

Westlife Development

Refer to important disclosures at the end of this report

Strong beat continues in third straight quarter; Maintain Buy

- WLDL delivered 3rd consecutive quarter of 20%+ beat to our/street EBITDA estimates. WLDL reported a 3Y CAGR of 12%, led by an impressive 9% CAGR in rev/store vs. 6% estimates. Operating leverage helped offset the RM hike, leading to 120bps margin beat.
- Dine-in sales picked up strongly with 3Y CAGR of 4%, along-with sustained convenience sales (29% CAGR). WLDL maintained its target of adding 35 stores in FY23 and 200+ in the next 3-4 years. Expects multi-occasion play to drive relatively stronger SSG of 8%+.
- EBITDA margin at 13% was ~500bps higher vs. Q1FY20. Full benefit of price hikes and softening of commodities should drive further gains. WLDL now expects a gradual royalty increase vs. a 300bps step increase to 8% in FY27 from 5% in FY26.
- We have increased FY24/FY25 EBITDA estimates by 8-11%, led by strong Q1 and assuring margin commentary. WLDL shall benefit more upon unlocking and consistent performance should boost investor confidence. We maintain Buy with a revised TP of Rs720 (based on 27x Sep'24E EBITDA vs. 28x earlier). Multiple cut is led by a 3M rollover.

WLDL achieves the best-ever topline with strong pick-up in dine-in channel: WLDL reported a three-year revenue CAGR of 12%, led by 9% revenue/store CAGR and 3% store addition CAGR. Strong growth was led by sustained momentum in convenience sales (29% CAGR) and strong pick-up in dine-in sales (4% CAGR). WLDL attributed stronger growth trends to improved presence in the meals category with gourmet burgers/fried chicken and its omni-investments. Store addition was slower at five net additions in Q1. However, WLDL maintained its target of adding 35-40 stores in FY23 and 200+ stores in the next 3-4 years.

Multi-occasion format to drive better SSG performance: While gourmet burgers have been rolled out to the entire network, fried chicken is currently in the southern market with 5-10 pilots in the western region. Mc-Café is now present in ~80% of the network and WLDL sees ample scope to double its per-store café contribution with menu expansion. WLDL expects strong 8%+ SSG to continue with higher presence in the meal category through gourmet burgers/fried chicken and menu expansion in café/breakfast/desserts segments.

Strong margin performance should boost investor confidence: EBITDA margin improved by ~500bps to 13% (Pre-IndAS) vs. pre-Covid levels. WLDL took a price hike of ~5% in the latter half of Q1, full benefit of which will reflect in Q2. This coupled with softening of commodities and operating leverage should further drive margin gains in our view. Factoring in a strong Q1 and assuring commentary, we increase our margin estimates by 50-100bps.

Strong Q1 leads to earnings upgrade; Maintain Buy: We have increased FY24/FY25 EBITDA estimates by 8-11%, led by strong Q1 and margin commentary. We forecast healthy sales/EBITDA CAGRs of 24%/52% over FY22-25E. The large penetration opportunity, increased pace of expansion, and margin gains keep us optimistic. We maintain Buy with a revised TP of Rs720 (vs. Rs650 earlier), led by a revised multiple of 27x Pre-IndAS EBITDA (vs. 28x earlier). Multiple reduction is driven by 3M rollover.

Financial Snapshot (Consolidated; Post IndAS116)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	9,856	15,760	22,200	25,809	29,969
EBITDA	615	2,067	3,956	4,938	5,840
EBITDA Margin (%)	6.2	13.1	17.8	19.1	19.5
APAT	(1,036)	(17)	1,130	1,740	2,176
EPS (Rs)	(6.6)	(0.1)	7.3	11.2	14.0
EPS (% chg)	(1,206.3)	0.0	0.0	54.0	25.1
ROE (%)	(19.6)	(0.4)	21.8	26.3	25.4
P/E (x)	(88.6)	(5,466.7)	81.1	52.7	42.1
EV/EBITDA (x)	161.7	48.7	25.2	19.9	16.5
P/BV (x)	19.1	19.9	15.9	12.2	9.5

Source: Company, Emkay Research

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CMP

Rs 589

as of (July 29, 2022)

Rating

BUY (■)

Target Price

Rs 720 (▲)

12 months

Upside

22.2 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	37/32
Target Price change (%)	10.8
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	7.3	11.2
Consensus	5.2	8.5
Mean Consensus TP (12M)	Rs 590	

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)	92 / 1.16
Daily Avg Volume (nos.)	91,083
Daily Avg Turnover (US\$ mn)	0.5

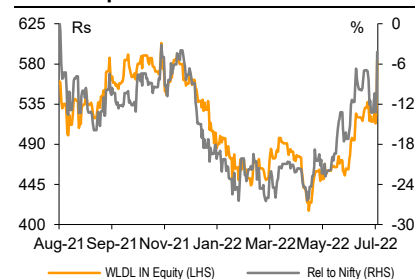
Shareholding Pattern Jun '22

Promoters	57.0%
FIIIs	9.5%
DIIIs	23.3%
Public and Others	10.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	19	24	20	4
Rel. to Nifty	10	23	20	(4)

Relative price chart



Source: Bloomberg

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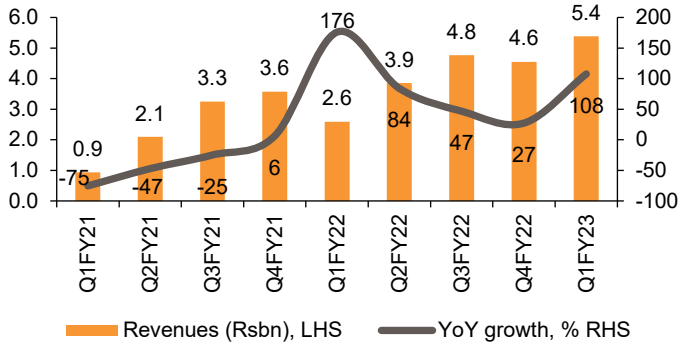
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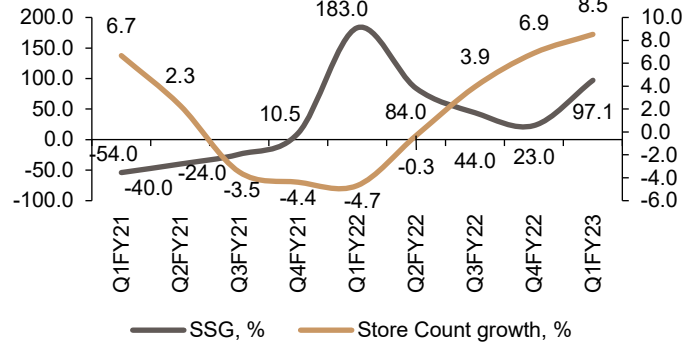
Story in Charts

Exhibit 1: Despite inflationary challenges, revenue grew by 12% on a 3-year CAGR basis, led by strong pick-up in dine-in channel



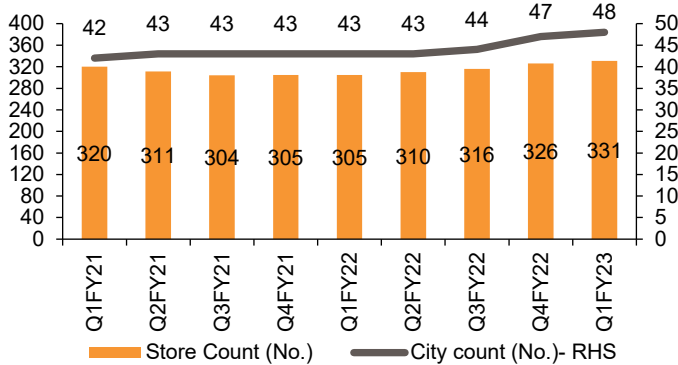
Source: Company, Emkay Research

Exhibit 2: Revenue growth of 12% was led by 9% growth in avg. revenue/store and 3% growth in store count on a 3-year CAGR basis



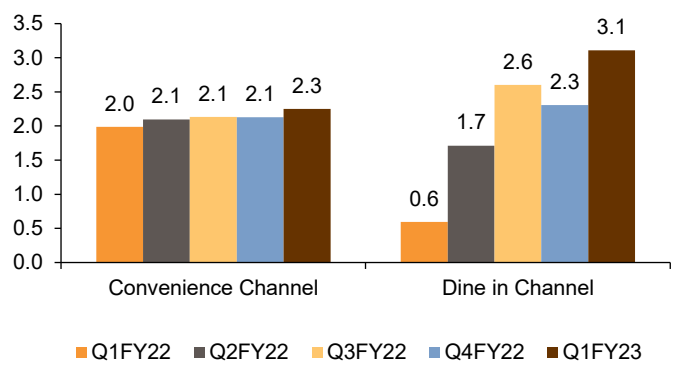
Source: Company, Emkay Research

Exhibit 3: WLDL added five stores in Q1; Stronger traction in Tier-2 cities has led to increase in city-wise presence over last 3 quarters



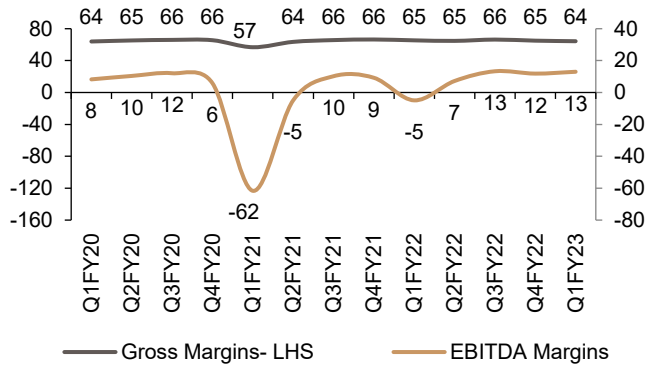
Source: Company, Emkay Research

Exhibit 4: Convenience sales sustained despite strong pick-up in dine-in channel, leading to significant growth in avg. rev/store



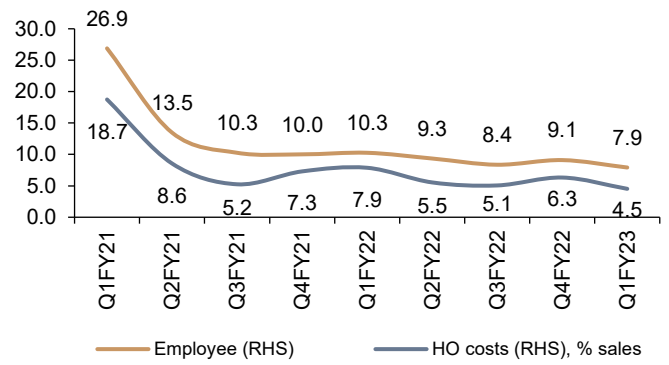
Source: Company, Emkay Research

Exhibit 5: EBITDA margins improved ~500bps vs. Q1FY20; Softening of RM pressures should drive further margin gains



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

Exhibit 6: Head office and employee costs also remain on a declining trend, led by cost optimization and improved productivity



Source: Emkay Research, Company

Exhibit 7: Actual vs. Estimates (Q1FY23)

Rs mn	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	5,379	4,880	5,033	10.2%	6.9%	Stronger traction in Dine-in sales led to better revenues
EBITDA	921	776	760	18.6%	21.1%	Better SSG driven operating leverage led to higher margins
EBITDA Margin (%)	17.1%	15.9%	15.1%	121	202	
PAT	236	177	143	33.4%	65.0%	EBITDA beat flowed into PAT, leading to significant beat

Source: Company, Emkay Research, *Post IndAS116 EBITDA and EBITDA margins

Exhibit 8: Changes in estimates

Y/E, Mar (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	20,626	22,200	7.6	24,317	25,809	6.1	28,436	29,969	5.4
SSG (%)	30	43	1,250 bps	9	8	-100 bps	9	8	-100 bps
Average Revenue/store	59	65	9.5	62	68	8.8	66	71	7.8
EBITDA	3,469	3,956	14.0	4,438	4,938	11.3	5,390	5,840	8.4
EBITDA Margin (%)	16.8	17.8	100 bps	18.3	19.1	90 bps	19.0	19.5	50 bps
PAT	826	1,130	36.7	1,316	1,740	32.2	1,840	2,176	18.3
EPS (Rs)	5.3	7.3	36.7	8.5	11.2	32.2	11.8	14.0	18.3

Source: Company, Emkay Research, *Post IndAS116 EBITDA and EBITDA margins

Exhibit 9: Quarterly performance (Consolidated)

Y/E, Mar (Rs mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	YoY (%)	QoQ (%)	FY22TD	FY23TD	YoY (%)
Revenue	2,592	3,854	4,768	4,551	5,379	107.6	18.2	2,592	5,379	107.6
Expenditure	2,541	3,397	3,934	3,822	4,459	75.5	16.6	2,541	4,459	75.5
Consumption of RM	896	1,360	1,603	1,592	1,921	114.3	20.7	896	1,921	114.3
as % of sales	34.6%	35.3%	33.6%	35.0%	35.7%			34.6%	35.7%	
Employee Cost-Store	266	360	399	414	426	60.1	2.9	266	426	60.1
as % of sales	10.3%	9.3%	8.4%	9.1%	7.9%			10.3%	7.9%	
Royalty	116	173	216	203	246	112.2	21.4	116	246	112.2
as % of sales	4.5%	4.5%	4.5%	4.5%	4.6%			4.5%	4.6%	
Other expenditure	1,059	1,291	1,474	1,327	1,623	53.3	22.3	1,059	1,623	53.3
as % of sales	40.8%	33.5%	30.9%	29.2%	30.2%			40.8%	30.2%	
HO Costs	204	214	241	288	243	19.3		204	243	19.3
as % of sales	22.8%	15.7%	15.1%	18.1%	12.7%			22.8%	12.7%	
EBITDA	51	457	835	729	921	1,705.3	26.4	51	921	1705.3
Depreciation	332	338	348	347	358	7.8	3.1	332	358	7.8
EBIT	-281	119	487	381	563		47.6	-281	563	
Other Income	64	39	42	41	0			64	0	
Interest	203	204	210	209	215	5.8	3.1	203	215	5.8
PBT	-420	-46	319	213	348		63.1	-420	348	
Total Tax	-112	-15	70	52	82		56.7	-112	82	
Adjusted PAT	-308	-31	249	161	266		65.1	-308	266	
Extra ordinary items	26	13	41	8	30			26	30	
Reported PAT	-334	-44	208	153	236		54.0	-334	236	
Reported EPS (Rs)	-2.1	-0.3	1.3	1.0	1.5		54.0	-2.1	1.5	
Margins (%)						(bps)	(bps)			(bps)
EBITDA	2.0	11.9	17.5	16.0	17.1	1,510	110	2.0	17.1	1,510
EBIT	-10.8	3.1	10.2	8.4	10.5		210	-10.8	10.5	
EBT	-16.2	-1.2	6.7	4.7	6.5		180	-16.2	6.5	
PAT	-13.1	-1.3	5.3	4.0	5.3		130	-13.1	5.3	
Effective Tax rate	26.7	31.7	22.1	24.5	23.5	-320	-100	26.7	23.5	-320

Source: Company, Emkay Research, *Post IndAS116 EBITDA and EBITDA margins

Exhibit 10: Peer Comparison

Company	Price (Rs)	M-Cap (Rs bn)	Rating	TP (Rs)	P/E (x)			EV/EBITDA (x) Pre-IND AS 116			EBITDA CAGR (%) FY23-25E	EV/E-G (x)*
					FY23E	FY24E	FY25E	FY23E	FY24E	FY25E		
Jubilant Foodworks	550	363	Hold	595	63.5	50.7	40.9	37.3	30.4	25.2	21.7	1.7
Devyani International	179	216	Buy	210	74.2	60.3	45.4	46.7	34.8	27.2	31.0	1.5
Sapphire Foods	1,148	73	Buy	1,500	65.0	35.6	29.2	26.3	18.1	13.3	40.3	0.7
Westlife Development	589	91	Buy	720	80.5	52.3	41.8	30.9	24.1	20.1	24.0	1.3

Source: Company, Emkay Research, *EV/E-G is ratio of FY23E EV/EBITDA to FY23E-25E EBITDA CAGR expectations

Exhibit 11: WLDL: Growth construct of the business from supply side

Particulars	FY25E	FY35E	CAGR (%)	
			FY25-35E	FY35E+
Mc-Donald's stores (#)	439	839	6.7	2.5
SSSG (%)			7.0	5.0
WLDL revenue (Rs bn)	30.0	112.7	14.2	7.5
EBITDA margin (%)	15.2	17.5	1.7	0.0
EBIT margin (%)	10.3	13.5	1.5	0.0
Total EBIT (Rs bn)	3.1	15.2	17.5	7.5

Source: Company, Emkay Research, *Pre IndAS116 EBITDA and EBITDA margins

Exhibit 12: WLDL: Target EV/EBITDA multiple derived from a two-stage dividend growth model

Revenue CAGR [FY22E-25E] (%)	24
EBITDA CAGR [FY22E-25E] (%)	52
Net debt-to-EV (%)	0
Adj. beta vs Nifty (#)	0.75
Stage-1: FY25E-35E	
EBITDA in Yr-0 [FY25E] (Rs bn)	4.5
EBITDA in Yr-1 (Rs bn)	5.3
EBITDA CAGR (%)	17.5
Years of growth [n]	10.0
Incremental RoIC (%)	36.0
WACC (%)	11.0
Tax rate (%)	25.2
Sustainable D&A-to-EBITDA (%)	25.0
Net debt to EV (%)	0
Implied FCFF ratio (%)	51
Revenue in FY35E (Rs bn)	150
Terminal stage: >FY35E	
Terminal EBITDA growth (%)	7.5
Incremental RoIC (%)	36.0
Implied FCFF ratio (%)	79.2
Fair value EV/EBITDA in Mar'25E (x)	23.9
EV in Sep'25E (Rs bn)	127.6
Sep'23 NPV of FCFFs (Rs bn)	3.4
Sep'23E EV (Rs bn)	112.6
Adj. net debt (Rs bn)	0.3
Fair value of Equity in Sep'23E (x)	112
Sep'24E EBITDA (Rs bn)	4.2
Implied fair value EV/EBITDA in Sep'23E (x)	27
Target EV/EBITDA in Sep'23E (x)	27
Target market-cap in Sep'23E (Rs bn)	112
Target price in Sep'23E (Rs/share)	720

Source: Emkay Research, *Pre IndAS116 EBITDA and EBITDA margins

Key Financials (Consolidated; Post IndAS116)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	9,856	15,760	22,200	25,809	29,969
Expenditure	9,241	13,693	18,244	20,871	24,128
EBITDA	615	2,067	3,956	4,938	5,840
Depreciation	1,546	1,452	1,603	1,829	2,085
EBIT	(931)	615	2,353	3,109	3,755
Other Income	447	190	60	150	200
Interest expenses	845	826	872	932	1,046
PBT	(1,329)	(21)	1,541	2,326	2,909
Tax	(293)	(4)	412	586	733
Extraordinary Items	42	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	(994)	(17)	1,130	1,740	2,176
Adjusted PAT	(1,036)	(17)	1,130	1,740	2,176

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	5,439	7,179	9,355
Net worth	4,812	4,621	5,750	7,490	9,666
Minority Interest	0	0	0	0	0
Loan Funds	9,680	10,546	9,996	10,119	10,414
Net deferred tax liability	(510)	(520)	(572)	(629)	(692)
Total Liabilities	13,982	14,647	15,174	16,980	19,388
Net block	12,843	13,623	14,051	14,548	14,852
Investment	2,382	1,865	1,865	1,865	1,865
Current Assets	1,246	1,612	1,945	3,644	6,191
Cash & bank balance	110	232	488	1,959	4,245
Other Current Assets	114	131	150	173	199
Current liabilities & Provision	2,744	2,809	3,042	3,432	3,876
Net current assets	(1,498)	(1,196)	(1,097)	212	2,315
Misc. exp	0	0	0	0	0
Total Assets	13,982	14,647	15,174	16,980	19,388

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	(1,735)	(211)	1,481	2,176	2,709
Other Non-Cash items	0	0	0	0	0
Chg in working cap	554	(179)	156	162	183
Operating Cashflow	1,206	1,882	3,648	4,457	5,228
Capital expenditure	(515)	(1,190)	(1,331)	(1,626)	(1,690)
Free Cash Flow	691	692	2,317	2,830	3,538
Investments	(414)	480	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(482)	(520)	(1,271)	(1,476)	(1,490)
Equity Capital Raised	0	0	(1)	0	0
Loans Taken / (Repaid)	315	(142)	(1,000)	(300)	(100)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	(790)	(939)	(1,000)	(1,140)	(1,298)
Financing Cashflow	(645)	(1,240)	(2,122)	(1,509)	(1,451)
Net chg in cash	80	122	255	1,471	2,286
Opening cash position	30	110	232	488	1,959
Closing cash position	110	232	488	1,959	4,245

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	6.2	13.1	17.8	19.1	19.5
EBIT Margin	(9.4)	3.9	10.6	12.0	12.5
Effective Tax Rate	22.1	19.2	26.7	25.2	25.2
Net Margin	(10.5)	(0.1)	5.1	6.7	7.3
ROCE	(3.3)	5.6	16.2	20.3	21.8
ROE	(19.6)	(0.4)	21.8	26.3	25.4
RoIC	(6.0)	4.2	14.0	18.4	21.8

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	(6.6)	(0.1)	7.3	11.2	14.0
CEPS	3.3	9.2	17.6	22.9	27.4
BVPS	30.9	29.6	37.0	48.1	62.1
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	(88.6)	(5,466.7)	81.1	52.7	42.1
P/CEPS	180.0	64.0	33.5	25.7	21.5
P/BV	19.1	19.9	15.9	12.2	9.5
EV / Sales	10.2	6.5	4.5	3.8	3.2
EV / EBITDA	161.7	48.7	25.2	19.9	16.5
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	1.4	0.9	0.5
Net Debt/EBIDTA	12.3	4.3	2.0	1.3	0.8
Working Cap Cycle (days)	(59.6)	(33.1)	(26.1)	(24.7)	(23.5)

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(36.3)	59.9	40.9	16.3	16.1
EBITDA	(72.0)	236.4	91.4	24.8	18.3
EBIT	(223.8)	0.0	282.5	32.1	20.8
PAT	0.0	0.0	0.0	54.0	25.1

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Revenue	2,592	3,854	4,768	4,551	5,379
EBITDA	51	457	835	729	921
EBITDA Margin (%)	2.0	11.9	17.5	16.0	17.1
PAT	(334)	(44)	208	153	236
EPS (Rs)	(2.1)	(0.3)	1.3	1.0	1.5

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	56.4	57.1	57.1	57.0	57.0
FIIIs	11.6	11.0	10.7	9.9	9.5
DIIs	20.9	22.0	22.7	22.8	23.3
Public and Others	11.2	9.8	9.4	10.2	10.2

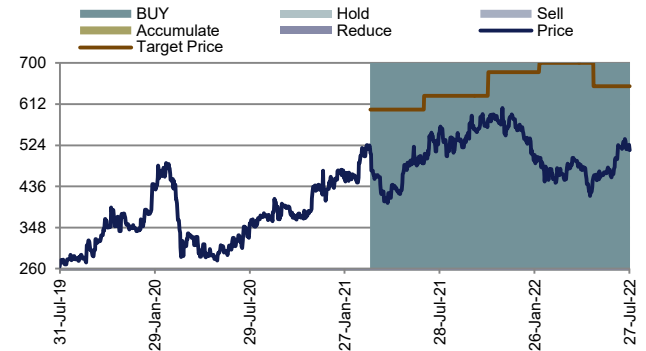
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
19-May-22	457	650	12m	Buy	Devanshu Bansal
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 <td 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%

Completed Date: 29 Jul 2022 23:35:53 (SGT)

Dissemination Date: 29 Jul 2022 23:36:53 (SGT)

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