

# Barbeque Nation Hospitality

Estimate change



TP change



Rating change

**CMP: INR617**

**TP: INR700 (+13%)**

**Neutral**

## SSSG remains weak; 1H to be watchful

Bloomberg	BARBEQUE IN
Equity Shares (m)	39
M.Cap.(INRb)/(USD\$)	24.1 / 0.3
52-Week Range (INR)	1270 / 593
1, 6, 12 Rel. Per (%)	-1/-41/-45
12M Avg Val (INR M)	103

### Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	12.3	14.2	16.3
Sales growth (%)	43.4	15.5	14.4
EBITDA	2.3	2.7	3.2
Margins (%)	18.7	19.0	19.5
Adj. PAT	0.2	0.4	0.5
Adj. EPS (INR)	3.9	10.2	13.1
EPS Growth (%)	L/P	159.7	28.4
BV/Sh.(INR)	102.9	113.1	126.2

### Ratios

RoE (%)	3.8	9.0	10.4
RoCE (%)	6.2	7.8	8.8

### Valuations

P/E (x)	156.9	60.4	47.1
P/BV (x)	6.0	5.5	4.9
EV/EBITDA (x)	13.2	11.0	9.2
EV/Sales (x)	2.5	2.1	1.8

### Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	33.8	33.8	34.5
DII	27.6	27.3	17.1
FII	16.7	16.4	11.4
Others	22.0	22.5	37.0

FII Includes depository receipts

- BARBEQUE posted a weak performance in 4QFY23, with revenue growth of 12% and an EBITDA decline of 10% YoY. Lower SSSG pulled down EBITDA margin by 350bp despite 17% store adds. Revenue from mature stores stood at INR66m (5-6% below expectation).
- The management remains hawkish on demand trends in 1HFY24 and has subsequently curbed store adds guidance to 20 in FY24 v/s 31 net adds in FY23. Valuations are fair at 9.2x FY25E and 12x FY25E EV/EBITDA (pre-Ind-AS). We reiterate our Neutral rating on the stock with a TP of INR700, based on 14x FY25E EV/EBITDA (pre-Ind-AS).

### Weak performance resulting in a net loss (miss)

- BARBEQUE reported sales growth of 12% YoY to INR2.8b (8% miss). SSSG declined 2.6% YoY (est. 5% growth) in 4QFY23. Revenue per store declined 6% YoY to INR13.1m v/s INR14m in 4QFY22.
- BARBEQUE opened eight Barbeque Nation (BBQN) stores and shut down four stores in 4QFY23, taking the total to 196 BBQN stores across India. By the end of 4QFY23, BARBEQUE had six international BBQN stores and 14 Toscano outlets, taking the combined total to 216 stores.
- Gross profit grew 14% YoY. Gross margin was up 110bp YoY/down 90bp QoQ to 65.8% (30bp below est.).
- EBITDA declined 10% YoY to INR400m (30% miss), due to lower sales and higher SG&A expenses (up 20% YoY/10% miss). EBITDA margin came in at 14.2% v/s 17.7% YoY (est. 18.5%).
- The company reported an adj. loss of INR100m in 4QFY23 v/s INR5m PAT in 4QFY22 (est. 15m PAT).
- FY23 sales/EBITDA grew 43%/72% to INR12.4b/2.3b. Adj. PAT came in at INR153m v/s a loss of INR257m. Adjusted for rent concessions in FY22/FY23, PAT for FY23 stood at INR152m v/s INR427m loss in FY22 and INR488m loss in FY20.

### Highlights from the management commentary

- Overall SSSG declined by 2.6% despite dine-in SSSG of +2.1% (albeit soft) and mature stores' SSSG of ~3.5%; overall SSSG was pulled down by the underperformance of the delivery channel.
- Overall industry-wide demand remained soft, with Jan'23 doing well but Feb-Mar'23 declining. However, the management has seen ~15% MoM growth in volumes in Apr-May'23.
- BARBEQUE has reduced the store addition target to 20 stores in FY24 and will revisit the guidance by 1HFY24 based on the demand outlook. This, along with store renovations, will lead to annual capex of INR800m.
- It targets to generate high-teen EBITDA margin in the mature portfolio (>2-year old stores) and consolidated EBITDA margin of 13-14% in the medium to long term.

**Valuation and view**

- Due to muted commentary for 1HFY24 and lower store adds guidance, we cut revenue/EBITDA estimates by 3% and project a CAGR of 15%/17% in revenue/EBITDA in FY23-25E.
- For mature stores, ROM EBITDA margins stood at 19% in FY23. On a consolidated basis, the company targets EBITDA margin of 13-14%. The decline in SSSG was mainly due to lower revenue from the delivery model. The dine-in channel performed well with 2.1% SSSG. The management remains cautious about near-term growth.
- The company has acquired an additional 4.21% stake in Red Apple Kitchen, which operates 14 Italian cuisine restaurants under the popular brand Toscano. The total shareholding in Red Apple Kitchen now stands at 73.03%. Toscano and International continued to post good profitability.
- We reiterate our Neutral rating on fair valuations, inherently lower return ratios as compared to QSRs, and potential vulnerability of its higher ticket size delivery business in an inflationary environment. We arrive at a TP of INR700 based on 14x FY25E EV/EBITDA (pre-Ind-AS).

**Quarterly Performance**

Y/E March	FY22				FY23				FY22	FY23	FY23	(INR m)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Var. (%)
<b>SSSG (%)</b>	<b>960.0</b>	<b>184.0</b>	<b>42.7</b>	<b>5.5</b>	<b>182.0</b>	<b>23.4</b>	<b>-1.2</b>	<b>-2.6</b>	<b>64.7</b>	<b>27.5</b>	<b>5.0</b>	
<b>No. of stores</b>	<b>166</b>	<b>167</b>	<b>174</b>	<b>185</b>	<b>195</b>	<b>205</b>	<b>212</b>	<b>216</b>	<b>185</b>	<b>216</b>	<b>225</b>	
<b>Net Sales</b>	<b>1,020</b>	<b>2,209</b>	<b>2,867</b>	<b>2,510</b>	<b>3,149</b>	<b>3,105</b>	<b>3,282</b>	<b>2,802</b>	<b>8,606</b>	<b>12,338</b>	<b>3,062</b>	-8.5
YoY change (%)	939.1	190.3	47.1	10.9	208.8	40.6	14.5	11.6	69.7	43.4	22.0	
<b>Gross Profit</b>	<b>600</b>	<b>1,450</b>	<b>1,886</b>	<b>1,622</b>	<b>2,103</b>	<b>2,051</b>	<b>2,189</b>	<b>1,843</b>	<b>5,558</b>	<b>8,186</b>	<b>2,022</b>	
Margin (%)	58.9	65.6	65.8	64.6	66.8	66.1	66.7	65.8	64.6	66.3	66.0	
<b>EBITDA</b>	<b>-178</b>	<b>413</b>	<b>657</b>	<b>445</b>	<b>705</b>	<b>583</b>	<b>620</b>	<b>399</b>	<b>1,337</b>	<b>2,306</b>	<b>567</b>	-29.7
EBITDA growth %	N/M	N/M	59.6	-2.1	N/M	41.1	-5.7	-10.5	188.3	72.4	27.3	
Margin (%)	-17.5	18.7	22.9	17.7	22.4	18.8	18.9	14.2	15.5	18.7	18.5	
Depreciation	289	304	340	340	352	350	382	366	1,273	1,450	388	
Interest	166	153	172	162	175	180	183	180	653	717	190	
Other Income	74	85	45	59	30	16	12	22	263	80	30	
<b>PBT</b>	<b>-559</b>	<b>41</b>	<b>190</b>	<b>2</b>	<b>208</b>	<b>69</b>	<b>67</b>	<b>-125</b>	<b>-326</b>	<b>219</b>	<b>19</b>	-752.9
Tax	-120	10	44	-3	48	26	17	-26	-69	66	5	
Rate (%)	21.5	24.9	23.2	-109.0	23.1	38.3	25.7	20.7	21.1	30.1	23.7	
<b>Adjusted PAT</b>	<b>-439</b>	<b>31</b>	<b>146</b>	<b>5</b>	<b>160</b>	<b>43</b>	<b>50</b>	<b>-99</b>	<b>-257</b>	<b>153</b>	<b>15</b>	-778.8
YoY change (%)	N/M	L/P	L/P	-92.4	N/M	39.2	-66.1	-2,138.8	-	-	200.3	

E: MOFSL Estimates



## Key takeaways from the management interaction

### Demand environment

- In FY23, the management witnessed a demand slowdown, which led to a decline in EBITDA margins, coupled with operating deleveraging. With growth in demand, the management expects EBITDA to recover.
- Overall, industry-wide demand remained soft, with Jan'23 performing well but Feb-Mar'23 declining. However, the management has seen ~15% MoM growth in Apr-May'23. Both delivery and dine-in channels picked up in Apr/May'23.
- The company shut down seven stores that did not surpass the threshold revenue limit in 2HFY23 (five of them in the T3 market). As a result, it is taking a cautious approach in the T2/3 markets while concentrating on the T1 market. Additionally, some stores were closed as a result of the collapse of malls.

### Performance

- Revenue/EBITDA grew 43%/49% YoY in FY23. The Dine-in business grew by 62% YoY, offset by a 17% YoY decline in the delivery business.
- Growth in the Dine-in business was driven by volumes and price increase, while the delivery business declined due to a decrease in Average Order Value.
- In 4QFY23, dine-in SSSG was +2.1% (v/s -2.6% for overall business). Overall business SSSG declined due to the underperformance of the delivery channel. Some mature stores reported SSSG of ~3.5% in 4QFY23.
- Despite inflation, gross margin grew thanks to pricing growth and cost management.
- BARBEQUE has generated pre-Ind-AS OCF of INR1.15b and incurred a capex of INR 1.45b.
  - It incurred INR70m of capex in CWIP, INR100m for maintenance, INR100m toward the biryani business and the balance toward adding 39 new sites and 10 renovations.
- The company targets to open 20 stores in FY24, and the renovation of some stores could lead to annual capex of INR800m (INR600m for store adds (3cr per store), INR100m toward maintenance).

### Other formats

- The company continues to invest in Core BBQ and other brands.
- The DumSafar business is gaining traction as it has crossed the revenue run rate of INR20m per month and expects INR30m.
- The International business is delivering strong SSSG and EBITDA.
- Toscano reached the revenue milestone of INR1b annually (~INR70m per store). Management is receiving positive customer feedback. The price increase helped SSSG growth in the format. The management is looking to open five new stores (36% YoY store add) in FY24 and expects a 25% CAGR growth over the next two years.
- BBQ mature portfolio is doing well. The company expects INR70m per outlet revenue, which is currently 5% lower.
- The share of delivery in the overall business decreased to ~14% in 4QFY23 v/s ~18% in 4QFY22.

- Non-BBQ India dine-in share of business increased to 24.8% in FY23 from 2.8% in FY17.

### Guidance

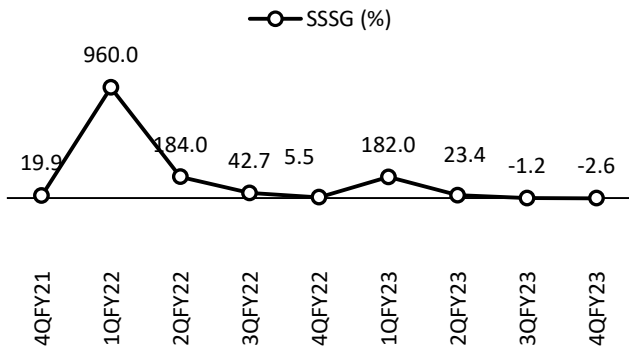
- BARBEQUE has reduced its store opening guidance to 20 stores in FY24 (opened net 31 stores in FY23), with a focus on increasing capacity utilization at existing stores.
- Of the 20 expected new stores, 12 are BBQN restaurants (the bulk in the T1 market and about 3-4 stores in the T2 market), five are Toscano restaurants, and three are BBQ International restaurants. The management will monitor results over the next few quarters before increasing the store count.
- Higher volume and better capacity utilization will drive SSSG (because price growth is slower in FY24).
- The revenue target for old stores is around INR70m, with 21% ROM EBITDA (v/s 19% in FY23). New stores are expected to generate 10% ROM EBITDA (v/s ~3% in FY23). The consolidated EBITDA margin is expected to be around 13-14% in the medium to long term.

### Others

- It is improving the guest experience with price reductions, the introduction of Happy Meals on Monday/Wednesday, and the 1+1 beverage offer.
- The ratio of H1 to H2 revenue is typically 42:58.

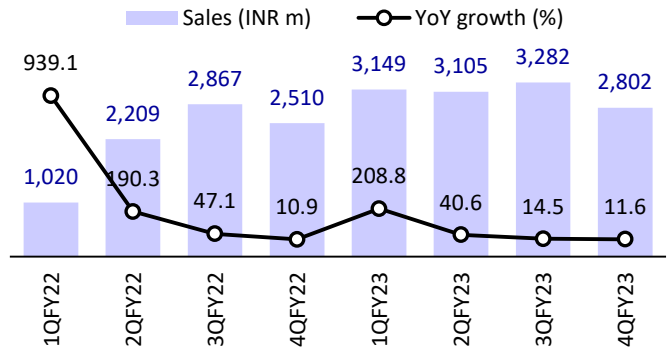
Key Exhibits

Exhibit 1: YoY SSSG stood at -2.6% in 4QFY23



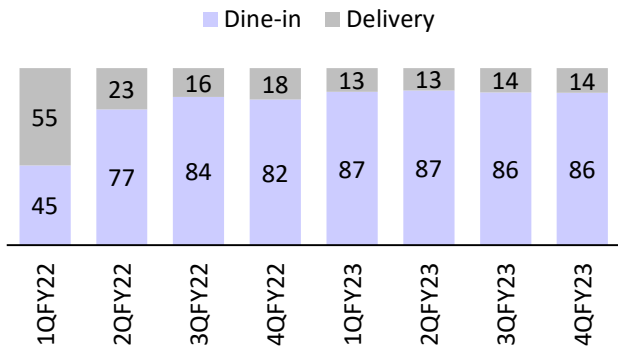
Source: Company, MOFSL

Exhibit 2: Net sales grew 11.6% YoY to INR2.8b in 4QFY23



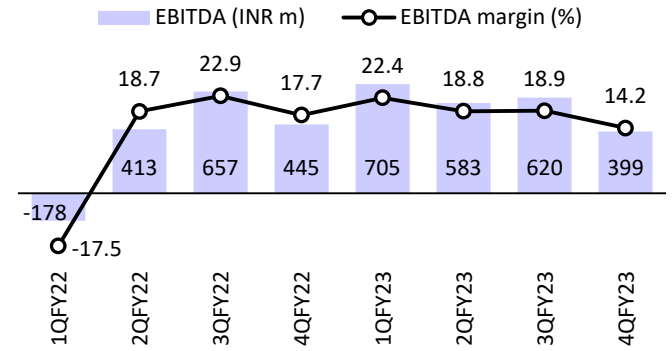
Source: Company, MOFSL

Exhibit 3: Dine-in contribution stood at 86% in 4QFY23



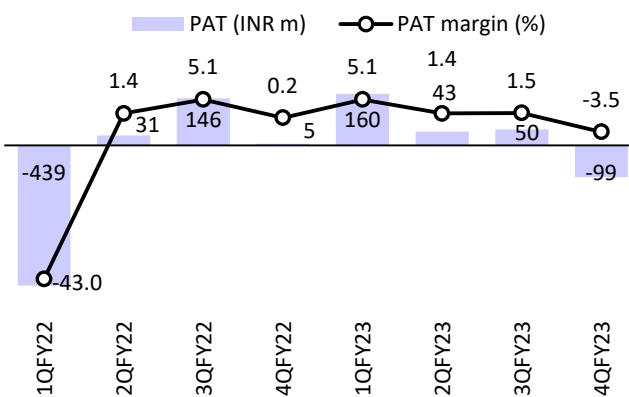
Source: Company, MOFSL

Exhibit 4: EBITDA margin came in at 14.2% in 4QFY23



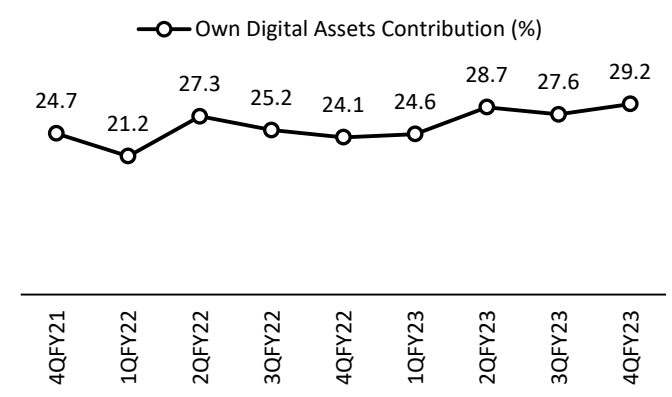
Source: Company, MOFSL

Exhibit 5: Loss came in at INR99m in 4QFY23



Source: Company, MOFSL

Exhibit 6: Contribution from its own digital assets stood at 29.2% in 4QFY23



Source: Company, MOFSL

**Exhibit 7: We decrease our EBITDA estimates for FY24/FY25**

	FY24E	FY25E
<b>Revenue (INR m)</b>		
Old	14,711	16,879
Actual/New	14,246	16,302
Change (%)	-3.2	-3.4
<b>Gross Profit (INR m)</b>		
Old	9,783	11,225
Actual/New	9,474	10,841
Change (%)	-3.2	-3.4
<b>Gross margin (%)</b>		
Old	66.5%	66.5%
Actual/New	66.5%	66.5%
Change (bp)	0	0
<b>EBITDA (INR m)</b>		
Old	2,770	3,254
Actual/New	2,707	3,179
Change (%)	-2.3	-2.3
<b>EBITDA margin (%)</b>		
Old	18.8%	19.3%
Actual/New	19.0%	19.5%
Change (bp)	17	22
<b>Net Profit (INR m)</b>		
Old	409	524
Actual/New	398	511
Change (%)	-2.8	-2.5
<b>EPS (INR)</b>		
Old	10.5	13.5
Actual/New	10.2	13.1
Change (%)	-3.0	-2.7

Source: Company, MOFSL

## Financials and valuations

Income Statement							(INR m)	
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
<b>Net Sales</b>	<b>5,863</b>	<b>7,390</b>	<b>8,470</b>	<b>5,071</b>	<b>8,606</b>	<b>12,338</b>	<b>14,246</b>	<b>16,302</b>
Change (%)	19.8	26.0	14.6	-40.1	69.7	43.4	15.5	14.4
Material Consumed	1,978	2,476	2,922	1,782	3,047	4,152	4,772	5,461
<b>Gross Profit</b>	<b>3,885</b>	<b>4,914</b>	<b>5,548</b>	<b>3,288</b>	<b>5,558</b>	<b>8,186</b>	<b>9,474</b>	<b>10,841</b>
Gross Margin %	66.3	66.5	65.5	64.8	64.6	66.3	66.5	66.5
Operating expenses	2,522	3,455	3,906	2,825	4,221	5,880	6,767	7,662
<b>EBITDA</b>	<b>1,363</b>	<b>1,459</b>	<b>1,642</b>	<b>464</b>	<b>1,337</b>	<b>2,306</b>	<b>2,707</b>	<b>3,179</b>
Change (%)	15.9	7.0	12.6	-71.8	188.3	72.4	17.4	17.4
Margin (%)	23.2	19.7	19.4	9.1	15.5	18.7	19.0	19.5
Depreciation	703	895	1,340	1,212	1,273	1,450	1,554	1,683
Int. and Fin. Ch.	536	564	756	849	653	717	661	832
Other Non-recurring Inc.	41	35	38	460	263	80	40	20
<b>PBT</b>	<b>165</b>	<b>35</b>	<b>-415</b>	<b>-1,136</b>	<b>-326</b>	<b>219</b>	<b>532</b>	<b>683</b>
Change (%)	26.6	-79.1	P/L	-	-	L/P	142.8	28.4
Margin (%)	2.8	0.5	-4.9	-22.4	-3.8	1.8	3.7	4.2
Tax	124	144	78	-197	-69	66	134	172
Tax Rate (%)	74.9	416.8	-18.8	17.3	21.1	30.1	25.2	25.2
<b>Adjusted PAT</b>	<b>41</b>	<b>-109</b>	<b>-493</b>	<b>-940</b>	<b>-257</b>	<b>153</b>	<b>398</b>	<b>511</b>
Change (%)	-37.5	P/L	-	-	-	L/P	159.7	28.4
Margin (%)	0.7	-1.5	-5.8	-18.5	-3.0	1.2	2.8	3.1
Non-rec. (Exp)/Inc.	-99	-275	164	21	5	38	0	0
Minority interest	0	0	-5	-14	4	21	0	0
<b>Reported PAT</b>	<b>-58</b>	<b>-384</b>	<b>-324</b>	<b>-905</b>	<b>-256</b>	<b>170</b>	<b>398</b>	<b>511</b>

Balance Sheet							(INR m)	
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Share Capital	138	140	140	170	195	195	195	195
Reserves	1,312	1,176	-81	2,269	3,665	3,816	4,214	4,725
<b>Net Worth</b>	<b>1,450</b>	<b>1,316</b>	<b>59</b>	<b>2,439</b>	<b>3,860</b>	<b>4,011</b>	<b>4,409</b>	<b>4,920</b>
Loans	1,277	1,579	2,450	1,528	218	196	196	196
Lease Liabilities	3,507	4,200	4,816	4,498	5,887	6,649	7,379	8,436
Others	0	0	52	38	93	82	82	82
<b>Capital Employed</b>	<b>6,234</b>	<b>7,095</b>	<b>7,377</b>	<b>8,503</b>	<b>10,057</b>	<b>10,939</b>	<b>12,066</b>	<b>13,634</b>
Gross Block	7,446	9,619	11,910	12,049	14,728	17,571	18,993	20,616
Less: Accum. Depn.	2,197	2,986	4,507	5,456	6,728	8,178	9,732	11,416
<b>Net Fixed Assets</b>	<b>5,249</b>	<b>6,634</b>	<b>7,404</b>	<b>6,593</b>	<b>8,000</b>	<b>9,393</b>	<b>9,261</b>	<b>9,200</b>
Capital WIP	185	159	109	60	212	273	273	273
Goodwill	230	190	723	723	723	723	723	723
<b>Curr. Assets, L&amp;A</b>	<b>1,568</b>	<b>1,209</b>	<b>1,319</b>	<b>4,002</b>	<b>2,478</b>	<b>2,200</b>	<b>3,591</b>	<b>5,416</b>
Inventory	190	193	149	202	358	421	468	536
Account Receivables	56	49	22	26	57	74	78	89
Cash and Bank Balance	436	120	147	2,455	853	426	1,764	3,511
Others	886	847	1,001	1,319	1,210	1,280	1,280	1,280
<b>Curr. Liab. and Prov.</b>	<b>945</b>	<b>1,057</b>	<b>2,167</b>	<b>2,855</b>	<b>1,356</b>	<b>1,647</b>	<b>1,778</b>	<b>1,975</b>
Other Current Liabilities	152	141	894	1,237	199	227	227	227
Creditors	673	768	1,125	1,468	988	1,235	1,366	1,563
Provisions	120	148	148	150	168	185	185	185
<b>Net Curr. Assets</b>	<b>623</b>	<b>152</b>	<b>-848</b>	<b>1,147</b>	<b>1,122</b>	<b>553</b>	<b>1,813</b>	<b>3,441</b>
Current tax liabilities	-53	-40	-11	-20	0	-4	-4	-4
<b>Appl. of Funds</b>	<b>6,234</b>	<b>7,095</b>	<b>7,377</b>	<b>8,503</b>	<b>10,057</b>	<b>10,939</b>	<b>12,066</b>	<b>13,634</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
<b>Basic (INR)</b>								
EPS	1.5	-3.9	-17.6	-27.7	-6.6	3.9	10.2	13.1
BV/Share	52.5	47.0	2.1	71.9	99.2	102.9	113.1	126.2
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Valuation (x)

P/E	410.5	N/M	N/M	N/M	N/M	156.9	60.4	47.1
EV/Sales	3.6	3.1	2.9	4.8	3.4	2.5	2.1	1.8
EV/EBITDA	15.7	15.7	14.9	52.9	21.9	13.2	11.0	9.2
P/BV	11.7	13.1	291.9	8.6	6.2	6.0	5.5	4.9

### Return Ratios (%)

RoE	2.9	-8.3	-833.5	-38.5	-6.7	3.8	9.0	10.4
RoCE	3.2	-28.5	5.6	-3.0	2.8	6.2	7.8	8.8
RoIC	3.3	-28.7	5.2	-9.4	0.7	6.2	8.5	11.3

### Working Capital Ratios

Debtor (Days)	3	2	1	2	2	2	2	2
Inventory (Days)	12	10	6	15	15	12	12	12
Creditor (Days)	42	38	48	106	42	37	35	35
Asset Turnover (x)	0.9	1.0	1.1	0.6	0.9	1.1	1.2	1.2

### Leverage Ratio

Debt/Equity (x)	0.9	1.2	41.4	0.6	0.1	0.0	0.0	0.0
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### Cash Flow Statement

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
<b>(INR m)</b>								
OP/(loss) before Tax	66	-295	-251	-1,115	-321	257	532	683
Int./Div. Received	8	207	-149	-412	-137	28	-40	-20
Depreciation & Amort.	753	1,022	1,340	1,212	1,273	1,450	1,554	1,683
Interest Paid	-472	-488	-659	-739	-500	-559	-661	-832
Direct Taxes Paid	145	143	78	-12	31	57	134	172
Inc/(Dec) in WC	-121	57	-291	-244	686	-38	-79	-118
<b>CF from Operations</b>	<b>1,275</b>	<b>1,223</b>	<b>1,811</b>	<b>679</b>	<b>598</b>	<b>2,276</b>	<b>2,651</b>	<b>3,125</b>
Inc/(Dec) in FA	-1,010	-1,299	-840	-143	-932	-1,459	-821	-873
<b>Free Cash Flow</b>	<b>266</b>	<b>-76</b>	<b>971</b>	<b>536</b>	<b>-334</b>	<b>817</b>	<b>1,830</b>	<b>2,252</b>
Others	42	7	-678	71	30	-59	685	833
Pur of Investments	3	0	0	0	0	0	0	0
<b>CF from Invest.</b>	<b>-965</b>	<b>-1,292</b>	<b>-1,518</b>	<b>-72</b>	<b>-902</b>	<b>-1,518</b>	<b>-136</b>	<b>-40</b>
Issue of Shares	478	320	1	1,495	1,844	15	0	0
Incr in Debt	405	302	876	73	-1,310	-22	0	0
Dividend Paid	-33	-34	-34	0	0	0	0	0
Others	-778	-836	-1,109	133	-1,832	-1,179	-1,176	-1,339
<b>CF from Fin. Activity</b>	<b>73</b>	<b>-247</b>	<b>-265</b>	<b>1,700</b>	<b>-1,298</b>	<b>-1,186</b>	<b>-1,176</b>	<b>-1,339</b>
<b>Incr/Decr of Cash</b>	<b>384</b>	<b>-316</b>	<b>27</b>	<b>2,308</b>	<b>-1,602</b>	<b>-428</b>	<b>1,339</b>	<b>1,746</b>
Add: Opening Balance	53	436	120	147	2,455	853	426	1,764
<b>Closing Balance</b>	<b>436</b>	<b>120</b>	<b>147</b>	<b>2,455</b>	<b>853</b>	<b>426</b>	<b>1,764</b>	<b>3,511</b>

E: MOFSL Estimates

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Explanation of Investment Rating	
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SELL	< - 10%
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NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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