

Westlife Foodworld

Estimate change



TP change



Rating change



CMP: INR780

TP: INR805 (+3%)

Neutral

Healthy ADS growth drives the earnings beat

- WLDL reported a better than expected sales momentum in 2QFY23. Even as gross margin was in line, operating leverage led to an 18% EBITDA beat from our expectation.
- The management indicated a gradual improvement in gross margin going forward, led by a further 2% blended price increase in Oct'22 and the return of the high margin McCafé business to pre-COVID levels.
- While WLDL's prospects are improving, its medium term earnings growth can still be weaker than its peers, given: a) the increase in royalty, and b) the limited room to improve gross margin, with over 80% of its stores already having McCafé outlets. **We maintain our Neutral rating.**

Outperformance led by the sales beat

- Sales grew 48.5% YoY to INR5,724m (est. INR5,203m). SSSG stood at 40% YoY (est. 25%).
- WLDL opened six McDonald's stores in 2QFY23, taking the total count to 337 stores.
- Gross margin rose 80bp YoY and 120bp QoQ to 65.5% (in line).
- Restaurant Operating Margin (ROM) stood at 22.7% v/s 17.4% YoY and 21.6% QoQ.
- EBITDA grew 116% YoY to INR959m (est. INR812m). EBITDA margin stood at 16.8% v/s 11.5% YoY (est. 15.6%).
- The company declared an adjusted PAT of INR315m (est. INR173m) as against a loss of INR44m in 2QFY22.
- Average annualized sales per store stood at INR67.5m v/s INR52m YoY and INR67m QoQ.
- Sales/EBITDA grew 72.3%/290.3% YoY to INR11,104m/INR1,832m in 1HFY23. Adjusted PAT stood at INR551m v/s a loss of INR378m in 1HFY22.

Key takeaways from the management commentary

- Sales non-metro towns grew 1.6x as compared to metro towns over its pre-COVID base.
- Sales on the McDelivery platform grew 1.7x v/s third-party operators in the pre-COVID period.
- New and premium products: The management is seeing very good traction in meals and premium burgers. As fried chicken is a big imperative in South India, it is present in all the stores there. AOVs in the South are similar to that in West India. Currently, it is evaluating fried chicken in five stores in West India.
- Costs and margin: The management undertook a 2% blended price hike in Oct'22. Even as overall inflation has been moderating for WLDL, milk and wheat saw a continued inflation. Going forward, gross margin will improve from current levels.

Bloomberg	WLDL IN
Equity Shares (m)	156
M.Cap.(INRb)/(USD\$)	121.7 / 1.5
52-Week Range (INR)	811 / 402
1, 6, 12 Rel. Per (%)	2/67/32
12M Avg Val (INR M)	103

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	15.8	23.2	27.1
Sales Gr. (%)	59.9	47.2	17.0
EBITDA	1.9	3.9	4.7
Margins (%)	12.0	16.8	17.2
Adj. PAT	0.0	1.1	1.6
Adj. EPS (INR)	-0.1	7.3	10.1
EPS Gr. (%)	-	L/P	39.0
BV/Sh.(INR)	29.7	37.0	47.2

Ratios

RoE (%)	-0.4	21.9	24.1
RoCE (%)	NA	11.6	13.0

Valuation

P/E (x)	N/M	106.9	76.9
P/BV (x)	26.3	21.1	16.6
EV/EBITDA (x)	65.1	31.6	26.0
Pre-IND AS 116 EV/EBITDA (x)	104.2	41.5	32.7

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	56.3	57.0	57.1
DII	24.1	23.3	22.0
FII	10.1	9.7	11.0
Others	9.5	10.0	9.8

FII Includes depository receipts

Valuation and view

- The beat on our estimates, led by better than expected sales momentum, leads us to revise our FY23/FY24 EBITDA estimate by ~10% each.
- While the management is in talks with McDonald's Corporation to stagger royalty rate increases beyond FY26, there is still a lack of clarity. A better operating performance in coming years may not present a strong case for further deferment.
- We maintain our Neutral rating, given its: a) fair valuations, b) scheduled increase in royalty rates to 2x from current levels, and c) limited incremental gross margin levers. **Our valuation at 30x pre-Ind AS Sep'24 EV/EBITDA leads to a TP of INR805.**

Consolidated quarterly performance

(INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
SSSG %	183.0	83.7	44.0	23.0	97.0	40.0	16.0	22.0	83.4	41.0	25.0	
No. of McDonald's restaurants	305	310	316	326	331	337	349	361	326	361	342	
Net Sales	2,592	3,854	4,768	4,551	5,379	5,724	6,008	6,092	15,765	23,203	5,203	10.0
YoY Change (%)	176.0	84.0	46.7	27.3	107.6	48.5	26.0	33.9	59.9	47.2	35.0	
Gross profit	1,695	2,495	3,165	2,959	3,459	3,748	3,947	4,021	10,314	15,175	3,408	10.0
Margin (%)	65.4	64.7	66.4	65.0	64.3	65.5	65.7	66.0	65.4	65.4	65.5	
EBITDA	25	444	793	629	873	959	1,027	1,038	1,892	3,897	812	18.2
YoY Change (%)	L/P	L/P	81.4	34.6	3,380.8	115.9	29.5	64.9	303.1	106.0	82.7	
Margins (%)	1.0	11.5	16.6	13.8	16.2	16.8	17.1	17.0	12.0	16.8	15.6	
Depreciation	332	338	348	346	358	366	400	447	1,364	1,571	380	
Interest	203	204	210	209	215	225	260	293	826	994	240	
Other Income	64	40	43	131	18	52	55	61	277	186	40	
PBT	-446	-59	279	205	318	419	422	358	-21	1,518	232	81.0
Tax	-112	-15	70	52	82	104	106	90	-4	382	58	
Rate (%)	N/M	N/M	25.3	25.4	25.8	24.8	25.2	25.1	19.4	25.2	25.2	
Adj PAT	-334	-44	208	153	236	315	316	268	-17	1,135	173	82.0
YoY Change (%)	-	-	L/P	L/P	L/P	L/P	51.7	75.1	-	L/P	L/P	
Margins (%)	-12.9	-1.1	4.4	3.4	4.4	5.5	5.3	4.4	-0.1	4.9	3.3	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY22				FY23	
	1Q	2Q	3Q	4Q	1Q	2Q
2Y average growth (%)						
SSSG	64.5	21.5	10.0	16.8	140.0	61.9
Sales	50.3	18.4	10.9	16.8	141.8	66.2
EBITDA	N/M	(102.2)	21.6	31.7	N/M	N/M
PAT	N/M	N/M	N/M	N/M	N/M	N/M
% of Sales						
COGS	34.6	35.3	33.6	35.0	35.7	34.5
Operating Expenses	64.4	53.2	49.7	51.2	48.1	48.7
Depreciation	12.8	8.8	7.3	7.6	6.7	6.4
YoY change (%)						
COGS	120.9	77.9	43.8	32.9	114.3	45.4
Operating Expenses	74.7	52.6	39.6	22.0	54.8	36.0
Other Income	-64.8	-73.0	-47.9	299.1	-71.8	31.5
EBIT	-60.4	-129.1	410.8	126.0	N/M	458.4

Exhibit 1: Restaurant operating margin

INR m	2QFY22	1QFY23	2QFY23
Total Revenue	3,854	5,379	5,724
<i>YoY Change (%)</i>	84.0	107.6	48.5
Food and Paper	1,360	1,921	1,976
Payroll and employee benefits	360	426	507
Royalty	173	246	262
Occupancy and other operating expenses	1,291	1,623	1,680
Total Restaurant Expenses	3,183	4,215	4,425
Restaurant operating profit	671	1,164	1,299
<i>YoY change (%)</i>	770.2	356.5	93.7
Restaurant Operating Margin (ROM) (%)	17.4	21.6	22.7
As a percentage of sales			
Food and Paper	35.3	35.7	34.5
Payroll and employee benefits	9.3	7.9	8.9
Royalty	4.5	4.6	4.6
Occupancy and other operating expenses	33.5	30.2	29.3
ROM	17.4	21.6	22.7
As a percentage of sales change YoY (%)			
Food and Paper	(1.2)	1.1	(0.7)
Payroll and employee benefits	(4.1)	(2.3)	(0.5)
Royalty	(0.0)	0.1	0.1
Occupancy and other operating expenses	(8.4)	(10.7)	(4.1)
ROM	13.7	11.8	5.3

Source: Company, MOFSL

**Key takeaways from the management commentary****Performance and outlook**

- Management indicted that the macro headwinds continue. It focused on cost efficiency and operational efficiency.
- The management is keeping a close eye on changing market trend and will be focusing on disruptions.
- They witnessed steady growth in both the markets (west and south).
- The focus will be on omni-channel strategy and growth in emerging towns. All the channels performed well with mall stores picking up pace sequentially.
- Non-metro towns grew 1.6x compared to metro towns over pre-covid base.
- McDelivery platform sales grew 1.7x v/s third party operators over pre-covid period.
- WLDL is gaining market share in many markets.
- Pricing strategy along with better product mix lead to robust performance.
- Average annualized sales per stores should be ~65-67m.
- They are seeing very good traction in meals and premium burgers.
- Fried chicken: It was a very big imperative in south and is present in all the stores in south India. AOVs in South now look similar to West. Currently, evaluating in five stores in west.

Expansion

- Management is bullish on store additions and targets ~200 stores in next 3-4 years.
- They have added 6 new stores and entered 4 new cities in 2QFY23. At present, they are present in 52 cities. On track to add 35-40 stores in FY23.

Costs and margins

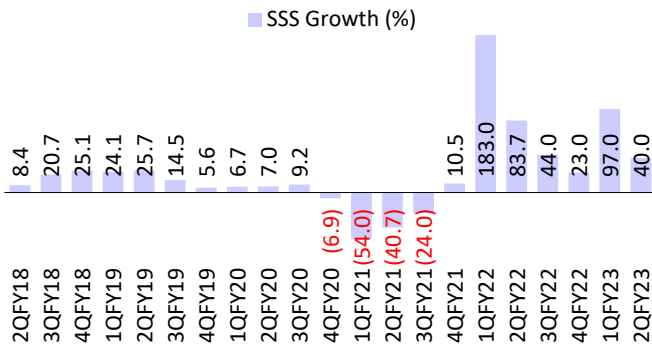
- McCafe has come back strongly and is contributing towards improvement in margin. Management believes that the opportunity in McCafe is 2-3x more compared to current levels. McCafe has reached to its pre-COVID levels.
- WLDL took 2% blended price hike in Oct'22.
- Inflation: Overall inflation has been relatively moderating. However, milk and wheat saw continued inflation.
- Going forward, gross margin would improve from the current levels.
- Due to merit cycle, employee costs have gone up. There is no one offs in this.
- Rent is generally 7-8% of sales.

Other points

- Deserts: McFlurry with KitKat has seen amazing results. It is a INR500-600m category for QSR. Hence, the opportunity to scale is immense.
- Capex would be in the range of ~INR2-2.2b. This much would be capitalized during the year.
- Payback of a new store is ~4-5 years.
- Tax rate would be 25% for the whole year.

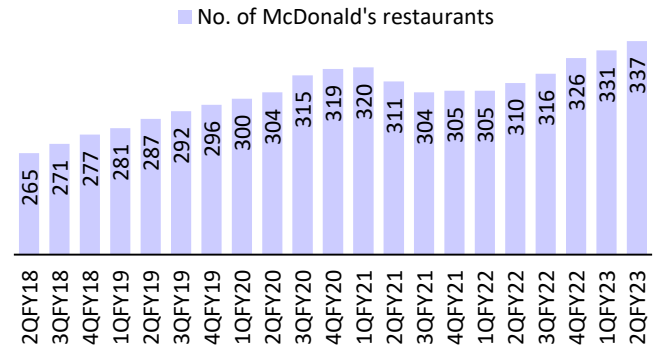
Key exhibits

Exhibit 2: SSSG stood at 40% in 2QFY23



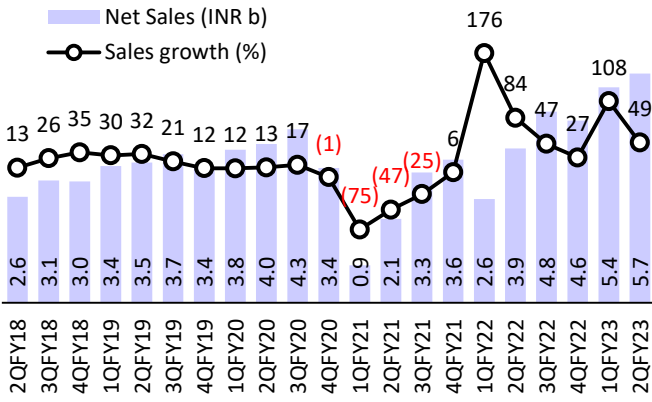
Source: Company, MOFSL

Exhibit 3: Added six McDonald's restaurants in 2QFY23



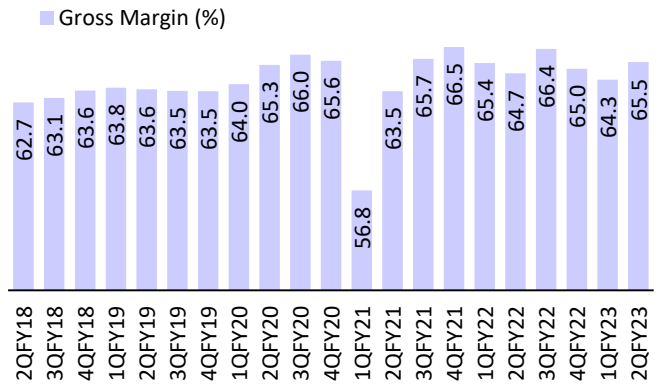
Source: Company, MOFSL

Exhibit 4: Net sales grew 49% YoY to INR5.7b in 2QFY23



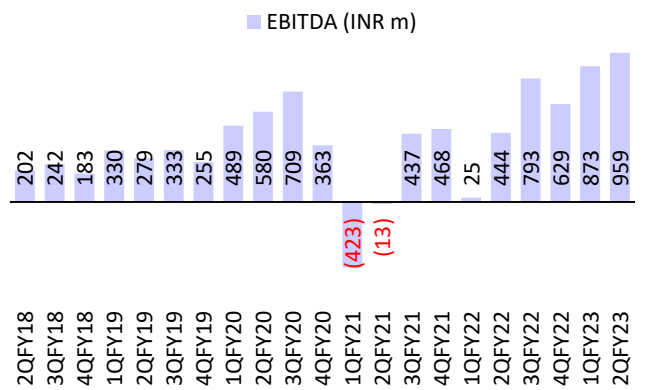
Source: Company, MOFSL

Exhibit 5: Gross margin expands 80bp YoY to 65.5%



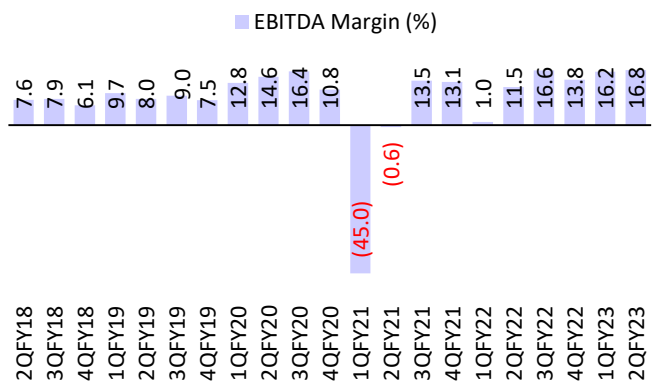
Source: Company, MOFSL

Exhibit 6: EBITDA grew 116% YoY to INR959m in 2QFY23



Source: Company, MOFSL

Exhibit 7: EBITDA margin rose to 16.8% in 2QFY23



Source: Company, MOFSL

Valuation and view

- The beat on our estimates, led by better than expected sales momentum, leads us to revise our FY23/FY24 EBITDA estimate by ~10% each.
- While the management is in talks with McDonald's Corporation to stagger royalty rate increases beyond FY26, there is still a lack of clarity. A better operating performance in coming years may not present a strong case for further deferment.
- We maintain our Neutral rating, given its: a) fair valuations, b) scheduled increase in royalty rates to 2x from current levels, and c) limited incremental gross margin levers. **Our valuation at 30x pre-Ind AS Sep'24 EV/EBITDA leads to a TP of INR805.**

Exhibit 8: We change our FY23/FY24 EBITDA estimates by 30.1%/24.2%, respectively

(INR m)	New estimate		Old estimate		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	23,203	27,148	21,871	25,589	6.1	6.1
EBITDA	3,897	4,680	3,541	4,233	10.1	10.6
PAT	1,135	1,578	873	1,271	30.1	24.2

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement						(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	11,349	14,020	15,478	9,860	15,765	23,203	27,148
Change (%)	21.9	23.5	10.4	-36.3	59.9	47.2	17.0
Materials Consumed	4,250	5,116	5,382	3,483	5,451	8,028	9,230
Gross profit	7,099	8,905	10,095	6,377	10,314	15,175	17,918
Margin (%)	62.6	63.5	65.2	64.7	65.4	65.4	66.0
Operating Expenses	6,325	7,715	7,955	5,908	8,422	11,278	13,237
EBITDA	774	1,190	2,140	469	1,892	3,897	4,680
Change (%)	64.8	53.8	79.9	-78.1	303.1	106.0	20.1
Margin (%)	6.8	8.5	13.8	4.8	12.0	16.8	17.2
Depreciation	673	797	1,384	1,396	1,364	1,571	1,739
EBIT	101	393	757	-927	528	2,326	2,941
Int. and Finance Charges	150	177	808	845	826	994	1,103
Other Income	178	136	130	443	277	186	271
PBT bef. EO Exp.	129	352	79	-1,329	-21	1,518	2,110
Total Tax	0	139	-14	-293	-4	382	532
Tax Rate (%)	0.0	39.5	-18.1	N/M	N/M	25.2	25.2
Reported PAT	129	213	-73	-994	-17	1,135	1,578
Adjusted PAT	129	213	93	-1,036	-17	1,135	1,578
Change (%)	L/P	65.7	-56.4	P/L	-	L/P	39.0
Margin (%)	1.1	1.5	0.6	-10.5	-0.1	4.9	5.8

Consolidated - Balance Sheet						(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	311	311	311	312	312	312	312
Total Reserves	5,111	5,525	5,459	4,501	4,309	5,444	7,023
Net Worth	5,422	5,837	5,770	4,812	4,621	5,756	7,335
Minority Interest	0	0	0	0	0	0	0
Total Loans	1,835	2,339	1,837	2,152	2,010	1,660	1,160
Lease Liabilities	0	0	7,822	7,528	8,536	9,745	11,221
Deferred Tax Liabilities	0	-63	-214	-510	-520	-520	-520
Capital Employed	7,258	8,113	15,216	13,982	14,647	16,642	19,195
Gross Block	8,795	7,242	8,439	8,522	9,956	11,956	14,156
Less: Accum. Deprn.	3,722	1,761	2,538	3,153	4,517	6,089	7,827
Net Fixed Assets	5,073	5,480	5,900	5,368	5,439	5,867	6,329
Goodwill on Consolidation	466	466	466	466	466	466	466
Capital WIP	197	284	226	256	355	355	355
Total Investments	1,843	2,046	1,576	1,984	1,504	1,579	1,816
Curr. Assets, Loans&Adv.	1,712	1,901	9,249	8,651	9,691	11,685	14,104
Inventory	337	410	411	465	559	890	1,041
Account Receivables	64	98	47	88	133	196	229
Cash and Bank Balance	109	92	30	110	232	34	732
Loans and Advances	1,201	1,301	8,760	7,988	8,766	10,565	12,101
Curr. Liability & Prov.	2,034	2,065	2,201	2,744	2,809	3,312	3,875
Account Payables	1,397	1,487	1,594	2,024	1,722	2,535	2,966
Other Current Liabilities	565	498	507	616	953	580	679
Provisions	72	80	100	104	134	197	230
Net Current Assets	-322	-164	7,048	5,907	6,882	8,374	10,229
Appl. of Funds	7,258	8,112	15,216	13,982	14,647	16,642	19,195

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)							
Adj. EPS	0.8	1.4	0.6	-6.7	-0.1	7.3	10.1
Cash EPS	5.2	6.5	9.5	2.3	8.7	17.4	21.3
BV/Share	34.9	37.5	37.1	30.9	29.7	37.0	47.2
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)							
P/E	944.2	569.8	1,307.9	N/M	N/M	106.9	76.9
Cash P/E	151.5	120.2	82.2	336.9	90.1	44.8	36.6
P/BV	22.4	20.8	21.0	25.2	26.3	21.1	16.6
EV/Sales	10.9	8.8	8.0	12.5	7.8	5.3	4.5
EV/EBITDA	159.3	104.0	57.6	263.1	65.1	31.6	26.0
Return Ratios (%)							
RoE	2.4	3.8	1.6	-19.6	-0.4	21.9	24.1
RoCE	3.9	4.2	8.9	NA	NA	11.6	13.0
RoIC	2.0	4.4	9.4	NA	NA	12.8	14.2
Working Capital Ratios							
Fixed Asset Turnover (x)	1.3	1.9	1.8	1.2	1.6	1.9	1.9
Asset Turnover (x)	1.6	1.7	1.0	0.7	1.1	1.4	1.4
Inventory (Days)	11	11	10	17	13	14	14
Debtor (Days)	2	3	1	3	3	3	3
Creditor (Days)	45	39	38	75	40	40	40
Leverage Ratio (x)							
Current Ratio	0.8	0.9	4.2	3.2	3.5	3.5	3.6
Interest Cover Ratio	0.7	2.2	0.9	-1.1	0.6	2.3	2.7
Net Debt/Equity	0.0	0.0	0.0	0.0	0.1	0.0	-0.2

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	129	393	-88	-1,287	-21	1,518	2,110
Depreciation	673	797	1,384	1,396	1,364	1,571	1,739
Interest & Finance Charges	145	175	780	791	772	808	831
Direct Taxes Paid	-23	-26	-163	32	-66	-382	-532
(Inc)/Dec in WC	508	-110	164	691	-145	-1,690	-1,158
CF from Operations	1,432	1,229	2,076	1,623	1,904	1,825	2,991
Others	-60	-80	-80	-331	-198	0	0
CF from Operating incl EO	1,371	1,148	1,996	1,292	1,706	1,825	2,991
(Inc)/Dec in FA	-1,059	-1,426	-1,259	-491	-999	-2,000	-2,200
Free Cash Flow	312	-278	737	801	706	-175	791
(Pur)/Sale of Investments	-59	-73	569	-252	565	-75	-237
Others	4	4	18	-16	-131	186	271
CF from Investments	-1,115	-1,495	-672	-759	-565	-1,890	-2,165
Issue of Shares	2	2	10	28	24	0	0
Inc/(Dec) in Debt	-69	504	-508	332	-142	-350	-500
Interest Paid	-151	-177	-152	-170	-133	-994	-1,103
Dividend Paid	0	0	0	0	0	0	0
Others	0	0	-737	-643	-768	1,210	1,475
CF from Fin. Activity	-217	330	-1,387	-453	-1,019	-134	-128
Inc/Dec of Cash	39	-17	-62	80	122	-198	698
Opening Balance	71	109	92	30	110	232	34
Closing Balance	109	92	30	110	232	34	732

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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