

Westlife Development

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Best-in-class SSG performance leads to a big TP upgrade, maintain BUY

WLDL's Q2 EBITDA was 5-6% higher than estimates, largely led by better revenues. WLDL reported a 3Y revenue CAGR of 13%, led by a best-in-class revenue/store CAGR of 9.3% vs. estimate of 7.5%. Inflation management was better than expected, as GM improved by 80bps vs. expectation of a 40bps decline. Unlike peers, WLDL was confident of maintaining its GM, led by 2% price hikes in Oct-22, better revenue mix, and supply-chain efficiencies. Factoring in a stronger SSG performance and allied margin benefit, we have increased our FY24/25E EBITDA estimates by 8-9%. WLDL is targeting accelerated expansion (200 store additions over the next 3-4 years), led by stronger growth in non-metros and traction in meals (gourmet burgers/fried chicken). However, we remain conservative with our expectation of 35-40 stores/year. Better margins also led to a ~400bps increase in our medium-term RoIC assumption to 40%, effecting a higher multiple at 29x Dec-24 EBITDA vs. 27x earlier. Maintain Buy with a revised TP of Rs910 (Rs720 earlier), led by earnings/multiple upgrade and 3M rollover.

Results summary: WLDL reported a 3Y revenue CAGR of 13%, led by 9.3% revenue/store CAGR and 3.4% store addition CAGR. Strong growth was led by sustained momentum in off-premise sales (23% CAGR) and strong pick-up in on-premise sales (8% CAGR). WLDL attributed stronger trends to improved presence in the meals category with gourmet burgers /fried chicken. 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. McCafé is now present in ~81% of the network, and WLDL sees ample scope to double its per-store café contribution with menu expansion. EBITDA margin improved by ~300bps to 13.4% (Pre-IndAS) vs. pre-Covid levels. WLDL took an additional price hike of ~2% in Oct-22, taking total price hike of ~6% for Q3 (YoY). Despite elevated milk and wheat prices, WLDL expects to maintain its gross margins with price hikes, better revenue mix, and supply-chain efficiencies.

Earnings call KTAs: 1) Fried chicken is gaining strong traction and WLDL is targeting Rs10mn contribution/store vs. Rs5mn currently. 2) WLDL offers Drive-Thru (DT) option in ~20% of its network. With the recent 120-second service guarantee, WLDL indicated higher DT orders vs. pre-Covid and plans to increase the mix of DT stores in the overall portfolio. 2) Store additions were impacted in H1 due to focus on the larger sized stores (~3,000 sq. ft.) and longer lease tenures (~25 years). However, WLDL maintained its FY23 target of adding 35-40 stores. 3) With better margins, RoIC has improved significantly for WLDL vs. pre-Covid. Payback period for a store is 4-5 years currently and should further shorten with improving RoIC. 4) With complete unlocking, McCafé has returned to pre-Covid levels. WLDL sees an opportunity to scale McCafé to 2-3x of current levels, led by menu expansion. In addition, desserts are a USD500-600mn market, but the focus is to scale other segments currently. 6) Total FY23 capex is expected to be Rs2.0-2.2bn. 7) Sales via McDelivery app saw faster growth at 1.7x vs. aggregators. Currently, delivery is available in 90% of the store network.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	9,856	15,760	23,259	27,298	31,963
EBITDA	615	1,975	4,328	5,364	6,362
EBITDA Margin (%)	6.2	12.5	18.6	19.6	19.9
APAT	(1,036)	(17)	1,448	2,019	2,518
EPS (Rs)	(6.6)	(0.1)	9.3	13.0	16.2
EPS (% chg)	(1,206.3)	0.0	0.0	39.4	24.7
ROE (%)	(19.6)	(0.4)	27.1	28.5	26.9
P/E (x)	(117.4)	(7,308.1)	83.9	60.2	48.2
EV/EBITDA (x)	210.3	66.1	30.0	23.9	19.8
P/BV (x)	25.3	26.3	20.0	15.0	11.5

Source: Company, Emkay Research

CMP	Target Price
Rs 781	Rs 910 (▲)
as of (November 9, 2022)	12 months
Rating	Upside
BUY (■)	16.6 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	30/16
Target Price change (%)	26.4
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	9.3	13.0
Consensus	7.1	10.6
Mean Consensus TP (12M)	Rs 718	

Stock Details

Bloomberg Code	WLDL IN
Face Value (Rs)	2
Shares outstanding (mn)	156
52 Week H/L	812 / 402
M Cap (Rs bn/USD bn)	122 / 1.49
Daily Avg Volume (nos.)	2,96,831
Daily Avg Turnover (US\$ mn)	2.5

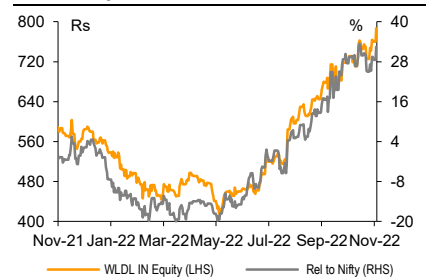
Shareholding Pattern Sep-22

Promoters	56.3%
FIIIs	9.8%
DIIIs	24.1%
Public and Others	9.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	29	80	33
Rel. to Nifty	2	25	62	32

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Actual vs. Estimates (Q2FY23)

Rs mn	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	5,724	5,450	5,476	5.0%	4.5%	Stronger SSG performance led to better revenue
EBITDA	988	943	932	4.8%	6.0%	Revenue beat led to higher EBITDA; Margins were largely in-line
EBITDA Margin (%)	17.3%	17.3%	17.0%	-3	24	
PAT	316	256	265	23.3%	19.1%	EBITDA beat flowed into PAT, leading to a significant beat

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

Exhibit 2: Changes in estimates

Y/E, March (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	22,200	23,259	4.8	25,809	27,298	5.8	29,969	31,963	6.7
SSG (%)	43	47	480 bps	8	9	100 bps	8	9	100 bps
Average Revenue/store	65	68	4.5	68	71	5.2	71	76	6.2
EBITDA	3,956	4,328	9.4	4,938	5,364	8.6	5,839	6,362	9.0
EBITDA Margin (%)	17.8	18.6	80 bps	19.1	19.6	50 bps	19.5	19.9	40 bps
PAT	1,130	1,448	28.2	1,740	2,019	16.0	2,176	2,518	15.7
EPS (Rs)	7.3	9.3	28.2	11.2	13.0	16.0	14.0	16.2	15.7

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

Exhibit 3: Quarterly performance (Consolidated)

Y/E, March (Rs mn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)	FY22TD	FY23TD	YoY (%)
Revenue	3,854	4,768	4,551	5,379	5,724	48.5	6.4	6,446	11,104	72.3
Expenditure	3,397	3,934	3,822	4,459	4,736	39.4	6.2	5,938	9,195	54.9
Consumption of RM	1,360	1,603	1,592	1,921	1,976	45.4	2.9	2,256	3,897	72.8
as % of sales	35.3%	33.6%	35.0%	35.7%	34.5%			35.0%	35.1%	
Employee Cost-Store	360	399	414	426	507	40.8	19.2	626	933	49.0
as % of sales	9.3%	8.4%	9.1%	7.9%	8.9%			9.7%	8.4%	
Royalty	173	216	203	246	262	51.5	6.5	289	508	75.8
as % of sales	4.5%	4.5%	4.5%	4.6%	4.6%			4.5%	4.6%	
Other expenditure	1,291	1,474	1,327	1,623	1,680	30.1	3.5	2,349	3,302	40.6
as % of sales	33.5%	30.9%	29.2%	30.2%	29.3%			36.4%	29.7%	
HO Costs	214	241	288	243	311	45.8	27.9	418	555	32.8
as % of sales	15.7%	15.1%	18.1%	12.7%	15.7%			18.5%	14.2%	
EBITDA	457	835	729	921	988	116.0	7.3	508	1,909	275.5
Depreciation	338	348	347	358	366	8.3	2.3	670	724	8.1
EBIT	119	487	381	563	622	421.2	10.5	-162	1,185	
Other Income	39	42	41	0	54	37.3		103	54	-47.4
Interest	204	210	209	215	226	10.3	4.9	408	441	8.1
PBT	-46	319	213	348	450		29.4	-466	798	
Total Tax	-15	70	52	82	104		27.3	-127	186	
Adjusted PAT	-31	249	161	266	346		30.1	-340	613	
Extraordinary items	13	41	8	30	31			39	61	
Reported PAT	-44	208	153	236	316		33.8	-378	552	
Reported EPS (Rs)	-0.3	1.3	1.0	1.5	2.0		33.8	-2.4	3.5	

Margins (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	(bps)	(bps)	FY22TD	FY23TD	(bps)
EBITDA	11.9	17.5	16.0	17.1	17.3	540	10	7.9	17.2	930
EBIT	3.1	10.2	8.4	10.5	10.9	780	40	-2.5	10.7	
EBT	-1.2	6.7	4.7	6.5	7.9		140	-7.2	7.2	
PAT	-1.3	5.3	4.0	5.3	6.7		140	-6.4	6.0	
Effective Tax rate	31.7	22.1	24.5	23.5	23.1	-860	-40	27.2	23.3	-390

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

Exhibit 4: Peer Comparison

Company	Price (Rs)	M-Cap (Rs bn)	Rating	TP (Rs)	P/E (x)			EV/EBITDA (x) Pre-IND AS 116			EBITDA CAGR (%)	EV/E-G (x)*
					FY23E	FY24E	FY25E	FY23E	FY24E	FY25E		
Jubilant Foodworks	566	374	Hold	595	70.8	54.5	43.3	40.3	31.5	25.9	24.8	1.6
Devyani International	184	222	Buy	225	77.7	63.7	48.5	43.8	33.3	26.6	28.3	1.5
Westlife Development	781	122	Buy	910	83.9	60.2	48.2	36.4	28.7	23.9	23.3	1.6
Sapphire Foods	1,381	88	Buy	1,650	62.4	38.0	33.4	29.1	20.0	15.3	38.0	0.8

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

Exhibit 5: WLDL: Growth construct of the business from supply side

Particulars	FY25E	FY35E	CAGR (%)	FY35E+
			FY25-35E	
McDonald's stores (#)	441	841	6.7	2.5
SSSG (%)			7.5	5.0
WLDL revenue (Rs bn)	32.0	125.6	14.7	7.6
EBITDA margin (%)	15.8	18.0	1.5	0.0
EBIT margin (%)	11.1	14.4	1.5	0.0
Total EBIT (Rs bn)	3.6	18.1	17.7	7.6

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

Exhibit 6: WLDL: Target EV/EBITDA multiple derived from a two-stage dividend growth model

Revenue CAGR [FY22E-25E] (%)	27
EBITDA CAGR [FY22E-25E] (%)	61
Net debt-to-EV (%)	0
Adj. beta vs. Nifty (#)	0.75
Stage-1: FY25E-35E	
EBITDA in Yr-0 [FY25E] (Rs bn)	5.1
EBITDA in Yr-1 (Rs bn)	5.9
EBITDA CAGR (%)	17.5
Years of growth [n]	10.0
Incremental RoIC (%)	40.0
WACC (%)	11.00
Tax rate (%)	25.2
Sustainable D&A-to-EBITDA (%)	20.0
Net debt to EV (%)	0
Implied FCFF ratio (%)	56
Revenue in FY35E (Rs bn)	160
Terminal stage: >FY35E	
Terminal EBITDA growth (%)	7.5
Incremental RoIC (%)	40.0
Implied FCFF ratio (%)	81.3
Fair value EV/EBITDA in Mar-25E (x)	26.4
EV in Mar-25E (Rs bn)	157.0
Dec-23 NPV of FCFFs (Rs bn)	3.9
Dec-23E EV (Rs bn)	141.7
Adj. net debt (Rs bn)	0.3
Fair value of Equity in Dec'23E (x)	141
Dec'24E EBITDA (Rs bn)	4.8
Implied fair value EV/EBITDA in Dec-23E (x)	29
Target EV/EBITDA in Dec-23E (x)	29
Target market-cap in Dec-23E (Rs bn)	141
Target price in Dec-23E (Rs/share)	910

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

Key Financials (Consolidated)**Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	9,856	15,760	23,259	27,298	31,963
Expenditure	9,241	13,785	18,931	21,934	25,601
EBITDA	615	1,975	4,328	5,364	6,362
Depreciation	1,546	1,451	1,597	1,861	2,126
EBIT	(931)	524	2,731	3,503	4,235
Other Income	447	282	90	150	201
Interest expenses	845	826	890	953	1,070
PBT	(1,329)	(21)	1,931	2,699	3,366
Tax	(293)	(4)	483	680	848
Extraordinary Items	42	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	(994)	(17)	1,448	2,019	2,518
Adjusted PAT	(1,036)	(17)	1,448	2,019	2,518

Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	312	312	311	311	311
Reserves & surplus	4,501	4,309	5,757	7,776	10,294
Net worth	4,812	4,621	6,069	8,088	10,606
Minority Interest	0	0	0	0	0
Loan Funds	9,680	10,546	10,012	10,150	10,463
Net deferred tax liability	(510)	(520)	(572)	(629)	(692)
Total Liabilities	13,982	14,647	15,508	17,609	20,377
Net block	12,843	13,623	14,800	15,465	15,929
Investment	2,382	1,865	1,865	1,865	1,865
Current Assets	1,246	1,612	1,620	3,481	6,273
Cash & bank balance	110	232	131	1,752	4,267
Other Current Assets	114	621	714	821	944
Current liabilities & Provision	2,744	2,809	3,132	3,558	4,046
Net current assets	(1,498)	(1,196)	(1,512)	(77)	2,228
Misc. exp	0	0	0	0	0
Total Assets	13,982	14,647	15,508	17,609	20,377

Cash Flow

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	(1,735)	(303)	1,841	2,549	3,165
Other Non-Cash items	0	0	0	0	0
Chg. in working cap	554	(179)	214	186	211
Operating Cashflow	1,206	1,790	4,007	4,813	5,661
Capital expenditure	(515)	(1,104)	(2,074)	(1,826)	(1,890)
Free Cash Flow	691	686	1,933	2,986	3,771
Investments	(414)	480	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(482)	(341)	(1,984)	(1,676)	(1,689)
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)	(1,051)	(1,003)	(1,146)	(1,304)
Financing Cashflow	(645)	(1,326)	(2,125)	(1,515)	(1,457)
Net chg. in cash	80	122	(102)	1,621	2,515
Opening cash position	30	110	232	131	1,752
Closing cash position	110	232	131	1,752	4,267

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	6.2	12.5	18.6	19.6	19.9
EBIT Margin	(9.4)	3.3	11.7	12.8	13.3
Effective Tax Rate	22.1	19.4	25.0	25.2	25.2
Net Margin	(10.5)	(0.1)	6.2	7.4	7.9
ROCE	(3.3)	5.6	18.7	22.1	23.4
ROE	(19.6)	(0.4)	27.1	28.5	26.9
RoIC	(6.0)	3.6	16.2	19.6	23.0

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	(6.6)	(0.1)	9.3	13.0	16.2
CEPS	3.3	9.2	19.6	24.9	29.8
BVPS	30.9	29.6	39.0	52.0	68.2
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	(117.4)	(7,308.1)	83.9	60.2	48.2
P/CEPS	238.6	84.8	39.9	31.3	26.2
P/BV	25.3	26.3	20.0	15.0	11.5
EV / Sales	13.2	8.4	5.6	4.7	4.0
EV / EBITDA	210.3	66.1	30.0	23.9	19.8
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	0.4
Net Debt/EBIDTA	12.3	4.5	1.9	1.3	0.7
Working Cap Cycle (days)	(59.6)	(33.1)	(25.8)	(24.4)	(23.3)

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(36.3)	59.9	47.6	17.4	17.1
EBITDA	(72.0)	221.4	119.1	23.9	18.6
EBIT	(223.8)	0.0	421.4	28.3	20.9
PAT	0.0	0.0	0.0	39.4	24.7

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Revenue	3,854	4,768	4,551	5,379	5,724
EBITDA	457	835	729	921	988
EBITDA Margin (%)	11.9	17.5	16.0	17.1	17.3
PAT	(44)	208	153	236	316
EPS (Rs)	(0.3)	1.3	1.0	1.5	2.0

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	57.1	57.1	57.0	57.0	56.3
FII	11.0	10.7	9.9	9.5	9.8
DII	22.0	22.7	22.8	23.3	24.1
Public and Others	9.8	9.4	10.2	10.2	9.7

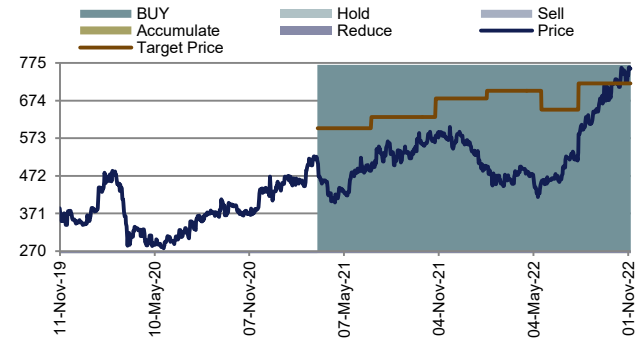
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
21-Aug-22	611	720	12m	Buy	Devanshu Bansal
29-Jul-22	584	720	12m	Buy	Ashit Desai
19-May-22	457	650	12m	Buy	Ashit Desai
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	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: 10 Nov 2022 00:56:32 (SGT)

Dissemination Date: 10 Nov 2022 00:57:32 (SGT)

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