

# Westlife Foodworld

Refer to important disclosures at the end of this report

## Guidance appears conservative; Maintain Buy on strong execution

With our estimated top-line of Rs23bn (~15% CAGR over FY16-23E) and 13.4% EBITDA margin in FY23E (vs. 6% in FY16), WLDL has delivered towards the mid-point of its 2022 vision statement, which was presented in 2016. While growth in Rev/Store at 8.5% CAGR has been better than its expectations of 6-7%, annual store additions have been lower at 18 stores vs. targeted addition of ~30 stores. Going ahead (FY23-28), WLDL expects annual addition of 45-55 stores (10-12% CAGR), which suggests a significant pick-up vs. the past trends. Increased confidence is driven by healthy improvement in profitability of South India stores (fried chicken/wings launch) and stronger traction in Tier-2 markets, which will see 50-60% of new store additions vs. 30-40% historically. However, revenue guidance of Rs40-45bn for FY28 (12-14% CAGR) implies a low Rev/Store CAGR of 0%-3%. While SSG expectations remain healthy at high single digits, lower Rev/Store expectations were attributed to higher new store additions, which generally see a lower throughput initially vs. mature stores. We align our estimates towards the higher end of WLDL's guided Rev/EBITDA bands for FY28, which leads to a 5-8% cut to our FY23-25E EBITDA estimates. Given its best-in-class execution in the recent past and further ramp-up potential of chicken/meals/café/dessert categories, we see scope of upward revision of revenue guidance. We maintain our Buy rating with a revised TP of Rs840 (vs. Rs910) on an unchanged multiple of 29x Dec-24 EBITDA.

**Larger store sizes allow strong SSG to continue for a relatively longer period:** WLDL has delivered a best-in-class rev/store CAGR of 8.5% over FY16-23E. A stronger performance has been aided by the introduction of complementary categories like café/chicken/gourmet burgers, which have incrementally added ~200bps to its CAGR, in our view. Further potential for ramp-up of chicken/meals/café/desserts remains, as WLDL expects to further widen its menu in each of these categories and increase traction in the meals category with higher marketing spends during lunch and dinner dayparts. The addition of bone-in chicken (fried chicken/wings) has helped southern stores to see a higher CAGR (vs. western stores) and has led to a significant improvement in their profitability. For café, WLDL expects revenue contribution to increase further to 15-18% by FY28 vs. 9%/12% in FY16/FY23E.

**Focus remains on increasing consumer touchpoints:** Off-premise sales for WLDL have picked up significantly with its contribution increasing from 11% in FY16 to 44% in LTM ending Sep-22, partially aided by the pandemic. However, WLDL continues to target a healthy mix of ~40% from the off-premise channel over the medium to long term. WLDL also expects to convert 100% of its stores into EOTF stores (with self-ordering kiosks) by FY28 vs. ~48% currently, as EOTF stores generate 30-35% return on incremental capital, on higher walk-ins and increased check sizes. Even the mix of drive-through (DT) stores is expected to increase, with 30-35% of the new stores being added in DT format vs. ~20% DT store mix currently.

### Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	9,856	15,760	23,259	26,848	31,263
EBITDA	615	1,975	4,131	4,946	5,986
EBITDA Margin (%)	6.2	12.5	17.8	18.4	19.1
APAT	(1,036)	(17)	1,300	1,699	2,215
EPS (Rs)	(6.6)	(0.1)	8.4	10.9	14.2
EPS (% chg)	(1,206.3)	0.0	0.0	30.6	30.3
ROE (%)	(19.6)	(0.4)	24.7	25.1	25.4
P/E (x)	(108.1)	(6,730.9)	86.0	65.8	50.5
EV/EBITDA (x)	194.6	61.2	29.1	24.1	19.7
P/BV (x)	23.3	24.3	18.9	14.7	11.4

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 719</b>	<b>Rs 840 (▼)</b>
as of (December 1, 2022)	12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>16.8 %</b>

### Change in Estimates

EPS Chg FY23E/FY24E (%)	(10)/(16)
Target Price change (%)	(7.7)
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	8.4	10.9
Consensus	7.7	11.7
Mean Consensus TP (12M)	Rs 858	

### 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)	112 / 1.38
Daily Avg Volume (nos.)	2,66,030
Daily Avg Turnover (US\$ mn)	2.4

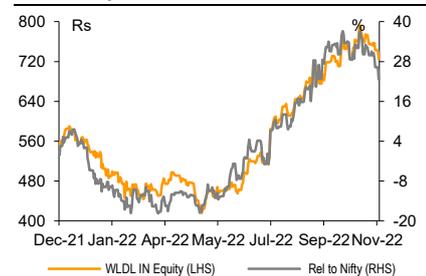
### Shareholding Pattern Sep '22

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

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(3)	10	57	32
<b>Rel. to Nifty</b>	(7)	3	38	20

### 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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## Story in charts

Exhibit 1: FY28 revenue outlook of Rs40-45bn topline implies 12-14% revenue CAGR over FY23-28E; Margin improvement trajectory to continue

### Vision 2027



- Rs 40-45 bn **Sales**
- High Single digit **SSSG**
- 65-70% **Digital-led Sales**
- Rs 18+ bn **Cashflow** from operations



- 580-630 **restaurants**
- 100% **EOTF** penetration
- 100% **McCafe** penetration
- Rs 14+ bn **Network Investments**



- 18-20% **Op.EBITDA** margin
- +40% Return on **Capital**
- +25% Return on **Equity**
- +60% **FCF** Conversion



- Align with global **ESG** best practices
- **Dividend** Distribution Policy
- Fortify Market **Leadership**

Source: Company, Emkay Research, \*Op. EBITDA guidance is post-IndAS116

Exhibit 2: FY28 revenue guidance appears conservative; Our revised estimates bake in the higher-end of the guided Rev/EBITDA band for FY28

Particulars	FY16	LTM	FY23E	FY23	FY28	FY28E
	Actual	Actual	Emkay	Target	Target	Emkay
Revenue (Rs bn)	8.3	20.4	23.2	20-25	40-45	45
Store Count	236	337	361	400-500	580-630	586
Annual Store additions			18	31	45-55	45
Avg. Rev/Store (Rsmn)	39	63	68	60	67-78	81
EBITDA Margin, %	5.9	12.8	13.4	Low to Mid-Teens	15-17	16.4
Mc-Café Stores	75	274		300-350	580-630	
EOTF Stores	0	138		80-100	580-630	

Source: Company, Emkay Research, \*EBITDA margins are pre-IndAS116

Exhibit 3: Changes in estimates

Y/E, March (Rs. mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	23,259	23,259	0.0	27,298	26,848	-1.6	31,963	31,263	-2.2
SSSG (%)	47	47	0 bps	9	7	-250 bps	9	7	-160 bps
Average revenue/store	68	68	0.0	71	70	-1.7	76	73	-3.9
EBITDA	4,328	4,131	-4.5	5,364	4,946	-7.8	6,362	5,986	-5.9
EBITDA Margin (%)	18.6	17.8	-80 bps	19.6	18.4	-120 bps	19.9	19.1	-80 bps
PAT	1,448	1,300	-10.2	2,019	1,699	-15.9	2,518	2,215	-12.1
EPS	9.3	8.4	-10.2	13.0	10.9	-15.9	16.2	14.2	-12.1

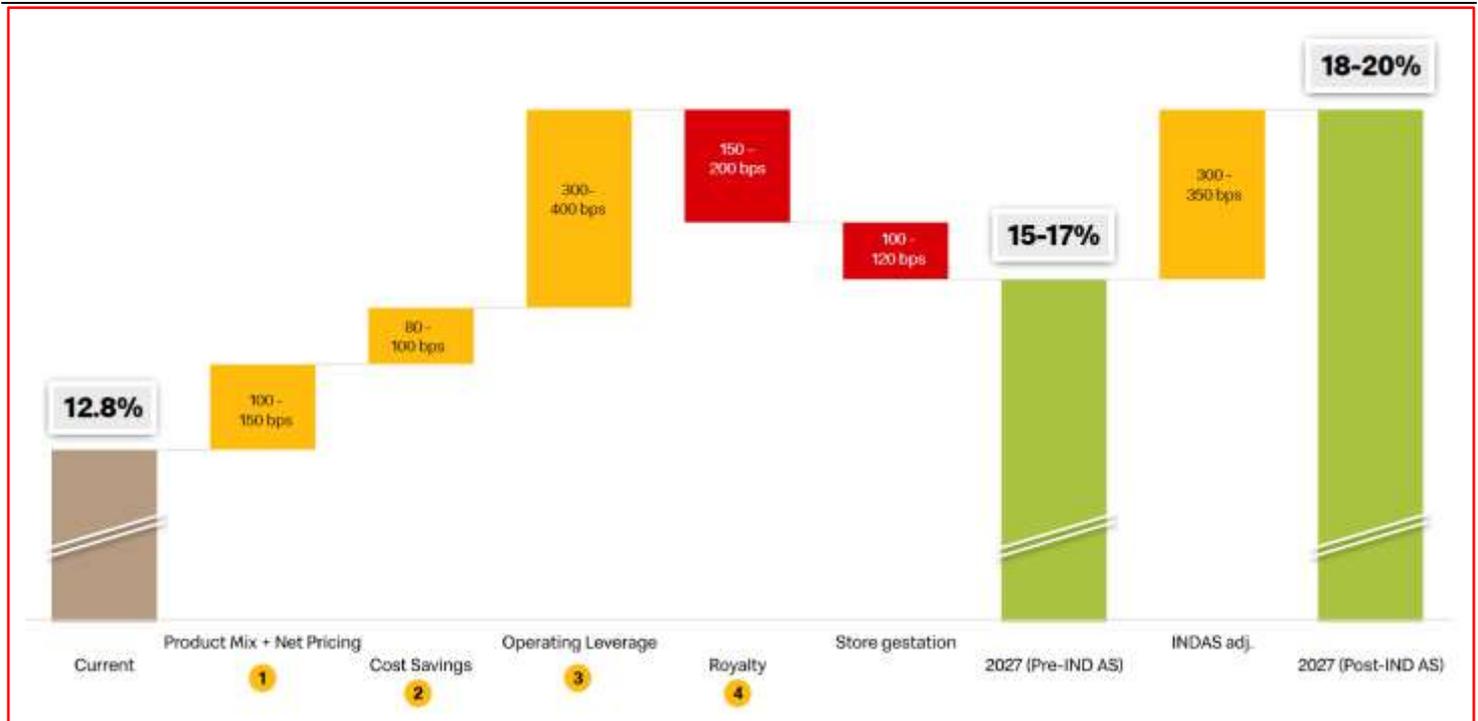
Source: Company, Emkay Research, \*EBITDA margins are pre-IndAS116

**Exhibit 4: Metrics for Top-10% stores are significantly better than the system's average; Focus is on bringing the metrics of the rest of the portfolio towards the metrics of the Top-10% store portfolio**

Particulars (Rs mn)	System Average	Top-10% Stores	Remarks
Rev/Store	63	114	Top-10% of stores do 1.8x the system avg. Rev/Store
Restaurant EBITDA	11	41	Top-10% of stores do 3.6x the system EBITDA/Store
<b>Restaurant Margin</b>	<b>18.1</b>	<b>36.3</b>	
Depreciation	3.5	4.0	
Store EBIT	8	37	
Store NOPLAT	6	28	
Capex	35	40	
Working Capital	-3.2	-5.7	
Invested Capital	31.8	34.3	
<b>Store RoIC (Post-Tax)</b>	<b>18.7</b>	<b>81.1</b>	<b>Mature stores do significantly higher store-level RoIC vs. the company's average</b>

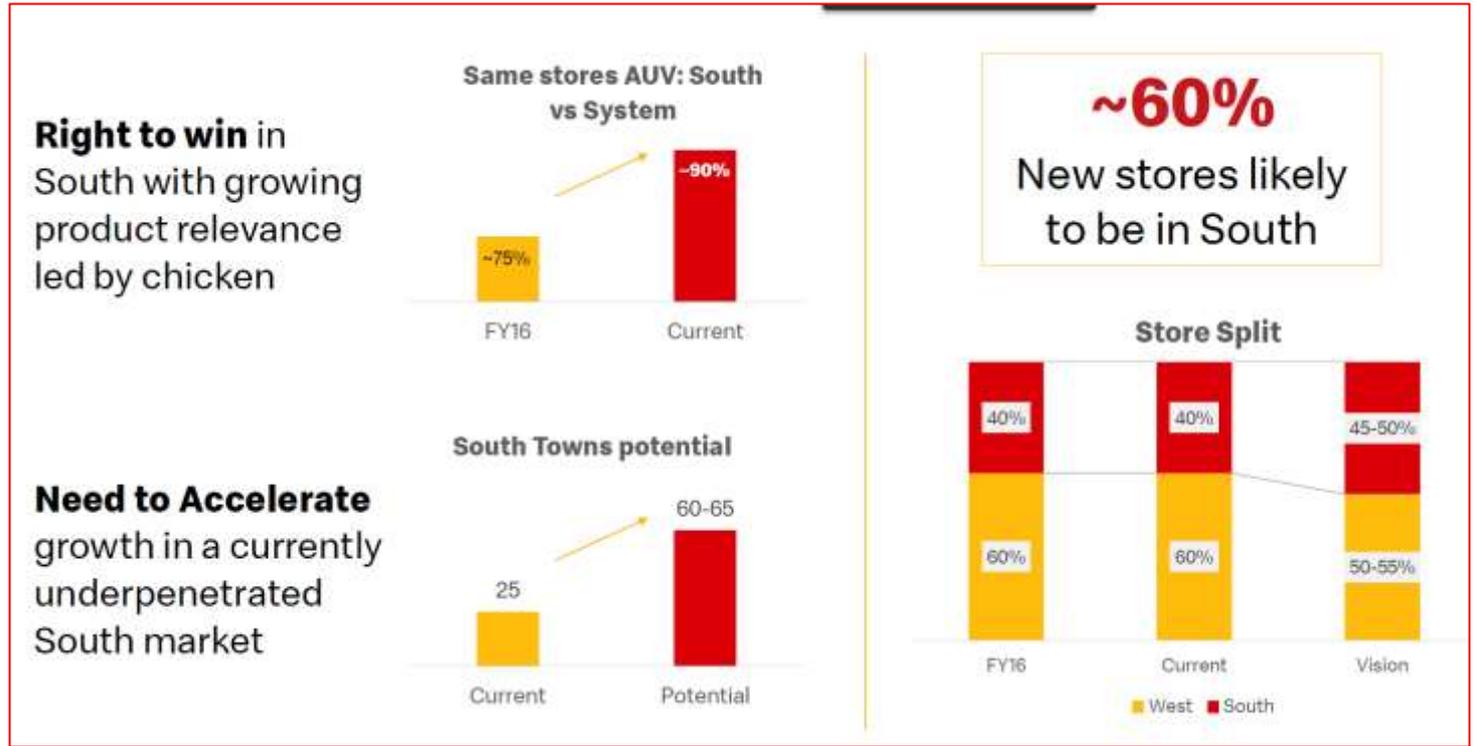
Source: Company, Emkay Research, \*Margins are pre-IndAS116

**Exhibit 5: WLDL expects EBITDA margins to continue improving, despite factoring in 5.5-6.0% royalty charge (ex-GST) vs. 4% currently**



Source: Company, Emkay Research

**Exhibit 6: Per-store revenue of southern states has improved significantly, aided by the launch of fried chicken/wings; Higher throughput has also improved the profitability of the southern store portfolio**



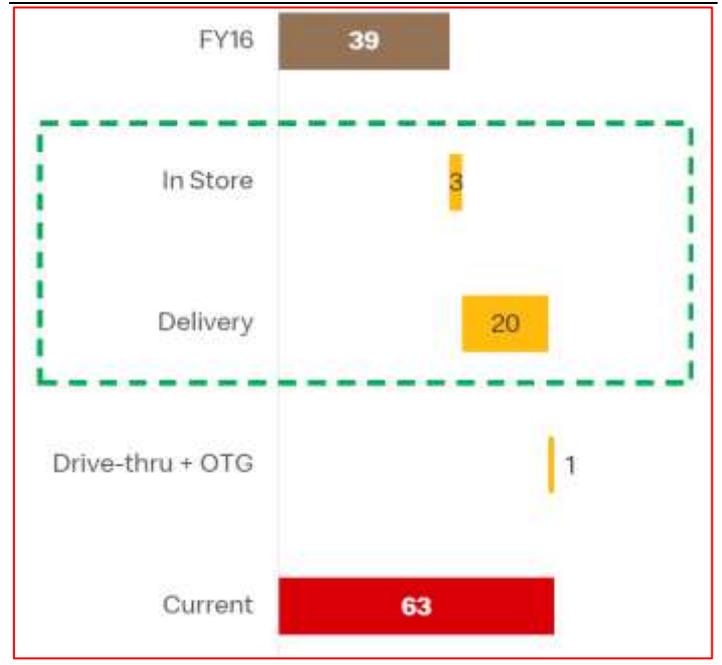
Source: Company, Emkay Research

**Exhibit 7: Introduction of Mc-Café/Gourmet Burgers have helped to improve the average rev/store significantly from FY16 levels**



Source: Company, Emkay Research

**Exhibit 8: Delivery channel has picked up strongly for WLDL, led by investments in its own app as well as third-party operators (3POs)**



Source: Company, Emkay Research

**Exhibit 9: WLDL: Growth construct of the business from the supply side**

Particulars	FY25E	FY35E	CAGR (%) FY25-35E	FY35E+
McDonald's stores (#)	451	901	7.2	2.5
SSSG (%)			6.5	5.0
<b>WLDL revenue (Rs bn)</b>	<b>31.3</b>	<b>117.2</b>	<b>14.1</b>	<b>7.6</b>
<b>EBITDA margin (%)</b>	<b>15.0</b>	<b>18.0</b>	<b>2.1</b>	<b>0.0</b>
<b>EBIT margin (%)</b>	<b>10.1</b>	<b>13.5</b>	<b>1.3</b>	<b>0.0</b>
<b>Total EBIT (Rs bn)</b>	<b>3.1</b>	<b>15.8</b>	<b>17.5</b>	<b>7.6</b>

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

**Exhibit 10: WLDL: Target EV/EBITDA multiple derived from a two-stage dividend growth model**

Revenue CAGR [FY22E-25E] (%)	26
EBITDA CAGR [FY22E-25E] (%)	57
Net debt-to-EV (%)	0
Adj. beta vs. Nifty (#)	0.75
<b>Stage-1: FY25E-35E</b>	
EBITDA in Yr-0 [FY25E] (Rs bn)	4.7
EBITDA in Yr-1 (Rs bn)	5.5
<b>EBITDA CAGR (%)</b>	<b>17.5</b>
<b>Years of growth [n]</b>	<b>10.0</b>
<b>Incremental RoIC (%)</b>	<b>40.0</b>
<b>WACC (%)</b>	<b>11.00</b>
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)	157
<b>Terminal stage: &gt;FY35E</b>	
Terminal EBITDA growth (%)	7.5
Incremental RoIC (%)	40.0
Implied FCFF ratio (%)	81.3
<b>Fair value EV/EBITDA in Mar-25E (x)</b>	<b>26.4</b>
EV in Mar-25E (Rs bn)	145.2
Dec-23 NPV of FCFFs (Rs bn)	2.9
Dec-23E EV (Rs bn)	130.4
Adj. net debt (Rs bn)	0.3
<b>Fair value of Equity in Dec-23E (x)</b>	<b>130</b>
Dec-24E EBITDA (Rs bn)	4.5
<b>Implied fair value EV/EBITDA in Dec-23E (x)</b>	<b>29</b>
<b>Target EV/EBITDA in Dec-23E (x)</b>	<b>29</b>
<b>Target market-cap in Dec-23E (Rs bn)</b>	<b>130</b>
<b>Target price in Dec-23E (Rs/share)</b>	<b>840</b>

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

## Key Financials (Consolidated)

### Income Statement

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>9,856</b>	<b>15,760</b>	<b>23,259</b>	<b>26,848</b>	<b>31,263</b>
<b>Expenditure</b>	<b>9,241</b>	<b>13,785</b>	<b>19,128</b>	<b>21,902</b>	<b>25,278</b>
<b>EBITDA</b>	<b>615</b>	<b>1,975</b>	<b>4,131</b>	<b>4,946</b>	<b>5,986</b>
Depreciation	1,546	1,451	1,597	1,871	2,156
<b>EBIT</b>	<b>(931)</b>	<b>524</b>	<b>2,534</b>	<b>3,075</b>	<b>3,830</b>
Other Income	447	282	90	150	201
Interest expenses	845	826	890	953	1,070
<b>PBT</b>	<b>(1,329)</b>	<b>(21)</b>	<b>1,734</b>	<b>2,271</b>	<b>2,961</b>
Tax	(293)	(4)	433	572	746
Extraordinary Items	42	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>(994)</b>	<b>(17)</b>	<b>1,300</b>	<b>1,699</b>	<b>2,215</b>
<b>Adjusted PAT</b>	<b>(1,036)</b>	<b>(17)</b>	<b>1,300</b>	<b>1,699</b>	<b>2,215</b>

### 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	5,610	7,309	9,523
<b>Net worth</b>	<b>4,812</b>	<b>4,621</b>	<b>5,921</b>	<b>7,620</b>	<b>9,834</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>9,680</b>	<b>10,546</b>	<b>10,012</b>	<b>10,151</b>	<b>10,458</b>
Net deferred tax liability	(510)	(520)	(572)	(629)	(692)
<b>Total Liabilities</b>	<b>13,982</b>	<b>14,647</b>	<b>15,361</b>	<b>17,141</b>	<b>19,600</b>
<b>Net block</b>	<b>12,843</b>	<b>13,623</b>	<b>14,800</b>	<b>15,645</b>	<b>16,269</b>
<b>Investment</b>	<b>2,382</b>	<b>1,865</b>	<b>1,865</b>	<b>1,865</b>	<b>1,865</b>
<b>Current Assets</b>	<b>1,246</b>	<b>1,612</b>	<b>1,472</b>	<b>2,796</b>	<b>5,097</b>
Cash & bank balance	110	232	(17)	1,080	3,112
Other Current Assets	114	621	714	821	944
<b>Current liabilities &amp; Provision</b>	<b>2,744</b>	<b>2,809</b>	<b>3,132</b>	<b>3,520</b>	<b>3,986</b>
<b>Net current assets</b>	<b>(1,498)</b>	<b>(1,196)</b>	<b>(1,660)</b>	<b>(724)</b>	<b>1,111</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>13,982</b>	<b>14,647</b>	<b>15,361</b>	<b>17,141</b>	<b>19,600</b>

### Cash Flow

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>(1,735)</b>	<b>(303)</b>	<b>1,644</b>	<b>2,121</b>	<b>2,760</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	554	(179)	214	161	197
<b>Operating Cashflow</b>	<b>1,206</b>	<b>1,790</b>	<b>3,859</b>	<b>4,478</b>	<b>5,374</b>
Capital expenditure	(515)	(1,104)	(2,074)	(2,016)	(2,080)
<b>Free Cash Flow</b>	<b>691</b>	<b>686</b>	<b>1,785</b>	<b>2,461</b>	<b>3,294</b>
Investments	(414)	480	0	0	0
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(482)</b>	<b>(341)</b>	<b>(1,984)</b>	<b>(1,866)</b>	<b>(1,879)</b>
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)	(1,310)
<b>Financing Cashflow</b>	<b>(645)</b>	<b>(1,326)</b>	<b>(2,125)</b>	<b>(1,515)</b>	<b>(1,462)</b>
<b>Net chg in cash</b>	<b>80</b>	<b>122</b>	<b>(250)</b>	<b>1,097</b>	<b>2,032</b>
Opening cash position	30	110	232	(17)	1,080
<b>Closing cash position</b>	<b>110</b>	<b>232</b>	<b>(17)</b>	<b>1,080</b>	<b>3,112</b>

Source: Company, Emkay Research

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**Key Ratios**

<b>Profitability (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EBITDA Margin	6.2	12.5	17.8	18.4	19.1
EBIT Margin	(9.4)	3.3	10.9	11.5	12.2
Effective Tax Rate	22.1	19.4	25.0	25.2	25.2
Net Margin	(10.5)	(0.1)	5.6	6.3	7.1
ROCE	(3.3)	5.6	17.5	19.8	21.9
ROE	(19.6)	(0.4)	24.7	25.1	25.4
RoIC	(6.0)	3.6	15.0	17.0	20.4

<b>Per Share Data (Rs)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EPS	(6.6)	(0.1)	8.4	10.9	14.2
CEPS	3.3	9.2	18.6	22.9	28.1
BVPS	30.9	29.6	38.1	49.0	63.2
DPS	0.0	0.0	0.0	0.0	0.0

<b>Valuations (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
PER	(108.1)	(6,730.9)	86.0	65.8	50.5
P/CEPS	219.8	78.1	38.6	31.3	25.6
P/BV	23.3	24.3	18.9	14.7	11.4
EV / Sales	12.3	7.8	5.2	4.5	3.8
EV / EBITDA	194.6	61.2	29.1	24.1	19.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

<b>Gearing Ratio (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Net Debt/ Equity	1.6	1.9	1.4	1.0	0.6
Net Debt/EBIDTA	12.3	4.5	2.1	1.5	1.0
Working Cap Cycle (days)	(59.6)	(33.1)	(25.8)	(24.5)	(23.4)

<b>Growth (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Revenue	(36.3)	59.9	47.6	15.4	16.4
EBITDA	(72.0)	221.4	109.1	19.7	21.0
EBIT	(223.8)	0.0	383.8	21.3	24.6
PAT	0.0	0.0	0.0	30.6	30.3

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

Source: Company, Emkay Research

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

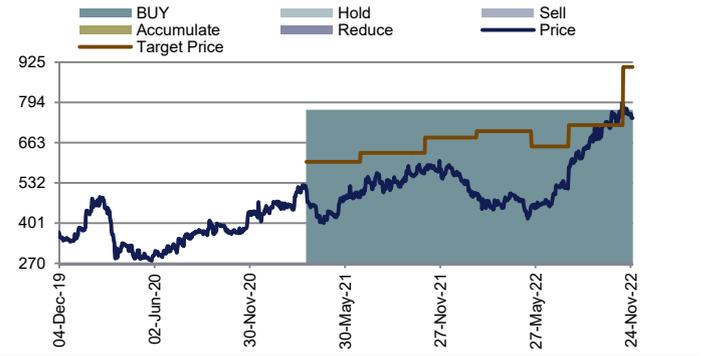
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
09-Nov-22	781	910	12m	Buy	Devanshu Bansal
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: 02 Dec 2022 08:49:43 (SGT)

Dissemination Date: 02 Dec 2022 08:50:43 (SGT)

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