

Barbeque Nation Hospitality

Estimate change	↔
TP change	↓
Rating change	↔

CMP: INR996 TP: INR1,060 (+6%) Neutral

Bloomberg	BARBEQUE IN
Equity Shares (m)	39
M.Cap.(INRb)/(USDb)	38.8 / 0.5
52-Week Range (INR)	1950 / 557
1, 6, 12 Rel. Per (%)	-10/-26/56
12M Avg Val (INR M)	266

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	8.6	13.0	16.0
Sales Gr. (%)	69.7	50.7	23.3
EBITDA	1.3	2.4	3.1
Margins (%)	15.5	18.3	19.2
Adj. PAT	-0.3	0.2	0.5
Adj. EPS (INR)	-6.6	4.6	12.9
EPS Gr. (%)	N/M	L/P	179.2
BV/Sh.(INR)	99.2	103.8	116.8

Ratios

RoE (%)	-6.7	4.5	11.1
RoCE (%)	2.8	6.8	9.5

Valuation

P/E (x)	N/M	214.8	76.9
P/BV (x)	10.0	9.6	8.5
EV/EBITDA (x)	28.5	15.5	11.6

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	34.5	34.5	47.8
DII	17.1	17.0	52.2
FII	11.4	11.6	0.0
Others	37.0	36.9	0.0

FII Includes depository receipts

Omicron-led disruptions hurt sales and impair profitability

- BARBEQUE's dine-in focused business (as opposed to QSRs) meant that higher-than-expected Omicron impact for the sector adversely affected the company more. Sales miss of 6% had an adverse impact on EBITDA, which came in 15% lower than our expectation.
- Unlike QSRs, BARBEQUE's delivery business is not just of higher ticket size but also has a shorter history making this business segment (18-20% of sales) more vulnerable in an inflationary environment. Its higher dine-in based nature also begets inherently lower RoCEs compared to QSR peers.
- Its valuation is fair at ~19x FY24E Pre Ind-AS EV/EBITDA. **Maintain Neutral.**

Sales miss leads to lower operating leverage

- **Sales grew 10.9% YoY to INR2.5b.** (est. INR2.7b), with SSSG of 5.5% (est. 13%). EBITDA declined 2.1% YoY to INR445m (est. INR526m). Adjusted PAT declined 92.4% YoY to INR5m in 4QFY22.
- **It opened 12 stores and closed one store.** This takes it BBQN store count to 168 in India at the end of 4QFY22. It added three restaurants in Apr'22, taking its total YTD count to 171. It added three extension kitchens, taking its total count to 15 in 4QFY22.
- Gross/EBITDA margin contracted 200bp/240bp YoY to 64.6%/17.7% (est. 65%/19.7%), respectively.
- **EBITDA (including other income) adjusted for IND-AS 116 declined 27.2% YoY** to INR228m in 4QFY22. EBITDA margin contracted 470bp YoY to 9.1% in 4QFY22.

Highlights from the management commentary

- BARBEQUE took an effective 5% cumulative price hike in Apr-May'22 put together, which along with other cost saving efforts will be able to revive its gross margin to earlier levels.
- On a steady-state basis, 5-7% SSSG for the existing store network is likely although, on the COVID-affected base of FY22, SSSG will be better.
- The management targets opening 35-40 restaurants in FY23E. Expansion will be fairly even across quarters in FY23E.

Valuation and view

- There is no material change to our estimates up to the operating profit level for FY23/FY24.
- We maintain our **Neutral** rating on fair valuations, inherently lower return ratios compared to QSRs, and potential vulnerability of its higher ticket size delivery business in an inflationary environment.

Quarterly Performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22	FY21	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
SSSG (%)	-95.8	-66.9	-21.2	19.9	960.0	184.0	42.7	5.5	-44.3	64.7	13.0	
No. of stores	162	162	163	164	166	167	174	185	164	185	184	
Net Sales	98	761	1,948	2,263	1,020	2,209	2,867	2,510	5,071	8,606	2,674	-6.1
YoY change (%)	-	-	-	18.5	939.1	190.3	47.1	10.9	-40.1	69.7	18.1	
Gross Profit	30	473	1,278	1,508	600	1,450	1,886	1,622	3,288	5,558	1,738	
Margin (%)	30.1	62.1	65.6	66.6	58.9	65.6	65.8	64.6	64.8	64.6	65.0	
EBITDA	-361	-42	412	455	-178	413	657	445	464	1,337	526	-15.3
EBITDA growth %	-	-	-	82.0	N/M	N/M	59.6	-2.1	-71.8	188.3	15.6	
Margin (%)	-367.6	-5.5	21.1	20.1	-17.5	18.7	22.9	17.7	9.1	15.5	19.7	
Depreciation	306	301	313	291	289	304	340	340	1,212	1,273	375	
Interest	222	224	217	186	166	153	172	162	849	653	195	
Other Income	152	117	86	106	74	85	45	59	460	263	68	
PBT	-736	-451	-32	83	-559	41	190	2	-1,136	-326	25	-90.5
Tax	-131	-86	2	19	-120	10	44	-3	-197	-69	5	
Rate (%)	17.8	19.1	-5.4	23.0	21.5	24.9	23.2	-109.0	17.3	21.1	20.0	
Adjusted PAT	-605	-365	-34	64	-439	31	146	5	-940	-257	20	-75.2
YoY change (%)	-	-	-	N/M	N/M	L/P	L/P	-92.4	-	-	L/P	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY21				FY22			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Channel mix (%)								
Dine-in	57.7	78.8	85.4	87.4	45.0	76.8	83.7	82.2
Delivery	42.3	21.2	14.6	12.6	55.0	23.2	16.3	17.8
2Y average growth (%)								
Sales	-	-	-	18.5	939.1	190.3	47.1	14.7
EBITDA	-	-	-	82.0	-	-	59.6	40.0
PAT	-	-	-	-	-	-	-	-92.4
% of Sales								
COGS	69.9	37.9	34.4	33.4	41.1	34.4	34.2	35.4
Operating Expenses	397.8	67.7	44.5	46.5	76.3	46.9	42.9	46.9
Depreciation	311.6	39.6	16.1	12.9	28.3	13.8	11.9	13.5
YoY change (%)								
COGS	-	-	-	10.7	511.9	163.5	46.4	17.5
Operating Expenses	-	-	-	7.8	99.4	101.3	41.8	11.8
Other Income	-	-	-	-2,457.1	-51.5	-27.1	-47.6	-44.2
EBIT	-	-	-	-152.9	-29.9	-131.7	221.6	-35.4



CONFERENCE CALL

Key takeaways from the management interaction

Performance and outlook

- The Omicron wave affected operations in Jan'22. In light of this, SSSG of 5.5% for the quarter is still healthy.
- The second half of the quarter witnessed strong recovery in sales (~20% SSSG YoY for the month of Mar'22 with sales of INR950m). EBITDA margin also returned to normalized levels in the second half of the quarter.
- Delivery has not had any impact despite the recovery in dine-in sales.
- On a steady-state basis, 5-7% SSSG for the existing store network is likely although, on the COVID affected base of FY22, SSSG will be better.
- Expect CAGR for delivery sales at 20%. Currently, delivery accounts for 18-20% of total sales.

Costs and margins

- Despite multi-year high inflation, GM impact was limited in 4QFY22.
- There were no price hikes taken in 4QFY22. However, BARBEQUE took an effective 5% cumulative price hike in Apr-May'22 put together, which along with other cost saving efforts will be able to revive gross margin to earlier levels.
- The price hikes taken should be enough to cover inflation so far. In case of further RM inflation, management may take further hikes.
- The price hikes have not impacted volumes nor led to any cancellations.
- Inflation was higher in meat (45% of RM). Prawns prices have stabilized from Jan'22 levels but chicken prices have gone up. BARBEQUE's menu can be tuned towards more affordable products.
- Corporate EBITDA margin should be ~15% on a Pre IND-AS basis on annual revenues of INR70m per store.
- The management targets gross margin at 67-68% in three years from the 65-66% levels currently.
- Food cost per cover in the last 4-5 years would have increased by only 2-3% and price hikes would also be in the same range in the past five years.
- As a percentage of sales, in the second year itself, rent for new stores would not cross 10%.

Expansion

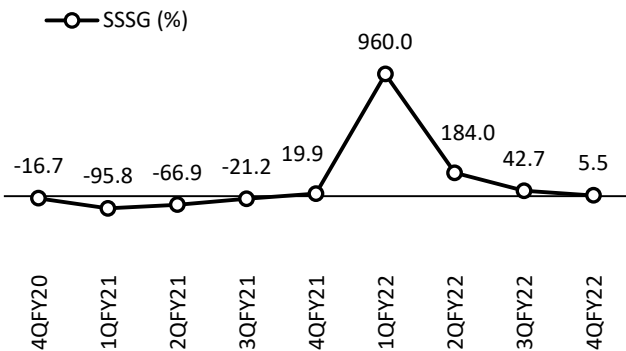
- The management targets opening 35-40 restaurants in FY23.
- Expansion will be fairly even across quarters in FY23. Expect to open 3-4 stores per month.
- Currently, there are 14 restaurants in various stages of expansion.
- BARBEQUE has 15 extension kitchens currently. Their contribution to sales is still low. Management looks to add 2-3 more in the short term. It is awaiting 15% EBITDA margin in this sub-segment from early-single-digit levels currently. This is a low capex business but is still work in progress.
- Toscano and the international business are both reporting annualized sales of INR60m now which gives them confidence to gradually expand.
- Target to open five Toscano stores in FY23 taking the total to 16 by year end.
- Top 20 restaurants (~12-13% of existing network) contribute ~18-20% of revenues.
- Mumbai including greater Mumbai and Thane has only 18-20 outlets and similar is the case in Delhi. Expansion will be in larger as well as smaller cities.

Promoter debt

- There has been restructuring of promoter loans.
- The promoter's business was affected by Covid in 1QFY22 but is now back to normalcy.
- Management does not expect recurrence of bank sale of pledged shares.

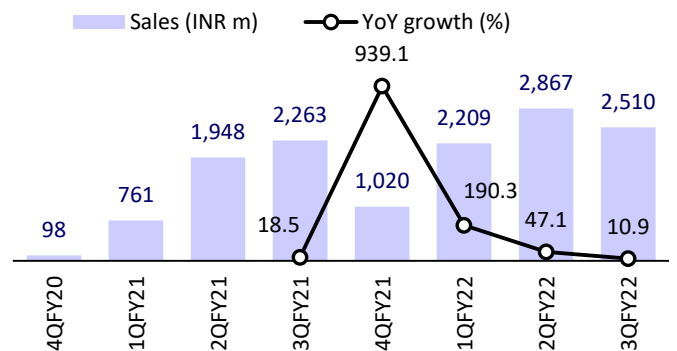
Key exhibits

Exhibit 1: YoY SSSG stood at 5.5% in 4QFY22



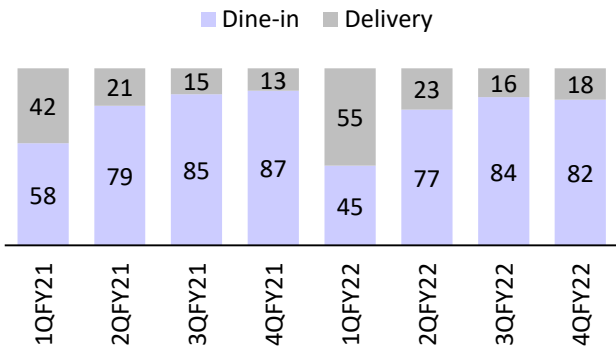
Source: Company, MOFSL

Exhibit 2: Net sales grew 10.9% YoY to INR2.5b in 4QFY22



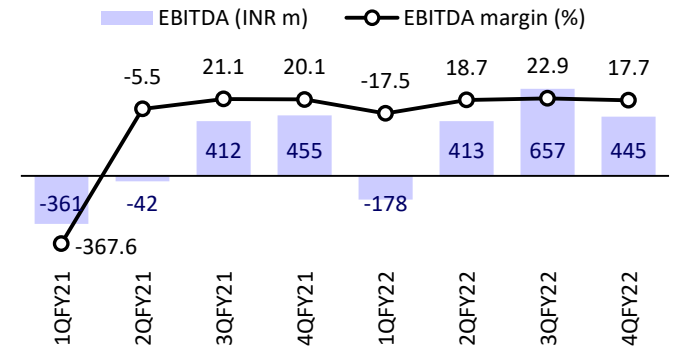
Source: Company, MOFSL

Exhibit 3: Dine-in contribution at 82% in 4QFY22



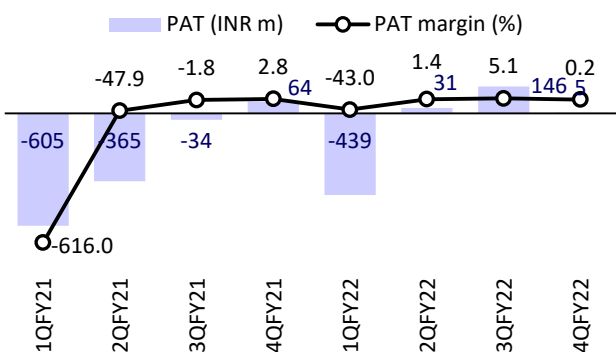
Source: Company, MOFSL

Exhibit 4: EBITDA margin contracts by 240bp YoY to 17.7%



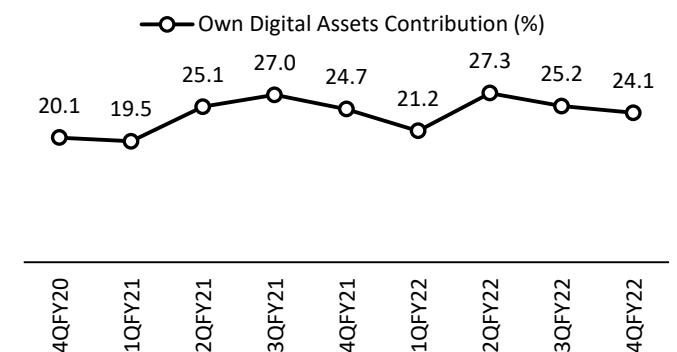
Source: Company, MOFSL

Exhibit 5: Adjusted PAT margin contracts by 260bp YoY to 0.2% in 4QFY22



Source: Company, MOFSL

Exhibit 6: Contribution from its own digital assets stood at 24.1% in 4QFY22



Source: Company, MOFSL

Valuation and view

- There is no material change to our estimates up to the operating profit level for FY23/FY24.
- We maintain our **Neutral** rating on fair valuations, inherently lower return ratios compared to QSRs, and potential vulnerability of its higher ticket size delivery business in an inflationary environment.

Exhibit 7: We raise our EBITDA forecast for FY23/FY24 by 2%/4.8%, respectively

	New estimate		Old estimate		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	12,971	15,995	12,717	15,262	2.0	4.8
EBITDA	2,371	3,075	2,324	2,934	2.0	4.8
PAT	180	504	129	631	39.8	-20.2

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	
Net Sales	5,863	7,390	8,470	5,071	8,606	12,971	15,995	
Change (%)	19.8	26.0	14.6	-40.1	69.7	50.7	23.3	
Material Consumed	1,978	2,476	2,922	1,782	3,047	4,488	5,438	
Gross Profit	3,885	4,914	5,548	3,288	5,558	8,483	10,557	
Gross Margin %	66.3	66.5	65.5	64.8	64.6	65.4	66.0	
Operating expenses	2,522	3,455	3,906	2,825	4,221	6,113	7,481	
EBITDA	1,363	1,459	1,642	464	1,337	2,371	3,075	
Change (%)	15.9	7.0	12.6	-71.8	188.3	77.3	29.7	
Margin (%)	23.2	19.7	19.4	9.1	15.5	18.3	19.2	
Depreciation	703	895	1,340	1,212	1,273	1,629	1,771	
Int. and Fin. Ch.	536	564	756	849	653	698	757	
Other Non-recurring Inc.	41	35	38	460	263	198	127	
PBT	165	35	-415	-1,136	-326	241	674	
Tax	124	144	78	-197	-69	61	170	
Tax Rate (%)	74.9	416.8	-18.8	17.3	21.1	25.2	25.2	
Adjusted PAT	41	-109	-493	-940	-257	180	504	
Change (%)	-37.5	P/L	-	-	-	L/P	179.2	
Margin (%)	0.7	-1.5	-5.8	-18.5	-3.0	1.4	3.1	
Non-rec. (Exp)/Inc.	-99	-275	164	21	0	0	0	
Minority interest	0	0	-5	-14	0	0	0	
Reported PAT	-58	-384	-324	-905	-257	180	504	

Balance Sheet							(INR m)	
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	
Share Capital	138	140	140	170	195	195	195	
Reserves	1,312	1,176	-81	2,269	3,665	3,846	4,350	
Net Worth	1,450	1,316	59	2,439	3,860	4,040	4,544	
Loans	1,277	1,579	2,450	1,528	218	400	400	
Lease Liabilities	3,507	4,200	4,816	4,498	5,887	6,202	6,753	
Others	0	0	52	38	93	93	93	
Capital Employed	6,234	7,095	7,377	8,503	10,057	10,736	11,790	
Gross Block	7,446	9,619	11,910	12,049	14,728	16,076	17,593	
Less: Accum. Depn.	2,197	2,986	4,507	5,456	6,728	9,080	10,851	
Net Fixed Assets	5,249	6,634	7,404	6,593	8,000	6,996	6,742	
Capital WIP	185	159	109	60	212	212	212	
Goodwill	230	190	723	723	723	723	723	
Investments	0	0	0	0	0	1,300	1,600	
Deferred tax assets	0	0	0	0	0	0	0	
Curr. Assets, L&A	1,568	1,209	1,319	4,002	2,478	3,135	4,441	
Inventory	190	193	149	202	358	391	526	
Account Receivables	56	49	22	26	57	82	88	
Cash and Bank Balance	436	120	147	2,455	853	1,089	1,783	
Others	886	847	1,001	1,319	1,210	1,573	2,044	
Curr. Liab. and Prov.	945	1,057	2,167	2,855	1,356	1,629	1,927	
Other Current Liabilities	152	141	894	1,237	199	209	213	
Creditors	673	768	1,125	1,468	988	1,244	1,534	
Provisions	120	148	148	150	168	177	180	
Net Curr. Assets	623	152	-848	1,147	1,122	1,505	2,514	
Current tax liabilities	-53	-40	-11	-20	0	0	0	
Appl. of Funds	6,234	7,095	7,377	8,503	10,057	10,736	11,790	

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Basic (INR)							
EPS	1.5	-3.9	-17.6	-27.7	-6.6	4.6	12.9
BV/Share	52.5	47.0	2.1	71.9	99.2	103.8	116.8
DPS	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
Valuation (x)							
P/E	662.9	N/M	N/M	N/M	N/M	214.8	76.9
EV/Sales	4.8	4.0	3.6	6.5	4.4	2.8	2.2
EV/EBITDA	20.8	20.1	18.4	70.9	28.5	15.5	11.6
P/BV	19.0	21.2	471.4	13.9	10.0	9.6	8.5
Return Ratios (%)							
RoE	2.9	-8.3	-833.5	-38.5	-6.7	4.5	11.1
RoCE	3.2	-28.5	5.6	-3.0	2.8	6.8	9.5
RoIC	3.3	-28.7	5.2	-9.4	0.7	6.5	11.9
Working Capital Ratios							
Debtor (Days)	3	2	1	2	2	2	2
Inventory (Days)	12	10	6	15	15	11	12
Creditor (Days)	42	38	48	106	42	35	35
Asset Turnover (x)	0.9	1.0	1.1	0.6	0.9	1.2	1.4
Leverage Ratio							
Debt/Equity (x)	0.9	1.2	41.4	0.6	0.1	0.1	0.1

Cash Flow Statement

Y/E March	2018	2019	2020	2021	2022	2023E	2024E
(INR m)							
OP/(loss) before Tax	66	-295	-251	-1,115	-321	241	674
Int./Div. Received	8	207	-149	-412	-137	-198	-127
Depreciation & Amort.	753	1,022	1,340	1,212	1,273	1,629	1,771
Interest Paid	-472	-488	-659	-739	-500	-698	-757
Direct Taxes Paid	145	143	78	-12	31	61	170
Inc/(Dec) in WC	-121	57	-291	-244	686	147	315
CF from Operations	1,275	1,223	1,811	679	598	2,163	2,590
Inc/(Dec) in FA	-1,010	-1,299	-840	-143	-932	-1,347	-1,517
Free Cash Flow	266	-76	971	536	-334	815	1,073
Others	42	7	-678	71	30	3,019	2,460
Pur of Investments	3	0	0	0	0	-1,300	-300
CF from Invest.	-965	-1,292	-1,518	-72	-902	371	643
Issue of Shares	478	320	1	1,495	1,844	0	0
Incr in Debt	405	302	876	73	-1,310	182	0
Dividend Paid	-33	-34	-34	0	0	0	0
Others	-778	-836	-1,109	133	-1,832	-2,481	-2,540
CF from Fin. Activity	73	-247	-265	1,700	-1,298	-2,298	-2,540
Incr/Decr of Cash	384	-316	27	2,308	-1,602	236	694
Add: Opening Balance	53	436	120	147	2,455	853	1,089
Closing Balance	436	120	147	2,455	853	1,089	1,783

E: MOFSL Estimates

NOTES

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

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