

November 11, 2022

Q2FY23 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	156		156	
Sales (Rs. m)	20,023	25,755	20,023	25,755
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,251	4,874	3,251	4,874
% Chng.	-	-	-	-
EPS (Rs.)	0.3	2.5	0.3	2.5
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	9,437	14,953	20,023	25,755
EBITDA (Rs. m)	902	1,844	3,251	4,874
Margin (%)	9.6	12.3	16.2	18.9
PAT (Rs. m)	(929)	(599)	143	1,231
EPS (Rs.)	(1.9)	(1.2)	0.3	2.5
Gr. (%)	(56.5)	(35.5)	(123.8)	763.1
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(7.1)	(3.1)	0.8	6.3
RoCE (%)	(3.5)	0.1	5.0	10.8
EV/Sales (x)	6.0	3.9	3.0	2.3
EV/EBITDA (x)	63.2	31.8	18.2	11.9
PE (x)	(66.8)	(103.6)	435.4	50.5
P/BV (x)	3.2	3.3	3.3	3.1

Key Data

RESR.BO | RBA IN

52-W High / Low	Rs.169 / Rs.87
Sensex / Nifty	61,795 / 18,350
Market Cap	Rs.62bn/ \$ 769m
Shares Outstanding	493m
3M Avg. Daily Value	Rs.121.2m

Shareholding Pattern (%)

Promoter's	40.90
Foreign	28.16
Domestic Institution	9.06
Public & Others	21.88
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.1)	38.8	(21.6)
Relative	(7.6)	21.5	(23.9)

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Restaurant Brands Asia (RBA IN)

Rating: ACCUMULATE | CMP: Rs126 | TP: Rs156

BK India progress as planned; Indonesia WIP

Quick Pointers:

- On track to achieve 390 stores for BK India and 250 BK Café by 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/margins despite increase in operating expenses due to aggressive opening of Burger King stores and BK cafe. ADS has moved up from Rs 120k in 1Q23 to Rs 127k in 2Q23 enabled by marketing investments and success of innovations. BK is looking at graduating consumers from Stunner to Kings range over time which is sales and margin accretive. Indonesia operations continues to have lower ADS with 73% recovery vs pre-COVID & focus on menu architecture, new entry range 'Gokil' and enhanced marketing spends. Indonesia reported sales of Rs1.57bn and Pre IND AS EBITDA loss of Rs272mn (Rs135mn in 1Q). Accelerated ramp up of BK Café in FY23 to 250 and increase in consumption occasions with breakfast in non-peak hours will boost ADS/store.

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 (334 in 2Q23), 2) consumer acceptance of Stunner Menu and new innovations in Whopper 3) fixed royalty at 5% 4) success of BK café with wide menu options. We believe Indonesia business will take time to turnaround given delay in post COVID recovery, business restructuring and likely initial losses in Popeyes (5 in FY23). We value the company at Rs 156 (unchanged) on SOTP basis. Maintain ACCUMULATE.

2Q23 SSSG of 27%: India sales grew 50% YoY to Rs3.7bn. Gross margins expanded 99bps YoY to 66.4%. EBITDA grew 64.4% YoY to Rs420.8mn; Margins expanded 100bps YoY to 11.4%. Adj loss stood at Rs 133mn in 2Q23 vs Rs 202mn in 2Q22. SSSG stood at 27%. Added 6 BK stores in 2Q23 (total 334) and 94 BK Café (total 180). **Indonesia** sales grew 39.8% YoY to Rs1.6bn. Gross margins expanded 250bps YoY to 60.5%. 2Q23 EBITDA loss Rs 169mn vs Rs118mn YoY.

Concall Takeaways: 1) India revenues grew 9% QoQ led by ADS increase of 6% QoQ. 2) Restaurant ADS saw growth with help from Stunner range, BK Café and breakfast range in high street stores. 3) Operating leverage to GM gains, rental & utility costs and employee expenses. 4) Everstone to sell stake in F&B Asia Ventures (Singapore) in FY23/24 on end of fund life. 5) Store guidance remains unchanged with 390/470 stores in FY23/24. 6) Avg capex per store incl BK Café stands at Rs32mn; sees inflation of 4-5% 7) Indonesia business lags India by 3-4 months in recovery from COVID. 8) Indonesia expected to recover by Mar'23 vs initial guidance of Dec'22. 9) Change in menu architecture required to help drive growth. 10) Gokil range menu launched in Indonesia similar to India's Stunner range. 11) Popeyes to see 5 stores added in Indonesia in FY23 as brand viability is tested. 12) Opportunity to increase gross margins via RM imports to Indonesia from India.

Exhibit 1: 2QFY23 Results – India Net sales up 50%, Margins increased by 100bps YoY

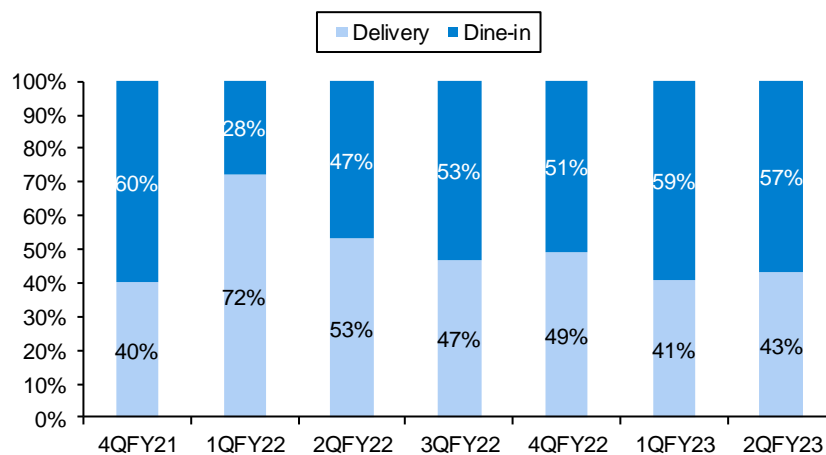
(Rs mn)	2QFY23	2QFY22	YoY gr. (%)	1QFY23	1HFY23	1HFY22	YoY gr. (%)
Net Sales	3,680	2,454	50.0	3,369	7,050	3,951	78.4
Gross Profit	2,443	1,605	52.2	2,236	4,679	2,581	81.3
% of NS	66.4	65.4	1.0	66.4	66.4	65.3	1.1
EBITDA	421	256	64.4	332	753	271	177.6
Margins %	11.4	10.4	1.0	9.9	10.7	6.9	3.8
Depreciation	426	334	27.8	461	887	662	34.0
Interest	206	167		196	402	334	
Other Income	79	43	84.1	97	176	80	120.7
PBT	(133)	(202)	(34.4)	(227)	(360)	(646)	(44.2)
Tax	-	-		-	-	-	
Tax rate %	0.0	0.0	-	0.0	0.0	0.0	-
Adjusted PAT	(133)	(202)	(34.4)	(227)	(360)	(646)	(44.2)

Source: Company, PL

Exhibit 2: 2QFY23 Results – Indonesia Net Sales grew 39.8%; Margins declined by 818bps QoQ

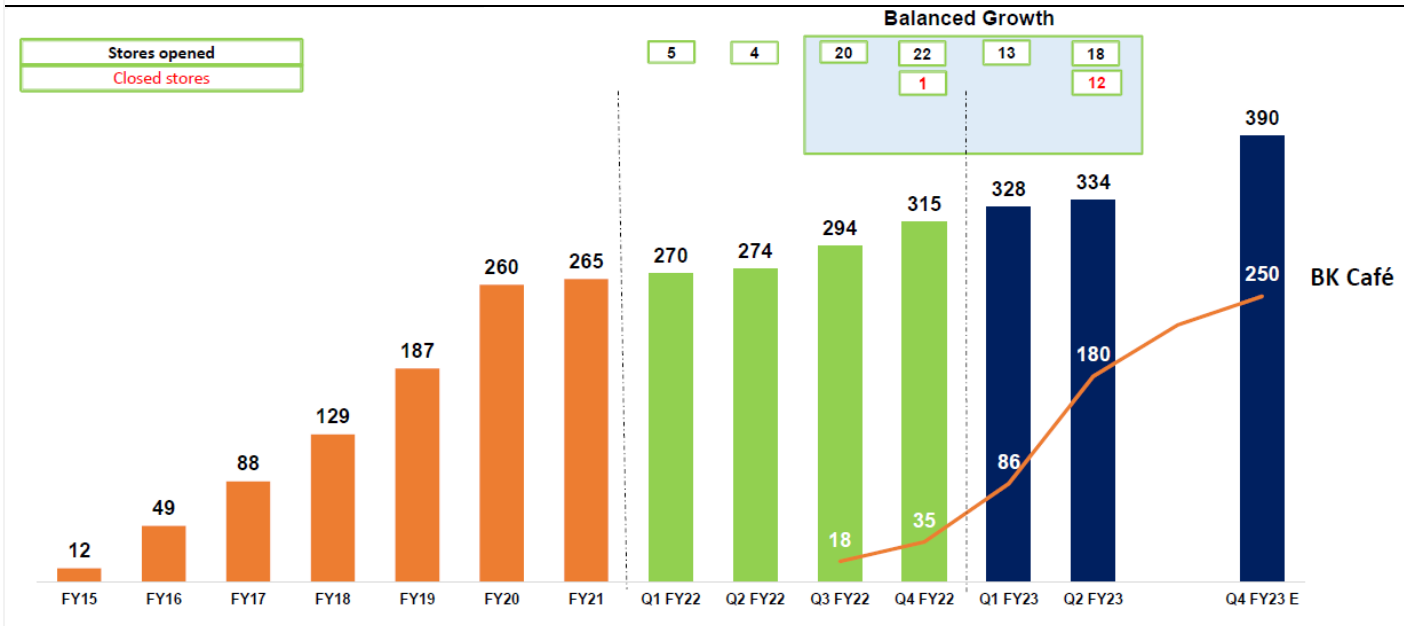
(Rs mn)	2QFY23	2QFY22	YoY gr. (%)	1QFY23	1HFY23	1HFY22	YoY gr. (%)
Net Sales	1,567	1,121	39.8	1,523	3,090	2,600	18.9
Gross Profit	948	650	45.9	912	1,860	1,500	24.0
% of NS	60.5	58.0	2.5	59.9	60.2	57.7	2.5
EBITDA	-169	-118	43.3	-40	-209	-25	725.4
Margins %	(10.8)	(10.5)	(0.3)	(2.6)	(6.8)	(1.0)	(5.8)
Depreciation	242	246	(1.5)	239	481	492	(2.3)
Interest	35	62	(43.4)	36	71	124	(42.9)
Other Income	28	4	646.3	33	61	15	304.2
PBT	(418)	(422)	(0.9)	(282)	(699)	(626)	11.8
Tax	-	-		-	-	-	
Tax rate %	0.0	0.0	-	0.0	0.0	0.0	-
Adjusted PAT	(418)	(422)	(0.9)	(282)	(699)	(626)	11.8

Source: Company, PL

Exhibit 3: Dine-in Sales at 57% during 2QFY23


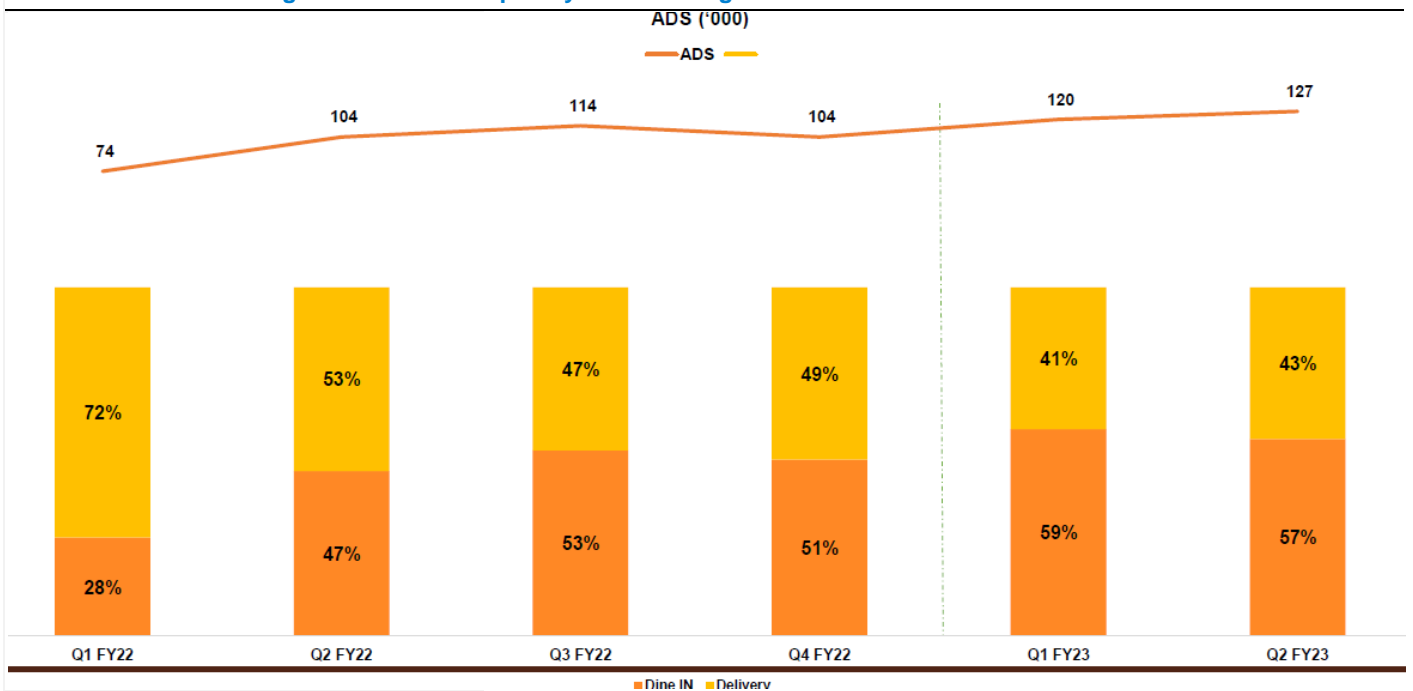
Source: Company, PL

Exhibit 4: Total store count at 334 in 2QFY23 and to reach 390 by 4QFY23



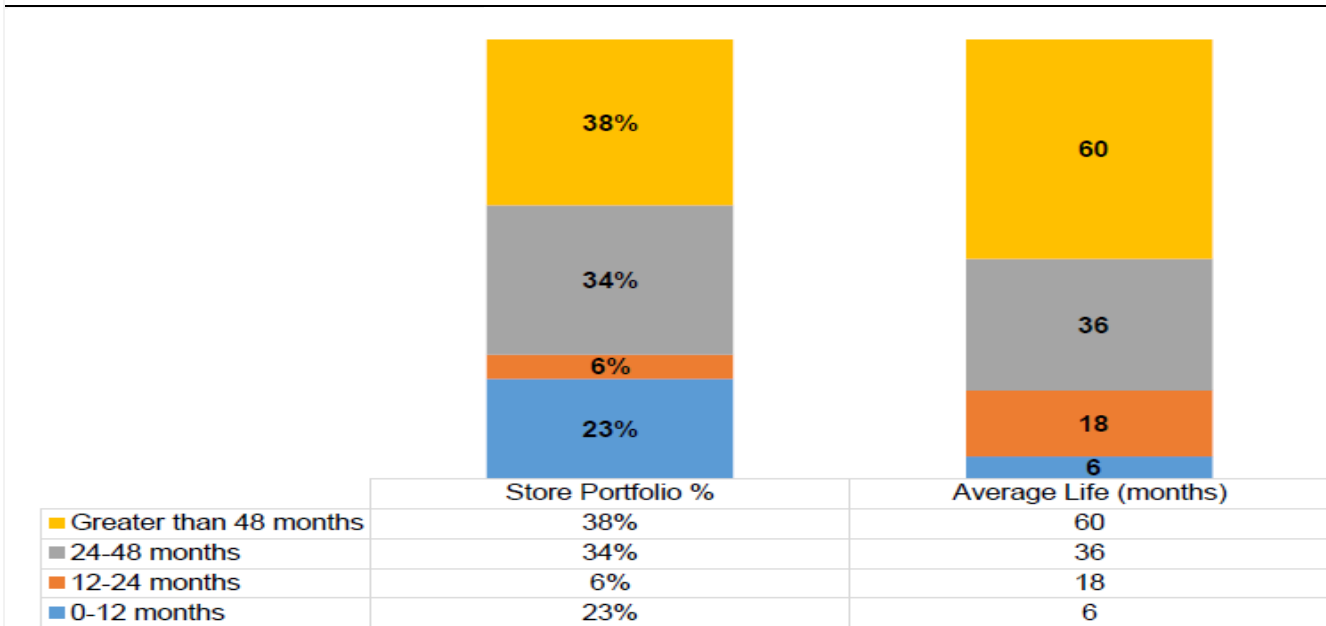
Source: PL, Company

Exhibit 5: ADS trends higher in 2QFY23 helped by Stunner range



Source: PL, Company

Exhibit 6: Average portfolio age of 3.5 years



Source: Company, PL

Exhibit 7: BK Café saw sharp store additions in 2Q23

- Opened 94 BK Cafés in Q2 FY23; 180 BK Café as at September'22
- All restaurants opened during the year have BK Café
- ~7% uplift in ADS in Restaurants with BK Café
- Scale Up Phase
 - Continue to push awareness and trials in BK Café
 - Driving breakfast daypart

Source: PL, Company

Exhibit 8: We assign target price of Rs 156 for overall business

SOTP	Basis	X	EV	Value/Share
India	DCF			130
Indonesia	EV/EBIT	6.0	7293	18
Cash				9
Total Value/share				156

Source: Company, PL

Exhibit 9: New launches to keep excitement going



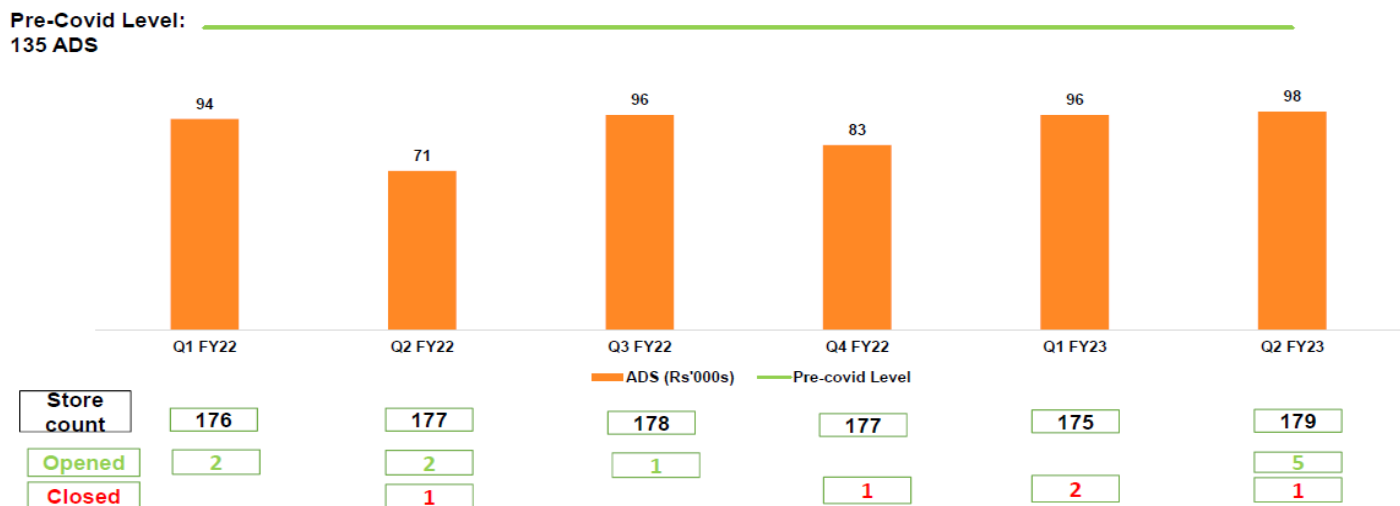
- Whopper inspired by middle eastern flavours in line with market trends



- Whopper inspired by local Indian flavours and consumer preferences

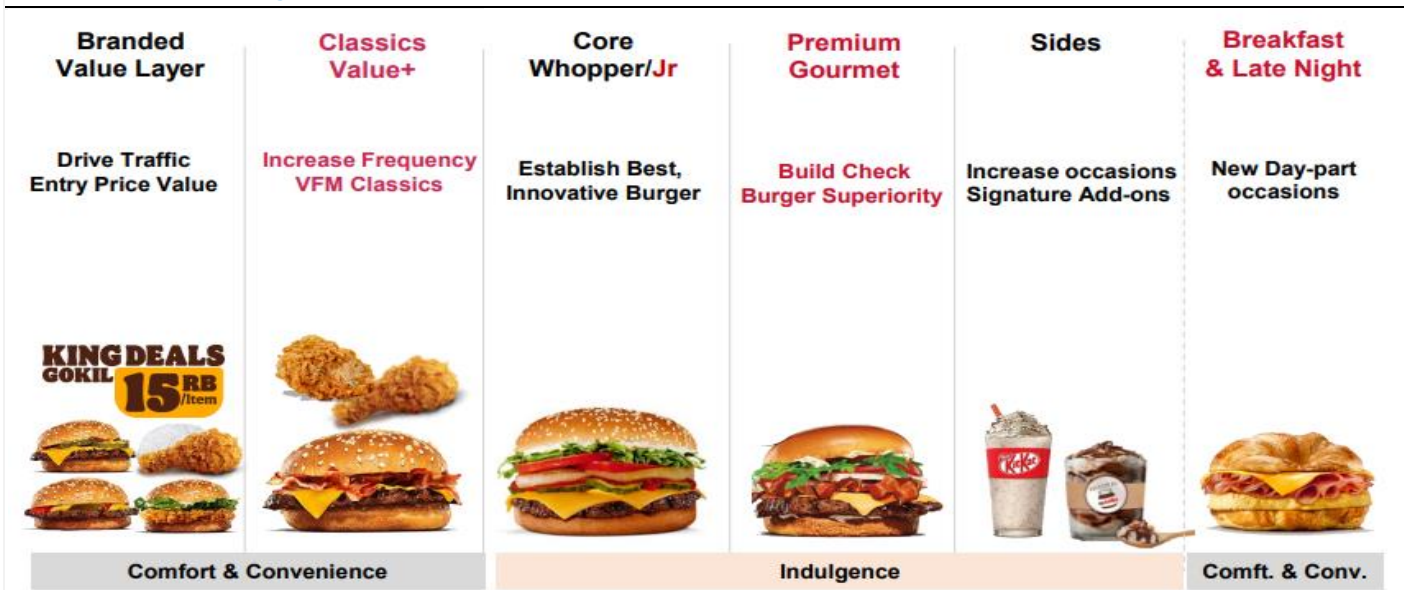
Source: PL, Company

Exhibit 10: Indonesia ADS continues to remain well below



Source: PL, Company

Exhibit 11: RBA working to improve Indonesia menu architecture



Source: PL, Company

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	9,437	14,953	20,023	25,755
YoY gr. (%)	90.9	58.4	33.9	28.6
Cost of Goods Sold	3,231	4,979	6,507	7,984
Gross Profit	6,206	9,973	13,515	17,771
Margin (%)	65.8	66.7	67.5	69.0
Employee Cost	1,540	2,346	2,925	3,625
Other Expenses	424	715	997	1,283
EBITDA	902	1,844	3,251	4,874
YoY gr. (%)	501.7	104.4	76.3	49.9
Margin (%)	9.6	12.3	16.2	18.9
Depreciation and Amortization	1,357	1,833	2,298	2,759
EBIT	(455)	11	953	2,116
Margin (%)	(4.8)	0.1	4.8	8.2
Net Interest	680	856	1,007	1,116
Other Income	205	246	197	231
Profit Before Tax	(929)	(599)	143	1,231
Margin (%)	(9.8)	(4.0)	0.7	4.8
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after tax	(929)	(599)	143	1,231
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	(929)	(599)	143	1,231
YoY gr. (%)	(44.1)	(35.5)	(123.8)	763.1
Margin (%)	(9.8)	(4.0)	0.7	4.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(929)	(599)	143	1,231
YoY gr. (%)	(46.6)	(35.5)	(123.8)	763.1
Margin (%)	(9.8)	(4.0)	0.7	4.8
Other Comprehensive Income	(7)	-	-	-
Total Comprehensive Income	(936)	(599)	143	1,231
Equity Shares O/s (m)	493	493	493	493
EPS (Rs)	(1.9)	(1.2)	0.3	2.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	17,229	21,585	26,236	30,781
Tangibles	16,784	21,096	25,699	30,190
Intangibles	444	489	538	591
Acc: Dep / Amortization	5,654	7,487	9,785	12,544
Tangibles	5,564	7,371	9,641	12,370
Intangibles	91	116	144	175
Net fixed assets	11,574	14,098	16,451	18,237
Tangibles	11,220	13,725	16,057	17,820
Intangibles	354	373	394	417
Capital Work In Progress	107	385	440	440
Goodwill	-	-	-	-
Non-Current Investments	11,408	11,468	11,560	11,656
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	282	325	332	334
Current Assets				
Investments	4,023	3,250	2,800	3,800
Inventories	135	205	267	328
Trade receivables	92	143	192	247
Cash & Bank Balance	1,063	172	86	164
Other Current Assets	131	328	419	513
Total Assets	28,900	30,466	32,649	35,831
Equity				
Equity Share Capital	4,927	4,927	4,927	4,927
Other Equity	14,576	13,965	14,108	15,339
Total Network	19,503	18,893	19,035	20,266
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	256	310	377	458
Other non current liabilities	7	7	8	8
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,358	1,968	2,360	2,779
Other current liabilities	1,096	1,283	1,408	1,518
Total Equity & Liabilities	28,900	30,466	32,649	35,831

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	(929)	(599)	143	1,231
Add. Depreciation	1,357	1,833	2,298	2,759
Add. Interest	680	856	1,007	1,116
Less Financial Other Income	205	246	197	231
Add. Other	(206)	12	61	79
Op. profit before WC changes	901	2,101	3,508	5,184
Net Changes-WC	669	473	304	308
Direct tax	-	-	-	-
Net cash from Op. activities	1,570	2,573	3,812	5,493
Capital expenditures	(13,965)	(4,634)	(4,707)	(4,545)
Interest / Dividend Income	-	-	-	-
Others	(2,815)	712	358	(1,096)
Net Cash from Invt. activities	(16,779)	(3,922)	(4,348)	(5,641)
Issue of share cap. / premium	13,705	(11)	-	-
Debt changes	1,086	1,324	1,457	1,341
Dividend paid	-	-	-	-
Interest paid	(680)	(856)	(1,007)	(1,116)
Others	-	-	-	-
Net cash from Fin. activities	14,111	457	451	225
Net change in cash	(1,098)	(891)	(85)	77
Free Cash Flow	(12,395)	(2,061)	(894)	948

Source: Company Data, PL Research

Key Financial Metrics

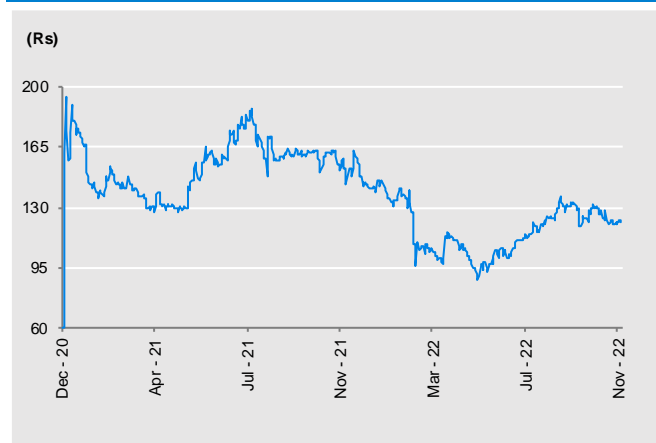
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	(1.9)	(1.2)	0.3	2.5
CEPS	0.9	2.5	5.0	8.1
BVPS	39.6	38.3	38.6	41.1
FCF	(25.2)	(4.2)	(1.8)	1.9
DPS	-	-	-	-
Return Ratio(%)				
RoCE	(3.5)	0.1	5.0	10.8
ROIC	(1.9)	0.0	3.2	6.6
RoE	(7.1)	(3.1)	0.8	6.3
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.2)	(0.2)
Net Working Capital (Days)	(44)	(40)	(35)	(31)
Valuation(x)				
PER	(66.8)	(103.6)	435.4	50.5
P/B	3.2	3.3	3.3	3.1
P/CEPS	145.2	50.3	25.4	15.6
EV/EBITDA	63.2	31.8	18.2	11.9
EV/Sales	6.0	3.9	3.0	2.3
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	2,799	2,687	3,369	3,680
YoY gr. (%)	71.5	37.1	125.0	50.0
Raw Material Expenses	950	911	1,133	1,237
Gross Profit	1,849	1,776	2,236	2,443
Margin (%)	66.1	66.1	66.4	66.4
EBITDA	328	302	332	421
YoY gr. (%)	115.9	23.5	2,064.8	64.4
Margin (%)	11.7	11.3	9.9	11.4
Depreciation / Depletion	344	351	461	426
EBIT	(16)	(48)	(129)	(6)
Margin (%)	(0.6)	(1.8)	(3.8)	(0.2)
Net Interest	168	178	196	206
Other Income	32	94	97	79
Profit before Tax	(152)	(132)	(227)	(133)
Margin (%)	(5.4)	(4.9)	(6.7)	(3.6)
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after Tax	(152)	(132)	(227)	(133)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(152)	(132)	(227)	(133)
YoY gr. (%)	(47.8)	(35.1)	(48.7)	(34.4)
Margin (%)	(5.4)	(4.9)	(6.7)	(3.6)
Extra Ord. Income / (Exp)	(8)	-	-	-
Reported PAT	(159)	(132)	(227)	(133)
YoY gr. (%)	(45.1)	(49.1)	(48.7)	(34.4)
Margin (%)	(5.7)	(4.9)	(6.7)	(3.6)
Other Comprehensive Income	(1)	(7)	-	2
Total Comprehensive Income	(160)	(139)	(227)	(130)
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	04-Oct-22	Accumulate	156	132
2	15-Sep-22	Accumulate	156	129
3	12-Aug-22	Accumulate	148	123
4	07-Jul-22	UR	-	111
5	31-May-22	UR	-	97
6	08-Apr-22	BUY	220	113
7	25-Jan-22	BUY	220	133
8	06-Jan-22	BUY	242	140
9	12-Nov-21	BUY	242	163

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,326	3,141
2	Avenue Supermarts	BUY	5,121	4,306
3	Britannia Industries	Hold	4,142	3,804
4	Colgate Palmolive	Accumulate	1,639	1,605
5	Dabur India	Accumulate	615	549
6	Emami	Accumulate	574	499
7	Hindustan Unilever	Accumulate	2,798	2,654
8	ITC	Accumulate	365	350
9	Jubilant FoodWorks	BUY	685	613
10	Kansai Nerolac Paints	Accumulate	563	465
11	Marico	Hold	543	539
12	Mold-tek Packaging	Hold	947	939
13	Nestle India	Accumulate	20,111	19,388
14	Pidilite Industries	Hold	2,737	2,656
15	Restaurant Brands Asia	Accumulate	156	132
16	Titan Company	Accumulate	2,875	2,770
17	Westlife Foodworld	BUY	847	781

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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