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by MOFSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOFSL will not treat recipients as customers by virtue of their receiving this report.

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOFSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOFSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 71934200/ 022-71934263; Website www.motilaloswal.com.CIN no.: L67190MH2005PLC153397.Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad(West), Mumbai- 400 064. Tel No: 022 7188 1000.

Registration Nos.: Motilal Oswal Financial Services Limited (MOFSL)*: INZ000158836(BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412. AMFI: ARN - 146822; Investment Adviser: INA000007100; Insurance Corporate Agent: CA0579;PMS:INP000006712. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670); PMS and Mutual Funds are offered through MOAMC which is group company of MOFSL. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) is offered through MOWML, which is a group company of MOFSL. Motilal Oswal Financial Services Limited is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs,Insurance Products and IPOs.Real Estate is offered through Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. which is a group company of MOFSL. Private Equity is offered through Motilal Oswal Private Equity Investment Advisors Pvt. Ltd which is a group company of MOFSL. Research & Advisory services is backed by proper research. Please read the Risk Disclosure Document prescribed by the Stock Exchanges carefully before investing. There is no assurance or guarantee of the returns. Investment in securities market is subject to market risk, read all the related documents carefully before investing. Details of Compliance Officer: Name: Neeraj Agarwal, Email ID: na@motilaloswal.com, Contact No.:022-71881085.

* MOSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench.