

**BUY****Westlife Foodworld****Disappointing Q2; retain BUY, on confidence of better delivery**Retail ▶ Result Update ▶ **October 27, 2023****TARGET PRICE (Rs) : 1,040**

Similar to JUBI, WESTLIFE reported a miss across all fronts – EBITDA came in 8-10% lower and PAT missed estimates by ~30%. SSG was weak at 1%, but relatively better than that of peers, as WESTLIFE indicated market-share gains. WESTLIFE expects gradual SSG recovery going ahead, but growth investments are likely to continue as the company sees this as a blip (2027 guidance was maintained). We remain confident about faster SSG recovery for WESTLIFE, given its historical SSG outperformance, multiple brand/channel extensions and focused strategy on catering more consumer occasions through the Burger, Chicken and Café offerings. Lower ticket size for WESTLIFE should also lend support in a weak macro environment. Our EBITDA estimates get cut by 6-11%, but we maintain our BUY rating with TP of Rs1,040/share (32x Dec-25E EBITDA), given our expectations of strong revenue/EBITDA CAGR of 15%/23% over FY23-26E. The stock has corrected 10% from its peak and further correction should be taken as an opportunity to enter.

**Westlife Foodworld: Financial Snapshot (Consolidated)**

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	15,760	22,775	25,187	29,827	35,036
EBITDA	1,975	3,815	4,188	5,326	6,780
Adj. PAT	(17)	1,116	1,025	1,576	2,356
Adj. EPS (Rs)	(0.1)	7.2	6.6	10.1	15.1
EBITDA margin (%)	12.5	16.7	16.6	17.9	19.4
EBITDA growth (%)	221.4	93.1	9.8	27.2	27.3
Adj. EPS growth (%)	0.0	0.0	(8.2)	53.8	49.5
RoE (%)	(0.4)	21.7	17.2	23.4	29.7
RoIC (%)	10.4	36.7	32.8	43.0	58.3
P/E (x)	(8,265.4)	123.4	134.4	87.4	58.4
EV/EBITDA (x)	69.8	36.2	33.0	25.8	20.0
P/B (x)	29.8	24.3	21.9	19.1	15.9
FCFF yield (%)	0.5	0.6	1.2	1.9	2.8

Source: Company, Emkay Research

**Weak SSG amid muted demand; network expansion and festive demand to boost H2**

WESTLIFE saw a muted performance, with only 7% sales growth in Q2 — 1% SSG over a high base, with the balance through new store additions. Till date, commentary has also been subdued, but we expect WESTLIFE to outperform given focus on meals/product innovation, omni-channel investments and faster network expansion. Encouragingly, growth was broad-based across channels, with both 'on-premise'/'off-premise' growing at 8% in Q2. WESTLIFE has added 9 stores in Q2 (13 for H1), and reiterated its target of 40-45 additions in FY24. Vision 2027 remains intact, with plans to open 580-630 stores by FY28 (CY27). McCafé's/EOTF penetration further improved to 88%/64% of its network at Q2FY24-end vs. 81%/41% at Q2FY23-end. While better mix/cost efficiencies helped with a 90bps improvement in gross margin, negative leverage, royalty increase and wage hikes drove the 140bps dip in EBITDA margins to 11.9%.

**Earnings-call KTAs:** 1) WESTLIFE is witnessing strong traction in the South with the launch of fried chicken. While it is already a category leader in the western region, WESTLIFE indicated market-share gains in the South which should likely help it gain the leadership position there too. 2) While premiumization has fared well for WESTLIFE over the last two years, the focus now is on acquiring new consumers in the value segment; this reflected in the transaction-led growth (rather than ATS-led) in Q2. 3) Gross-margin gains were driven by lower input cost volatility and upliftment of premium offerings; however, higher Royalty, Wage and Admin costs offset the gains, resulting in the company registering a dip in EBITDA margin. 4) New store expansion will incline more towards the southern region, as store metrics improve, especially in lower-tier cities. Average unit volume per store has significantly improved in the past few years for the South, leading to better profitability and boosting confidence. 5) Full-year capex outlay is likely to range at Rs2-2.5bn, towards opening 40-45 stores and re-investing in 30-35 stores. 6) Company remains optimistic about its drive-through (DT) channel and targets improving its DT store mix to 25-30% by FY28 (vs. ~20% currently). DT stores act as destination stores, with many drive-through stores making ~1.5x sales of the system average. 7) WESTLIFE did not effect any price hikes in Q2.

Target Price – 12M	Dec-24
<b>Change in TP (%)</b>	<b>(5.5)</b>
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	17.8
CMP (26-Oct-23) (Rs)	882.9

Stock Data	Ticker
52-week High (Rs)	1,025
52-week Low (Rs)	639
Shares outstanding (mn)	155.9
Market-cap (Rs bn)	138
Market-cap (USD mn)	1,654
Net-debt, FY24E (Rs mn)	329
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	168.0
ADTV-3M (USD mn)	2.0
Free float (%)	43.0
Nifty-50	18,857
INR/USD	83.2
<b>Shareholding, Sep-23</b>	
Promoters (%)	56.2
FPIs/MFs (%)	10.4/23.7

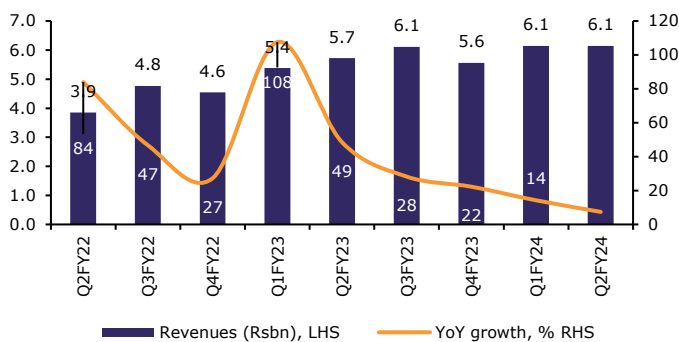
**Price Performance**

(%)	1M	3M	12M
Absolute	(10.7)	(0.2)	17.7
Rel. to Nifty	(6.9)	4.7	10.2

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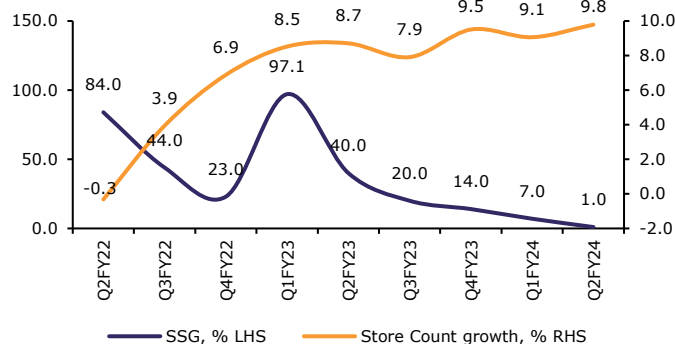
## Story in Charts

**Exhibit 1: Topline grew 7%, with 1% contribution from SSG and the balance from new store additions**



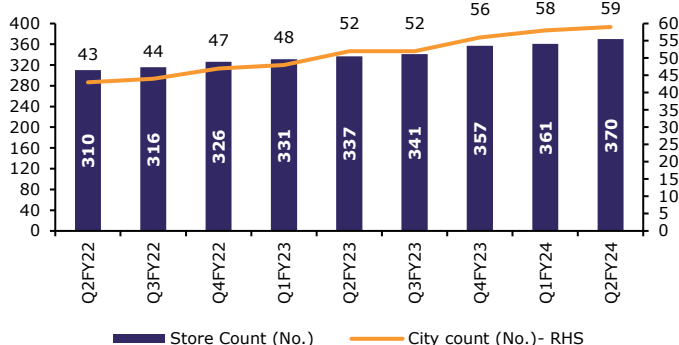
Source: Company, Emkay Research

**Exhibit 2: Revenue CAGR stood at 12% on 4Y basis, led by ~6% CAGR in avg. revenue/store and 5% CAGR in store network**



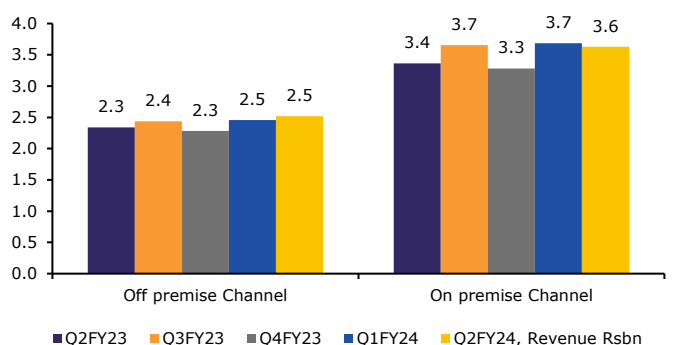
Source: Company, Emkay Research

**Exhibit 3: WLDL saw net addition of 9 stores in Q2 (13 for H1), taking the total to 370; WLDL entered one new city in Q2**



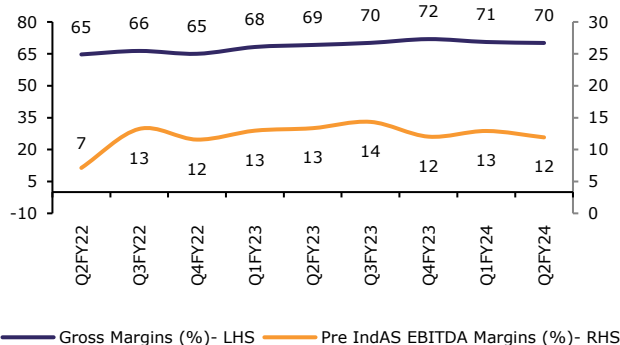
Source: Company, Emkay Research

**Exhibit 4: On-premise and Off-premise channels grew 7% each in Q2; mix remained constant**



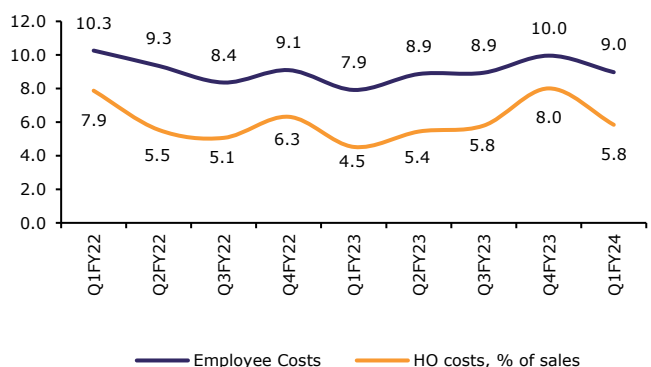
Source: Company, Emkay Research

**Exhibit 5: Gross Margin increased by 90bps, while EBITDA margin dipped by 140bps, on higher employee/Head Office (HO) costs and royalty increase**



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

**Exhibit 6: Employee expense/HO cost increased by 60bps/50bps ; WESTLIFE has indicated HO cost to normalize at current levels**



Source: Company, Emkay Research

**Exhibit 7: Actual vs. Estimates (Q2FY24)**

(Rs mn)	Actual	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net Sales	6,147	6,369	6,497	-3.5%	-5.4%	Revenue was lower led by weak SSG
EBITDA*	997	1,116	1,083	-10.7%	-8.0%	EBITDA was lower due to lower gross-margin and higher G&A cost
EBITDA Margin*	16.2%	17.5%	16.7%	-132	-46	
PAT	224	323	334	-30.9%	-33.0%	EBITDA miss flowed into PAT

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

## Exhibit 8: Summary of quarterly results

Y/E, Mar (Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	FY23TD	FY24TD	YoY (%)
<b>Revenue</b>	<b>5,724</b>	<b>6,115</b>	<b>5,564</b>	<b>6,145</b>	<b>6,147</b>	<b>7.4</b>	<b>0.0</b>	<b>11,104</b>	<b>12,293</b>	<b>10.7</b>
<b>Expenditure</b>	<b>4,736</b>	<b>5,012</b>	<b>4,645</b>	<b>5,092</b>	<b>5,151</b>	<b>8.8</b>	<b>1.1</b>	<b>9,195</b>	<b>10,243</b>	<b>11.4</b>
Consumption of RM	1,764	1,824	1,562	1,809	1,837	4.1	1.6	3,474	3,646	4.9
as % of sales	30.8%	29.8%	28.1%	29.4%	29.9%			31.3%	29.7%	
Employee Cost-Store	507	547	554	551	581	14.4	5.3	933	1,132	21.3
as % of sales	8.9%	8.9%	10.0%	9.0%	9.4%			8.4%	9.2%	
Royalty	262	280	250	318	316	20.8	-0.3	508	634	24.8
as % of sales	4.6%	4.6%	4.5%	5.2%	5.1%			4.6%	5.2%	
Other expenditure	1,891	2,006	1,833	2,056	2,054	8.6	-0.1	3,726	4,110	10.3
as % of sales	33.0%	32.8%	32.9%	33.5%	33.4%			33.6%	33.4%	
HO Costs	311	354	446	359	363	16.6	1.1	555	722	30.2
as % of sales	5.4%	5.8%	8.0%	5.8%	5.9%			5.0%	5.9%	
<b>EBITDA</b>	<b>988</b>	<b>1,103</b>	<b>919</b>	<b>1,053</b>	<b>997</b>	<b>0.9</b>	<b>-5.4</b>	<b>1,909</b>	<b>2,050</b>	<b>7.4</b>
Depreciation	366	386	411	429	439	20.0	2.5	724	868	19.8
<b>EBIT</b>	<b>622</b>	<b>717</b>	<b>508</b>	<b>625</b>	<b>557</b>	<b>-10.4</b>	<b>-10.8</b>	<b>1,185</b>	<b>1,182</b>	<b>-0.2</b>
Other Income	54	36	49	52	32			54	84	54.3
Interest	226	234	253	260	274	21.5	5.3	441	534	21.2
<b>PBT</b>	<b>450</b>	<b>520</b>	<b>304</b>	<b>416</b>	<b>315</b>	<b>-30.0</b>	<b>-24.3</b>	<b>798</b>	<b>731</b>	<b>-8.4</b>
Total Tax	104	116	76	118	78	-24.7	-33.3	186	196	5.4
<b>Adjusted PAT</b>	<b>346</b>	<b>404</b>	<b>227</b>	<b>299</b>	<b>237</b>	<b>-31.7</b>	<b>-20.8</b>	<b>612</b>	<b>535</b>	<b>-12.6</b>
Extra ordinary items	31	40	27	11	13	-57.3	23.6	61	24	
<b>Reported PAT</b>	<b>316</b>	<b>364</b>	<b>201</b>	<b>288</b>	<b>224</b>	<b>-29.2</b>	<b>-22.4</b>	<b>551</b>	<b>512</b>	<b>-7.2</b>
<b>Reported EPS (Rs)</b>	<b>2.0</b>	<b>2.3</b>	<b>1.3</b>	<b>1.9</b>	<b>1.4</b>	<b>-29.2</b>	<b>-22.4</b>	<b>3.5</b>	<b>3.3</b>	<b>-7.2</b>
(%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	(bps)	(bps)	FY23TD	FY24TD	(bps)
EBITDAM	17.3	18.0	16.5	17.1	16.2	-100	-90	17.2	16.7	-50
EBITM	10.9	11.7	9.1	10.2	9.1	-180	-110	10.7	9.6	-110
EBTM	7.9	8.5	5.5	6.8	5.1	-270	-160	7.2	5.9	-120
PATM	6.7	7.3	4.3	5.7	4.3	-230	-130	6.0	5.0	-100
Effective Tax rate	23.1	22.4	25.1	28.2	24.9	180	-330	23.3	26.8	350

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

## Exhibit 9: Changes in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	26,510	25,187	-5.0	31,078	29,827	-4.0	36,198	35,036	-3.2
SSSG (%)	7.3	1.5	-590 bps	8.0	9.2	120 bps	8.0	9.0	100 bps
Average revenue/store	70	66	-5.0	73	70	-4.1	77	74	-3.2
<b>EBITDA*</b>	<b>3,878</b>	<b>3,133</b>	<b>-19.2</b>	<b>4,621</b>	<b>4,113</b>	<b>-11.0</b>	<b>5,749</b>	<b>5,398</b>	<b>-6.1</b>
EBITDA margin (%)*	14.6	12.4	-220 bps	14.9	13.8	-110 bps	15.9	15.4	-50 bps
PAT	1,610	1,025	-36.3	2,009	1,576	-21.6	2,668	2,356	-11.7
EPS (Rs)	10.3	6.6	-36.3	12.9	10.1	-21.6	17.1	15.1	-11.7

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

## Exhibit 10: Peer Comparison

Companies	CMP (Rs/sh)	Mcap (Rs bn)	Reco	Target Price (Rs/sh)	P/E (x)			EV/EBITDA (x) Pre IndAS-116		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Jubilant FoodWorks	506	334	Sell	380	104.5	72.6	56.5	43.8	33.3	27.2
Devyani International	184	222	Sell	190	120.0	65.4	46.9	42.2	30.4	23.1
<b>Westlife Foodworld</b>	<b>883</b>	<b>138</b>	<b>Buy</b>	<b>1,040</b>	<b>134.4</b>	<b>87.4</b>	<b>58.4</b>	<b>44.1</b>	<b>33.6</b>	<b>25.6</b>
Sapphire Foods	1,351	86	Buy	1,700	60.3	43.1	32.6	28.0	20.2	16.0

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

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## Westlife Foodworld : Consolidated Financials and Valuations

## Profit &amp; Loss

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>15,760</b>	<b>22,775</b>	<b>25,187</b>	<b>29,827</b>	<b>35,036</b>
Revenue growth (%)	59.9	44.5	10.6	18.4	17.5
<b>EBITDA</b>	<b>1,975</b>	<b>3,815</b>	<b>4,188</b>	<b>5,326</b>	<b>6,780</b>
EBITDA growth (%)	221.4	93.1	9.8	27.2	27.3
Depreciation & Amortization	1,451	1,602	1,897	2,155	2,456
<b>EBIT</b>	<b>524</b>	<b>2,212</b>	<b>2,291</b>	<b>3,171</b>	<b>4,324</b>
EBIT growth (%)	0.0	322.4	3.6	38.4	36.4
Other operating income	0	0	0	0	0
Other income	282	210	180	200	220
Financial expense	826	927	1,087	1,242	1,360
<b>PBT</b>	<b>(21)</b>	<b>1,495</b>	<b>1,385</b>	<b>2,129</b>	<b>3,184</b>
Extraordinary items	0	0	0	0	0
Taxes	(4)	379	360	554	828
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>(17)</b>	<b>1,116</b>	<b>1,025</b>	<b>1,576</b>	<b>2,356</b>
PAT growth (%)	0.0	0.0	(8.2)	53.8	49.5
<b>Adjusted PAT</b>	<b>(17)</b>	<b>1,116</b>	<b>1,025</b>	<b>1,576</b>	<b>2,356</b>
<b>Diluted EPS (Rs)</b>	<b>(0.1)</b>	<b>7.2</b>	<b>6.6</b>	<b>10.1</b>	<b>15.1</b>
Diluted EPS growth (%)	0.0	0.0	(8.2)	53.8	49.5
<b>DPS (Rs)</b>	<b>0.0</b>	<b>0.0</b>	<b>2.6</b>	<b>4.0</b>	<b>6.0</b>
<b>Dividend payout (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>
EBITDA margin (%)	12.5	16.7	16.6	17.9	19.4
EBIT margin (%)	3.3	9.7	9.1	10.6	12.3
Effective tax rate (%)	19.4	25.3	26.0	26.0	26.0
<b>NOPLAT (pre-IndAS)</b>	<b>422</b>	<b>1,652</b>	<b>1,696</b>	<b>2,347</b>	<b>3,200</b>
Shares outstanding (mn)	155.9	155.9	155.9	155.9	155.9

Source: Company, Emkay Research

## Cash flows

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	(21)	1,495	1,385	2,129	3,184
Others (non-cash items)	1,451	1,602	1,897	2,155	2,456
Taxes paid	(6)	(462)	(420)	(620)	(901)
Change in NWC	(179)	317	26	182	294
<b>Operating cash flow</b>	<b>1,790</b>	<b>3,670</b>	<b>3,794</b>	<b>4,888</b>	<b>6,173</b>
Capital expenditure	(1,104)	(2,799)	(2,166)	(2,335)	(2,430)
Acquisition of business	480	206	0	0	0
Interest & dividend income	282	210	180	200	220
<b>Investing cash flow</b>	<b>(341)</b>	<b>(2,384)</b>	<b>(1,986)</b>	<b>(2,135)</b>	<b>(2,210)</b>
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(142)	60	500	0	(100)
Payment of lease liabilities	(768)	(924)	(1,055)	(1,213)	(1,382)
Interest paid	(133)	(144)	(186)	(206)	(189)
Dividend paid (incl tax)	0	0	(410)	(630)	(942)
Others	(283)	(226)	0	0	0
<b>Financing cash flow</b>	<b>(1,326)</b>	<b>(1,234)</b>	<b>(1,150)</b>	<b>(2,048)</b>	<b>(2,613)</b>
Net chg in Cash	122	52	658	704	1,350
OCF	1,790	3,670	3,794	4,888	6,173
Adj. OCF (w/o NWC chg.)	1,969	3,352	3,768	4,706	5,879
FCFF	686	870	1,628	2,553	3,744
FCFE	142	153	722	1,511	2,604
OCF/EBITDA (%)	90.6	96.2	90.6	91.8	91.1
FCFE/PAT (%)	(852.7)	13.7	70.4	95.9	110.5
<b>FCFF/NOPLAT (%)</b>	<b>162.5</b>	<b>52.7</b>	<b>96.0</b>	<b>108.8</b>	<b>117.0</b>

Source: Company, Emkay Research

## Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	312	312	312	312	312
Reserves & Surplus	4,309	5,347	5,962	6,907	8,321
<b>Net worth</b>	<b>4,621</b>	<b>5,659</b>	<b>6,274</b>	<b>7,219</b>	<b>8,633</b>
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(520)	(604)	(664)	(730)	(803)
<b>Total debt</b>	<b>2,010</b>	<b>2,070</b>	<b>2,570</b>	<b>2,570</b>	<b>2,470</b>
<b>Total liabilities &amp; equity</b>	<b>6,111</b>	<b>7,126</b>	<b>8,180</b>	<b>9,059</b>	<b>10,299</b>
Net tangible fixed assets	5,022	6,591	7,459	8,288	8,978
Net intangible assets	417	415	445	475	505
Net ROU assets	(457)	(750)	(1,224)	(1,726)	(2,262)
Capital WIP	355	567	567	567	567
Goodwill	466	466	466	466	466
Investments [JV/Associates]	0	0	0	0	0
<b>Cash &amp; equivalents</b>	<b>1,737</b>	<b>1,583</b>	<b>2,241</b>	<b>2,945</b>	<b>4,295</b>
Current assets (ex-cash)	1,741	2,007	2,254	2,557	2,806
Current Liab. & Prov.	2,809	3,300	3,573	4,059	4,602
<b>NWC (ex-cash)</b>	<b>(1,068)</b>	<b>(1,293)</b>	<b>(1,320)</b>	<b>(1,502)</b>	<b>(1,796)</b>
<b>Total assets</b>	<b>6,111</b>	<b>7,126</b>	<b>8,180</b>	<b>9,059</b>	<b>10,299</b>
Net debt	273	487	329	(375)	(1,825)
Capital employed	6,111	7,126	8,180	9,059	10,299
<b>Invested capital</b>	<b>4,019</b>	<b>4,976</b>	<b>5,372</b>	<b>5,547</b>	<b>5,438</b>
BVPS (Rs)	29.6	36.3	40.2	46.3	55.4
Net Debt/Equity (x)	0.1	0.1	0.1	(0.1)	(0.2)
Net Debt/EBITDA (x)	0.1	0.1	0.1	(0.1)	(0.3)
Interest coverage (x)	1.0	0.4	0.4	0.4	0.3
<b>RoCE (%)</b>	<b>12.8</b>	<b>36.6</b>	<b>32.3</b>	<b>39.1</b>	<b>46.9</b>

Source: Company, Emkay Research

## Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	(8,265.4)	123.4	134.4	87.4	58.4
P/CE(x)	95.9	50.6	47.1	36.9	28.6
P/B (x)	29.8	24.3	21.9	19.1	15.9
EV/Sales (x)	8.9	6.1	5.5	4.6	3.9
EV/EBITDA (x)	69.8	36.2	33.0	25.8	20.0
EV/EBIT(x)	263.4	62.5	60.2	43.3	31.4
EV/IC (x)	34.3	27.8	25.7	24.8	25.0
FCFF yield (%)	0.5	0.6	1.2	1.9	2.8
FCFE yield (%)	0.1	0.1	0.5	1.1	1.9
Dividend yield (%)	0.0	0.0	0.3	0.5	0.7
<b>DuPont-RoE split</b>					
Net profit margin (%)	(0.1)	4.9	4.1	5.3	6.7
Total asset turnover (x)	2.5	3.4	3.3	3.5	3.6
Assets/Equity (x)	1.3	1.3	1.3	1.3	1.2
<b>RoE (%)</b>	<b>(0.4)</b>	<b>21.7</b>	<b>17.2</b>	<b>23.4</b>	<b>29.7</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	2.7	7.3	6.7	7.9	9.1
IC turnover (x)	3.9	5.1	4.9	5.5	6.4
<b>RoIC (%)</b>	<b>10.4</b>	<b>36.7</b>	<b>32.8</b>	<b>43.0</b>	<b>58.3</b>
<b>Operating metrics</b>					
Core NWC days	(34.2)	(22.8)	(22.0)	(21.0)	(21.4)
<b>Total NWC days</b>	<b>(24.7)</b>	<b>(20.7)</b>	<b>(19.1)</b>	<b>(18.4)</b>	<b>(18.7)</b>
Fixed asset turnover	1.9	2.5	2.3	2.4	2.4
Opex-to-revenue (%)	52.9	49.5	50.1	49.3	48.1

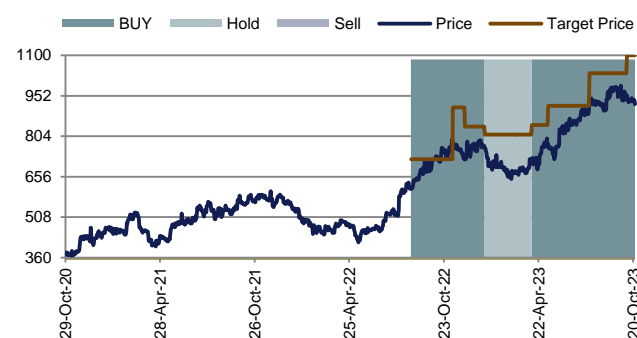
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
08-Oct-23	955	1,100	Buy	Devanshu Bansal
28-Jul-23	940	1,035	Buy	Devanshu Bansal
10-Jul-23	861	915	Buy	Devanshu Bansal
21-May-23	739	915	Buy	Devanshu Bansal
10-May-23	774	915	Buy	Devanshu Bansal
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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