

August 28, 2021

Event Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	250		250	
Sales (Rs. m)	10,329	14,253	10,329	14,253
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,527	2,547	1,527	2,547
% Chng.	-	-	-	-
EPS (Rs.)	(1.1)	0.3	(1.1)	0.3
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	8,412	4,945	10,329	14,253
EBITDA (Rs. m)	1,040	149	1,527	2,547
Margin (%)	12.4	3.0	14.8	17.9
PAT (Rs. m)	(722)	(1,613)	(424)	122
EPS (Rs.)	(2.6)	(4.2)	(1.1)	0.3
Gr. (%)	80.0	61.9	(73.7)	(128.9)
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(27.5)	(34.0)	(6.5)	1.9
RoCE (%)	(3.0)	(19.6)	1.2	12.2
EV/Sales (x)	5.9	12.6	6.1	4.5
EV/EBITDA (x)	47.3	418.8	41.5	25.0
PE (x)	(66.0)	(40.8)	(155.3)	537.0
P/BV (x)	17.3	9.8	10.3	10.1

Key Data

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52-W High / Low	Rs.219 / Rs.108
Sensex / Nifty	56,125 / 16,705
Market Cap	Rs.66bn / \$ 892m
Shares Outstanding	384m
3M Avg. Daily Value	Rs.1401.19m

Shareholding Pattern (%)

Promoter's	52.62
Foreign	17.16
Domestic Institution	4.95
Public & Others	25.27
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.3)	21.1	-
Relative	(8.5)	6.0	-

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BK Indonesia to open new growth frontiers

Burger King India has entered into a non-binding understanding to acquire 85% stake in PT Sari Burger Indonesia ("BK Indonesia") from F&B Asia ventures (65.8%) and Mitra Adiperkasa (19.2%). The transaction values BK Indonesia at USD183mn (Including debt of USD30m) which is single digit EV/EBITDA at FY23 nos. F&B Asia Ventures owns 83.32% of QSR Asia (Promoters of BK India) thus the transaction will be a related party transaction and will require permission of minority shareholders.

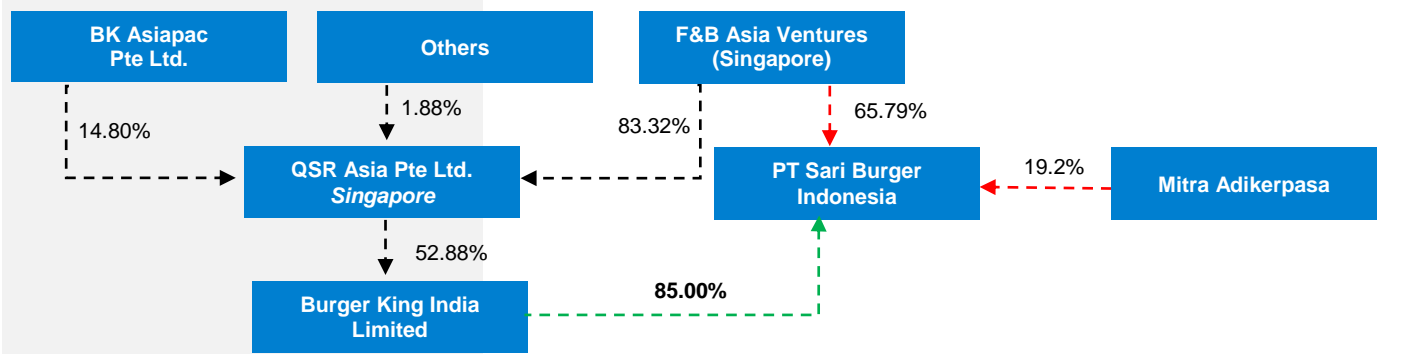
Acquisition of BK Indonesia will mark BK India's entry into the fourth most populated country becoming the second largest QSR brand in Indonesia which offers several synergies and BK's target positioning of 60% population age under 30 (millennials). BK Indonesia will aim at expansion of GRM's to India levels by focusing on enhancing chicken proposition (being Chicken heavy market) which is sourced locally vs beef which is imported. Increased focus of Full Service Drive thru (FSDT) will help margins as these stores offer higher margins than mall stores and have a lower payback period. BK Indonesia also plans to introduce Breakfast and BK Café in 4QCY21 which will aid the sales of FSDT as they operate for 24x7.

We believe valuing BK Indonesia at 25% discount to FY23 EV/EBITDA of BK India and accounting for ~21% of equity dilution at Rs 160 (79.84mn shares) can provide an increase in fair value by ~Rs 25/share, which would be higher on DCF basis. We will incorporate BK Indonesia in our Projections once the acquisition is approved. Maintain BUY with an unchanged TP of Rs 250.

Conference Call Highlights:

- BK India will purchase 85% stake in BK Indonesia from F&B Asia Ventures (which holds 83.32% stake in QSR Asia) which holds 65.8% stake through its wholly owned subsidiary and remaining from Mitra Adiperkasa.
- BK India will be raising capital of US\$ 180-200mn (US\$ 135mn towards equity and 40mn towards expansion) through equity dilution. Capital raised for India operations will not be utilized
- BK India will focus on driving GRM's in Indonesia as it has achieved in India by focusing on the chicken menu (Large market in Indonesia with in store marination and not FFC) which can be sourced locally unlike beef which is imported thus helping GRM's.
- BK will look to implement the Barbell strategy implemented in India to focus on both premium products and value products.
- Increased Focus on Full Service Drive Thru (FSDT) which remain operational 24x7 and offer higher margins than Malls.
- Plan to launch Breakfast Menu and BK Café by 4QCY21 to improve 24 hour offering.

Exhibit 1: BK India to purchase 65.79% stake from F&B Asia Ventures and 19.2% from Mitra Adikerpasa



Source: Company, PL

Exhibit 2: Historical Financial Performance

Parameters (US\$ Mn)	CY16	CY17	CY18	CY19	CY20	1HCY21
Sales	28	43	66	100	77	37
Gross Profit	17	25	38	57	44	21
Margins %	59.5	58.6	57.8	56.8	57.4	57.8
Labour Cost	4	5	8	12	11	5
Rent	2	3	3	4	2	1
Other Operating Expenses	6	10	15	23	19	9
Store EBITDA	5	7	12	18	12	6
Margins %	16.6	17.6	18.3	18.2	15.1	15.9
Company EBITDA	2	4	7	12	5	2
Margins %	7.2	9.4	11.0	11.9	6.0	4.6
Stores	54	84	123	163	174	176
Mall	34	54	76	86	87	87
FSDT	7	13	27	58	69	71
Others	13	17	20	19	18	18
ADS (US\$'000)	1.7	1.8	1.9	1.9	1.2	1.2

Source: Company, PL

Exhibit 3: Historical Financial Performance

Parameters (IDR Bn)	CY16	CY17	CY18	CY19	CY20	1HCY21
Sales	410	618	956	1,446	1,118	533
Gross Profit	244	362	552	822	641	308
Margins %	59.5	58.6	57.8	56.8	57.4	57.8
Labour Cost	57	79	117	174	160	72
Rent	24	37	47	52	23	14
Other Operating Expenses	95	138	213	332	289	137
Store EBITDA	68	108	175	264	169	85
Margins %	16.6	17.6	18.3	18.2	15.1	15.9
Company EBITDA	2	4	7	12	5	2
Margins %	7.2	9.4	11.0	11.9	6.0	4.6
Stores	54	84	123	163	174	176
Mall	34	54	76	86	87	87
FSDT	7	13	27	58	69	71
Others	13	17	20	19	18	18
ADS (IDR Mn)	25.2	25.5	26.9	27.2	17.9	17.2

Source: Company, PL

Exhibit 4: Increased Focus on Chicken which accounts for 54% of western QSR spending.

Opportunity

~54% of the total western QSR spending in Indonesia on chicken, suggesting potential for Burger King Indonesia to further scale up its Bone in chicken business

Strategy

Introduced fresh chicken to compete with key players with full back of house capabilities
New Recipe set to launch in Q4 2021

Source: Company, PL

Exhibit 5: Thesis favoring investment in BK Indonesia

Attractive Market Dynamics	Burger King - Amongst the fastest growing QSR chains in Indonesia	Multi-pronged growth strategy
<ul style="list-style-type: none"> ✓ Fourth largest population in the world ✓ Young population with ~60% below the age of 35 and median age of 30 ✓ Spending of food is 20% of GDP – one of the highest in the region* ✓ Income per capita to grow at a CAGR of 7.2% from 2019E to 2022E ✓ QSR spending to grow at a CAGR of 10.9% between 2018 and 2023* ✓ Strong momentum in online delivery sales of QSR with increasing internet penetration and low platform take rates (~10%) 	<ul style="list-style-type: none"> ✓ 2nd largest burger QSR chain and one of the fastest growing QSR chain of scale in Indonesia ✓ Pan Indonesia exclusive rights till 2039, with the option to sub-franchise and renew ✓ Led by management with multi-year QSR experience ✓ Grown from 54 stores in 2016 to 174 stores in 2020 (3.2x) ✓ Revenue has grown from US\$ 28 mn in 2016 to US\$ 100 mn in 2019 ✓ 4 X growth in Store EBITDA from 2016 to 2019 ✓ Product portfolio comprises of widest Menu options across all protein types 	<ul style="list-style-type: none"> ✓ Aggressive growth plan to (a) close gap with market leaders, (b) penetrate through T1-T3 cities in Indonesia ✓ Planned expansion of Burger king stores from 174 stores in December 2020 to 330 stores in March 2026 ✓ Increased focus on FSDT format to drive superior unit economics ✓ Strong CRM Tech stack with 3+ million contact points ✓ Fill-in identified gap in menu offering relating to chicken & value ✓ Capitalize on rapid growth of food delivery services ✓ Optimize day parts by adding Breakfast and Cafe

Source: PL, Company

Exhibit 6: Key Attributes of BK Indonesia

 <p>Master franchisee Pan Indonesia exclusive rights to 2039, with the option to sub-franchise and renew</p>	 <p>2nd largest Burger QSR chain in Indonesia</p>	 <p>Fastest growing Burger QSR chain of scale in Indonesia</p>
 <p>+120 net new stores added between 2016 and 2020</p>	 <p>~185 stores across 13 provinces by end 2021F</p>	 <p>~ 3.0 m contact points Full CRM Stack</p>
 <p>3.6x¹ 2016 to 2020 revenue growth to US\$77m</p>	 <p>4.0x^{1,2} 2016 to 2020 Store EBITDA growth to ~US\$ 11.6m</p>	 <p>12.0x² 2016 to 2020 Company EBITDA growth to US\$ ~4.7m</p>

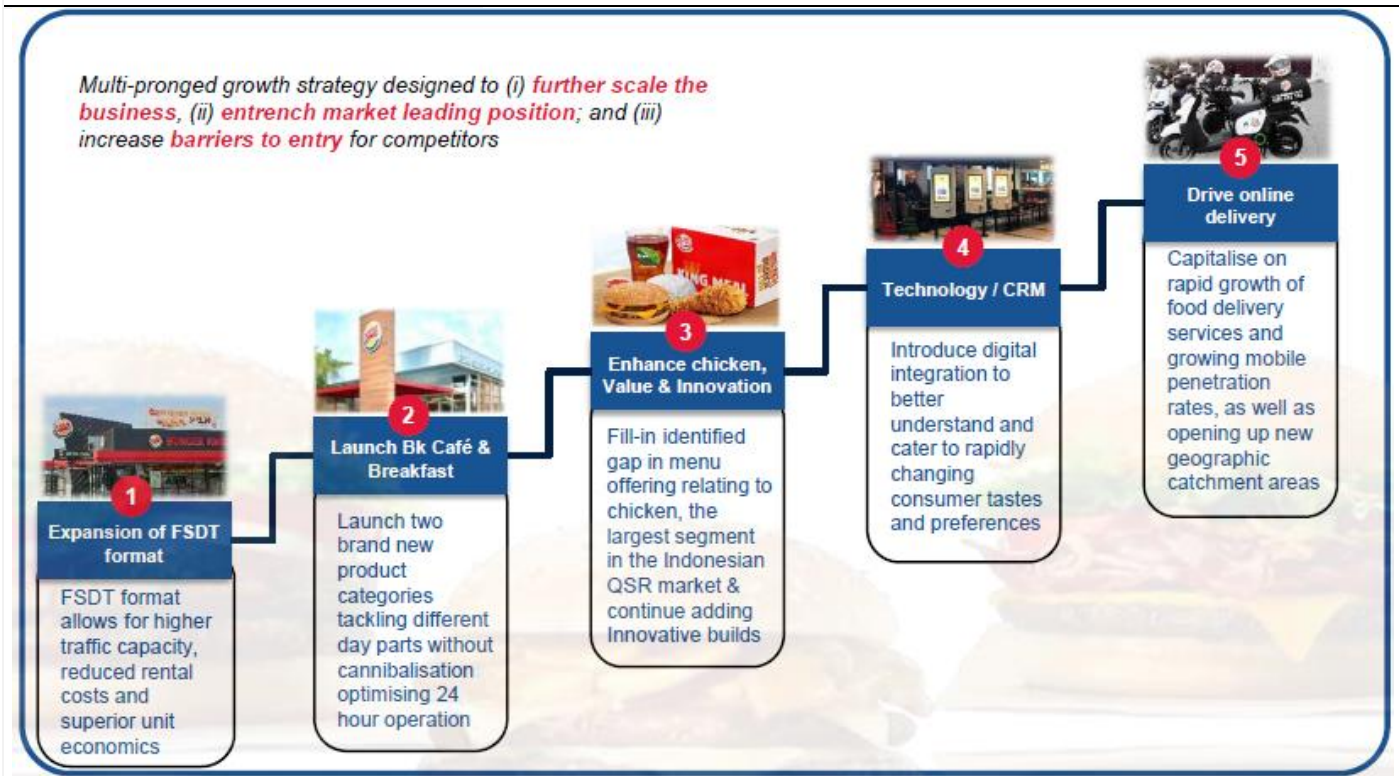
Source: PL, Company

Exhibit 7: Focus on Increasing Full Service Drive Thru (FSDT)



Source: Company, PL

Exhibit 8: BK will apply 5 pronged strategy for profitable growth of BK Indonesia



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	8,412	4,945	10,329	14,253
YoY gr. (%)	33.0	(41.2)	108.9	38.0
Cost of Goods Sold	3,015	1,756	3,636	4,775
Gross Profit	5,397	3,188	6,693	9,478
Margin (%)	64.2	64.5	64.8	66.5
Employee Cost	1,365	1,177	1,549	2,054
Other Expenses	343	221	515	710
EBITDA	1,040	149	1,527	2,547
YoY gr. (%)	31.7	(85.7)	925.6	66.7
Margin (%)	12.4	3.0	14.8	17.9
Depreciation and Amortization	1,164	1,275	1,451	1,761
EBIT	(124)	(1,127)	76	786
Margin (%)	(1.5)	(22.8)	0.7	5.5
Net Interest	655	821	708	813
Other Income	56	335	208	149
Profit Before Tax	(722)	(1,613)	(424)	122
Margin (%)	(8.6)	(32.6)	(4.1)	0.9
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after tax	(722)	(1,613)	(424)	122
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	(722)	(1,613)	(424)	122
YoY gr. (%)	88.7	123.3	(73.7)	(128.9)
Margin (%)	(8.6)	(32.6)	(4.1)	0.9
Extra Ord. Income / (Exp)	(43)	-	-	-
Reported PAT	(766)	(1,613)	(424)	122
YoY gr. (%)	100.0	110.6	(73.7)	(128.9)
Margin (%)	(9.1)	(32.6)	(4.1)	0.9
Other Comprehensive Income	(10)	-	-	-
Total Comprehensive Income	(776)	(1,613)	(424)	122
Equity Shares O/s (m)	278	383	383	383
EPS (Rs)	(2.6)	(4.2)	(1.1)	0.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	13,558	14,322	17,122	20,813
Tangibles	13,264	13,988	16,756	20,410
Intangibles	294	334	367	404
Acc: Dep / Amortization	3,191	4,466	5,917	7,678
Tangibles	3,142	4,398	5,827	7,564
Intangibles	49	68	90	115
Net fixed assets	10,367	9,856	11,205	13,135
Tangibles	10,122	9,591	10,929	12,846
Intangibles	245	265	277	289
Capital Work In Progress	476	301	350	400
Goodwill	-	-	-	-
Non-Current Investments	292	290	352	429
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	44	39	64	71
Current Assets				
Investments	186	1,243	-	-
Inventories	94	100	110	144
Trade receivables	32	60	85	117
Cash & Bank Balance	280	2,161	2,328	2,080
Other Current Assets	194	163	237	313
Total Assets	11,977	14,282	14,802	16,760
Equity				
Equity Share Capital	2,777	3,830	3,830	3,830
Other Equity	(23)	2,905	2,562	2,694
Total Network	2,754	6,735	6,392	6,524
Non-Current Liabilities				
Long Term borrowings	1,788	-	-	-
Provisions	187	209	209	209
Other non current liabilities	8	8	10	11
Current Liabilities				
ST Debt / Current of LT Debt	197	-	-	-
Trade payables	816	1,140	857	1,336
Other current liabilities	561	596	838	1,007
Total Equity & Liabilities	11,977	14,282	14,802	16,760

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	(722)	(1,613)	(424)	122
Add. Depreciation	1,164	1,275	1,451	1,761
Add. Interest	655	821	708	813
Less Financial Other Income	56	335	208	149
Add. Other	86	28	(24)	(6)
Op. profit before WC changes	1,182	512	1,711	2,690
Net Changes-WC	175	298	(149)	506
Direct tax	-	-	-	-
Net cash from Op. activities	1,357	810	1,562	3,196
Capital expenditures	(3,878)	(589)	(2,850)	(3,741)
Interest / Dividend Income	-	-	-	-
Others	121	(1,056)	1,181	(77)
Net Cash from Inv. activities	(3,758)	(1,645)	(1,669)	(3,818)
Issue of share cap. / premium	1,034	5,593	81	10
Debt changes	2,142	(2,057)	902	1,176
Dividend paid	-	-	-	-
Interest paid	(655)	(821)	(708)	(813)
Others	-	-	-	-
Net cash from Fin. activities	2,521	2,716	274	374
Net change in cash	120	1,881	167	(248)
Free Cash Flow	(2,522)	221	(1,288)	(544)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

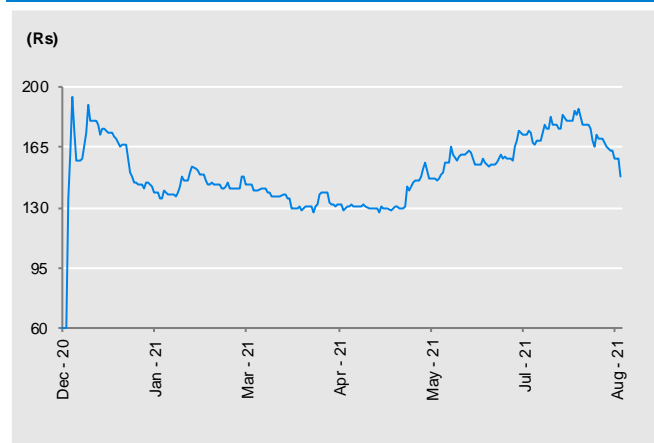
Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	967	1,632	1,961	1,497
YoY gr. (%)	-	(28.4)	-	288.9
Raw Material Expenses	347	589	675	521
Gross Profit	620	1,042	1,285	976
Margin (%)	64.2	63.9	65.6	65.2
EBITDA	3	152	245	15
YoY gr. (%)	-	(41.7)	-	(105.3)
Margin (%)	0.3	9.3	12.5	1.0
Depreciation / Depletion	309	335	319	329
EBIT	(305)	(183)	(74)	(313)
Margin (%)	(31.6)	(11.2)	(3.8)	(20.9)
Net Interest	211	234	163	167
Other Income	139	127	34	37
Profit before Tax	(377)	(290)	(204)	(444)
Margin (%)	(39.0)	(17.8)	(10.4)	(29.6)
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after Tax	(377)	(290)	(204)	(444)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(377)	(290)	(204)	(444)
YoY gr. (%)	-	33.6	-	(43.9)
Margin (%)	(39.0)	(17.8)	(10.4)	(29.6)
Extra Ord. Income / (Exp)	(8)	-	(56)	-
Reported PAT	(385)	(290)	(259)	(444)
YoY gr. (%)	-	33.6	-	(44.9)
Margin (%)	(39.8)	(17.8)	(13.2)	(29.6)
Other Comprehensive Income	(1)	(3)	4	-
Total Comprehensive Income	(386)	(293)	(255)	(443)
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	(2.6)	(4.2)	(1.1)	0.3
CEPS	1.6	(0.9)	2.7	4.9
BVPS	9.9	17.6	16.7	17.0
FCF	(9.1)	0.6	(3.4)	(1.4)
DPS	-	-	-	-
Return Ratio(%)				
RoCE	(3.0)	(19.6)	1.2	12.2
ROIC	(1.1)	(10.4)	0.6	5.4
RoE	(27.5)	(34.0)	(6.5)	1.9
Balance Sheet				
Net Debt : Equity (x)	0.6	(0.5)	(0.4)	(0.3)
Net Working Capital (Days)	(30)	(72)	(23)	(28)
Valuation(x)				
PER	(66.0)	(40.8)	(155.3)	537.0
P/B	17.3	9.8	10.3	10.1
P/CEPS	108.0	(194.9)	64.0	34.9
EV/EBITDA	47.3	418.8	41.5	25.0
EV/Sales	5.9	12.6	6.1	4.5
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-Aug-21	BUY	250	168
2	05-Jul-21	BUY	250	158
3	27-May-21	BUY	250	152
4	25-Feb-21	BUY	221	145

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,511	3,159
2	Avenue Supermarts	BUY	3,744	3,397
3	Bajaj Electricals	Hold	1,110	1,060
4	Britannia Industries	Accumulate	3,911	3,505
5	Burger King India	BUY	250	158
6	Colgate Palmolive	Accumulate	1,846	1,710
7	Crompton Greaves Consumer Electricals	BUY	518	468
8	Dabur India	Hold	588	614
9	Emami	Accumulate	624	573
10	Havells India	Accumulate	1,226	1,151
11	Hindustan Unilever	Accumulate	2,535	2,378
12	ITC	BUY	258	212
13	Jubilant FoodWorks	Accumulate	3,404	3,065
14	Kansai Nerolac Paints	Accumulate	661	628
15	Marico	Hold	525	547
16	Mold-tek Packaging	BUY	598	510
17	Nestle India	Accumulate	19,290	18,023
18	Pidilite Industries	Reduce	1,904	2,221
19	Titan Company	Accumulate	1,916	1,800
20	Voltas	Hold	1,014	1,025
21	Westlife Development	BUY	603	512

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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