

Restaurant Brands Asia

Estimate change	↔
TP change	↔
Rating change	↔



Bloomberg	RBA IN
Equity Shares (m)	493
M.Cap.(INRb)/(USD\$)	60.8 / 0.8
52-Week Range (INR)	176 / 87
1, 6, 12 Rel. Per (%)	-1/-11/-37
12M Avg Val (INR M)	224

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	14.9	22.5	29.1
Sales Gr. (%)	48.4	51.1	29.0
EBITDA	1.0	2.5	4.4
Pre-INDAS EBITDA	0.2	1.2	2.9
Margins (%)	6.5	11.0	15.2
Adj. PAT	-2.1	-0.8	0.5
Adj. EPS (INR)	-4.3	-1.5	1.0
EPS Gr. (%)	N/M	N/M	L/P
BV/Sh.(INR)	21.7	20.1	21.2

Ratios

RoE (%)	-19.6	-7.7	4.9
RoCE (%)	-7.7	0.4	6.9

Valuation

P/E (x)	N/M	N/M	117.6
P/BV (x)	5.7	6.1	5.8
EV/EBITDA (x)	61.4	24.9	13.8
EV/Pre-IND AS EBITDA (x)	395.6	50.8	21.5

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	40.9	41.0	52.6
DII	8.9	7.7	5.0
FII	27.1	28.8	17.2
Others	23.1	22.6	25.3

FII Includes depository receipts

CMP: INR123 TP: INR160 (+30%) Buy

Sales momentum encouraging, higher marketing spends impact margin

- The recovery in average daily sales (ADS) in 1QFY23 was better than our estimate, leading to better than expected sales growth. While gross margin was in line, unusually high marketing spends, which will normalize going forward, pulled down its EBITDA performance.
- With ADS rising further in Jul'22 (INR131k) v/s INR120k in 1QFY23, the sales momentum in India remains encouragingly strong. The management sees possible upgrades to its SSSG guidance of 25% for the India business in FY23. It maintained the likelihood of a full recovery in Indonesia ADS by Sep'22. The ADS recovery in the Indonesia business stood at 78% in Jul'22 v/s 69% at the end of 1QFY23.
- The response to BK Café has been good, and the management is targeting 250 outlets by the end of FY23 as compared to its earlier guidance of 200.
- We maintain our **Buy** rating on the stock.

Higher sales and gross profit; increase in marketing spends led to a miss on operating profit

Standalone performance

- RBA reported a sales growth of 125% YoY and 25.4% QoQ to INR3.4b (est. INR3.1b) in 1QFY23.
- RBA opened 13 Burger King stores in India, taking its total store count to 328 at the end of 1QFY23. It aims to open 390 stores by the end of FY23. At present, 19/40 Restaurants are under construction/in the pipeline.
- Gross margin rose 120bp YoY and 30bp QoQ to 66.4% (in line).
- Restaurant EBITDA margin grew 410bp YoY to 14.8%.
- Reported EBITDA stood at INR332m (est. INR361m) v/s INR15m YoY.
- Reported EBITDA margin came in at 9.9% v/s 1% YoY and 11.3% QoQ.
- Net loss narrowed to INR227m from a loss of INR444m in 1QFY22.

Indonesia business

- Sales grew 3% YoY and 16.2% QoQ to INR1,523m.
- ADS recovery stood at 69% over FY20 levels and touched 78% in Jul'22.
- Gross margin came in at 59.9%, up 140bp over FY22 levels. The management has guided at a further 100bp improvement in FY24.
- Losses at the EBIT level narrowed to INR40m from a loss of INR100m in 4QFY22 (v/s a profit of INR93m in 1QFY22).
- Popeyes: The management expects to launch its first restaurant by the end of CY22 and plans to open 300 more over the next 10 years.

Highlights from the management commentary

- The management maintained its 25% SSSG guidance for FY23, but said it is likely to upgrade its guidance in 2Q.
- The ADS of INR120k in 1QFY23 is the best in several quarters. The same in Jul'22 was even better at INR131k. It will initially journey towards INR150k per day and then eventually to INR200k per day.

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- It will end FY23 with 390 Burger King stores in India (from 328 at the end of 1QFY23), with 250 BK Cafés. The management had earlier guided at 200 Burger King Cafes by the end of FY23.
- Indonesia: RBA has completed signing of the master franchise agreement and will now operate the Popeyes brand in Indonesia. It has already deposited USD5m in a stipulated account as per its contract. The management has committed to opening 300 restaurants over the next 10 years.
- Indonesia: Gross margin, restaurant operating margin, and EBITDA margin are improving gradually. Once ADS returns back to pre-COVID levels, the management said it will focus on expansion.

Valuation and view

- There is no material change in our FY23 and FY24 EBITDA forecasts as the EBITDA margin miss in 1QFY23 will be offset by better than anticipated sales growth ahead.
- As indicated in our [detailed note in Mar'22](#) and our [4QFY22 results note](#), in which we moved towards consolidated numbers, RBA seems well-placed to deliver a strong domestic growth. BK Café is likely to be the key growth driver going forward. Along with rapid revenue growth, it is geared up to deliver an EBITDA margin expansion, led by: a) continued recovery in dine-in, b) the addition of BK Café, and c) cost-saving initiatives. As more and more stores mature, the declining contribution of new stores in the network will help reduce the margin drag. The Indonesia business is likely to witness a healthy revenue growth and margin expansion from 2HFY23.
- RBA now trades at a significant discount to its QSR peers. We, therefore, retain our Buy rating on the stock with a SoTP-based TP of INR160 (from INR150 earlier), premised on a Jun'24E EV/EBITDA (pre-Ind AS 116) of 32x/10x for its India/Indonesia business. Since RBA is still in an early investment phase, with lower profitability, we value its domestic business at a discount of ~20% to JUBI's target multiple.

Quarterly standalone performance

Quarterly standalone performance											(INR m)	
Y/E March									FY22	FY23E	FY23	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
SSSG (%)	270.0	140.0	65.0	17.0	66.0	20.0	25.0	35.0	70.0	49.5	90.0	
No. of stores	270	274	294	315	328	346	365	385	315	385	333	
Net Sales	1,497	2,454	2,799	2,687	3,369	3,705	4,058	4,107	14,903	22,523	3,144	7.2
YoY change (%)	-72.7	153.7	71.5	37.1	125.0	51.0	45.0	52.9	48.4	51.1	110.0	
Gross Profit	976	1,605	1,849	1,776	2,236	2,483	2,727	2,765	9,406	14,581	2,091	6.9
Margin (%)	65.2	65.4	66.1	66.1	66.4	67.0	67.2	67.3	63.1	64.7	66.5	
EBITDA	15	256	328	302	332	446	637	551	966	2,476	361	-7.9
EBITDA growth %	L/P	7,973.2	115.9	23.6	2,064.8	74.1	94.2	82.2	287.3	156.2	L/P	
Margin (%)	1.0	10.4	11.7	11.3	9.9	12.0	15.7	13.4	6.5	11.0	11.5	
Depreciation	329	334	344	351	461	470	500	550	2,336	2,670	370	
Interest	167	167	168	178	196	190	210	247	954	843	180	
Other Income	37	43	32	94	97	60	55	64	224	276	35	
PBT	-444	-202	-152	-132	-227	-154	-18	-182	-2,099	-761	-154	N/M
Tax	0	0	0	0	0	0	0	0	0	0	0	
Rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Adjusted PAT	-444	-202	-152	-132	-227	-154	-18	-182	-2,099	-761	-154	N/M
YoY change (%)	-	-	-	-	-	-	-	-	-	-	-	

E: MOFSL Estimates

Quarterly numbers will not add up to full year numbers as full year numbers are consolidated numbers

Key Performance Indicators

Y/E March	FY22				
	1Q	2Q	3Q	4Q	1Q
ADS (INR '000)	74	104	114	104	120
Restaurant EBITDA margin (%)	10.7	16.6	17.2	17.8	14.8
2Y CAGR (%)					
Sales	-16.0	8.1	10.8	18.6	-21.6
EBITDA	-78.3	2.6	12.2	20.3	-73.8
PAT	-	-	-	-	-
% of Sales					
COGS	34.8	34.6	33.9	33.9	33.6
Operating Expenses	64.1	55.0	54.3	54.8	56.5
Depreciation	21.9	13.6	12.3	13.0	13.7
YoY change (%)					
COGS	259.1	145.0	61.1	34.9	117.3
Operating Expenses	96.1	118.5	70.8	41.6	98.2
Other Income	-342.5	-69.3	-74.9	175.5	163.3
EBIT	-106.9	-74.5	-91.4	-35.0	-58.9

**Highlights from the management commentary****Performance and outlook**

- Management maintained 25% SSSG guidance for FY23 and is likely to upgrade guidance in 2QFY23.
- The ADS of INR120k in 1QFY23 is best in several quarters. Jul'22 ADS was even better at 131k. This journey will gradually be towards INR200k per day.
- 129 BK cafes are open as of now. In the last 43 days they have opened a café a day. Cafes are contributing around 7% to incremental revenues or around INR10k from ADS perspective.
- Indonesia witnessed 78% recovery in Jul'22 v/s 69% at the end of 1QFY23. Likely recovery to Pre Covid levels should be by Sept'22.

Expansion and new launches

- They will end the year with 390 stores (328 at the end of 1QFY23) with 250 BK cafes. Earlier guidance of BK Cafes was 200 for the year.
- Indonesia – They completed the signing of Popeye license in Indonesia and have deposited USD5m. They are committed to 300 restaurants in 10 years.
- It has re-launched Whopper in Nov'21 and new Kings Collection in Apr'22. Witnessing double volumes over pre covid period in these categories.
- Economy segment - Stunner menu (INR50-INR70) is doing very well. Higher marketing spend (Hrithik Roshan campaign) was incurred in 1QFY23.
- BK App has close to 4m installation.

Cost and margin

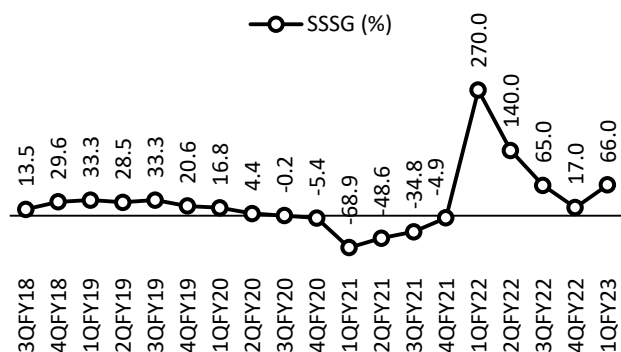
- Gross margins were maintained sequentially despite material cost pressure.
- 220bp impact of unusually higher ad-spends, which won't be there in subsequent quarters.
- Staff costs were higher than usual because of café openings and breakfast offerings however the same will normalize going forward.
- Company level pre-Ind AS EBITDA margins in India is targeted at 6-7% in FY23 and double digit in FY24.
- Gross margins are similar for delivery and dine in.

Indonesia business

- Indonesia has very high eating out proportion, 16-17x a month generally.
- The recovery from COVID is generally one quarter later than India. Mall based stores access is still restricted as booster shot vaccination is required to enter the mall.
- Pre-COVID ADS was INR 135K and Jul'22 exit was INR 105k.
- Gross margins, restaurant operating margins and EBITDA margins are improving gradually.
- **Key focus areas**
 - Innovation - Both on core and new
 - Strong play on value - new launches 30% cheaper than competition
 - Working on day parts - Breakfast, BK Café and 24 hour menu
 - Strong inroads on digital - Only QSR brand in Indonesia to have evolved loyalty program called BK Crown
- 13% EBITDA margins in Indonesia business can be possible v/s 11-12% in pre Covid period.
- Skew towards FSDT (Free Standing Drive Through stores) is being emphasized from mall based stores earlier. ADS is higher and rentals lower for FSDT.
- Coffee culture in Indonesia is unmatched and hence there is very good potential for BK cafe.

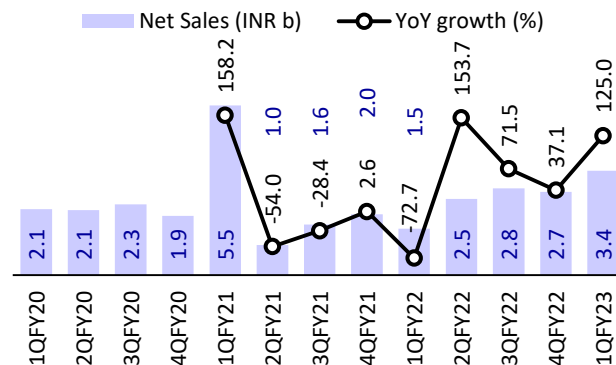
Key exhibits

Exhibit 1: SSSG likely stood at 66% in 1QFY23



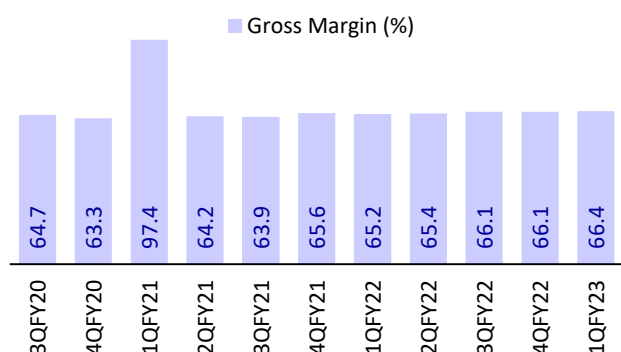
Source: Company, MOFSL

Exhibit 2: Net sales grew 125% YoY to INR3.4b in 1QFY23



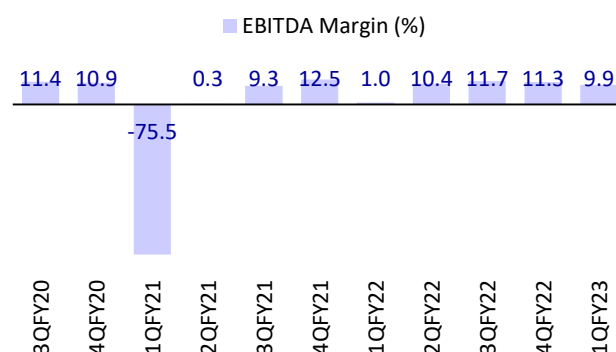
Source: Company, MOFSL

Exhibit 3: Gross margin expands by 120bp YoY to 66.4% in 1QFY23



Source: Company, MOFSL

Exhibit 4: EBITDA margin stood at 9.9% in 1QFY23



Source: Company, MOFSL

Valuation and view

- There is no material change in our EBITDA forecasts for FY23E and FY24E as EBITDA margin miss for the quarter is offset by better than anticipated sales growth ahead.
- As indicated in our [detailed note in Mar'22](#) and our [4QFY22 results note](#) in which we moved towards consolidated numbers, RBA seems well-placed to deliver strong domestic growth. BK Café is likely to be the key growth driver going forward. Along with rapid revenue growth, RBA is geared up to deliver an EBITDA margin expansion, led by: a) continued recovery in dine-in, b) the addition of BK Café, and c) cost saving initiatives. As more and more stores mature, the declining contribution of new stores in the network will help reduce the margin drag. The Indonesia business is likely to witness a healthy revenue growth and margin expansion from 2HFY23.
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Financials and valuations

Consolidated income Statement

	(INR m)			
Y/E March	2021	2022	2023E	2024E
Net Sales	10,040	14,903	22,523	29,060
Change (%)	19.3	48.4	51.1	29.0
Material Consumed	3,968	5,497	7,942	9,958
Gross Profit	6,072	9,406	14,581	19,102
Gross Margin %	60.5	63.1	64.7	65.7
Operating expenses	5,822	8,439	12,105	14,675
EBITDA	250	966	2,476	4,427
Change (%)	-76.0	287.3	156.2	78.8
Margin (%)	2.5	6.5	11.0	15.2
Depreciation	2,289	2,336	2,670	3,194
Int. and Fin. Ch.	1,044	954	843	994
Other Non-recurring Inc.	341	224	276	304
PBT	-2,744	-2,099	-761	543
Change (%)	N/M	N/M	N/M	L/P
Margin (%)	-27.3	-14.1	-3.4	1.9
Tax	0	0	0	27
Tax Rate (%)	0.0	0.0	0.0	5.0
Adjusted PAT	-2,744	-2,099	-761	516
Change (%)	N/M	N/M	N/M	L/P
Margin (%)	-27.3	-14.1	-3.4	1.8
Non-rec. (Exp)/Inc.	-77	-252	0	0
Reported PAT	-2,821	-2,351	-761	516

Balance Sheet

	(INR m)			
Y/E March	2021	2022	2023E	2024E
Share Capital	3,830	4,927	4,927	4,927
Reserves	-2,981	5,478	4,717	5,233
Minority Interest	252	277	277	277
Net Worth	1,101	10,682	9,922	10,438
Loans	2,444	1,419	1,419	1,419
Lease Liabilities	6,569	7,449	8,687	10,146
Capital Employed	10,114	19,551	20,028	22,003
Gross Block	21,499	24,896	29,671	35,487
Less: Accum. Depn.	7,593	9,760	12,431	15,625
Net Fixed Assets	13,906	15,135	17,240	19,862
ROU Asset	0	0	0	0
Capital WIP	475	181	181	181
Investments	1,243	4,023	3,620	3,258
Deferred tax assets	0	0	0	0
Curr. Assets, L&A	4,010	4,483	2,714	3,342
Inventory	196	228	370	478
Account Receivables	86	134	196	246
Cash and Bank Balance	2,777	2,772	597	835
Others	951	1,349	1,551	1,783
Curr. Liab. and Prov.	9,520	4,271	3,727	4,640
Other Current Liabilities	6,538	1,187	1,305	1,566
Creditors	2,456	2,587	1,851	2,388
Provisions	527	497	571	685
Net Curr. Assets	-5,510	213	-1,013	-1,298
Appl. of Funds	10,114	19,551	20,028	22,003

E: MOFSL Estimates

Financials and valuations

Ratios - Standalone

Y/E March	2021	2022	2023E	2024E
Basic (INR)				
EPS	-7.2	-4.3	-1.5	1.0
BV/Share	2.9	21.7	20.1	21.2
DPS	0.0	0.0	0.0	0.0
Payout %	0.0	0.0	0.0	0.0
Valuation (x)				
P/E	N/M	N/M	N/M	117.6
EV/Sales	4.7	4.0	2.7	2.1
EV/EBITDA	187.8	61.4	24.9	13.8
P/BV	42.9	5.7	6.1	5.8
Return Ratios (%)				
RoE	-249.3	-19.6	-7.7	4.9
RoCE	-16.3	-7.7	0.4	6.9
RoIC	-26.5	-15.1	-1.4	7.0
Working Capital Ratios				
Debtor (Days)	3	3	3	3
Inventory (Days)	7	6	6	6
Creditor (Days)	89	63	30	30
Asset Turnover (x)	1.0	0.8	1.1	1.3
Leverage Ratio				
Debt/Equity (x)	2.2	0.1	0.1	0.1

Cash Flow Statement - Standalone

Y/E March	2021	2022	2023E	2024E
(INR m)				
OP/(loss) before Tax	-2,821	-2,352	-761	543
Int./Div. Received	-530	32	-276	-304
Depreciation & Amort.	2,367	2,364	2,670	3,194
Interest Paid	-1,003	-864	-843	-994
Direct Taxes Paid	22	54	0	27
Inc/(Dec) in WC	-484	162	949	-523
CF from Operations	480	692	1,527	4,922
Inc/(Dec) in FA	-678	-1,379	-4,775	-5,816
Free Cash Flow	-198	-687	-3,248	-894
Others	273	-5,805	1,386	1,414
Pur of Investments	-1,042	-2,723	402	362
CF from Invest.	-1,448	-9,907	-2,987	-4,040
Issue of Shares	5,622	13,585	0	0
Incr in Debt	-985	-1,116	1,238	1,459
Dividend Paid	0	0	0	0
Others	-1,070	-1,346	-1,952	-2,104
CF from Fin. Activity	3,568	11,123	-715	-644
Incr/Decr of Cash	2,600	1,908	-2,175	238
Add: Opening Balance	176	865	2,772	597
Closing Balance	2,777	2,772	597	835

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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