Motilal Oswal Financial Services

9 May 2023

4QFY23 Results Update | Sector: Retail

Westlife Foodworld

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	WLDL IN
Equity Shares (m)	156
M.Cap.(INRb)/(USDb)	119.8 / 1.5
52-Week Range (INR)	815 / 402
1, 6, 12 Rel. Per (%)	3/-2/64
12M Avg Val (INR M)	142

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	22.8	26.9	32.1
Sales growth (%)	44.5	18.3	19.1
EBITDA	3.7	4.5	5.4
Margins (%)	16.4	16.6	17.0
Adj. PAT	1.1	1.5	2.0
Adj. EPS (INR)	7.2	9.4	13.0
EPS Growth (%)	L/P	31.2	38.8
BV/Sh.(INR)	36.3	45.7	58.7
Ratios			
RoE (%)	21.7	22.9	25.0
RoCE (%)	11.0	11.6	13.1
Valuations			
P/E (x)	107.3	81.8	58.9
P/BV (x)	21.2	16.8	13.1
EV/EBITDA (x)	35.2	29.3	24.0
Pre IndAS EV/EBITDA	43.0	33.9	27.2
EV/Sales (x)	5.8	4.9	4.1
EV/EBIT (x)	59.3	49.1	37.6

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	56.2	56.2	57.0
DII	24.2	23.7	22.8
FII	9.9	10.4	10.2
Others	9.7	9.7	10.0

FII Includes depository receipts

CMP: INR768 TP: INR800 (+4%) Neutral

Ending the year on a steady note

- WLDL (Westlife Foodworld) reported a broadly in-line operating performance, supported by 14% SSSG and 10% store adds. While the operating performance was robust, a slight miss in revenue and EBITDA resulted in an 11% miss in PAT.
- The management anticipates a high single-digit SSSG and the addition of 40-45 new restaurants in FY24. The easing commodity pressures and the company's focus on growing average unit volume are the key positive factors. This could be partly offset by an increase in royalty. We reiterate our **Neutral** rating on the stock**.**

Sales and EBITDA in line; store add continues

- WLDL reported a sales growth of 22% YoY to INR5.6b (in line). SSSG stood at 14% YoY (est. INR18%).
- In 4QFY23, WLDL opened a net of 16 McDonald's stores, taking the total number to 357 stores at the end of the quarter (with the closure of two stores).
- Gross margins were up 320bp YoY (up 130bp QoQ) at 68.2% (est. 66.5%).
- Restaurant Operating Margins (ROM) stood at 24.5%, as against 23.8% in 3QFY22 and 22.3% in 4QFY22.
- EBITDA grew 40.8% YoY to INR886m (4% below our est).
- EBITDA margin came in at 15.9% v/s 13.8% YoY and 16.7% QoQ (est. 16.2%)
- The company declared a PAT of INR201m (INR225m est) v/s INR153m in 4QFY22.
- Average sales per store came in at INR66.7m in FY23 v/s INR50m in FY22 and INR65.2m in 4QFY23 v/s INR57.7m in 4QFY22.
- FY23 sales/EBITDA grew 44.5%/2x YoY to INR22.8b/3.7b. PAT came in at INR1.1b in FY23 v/s a net loss of INR17m in FY22.

Key takeaways from the management commentary

- McDonald's is receiving a positive response in the smaller cities and towns, as a result of its aspirations. Non-Metro towns continue to grow at over 1.3x on the pre-covid base.
- The company typically raises prices by 2-3% annually. It did not raise prices in 4QFY23 (it raised by 7% in CY22).
- The GM (excluding processing fees) improved 320bp, as a result of the one-time volume delivery incentive, cost savings, and prior-price increases. The management does not anticipate significantly increased pressure on commodity prices.
- The management anticipates a high single-digit SSSG and plans to add 40-45 new restaurants in FY24, with a target to reach 580–630 new restaurants by 2027.

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Valuation and view

- As indicated in our detailed note in Dec'22 after the unveiling of WLDL's Vision 2027, building blocks are in place to capture the long-term opportunity in the QSR space.
- We have largely maintained our estimates building 19%/35% revenue/PAT CAGR over FY23-25E, led by 45-50 store adds annually and 8% SSSG.
- **Our valuation at 28x pre-Ind AS FY25E EV/EBITDA leads to a TP of INR800.** The easing of commodity pressure and the company's focus on growing its average unit volume are the key positive factors. This could be partly offset by an increase in royalty. We reiterate our **Neutral** rating on the stock.

Consolidated quarterly performance (INR m)

Y/E March	FY22				FY23				FY22	FY23	FY23	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
SSSG %	183.0	83.7	44.0	23.0	97.0	40.0	20.0	14.0	83.4	40.0	18.0	
No. of McDonald's restaurants	305	310	316	326	331	337	341	357	326	357	361	
Net Sales	**2,592**	**3,854**	**4,768**	**4,551**	**5,379**	**5,724**	**6,115**	**5,564**	**15,765**	**22,782**	**5,703**	**-2.4**
YoY Change (%)	176.0	84.0	46.7	27.3	107.6	48.5	28.2	22.3	59.9	44.5	25.3	
Gross profit	**1,695**	**2,495**	**3,165**	**2,959**	**3,459**	**3,748**	**4,090**	**3,796**	**10,314**	**15,092**	**3,790**	**0.2**
Margin (%)	65.4	64.7	66.4	65.0	64.3	65.5	66.9	68.2	65.4	66.2	66.5	
EBITDA	**25**	**444**	**793**	**629**	**873**	**959**	**1,022**	**887**	**1,892**	**3,740**	**924**	**-4.1**
YoY Change (%)	L/P	L/P	81.4	34.6	3,380.8	115.9	28.8	40.9	303.1	97.7	46.9	
Margins (%)	1.0	11.5	16.6	13.8	16.2	16.8	16.7	15.9	12.0	16.4	16.2	
Depreciation	332	338	348	346	358	366	386	412	1,364	1,522	421	
Interest	203	204	210	209	215	225	234	253	826	927	256	
Other Income	64	40	43	131	18	52	78	56	277	203	59	
PBT	**-446**	**-59**	**279**	**205**	**318**	**419**	**480**	**277**	**-21**	**1,495**	**306**	**-9.4**
Tax	-112	-15	70	52	82	104	116	76	-4	379	82	
Rate (%)	N/M	N/M	25.3	25.4	25.8	24.8	24.2	27.5	19.4	25.3	26.6	
Adj PAT	**-334**	**-44**	**208**	**153**	**236**	**315**	**364**	**201**	**-17**	**1,116**	**225**	**-10.5**
YoY Change (%)	-	-	L/P	L/P	L/P	L/P	74.7	31.2	-	L/P	46.6	
Margins (%)	-12.9	-1.1	4.4	3.4	4.4	5.5	5.9	3.6	-0.1	4.9	3.9	

E: MOFSL Estimates

Key Performance Indicators

	FY22				FY23			
Y/E March	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
2Y average growth (%)								
SSSG	64.5	21.5	10.0	16.8	140.0	61.9	32.0	18.5
Sales	50.3	18.4	10.9	16.8	141.8	66.2	37.5	24.8
EBITDA	N/M	(102.2)	21.6	31.7	N/M	N/M	55.1	37.7
PAT	N/M	N/M	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	33.1	31.8
Operating Expenses	64.4	53.2	49.7	51.2	48.1	48.7	50.2	52.3
Depreciation	12.8	8.8	7.3	7.6	6.7	6.4	6.3	7.4
YoY change (%)								
COGS	120.9	77.9	43.8	32.9	114.3	45.4	26.3	11.1
Operating Expenses	74.7	52.6	39.6	22.0	54.8	36.0	29.4	24.9
Other Income	-64.8	-73.0	-47.9	299.1	-71.8	31.5	81.5	-57.4
EBIT	N/M	N/M	410.8	126.0	N/M	458.4	42.7	67.7

E: MOFSL Estimates

Highlights from Press Release

- Growth is led by double-digit growth in dine-in customers, which led to a 38% YoY increase in on-premise business.
- The company-owned delivery platform, McDelivery, saw a robust increase in the user base with the digital sales improving to 62%, primarily driven by SOKs (Self-Ordering Kiosks).
- It now has a total of 357 restaurants in 56 cities, including 68 Drive-Thrus, 311 McCafés, and 220 Experience of the Future (EOTF) restaurants.

Exhibit 1: Restaurant operating margin

INR m	4QFY22	3QFY23	4QFY23
Total Revenue	**4,551**	**6,115**	**5,564**
YoY Change (%)	*27.3*	*28.2*	*22.3*
Food and Paper	1,592	2,025	1,562
Payroll and employee benefits	414	547	554
Royalty	203	280	250
Occupancy and other operating expenses	1,327	1,806	1,833
Total Restaurant Expenses	**3,535**	**4,658**	**4,199**
Restaurant operating profit	**1,016**	**1,457**	**1,365**
YoY change (%)	*33.7*	*35.4*	*34.3*
Restaurant Operating Margin (ROM) (%)	*22.3*	*23.8*	*24.5*
As a percentage of sales			
Food and Paper	35.0	33.1	28.1
Payroll and employee benefits	9.1	8.9	10.0
Royalty	4.5	4.6	4.5
Occupancy and other operating expenses	29.2	29.5	32.9
ROM	22.3	23.8	24.5
As a percentage of sales change YoY (%)			
Food and Paper	1.5	(0.5)	(6.9)
Payroll and employee benefits	(0.9)	0.6	0.9
Royalty	(0.1)	0.0	0.0
Occupancy and other operating expenses	(1.6)	(1.4)	3.8
ROM	1.1	1.3	2.2

Source: Company, MOFSL

CONFERENCE CALL

Key takeaways from the management commentary

Strategy

- The company continues to focus on improving sales through Menu, meals, and branding, and helped the company to post 36% SSSG for FY23
- Core focused categories to increase the ADS are Burger, Chicken, and coffee.
- The Chicken category is currently available only in South India, but is gradually expected to expand to West India as well.
- The company believes there is significant room for growth in the beverages category.

Performance

- McDonald's is receiving a positive response in the smaller cities and towns, as a result of its aspirations.
- Non-Metro towns continue to grow at over 1.3x on the pre-covid base.

- The dine-in and McCafe are performing better than in the pre-covid period. Additionally, it is expected that all the stores will be equipped with the Experience of the future (EOTF) technology.
- On-premise business grew 85% YoY (v/s 25% in FY20) led by strong recovery in Dine-in, while Off-premise business grew by 11 % YoY (v/s 98% in FY20) led by Delivery and Drive thru
- Digital sales improved to ~57% with over 24m cumulative App downloads.

Guidance

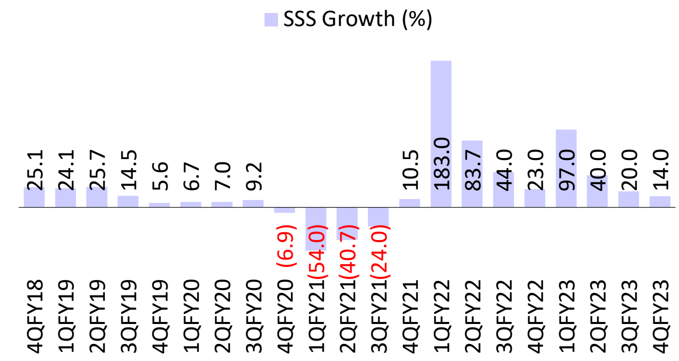
- The management expects high single-digit SSSG and plans to add 40-45 new restaurants in FY24, with a target to reach 580–630 new restaurants by 2027.
- Management expects annual capex of INR 2-2.5b.

Price hikes and margins-

- While the company usually takes a price hike of 2-3% every year, it has not taken any price hike in 4QFY23.
- The price hike taken by Westlife is in line with the long-term inflation of India. Hence, the goal is now to grow its average unit volume.
- As per the management, gross margin change could be in the range of -100bp to +100bp
- The company has outsourced some of its processing work to a job worker, resulting in a reclassification of GM. Adjusting to that, the cool-off in inflation and one-time volume delivery incentive, cost savings, and earlier price hikes lead to 320bp improvement in GM (excluding processing charges)

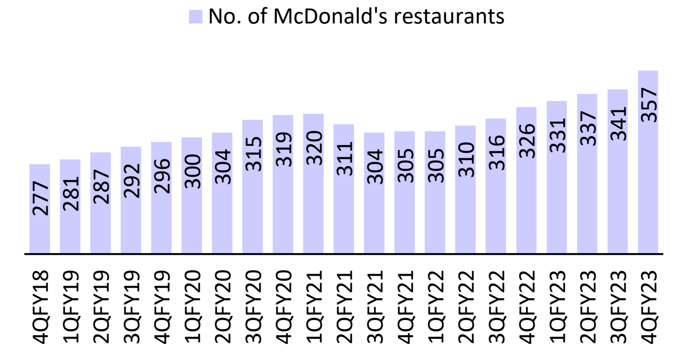
Key exhibits

Exhibit 2: SSSG stood at 14% in 4QFY23



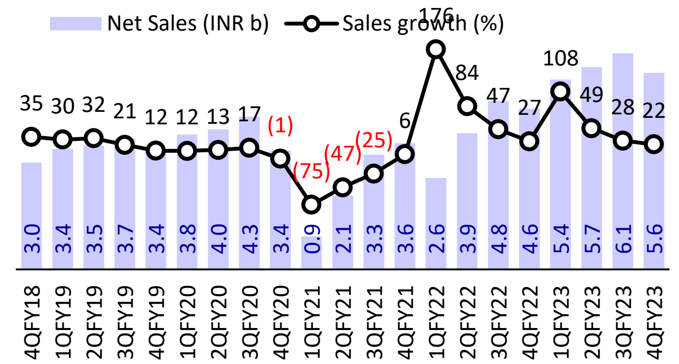
Source: Company, MOFSL

Exhibit 3: Added 16 (net) McDonald's restaurants in 4QFY23



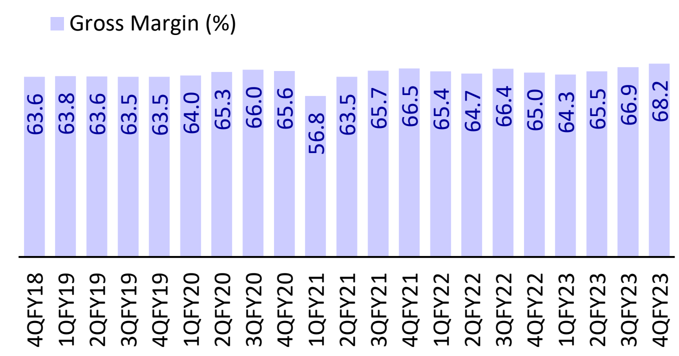
Source: Company, MOFSL

Exhibit 4: Net sales grew 22% YoY to INR5.6b in 4QFY23



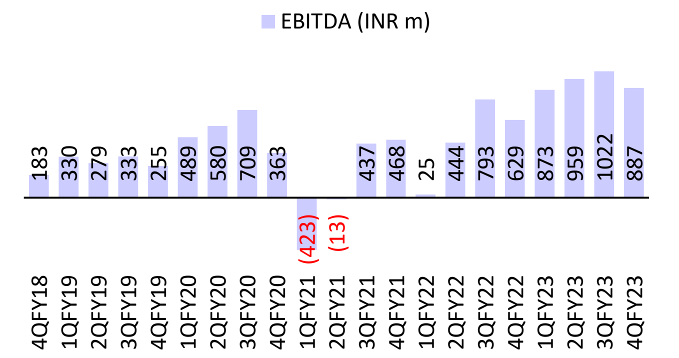
Source: Company, MOFSL

Exhibit 5: Gross margin expands 320bp YoY to 68.2%



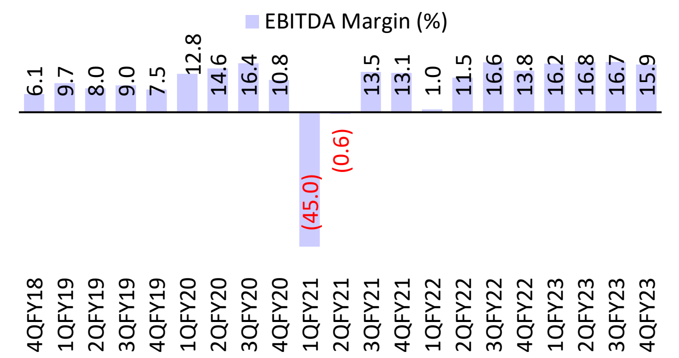
Source: Company, MOFSL

Exhibit 6: EBITDA grew 5% YoY to INR887m in 4QFY23



Source: Company, MOFSL

Exhibit 7: EBITDA margin came in at 15.9% in 4QFY23



Source: Company, MOFSL

Exhibit 8: There are no material changes in our estimates

	FY24E	FY25E
Revenue (INR m)		
Old	26,932	32,135
Actual/New	26,941	32,082
Change (%)	0.0	-0.2
Gross Profit (INR m)		
Old	17,775	21,370
Actual/New	17,781	21,335
Change (%)	*0.0*	*-0.2*
Gross margin (%)		
Old	66.0%	66.5%
Actual/New	66.0%	66.5%
Change (bp)	*0*	*0*
EBITDA (INR m)		
Old	4,458	5,357
Actual/New	4,467	5,444
Change (%)	*0.2*	*1.6*
EBITDA margin (%)		
Old	16.6%	16.7%
Actual/New	16.6%	17.0%
Change (bp)	*3*	*30*
Net Profit (INR m)		
Old	1,471	2,034
Actual/New	1,464	2,033
Change (%)	*-0.5*	*-0.1*
EPS (INR)		
Old	9.5	13.1
Actual/New	9.4	13.0
Change (%)	*-0.7*	*-0.3*

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Total Income from Operations	**11,349**	**14,020**	**15,478**	**9,860**	**15,765**	**22,782**	**26,941**	**32,082**
Change (%)	21.9	23.5	10.4	-36.3	59.9	44.5	18.3	19.1
Materials Consumed	4,250	5,116	5,382	3,483	5,451	7,689	9,160	10,748
Gross profit	**7,099**	**8,905**	**10,095**	**6,377**	**10,314**	**15,092**	**17,781**	**21,335**
Margin (%)	62.6	63.5	65.2	64.7	65.4	66.2	66.0	66.5
Employees Cost	1,716	1,975	2,192	1,782	2,095	3,106	3,157	3,892
Other Expenses	4,610	5,740	5,763	4,126	6,326	8,246	10,157	11,999
Operating Expenses	6,325	7,715	7,955	5,908	8,422	11,352	13,314	15,891
Total Expenditure	**10,575**	**12,830**	**13,337**	**9,391**	**13,873**	**19,041**	**22,474**	**26,638**
% of Sales	93.2	91.5	86.2	95.2	88.0	83.6	83.4	83.0
EBITDA	**774**	**1,190**	**2,140**	**469**	**1,892**	**3,740**	**4,467**	**5,444**
Change (%)	64.8	53.8	79.9	-78.1	303.1	97.7	19.4	21.9
Margin (%)	6.8	8.5	13.8	4.8	12.0	16.4	16.6	17.0
Depreciation	673	797	1,384	1,396	1,364	1,522	1,799	1,966
EBIT	**101**	**393**	**757**	**-927**	**528**	**2,219**	**2,668**	**3,478**
Int. and Finance Charges	150	177	808	845	826	927	980	1,081
Other Income	178	136	130	443	277	203	269	321
PBT bef. EO Exp.	**129**	**352**	**79**	**-1,329**	**-21**	**1,495**	**1,957**	**2,717**
EO Items	0	0	-166	42	0	0	0	0
PBT after EO Exp.	**129**	**352**	**-88**	**-1,287**	**-21**	**1,495**	**1,957**	**2,717**
Total Tax	0	139	-14	-293	-4	379	493	685
Tax Rate (%)	0.0	39.5	-18.1	N/M	N/M	25.3	25.2	25.2
Reported PAT	**129**	**213**	**-73**	**-994**	**-17**	**1,116**	**1,464**	**2,033**
Adjusted PAT	**129**	**213**	**93**	**-1,036**	**-17**	**1,116**	**1,464**	**2,033**
Change (%)	L/P	65.7	-56.4	P/L	-	L/P	31.2	38.8
Margin (%)	1.1	1.5	0.6	-10.5	-0.1	4.9	5.4	6.3

Consolidated - Balance Sheet								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Equity Share Capital	311	311	311	312	312	312	312	312
Total Reserves	5,111	5,525	5,459	4,501	4,309	5,347	6,811	8,844
Net Worth	**5,422**	**5,837**	**5,770**	**4,812**	**4,621**	**5,659**	**7,123**	**9,156**
Total Loans	1,835	2,339	1,837	2,152	2,010	2,070	1,570	1,170
Lease Liabilities	0	0	7,822	7,528	8,536	9,960	11,399	12,993
Deferred Tax Liabilities	0	-63	-214	-510	-520	-745	-745	-745
Capital Employed	**7,258**	**8,113**	**15,216**	**13,982**	**14,647**	**16,944**	**19,347**	**22,574**
Gross Block	8,795	7,242	8,439	8,522	9,956	13,045	15,245	17,545
Less: Accum. Deprn.	3,722	1,761	2,538	3,153	4,517	6,039	7,229	8,514
Net Fixed Assets	**5,073**	**5,480**	**5,900**	**5,368**	**5,439**	**7,006**	**8,016**	**9,031**
Goodwill on Consolidation	466	466	466	466	466	466	466	466
Capital WIP	197	284	226	256	355	567	567	567
Right to use Asset	0	0	7,714	7,008	7,718	8,758	9,723	10,792
Total Investments	**1,843**	**2,046**	**1,576**	**1,984**	**1,504**	**1,299**	**1,299**	**1,299**
Curr. Assets, Loans&Adv.	**1,712**	**1,901**	**9,249**	**8,651**	**9,691**	**2,149**	**3,903**	**5,929**
Inventory	337	410	411	465	559	714	845	1,006
Account Receivables	64	98	47	88	133	107	126	151
Cash and Bank Balance	109	92	30	110	232	285	1,698	3,302
Loans and Advances	1,201	1,301	8,760	7,988	8,766	1,044	1,234	1,470
Curr. Liability & Prov.	**2,034**	**2,065**	**2,201**	**2,744**	**2,809**	**3,300**	**4,626**	**5,509**
Account Payables	1,397	1,487	1,594	2,024	1,722	1,877	2,943	3,505
Other Current Liabilities	565	498	507	616	953	1,293	1,529	1,820
Provisions	72	80	100	104	134	130	154	184
Net Current Assets	**-322**	**-164**	**7,048**	**5,907**	**6,882**	**-1,151**	**-723**	**420**
Appl. of Funds	**7,258**	**8,112**	**15,216**	**13,982**	**14,647**	**16,944**	**19,347**	**22,574**

E: MOFSL Estimates

Financials and valuations

Ratios								
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Basic (INR)								
Adj. EPS	**0.8**	**1.4**	**0.6**	**-6.7**	**-0.1**	**7.2**	**9.4**	**13.0**
Cash EPS	5.2	6.5	9.5	2.3	8.7	16.9	20.9	25.6
BV/Share	34.9	37.5	37.1	30.9	29.7	36.3	45.7	58.7
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	929.2	560.7	1,287.1	N/M	N/M	107.3	81.8	58.9
Cash P/E	149.1	118.3	80.9	331.5	88.7	45.4	36.7	29.9
P/BV	22.0	20.5	20.7	24.8	25.9	21.2	16.8	13.1
EV/Sales	10.7	8.7	8.3	13.1	8.3	5.8	4.9	4.1
EV/EBITDA	156.8	102.4	60.4	275.3	68.7	35.2	29.3	24.0
Return Ratios (%)								
RoE	2.4	3.8	1.6	-19.6	-0.4	21.7	22.9	25.0
RoCE	3.9	4.2	8.9	NA	NA	11.0	11.6	13.1
RoIC	2.0	4.4	9.4	NA	NA	12.1	13.1	15.7
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	1.9	1.8	1.2	1.6	1.7	1.8	1.8
Asset Turnover (x)	1.6	1.7	1.0	0.7	1.1	1.3	1.4	1.4
Inventory (Days)	11	11	10	17	13	11	11	11
Debtor (Days)	2	3	1	3	3	2	2	2
Creditor (Days)	45	39	38	75	40	30	40	40
Leverage Ratio (x)								
Current Ratio	0.8	0.9	4.2	3.2	3.5	0.7	0.8	1.1
Interest Cover Ratio	0.7	2.2	0.9	-1.1	0.6	2.4	2.7	3.2
Net Debt/Equity	0.0	0.0	1.4	1.6	1.9	1.8	1.4	1.0

Consolidated - Cash Flow Statement								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
OP/(Loss) before Tax	129	393	-88	-1,287	-21	1,495	1,957	2,717
Depreciation	673	797	1,384	1,396	1,364	1,522	1,799	1,966
Interest & Finance Charges	145	175	780	791	772	927	980	1,081
Direct Taxes Paid	-23	-26	-163	32	-66	-439	-493	-685
(Inc)/Dec in WC	508	-110	164	691	-145	70	986	462
CF from Operations	**1,432**	**1,229**	**2,076**	**1,623**	**1,904**	**3,575**	**5,229**	**5,542**
Others	-60	-80	-80	-331	-198	-90	-269	-321
CF from Operating incl EO	**1,371**	**1,148**	**1,996**	**1,292**	**1,706**	**3,485**	**4,960**	**5,221**
(Inc)/Dec in FA	-1,059	-1,426	-1,259	-491	-999	-2,691	-2,200	-2,300
Free Cash Flow	**312**	**-278**	**737**	**801**	**706**	**795**	**2,760**	**2,921**
(Pur)/Sale of Investments	-59	-73	569	-252	565	33	0	0
Others	4	4	18	-16	-131	4	269	321
CF from Investments	**-1,115**	**-1,495**	**-672**	**-759**	**-565**	**-2,653**	**-1,931**	**-1,979**
Issue of Shares	2	2	10	28	24	-21	0	0
Inc/(Dec) in Debt	-69	504	-508	332	-142	60	-500	-400
Interest Paid	-151	-177	-152	-170	-133	-143	-980	-1,081
Dividend Paid	0	0	0	0	0	0	0	0
Others	0	0	-737	-643	-768	-877	-137	-156
CF from Fin. Activity	**-217**	**330**	**-1,387**	**-453**	**-1,019**	**-981**	**-1,617**	**-1,637**
Inc/Dec of Cash	**39**	**-17**	**-62**	**80**	**122**	**-149**	**1,412**	**1,605**
Opening Balance	71	109	92	30	110	232	587	1,728
Closing Balance	**109**	**92**	**30**	**110**	**232**	**285**	**1,698**	**3,302**

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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