Sharekhan by BNP PARIBAS

Stock Idea

Initiating coverage

Restaurant Brands Asia

Have a Whopping experience

Consumer Discretionary	Sharekhan code: RBA	
Reco/View: **Buy**	CMP: **Rs. 131**	Price Target: **Rs. 175**

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We initiate coverage on Restaurant Brands Asia (RBA) Ltd (formerly known as Burger King India) with a Buy rating and a PT of Rs. 175. RBA an emerging QSR play with strong store expansion plans and a well-accepted portfolio is trading at an attractive valuation of 27.1x/14.1x its FY2023E/24E EV/EBITDA.
- Long-term franchisee agreement with 'Burger King' (expiring in Dec 2039), strong store expansion plans (700 stores by FY2026) and a differentiated menu with a focus on value and premiumisation provides it an edge over peers to scale up faster in the coming years.
- Launch of BK Café (to add ~6-7% to India ADS) and expansion in Indonesia (that will enhance revenues by 25-30%) will incrementally add-on to revenues and profitability in the medium to long term.
- Consolidated revenues are expected to clock a CAGR of 43.3% during FY2021-24E and EBIDTA margins will improve to ~15% in FY2024 from 2.5% in FY2021. This along with negative working capital will help boost return profile and cash flows.

Restaurant Brands Asia (RBA) Ltd (formerly known as Burger King India) is one of the emerging and fastest-growing QSR players in India with a market share of less than 5% in the India's QSR market. Its long-term franchisee agreement with 'Burger King' (expiring in December, 2039), Barbell menu strategy (value growth led by 'Stunner' menu and Premiumisation through 'Whopper' menu) and localisation of menu provides edge over its peers to scale up fast in the domestic market. RBA has robust store expansion plans and wants to exit FY2026 with store count of 700 from 328 currently (addition of 70-75 stores per annum). Further, introduction of the BK Café (250 stores in FY2023) and acquisition of Indonesia business will drive next league of growth for the company. The strong store expansion plan with focus on gaining share in the Indian market, revamping growth strategies in the Indonesian business (along with inorganic initiatives) and incremental revenues from BK Café's will drive double-digit revenue growth of 43% CAGR over FY2021-24. Increase in contribution of mature stores, higher frequency of dine-ins, cost-saving initiatives and better profitability of the Indonesia business would help EBIDTA margins consistently improve in the coming years.

- **Emerging QSR player with strong growth strategies:** RBA is an emerging domestic QSR play with a less than 5% share in India's QSR market. It launched its first Burger King store in FY2012 and currently has 328 stores under its belt. Unlike its closest peers such as Westlife Developers and Devyani International, it has exclusive rights to expand its reach Pan-India with a robust target of 700 stores in FY2026. This along with its 'Barbell Menu' strategy (focusing on value and premiumisation) and increasing sales through the digital platform (BK App) will help it scale-up faster compared to its closest peers. Thus we expect RBA's revenues (excluding BK Café and Indonesia business) and EBIDTA to clock a CAGR of 43.3% and 160.9%, respectively, over FY2021-24E.
- **EBITDA margins to expand to 15% by FY2024:** RBA's dine-in and delivery business gross margins are similar due to pricing difference on two different platforms. However, EBIDTA margins of delivery platform is lesser compared to dine-in business due to incremental costs (including delivery cost). With the dine-in business expected to improve to historical levels in FY2023 to 60% of revenues (currently at 53%) due to improved footfalls (from 28% in Q1FY2022), more and more new stores attaining maturity and the better mix with addition of BK Cafe will lead to consistent improvement in EBIDTA margins in the coming years. Average daily sales (ADS) of standalone business recovered to Rs. 1,31,000 in July-22 (targeting Rs. 2 lakh in the near term) from Rs. 74,000 in Q1FY2022, while Indonesia business ADS recovered to 78% of FY2020 levels. Thus, overall EBIDTA margins are expected to reach 15% by FY2024.
- **Expanding footprint in Indonesia:** RBA acquired ~89% stake in BK Indonesia through amounts raised from an equity infusion of $200 million (Rs. 1,500 crore). BK Indonesia has an experienced management, which has developed a multi-pronged strategy of 1) Expansion of Full Service Drive Through (FSDT) 2) Launch BK Café & Breakfast, enhanced offerings in the chicken segment, 3) launch of digital integration and 4) capitalising rapid growth opportunities in the food delivery services. The Indonesia business is expected to grow at over 20% CAGR over FY2021-24 (with incremental addition of 25-30% to revenues in the coming years). EBIDTA margins of the Indonesia business are expected to improve as gross margins are expected to improve to 60% in FY2023 (targeting 65% in the long run) from 58.5% in FY2022. Thus, acquisition of BK Indonesia will make RBA one of the strongest QSR players in South-East Asia with strong fundamentals.

Our Call

Initiate coverage with Buy and potential price target of Rs. 175: RBA is one of the emerging players in the domestic QSR market and is trying to establish its foothold through strong store expansion strategy, a differential menu, expanding digital footprints and strong promotional strategy. With scale up of the business and improvement in profitability, the company's free cash generation will get better in the medium to long run. Further, expansion in the Indonesian market and introduction of BK café will incrementally add-on to the revenues and profitability in the long run. The stock has corrected by ~24% from its high and is currently trading at 27.1x/14.1x its FY2023E/24E EV/EBDITA. We initiate coverage on the stock with a Buy recommendation and a PT of Rs. 175.

Key Risks

Any slowdown in store addition or heightened completion from close peers would act a s a risk to revenues and profitability in the medium term.

Valuation (consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	1,004	1,490	2,190	2,953
EBITDA Margin (%)	2.5	6.5	10.6	15.0
Adjusted PAT	-274	-210	-95	72
Adjusted EPS (Rs.)	-7.2	-4.3	-1.9	1.5
P/E (x)	-	-	-	90.0
P/B (x)	59.1	6.2	6.8	6.3
EV/EBIDTA (x)	-	61.8	27.1	14.1
RoNW (%)	-	-	-	7.1
RoCE (%)	-	-	-	10.1

Source: Company; Sharekhan estimates

Note: Financials are consolidated after recent acquisition of BK Indonesia

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

ESG Disclosure Score NEW

ESG RISK RATING 27.35

Updated July 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

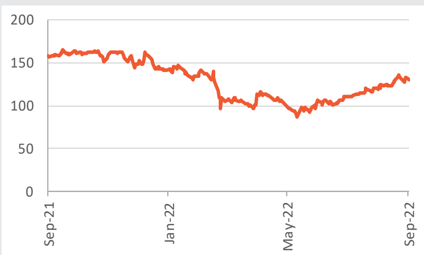
Company details

Market cap:	Rs. 6,445 cr
52-week high/low:	Rs. 172 / 87
NSE volume: (No of shares)	11.3 lakh
BSE code:	543248
NSE code:	RBA
Free float: (No of shares)	29.1 cr

Shareholding (%)

Promoters*	40.9
FII	35.1
DII	8.9
Others	15.11

Price chart



Source: Sharekhan Research; NSE website

Price performance

(%)	1m	3m	6m	12m
Absolute	6.2	23.8	21.7	-17.4
Relative to Sensex	5.4	18.4	13.5	-19.1

Source: Sharekhan Research, Bloomberg

Executive Summary

3R Research Positioning Summary

- **Right Sector:** Shift from unorganised to organised, increased traction on digital platform & better demographics will help QSRs outpace organised food service industry with a 23% CAGR over FY20-25.
- **Right Quality:** Emerging and fastest-growing QSR player in India with market share of less than 5% in the India's QSR market.
- **Right Valuation:** Strong earnings growth with discounted valuations makes it a good investment bet in QSR space.

Valuation and return potential

- **Valuations:** RBA trades at a discounted valuation of 27.1x/14.1x its FY2023E/24E EV/EBIDTA.
- **Attractive valuation:** Emerging player in the domestic QSR market, trying to establish its foothold through strong store expansion strategy, a differentiated menu, expanding digital footprints and strong promotional strategy.

Catalysts

Long-term triggers

- Long term franchisee agreement with Burger King (expires in December 2039) with robust target to open 700 stores by FY2026.
- BK café provides an incremental ADS of ~7% and has a payback of 18-24 months.

Medium-term triggers

- With the dine-in business expected to improve to historical levels at 60% of revenues, new stores attaining maturity and the better mix will lead to consistent improvement in EBIDTA margins
- The Indonesia business is expected to grow at over a 20% CAGR over FY2021-24 (with incremental addition of 25-30% to revenues in the coming years).

Key Risks: Delayed volume recovery due to resurgence in COVID-19 cases and a sustained surge in crude oil prices would act as a risk to earnings estimates.

Earnings and Balance sheet highlights

- **Consistent earnings growth:** Consolidated revenues to clock a 43.3% CAGR during FY2021-24E and EBIDTA margins will improve to ~15% in FY2024 from 2.5% in FY2021.
- **Strong association with Burger King:** Long-term franchisee agreement with 'Burger King', strong store expansion plans (700 stores by FY2026) and a differentiated menu with a focus on value and premiumisation offers it an edge over peers to scale up faster in the coming years.
- **Strong balance sheet:** Despite a strong capex plan, the scale up in revenues and improvement in profitability coupled with negative working capital would help in generating cumulative FCF of ~Rs. 515 crore over FY2022-24.

Why we like the company

RBA is emerging is one of the emerging and fastest growing QSR players in India with market share of less than 5% in the India's QSR market. Long term franchisee agreement with 'Burger King', strong store expansion plans and localisation of menu provides edge over its peers to scale up fast in the domestic market. This along with additional growth levers coming in from introduction of BK Café and expansion in the Indonesia market will help the company to achieve strong and consistent revenue growth in the medium to long run. Improvement in the new store fundamentals, better mix and improving profitability of Indonesia business will drive earnings in the coming years. Strong earnings growth with negative working capital will help in driving higher cash flows in the coming years.

Long term franchisee agreements & Barbell menu strategy provides edge over peers

RBA's long-term franchisee agreement with 'Burger King' (expiring in December, 2039) and Barbell menu strategy (value growth led by 'Stunner' menu and Premiumisation through the 'Whopper' menu) provides edge over its peers. This along with the structural growth of QSR industry will help RBA scale up rapidly in the domestic market. An exclusive franchise agreement helped RBA open 200 stores in India in five years and become fastest-growing international QSR brand in India. India has the largest millennial population, and also the largest population which spends most money eating out, with dual income families, higher disposable incomes, less time to make food at home, etc. RBA with its value-for-money products and Gourmet Burger – Whopper is targeting the millennials to grow in the domestic market. Further, the company also adapted to healthy eating habits in past few years (before pandemic) and launched programme called 'trust in taste'. It had removed trans fats, worked on having no MSG added in its products and removed artificial colours and flavours from its products. Thus the company has right to win strategy supported by its long term franchise agreement to achieve strong revenue and earnings growth in the coming years.

Master franchise agreement roots growth story for RBA

RBA is the national franchisee of the Burger King brand in India with exclusive rights of establishing stores across India, flexibility to tailor made its menu by meeting global quality assurance standards and manage the supply chain. A key positive of the Master Franchise & Development Agreement (MFDA) is the royalty payment of 5% till the end of the agreement in December, 2039. According to the agreement, RBA has to open 700 stores by FY2026, which is fastest expansion plan amongst the domestic player. Sub-franchise rights also provide additional flexibility to sub-franchise restaurants in locations where access to direct ownership of restaurants may be restricted due to the type of location, such as in airports and certain shopping malls where one party directly owns all stores. Further, it provides RBA the flexibility for supply chain management and the ability to use Burger King's globally recognised brand name to grow its business in India, while leveraging the brand's technical, marketing, and operational expertise. It also provides the company with the freedom to tailor its menu, promotions and pricing to Indian tastes and preferences while meeting Burger King's global quality assurance standards. Scale-up of operations, improved gross margins led by improved mix and better sourcing and increase in contribution from delivery channel coupled with royalty remaining stable at 5% would help EBIDTA margins to improve substantially in the coming years.

Advantages of Master Franchise & Development Agreement (MFDA)

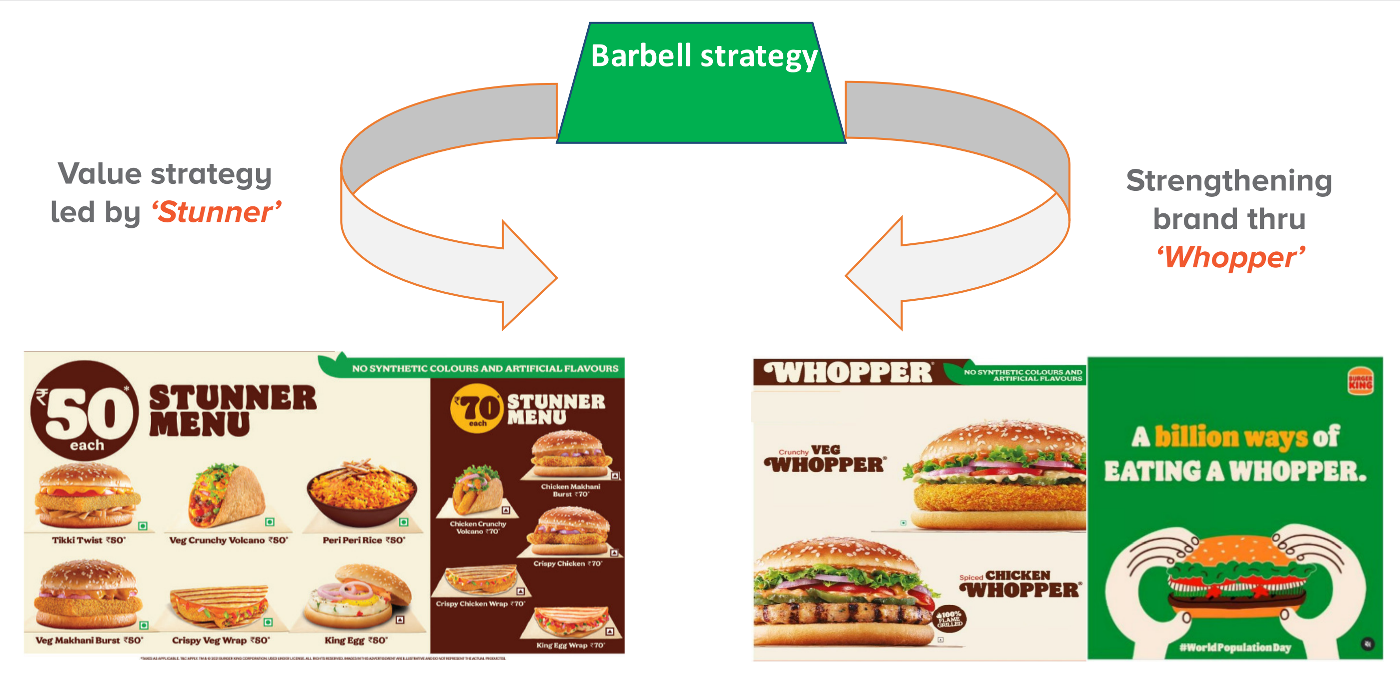
Advantages of Master Franchise & Development Agreement (MFDA)
↓
Royalty payment @5% till Dec,2029
↓
Effective management of supply chain & operating efficiencies
↓
Speedy roll-out of national advertising campaign
↓
Easy tailoring of menu architecture, promotions and pricing
↓
Leveraging the globally recognized "Burger King" brand

Source: Company; Sharekhan Research

‘Barbell Menu’ strategy will drive strong traction in the coming years

RBA developed the ‘Barbell Menu’ strategy to offer exciting menu to India customers based on value serving and international touch. On one end, India has largest population of millennials who always strive for value and on other end there is a rising population with higher disposable income that spends more money on eating out frequently in a month. RBA has developed its menu to target both value accretive and premium seeking customers. It launched the Stunner menu and Gourmet Burgers (including Whoppers) to drive traction in the stores and increase frequency of purchases among existing customers.

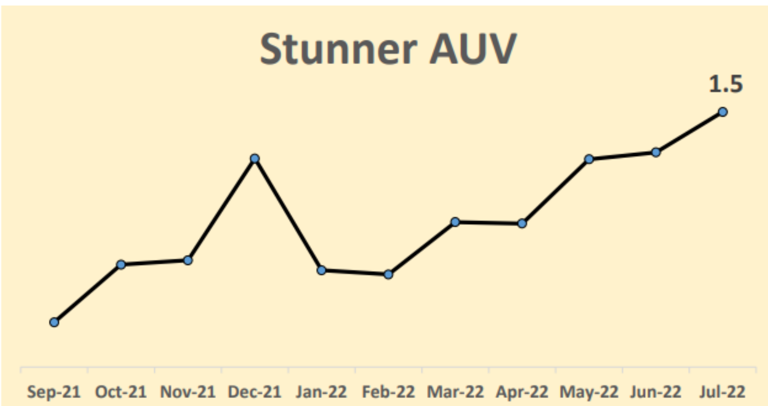
Barbell Strategy



Source: Company; Sharekhan Research

- **Stunner launch – maintaining value leadership:** Brand “BURGER KING®” is focused on this millennial population. Millennials are India’s largest single demographic group forming 34% of the country’s population and have a 47% share in India’s working age population. Millennials are street smart, clear in terms of choices and want the best value for their money. To connect with millennials, RBA’s strong entry menu – the Stunner, at an attractive price point offering vide variety of product offerings at same price point, which makes it different compared to other value offerings available in the market. Stunner offers variety of products such as burgers, wraps, rice and innovative formats such as volcano at price point of Rs. 50/70 (veg/non-veg). Since its launch in July-21, the Stunner menu has clocked strong traction and is growing at ~40% in volumes term in Q1FY2023. The value portfolio is gross-margin accretive with gross margins of ~66%.

Strong traction for Stunner Menu



Source: Company; Sharekhan Research; *Note: Average Unit Volume (AUV)*

- **Whopper – Building a premium layer:** It is RBA's premium global brand launched to bring gourmet burger experience for the Indian consumer. It is a differentiated product designed to drive taste excitement and frequency among its current users. In FY2021, the company launched a new Whopper range with new crunchier vegetarian patty, new juicier chicken patty and new sauces for more taste and flavour. Additionally, to make the Whopper more accessible, Junior Whoppers were launched at very attractive price points, both in vegetarian and chicken variants. Besides the Whopper, the company launched a new premium portfolio made up of unique tasting burgers called The King's Collection available in four favourite taste profiles — Cheese, Paneer, Tandoori Chicken, and Fiery Chicken to bring the best burger experience to Indian consumers in the coming years. Premium portfolio is growing at 2.5x in volumes compared to overall products since launch.

RBA menu offering compared with peers

Menu List	Burger King (price range - Rs)	Mc Donalds (price range - Rs)	KFC (price range - Rs)
Value Menu	Stunner menu (50 - 70)	mc aloo tiki and mc egg (55 - 61)	Krispers veg (79) non veg (114)
Burgers	veg/non veg (55-249)	Burgers - veg/non veg (50-225)	Zingers (veg 179) non veg 170 - 180)
Premium range	Whoppers (veg 149 - 199) non veg (179 - 339)		
Gourmet Burgers	Burgers: kings collection - veg/non veg (119-139)	Gourmet burgers (veg 215 - 249) non veg (241 - 275)	
Combos	veg (527 – 991) non veg (654 – 1031)	veg (117 - 968) non veg (271 - 1185)	veg (158 - 268) non veg (229 - 740)
Fries	95 – 109	70 – 120	99 – 119
Beverage	shakes -149	shakes - 169	-

Source: Company; Sharekhan Research

Combo meal offers value to the customer

Brands	Product price	Combo price	Discount realised on combo meal
McDonalds (Veg. Mcaloo Tikki, Medium Cola and pizza Mcpuff)	C:55,B:85, S:51	136	40%
Dominos (Veg. Regular Margaritta Pizza and garlic bread)	C:109, B:109	198	10%
Burger King (Veg. Crispy, Regular Cola and Regular fries)	C:55, B:89, S:95	198	17%
KFC (Chicken Zinger burger, Regular Cola and small fries)	C:189, B:57, S:99	344	1%

Source: Company; Sharekhan Research; C: core product, B: Beverage, S: Sides

Focus on local preferences to attract customers

RBA is test marketing world's 1st 100% Veg, Non Onion, No Garlic menu specially created to cater to local customers visiting holy places. The company is trying new launch in one of its stores close to second highest-visited temple in India. If the product gets a good response, it will be one of the key growing brands for the company.

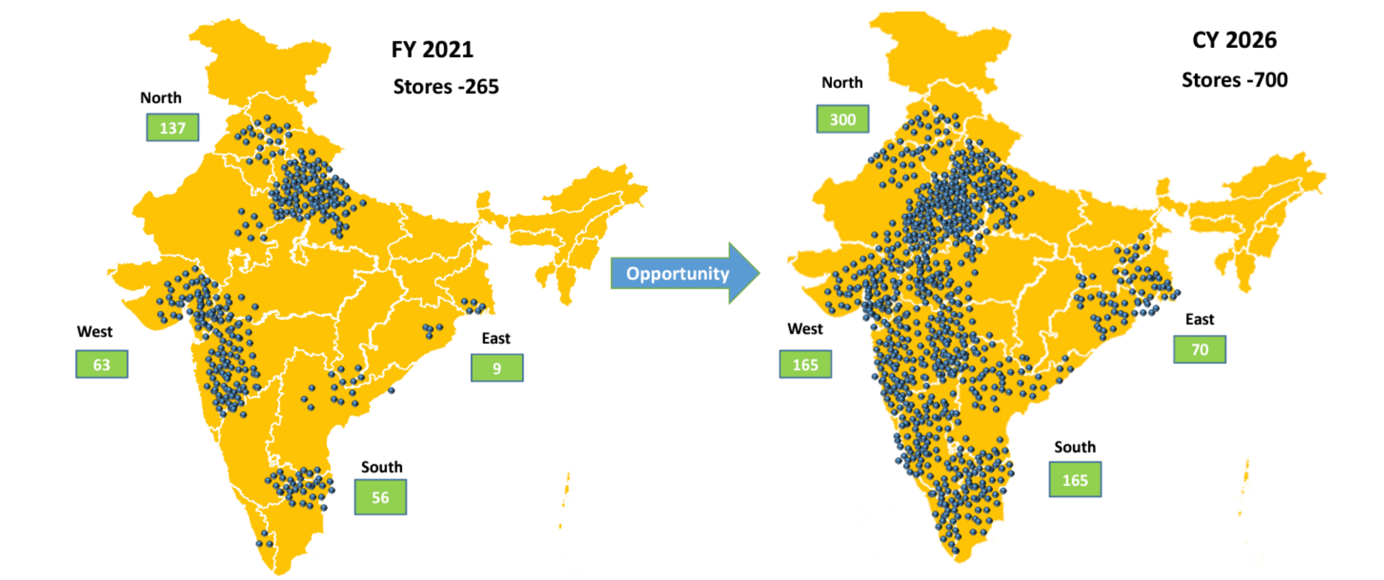
Localised menu at Vaishno Devi

Source: Company; Sharekhan Research

Rapid expansion of restaurant network

Scale is a key component of RBA's business as it drives topline growth along with delivering higher operating leverage. After the short COVID-led disruption, the company quickly ramped up expansion by adding 50 (net) restaurants in FY2022. The company has a well-defined new-restaurant roll-out process that enables the company to identify locations and build its restaurants quickly, consistently and efficiently. According to its MFDA the company has to open at 700 restaurants in India by December 2026. It builds restaurant network using a cluster approach and penetration strategy with the objective to provide greater convenience and accessibility for its customers across relevant geographies. RBA launches its brand from flagship locations in high-traffic and high-visibility locations in key metropolitan areas and cities across India and then develop new restaurants within that cluster. RBA aims to achieve an optimal mix across different types of restaurant formats, which include high-street locations, shopping malls and food courts, drive-throughs and transit locations, and look at factors that will drive footfalls.

RBA region wise store presence

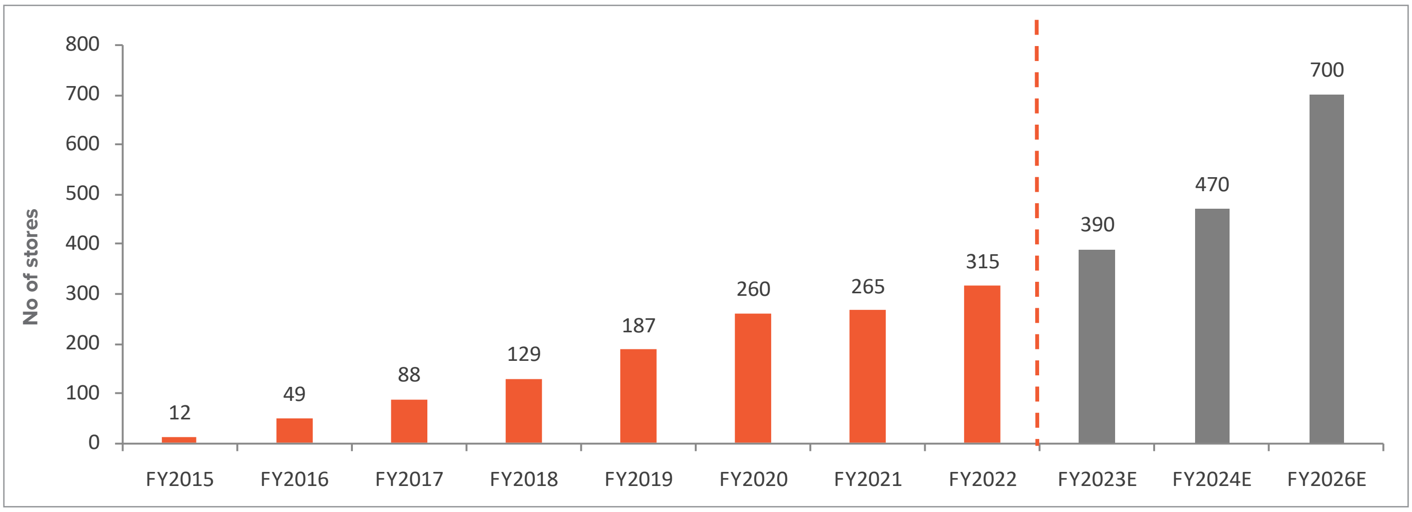


Source: Company; Sharekhan Research

Although the COVID-19 crisis affected the company's ability to open new restaurants and expand restaurant network temporarily, it continues to evaluate the pace and scale of new restaurant openings and expansion of restaurant network. It also aims to increase the pace of growth when COVID-19 crisis subsides and more restaurants become operational again. This will enable the company to achieve further economies of scale through operational leverage and drive further cost efficiencies to expand margins and drive profitability in restaurants.

Prior to the COVID-19 crisis, the company expanded its number of restaurants from 12 restaurants as of March 31, 2015, to 315 restaurants as on March 31, 2022. Further, the company plans to have 470 restaurants by March 31, 2024.

Burger King store ramp up and expansion plan

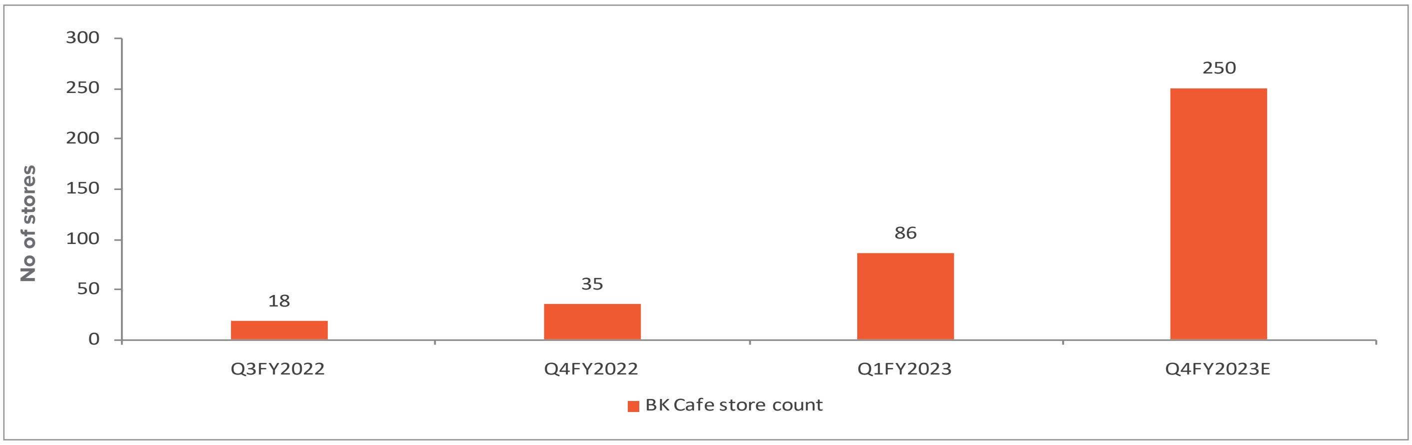


Source: Company; Sharekhan Research

BK Café – An additional growth lever

In FY2022, the company began its new venture - BK Café (launched first Café in November 2021), which serves an uncomplicated range of hot and cold coffee-based beverages, non-coffee shakes, hot chocolate and new savoury and sweet food items as accompaniments. It has strengthened the breakfast avenue which will help in increasing frequency of its guests. Inspired by the same principles of Burger King, the café's USP is to offer guests the best quality at best value. BK café provides an incremental ADS of around 7% and has a payback of 18-24 months. It will add revenues largely through volume throughput, higher operational hours and fast churn-outs. This helps the business to generate higher gross margins of around 70-75% vs. the base business gross margins of 65-66%. The company had 35 BK Café stores operational in FY2022 and added 51 stores to take the total to 86 BK Café at Q1FY2023-end (129 BK café as of July 2022). RBA aims to end FY2023 with 250 BK Café stores. Earlier response to the format is good and hence the company is focusing on continuously pushing the awareness and trials in the cafés.

BK Café Store expansion

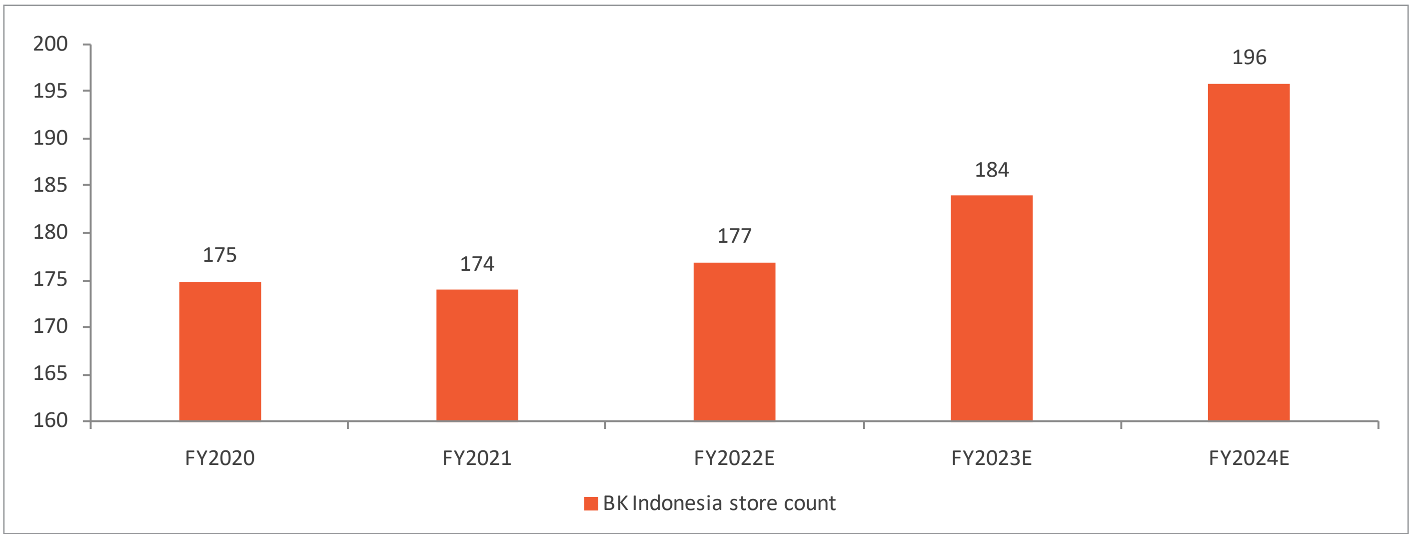


Source: Company; Sharekhan Research

Acquisition of PT Sari Burger Indonesia – graduating from India to Asia based entity

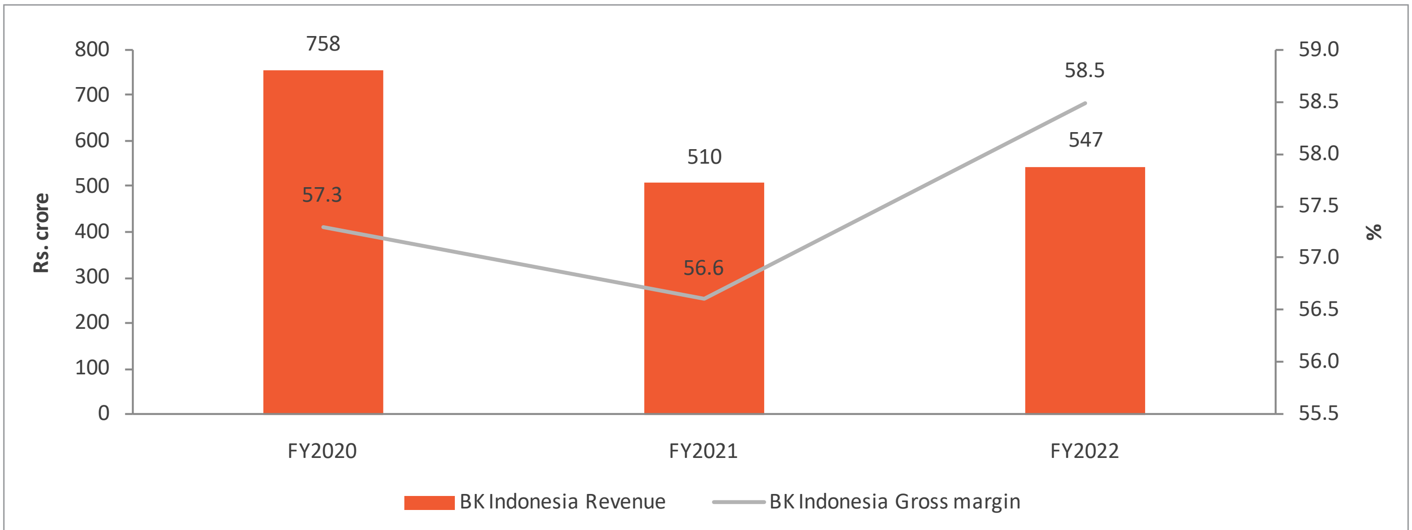
RBA successfully completed the strategic acquisition of a controlling stake of 87.75% in PT Sari Burger Indonesia ('BK Indonesia') on March 9, 2022. RBA raised Rs. 1,500 crore ($200 million) through a preferential issue/QIP (29% of existing capital) to fund the acquisition. It expects significant benefit from the synergies between two large markets in South East Asia. Opportunities will open to achieve larger volumes, which will help drive cost efficiencies and expand margins. Further, the opening of new restaurants in both markets will lead to synergies in buying of capital assets at competitive rates and help in reducing new restaurant costs. Social media and technology integration is a key to connect with target consumers. The company has infused close to Rs. 120 crore capital to fund the growth in the coming years. It is planning to strong investments in marketing to achieve 100% recovery in ADS. Further it is focusing on leveraging synergies to improve gross margins to 60% from 58.5% in FY2022. BK Indonesia has experienced management team which has developed multipronged strategy of 1) Expansion of Full Service Drive Through (FSDT) 2) Launch BK Café & Breakfast, enhance chicken offering, introduction of digital integration and capitalise rapid growth in food delivery services. ADS in Indonesia stood at Rs. 1,05,000 in July 2022, which is yet to recover of pre-covid levels of Rs. 1,35,000. With revamped strategies, Indonesia business revenues are expected to grow at CAGR of 20+% over FY2021-24. Acquisition of BK Indonesia will make RBA one of the strongest QSR player in South East Asia with improved business fundamentals.

BK Indonesia - Store expansion



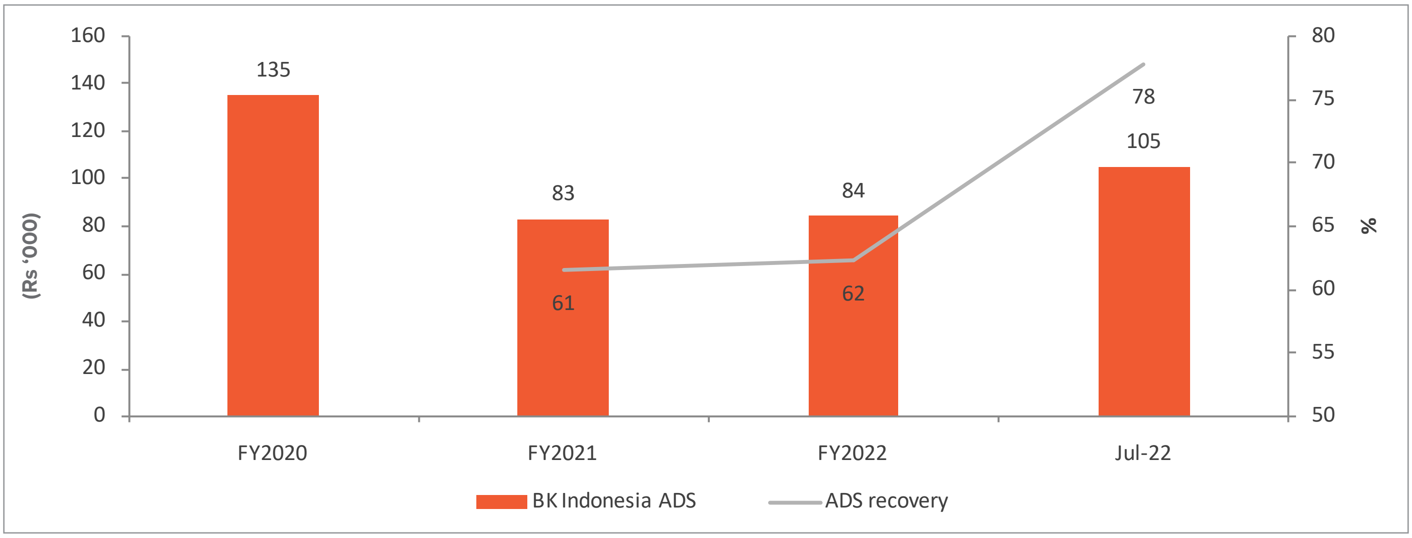
Source: Company; Sharekhan Research

Trend in revenues & gross margins



Source: Company; Sharekhan Research

Trend in BK Café Indonesia - ADS



Source: Company; Sharekhan Research

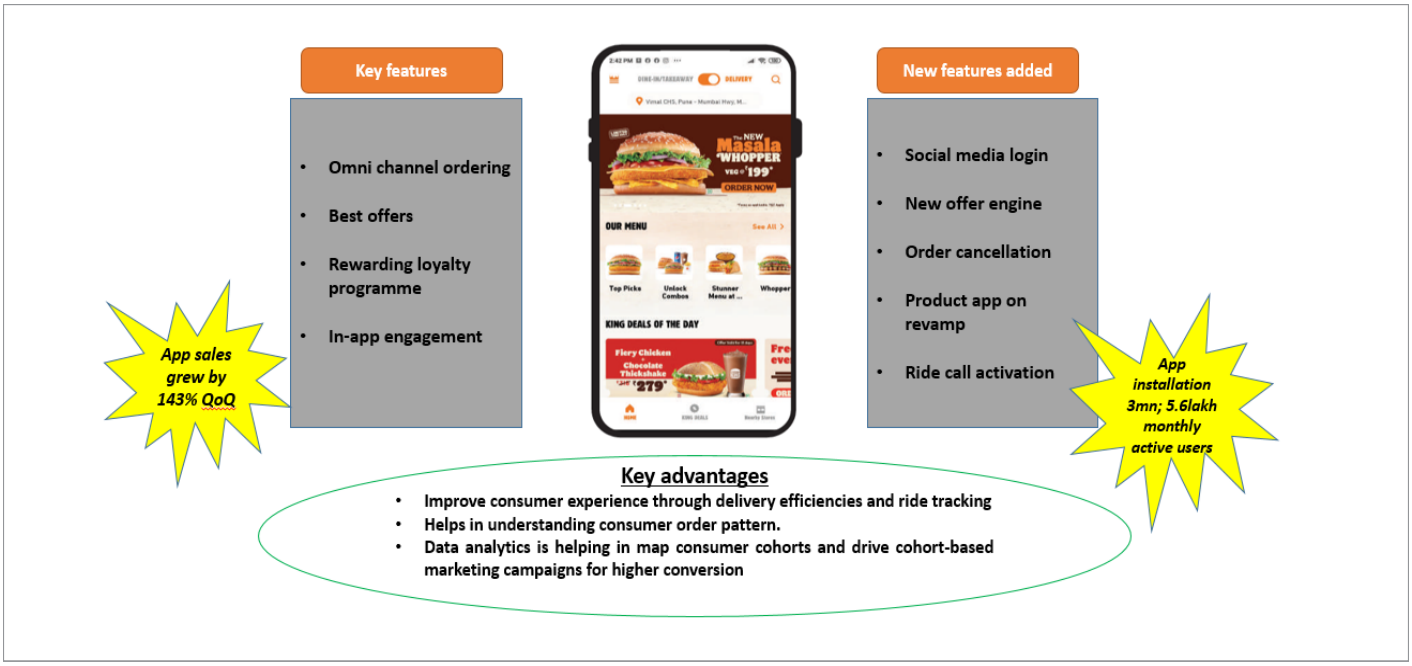
Burger King Indonesia – The strategy ahead

Source: Company; Sharekhan Research

RBA App to drive customer engagement and improve delivery sales

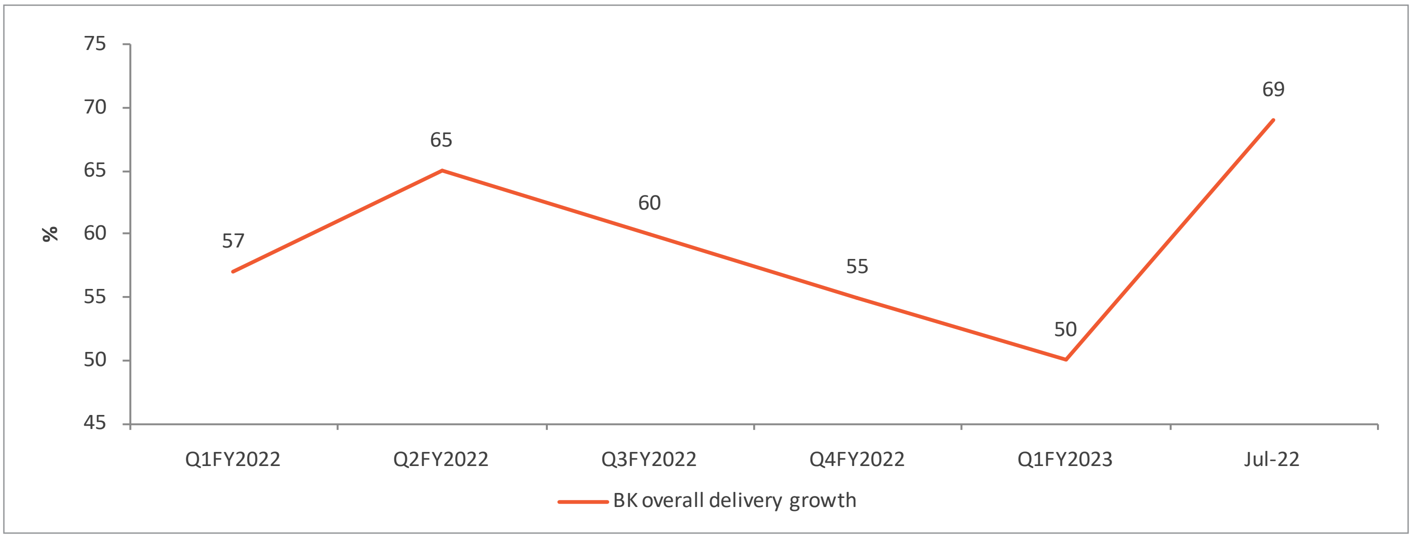
Burger King was the first brand to partner with food delivery aggregators, integrating with their system and creating innovative packaging for delivery model, which aided in strong traction on delivery platforms. The company is focusing on gaining a strong presence on delivery platform with roll out of own app. Far lighter and faster than the average app, the RBA mobile app has all the features to ensure a seamless online ordering experience. In FY2022, RBA undertook multiple initiatives to strengthen the platform and build a robust delivery ecosystem. The app was revamped with an all-new visual identity and improved user interface and experience (UI/ UX). New features such as social media login, rider call activation and alternate payment gateway were added. A customer relationship management ('CRM') engine has also been successfully integrated into the app, which will efficiently help to provide better experience to guests. With more and more of guests staying awake late nights, app ecosystem with late night ordering capabilities allows it yet another way to connect with them and satiate their cravings. Other aspects include an omni-channel experience, be it for ordering in, dine-in, or takeaway and exclusive offers through digital coupons. BK Apps revenues grew by 13% on QoQ in Q1FY2023. Overall delivery growth stood at 69% in July-2022 (stood at 50% in Q1FY2023).

RBA App is gaining traction



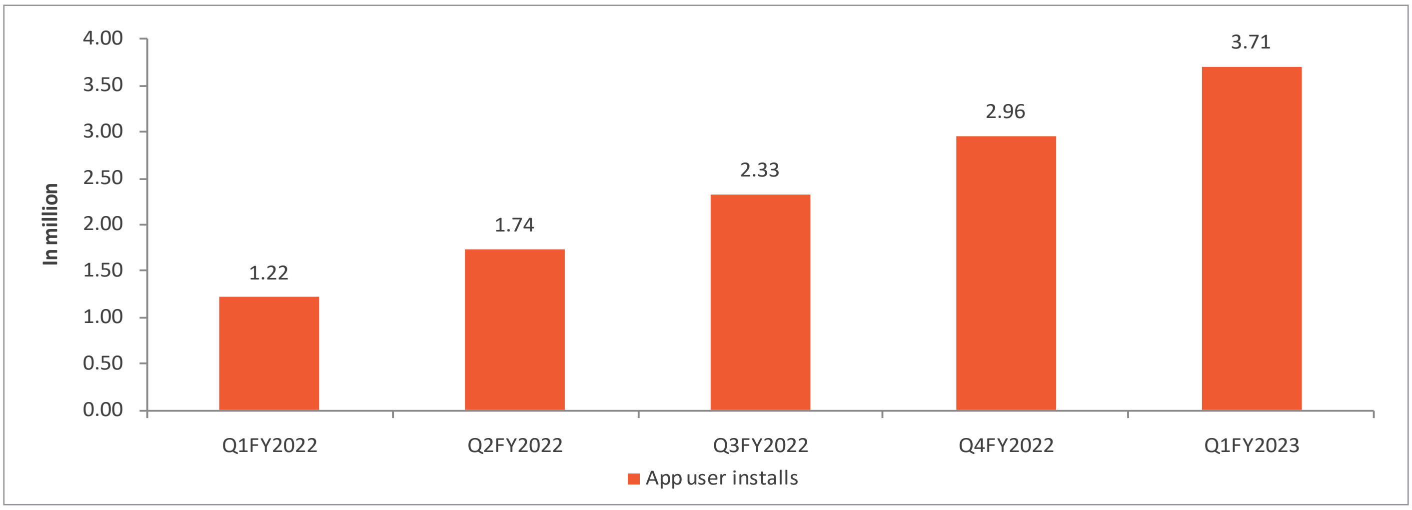
Source: Company; Sharekhan Research

Trend in delivery growth on App



Source: Company; Sharekhan Research

Increase in app user base

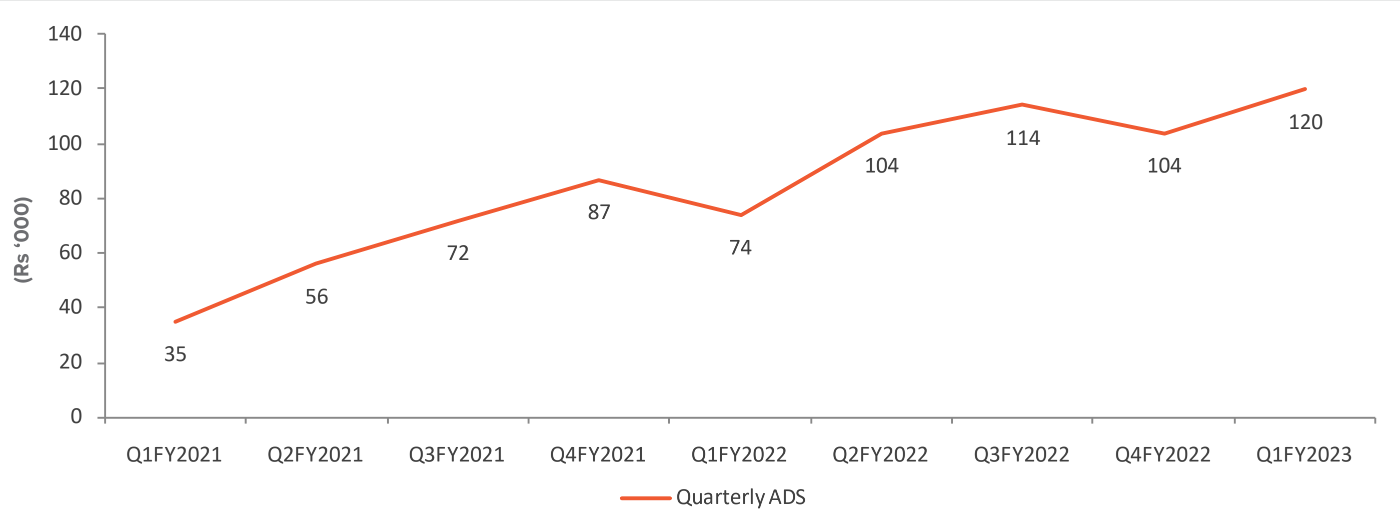


Source: Company; Sharekhan Research

ADS recovered strongly in Q1FY2023

RBA average delivery sales (ADS) stood at Rs. 1,20,000 in-line with Q1FY2020. In July 2022 it further improved to Rs. 1.31 lakh with sales momentum in India remaining encouraging. This was on back of sustained recovery in the dine-in to 59% in Q1FY2023 from 28% in Q1FY2022. With expected strong recovery in the dine-business, ADS is expected to improve further in the coming years. The company is initially targeting ADS to improve to Rs 1.5 lakh and would focus on reaching Rs. 2 lakh in the years ahead.

Quarterly ADS recovered strongly in Q1FY2023

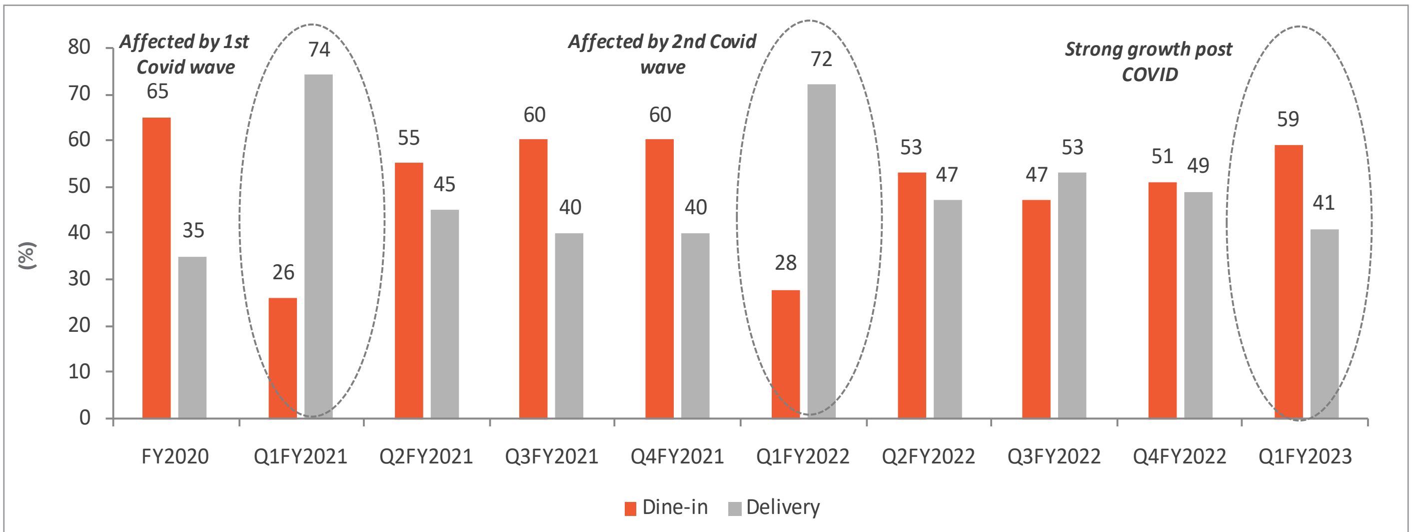


Source: Company; Sharekhan Research

Dine-in to Delivery ratio attained normalcy in Q1FY2023

RBA's dine-in to delivery ratio stood at 65:35 in the pre-covid era with higher footfalls and faster churn out leading to strong sales in the dine-in business. However, in the pandemic environment, the dine-in business was badly hit by lesser footfalls and restriction on dine-in most of the states. QSR formats that were largely chained were the first to show signs of recovery. To mitigate risks, these brands have shifted their focus to online delivery, either through their own platforms or through aggregator platforms. QSR brands leveraged offers like free delivery, combo meals, complimentary products, and late-night deliveries to manage economies of scale. In Q2FY2022, Dine-in to delivery sales mix stood at 53:47. Post the reduction in the covid-19 risk and strong recovery in the out-of-consumption, there shift in the mix to 41:59 in Q1FY2023 with dinning gaining strong momentum. Management is confident of dine-in business to recover to historical level of 60-62% by FY2023 in view of consumer's willingness to venture out for dinning/shopping, improved experiences at store level and higher traction at new launched BK Café.

Dine-in business mix improved to 59% in Q1FY2023

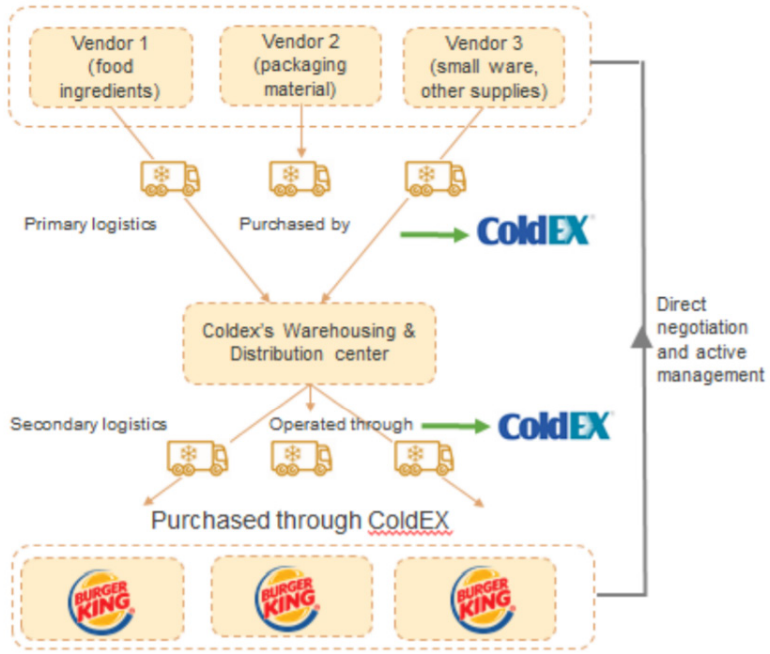


Source: Company; Sharekhan Research

Vertically managed and scalable supply chain model

RBA benefits from a vertically-managed and scalable supply chain model in which it individually negotiates with and actively manages suppliers of ingredients and packaging materials. The exclusive national rights and flexibility that the master franchisee arrangement provides RBA means that RBA has a significant control over the purchasing of the ingredients and packaging materials. Substantially, all ingredients used in the preparation of the food RBA serves in restaurants are purchased locally from known suppliers that comply with Burger King's food quality standards. RBA also has multiple suppliers for most of the company's key ingredients, enabling it to generate competitiveness among suppliers with the aim of obtaining the best procurement price. RBA regularly reviews supply contracts and negotiates individually with suppliers at each level of the company's supply chain. For a few select categories of ingredients, RBA also engages in strategic or long-term contracting, which helps the company to secure a pricing insulated from inflationary impacts. The company's arrangement with third-party distributors also helps it to reduce working capital requirements to a large extent. During COVID-19 crisis, RBA has continued to manage the company's supply chain and, in certain circumstances, has negotiated payment extensions from suppliers.

Supply chain arrangements with RBA's third-party distributors



Source: Company; Sharekhan Research

Revenues to clock CAGR of over 40% during FY2021-24

RBA's revenue registered a CAGR of ~50% over FY2018-FY2020 to Rs. 841.7 crore, largely driven by significant store addition in the past two years (from 88 stores in FY2018 to 260 stores in FY2020). Further, same-store-sales growth (SSSG) stood at 12.2% and 29.2%, respectively, in FY2018 and FY2019, which also helped in achieving strong revenue growth in the past two years. FY2021 was affected by pandemic with revenues declining by 41% y-o-y due to disrupted dine-in business. With strong store expansion strategy, strong shift to branded products, expected recovery in dine-in business due to recovery in footfalls, strong traction at newly launched BK cafe and scale-up in delivery sales would help the India business revenues to grow at CAGR of 59% over FY2021-24 to Rs. 1,976 crore. Further, expansion into the Indonesian market will incrementally add-on revenues of Rs. 700-800 crore over the next two years. Thus consolidated revenues are expected to grow at CAGR of 43% over FY2021-24 to Rs. 2,953 crore in FY2024.

Gross margins to improve to 66% and EBIDTA margins to hit 15% by FY2024

RBA's India business gross margin expansion is being driven by disciplined restaurant expansion, product mix, and scale benefits. Gross margin of the company improved from 62% in FY2018 to 64.2% in FY2020 and further improved to 66% in FY2022. Strong supply chain capabilities, improved mix to high margin products

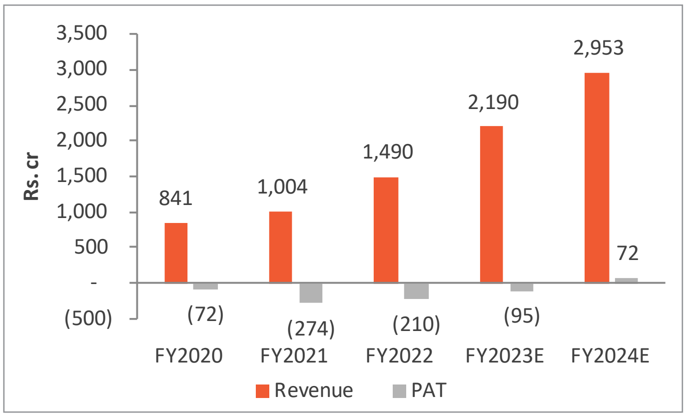
(Stunners have 66% gross margins) and scale benefits would help the India business gross margins to further improve to 68% by FY2024 (it stood at 66.5% in Q1FY2023). Further, the company is intending to leverage the vertically managed and scalable shared supply chain infrastructure with the third-party distributor for BK Indonesia. Gross margins of Indonesia business improved to 58.5% in FY2022 from 56.6% in FY2021 and the company is targeting gross margins to improve to 60% in FY2023 (eventual target is to achieve 65% gross margins). Indonesia business gross margins stood at 59.8% in Q1FY2023. As the number of restaurants grow using a cluster-based approach and penetration strategy, it is also intended to continue to drive down the distribution costs, which are embedded in the cost of material consumed, since this will enable RBA to supply multiple restaurants at lower per unit costs due to their proximity to each other and the distribution centres of the third-party distributor. These advantages will drive strategic cost efficiencies and help boost the EBIDTA margins as the business grow in India and Indonesia. Thus the consolidated EBIDTA margins are expected to improve to 15% in FY2024 from 6.5% in FY2022.

Return profile to improve; cash generation to improve in the coming years

RBA raised Rs. 1,500 crore through preferential allotment to fund the Indonesia business acquisition. The debt:equity ratio is comfortable at 0.2x in FY2022. We expect the company to utilise its incremental cash flows for its future capex. Despite a strong capex plan, the scale up in revenues and improvement in profitability coupled with negative working capital would help the company to generate cumulative free cash flow of ~Rs. 515 crore over FY2022-24. With no debt on books and expansion in the margins would help return profile to improve in the coming years. The company's RoE and RoCE is expected to improve to 7.1% and 10.1%, respectively by FY2024.

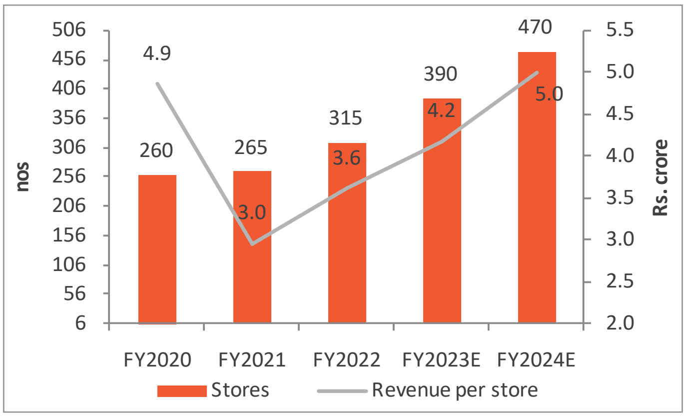
Financials in charts

Steady growth in revenue, profitability to improve



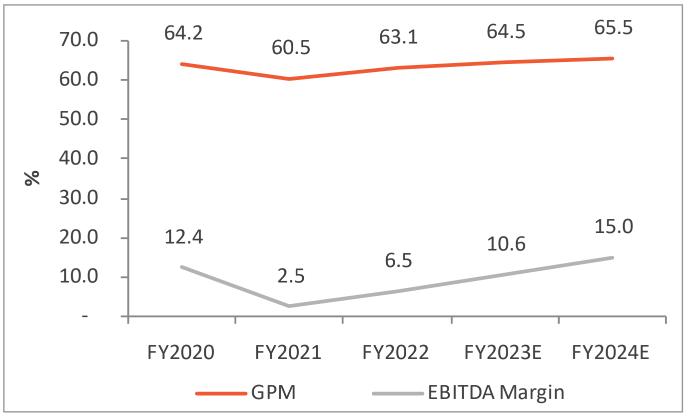
Source: Company; Sharekhan Research

Trend in store expansion & revenue per store



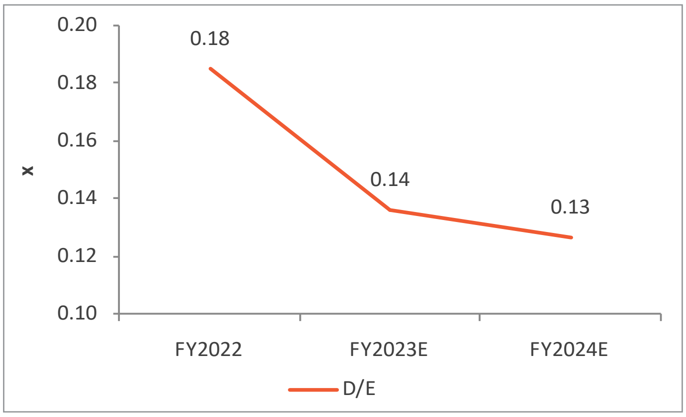
Source: Company; Sharekhan Research

Margins to improve from current levels



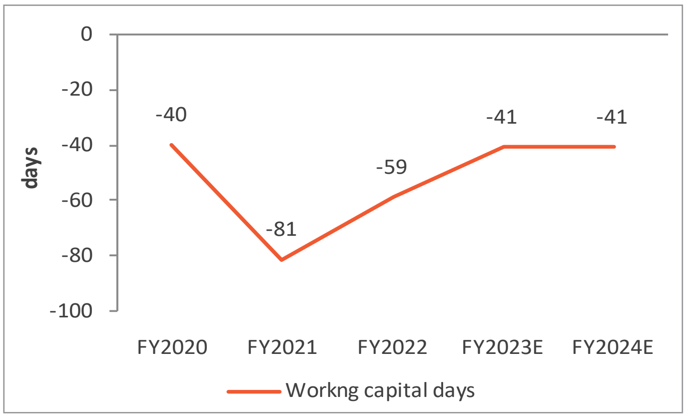
Source: Company; Sharekhan Research

Debt on book to reduce



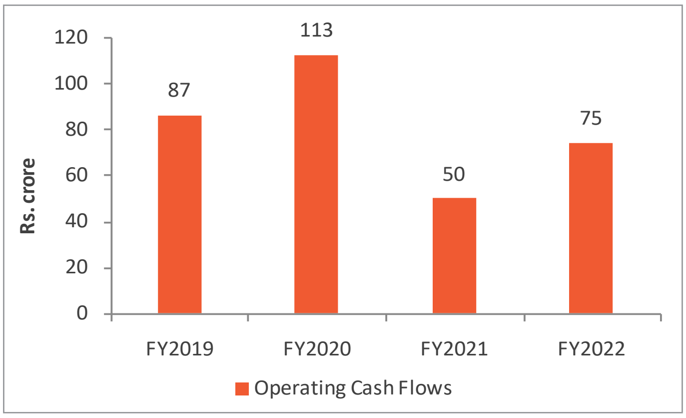
Source: Company; Sharekhan Research

Trend in working capital days



Source: Company; Sharekhan Research

Trend in operating cash flows



Source: Company; Sharekhan Research

About the company

Restaurant Brands Asia (formerly known as Burger King India) is the National Master Franchisee of the BURGER KING® brand in India. Incorporated in 2013, it launched its first restaurant in India in November 2014, with a target to open 700 restaurants by December 2026. Further, the agreement gives RBA long-term franchisee rights, extending till December 2039. Under the Master Franchise and Development Agreement (MFDA), the company has exclusive pan-India rights to develop, establish, operate and franchise Burger King branded restaurants in India. The company also has sub-franchise rights, which gives it additional flexibility in growing its restaurant network. The company has been one of the fastest to open 250 restaurants among all the international Quick Service Restaurant (QSR) chains in India. RBA also operates BK Cafés™ that primarily serve coffees, shakes and other beverages. As of June 30, 2022, the company had 328 Burger King restaurants in India including 9 sub-franchised restaurants and 86 BK Cafés™. In Indonesia, the company owns and operates 175 restaurants as on June 30, 2022.

Key strengths

Strengths	RBAL	BK Indonesia
Master Franchisee Arrangement	The master franchisee arrangement, provides with the ability to use Burger King's globally recognised brand name to grow its business in India, while leveraging the technical, marketing and operational expertise associated with the global brand. Further, provides the flexibility to tailor BK menu, promotions and pricing to the Indian tastes and preferences while meeting the quality standards.	The master franchisee arrangement, provides with the ability to use Burger King's globally recognised brand name to grow its business in Indonesia, while leveraging the technical, marketing and operational expertise associated with the global brand. Further, provides the flexibility to tailor BK menu, promotions and pricing to the Indonesian tastes and preferences while meeting the quality standards.
Unique Value Proposition	The company's aim has not only been to offer quality products that are tailored to Indian taste and preferences, but also to provide substantial value at attractive price points. The key driver of this strategy has been the Company's promotions that focus on value and variety with different taste profiles and product formats.	The key driver of BK Indonesia strategy has been its two value menus: the "Menu Bokek", and the "King Deals" offer a full meal. Besides, BK Indonesia has extensive value offerings through third-party aggregators and actively deploys festivals/themes promotions. This enables it to reach a broad consumer base
Wide Range of Offerings	The company has a wide variety of 25 different vegetarian and non-vegetarian burgers covering both value and premium offerings. Menu items tailored to cater to the local Indian palate and include a wide range of vegetarian meal options, which is believed to attract additional customers into its restaurants. The Company has also separated the cooking and preparation of vegetarian, egg and non-vegetarian products in the kitchens to build trust with the customers	Provides a wide variety of burgers covering both value and premium offerings. It serves a wide range of fried chicken offerings including fried bone in chicken, chicken burgers and snacks, and its freshly-battered fried chicken, which was developed based on customer demand, is one of its key menu offerings in Indonesia.
Taste advantage and flame grilling expertise	The menu is built through extensive taste testing in order to appeal to the Indian palate and the taste of our customers. Major strength is the flame grilling expertise, and each of the restaurants has this capability, for which the Company imports specially-designed patented broiler equipment, as well as that all of the food is free from synthetic colours and artificial flavours.	Besides the taste that extensively caters to the Indonesian palate, BK Indonesia as well offers its customers 'clean food' made with ingredients containing no artificial flavours, no artificial preservatives and no artificial colours. It has also removed ingredients such as MSG and high-fructose corn syrup, while still serving the same Burger King flame-grilled flavour.
Brand positioning for Millennials	The Company has positioned its brand to target the millennial population. The Company connects with them through its value leadership, strong entry menu at attractive price points and unique advertising and marketing campaigns such as "#Wraps Without Gaps, #LonelyClown", #DateTheWhopper, #ItsNotABurgerItsAWhopper, #GreatestHack and #SoberWhopper" campaigns, which focus on the Burger King brand being about selfexpression.	BK Indonesia connects with millennials, through its value leadership, innovative launches, guest-facing technology and its strong entry menu at attractive price points. Its recent advertising campaigns targeting the young population in Indonesia have included its launch of its "Menu Bokek" value menu, its plant-based WHOPPER® and the relaunch of its value-oriented fried chicken offerings, such as "King's Chicken" featuring celebrities and video games that are popular with millennials. Additionally, innovative and creative menus such as the "Tropical Delight", "New Kuro Ninja" burgers and the "Purple Seoul" burger range are aimed at attracting younger customers that seek non-traditional menus with visual appeal that can be considered interesting and exciting.

Source: Company; Sharekhan Research

Key management personnel

- **Shivakumar Pullaya Dega, Chairman:** Mr. Dega was appointed as an Independent Director of the company on October 14, 2019. He studied at IIT, Madras. He is also an alumnus of Indian Institute of Management, Calcutta. He joined Aditya Birla Group in January 2018 and is currently serving as the Group Executive President for corporate strategy and business development of Aditya Birla Management Corporation Private Limited. He has previously served as the Chairman and Chief Executive Officer (India region) of PepsiCo India Holdings Private Limited and as Managing Director of Nokia India Private Limited. He has significant experience in, among others, food and beverage industry and mobile industry.
- **Rajeev Varman, Chief Executive Officer:** Mr. Varman was appointed as the Chief Executive Officer and whole-time director on February 27, 2014. He holds a Bachelor's degree in mechanical engineering from Bangalore University and a Master's degree of Business Administration in marketing from the Golden Gate University. He has over 20 years of work experience in the food and beverage industry. Prior to joining the company, he has worked with the Tricon/Taco Bell brand, Lal Enterprises Inc., and Burger King Corporation, where he held the positions of franchisee business manager, national manager franchise operations, senior director of franchise operations, general manager, vice president, and general manager, Canada, and vice president and general manager, Northwest Europe.
- **Sumit P. Zaveri, Group Chief Financial Officer and Chief Business Officer:** Mr. Zaveri holds a Bachelor's degree in Commerce from the University of Bombay and is an associate member of the Institute of Chartered Accountants of India. He also holds a degree from the Institute of Cost and Works Accountants of India. He has 18 years of work experience in finance control, treasury, budgeting, and management information systems. Previously, he has worked with companies such as Natures Basket Limited and companies within Tata Group such as Tata Starbucks Limited, Tata Global Beverages Limited, and Indian Hotels Company Limited.

Right Valuation - Strong store expansion and improved profitability will drive growth; valuation attractive

■ Sector view - Long-term growth prospects of QSR industry is intact

After COVID-led disruptions caused a lull for two years, QSRs are geared up for a solid recovery in FY2023 and FY2024. Most companies bounced back in Q1FY2023 with their average daily sales (ADS) crossing pre-COVID levels. This was led by a strong recovery in dine-in business, higher footfalls, sustained frequency of orders through digital platforms and a large shift to branded products. The industry expects strong momentum to sustain in the quarters ahead with stark improvement in same-store sales. Further, companies have opted for strong store expansions in every market to improve brand penetration in the coming years. QSRs' long-term growth prospects are intact and QSRs are poised to beat the food-services industry on higher demand for out-of-home consumption, market share gains from unorganised players, rise of online delivery and food technology, menu innovation driving new demand and incremental demand on account of offers and discounts. With robust growth drivers, QSRs are likely to grow strongly, outpacing other sub-segments in the food service industry in the coming years.

■ Company outlook - Scale up to drive profitability in the medium term

RBA has robust store expansion plans and wants to exit FY2026 with store count of 700 stores from current 328 stores (addition of 70-75 stores per annum). Thus strong store expansion plan, differentiated menu strategy and strong traction on digital platform will help the company's revenues to grow at 43% CAGR over FY2022-24 to ~Rs. 2,950 crore and EBIDTA margins at ~15% by FY2024. Further, the introduction of BK Café and Acquisition of Indonesia business will drive next league of the growth for the company.

■ Valuation - Initiate with Buy and PT of Rs. 175

RBA is one of the emerging players in the domestic QSR market and is trying to establish its foothold through strong store expansion strategy, a differential menu, expanding digital footprints and strong promotional strategy. With scale up of the business and improvement in profitability, the company's free cash generation will get better in the medium to long run. Further, expansion in the Indonesian market and introduction of BK café will incrementally add-on to the revenues and profitability in the long run. The stock has corrected by ~24% from its high and is currently trading at 27.1x/14.1x its FY2023E/24E EV/EBDITA. We initiate coverage on the stock with a Buy recommendation and a PT of Rs. 175.

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Devyani International	-	60.3	45.4	46.3	28.3	20.6	15.4	24.0	27.4
Restaurant Brands Asia	-	-	90.0	61.8	27.1	14.1	-	-	10.1
Jubilant Foodworks	18.0	12.8	8.9	37.5	29.2	22.6	21.3	23.4	27.6
Westlife Development	-	-	78.4	54.0	28.7	23.7	-	10.1	11.6
Sapphire Foods	-	69.5	47.4	28.2	17.9	13.2	11.3	19.0	25.4

Source: Sharekhan estimates & consensus estimates
Note: Financials are consolidated after recent acquisition of BK Indonesia

Key Financials

Statement of Profit and Loss Rs cr

Particulars	FY2021	FY2022	FY2023E	FY2024E
Total Revenue	**1,004.0**	**1,490.3**	**2,189.8**	**2,953.4**
y-o-y %	19.3	48.4	46.9	34.9
Raw Material Cost	396.8	549.8	777.4	1,018.9
Employee Cost	220.3	266.8	360.2	450.2
Other Expenses	164.0	255.3	317.5	369.2
Rent	0.0	31.2	65.7	88.6
Power & Fuel	91.9	130.2	186.1	243.7
Advertisement and Sales Promotion	71.3	96.1	153.3	206.7
Royalty Fees	34.7	64.3	98.5	132.9
Total Operating Cost	**979.0**	**1,393.7**	**1,958.7**	**2,510.2**
EBITDA	**24.9**	**96.5**	**231.1**	**443.2**
y-o-y %	-76.0	-	-	91.8
Other Income	34.1	22.4	25.0	25.0
Interest & Other Financial Cost	104.4	95.4	85.6	83.6
Depreciation	228.9	233.6	265.4	300.1
Profit Before Tax	**-274.4**	**-210.0**	**-95.0**	**84.4**
Tax Expense	0.0	0.0	0.0	12.7
Adjusted PAT	**-274.4**	**-210.0**	**-95.0**	**71.7**
y-o-y %	-	-23.5	-54.8	-
Exceptional Items	-7.7	-25.2	-	-
Reported PAT	**-282.1**	**-184.8**	**-95.0**	**71.7**

Source: Company; Sharekhan estimates
Note: Financials are consolidated after recent acquisition of BK Indonesia

Cash flow statement Rs cr

Particulars	FY2021	FY2022	FY2023E	FY2024E
Operating cash flow before working capital changes	-45.4	23.6	170.4	371.9
Changes in working capital	160.6	-21.4	-5.3	52.1
Cash flow from operating activities	115.1	2.3	165.1	424.0
Cash flow from investing activities	-855.7	-505.7	-75.9	-295.0
Cash flow from financing activities	825.5	602.4	-251.3	-99.9
Net change in cash and cash equivalents	**84.9**	**99.0**	**-162.1**	**29.1**
Opening cash balance	4.1	89.0	188.0	25.8
Closing cash balance	**89.0**	**188.0**	**25.8**	**55.0**

Source: Company; Sharekhan estimates
Note: Financials are consolidated after recent acquisition of BK Indonesia

Balance sheet Rs cr

Particulars	FY2021	FY2022	FY2023E	FY2024E
Sources of Funds				
Equity Capital	383.0	492.7	492.7	492.7
Reserves & Surplus	-298.1	547.8	452.8	524.5
Net Worth	**84.9**	**1,040.5**	**945.5**	**1,017.3**
Minority Interest	**25.2**	**27.7**	**27.7**	**27.7**
Long term liabilities				
Borrowings	188.8	87.7	0.0	0.0
Lease liabilities	581.3	680.4	580.4	480.4
Other liabilities	2.5	2.6	2.7	2.8
Total long term liabilities	**772.6**	**770.7**	**583.1**	**483.2**
Short term liabilities				
Borrowings	55.6	54.2	54.2	54.2
Lease liabilities	75.6	64.5	64.5	64.5
Other financial liabilities	625.1	73.7	10.0	10.0
Total short term liabilities	**756.3**	**192.5**	**128.8**	**128.8**
Capital Employed	**1,639.0**	**2,031.4**	**1,685.1**	**1,657.0**
Application of Funds				
Net Block	1,352.7	1,466.0	1,468.6	1,463.5
Capital WIP	47.5	18.1	20.0	20.0
Intangible Assets	37.9	47.6	47.6	47.6
Current Assets	**527.8**	**853.1**	**523.7**	**589.8**
Other Current Assets	44.6	79.3	87.2	96.0
Inventories	19.6	22.8	30.2	42.3
Sundry Debtors	8.6	13.4	16.6	23.1
Fixed Deposits with Bank	315.5	494.1	300.0	300.0
Cash and Bank Balance	89.0	188.0	25.8	55.0
Loans and Advances	50.5	55.6	63.9	73.5
Less: Current Liabilities & Provisions	**326.9**	**353.3**	**374.8**	**463.9**
Sundry Creditors	245.6	258.7	268.3	343.9
Other Current Liabilities	28.7	44.9	49.4	54.3
Provisions	52.7	49.7	57.1	65.7
Net Current Assets	**200.9**	**499.8**	**148.9**	**125.9**
Net Assets	**1,639.0**	**2,031.4**	**1,685.1**	**1,657.0**

Source: Company; Sharekhan estimates
Note: Financials are consolidated after recent acquisition of BK Indonesia

Key ratios Rs cr

Particulars	FY2021	FY2022	FY2023E	FY2024E
Margins & tax rate (%)				
GPM	60.5	63.1	64.5	65.5
EBITDA margin	2.5	6.5	10.6	15.0
NPM	-27.3	-14.1	-4.3	2.4
Tax rate	0.0	0.0	0.0	15.0
As percentage of revenues (%)				
Raw material cost	39.5	36.9	35.5	34.5
Employee cost	21.9	17.9	16.4	15.2
Rent	0.0	2.1	3.0	3.0
Advertisement spends	7.1	6.4	7.0	7.0
Other expenses	29.0	30.2	27.5	25.3
Total operating cost	**97.5**	**93.5**	**89.4**	**85.0**
Growth ratios (%)				
Revenues	19.3	48.4	46.9	34.9
EBITDA	-76.0	-	-	91.8
PBT	-	-23.5	-54.8	-
Adjusted PAT	-	-23.5	-54.8	-
Reported PAT	-	-34.5	-48.6	-
Per share (Rs.)				
CMP	131	131	131	131
Adjusted EPS	-7.2	-4.3	-1.9	1.5
Adjusted EPS - Diluted	-7.2	-4.3	-1.9	1.5
Reported EPS - Diluted	-7.2	-5.5	-2.5	1.9
Cash EPS	-1.2	0.5	3.5	7.5
BVPS	2.2	21.1	19.2	20.6
Valuation ratios (x)				
P/E	-	-	-	90.0
Price / Book value	59.1	6.2	6.8	6.3
EV / EBIDTA	-	61.8	27.1	14.1
EV / Sales	5.3	4.0	2.9	2.1
Market cap / Sales	5.0	4.3	2.9	2.2
Financial ratios				
Inventory days	7.1	5.6	6.0	6.0
Debtors Days	3.1	3.3	3.3	3.3
Creditors Days	91.6	67.8	50.0	50.0
Operating cash cycle (days)	**-81**	**-59**	**-41**	**-41**
Debt / Equity (x)	8.9	0.2	0.1	0.1
RoE (%)	-	-	-	7.1
RoCE (%)	-	-	-	10.1

Source: Company; Sharekhan estimates
Note: Financials are consolidated after recent acquisition of BK Indonesia

About company

Restaurant Brands Asia (formerly known as Burger King India) is the National Master Franchisee of the BURGER KING® brand in India and Indonesia. The company was incorporated in 2013 and launched its first restaurant in India in November 2014, with a target to open 700 restaurants by December 2026. RBA also operates BK Cafés™ that primarily serve coffees, shakes and other beverages. As of June 30, 2022, the company had 328 Burger King restaurants in India including 9 sub-franchised restaurants and 86 BK Cafés™. In Indonesia, the company owns and operates 175 restaurants as on June 30, 2022. The company's strategic pillars are its value leadership, brand positioning, specialised menu and disciplined growth among others.

Investment theme

RBA is emerging is one of the emerging and fastest growing QSR player in India with market share of less than 5% in the India's QSR market. Long term franchisee agreement with 'Burger Kings', Differentiated and localisation of menu provides edge over its peers to scale up fast in the domestic market. This along with additional growth levers coming in from introduction of BK Café and expansion in the Indonesia market will help the company to achieve strong and consistent revenue growth in the medium to long run. Improvement in the new store fundamentals, better mix and improving profitability of Indonesia business will drive earnings in the coming years. Strong earnings growth with negative working capital will help in driving higher cash flows in the coming years.

Key Risks

- **Slowdown in demand:** Any slowdown in the demand environment would impact revenue growth.
- **Increased raw-material costs:** A significant increase in key raw-material prices would impact profitability.
- **Increased competition:** Increased competition in the QSR category would act as a threat to revenue growth.

Additional Data

Key management personnel

Shivakumar Pullaya Dega	Chairman and Independent Director
Rajeev Varman	Chief Executive Officer
Sumit P. Zaveri	Chief Financial Officerand Chief Business Officer
Madhulika Rawat	Company Secretary & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Amansa Investments Ltd	5.72
2	FMR LLC	5.11
3	Aditya Birla Sun life AMC	3.00
4	Newport Asia Institutional	2.58
5	Amansa Holdings	2.49
6	Bajaj Allianz Life Insurance Company	2.08
7	Newport Asia Partners Fund	1.93
8	Aryaman Capital Markets Ltd	1.81
9	Nippon Life AMC	1.80
10	Valiant Mauritius Partners Ltd	1.78

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Compliance Officer: Ms. Priya Sonavane; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.