

Outperformance continues; Strong outlook despite weak macros

Retail ▶ Result Update ▶ May 10, 2023

TARGET PRICE (Rs): 915

In line with expectations, WLDL reported a robust 22% revenue growth in Q4, led by best-in-class SSG at 14% and 16 store additions (vs. the 5-6 quarterly average). Despite weak macros, WLDL is targeting 40-45 store additions (vs. 35 in FY23) and has guided for a strong 8% SSG in FY24 (vs. our expectation of 6% SSG). WLDL believes the format provides potential to add/scale new brand extensions, which should help it deliver a sturdy SSG in a weak environment as well. Gross margin exit at 68.2% (+320bps) was strong, though higher HO costs restricted EBITDA margin gains to 50bps (vs. likely decline for peers). WLDL expects sustaining such levels in FY24 (vs. 66.2% in FY23) which, combined with a better SSG outlook, drive a 4-7% raise to our FY25/26 estimates. A 3M rollover drives a higher increase in TP to Rs915/sh (29x EBITDA vs. 30x earlier). Reduction in the multiple is led by 3M rollover.

Westlife Foodworld: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	15,760	22,775	26,712	31,103	35,906
EBITDA	1,975	3,862	4,960	5,841	7,053
Adj. PAT	(17)	1,116	1,623	2,021	2,642
Adj. EPS (Rs)	(0.1)	7.2	10.4	13.0	17.0
EBITDA margin (%)	12.5	17.0	18.6	18.8	19.6
EBITDA growth (%)	221.4	95.5	28.4	17.8	20.7
Adj. EPS growth (%)	0.0	0.0	45.7	24.6	30.7
RoE (%)	(0.4)	21.7	25.9	26.5	28.2
RoIC (%)	10.4	36.7	43.3	49.2	61.0
P/E (x)	(7,193.4)	107.4	73.7	59.1	45.3
EV/EBITDA (x)	60.8	31.1	24.1	20.2	16.5
P/B (x)	25.9	21.2	17.4	14.2	11.5
FCFF yield (%)	0.6	0.7	1.8	2.5	3.4

Source: Company, Emkay Research

Should outperform peers, on 14% SSG; 16 net additions boost confidence for FY24

WLDL reported 3Y revenue CAGR of 13% in Q4, led by 8% CAGR in revenue/store and 4% CAGR in store additions. SSG was best-in-class at 14% in Q4, and Management provided a strong outlook of 8% SSG for FY24, despite the weak consumption trends. Among channels, 'on-premise' grew 38%, while 'off-premise' saw slower growth at 5% in Q4, leading to a 700bps increase of 'on-premise' in the mix to 59%. WLDL has added 16/31 net stores in Q4/FY23, and expects healthy gross store addition of 40-45 in FY24. WLDL expects to expand its network to 580-630 stores by FY28 (CY2027), implying annual addition of 45-60 stores beyond FY24. McCafé's/EOTF penetration further improved to ~87%/60% of its network at FY23-end vs. 80%/36% at FY22-end. Restaurant margins improved by 210bps to 20% (Pre-IndAS), led by gross-margin gains of 320bps and increase of ~90bps in employee costs. Higher variable payouts and team-building activities restricted EBITDA-margin gains to 50bps (12% in Q3, pre-IndAS). Gross-margin gains were supported by stable RM (Palm oil) prices, 7-8% price hikes, one-time volume delivery incentive, and cost savings.

Earnings-call KTAs: 1) For Q1FY24, WLDL will see benefit of the 6-7% price hike and expects 2-3% hike in FY24. 2) Focus remains on driving growth via burger, chicken and coffee categories, which should help achieve its targeted top-line of Rs40-45bn by FY28. 3) WLDL believes McCafé/EOTF have just scratched the surface, as there is much room for growth. 4) Gross margin reporting change: WLDL has regrouped processing charges from COGS to 'other expenses', while EBITDA/margin will remain unchanged. 5) Higher variable pay and the Pattaya convention led to rise in employee expenses (+90bps) and G&A costs (+170bps) in Q4. 6) WLDL incurred capex of Rs2.7bn, which includes 60-70% towards new-store openings, McCafé/EOTF in existing stores and IT investments. WLDL expects capex ahead to be in the Rs2-2.5bn range. 7) WLDL is the only western QSR that offers breakfast at ~35% of its store network. Breakfast eating-out frequency is currently low, but WLDL believes its early entry entails long-term benefits. 8) Business is generating healthy amount of cash; so WLDL has refreshed its dividend distribution policy, per which it will try upholding the 25% dividend payout ratio.

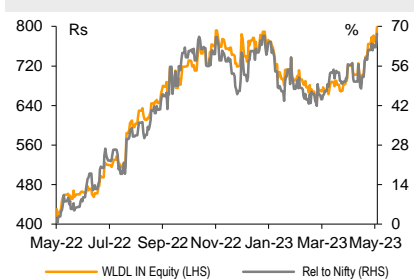
Target Price – 12M	Jun-24
Change in TP (%)	8.3
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	19.1
CMP (09-May-23) (Rs)	768.4

Stock Data	Ticker
52-week High (Rs)	816
52-week Low (Rs)	402
Shares outstanding (mn)	155.9
Market-cap (Rs bn)	120
Market-cap (USD mn)	1,460
Net-debt, FY24E (Rs mn)	-272
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	101.7
ADTV-3M (USD mn)	1.2
Free float (%)	44.0
Nifty-50	18,266
INR/USD	82.0
Shareholding, Mar-23	
Promoters (%)	56.2
FPIs/MFs (%)	9.6/24.1

Price Performance

(%)	1M	3M	12M
Absolute	6.7	8.0	76.9
Rel. to Nifty	2.8	5.8	57.8

1-Year share price trend (Rs)



Devanshu Bansal

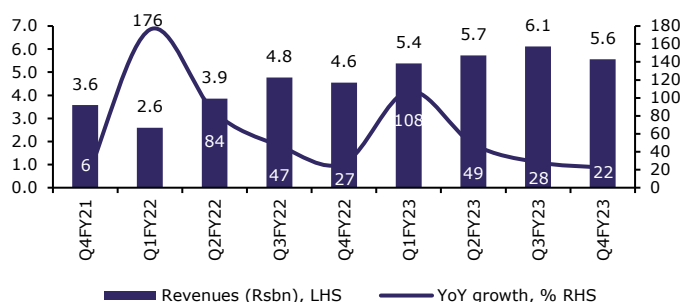
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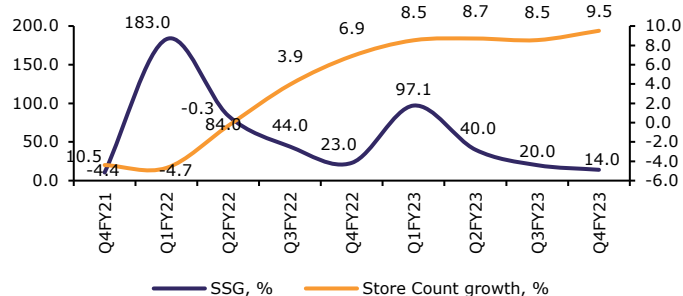
Story in Charts

Exhibit 1: Topline grew 22%, led by 14% SSG; the remaining growth is attributed to new store additions



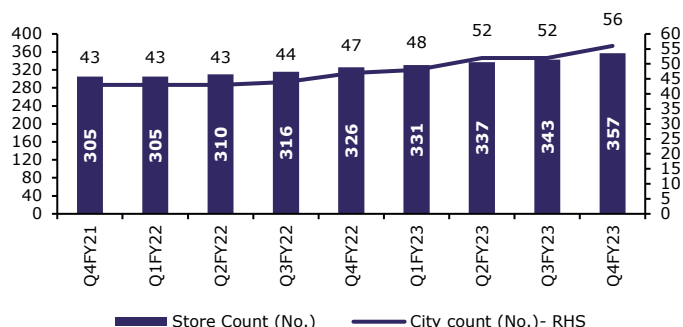
Source: Company, Emkay Research

Exhibit 2: Revenue saw 13% CAGR on 4Y basis, led by 8% CAGR in avg. revenue/store and 4% CAGR in store network



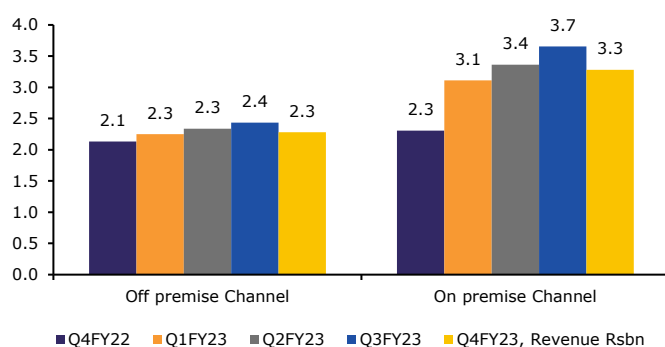
Source: Company, Emkay Research

Exhibit 3: WLDL added 16/31 net stores in Q4/FY23, taking the total to 357 as of end-FY23; WLDL entered 9 new cities in FY23



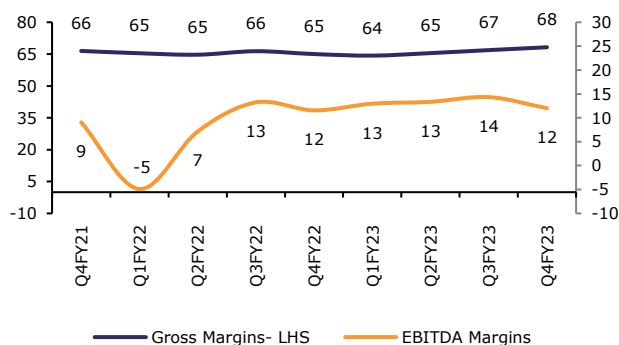
Source: Company, Emkay Research

Exhibit 4: On-premise/Off-premise channels grew 38%/5% in Q4, leading to 700bps increase in On-premise channel in the mix



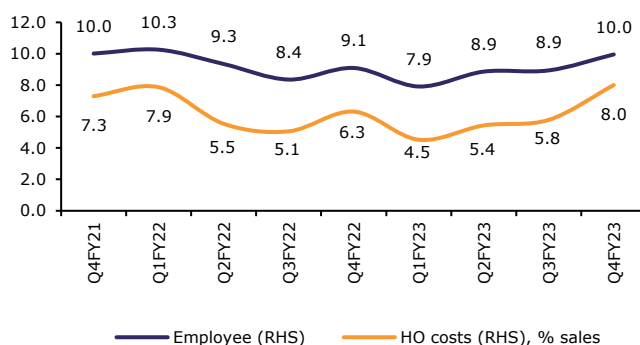
Source: Company, Emkay Research; *Post IndAS-116 EBITDA

Exhibit 5: Gross Margin increased by 320bps, while EBITDA margin grew by 50bps due to higher employee/HO costs



Source: Company, Emkay Research

Exhibit 6: Employee expense/HO cost increased by 90bps/170bps due to higher variable payouts and the Pattaya convention



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q4FY23)

(Rs mn)	Actual	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net Sales	5,564	5,526	5,766	0.7%	-3.5%	Revenue was in line with our estimates
EBITDA*	919	926	901	-0.8%	2.0%	EBITDA was largely in-line
EBITDA Margin*	16.5%	16.8%	15.6%	-25bps	+90bps	
PAT	201	215	354	-6.4%	-43.2%	Higher HO cost led to slightly lower PAT

Source: Company, Emkay Research; *Post IndAS-116 EBITDA

Exhibit 8: Summary of quarterly results

Y/E, Mar (Rs mn)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)	FY22	FY23	YoY (%)
Revenue	4,551	5,379	5,724	6,115	5,564	22.3	-9.0	15,765	22,782	44.5
Expenditure	3,822	4,459	4,736	5,012	4,645	21.5	-7.3	13,694	18,851	37.7
Consumption of RM	1,592	1,921	1,976	2,025	1,768	11.1	-12.7	5,451	7,689	41.1
as % of sales	35.0%	35.7%	34.5%	33.1%	31.8%			34.6%	33.8%	
Employee Cost-Store	414	426	507	547	554	33.8	1.3	1,439	2,034	41.4
as % of sales	9.1%	7.9%	8.9%	8.9%	10.0%			9.1%	8.9%	
Royalty	203	246	262	280	250	23.5	-10.7	708	1,039	46.7
as % of sales	4.5%	4.6%	4.6%	4.6%	4.5%			4.5%	4.6%	
Other expenditure	1,327	1,623	1,680	1,806	1,627	22.7	-9.9	5,150	6,735	30.8
as % of sales	29.2%	30.2%	29.3%	29.5%	29.2%			32.7%	29.6%	
HO Costs	288	243	311	354	446	55.0	25.8	946	1,354	43.1
as % of sales	6.3%	4.5%	5.4%	5.8%	8.0%			6.0%	5.9%	
EBITDA	729	921	988	1,103	919	26.2	-16.7	2,071	3,931	89.8
Depreciation	347	358	366	386	411	18.5	6.6	1,365	1,521	11.5
EBIT	381	563	622	717	508	33.1	-29.2	707	2,410	
Other Income	41	0	54	36	49	21.5	35.2	186	140	-24.8
Interest	209	215	226	234	253	21.5	8.4	826	928	12.3
PBT	213	348	450	520	304	42.3	-41.6	67	1,622	
Total Tax	52	82	104	116	76	46.2	-34.5	-4	379	NA
Adjusted PAT	161	266	346	403	227	41.1	-43.6	71	1,243	
Extra ordinary items	8	30	31	40	27			87	128	
Reported PAT	153	236	316	363	201	31.1	-44.7	-17	1,116	NA
Reported EPS (Rs)	1.0	1.5	2.0	2.3	1.3	31.1	-44.7	-0.1	7.2	NA
(%)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	(bps)	(bps)	FY22	FY23	(bps)
EBIDTAM	16.0	17.1	17.3	18.0	16.5	50	-150	13.1	17.3	410
EBITM	8.4	10.5	10.9	11.7	9.1	70	-260	4.5	10.6	610
EBTM	4.7	6.5	7.9	8.5	5.5	80	-300	0.4	7.1	670
PATM	4.0	5.3	6.7	7.3	4.3	30	-290	-0.1	5.9	NA
Effective Tax rate	24.5	23.5	23.1	22.4	25.1	70	270	-6.0	23.3	NA

Source: Company, Emkay Research; *Post IndAS-116 EBITDA

Exhibit 9: Changes in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Old	New	% change	Old	New	% change	New		
Revenue	26,006	26,712	2.7	30,070	31,103	3.4	35,906		
SSSG (%)	6.0	8.0	200 bps	6.5	7.0	50 bps	7.0		
Average revenue/store	68	70	2.3	71	73	3.1	76		
EBITDA*	3,581	3,903	9.0	4,329	4,623	6.8	5,665		
EBITDA margin (%)*	13.8	14.6	80 bps	14.4	14.9	50 bps	15.8		
PAT	1,490	1,623	8.9	1,916	2,021	5.5	2,642		
EPS (Rs)	9.6	10.4	8.9	12.3	13.0	5.5	17.0		

Source: Company, Emkay Research; *Pre IndAS-116 EBITDA

Exhibit 10: Peer Comparison

Companies	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs)	P/E (x)			EV/EBITDA (x) Pre IndAS-116		
					FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Jubilant FoodWorks	464	306	Hold	465	72.7	59.7	44.8	37.5	31.2	24.3
Devyani International	178	215	Hold	165	91.7	88.8	61.0	47.5	39.8	29.0
Westlife Foodworld	768	120	Buy	915	107.4	73.7	59.1	40.9	30.8	26.0
Sapphire Foods	1,293	82	Hold	1,350	69.2	57.2	40.5	33.1	26.6	19.0

Source: Company, Emkay Research; *Pre IndAS-116 EBITDA

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Westlife Foodworld: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	15,760	22,775	26,712	31,103	35,906
Revenue growth (%)	59.9	44.5	17.3	16.4	15.4
EBITDA	1,975	3,862	4,960	5,841	7,053
EBITDA growth (%)	221.4	95.5	28.4	17.8	20.7
Depreciation & Amortization	1,451	1,650	1,935	2,206	2,488
EBIT	524	2,212	3,025	3,635	4,564
EBIT growth (%)	0.0	322.4	36.7	20.2	25.6
Other operating income	0	0	0	0	0
Other income	282	210	180	200	220
Financial expense	826	927	1,012	1,104	1,215
PBT	(21)	1,495	2,193	2,731	3,570
Extraordinary items	0	0	0	0	0
Taxes	(4)	379	570	710	928
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	(17)	1,116	1,623	2,021	2,642
PAT growth (%)	0.0	0.0	45.4	24.6	30.7
Adjusted PAT	(17)	1,116	1,623	2,021	2,642
Diluted EPS (Rs)	(0.1)	7.2	10.4	13.0	17.0
Diluted EPS growth (%)	0.0	0.0	45.7	24.6	30.7
DPS (Rs)	0.0	0.0	2.6	3.2	4.2
Dividend payout (%)	0.0	0.0	25.0	25.0	25.0
EBITDA margin (%)	12.5	17.0	18.6	18.8	19.6
EBIT margin (%)	3.3	9.7	11.3	11.7	12.7
Effective tax rate (%)	19.4	25.3	26.0	26.0	26.0
NOPLAT (pre-IndAS)	422	1,652	2,238	2,690	3,378
Shares outstanding (mn)	155.9	155.9	155.6	155.6	155.6

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	(21)	1,495	2,193	2,731	3,570
Others (non-cash items)	1,451	1,650	1,935	2,206	2,488
Taxes paid	(6)	(462)	(630)	(777)	(1,001)
Change in NWC	(179)	317	93	171	279
Operating cash flow	1,790	3,717	4,423	5,236	6,330
Capital expenditure	(1,104)	(2,850)	(2,246)	(2,335)	(2,430)
Acquisition of business	480	206	0	0	0
Interest & dividend income	282	210	180	200	220
Investing cash flow	(341)	(2,434)	(2,066)	(2,135)	(2,210)
Equity raised/(repaid)	0	0	(1)	0	0
Debt raised/(repaid)	(142)	60	(300)	(100)	(100)
Payment of lease liabilities	(768)	(924)	(1,057)	(1,218)	(1,388)
Interest paid	(133)	(144)	(134)	(120)	(113)
Dividend paid (incl tax)	0	0	(406)	(505)	(660)
Others	(283)	(224)	0	0	0
Financing cash flow	(1,326)	(1,231)	(1,898)	(1,944)	(2,262)
Net chg in Cash	122	52	459	1,157	1,859
OCF	1,790	3,717	4,423	5,236	6,330
Adj. OCF (w/o NWC chg.)	1,969	3,400	4,329	5,065	6,051
FCFF	686	868	2,177	2,901	3,901
FCFE	142	150	1,345	1,997	2,906
OCF/EBITDA (%)	90.6	96.2	89.2	89.6	89.8
FCFE/PAT (%)	(852.7)	13.4	82.9	98.8	110.0
FCFF/NOPLAT (%)	162.5	52.5	97.3	107.8	115.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	312	312	311	311	311
Reserves & Surplus	4,309	5,347	6,564	8,080	10,061
Net worth	4,621	5,659	6,875	8,391	10,373
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(520)	(604)	(664)	(730)	(803)
Total debt	2,010	2,070	1,770	1,670	1,570
Total liabilities & equity	6,111	7,126	7,981	9,331	11,139
Net tangible fixed assets	5,022	6,591	7,509	8,308	8,990
Net intangible assets	417	415	445	475	505
Net ROU assets	(457)	(750)	(1,207)	(1,672)	(2,156)
Capital WIP	355	567	567	567	567
Goodwill	466	466	466	466	466
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	1,737	1,583	2,042	3,199	5,058
Current assets (ex-cash)	1,741	2,007	2,312	2,606	2,837
Current Liab. & Prov.	2,809	3,300	3,699	4,164	4,674
NWC (ex-cash)	(1,068)	(1,293)	(1,387)	(1,558)	(1,836)
Total assets	6,111	7,126	7,981	9,331	11,139
Net debt	273	487	(272)	(1,529)	(3,488)
Capital employed	6,111	7,126	7,981	9,331	11,139
Invested capital	4,019	4,976	5,373	5,565	5,515
BVPS (Rs)	29.6	36.3	44.2	53.9	66.7
Net Debt/Equity (x)	0.1	0.1	0.0	(0.2)	(0.3)
Net Debt/EBITDA (x)	0.1	0.1	(0.1)	(0.3)	(0.5)
Interest coverage (x)	1.0	0.4	0.3	0.3	0.3
RoCE (%)	12.8	36.6	42.4	44.3	46.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	(7,193.4)	107.4	73.7	59.1	45.3
P/CE(x)	83.5	43.3	33.6	28.3	23.3
P/B (x)	25.9	21.2	17.4	14.2	11.5
EV/Sales (x)	7.7	5.3	4.5	3.8	3.3
EV/EBITDA (x)	60.8	31.1	24.1	20.2	16.5
EV/EBIT(x)	229.3	54.4	39.4	32.5	25.4
EV/IC (x)	29.9	24.2	22.2	21.2	21.0
FCFF yield (%)	0.6	0.7	1.8	2.5	3.4
FCFE yield (%)	0.1	0.1	1.1	1.7	2.4
Dividend yield (%)	0.0	0.0	0.3	0.4	0.6
DuPont-RoE split					
Net profit margin (%)	(0.1)	4.9	6.1	6.5	7.4
Total asset turnover (x)	2.5	3.4	3.5	3.6	3.5
Assets/Equity (x)	1.3	1.3	1.2	1.1	1.1
RoE (%)	(0.4)	21.7	25.9	26.5	28.2
DuPont-RoIC					
NOPLAT margin (%)	2.7	7.3	8.4	8.6	9.4
IC turnover (x)	3.9	5.1	5.2	5.7	6.5
RoIC (%)	10.4	36.7	43.3	49.2	61.0
Operating metrics					
Core NWC days	(34.2)	(22.8)	(21.4)	(21.2)	(21.6)
Total NWC days	(24.7)	(20.7)	(18.9)	(18.3)	(18.7)
Fixed asset turnover	1.9	2.4	2.3	2.3	2.4
Opex-to-revenue (%)	52.9	49.3	48.9	48.9	48.2

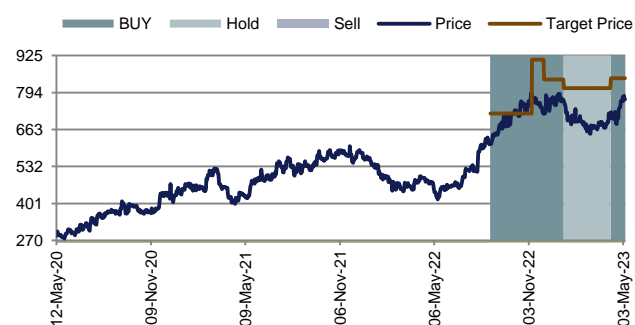
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Apr-23	720	845	Buy	Devanshu Bansal
31-Jan-23	735	810	Hold	Devanshu Bansal
09-Jan-23	761	810	Hold	Devanshu Bansal
02-Dec-22	720	840	Buy	Devanshu Bansal
09-Nov-22	781	910	Buy	Devanshu Bansal
21-Aug-22	611	720	Buy	Devanshu Bansal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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