Restaurant Brands Asia

BSE SENSEX	S&P CNX
57,944	17,325

CMP: INR97 **TP: INR150 (+55%)** **Buy**

Stock Info

Bloomberg	RBA IN
Equity Shares (m)	278
M.Cap.(INRb)/(USDb)	47.7 / 0.6
52-Week Range (INR)	190 / 95
1, 6, 12 Rel. Per (%)	-11/-38/-44
12M Avg Val (INR M)	421

Standalone Financials Snapshot, INR b

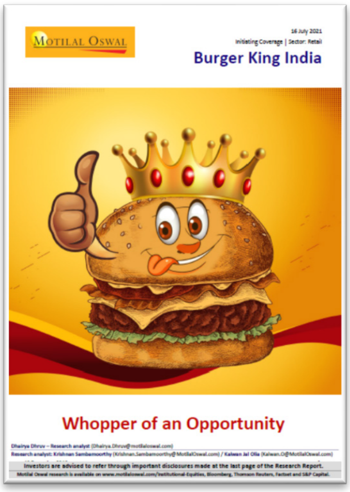
Y/E Dec	2022E	2023E	2024E
Sales	9.8	14.6	19.0
Sales Gr. (%)	98.4	48.9	30.3
EBITDA^	1.0	2.4	3.3
Margins (%)	10.5	16.2	17.5
Adj. PAT	-0.8	0.2	0.7
Adj. EPS (INR)	-1.7	0.4	1.5
EPS Gr. (%)	N/M	L/P	272.8
BV/Sh.(INR)	40.4	40.8	42.3
Ratios			
RoE (%)	-4.1	1.0	3.5
RoCE (%)	-0.7	3.6	5.5
Valuations			
P/E (x)	N/M	244.1	65.5
P/BV (x)	2.4	2.4	2.3
EV/EBITDA^ (x)	44.8	19.6	13.9
EV/Sales (x)	4.7	3.2	2.4

^post IND AS 116

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	52.5	52.6	52.9
DII	4.3	5.2	9.3
FII	17.4	16.6	13.7
Others	25.8	25.6	24.2

FII Includes depository receipts


Burger King India

Whopper of an Opportunity

Multiple levers to unlock growth

Growth to be driven by dine-in recovery, improved delivery, investments in technology and introduction of BK Café

As highlighted in our QSR thematic note published in Dec'21, COVID-19 has augmented the business opportunities for QSRs resulting in an optimistic outlook for all branded QSR players. Both delivery and takeaway channels were in focus over the last two years as the consumers developed new habits of food consumption. Even as dine-in revives, the contribution of delivery would be elevated than pre-COVID levels. COVID has, therefore, permanently shifted the QSR business model towards an omni-channel play. Restaurant Brands Asia (RBA; previously BURGERKI), being a prominent QSR player in India, is also expected to benefit from this shift. We maintain our positive view on RBA underpinned by the following factors:

- **RBA is tracking well on post-COVID recovery with its Average Daily Sales per store (ADS) in 3QFY22 (of INR114k) surpassing the FY20 level (of INR110k), driven by the upbeat festive season and elevated delivery channel sales. With ~50-55% of its stores being within malls and metros, the dine-in business is currently lagging in recovery but can rebound sharply as and when full mobility returns. The revival in dine-in business should also support its margins.**
- **RBA introduced the first BK Café in India in 3QFY22, ahead of its earlier guidance of 4Q. It had 18 BK Cafés by end of the quarter, on track to achieve the guidance of 75 BK Cafés by Mar'23. As indicated in our initiating coverage note on RBA, coffee is a strategic offering that will help drive volumes/realizations/SSSG/gross margin/EBITDA margin.**
- **Both India and Indonesia businesses are well placed to deliver a strong double-digit sales growth along with marked margin expansion.**
- **With RBA's current multiples being cheaper than peers, we reiterate our BUY rating with a TP of INR150 (based on SOTP 36x/12x FY24E EV/EBITDA* for India/Indonesia, respectively).** *pre-IND AS 116

Domestic ADS fully recovered beyond pre-COVID levels

- RBA's ADS revived in 3QFY22 to INR114k, above the FY20 level of ~INR110k, as normalcy started returning amid falling COVID cases/upbeat festive sentiment.
- Recovery was also aided by the delivery channel sales that continued to be elevated than the pre-COVID levels.
- While the revival was slower than other QSRs, mainly because of RBA's high presence in malls and metros (~50-55% of store network), these outlets can rebound sharply once full consumer mobility returns/pent-up demand unlocks.
- Higher contribution of Delivery also led to slow margin recovery due to weaker margins in the channel. As dine-in returns and delivery normalizes, margins should also improve gradually.

Introduced BK Café in India, earlier than guided

- RBA introduced its first BK Café in India in 3QFY22, ahead of its earlier guidance of 4QFY22. It had 18 BK Cafés by end of the quarter, on track to achieve the guidance of 75 BK Cafés by Mar'23.
- As indicated in our initiating coverage note on RBA, coffee is a strategic offering that will help drive volumes/realizations/SSSG/gross margin/EBITDA margin.

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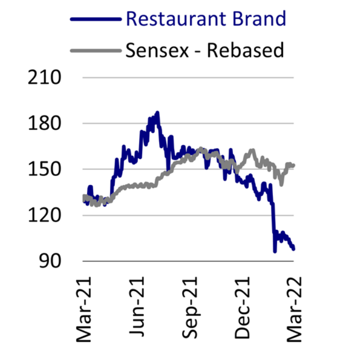
Stock performance (one-year)



- In the case of WLDL, gross margin improved ~800bp during FY14-20 significantly due to addition of McCafé.

Progressing well on several aspects

- With a network of 294 stores at end-3QFY22, and 9/65 stores being under construction/in pipeline, respectively, RBA is well placed to reach its guided store network of 320 by Mar'22.
- RBA's value platform, reinforced by the Stunner menu, is seeing good traction. Once schools and colleges resume, these products should perform even better. Notably, despite value pricing, these are gross margin accretive and not dilutive.
- Investments in technology have continued with several features being added to the new app every quarter. RBA is striving hard to push one-third of its orders from the app in the medium term, from less than 10% currently.

India business to deliver strong growth

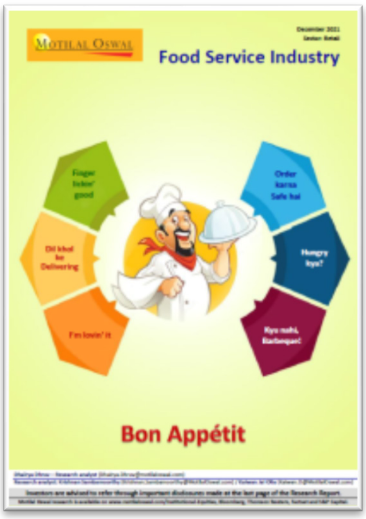
- RBA's India business is expected to deliver double-digit sales CAGR of ~39% over FY22-24 driven by: a) resumption of consumer mobility, b) recovery in dine-in business in malls and metros, c) introduction of BK Café, and d) store additions.
- Further, the EBITDA margin is likely to expand to 17.5% in FY24E from 12.4% (post-IND AS 116) in FY20 led by: a) gross margin expansion, b) addition of BK Café, c) recovery in dine-in business, and d) cost saving measures. As more and more stores mature, declining contribution of new stores in the network would also help reduce the margin drag.

Indonesia business well placed with equity infusion

- RBA acquired 83.24% stake in PT Sari Burger Indonesia (Burger King Indonesia) from QSR Indoburger (66.48%) and PT Mitra Adiperkasa (16.76%). It also infused USD40m in Burger King Indonesia (BKI), thereby raising its stake to 88.61%.
- BKI has a target to add 330 stores by CY26 from 176 stores as of Jun'21. The capex is likely to be funded through equity and internal accruals.
- RBA's Indonesia business is likely to deliver ~39% sales CAGR over CY21-23E on: a) post-COVID recovery, b) store additions, and c) expected addition of BK Café.
- Simultaneously, its EBITDA margin is likely to improve to ~20% in FY24E from ~12% (post-IFRS 16) pre-COVID, led by: a) gross margin expansion due to a shift towards chicken products from a portfolio that has a much higher proportion of lower-margin beef products, b) BK Café addition, c) normalization of A&P spends, and d) cost saving initiatives including synergies with India business.

Valuation and view

- With an already aggressive store addition outlook, RBA is well placed to deliver a strong domestic growth. BK Café is likely to be a key growth driver going ahead. Along with rapid topline growth, RBA is geared up to deliver EBITDA margin expansion driven by: a) dine-in recovery, b) addition of BK Café, and c) cost saving initiatives. As more and more stores mature, declining contribution of new stores in the network would also help reduce the margin drag. Indonesia business should also witness a healthy topline growth and margin expansion in the years ahead.



- With the recent correction in its share price, RBA now trades at a significant discount to its QSR peers. We, therefore, retain our BUY rating on the stock with a TP of INR150 premised on an SOTP FY24E EV/EBITDA (pre-IND AS 116) of 36x/12x for India/Indonesia businesses, respectively. Since RBA is still in an early investment phase with low profitability, we value its domestic business at ~15% discount to JUBI's target multiple over the next one year. As the India business profitability improves led by a) much lower store additions to existing store base, and b) recovery in sales of mall-based stores we are reducing the target (pre-Ind AS) valuations to 25x by FY26.
- With strong sales growth and simultaneous margin expansion, we expect a TP of INR260 for RBA on a three-year basis (at 39% CAGR), even after assuming a lower target multiple.

Exhibit 1: SOTP valuation, (INR b)

	Mar'24		Mar'26	
	India	Indonesia	India	Indonesia
EBITDA (pre IND AS)	1.6	1.3	3.9	2.2
Multiple	36x	12x	25x	12x
Implied EV	58.2	15.5	97.2	26.4
Total Implied EV	73.7		123.6	
Net debt	-0.6		-5.9	
Implied Equity value	74.3		129.6	
No. of shares (b)	0.5		0.5	
Target Price (INR)	150		260	
CMP (INR)	97		97	
CAGR (%)	55%		39%	

Source: Company, MOFSL

Exhibit 2: Comparative valuation

Company	Reco	CMP	Target Price		MCap	CAGR FY22-24E (%)		EV/Sales (x)			EV/EBITDA* (x)		
		(INR)	(INR)	Upside (%)	(INR B)	Sales	EBITDA*	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
JUBI	Buy	2,629	3,680	40	347	16.6	17.9	7.6	6.5	5.5	42.0	35.3	29.7
DEVYANI	Buy	171	210	23	206	40.4	47.1	9.6	6.1	4.7	69.7	42.4	31.5
WLDL	Neutral	478	530	11	74	26.0	65.3	4.9	3.8	3.0	63.9	33.9	23.1
RBA	**Buy**	**97**	**150**	**55**	**48**	**37.3**	**216.4**	**2.9**	**2.0**	**1.6**	**163.5**	**24.7**	**16.2**
BARBEQUE	Neutral	1,198	1,600	34	47	31.9	44.6	4.9	3.4	2.8	68.2	33.0	23.1

*pre-IND AS 116

Source: Companies, MOFSL

Domestic ADS fully recovered beyond pre-COVID levels

- RBA posted a decent recovery in 3QFY22 with ADS at INR114k, surpassing the FY20 level of ~INR110k, as normalcy started returning amid declining COVID cases and upbeat festive sentiment. Recovery was also aided by the delivery channel sales that continued to be elevated than the pre-COVID levels.
- The recovery was slower than other QSRs, mainly because of RBA's high presence in malls and metros (~50-55% of store network). With lower consumer mobility impacting footfalls, these outlets lagged in recovery.
- Nevertheless, these outlets can rebound sharply once full consumer mobility returns and pent up demand gets unlocked.

Exhibit 3: RBA's ADS crossed FY20 level in 3QFY22

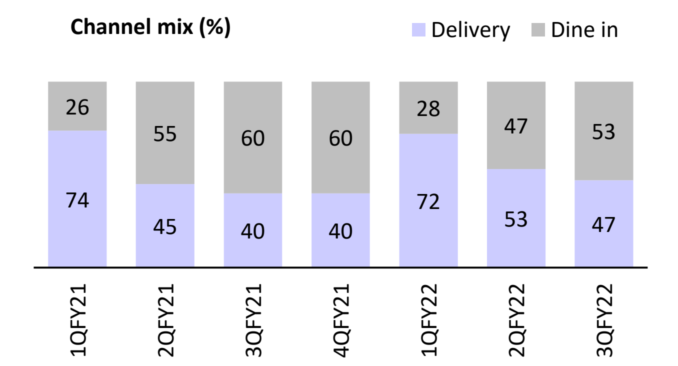
ADS (INR '000)	3QFY20	FY20	1QFY22	2QFY22	3QFY22	Growth v/s 3QFY20 (%)
Domino's	90.3	84.0	71.3	86.9	90.5	0.3
Pizza Hut (Devyani)	-	43.9	38.4	45.1	47.0	-
Pizza Hut (Sapphire)	61.0	57.9	48.7	54.7	64.0	4.9
KFC (Devyani)	-	116.7	92.1	116.4	124.0	-
KFC (Sapphire)	132.0	129.6	104.6	133.5	144.0	9.1
McDonald's (WLDL)	155.4	137.9	94.4	139.3	169.3	8.9
Burger King	**111.0**	**109.6**	**74.0**	**104.0**	**114.0**	**2.7**

Source: Companies, MOFSL

Elevated delivery aids recovery but should normalize as mobility returns

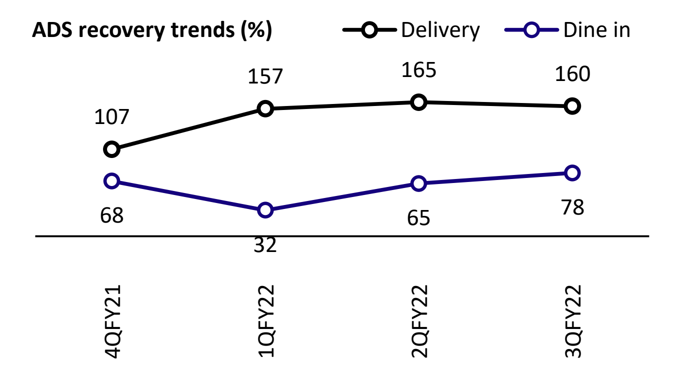
- Delivery channel sales continued to be elevated in recent quarters as in-home consumption took precedence over out-of-home. Thus, RBA's Delivery ADS and sales contribution in recent quarters have been higher than pre-COVID levels.
- With a high mall and metro presence, RBA's dine-in ADS has been witnessing a slower recovery amid continued mobility restrictions. However, as these restrictions are being lifted in recent months, we should see a strong rebound as mobility returns.
- In a normalized environment, management expects the delivery contribution to settle at 30-35%, as the Burgers category is predominantly a dine-in category.
- Higher delivery contribution has also weighed on RBA's margins as the company has been incurring additional costs of packaging and aggregator take rates.

Exhibit 4: Delivery contribution has been elevated…

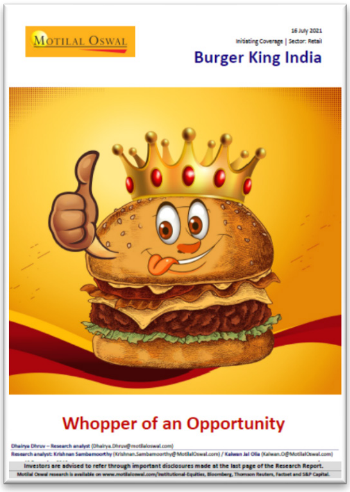


Source: Company, MOFSL

Exhibit 5: …while dine-in lags due to mobility restrictions



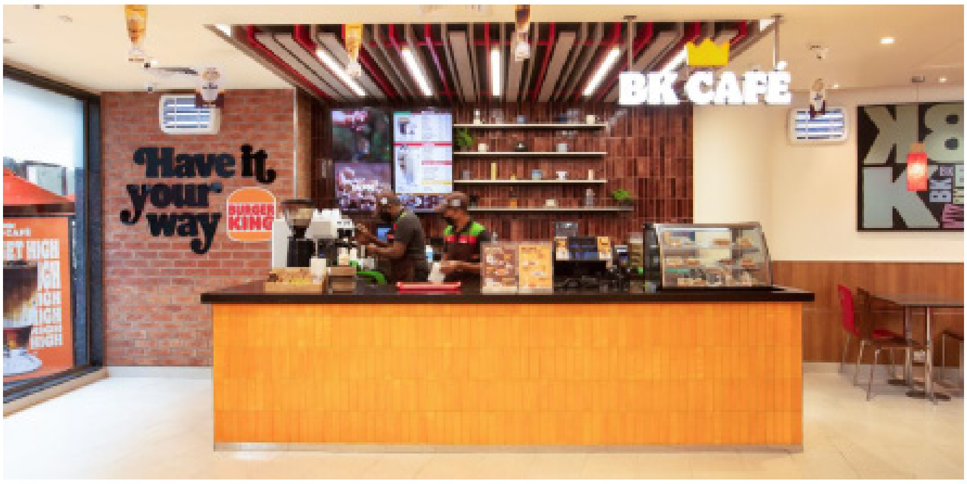
Recovery is v/s respective periods of FY20; Source: Company, MOFSL



Introduced BK Café in India, earlier than guided

- RBA introduced its first BK Café in India in 3QFY22, well ahead of its earlier guidance of 4QFY22. It had 18 BK Cafés by end of the quarter, on track to achieve the guidance of 75 BK Cafés by Mar'23.
- It has introduced sweet and savory food products along with hot and cold beverages as a part of BK Café.
- While the capex of setting up a coffee kiosk within an existing store is low at INR2.5-3m, it offers multiple benefits as highlighted in our initiating coverage report on RBA (earlier known as Burger King India) and WLDL. The benefits are:
  - Coffee and core products do not cannibalize but instead complement each other. This adds to the volume throughput at store level.
  - The price points of the coffee products are at a premium to the entry-level portfolio, resulting in a realization-accretive offering. Thus, coffee helps in driving SSSG through both volumes and realization improvement.
  - Coffee enjoys higher gross margin at 70-75%, thereby being accretive to the company-level gross margin of 65-66%.
  - Coffee is consumed generally in the evening, whereas the core products are consumed during lunch and dinner. This improves the restaurant capacity utilization and consequently leads to operating margin expansion.
- RBA has guided for 75 BK Cafés by Mar'23. With 18 cafés already added by 3QFY22 and most new stores likely to have cafés inbuilt at the outset, the target does not seem to be challenging.

Exhibit 6: Launched the first BK Café in Mumbai in 3QFY22



Source: Company, MOFSL

Exhibit 7: Introduced coffee beverages along with sweet and savory snacks in BK Café

Source: Zomato, MOFSL

Value portfolio trending well, strengthened by the Stunner menu

- RBA introduced the Stunner menu in Jul'21 with five veg products and six non-veg products, each priced at INR50 and INR70, respectively. While most of the products are seeing good traction, our channel checks indicate that RBA has discontinued one of the products (Peri Peri Rice dish) due to low volumes.
- These products significantly widened the value portfolio. A strong value portfolio is crucial to drive volumes and thereby SSSG.
- In 3QFY22, the company indicated that Stunner volumes have grown 39% v/s Jul'21 levels (when it was introduced), despite restricted mobility of young consumers due to COVID-led closures of schools and colleges. These consumers (aged between 15 and 25 years) are the core consumers of value products. Hence, once the schools and colleges reopen, these value products should see a significant pick up.
- Management indicated that the Stunner menu was also gross margin accretive (improved to 66% in 3QFY22) as the entry price point was increased to INR50 from INR45.

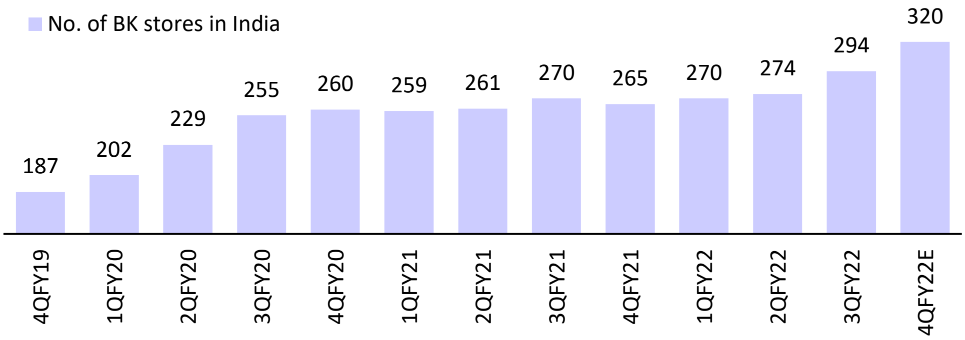
Exhibit 8: Stunner menu significantly strengthens the value platform

Source: Company, MOFSL

Store additions on track

- According to its Master Franchise Agreement with the parent company, RBA has to build a network of 700 Burger King stores in India by Dec'26.
- Accordingly, the management has guided for 320 stores by Mar'22.
- While the new store additions were muted in 1HFY22 due to the second COVID wave impact, RBA added 20 stores in 3QFY22 taking the total count to 294.
- The company is well placed to achieve its Mar'22 target with nine restaurants being under construction and 65 in pipeline as of 31st Dec'21.

Exhibit 9: On track to reach 320 outlets by 4QFY22E

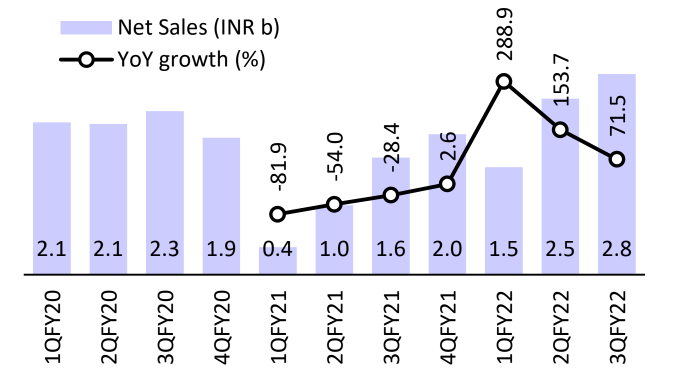


Source: Company, MOFSL

Good topline momentum in 3QFY22 aided by omni-channel play and strong consumer demand

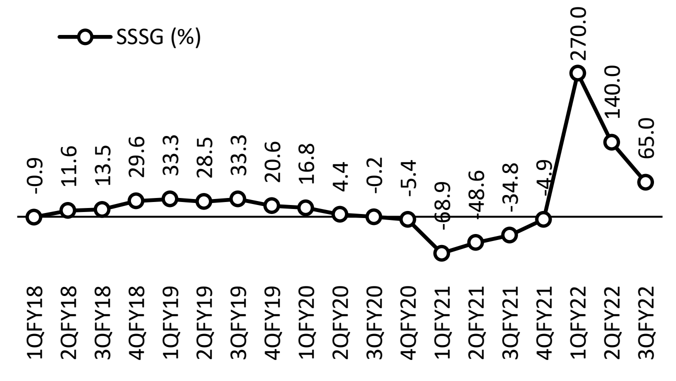
- RBA delivered a 71.5% sales growth YoY to INR2.8b in 3QFY22. This was driven by: a) its omni-channel focus with strong delivery channel offsetting the slow recovery in dine-in channel, b) robust demand trends due to the upbeat festive season and unlocking of pent-up demand, and c) a soft base of 3QFY21.
- RBA's SSSG in the quarter stood at 65%, strongly recovering from the soft base of -35% in the base quarter.
- Going ahead, as malls and metros return to normalcy, the dine-in channel should see a faster recovery thereby driving RBA's sales performance.

Exhibit 10: RBA's sales grew 71.5% YoY to INR2.8b in 3QFY22…



Source: Company, MOFSL

Exhibit 11: …with SSSG of ~65%

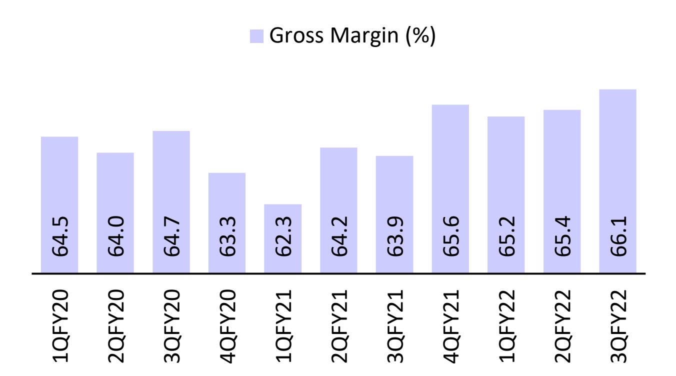


Source: Company, MOFSL

Gross margin tracking in-line with guidance

- RBA's management had previously guided for a gross margin of 66% and 68% in FY22 and FY24, respectively. This was only based on the foods business and does not include BK Café, which is significantly gross margin accretive.
- In 3QFY22, the company delivered the highest ever gross margin of 66.1%, in-line with the management's guidance.
- Our channel checks indicate that the company has not taken any price hikes despite the sharp commodity inflation. This could pose risk on its gross margin in the near term considering the high volatility in commodity prices.
- While RBA has seen the sharpest YoY expansion in gross margin among its peers, it has the lowest gross margin among them. This is partly because of the lower margin in the burgers category and the fact that RBA has only started the café business last quarter.
- As the penetration of BK Café within the store networks is still at a nascent stage, it would not have any meaningful impact on RBA's gross margin currently. However, it could offer an upside once it gains a critical mass.

Exhibit 12: Delivered highest ever gross margins in 3QFY22



Source: Company, MOFSL

Exhibit 13: Sharpest gross margin improvement among peers but lowest on an absolute basis

Gross margin (%)	3QFY21	3QFY22	Change YoY (bps)
Domino's	78.3	77.6	-70
Pizza Hut (Devyani)	74.0	75.6	155
Pizza Hut (Sapphire)	75.4	75.4	0
KFC (Devyani)	67.1	69.3	214
KFC (Sapphire)	68.1	68.0	-10
McDonald's (WLDL)	65.7	66.4	67
Burger King	**63.9**	**66.1**	**219**

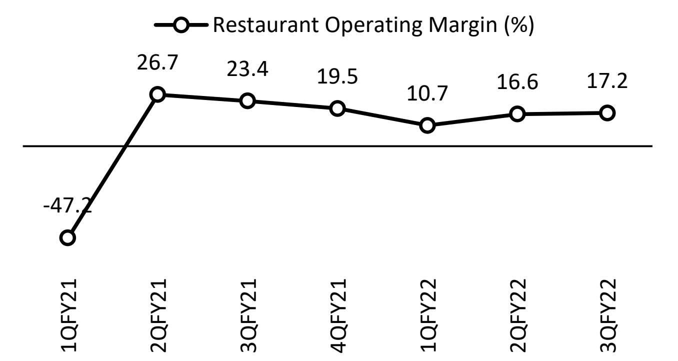
Source: Companies, MOFSL

Operating profitability muted due to higher delivery contribution

- With an improving topline, RBA reported improving trends in restaurant's operating margin and the company's EBITDA margin.
- However, the recovery in margin is muted due to the higher contribution of delivery that requires higher costs of packaging and last-mile delivery.

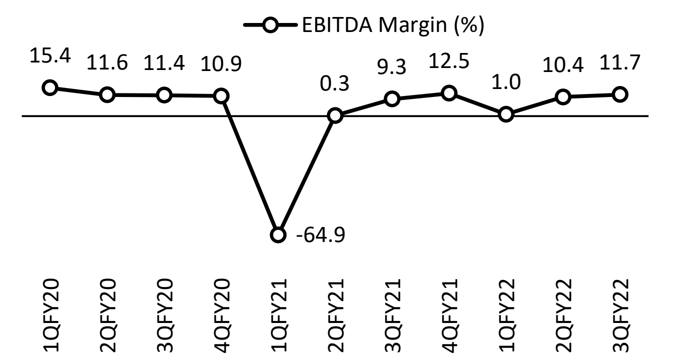
- As malls and metros recover, the dine-in channel should rebound leading to margin recovery as well.

Exhibit 14: Restaurant's operating margin improving but gradually…



Post IND-AS 116 Source: Company, MOFSL

Exhibit 15: …with slow improvement in EBITDA margin

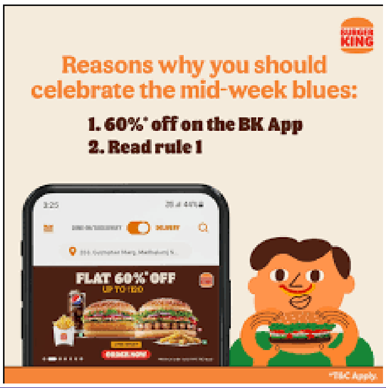


Post IND-AS 116 Source: Company, MOFSL

Continued investments in technology to improve customer experience

- RBA re-launched its mobile app in 3QFY21 with improved features such as lighter size (25% reduction) and faster load time (50% reduction).
- Since then it has constantly added features to improve customer experience. The key additions include: a) live rider tracking, b) improving delivery efficiencies, c) analytics stacks, d) cohort-based campaigns, e) social media logins, f) new offer engine, g) order cancellation, h) rider call activation, etc.
- Total app downloads as of Dec'21 stood at ~2.4m. Although this is considerably below peers such as Domino's (~80m) and McDonald's (~16m for its two apps together), it is also due to the low vintage of both RBA and the app v/s peers.
- To improve the consumer experience, the company has also started building its own delivery fleet for last-mile delivery.
- While the current contribution of the app to delivery would be in single digits, the company has set a target of one-third of the orders in the medium term. A higher contribution from own app has multiple benefits such as: a) better scope for analytics with higher access to consumer data v/s aggregators, b) ability to drive targeted promotions, c) better customer engagement and stickiness, and d) lower dependence on aggregators.

Exhibit 16: App promotions to drive sales and adoption



Source: Company, MOFSL

Exhibit 17: Building delivery fleet for last-mile delivery

Source: Company, MOFSL

Key assumptions for RBA's India business

- **ADS**: RBA's ADS of INR114k in 3QFY22 was aided by several tailwinds for the sector. Even if there is some correction in 4QFY22E, ADS for FY23E is likely to be higher than our current estimate of INR112.7k due to: a) resumption of consumer mobility such as re-opening of schools and colleges, b) recovery in malls and metros, and c) addition of BK Café. We expect modest single-digit growth in ADS thereafter.
- **SSSG**: Expect strong double-digit SSSG in FY23 and FY24 as the business recovers from COVID impact.
- **Sales**: Expect healthy double-digit sales growth in the years ahead led by strong SSSG and store additions.
- **Gross margin**: The management has guided for a gross margin of 66%/68% for FY22/FY24, respectively. This is based on the core food portfolio only. The company already reported gross margin of 66.1% in 3QFY22. BK Café, with gross margin of 70-75%, would offer further upside to these estimates.
- **EBITDA margin (post-IFRS 16)**: As FY21 and FY22 were affected by COVID-19, the EBITDA margins in these years have suffered, especially for a business like RBA where around half of sales were from malls. With topline recovery being primarily driven by the Delivery channel, the margin recovery has been affected further due to additional costs incurred in this channel. As dine-in recovers in FY23 and ahead, margins should also rebound. Further, EBITDA margin expansion would be driven by gross margin expansion and cost savings. As more and more stores mature, declining contribution of new stores in the network would also help reduce the margin drag.
- **EBITDA margin (pre-IFRS 16)**: We expect the EBITDA margin to expand from low single-digits currently to mid-teens in the next five years.

Exhibit 18: Key assumptions for RBA's domestic business

	Unit	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
No. of stores	#	88	129	187	260	265	320	390	470	550	634
Store addition YoY	#		*41*	*58*	*73*	*5*	*55*	*70*	*80*	*80*	*84*
Sales	INR b	2.3	3.8	6.3	8.4	4.9	9.8	14.6	19.0	24.2	29.9
YoY Growth	%		*64.4*	*67.3*	*33.0*	*-41.2*	*98.4*	*48.9*	*30.3*	*27.1*	*23.7*
SSSG	%		12.2	29.2	-0.3	-35.0	85.9	40.3	23.3	21.4	18.7
Sales per average store	INR m	33.6	34.8	40.0	37.6	18.8	33.5	41.1	44.3	47.4	50.5
ADS	INR '000	92.0	95.5	109.7	103.1	51.6	91.9	112.7	121.3	129.9	138.4
YoY Growth	%		*3.8*	*14.9*	*-6.0*	*-50.0*	*78.0*	*22.7*	*7.6*	*7.1*	*6.5*
Gross Profit	INR b	1.4	2.3	4.0	5.4	3.2	6.5	9.8	12.9	16.7	20.9
Gross margin	%	*59.9*	*62.0*	*63.6*	*64.2*	*64.5*	*65.9*	*67.0*	*68.0*	*69.0*	*70.0*
EBITDA (post-IND AS 116)	INR b	0.0	0.1	0.8	1.0	0.1	1.0	2.4	3.3	4.8	6.4
EBITDA margin	%	*-1.7*	*2.1*	*12.5*	*12.4*	*3.0*	*10.5*	*16.2*	*17.5*	*19.7*	*21.3*
EBITDA (pre-IND AS 116)	INR b	-0.4	-0.4	0.1	0.2	-0.8	0.1	1.0	1.6	2.6	3.9
EBITDA margin	%	*-17.6*	*-11.2*	*2.0*	*2.1*	*-16.1*	*0.8*	*6.9*	*8.5*	*11.0*	*13.0*

E: MOFSL Estimates Source: Company, MOFSL

Indonesia business well placed with equity infusion

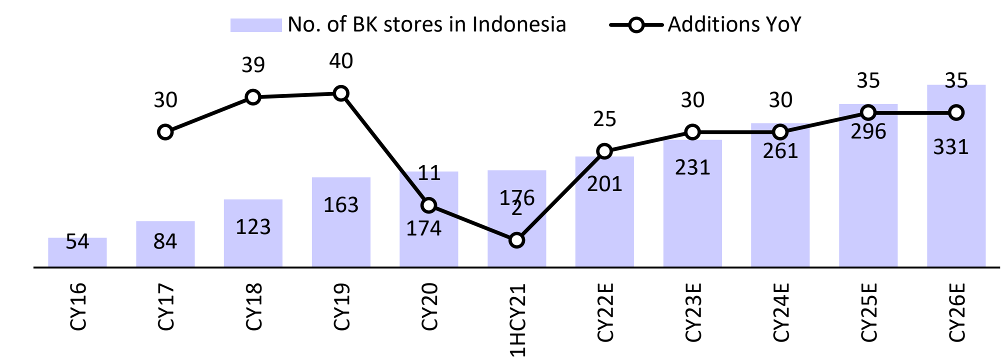
RBA acquired stake in Burger King Indonesia in Feb'22

- RBA acquired 83.24% stake in PT Sari Burger Indonesia (Burger King Indonesia) by acquiring: a) 66.48% stake from QSR Indoburger (an entity controlled by Everstone group who is also the Promoter of RBA), and b) 16.76% from PT Mitra Adiperkasa TBK (the local partner based in Indonesia).
- In addition, RBA invested USD40m in BKI for funding future growth. This raised its stake in BKI to 88.61%.
- RBA raised ~USD187m through QIP in India to fund this acquisition.
- Due to the related party transaction, this transaction required approval from the majority of minority shareholders of RBA. This was received in Jan'22.

Network expansion from CY22 onwards to meet CY26 targets

- Just like its store addition targets in India, BKI too has a CY26 target of opening 330 stores from 176 stores as of Jun'21.
- While store additions slowed down in CY21 due to COVID, we expect annual store additions of 25-30 going forward.
- With the equity infusion, BKI is likely to incur the capex through internal funds and accruals.
- Indonesia's market has considerable focus on Free Standing Drive Thru (FSDT) format stores that have better unit economics than malls and High Street stores. Majority of BKI's incremental stores will be in FSDT format.

Exhibit 19: COVID slowed down network expansion, to resume from CY22 onwards



Source: Company, MOFSL

Key assumptions for BKI

- **ADS**: We build in gradual recovery in ADS as COVID cases decline and normalcy returns. We forecast ADS to recover to CY19 levels in CY24 as full normalcy returns. There is a considerable upside risk to this estimate as these levels can be achieved in CY23 itself.
- **SSSG**: Expect strong double-digit SSSG in CY22 and CY23 as the business recovers from COVID impact.
- **Sales**: With a decent SSSG and rapid store addition, we expect strong double-digit sales growth in the years ahead.
- **Gross margin**: Due to its high beef-focused portfolio, BKI has low gross margin of 57-58% as beef is not indigenously sourced but imported. The margin is much

lower than RBA's current gross margin in India at 65-66%. One of the key priorities of the new management is to shift the focus to chicken-based portfolio to drive the gross margin upwards. In addition, the expected introduction of BK Café in 1QCY22 would also aid gross margins in the medium term, as the penetration of high-margin BK Cafés increase in the store mix.

- **EBITDA margin (post-IFRS 16)**: BKI had 11-12% gross margins in CY18 and CY19. We expect these to improve to high teens in the next two years driven by: a) gross margin improvement, b) normalization of A&P spends to the mandatory 5% levels from ~6% levels incurred in CY18 and CY19, and c) cost savings initiatives including scale-driven synergies with India business.
- **EBITDA margin (pre-IFRS 16)**: We assume an 800bp gap with post-IFRS 16 EBITDA margin on accounting adjustment. We expect the company to expand its EBITDA margin from high-single digits to mid-teens in the next five years.

Exhibit 20: Key assumptions for BKI

	Unit	CY16	CY17	CY18	CY19	CY20	CY21E^	CY22E	CY23E	CY24E	CY25E	CY26E
No. of stores	#	54	84	123	163	174	176	201	231	261	296	331
Store addition YoY	#		*30*	*39*	*40*	*11*	*2*	*25*	*30*	*30*	*35*	*35*
Sales	INR b	2.1	3.2	5.0	7.5	5.8	5.6	8.6	10.8	13.0	15.2	17.4
YoY Growth	%		*53.6*	*53.5*	*51.5*	*-23.0*	*-3.9*	*54.7*	*25.8*	*20.4*	*16.8*	*14.6*
SSSG	%							55.0	20.0	8.1	5.5	3.9
Sales per average store	INR m	38.9	46.7	47.8	52.4	34.3	31.7	45.6	50.0	52.9	54.5	55.5
ADS	INR '000	106.5	128.1	131.0	143.7	93.9	86.9	124.8	137.0	144.8	149.4	152.1
YoY Growth	%		*20.2*	*2.3*	*9.7*	*-34.7*	*-7.5*	*43.6*	*9.8*	*5.7*	*3.2*	*1.8*
Gross Profit	INR b	1.2	1.9	2.9	4.3	3.3	3.2	5.0	6.4	7.9	9.4	11.0
Gross margin	%	*59.5*	*58.6*	*57.8*	*56.8*	*57.4*	*57.4*	*58.4*	*59.4*	*60.6*	*61.8*	*63.0*
EBITDA (post-IFRS 16)	INR b	0.2	0.3	0.5	0.9	0.3	0.3	1.5	2.1	2.6	3.3	4.0
EBITDA margin	%	*7.2*	*9.4*	*11.0*	*11.9*	*6.0*	*4.6*	*17.7*	*19.0*	*20.3*	*21.6*	*23.0*
EBITDA (pre-IFRS 16)	INR b							0.8	1.2	1.6	2.1	2.6
EBITDA margin	%							*9.7*	*11.0*	*12.3*	*13.6*	*15.0*

^For CY21 we have extrapolated 1HCY21 data reported by the company

Source: Company, MOFSL

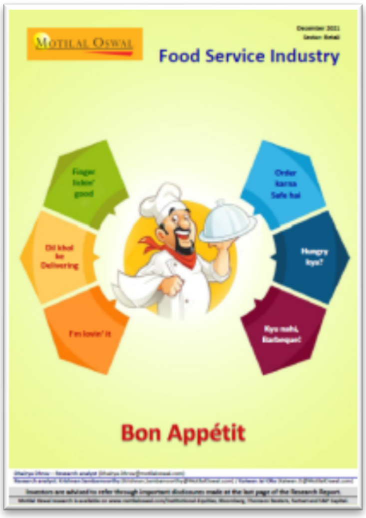
Consolidated estimates

- In the absence of published consolidated financial statements, we are currently only publishing the full standalone statements for India business (pages15-16).
- Select consolidated estimates are as below.

Exhibit 21: Consolidated estimates (FY22E onwards is consolidated)

	Unit	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Sales	INR b	4.7	7.4	11.9	15.5	10.7	16.1	23.7	30.4	37.7	45.7
YoY Growth	%		*58.9*	*60.2*	*29.9*	*-31.1*	*51.2*	*47.3*	*28.0*	*24.2*	*21.0*
Gross Profit	INR b	2.8	4.5	7.2	9.4	6.5	10.1	15.2	19.7	24.9	30.7
Gross margin	%	59.5	60.2	60.7	60.9	60.7	62.7	63.8	64.9	66.1	67.3
EBITDA (post-IFRS 16)	INR b	0.2	0.4	1.4	1.8	0.5	1.6	4.0	5.5	7.6	9.8
YoY Growth	%		*195.9*	*219.6*	*26.4*	*-73.6*	*237.9*	*151.1*	*37.6*	*36.6*	*30.2*
EBITDA margin	%	3.2	6.0	11.9	11.6	4.4	9.9	16.9	18.2	20.0	21.5
EBITDA (pre-IFRS 16)	INR b	-0.4	-0.4	0.1	0.2	-0.8	0.3	1.9	2.9	4.4	6.1
YoY Growth	%		*4.3*	*-130.2*	*38.5*	*-551.1*	*-136.5*	*563.9*	*50.8*	*50.0*	*39.6*
EBITDA margin	%	-8.6	-5.7	1.1	1.1	-7.5	1.8	8.1	9.6	11.6	13.3
EV/Sales	x						3.0	2.0	1.6	1.2	0.9
EV/EBITDA*	x						166.1	25.1	16.5	10.5	7.0

*pre-IND AS 116 Source: Company, MOFSL



Trading at a significant discount to its peers; maintain BUY

- As highlighted in our QSR thematic note published in Dec'21, COVID-19 has augmented the business opportunities for QSRs resulting in an optimistic outlook for all branded QSR players. Both delivery and takeaway channels were in focus over the last two years as the consumers developed new habits of food consumption. Even as dine-in revives, the contribution of delivery would be elevated than pre-COVID levels. COVID has, therefore, permanently shifted the QSR business model towards an omni-channel play.
- With an already aggressive store addition outlook, RBA is well placed to deliver a strong domestic growth. The BK Café chain is likely to be a key growth driver going ahead. Along with rapid topline growth, RBA is geared up to deliver EBITDA margin expansion driven by: a) dine-in recovery, b) addition of BK Café, and c) cost saving initiatives. As more and more stores mature, declining contribution of new stores in the network would also help reduce the margin drag. Indonesia business should also witness a healthy topline growth and margin expansion in the years ahead.
- With the recent correction in its share price, RBA now trades at a significant discount to its QSR peers. We, therefore, retain our BUY rating on the stock with a TP of INR150 premised on an SOTP FY24E EV/EBITDA (pre-IND AS 116) of 36x/12x for India/Indonesia businesses, respectively. Since RBA is still in an early investment phase with low profitability, we value its domestic business at ~15% discount to JUBI's target multiple over the next one year. As the India business profitability improves led by a) much lower store additions to existing store base, and b) recovery in sales of mall-based stores we are reducing the target (pre-Ind AS) valuations to 25x by FY26.
- With strong sales growth and simultaneous margin expansion, we expect a TP of INR260 for RBA on a three-year basis (at 39% CAGR), even after assuming a lower target multiple.

Exhibit 22: SOTP valuation, (INR b)

	Mar'24		Mar'26	
	India	Indonesia	India	Indonesia
EBITDA (pre IND AS)	1.6	1.3	3.9	2.2
Multiple	36x	12x	25x	12x
Implied EV	58.2	15.5	97.2	26.4
Total Implied EV	73.7		123.6	
Net debt	-0.6		-5.9	
Implied Equity value	74.3		129.6	
No. of shares (b)	0.5		0.5	
Target Price (INR)	150		260	
CMP (INR)	97		97	
CAGR (%)	55%		39%	

Source: Company, MOFSL

Exhibit 23: Comparative valuation

Company	Reco	CMP	Target Price		MCap	CAGR FY22-24E (%)		EV/Sales (x)			EV/EBITDA* (x)		
		(INR)	(INR)	Upside (%)	(INR B)	Sales	EBITDA*	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
JUBI	Buy	2,629	3,680	40	347	16.6	17.9	7.6	6.5	5.5	42.0	35.3	29.7
DEVYANI	Buy	171	210	23	206	40.4	47.1	9.6	6.1	4.7	69.7	42.4	31.5
WLDL	Neutral	478	530	11	74	26.0	65.3	4.9	3.8	3.0	63.9	33.9	23.1
RBA	**Buy**	**97**	**150**	**55**	**48**	**37.3**	**216.4**	**2.9**	**2.0**	**1.6**	**163.5**	**24.7**	**16.2**
BARBEQUE	Neutral	1,198	1,600	34	47	31.9	44.6	4.9	3.4	2.8	68.2	33.0	23.1

*pre-IND AS 116

Source: Companies, MOFSL

Key risks

- The ongoing high inflation can hurt consumer spending power and therefore, put brakes on the demand momentum. The inflation can also put pressure on the company's near-term profitability.
- Increased competitive intensity in the sector over the past few months can lead to overcapacity resulting in muted SSSG.
- RBA's multiples can remain deflated due to the overhang of Indonesia acquisition.

Financials and valuations

Income Statement - Standalone								(INR m)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Net Sales	**2,299**	**3,781**	**6,327**	**8,412**	**4,945**	**9,809**	**14,606**	**19,034**
Change (%)		64.4	67.3	33.0	-41.2	98.4	48.9	30.3
Material Consumed	922	1,439	2,301	3,015	1,756	3,345	4,820	6,091
Gross Profit	**1,377**	**2,343**	**4,027**	**5,397**	**3,188**	**6,464**	**9,786**	**12,943**
Gross Margin %	59.9	62.0	63.6	64.2	64.5	65.9	67.0	68.0
Operating expenses	1,416	2,261	3,237	4,357	3,038	5,435	7,420	9,612
EBITDA	**-39**	**81**	**790**	**1,040**	**150**	**1,029**	**2,366**	**3,331**
Change (%)		-308.9	872.0	31.7	-85.6	586.6	130.0	40.8
Margin (%)	-1.7	2.1	12.5	12.4	3.0	10.5	16.2	17.5
Depreciation	448	640	822	1,164	1,275	1,338	1,561	1,837
Int. and Fin. Ch.	274	369	465	655	821	680	794	930
Other Non-recurring Inc.	42	106	114	56	285	167	184	203
PBT	**-718**	**-822**	**-383**	**-722**	**-1,662**	**-821**	**195**	**767**
Change (%)		N/M	N/M	N/M	N/M	N/M	L/P	292.4
Margin (%)	-31.2	-21.7	-6.0	-8.6	-33.6	-8.4	1.3	4.0
Tax	0	0	0	0	0	0	0	38
Tax Rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0
Adjusted PAT	**-718**	**-822**	**-383**	**-722**	**-1,662**	**-821**	**195**	**728**
Change (%)	-	N/M	N/M	N/M	N/M	N/M	L/P	272.8
Margin (%)	-31.2	-21.7	-6.0	-8.6	-33.6	-8.4	1.3	3.8
Non-rec. (Exp)/Inc.	0	0	0	-43	-77	0	0	0
Reported PAT	**-718**	**-822**	**-383**	**-766**	**-1,739**	**-821**	**195**	**728**

Balance Sheet - Standalone								(INR m)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Share Capital	2,650	2,650	2,650	2,777	3,830	4,927	4,927	4,927
Reserves	1,026	221	-154	-23	2,905	14,994	15,189	15,918
Net Worth	**3,676**	**2,871**	**2,496**	**2,754**	**6,735**	**19,921**	**20,117**	**20,845**
Loans	0	0	1,000	1,985	0	0	0	0
Lease Liabilities	2,910	3,700	4,740	5,977	5,973	6,852	8,034	9,431
Capital Employed	**6,585**	**6,572**	**8,237**	**10,717**	**12,707**	**26,773**	**28,151**	**30,276**
Gross Block	5,430	7,217	10,032	13,558	14,177	16,729	20,156	24,185
Less: Accum. Depn.	683	1,294	2,107	3,191	4,322	5,629	7,156	8,957
Net Fixed Assets	**4,746**	**5,923**	**7,926**	**10,367**	**9,855**	**11,100**	**13,000**	**15,228**
ROU Asset	0	0	0	0	0	0	0	0
Capital WIP	105	103	202	476	301	301	301	301
Investments	1,773	869	384	186	1,243	15,420	15,510	15,550
Deferred tax assets	2	6	8	10	15	15	15	15
Curr. Assets, L&A	**358**	**402**	**684**	**938**	**2,868**	**1,490**	**1,265**	**1,655**
Inventory	40	52	69	94	100	134	160	209
Account Receivables	14	26	59	32	60	81	92	104
Cash and Bank Balance	125	74	160	280	2,161	646	289	510
Others	180	251	397	531	547	629	724	832
Curr. Liab. and Prov.	**399**	**732**	**968**	**1,260**	**1,575**	**1,553**	**1,940**	**2,472**
Other Current Liabilities	169	248	283	224	199	219	240	288
Creditors	195	434	609	816	1,140	1,075	1,401	1,825
Provisions	35	50	76	220	236	260	299	359
Net Curr. Assets	**-41**	**-330**	**-284**	**-322**	**1,293**	**-63**	**-675**	**-817**
Appl. of Funds	**6,585**	**6,572**	**8,237**	**10,717**	**12,707**	**26,773**	**28,151**	**30,276**

E: MOFSL Estimates

Financials and valuations

Ratios - Standalone

Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Basic (INR)								
EPS	**-2.7**	**-3.1**	**-1.4**	**-2.6**	**-4.3**	**-1.7**	**0.4**	**1.5**
BV/Share	13.9	10.8	9.4	9.9	17.6	40.4	40.8	42.3
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	N/M	N/M	N/M	N/M	N/M	N/M	244.1	65.5
EV/Sales	10.3	6.5	4.1	3.4	6.8	4.7	3.2	2.4
EV/EBITDA	N/M	304.1	33.1	27.3	224.7	44.8	19.6	13.9
P/BV	7.0	8.9	10.3	9.8	5.5	2.4	2.4	2.3
Return Ratios (%)								
RoE	-19.5	-28.6	-15.3	-26.2	-24.7	-4.1	1.0	3.5
RoCE	-13.5	-6.9	1.1	-0.7	-7.2	-0.7	3.6	5.5
RoIC		-11.1	-0.5	-1.4	-12.0	-3.2	7.2	10.9
Working Capital Ratios								
Debtor (Days)	2	2	3	1	4	3	2	2
Inventory (Days)	6	5	4	4	7	5	4	4
Creditor (Days)	31	42	35	35	84	40	35	35
Asset Turnover (x)	0.3	0.6	0.8	0.8	0.4	0.4	0.5	0.6
Leverage Ratio								
Debt/Equity (x)	0.0	0.0	0.4	0.7	0.0	0.0	0.0	0.0

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

Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
OP/(loss) before Tax	-718	-814	-386	-776	-1,738	-821	195	767
Int./Div. Received	-23	-75	-83	-1	508	-167	-184	-203
Depreciation & Amort.	448	640	822	1,164	1,275	1,338	1,561	1,837
Interest Paid	-265	-356	-448	-635	-763	-680	-794	-930
Direct Taxes Paid	1	4	2	2	5	0	0	38
Inc/(Dec) in WC	3	-201	-66	-108	-335	158	-255	-363
CF from Operations	**-33**	**305**	**865**	**1,127**	**1,139**	**871**	**2,621**	**3,656**
Inc/(Dec) in FA	-933	-866	-1,654	-2,275	-350	-2,552	-3,427	-4,028
Free Cash Flow	**-966**	**-561**	**-789**	**-1,148**	**789**	**-1,681**	**-806**	**-373**
Others	0	1	0	0	25	14,441	1,545	1,560
Pur of Investments	-1,285	993	515	209	-1,042	-14,177	-90	-40
CF from Invest.	**-2,218**	**128**	**-1,140**	**-2,066**	**-1,367**	**-2,288**	**-1,972**	**-2,508**
Issue of Shares	2,700	0	1,000	0	5,622	1,098	0	0
Incr in Debt	0	0	0	2,007	-1,985	879	1,183	1,397
Dividend Paid	0	0	0	0	0	0	0	0
Others	-352	-484	-639	-948	-1,529	-2,074	-2,189	-2,324
CF from Fin. Activity	**2,348**	**-484**	**361**	**1,059**	**2,109**	**-98**	**-1,006**	**-927**
Incr/Decr of Cash	**98**	**-51**	**86**	**120**	**1,881**	**-1,515**	**-357**	**221**
Add: Opening Balance	27	125	74	160	280	2,161	646	289
Closing Balance	**125**	**74**	**160**	**280**	**2,161**	**646**	**289**	**510**

E: MOFSL Estimates

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

*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.

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