

August 12, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		UNDER REVIEW	
Target Price	148		-	
Sales (Rs. m)	14,536	19,136	14,013	18,507
% Chng.	3.7	3.4		
EBITDA (Rs. m)	1,998	3,039	2,111	3,047
% Chng.	(5.4)	(0.3)		
EPS (Rs.)	(1.0)	(0.4)	(0.3)	0.3
% Chng.	238.7	(268.3)		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	4,945	9,814	14,536	19,136
EBITDA (Rs. m)	150	1,017	1,998	3,039
Margin (%)	3.0	10.4	13.7	15.9
PAT (Rs. m)	(1,662)	(831)	(506)	(211)
EPS (Rs.)	(4.3)	(1.7)	(1.0)	(0.4)
Gr. (%)	66.9	(61.2)	(39.0)	(58.3)
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(35.0)	(6.3)	(2.6)	(1.1)
RoCE (%)	(19.6)	(2.5)	0.6	3.6
EV/Sales (x)	8.9	5.7	4.0	3.1
EV/EBITDA (x)	292.0	54.6	29.0	19.3
PE (x)	(28.4)	(73.1)	(119.9)	(287.4)
P/BV (x)	7.0	3.1	3.2	3.2

Key Data

RESR.BO | RBA IN

52-W High / Low	Rs.176 / Rs.87
Sensex / Nifty	59,463 / 17,698
Market Cap	Rs.61bn/ \$ 763m
Shares Outstanding	493m
3M Avg. Daily Value	Rs.105.29m

Shareholding Pattern (%)

Promoter's	40.91
Foreign	27.06
Domestic Institution	8.92
Public & Others	23.11
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.0	(8.7)	(28.4)
Relative	(1.2)	(10.8)	(33.9)

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BK India on track; Accumulate for long term

Quick Pointers:

- On track to achieve 390 stores for BK India and 250 BK café by end FY23.
- Success of BK café, Breakfast Menu and Innovations in existing portfolio (Whopper and Stunner) key to ADS growth.

Restaurant Brands Asia (RBA) reported in-line revenues but missed on margins mainly due to higher ad spends & increase in operating expenses due to aggressive opening of Burger King stores and BK cafe. ADS has moved up from Rs 104k in 4Q22 to Rs 120k in 1Q23 and July trends at Rs 131k looks encouraging. India dine-in is expected to be stabilize at 60-65% of sales mix. Indonesia operations reported 71% recovery to Pre covid levels with 78% recovery in July. Indonesia reported sales of Rs1.52bn and Pre IND AS EBIDTA loss of Rs135mn. Accelerated ramp up of BK Café in FY23 to 250 (vs 200 earlier) and increase in consumer occasions for breakfast in non-peak hours will boost ADS/store. Sustained normalcy in operations (no covid wave) will continue to further drive ADS in coming quarters.

We expect RBA to capitalize on growth opportunities on account of strong competitive advantages like 1) sharp focus on store opening with target of 390/475 stores by FY23/FY24 and 700 by CY26 (328 in 1Q23), 2) consumer acceptance of Stunner Menu and new innovations in Whopper 3) fixed royalty at 5% 4) sustained traction on the BK App resulting in 3.7mn downloads 5) success of BK café with wide menu options. We believe Indonesia business as a whole will take time to turnaround due to delay in post covid recovery and initial losses in Popeyes (300 stores in 10 years). We value the company at Rs 148 (from NA earlier) on SOTP basis & assign a rating of ACCUMULATE (Under Review earlier) for long term gains.

1Q23 SSSG of 66% over 1Q23 ADS: India revenues grew by 125% YoY to Rs3.4bn. Gross margins expanded by 119bps YoY & 27 bps QoQ to 66.4%. EBITDA grew by 2064.8% YoY to Rs332.3mn; Margins expanded 884bps YoY however declined 139 bps QoQ to 9.9%. Loss stood at Rs 227mn in 1Q23 Vs Rs 444mn in 1Q22. SSSG stood at 66% over 1Q22 ADS & 21% over FY22ADS. Added 13 stores in 1Q23 taking total store count to 328. 51 BK Café opened in 1Q23 taking total to 86 BK Café as on Jun'22 and 129. **Indonesia** revenues grew by 3% YoY & 16.2% QoQ to Rs1.5bn. Gross margins expanded by 237bps YoY & 140 bps QoQ to 59.9%. EBITDA loss for 1Q23 stood at Rs 40mn vs profit of Rs 93mn in 1Q22.

Concall Takeaways: 1) India business has seen 20% dine-in traffic growth since latest marketing campaign. 2) Upped store/BK café guidance to 390/250 for FY23. 3) 140 stores in India are under 1-year-old & will move into higher margin trajectory as the stores mature. 4) Indonesia rest EBITDA margin expansion would be largely dependent on increased traffic coupled with higher mix FSDT stores. 5) FSDT stores have lower rents & higher profitability. 6) Indonesia mall stores have Rs 140k ADS vs FSDT which Rs 180k ADS. 7) Indonesia business expects to get back to pre-COVID ADS of Rs 135k by Sept'22 exit.

Exhibit 1: 1QFY23 Results – India Net sales up 125%, Margins declined by 139bps QoQ

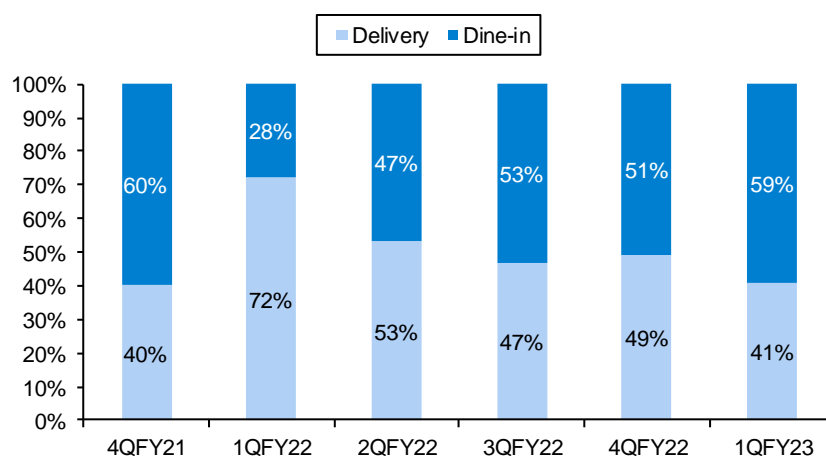
(Rs mn)	1QFY23	1QFY22	YoY %	4QFY22	FY22	FY21	YoY %
Net Sales	3,369	1,497	125.0	2,687	9,437	4,945	90.9
Gross Profit	2,236	976	129.2	1,776	6,206	3,188	94.7
<i>% of NS</i>	<i>66.4</i>	<i>65.2</i>	<i>1.2</i>	<i>66.1</i>	<i>65.8</i>	<i>64.5</i>	<i>1.3</i>
EBITDA	332	15	2,064.8	302	902	150	501.7
<i>Margins %</i>	<i>9.9</i>	<i>1.0</i>	<i>8.8</i>	<i>11.3</i>	<i>9.6</i>	<i>3.0</i>	<i>6.5</i>
Depreciation	461	329	40.3	351	1,357	1,275	6.4
Interest	196	167		178	680	821	
Other Income	97	37	163.3	94	205	285	(27.9)
PBT	(227)	(444)	(48.7)	(132)	(929)	(1,662)	(44.1)
Tax	-	-		-	-	-	
<i>Tax rate %</i>	<i>0.0</i>	<i>0.0</i>	<i>-</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>-</i>
Adjusted PAT	(227)	(444)	(48.7)	(132)	(929)	(1,662)	(44.1)

Source: Company, PL

Exhibit 2: 1QFY23 Results – Indonesia Net Sales grew 3%; Margins declined by 500bps QoQ

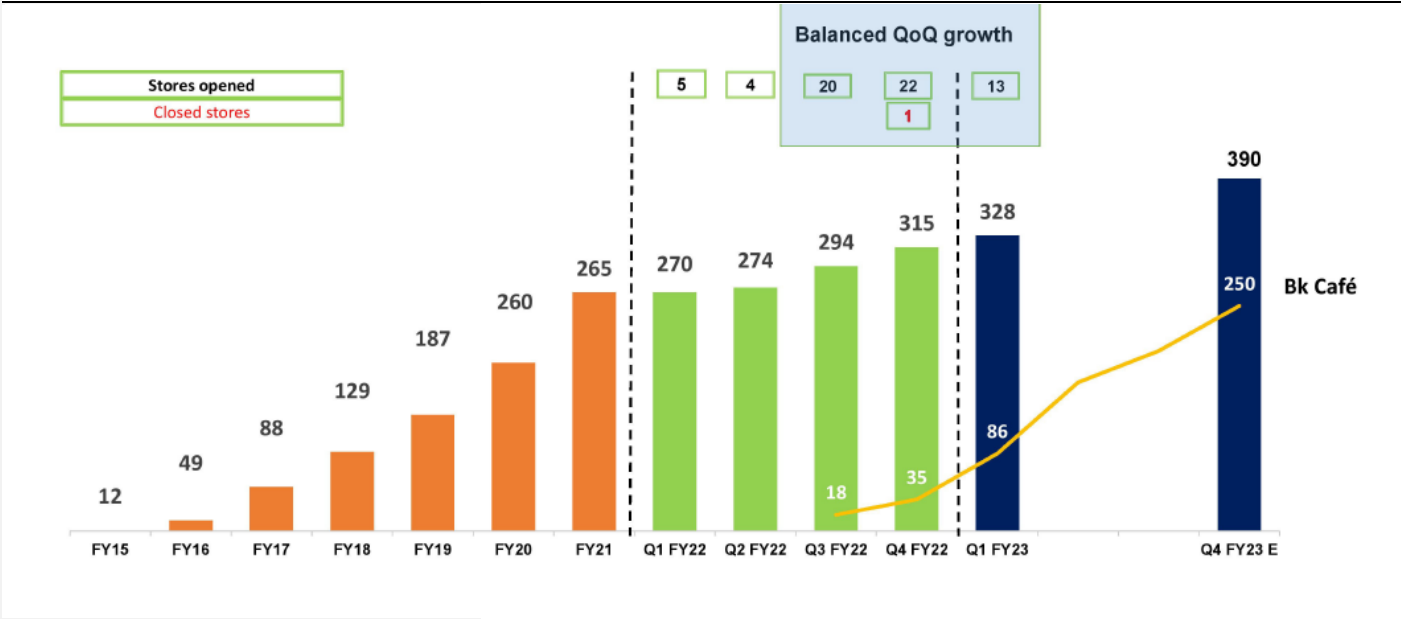
(Rs mn)	1QFY23	1QFY22	YoY %	4QFY22	FY22	FY21	YoY %
Net Sales	1,523	1,479	3.0	1,311	5,466	5,095	7.3
Gross Profit	912	850	7.2	767	3,199	2,883	10.9
<i>% of NS</i>	<i>59.9</i>	<i>57.5</i>	<i>2.4</i>	<i>58.5</i>	<i>58.5</i>	<i>56.6</i>	<i>1.9</i>
EBITDA	-40	93	(143.1)	-100	64	100	(36.2)
<i>Margins %</i>	<i>(2.6)</i>	<i>6.3</i>	<i>(8.9)</i>	<i>(7.6)</i>	<i>1.2</i>	<i>2.0</i>	<i>(0.8)</i>
Depreciation	239	246	(3.0)	240	979	1,014	(3.4)
Interest	36	62	(42.5)	93	274	223	22.8
Other Income	33	11	190.9	2	19	56	(65.8)
PBT	(282)	(204)	38.0	(431)	(1,170)	(1,082)	8.2
Tax	-	-		-	-	-	
<i>Tax rate %</i>	<i>0.0</i>	<i>0.0</i>	<i>-</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>-</i>
Adjusted PAT	(282)	(204)	38.0	(431)	(1,170)	(1,082)	8.2

Source: Company, PL

Exhibit 3: Dine-in Sales at 59% during 1QFY23


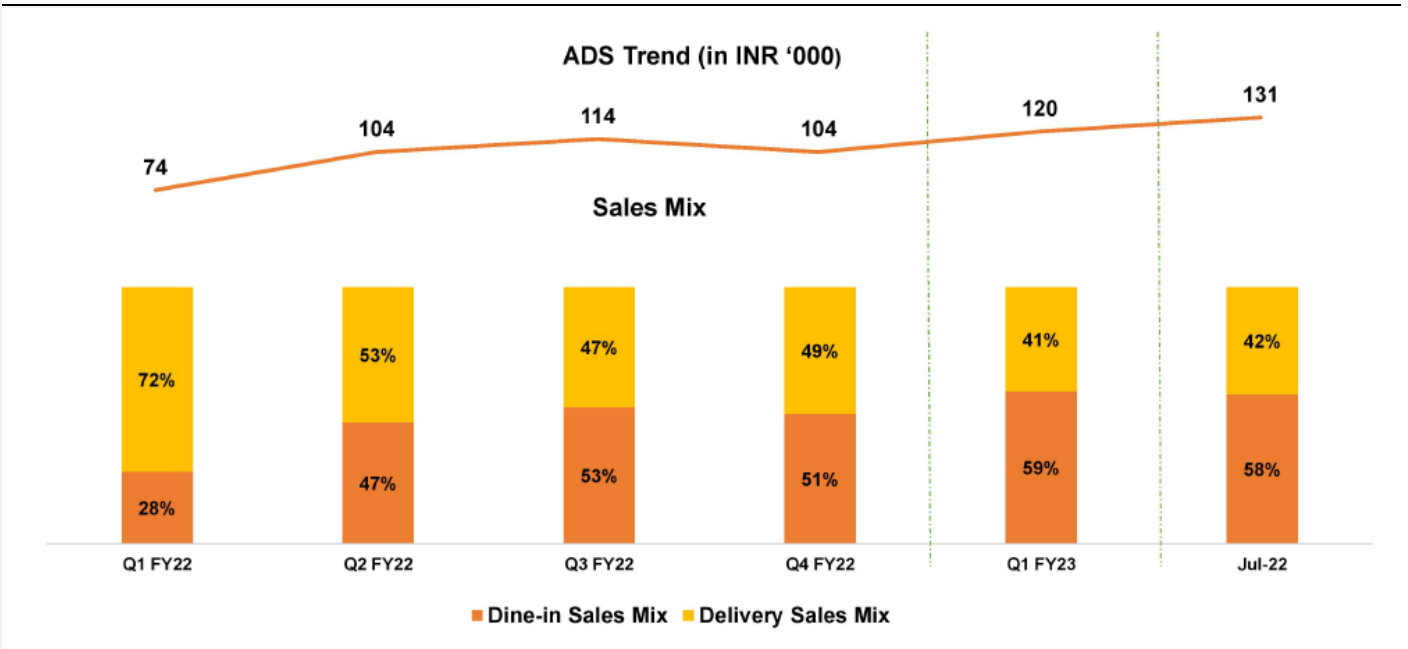
Source: Company, PL

Exhibit 4: Total store count at 328 in 1QFY23 and to reach 390 by 4QFY23



Source: PL, Company

Exhibit 5: ADS trends higher in 1QFY23 due to recedence of COVID



Source: PL, Company

Exhibit 6: Growth levers for India business

<p>Strong Value Proposition</p>	<p>Differentiated and Relevant Menu</p>	<p>Incremental Occasions And Dayparts</p> <p>BK CAFÉ by BURGER KING</p>	<p>Digital Delivery Ecosystem</p>
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Source: Company, PL

Exhibit 7: Opened 51 BK Café in 1QFY23; targets 250 BK Café by FY23

- Opened 51 BK Cafés in Q1 FY23
- High Visibility Inputs in Café Trade Areas
- ~7% uplift in ADS in Restaurants with BK Café
- Scale Up Phase
 - Continue to push awareness and trials in BK Café
 - Driving breakfast daypart

BK CAFÉ	
Hot Brews	Cold Blast
Cappuccino Small ₹ 139 ₹ 169	Classic Cold Coffee ₹ 179
Mocha Cappuccino Small ₹ 159 ₹ 189	Mocha Frappe ₹ 209
Caramel Cappuccino Small ₹ 159 ₹ 189	Caramel Frappe ₹ 209
Hazelnut Cappuccino Small ₹ 159 ₹ 189	Hazelnut Frappe ₹ 209
Latte Small ₹ 139 ₹ 169	Thick Shakes
Hot Chocolate ₹ 149	Berry Blast/Chocolate/Mango ₹ 159
Espresso Small ₹ 89 ₹ 119	Black Currant/Cookie Crumble ₹ 179
Green Tea ₹ 79	Caramel Crunch/Choco Berry Shake ₹ 209
Baklava Chocolate ₹ 99 Vanilla ₹ 109 Blueberry ₹ 109	PuffPaids Puri Puri ₹ 70 Spicy Loaded ₹ 79 Caramella ₹ 79 Chocolate ₹ 79

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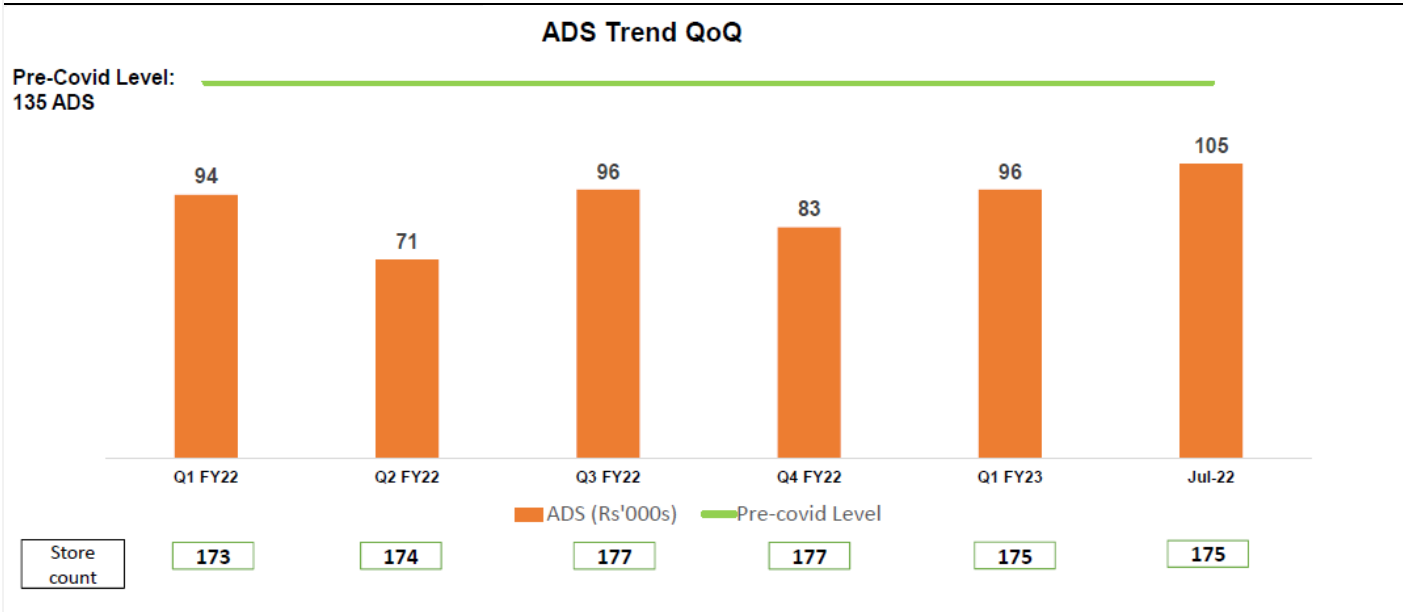
Source: PL, Company

Exhibit 8: We assign target price of Rs 148 for overall business

SOTP	Basis	X	EV	Value/Share
India	DCF			133
Indonesia	EV/EBIT	6.0	7293	15
Total Value/share				148

Source: Company, PL

Exhibit 9: Indonesia business yet to recover to pre-COVID ADS



Source: PL, Company

Exhibit 10: Indonesia strategy to focus on three pillars



Source: PL, Company

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	4,945	9,814	14,536	19,136
YoY gr. (%)	(41.2)	98.5	48.1	31.6
Cost of Goods Sold	1,756	3,383	4,797	6,219
Gross Profit	3,188	6,430	9,739	12,917
Margin (%)	64.5	65.5	67.0	67.5
Employee Cost	1,176	1,652	2,271	3,000
Other Expenses	191	490	726	955
EBITDA	150	1,017	1,998	3,039
YoY gr. (%)	(85.6)	578.8	96.4	52.1
Margin (%)	3.0	10.4	13.7	15.9
Depreciation and Amortization	1,275	1,341	1,873	2,353
EBIT	(1,126)	(324)	124	686
Margin (%)	(22.8)	(3.3)	0.9	3.6
Net Interest	821	709	873	1,032
Other Income	285	202	242	135
Profit Before Tax	(1,662)	(831)	(506)	(211)
Margin (%)	(33.6)	(8.5)	(3.5)	(1.1)
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after tax	(1,662)	(831)	(506)	(211)
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	(1,662)	(831)	(506)	(211)
YoY gr. (%)	130.1	(50.0)	(39.0)	(58.3)
Margin (%)	(33.6)	(8.5)	(3.5)	(1.1)
Extra Ord. Income / (Exp)	(77)	-	-	-
Reported PAT	(1,739)	(831)	(506)	(211)
YoY gr. (%)	127.1	(52.2)	(39.0)	(58.3)
Margin (%)	(35.2)	(8.5)	(3.5)	(1.1)
Other Comprehensive Income	1	-	-	-
Total Comprehensive Income	(1,738)	(831)	(506)	(211)
Equity Shares O/s (m)	383	493	493	493
EPS (Rs)	(4.3)	(1.7)	(1.0)	(0.4)

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	14,177	16,838	21,108	25,497
Tangibles	13,845	16,472	20,706	25,055
Intangibles	332	366	402	443
Acc: Dep / Amortization	4,322	5,663	7,536	9,889
Tangibles	4,255	5,574	7,423	9,749
Intangibles	67	89	113	140
Net fixed assets	9,855	11,574	13,572	15,609
Tangibles	9,590	11,220	13,283	15,306
Intangibles	265	354	289	303
Capital Work In Progress	301	107	400	560
Goodwill	-	-	-	-
Non-Current Investments	290	11,408	11,516	11,604
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	39	282	136	138
Current Assets				
Investments	1,243	4,023	2,500	1,650
Inventories	100	135	145	187
Trade receivables	60	92	119	157
Cash & Bank Balance	2,161	1,063	489	802
Other Current Assets	163	131	319	401
Total Assets	14,282	28,900	29,289	31,212
Equity				
Equity Share Capital	3,830	4,927	4,927	4,927
Other Equity	2,905	14,576	14,041	13,830
Total Network	6,735	19,503	18,969	18,758
Non-Current Liabilities				
Long Term borrowings	-	-	300	500
Provisions	209	256	308	376
Other non current liabilities	8	7	9	10
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,140	1,358	1,300	1,735
Other current liabilities	596	1,096	743	893
Total Equity & Liabilities	14,282	28,900	29,289	31,211

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	(1,662)	(831)	(506)	(211)
Add. Depreciation	1,275	1,341	1,873	2,353
Add. Interest	821	709	873	1,032
Less Financial Other Income	285	202	242	135
Add. Other	(48)	(199)	201	65
Op. profit before WC changes	386	1,021	2,440	3,239
Net Changes-WC	298	669	(644)	414
Direct tax	-	-	-	-
Net cash from Op. activities	685	1,690	1,796	3,653
Capital expenditures	(589)	(13,948)	(4,165)	(4,549)
Interest / Dividend Income	-	-	-	-
Others	(1,056)	(2,815)	1,415	762
Net Cash from Inv. activities	(1,645)	(16,764)	(2,750)	(3,787)
Issue of share cap. / premium	5,719	13,599	(28)	-
Debt changes	(2,057)	1,086	1,280	1,480
Dividend paid	-	-	-	-
Interest paid	(821)	(709)	(873)	(1,032)
Others	-	-	-	-
Net cash from Fin. activities	2,841	13,975	379	448
Net change in cash	1,881	(1,098)	(574)	313
Free Cash Flow	96	(12,259)	(2,368)	(896)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	(4.3)	(1.7)	(1.0)	(0.4)
CEPS	(1.0)	1.0	2.8	4.3
BVPS	17.6	39.6	38.5	38.1
FCF	0.3	(24.9)	(4.8)	(1.8)
DPS	-	-	-	-
Return Ratio(%)				
RoCE	(19.6)	(2.5)	0.6	3.6
ROIC	(10.3)	(1.4)	0.5	2.4
RoE	(35.0)	(6.3)	(2.6)	(1.1)
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.3)	(0.1)	(0.1)
Net Working Capital (Days)	(72)	(42)	(26)	(27)
Valuation(x)				
PER	(28.4)	(73.1)	(119.9)	(287.4)
P/B	7.0	3.1	3.2	3.2
P/CEPS	(122.0)	118.9	44.4	28.3
EV/EBITDA	292.0	54.6	29.0	19.3
EV/Sales	8.9	5.7	4.0	3.1
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	2,454	2,799	2,687	3,369
YoY gr. (%)	153.7	71.5	37.1	125.0
Raw Material Expenses	849	950	911	1,133
Gross Profit	1,605	1,849	1,776	2,236
Margin (%)	65.4	66.1	66.1	66.4
EBITDA	256	328	302	332
YoY gr. (%)	7,973.2	115.9	23.5	2,064.8
Margin (%)	10.4	11.7	11.3	9.9
Depreciation / Depletion	334	344	351	461
EBIT	(78)	(16)	(48)	(129)
Margin (%)	(3.2)	(0.6)	(1.8)	(3.8)
Net Interest	167	168	178	196
Other Income	43	32	94	97
Profit before Tax	(202)	(152)	(132)	(227)
Margin (%)	(8.2)	(5.4)	(4.9)	(6.7)
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after Tax	(202)	(152)	(132)	(227)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(202)	(152)	(132)	(227)
YoY gr. (%)	(46.4)	(47.8)	(35.1)	(48.7)
Margin (%)	(8.2)	(5.4)	(4.9)	(6.7)
Extra Ord. Income / (Exp)	-	(8)	-	-
Reported PAT	(202)	(159)	(132)	(227)
YoY gr. (%)	(47.5)	(45.1)	(49.1)	(48.7)
Margin (%)	(8.2)	(5.7)	(4.9)	(6.7)
Other Comprehensive Income	-	(1)	(7)	-
Total Comprehensive Income	(202)	(160)	(139)	(227)
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	UR	-	111
2	31-May-22	UR	-	97
3	08-Apr-22	BUY	220	113
4	25-Jan-22	BUY	220	133
5	06-Jan-22	BUY	242	140
6	12-Nov-21	BUY	242	163
7	06-Oct-21	BUY	251	159
8	28-Aug-21	BUY	250	172
9	16-Aug-21	BUY	250	168

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,363	3,109
2	Avenue Supermarts	BUY	4,636	4,239
3	Britannia Industries	Hold	3,880	3,775
4	Colgate Palmolive	Accumulate	1,701	1,564
5	Dabur India	Accumulate	603	574
6	Emami	Accumulate	611	452
7	Hindustan Unilever	Accumulate	2,699	2,568
8	ITC	Accumulate	327	308
9	Jubilant FoodWorks	BUY	700	565
10	Kansai Nerolac Paints	Accumulate	558	499
11	Marico	Hold	523	523
12	Mold-tek Packaging	Accumulate	830	765
13	Nestle India	Accumulate	19,721	19,112
14	Pidilite Industries	Hold	2,673	2,641
15	Restaurant Brands Asia	UR	-	111
16	Titan Company	Accumulate	2,608	2,433
17	Westlife Development	BUY	781	589

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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