

November 9, 2022

## Q2FY23 Result Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
<b>Rating</b>	BUY		BUY	
<b>Target Price</b>	847		847	
Sales (Rs. m)	26,924	32,015	26,924	32,015
% Chng.	-	-	-	-
EBITDA (Rs. m)	5,087	6,168	5,087	6,168
% Chng.	-	-	-	-
EPS (Rs.)	11.5	15.0	11.5	15.0
% Chng.	-	-	-	-

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	15,760	22,971	26,924	32,015
EBITDA (Rs. m)	1,888	4,066	5,087	6,168
Margin (%)	12.0	17.7	18.9	19.3
PAT (Rs. m)	(17)	1,298	1,797	2,333
EPS (Rs.)	(0.1)	8.3	11.5	15.0
Gr. (%)	(98.4)	(7,892.5)	38.4	29.8
DPS (Rs.)	-	-	-	3.7
Yield (%)	-	-	-	0.5
RoE (%)	(0.4)	24.2	25.7	25.7
RoCE (%)	7.7	34.2	36.9	37.4
EV/Sales (x)	7.7	5.2	4.4	3.7
EV/EBITDA (x)	64.6	29.6	23.4	18.9
PE (x)	(7,305.8)	93.8	67.7	52.2
P/BV (x)	26.3	19.9	15.4	11.9

### Key Data

WEST.BO | WLDL IN

52-W High / Low	Rs.812 / Rs.402
Sensex / Nifty	61,034 / 18,157
Market Cap	Rs.122bn/ \$ 1,495m
Shares Outstanding	156m
3M Avg. Daily Value	Rs.206m

### Shareholding Pattern (%)

Promoter's	56.57
Foreign	9.80
Domestic Institution	24.13
Public & Others	9.50
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	6.8	79.7	32.6
Relative	1.8	61.4	31.5

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## The McStory goes on; BUY for LT Gains

### Quick Pointers:

- Pre IND AS EBITDA Margin at 17.3% (+430bps QoQ), PAT at Rs316mn
- Fried chicken to add incremental sales of Rs10mn per store (vs 5mn)
- WDL on track to add 35-40 stores in FY23 and 200 stores over next 3-4 years

**We maintain our positive stance following strong growth momentum and margin expansion in 2Q23. WFL's results were encouraging with EBITDA margin expansion of 523bps YoY/54bps QoQ bucking the trend of QSR peers. A stable to declining RM basket bodes well for the company to further protect/increase margins with a ~2% blended price hike across the portfolio. WFL continues to gain market share across territories with menu innovations - Fried Chicken (South India) and Gourmet Burgers. On-Premise continues to gain momentum with stable on ground scenario while off-premise trends remain steady.**

**We remain positive on the structural story for Westlife given 1) sustained guidance of adding 200 stores in 3-4 years (35/40 in FY23) 2) increased traction on fried chicken yielding additional Rs10mn of AUV/store (Rs5mn earlier) 3) stronger start to stores in Tier2/3 vs metros with sales at par with older stores and 4) royalty reduction in FY23 and negotiation with parent for gradual increase in royalty beyond 5% after FY26. We estimate Sales CAGR of 26.6% over FY22-25 with an EPS of Rs8.3/Rs11.5/Rs15.0 in FY23/24/25. We maintain DCF based target price of Rs847 (unchanged). Buy for LT Gains given huge scope to scale up a strong brand with clear focus & vision.**

**Revenue grew by 48.5%, SSSG at 40%:** Revenues grew by 48.5% YoY to Rs5.7bn (PL: Rs5.7bn). On-Premise/Off-Premise channels grew by 96%/12% YoY. SSSG at 40%. 6 store additions. Total store count of 337 restaurants with 274 McCafe's. Gross margins expanded by 75bps YoY/118bps QoQ to 65.5% (PL: 65.2%). EBITDA grew by 115.9% YoY to Rs959mn (PL: Rs998mn); Margins expanded by 523bps YoY to 16.8% (PL:17.5%). Restaurant EBITDA margins at 22.7%. Adjusted PAT grew to Rs315mn vs loss of Rs44mn YoY(PL: Rs334mn); Pre-IND AS PAT at Rs316mn.

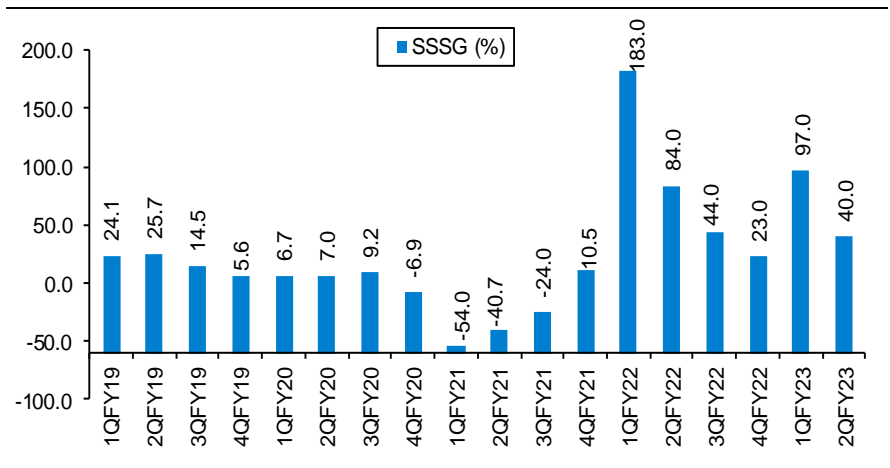
**Concall Takeaways:** 1) Demand momentum remains unchanged for 3Q with festive/celebratory occasions. 2) Maintains AUV guidance of Rs67mn for FY23. 3) RM basket has seen moderation with oil prices softening while wheat/milk stay elevated. 4) Weighted price hike of ~2% taken across channels & geographies. 5) Fried chicken traction remains positive in South India and expected to touch Rs10mn in incremental sales per store. 6) New stores have a payback period of 4-5 years and experience ROIC's of 30%+. 7) Store openings guidance for FY23 maintained at 35-40 stores. 8) Rent expenses are expected to be in the range of 7-8%. 9) Capex for FY23 estimated at Rs2-2.2bn. 10) Tax rate for FY23 at 25%.

**Exhibit 1: 2QFY23 Results - Net Sales up 48.5%, EBITDA Margins up 523bps YoY**

Consolidated	2QFY23	2QFY22	YoY gr. (%)	1QFY23	1HFY23	1HFY22	YoY gr. (%)
<b>Net Sales</b>	<b>5,724</b>	<b>3,854</b>	<b>48.5</b>	<b>5,379</b>	<b>11,104</b>	<b>6,446</b>	<b>72.3</b>
Gross Profit	3,748	2,495	50.2	3,459	7,207	4,190	72.0
% of NS	65.5	64.7	0.7	64.3	64.9	65.0	(0.1)
Other Expenses	2,789	2,050	36.0	2,586	5,375	3,721	44.5
% of NS	48.7	53.2	(4.5)	48.1	48.4	57.7	(9.3)
<b>EBITDA</b>	<b>959</b>	<b>444</b>	<b>115.9</b>	<b>873</b>	<b>1,832</b>	<b>469</b>	<b>290.3</b>
Margins %	16.8	11.5	5.2	16.2	16.5	7.3	9.2
Depreciation	366	338	8.3	358	724	670	8.1
Interest	225	204	10.3	215	441	408	8.1
Other Income	52	40	31.5	18	70	104	(32.4)
<b>PBT</b>	<b>419</b>	<b>(59)</b>	<b>(814.7)</b>	<b>318</b>	<b>737</b>	<b>(505)</b>	<b>(246.0)</b>
Tax	104	(15)	(817.6)	82	186	(127)	(246.8)
Tax rate %	24.8	24.7		25.8	25.2	25.1	
<b>Adjusted PAT</b>	<b>315</b>	<b>(44)</b>	<b>(813.8)</b>	<b>236</b>	<b>551</b>	<b>(378)</b>	<b>(245.8)</b>

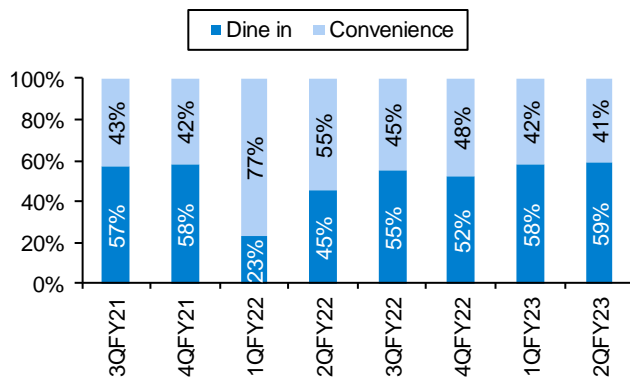
Source: Company Data, PL Research

**Exhibit 2: SSSG stood at 40%**



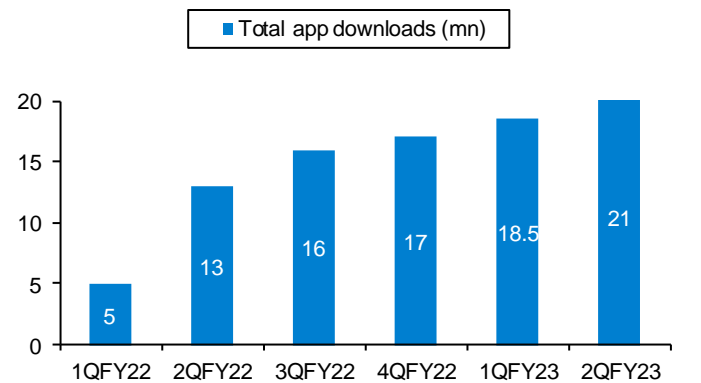
Source: Company, PL

**Exhibit 3: Convenience channel sales remain strong**



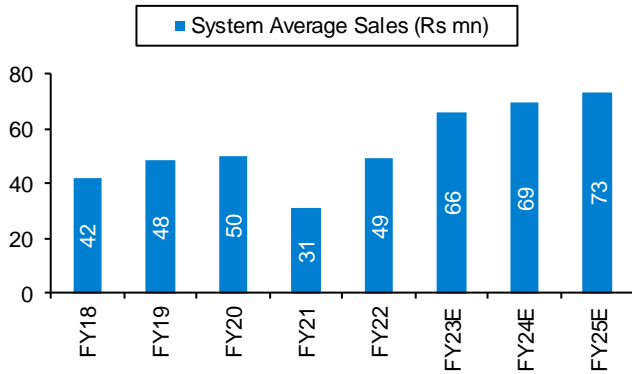
Source: Company, PL

**Exhibit 4: Backed by increase in app installations**



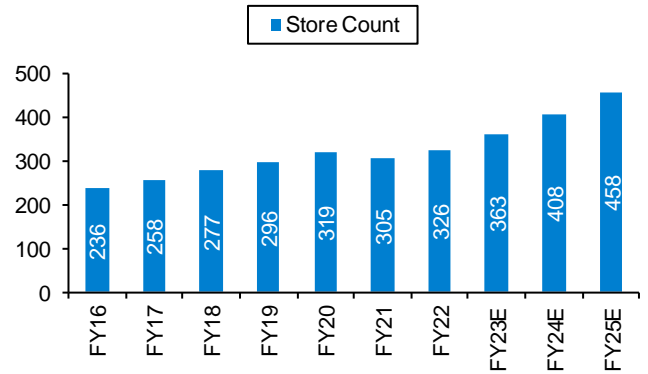
Source: Company, PL

Exhibit 5: System average sales to grow 14.2% over FY22-24



Source: Company, PL

Exhibit 6: Store openings to see acceleration from FY23



Source: Company, PL

Exhibit 7: Digital sales contribution sustains at 55+% of revenues in 2QFY23

**+55% Digital-led Sales**

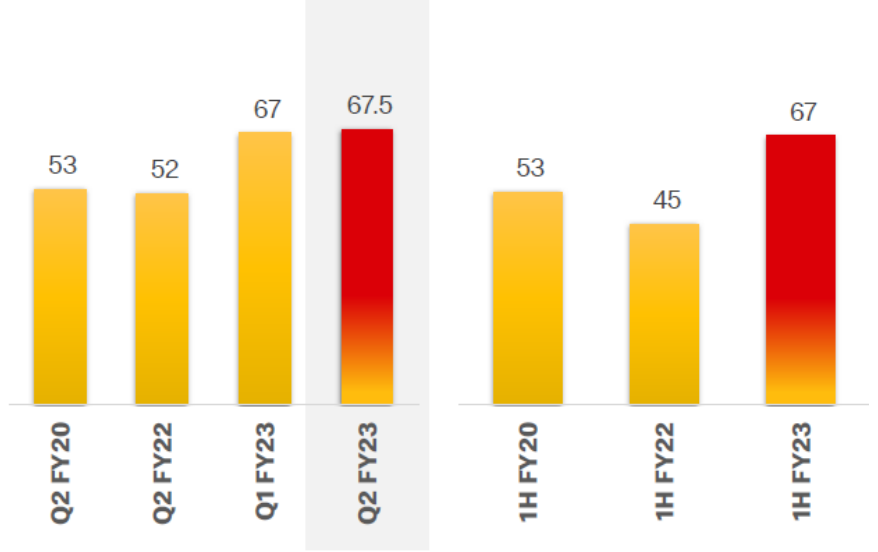
**21+** million Cumulative **Apps Downloads**

**+22%** growth in **Monthly Active Users (MAU)**

Westlife Foodworld Limited

Source: Company, PL

Exhibit 8: Avg sales/store continues to inch up, way ahead of pre covid levels



Source: Company, PL

Exhibit 9: Innovative menu offerings to keep portfolio fresh & exciting

## Menu Initiatives

Coffee delivery promotion

E DELIVERY

Gourmet Burgers promotion

Chatpata Mix

McSpicy Fried Chicken Wings

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>15,760</b>	<b>22,971</b>	<b>26,924</b>	<b>32,015</b>
YoY gr. (%)	59.9	45.7	17.2	18.9
Cost of Goods Sold	5,451	7,879	8,750	10,309
Gross Profit	10,309	15,092	18,174	21,706
Margin (%)	65.4	65.7	67.5	67.8
Employee Cost	2,095	2,579	3,100	3,686
Other Expenses	2,667	3,171	3,710	4,263
<b>EBITDA</b>	<b>1,888</b>	<b>4,066</b>	<b>5,087</b>	<b>6,168</b>
YoY gr. (%)	305.8	115.4	25.1	21.3
Margin (%)	12.0	17.7	18.9	19.3
Depreciation and Amortization	1,364	1,579	1,869	2,215
<b>EBIT</b>	<b>524</b>	<b>2,487</b>	<b>3,217</b>	<b>3,953</b>
Margin (%)	3.3	10.8	11.9	12.3
Net Interest	826	955	1,090	1,234
Other Income	282	176	237	351
<b>Profit Before Tax</b>	<b>(21)</b>	<b>1,708</b>	<b>2,365</b>	<b>3,070</b>
Margin (%)	(0.1)	7.4	8.8	9.6
Total Tax	(4)	410	568	737
Effective tax rate (%)	19.4	24.0	24.0	24.0
<b>Profit after tax</b>	<b>(17)</b>	<b>1,298</b>	<b>1,797</b>	<b>2,333</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>(17)</b>	<b>1,298</b>	<b>1,797</b>	<b>2,333</b>
YoY gr. (%)	(98.4)	(7,892.5)	38.4	29.8
Margin (%)	(0.1)	5.7	6.7	7.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(17)</b>	<b>1,298</b>	<b>1,797</b>	<b>2,333</b>
YoY gr. (%)	(98.3)	(7,892.5)	38.4	29.8
Margin (%)	(0.1)	5.7	6.7	7.3
Other Comprehensive Income	(17)	-	-	-
Total Comprehensive Income	(34)	1,298	1,797	2,333
<b>Equity Shares O/s (m)</b>	<b>156</b>	<b>156</b>	<b>156</b>	<b>156</b>
<b>EPS (Rs)</b>	<b>(0.1)</b>	<b>8.3</b>	<b>11.5</b>	<b>15.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>18,837</b>	<b>22,133</b>	<b>26,214</b>	<b>30,893</b>
Tangibles	17,608	20,829	24,835	29,439
Intangibles	1,229	1,304	1,379	1,454
<b>Acc: Dep / Amortization</b>	<b>5,214</b>	<b>6,793</b>	<b>8,662</b>	<b>10,878</b>
Tangibles	4,868	6,378	8,176	10,316
Intangibles	346	415	486	562
<b>Net fixed assets</b>	<b>13,623</b>	<b>15,340</b>	<b>17,551</b>	<b>20,015</b>
Tangibles	12,740	14,451	16,659	19,123
Intangibles	883	889	893	892
Capital Work In Progress	355	355	355	355
Goodwill	-	-	-	-
Non-Current Investments	507	557	617	684
Net Deferred tax assets	520	503	479	449
Other Non-Current Assets	361	379	399	420
<b>Current Assets</b>				
Investments	1,504	2,297	3,500	5,122
Inventories	559	734	791	876
Trade receivables	133	189	203	219
Cash & Bank Balance	232	879	870	1,143
Other Current Assets	142	100	110	110
<b>Total Assets</b>	<b>17,976</b>	<b>21,375</b>	<b>24,918</b>	<b>29,437</b>
<b>Equity</b>				
Equity Share Capital	312	312	312	312
Other Equity	4,309	5,793	7,590	9,923
<b>Total Networkth</b>	<b>4,621</b>	<b>6,105</b>	<b>7,902</b>	<b>10,235</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	2,010	1,810	1,610	1,410
Provisions	134	162	195	236
Other non current liabilities	8,728	10,126	11,856	13,854
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	-	-	-	-
Other current liabilities	2,483	3,172	3,355	3,703
<b>Total Equity &amp; Liabilities</b>	<b>17,976</b>	<b>21,375</b>	<b>24,918</b>	<b>29,437</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	(21)	1,708	2,365	3,070
Add. Depreciation	1,364	1,579	1,869	2,215
Add. Interest	826	955	1,090	1,234
Less Financial Other Income	282	176	237	351
Add. Other	3,187	75	69	89
Op. profit before WC changes	5,356	4,317	5,393	6,608
Net Changes-WC	(164)	451	41	181
Direct tax	4	(410)	(568)	(737)
<b>Net cash from Op. activities</b>	<b>5,196</b>	<b>4,359</b>	<b>4,867</b>	<b>6,052</b>
Capital expenditures	(2,243)	(3,297)	(4,080)	(4,679)
Interest / Dividend Income	-	-	-	-
Others	480	(793)	(1,203)	(1,622)
<b>Net Cash from Inv. activities</b>	<b>(1,763)</b>	<b>(4,090)</b>	<b>(5,283)</b>	<b>(6,302)</b>
Issue of share cap. / premium	(3,350)	186	-	-
Debt changes	(142)	(200)	(200)	(200)
Dividend paid	-	-	-	-
Interest paid	(826)	(955)	(1,090)	(1,234)
Others	1,007	1,347	1,697	1,957
<b>Net cash from Fin. activities</b>	<b>(3,311)</b>	<b>377</b>	<b>407</b>	<b>523</b>
<b>Net change in cash</b>	<b>122</b>	<b>647</b>	<b>(9)</b>	<b>273</b>
Free Cash Flow	2,953	1,062	787	1,373

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	(0.1)	8.3	11.5	15.0
CEPS	8.6	18.5	23.5	29.2
BVPS	29.6	39.2	50.7	65.6
FCF	18.9	6.8	5.0	8.8
DPS	-	-	-	3.7
<b>Return Ratio(%)</b>				
RoCE	7.7	34.2	36.9	37.4
ROIC	3.2	13.7	15.7	17.1
RoE	(0.4)	24.2	25.7	25.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.1	(0.2)	(0.3)	(0.5)
Net Working Capital (Days)	-	-	-	-
<b>Valuation(x)</b>				
PER	(7,305.8)	93.8	67.7	52.2
P/B	26.3	19.9	15.4	11.9
P/CEPS	90.3	42.3	33.2	26.8
EV/EBITDA	64.6	29.6	23.4	18.9
EV/Sales	7.7	5.2	4.4	3.7
Dividend Yield (%)	-	-	-	0.5

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Revenue</b>	<b>4,768</b>	<b>4,551</b>	<b>5,379</b>	<b>5,724</b>
YoY gr. (%)	46.7	27.3	107.6	48.5
Raw Material Expenses	1,603	1,592	1,921	1,976
Gross Profit	3,165	2,959	3,459	3,748
Margin (%)	66.4	65.0	64.3	65.5
<b>EBITDA</b>	<b>793</b>	<b>629</b>	<b>873</b>	<b>959</b>
YoY gr. (%)	58.7	27.7	3,382.0	115.8
Margin (%)	16.6	13.8	16.2	16.8
Depreciation / Depletion	348	346	358	366
<b>EBIT</b>	<b>446</b>	<b>283</b>	<b>515</b>	<b>593</b>
Margin (%)	9.4	6.2	9.6	10.4
Net Interest	210	209	215	225
Other Income	43	131	18	52
<b>Profit before Tax</b>	<b>279</b>	<b>205</b>	<b>318</b>	<b>419</b>
Margin (%)	5.8	4.5	5.9	7.3
Total Tax	70	52	82	104
Effective tax rate (%)	25.3	25.4	25.8	24.8
<b>Profit after Tax</b>	<b>208</b>	<b>153</b>	<b>236</b>	<b>315</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>208</b>	<b>153</b>	<b>236</b>	<b>315</b>
YoY gr. (%)	847.9	(489.8)	(170.6)	(815.9)
Margin (%)	4.4	3.4	4.4	5.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>208</b>	<b>153</b>	<b>236</b>	<b>315</b>
YoY gr. (%)	18,573.3	(337.3)	(170.6)	(815.9)
Margin (%)	4.4	3.4	4.4	5.5
Other Comprehensive Income	(5)	(3)	(4)	5
<b>Total Comprehensive Income</b>	<b>203</b>	<b>151</b>	<b>231</b>	<b>320</b>
Avg. Shares O/s (m)	18	18	18	18
<b>EPS (Rs)</b>	<b>11.6</b>	<b>8.5</b>	<b>13.1</b>	<b>17.5</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	BUY	847	719
2	27-Sep-22	BUY	847	689
3	29-Jul-22	BUY	781	589
4	07-Jul-22	BUY	653	524
5	18-May-22	BUY	653	454
6	08-Apr-22	BUY	645	497
7	03-Feb-22	BUY	648	497
8	06-Jan-22	Accumulate	603	542

**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	2,691	2,656
15	Restaurant Brands Asia	Accumulate	156	132
16	Titan Company	Accumulate	2,875	2,770
17	Westlife Foodworld	BUY	847	719

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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