

Westlife Development

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Strong consecutive beat boosts confidence; maintain Buy

- Q4 is the second consecutive quarter where WLDL's operating performance is 30-50% higher than street estimates and ~20% higher than our estimates. The strong performance was led by a stronger recovery in dine-in sales and better-than-expected margin gains.
- Despite challenges in Q4, dine-in sales recovered fully and convenience sales doubled, leading to 35% growth vs. Q4FY20. Growth was driven by filling portfolio gaps in the meals category with gourmet burgers/fried chicken, as well as omni-channel capabilities.
- EBITDA margins were up 200bps despite a 150bps gross margin decline due to the RM spike. WLDL expects to beat inflation with small price hikes, supply-chain efficiencies and a better mix. It added 10 new stores in Q4 and expects to add 200+ in the next 3-4 years.
- We largely maintain our FY24E EBITDA. WLDL has the potential to deliver a relatively better performance upon unlocking, and consistent H2 performance should boost street confidence. Maintain Buy with a revised TP of Rs650 (based on 28x Jun'24E EBITDA vs. 32x earlier). Multiple cut is led by a 25bps increase in WACC and 3M rollover.

Strong performance with best-ever Q4 revenue/PAT: WLDL reported ~27% growth in revenues, led by 23% SSG and new store additions (up 7% to 326 stores). Compared to Q4FY20, revenue growth was ~35%, led by a complete recovery in the dine-in channel and doubling of convenience sales (48% mix now vs. 32% in Q4FY20). WLDL highlighted that the addition of gourmet burgers/fried chicken has premiumized its portfolio and improved its offerings in the meals category of the Indian informal eating out (IEO) market, while it already has leadership positions in the snack/late-night categories. Upon the full reopening, WLDL has the potential to offer a relatively higher upside, led by incremental contributions from convenience and full dine-in recovery, in our view. While gourmet burgers have been rolled out to the entire network, fried chicken is currently in the southern market with few pilots in the western region. Store additions were robust with 10 net additions in Q4. WLDL expects 35-40 store additions in FY23E and 200+ store additions in the next 3-4 years.

Consistent delivery should boost Street confidence: Pre-IndAS EBITDA margins improved 260bps to 11.8% (vs. ~9% in FY20), despite a RM spike, which affected gross margin by ~150bps. Reported EBITDA margins improved ~200bps to ~16%. WLDL took a relatively smaller hike of 4-5% but expects to maintain its gross margins through other levers such as supply-chain efficiencies and product/channel mix. We believe consistent margin delivery in H2FY22 should build the Street's confidence for continued margin gains.

Attractive valuations vs. peers; maintain Buy: We forecast healthy sales/EBITDA CAGRs of 13%/24% in FY20-25E. The large penetration opportunity, an increased pace of expansion and margin gains keep us optimistic. Valuations at a hefty 25-30% discount to peers make it an attractive long-term bet. Maintain Buy with a revised TP of Rs650 (vs. Rs700 earlier), led by a revised multiple of 28x Pre-IndAS EBITDA (vs. 32x earlier) and 3M rollover to Jun'24E EBITDA. Multiple reduction is driven by 25bps higher WACC.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	9,856	15,760	20,626	24,317	28,436
EBITDA	615	1,888	3,469	4,438	5,390
EBITDA Margin (%)	6.2	12.0	16.8	18.3	19.0
APAT	(1,036)	(17)	826	1,316	1,840
EPS (Rs)	(6.6)	(0.1)	5.3	8.5	11.8
EPS (% chg)	(1,206.3)	0.0	0.0	59.3	39.7
ROE (%)	(19.6)	(0.4)	16.4	21.6	23.9
P/E (x)	(68.3)	(4,250.4)	85.5	53.7	38.4
EV/EBITDA (x)	127.4	42.2	22.8	17.6	12.2
P/BV (x)	14.7	15.3	13.0	10.4	8.2

Source: Company, Emkay Research

CMP	Target Price
Rs 454 as of (May 18, 2022)	Rs 650 (▼) 12 months
Rating	Upside
BUY (■)	43.2 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(6)/6
Target Price change (%)	(7.1)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	5.3	8.5
Consensus	5.9	9.0
Mean Consensus TP (12M)	Rs 605	

Stock Details

Bloomberg Code	WLDL IN
Face Value (Rs)	2
Shares outstanding (mn)	156
52 Week H/L	684 / 402
M Cap (Rs bn/USD bn)	71 / 0.91
Daily Avg Volume (nos.)	1,28,529
Daily Avg Turnover (US\$ mn)	0.8

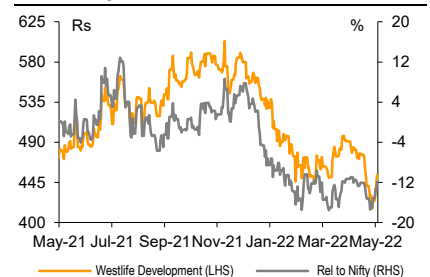
Shareholding Pattern Mar '22

Promoters	57.0%
FIIIs	9.9%
DIIIs	22.8%
Public and Others	10.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	(2)	(21)	(2)
Rel. to Nifty	(1)	4	(13)	(9)

Relative price chart



Source: Bloomberg

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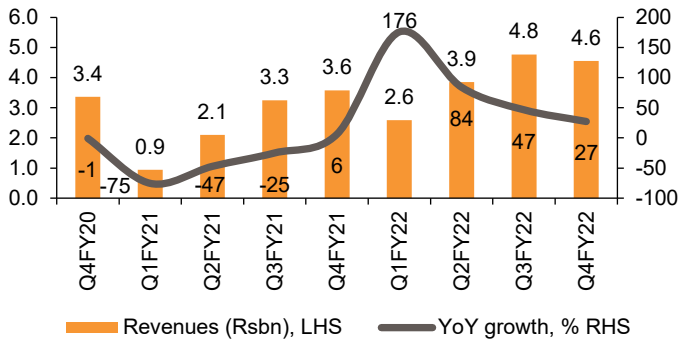
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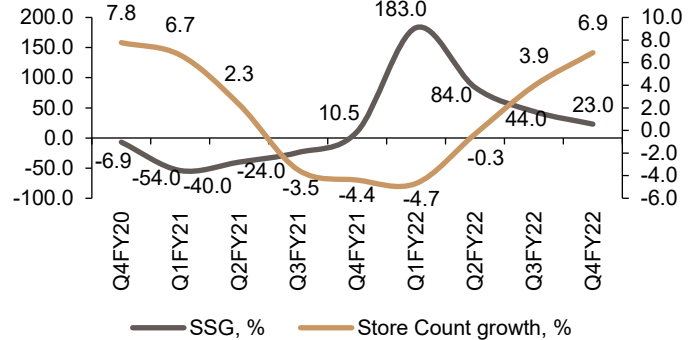
Story in Charts

Exhibit 1: Despite challenges, revenue grew strongly at 27%, led by new product innovations and omni-channel capabilities



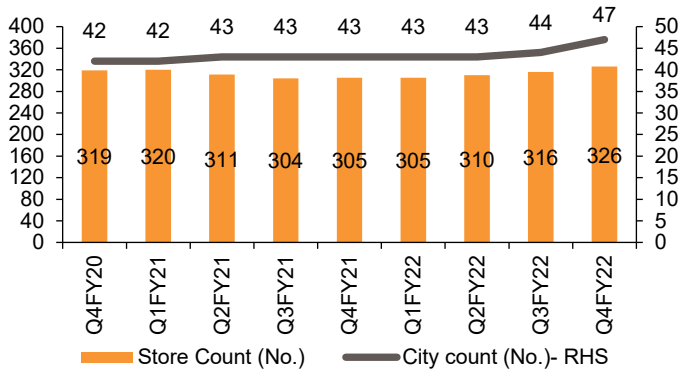
Source: Company, Emkay Research

Exhibit 2: Revenue growth of 27% was led by 23% SSG and rest through new store additions, which were up ~7% to 326



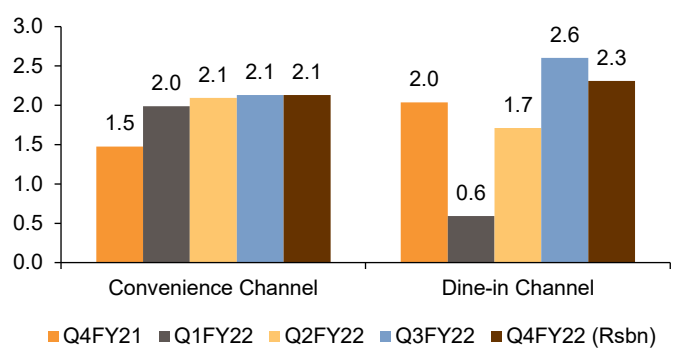
Source: Company, Emkay Research

Exhibit 3: WLDL added 10 stores in Q4FY22 and indicated ~40 additions in FY23E and 200+ stores in next 3-4 years



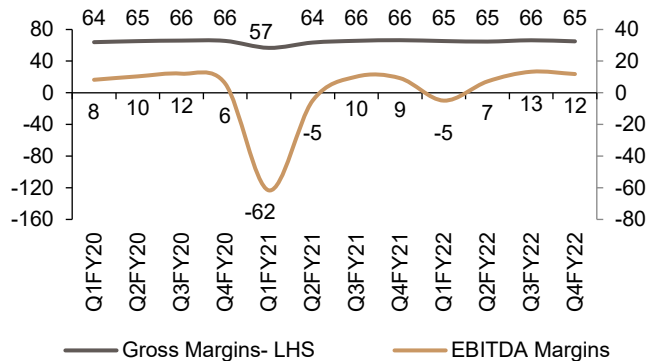
Source: Company, Emkay Research

Exhibit 4: Dine-in channel recovered fully, while convenience channel sales doubled vs. Q4FY20, leading to a ~35% growth



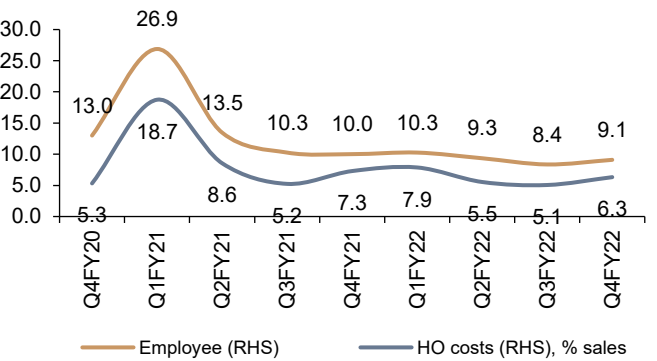
Source: Company, Emkay Research

Exhibit 5: Gross margins declined 150bps due to RM spike; Operating leverage helped improve pre-IndAS EBITDA margins by ~260bps



Source: Emkay Research, Company, *Pre-IndAS116 margins

Exhibit 6: Head-office and employee costs declined ~100bps each and other store expenses decreased 200bps



Source: Emkay Research, Company

Exhibit 7: Actual vs. Estimates (Q4FY22)

Rs mn	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues	4,551	4,394	4,328	3.6%	5.1%	Revenue came in 4-5% higher than our/street estimates
EBITDA	729	600	555	21.3%	31.3%	Operating leverage helped more than offset RM inflation
EBITDA Margin (%)	16.0%	13.7%	12.8%	235	318	
PAT	153	60	103	157.3%	48.7%	EBITDA beat flowed into PAT leading to significant beat

Source: Company, Emkay Research

Exhibit 8: Changes in estimates

Y/E, Mar (Rs mn)	FY23E			FY24E			FY25E
	Earlier	Revised	% Change	Earlier	Revised	% Change	Introduced
Revenues	19,878	20,626	3.8	23,558	24,317	3.2	28,436
EBITDA	3,567	3,469	-2.8	4,386	4,438	1.2	5,390
EBITDA Margin (%)	17.9	16.8	-110 bps	18.6	18.3	-40 bps	19.0
PAT	881	826	-6.2	1,246	1,316	5.7	1,840
EPS (Rs)	5.7	5.3	-6.2	8.0	8.5	5.7	11.8

Source: Company, Emkay Research

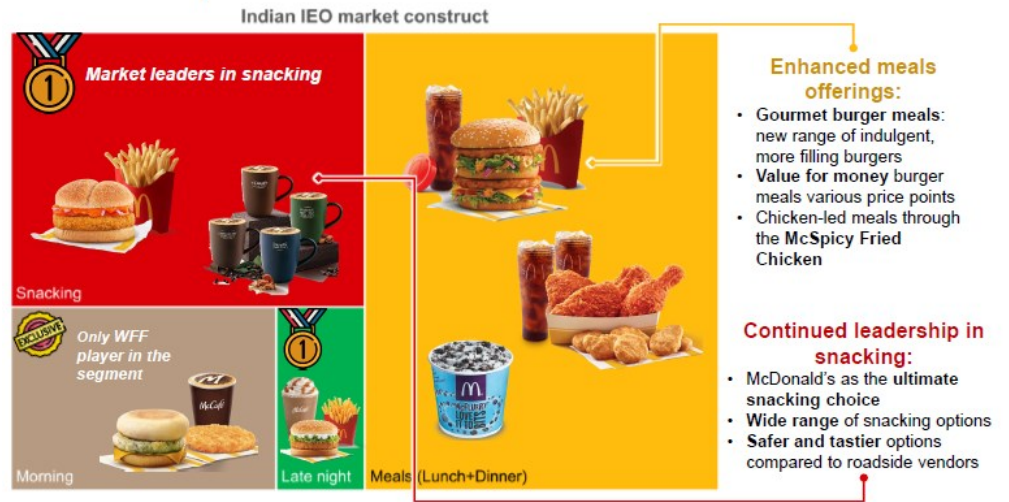
Exhibit 9: Quarterly performance (consolidated)

Y/E, Mar (Rs mn)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	YoY (%)	QoQ (%)	FY21	FY22	YoY (%)
Revenue	3,576	2,592	3,854	4,768	4,551	27.3	-4.6	9,860	15,765	59.9
Expenditure	3,077	2,541	3,397	3,934	3,822	24.2	-2.8	9,241	13,694	48.2
Consumption of RM	1,198	896	1,360	1,603	1,592	32.9	-0.7	3,483	5,451	56.5
as % of sales	33.5%	34.6%	35.3%	33.6%	35.0%			35.3%	34.6%	
Employee Cost-Store	358	266	360	399	414	15.6	3.9	1,226	1,439	17.3
as % of sales	10.0%	10.3%	9.3%	8.4%	9.1%			12.4%	9.1%	
Royalty	161	116	173	216	203	25.8	-6.4	448	708	58.1
as % of sales	4.5%	4.5%	4.5%	4.5%	4.5%			4.5%	4.5%	
Other expenditure	1,099	1,059	1,291	1,474	1,327	20.7	-10.0	3,298	5,150	56.2
as % of sales	30.7%	40.8%	33.5%	30.9%	29.2%			33.4%	32.7%	
HO Costs	261	204	214	241	288	10.2	19.1	787	946	20.3
as % of sales	21.8%	22.8%	15.7%	15.1%	18.1%			22.6%	17.4%	
EBITDA	499	51	457	835	729	46.0	-12.7	619	2,071	234.5
Depreciation	352	332	338	348	347	-1.3	-0.1	1,406	1,365	-2.9
EBIT	147	-281	119	487	381	158.8	-21.7	-786	707	
Other Income	42	64	39	42	41	-2.9	-4.3	452	186	-58.8
Interest	204	203	204	210	209	2.4	-0.8	845	826	-2.3
PBT	-14	-420	-46	319	213			-1,180	67	
Total Tax	19	-112	-15	70	52	171.9	-25.9	-293	-4	
Adjusted PAT	-34	-308	-31	249	161			-887	71	
Extra ordinary items	31	26	13	41	8			76	79	
Reported PAT	-65	-334	-44	208	153			-994	-17	
Reported EPS (Rs)	-0.4	-2.1	-0.3	1.3	1.0			-6.4	-0.1	
Margins (%)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	(bps)	(bps)	FY21	FY22	(bps)
EBITDA	14.0	2.0	11.9	17.5	16.0	210	-150	6.3	13.1	690
EBIT	4.1	-10.8	3.1	10.2	8.4	430	-180	-8.0	4.5	1,250
EBT	-0.4	-16.2	-1.2	6.7	4.7	510	-200	-12.0	0.4	1,240
PAT	-2.1	-13.1	-1.3	5.3	4.0	610	-130	-10.8	-0.1	1,060
Effective Tax rate	-132.4	26.7	31.7	22.1	24.5	15,690	240	24.8	-6.0	-3,080

Source: Company, Emkay Research

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Exhibit 10: Gourmet burgers and fried chicken have enhanced WLDL's offerings in the meal category in the Indian informal eating out industry


Source: Company, Emkay Research

Exhibit 11: Peer Comparison

Companies	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)			EV / EBITDA (x)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
ABFRL	280	263	Buy	400	-1.0	5.5	8.0	NA	50.5	34.6	90.8	27.2	21.4
Jubilant FoodWorks	490	323	Hold	630	6.7	9.0	11.4	73.3	54.2	43.0	39.9	32.6	26.6
Page Industries	42,629	475	Buy	48,200	446.3	664.7	802.7	95.5	64.1	53.1	67.2	45.3	35.7
Titan Company	2,167	1,924	Buy	2,530	25.3	39.0	47.3	85.8	55.5	45.8	54.9	35.2	29.1
Westlife Development	454	71	Buy	650	-0.1	5.3	8.5	NA	83.7	51.8	63.4	27.5	20.8
TCNS Clothing	642	40	Buy	1,070	-1.7	18.6	27.9	NA	34.6	23.0	NA	19.7	13.3
Devyani International	157	189	Buy	210	1.4	2.4	3.0	108.7	64.9	52.8	63.2	40.4	30.2

Source: Company, Emkay Research

Exhibit 12: WLDL: Growth construct of the business from supply side

Particulars	FY25E	FY35E	CAGR (%)	
			FY25-35E	FY35E+
Mc-Donald's stores (#)	446	846	6.6	2.5
SSSG (%)			7.0	5.0
WLDL revenues (Rs bn)	28.4	106.1	14.1	7.6
EBITDA margin (%)	14.8	17.0	1.6	0.0
EBIT margin (%)	9.7	13.0	1.8	0.0
Total EBIT (Rs bn)	2.8	13.8	17.4	7.6

Source: Company, Emkay Research

Exhibit 13: WLDL: Target EV/EBITDA multiple derived from a two-stage dividend growth model

Revenue CAGR [FY22E-25E] (%)	22
EBITDA CAGR [FY22E-25E] (%)	55
Net debt-to-EV (%)	0
Adj. beta vs Nifty (#)	0.75
Stage-1: FY25E-35E	
EBITDA in Yr-0 [FY25E] (Rs)	4.2
EBITDA in Yr-1 (Rs bn)	4.9
EBITDA CAGR (%)	17.5
Years of growth [n]	10.0
Incremental RoIC (%)	35.0
WACC (%)	11.00
Tax rate (%)	25.2
Sustainable D&A-to-EBITDA (%)	25.0
Net debt to EV (%)	0
Implied FCFF ratio (%)	50
Revenues in FY35E (Rs bn)	143
Terminal stage: >FY35E	
Terminal EBITDA growth (%)	7.5
Incremental RoIC (%)	35.0
Implied FCFF ratio (%)	78.6
Fair value EV/EBITDA in Mar'25E (x)	23.7
EV in Mar'25E	117.0
Jun'23 NPV of FCFFs	3.2
Jun'23E EV	100.7
Adj. net debt	0.3
Fair value of Equity in Jun'23E (x)	100
Jun'24E EBITDA	3.6
Implied fair value EV/EBITDA in Jun'23E (x)	28
Target EV/EBITDA in Jun'23E (x)	28
Target market-cap in Jun'23E	100
Target price in Jun'23E (Rs/share)	650

Source: Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	9,856	15,760	20,626	24,317	28,436
Expenditure	9,241	13,873	17,158	19,879	23,046
EBITDA	615	1,888	3,469	4,438	5,390
Depreciation	1,546	1,364	1,568	1,850	2,097
EBIT	(931)	524	1,901	2,588	3,292
Other Income	447	282	116	171	277
Interest expenses	845	826	908	992	1,100
PBT	(1,329)	(21)	1,109	1,767	2,469
Tax	(293)	(4)	283	451	630
Extraordinary Items	42	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	(994)	(17)	826	1,316	1,840
Adjusted PAT	(1,036)	(17)	826	1,316	1,840

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	312	312	311	311	311
Reserves & surplus	4,501	4,309	5,135	6,452	8,291
Net worth	4,812	4,621	5,447	6,763	8,602
Minority Interest	0	0	0	0	0
Loan Funds	9,680	10,546	10,629	10,893	910
Net deferred tax liability	(510)	(520)	(520)	(520)	(520)
Total Liabilities	13,982	14,647	15,555	17,136	8,992
Net block	12,843	13,623	14,197	14,553	4,508
Investment	2,382	1,865	1,865	1,865	1,865
Current Assets	1,246	1,612	2,034	3,653	5,995
Cash & bank balance	110	232	628	2,019	4,100
Other Current Assets	114	131	150	173	199
Current liabilities & Provision	2,744	2,809	2,896	3,291	3,731
Net current assets	(1,498)	(1,196)	(862)	362	2,264
Misc. exp	0	0	0	0	0
Total Assets	13,982	14,647	15,555	17,136	8,992

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	(1,735)	(303)	993	1,596	2,192
Other Non-Cash items	0	0	0	0	0
Chg in working cap	554	(179)	61	166	180
Operating Cashflow	1,206	1,703	3,247	4,153	4,940
Capital expenditure	(515)	(1,102)	(1,442)	(1,506)	(1,570)
Free Cash Flow	691	600	1,805	2,647	3,370
Investments	(414)	480	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(482)	(340)	(1,326)	(1,335)	(1,293)
Equity Capital Raised	0	0	(1)	0	0
Loans Taken / (Repaid)	315	(142)	(500)	(300)	(300)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	(790)	(940)	(884)	(1,019)	(1,180)
Financing Cashflow	(645)	(1,240)	(1,526)	(1,427)	(1,565)
Net chg in cash	80	122	396	1,390	2,082
Opening cash position	30	110	232	628	2,019
Closing cash position	110	232	628	2,019	4,100

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	6.2	12.0	16.8	18.3	19.0
EBIT Margin	(9.4)	3.3	9.2	10.6	11.6
Effective Tax Rate	22.1	19.4	25.5	25.5	25.5
Net Margin	(10.5)	(0.1)	4.0	5.4	6.5
ROCE	(3.3)	5.6	13.4	16.9	27.3
ROE	(19.6)	(0.4)	16.4	21.6	23.9
RoIC	(6.0)	3.6	11.4	15.1	31.5

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	(6.6)	(0.1)	5.3	8.5	11.8
CEPS	3.3	8.6	15.4	20.4	25.3
BVPS	30.9	29.6	35.0	43.5	55.3
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	(68.3)	(4,250.4)	85.5	53.7	38.4
P/CEPS	145.0	54.9	30.8	23.3	18.7
P/BV	14.7	15.3	13.0	10.4	8.2
EV / Sales	8.0	5.1	3.9	3.2	2.3
EV / EBITDA	127.4	42.2	22.8	17.6	12.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	1.6	1.9	1.6	1.1	(0.5)
Net Debt/EBIDTA	12.3	4.7	2.4	1.7	(0.9)
Working Cap Cycle (days)	(59.6)	(33.1)	(26.4)	(24.9)	(23.6)

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(36.3)	59.9	30.9	17.9	16.9
EBITDA	(72.0)	207.2	83.8	27.9	21.4
EBIT	(223.8)	0.0	263.0	36.1	27.2
PAT	0.0	0.0	0.0	59.3	39.7

Quarterly (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue	3,576	2,592	3,854	4,768	4,551
EBITDA	499	51	457	835	729
EBITDA Margin (%)	14.0	2.0	11.9	17.5	16.0
PAT	(65)	(334)	(44)	208	153
EPS (Rs)	(0.4)	(2.1)	(0.3)	1.3	1.0

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	58.0	56.4	57.1	57.1	57.0
FIs	10.8	11.6	11.0	10.7	9.9
DIs	20.8	20.9	22.0	22.7	22.8
Public and Others	10.4	11.2	9.8	9.4	10.2

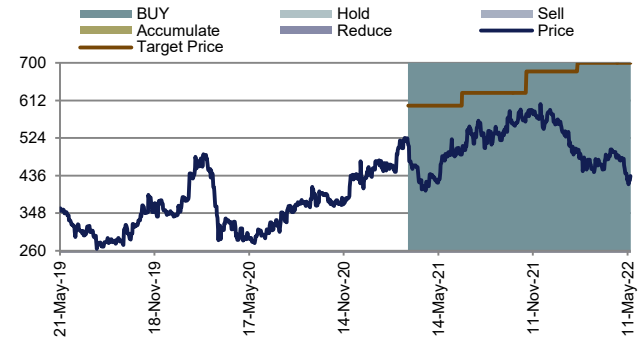
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
08-Apr-22	497	700	12m	Buy	Ashit Desai
04-Feb-22	497	700	12m	Buy	Ashit Desai
29-Oct-21	580	680	12m	Buy	Ashit Desai
15-Aug-21	512	630	12m	Buy	Ashit Desai
28-Jun-21	489	630	12m	Buy	Ashit Desai
14-May-21	428	600	12m	Buy	Ashit Desai
17-Mar-21	508	600	12m	Buy	Ashit Desai

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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