

# Barbeque Nation Hospitality

Estimate change



TP change



Rating change

Bloomberg	BARBEQUE IN
Equity Shares (m)	39
M.Cap.(INRb)/(USDb)	24.8 / 0.3
52-Week Range (INR)	1173 / 592
1, 6, 12 Rel. Per (%)	-14/-2/-51
12M Avg Val (INR M)	89

## Financials & Valuations (INR b)

Y/E March (INR b)	FY23	FY24E	FY25E
Sales	12.3	13.1	15.1
Sales growth (%)	43.4	6.2	15.6
EBITDA	2.3	2.2	2.8
Margins (%)	18.7	16.8	18.3
Adj. PAT	0.2	-0.1	0.3
Adj. EPS (INR)	3.9	-1.5	8.8
EPS Growth (%)	L/P	P/L	L/P
BV/Sh.(INR)	102.9	101.4	110.2

## Ratios

RoE (%)	3.8	-1.5	8.0
RoCE (%)	6.2	4.9	8.2

## Valuations

P/E (x)	160.9	N/M	71.8
P/BV (x)	6.1	6.2	5.7
EV/EBITDA (x)	13.5	13.7	10.6
EV/Sales (x)	2.5	2.3	1.9

## Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	33.8	33.8	33.8
DII	25.1	24.5	26.7
FII	18.1	18.0	16.6
Others	23.0	23.7	22.9

FII Includes depository receipts

CMP: INR635

TP: INR650 (+2%)

Neutral

## Weak SSSG hurts 2Q earnings

- Barbeque Nation Hospitality (BARBEQUE) reported a weak performance in 2QFY23. Its revenue and EBITDA declined 3% and 24% YoY, respectively, primarily due to an 11% decrease in same-store sales (SSS). Improvement in gross margin (+190bp QoQ) cushioned the decline in EBITDA margin, which contracted 460bp YoY. The net store additions were subdued in 2Q.
- Given the soft demand environment, management has cut its new store addition guidance to 4 (net) in FY24 from 31 in FY23, shutting down loss-making stores. Management plans to revive its store expansion strategy in FY25. It indicated that the last fortnight showcased early signs of recovery, which will be key to reviving the store-level profitability. The stock is currently trading at 14x FY25E EV/EBITDA (pre-Ind-AS). **We reiterate our Neutral rating on the stock with a TP of INR650, based on 15x FY25E EV/EBITDA (pre-Ind-AS).**

## Weak performance resulting in a net loss

- Sales declined 3% YoY to INR3b (8% miss) led by **10.7% SSS decline (-6% est.)** and 3% YoY store growth. The company added two stores and closed 2 stores, which led to the overall count at 212 stores.
- Out of 212 stores, BBQN had 188 domestic stores (closed two stores), eight international stores (opened one store) and 16 Toscano outlets (opened one store) during the quarter.
- Gross profit declined 3% YoY to INR2b (6% miss), and margin contracted 10bp YoY but expanded 190bp QoQ to 65.9%.
- EBITDA declined 24% YoY to INR444m (16% miss), and margin dipped 410bp YoY to 14.7% due to operating deleverage. **Pre-Ind AS EBITDA declined 46% YoY to INR177m and margin was down 460bp YoY to 5.9% in 2QFY24.**
- The company reported a loss of INR119m (est. of INR14m PAT) v/s PAT of INR43m in 2QFY23.

## Highlights from the management commentary

- The demand environment continued to remain challenging but has improved sequentially, and the last fortnight post-Navratra has seen a recovery with formats other than BBQN reporting healthy SSSG in 2QFY24.
- The company expects net network to reach 220 stores by FY24 including six stores of 'SALT' format. It expects 25-30 new store additions in FY25.
- It is looking for both organic and inorganic growth opportunities. The recently launched 'Fiesta' is a brand extension to capitalize on BARBEQUE's strengths with multi-cuisine buffet and value offering.
- Gross margin is expected to be around 66% going forward with a major focus on increasing customer footfalls.

**Valuation and view**

- The decline in SSS was mainly due a 5% YoY decline in dine-in channel revenue given the high veg-only days. Management remains cautious about the near-term growth.
- The company has acquired a 55.3% stake in ‘SALT’ format, which operates six Indian cuisine restaurants. The format is margin-accretive with attractive unit economics and high ROCE.
- Given the weak demand environment and lower store addition guidance, we cut our EBITDA for FY24E/25E by 7%/4%, factoring in a CAGR of 11%/9% in revenue/EBITDA for FY23-25E.
- We reiterate our Neutral rating due to the inherently lower return ratios as compared to QSRs and the ongoing weak demand environment. However, this is partly factored in the valuation. Further, management’s focus on improving store economics with the shutting down of loss-making stores should augur well. We arrive at a TP of INR650 based on 15x FY25E EV/EBITDA (pre-Ind-AS).

**Quarterly Performance**

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24 2QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
<b>SSSG (%)</b>	<b>182.0</b>	<b>23.4</b>	<b>-1.2</b>	<b>-2.6</b>	<b>-7.7</b>	<b>-10.7</b>	<b>4.0</b>	<b>3.7</b>	<b>27.5</b>	<b>-2.8</b>	<b>-6.0</b>	
<b>No. of stores</b>	<b>195</b>	<b>205</b>	<b>212</b>	<b>216</b>	<b>212</b>	<b>212</b>	<b>217</b>	<b>227</b>	<b>216</b>	<b>221</b>	<b>217</b>	
<b>Net Sales</b>	<b>3,149</b>	<b>3,105</b>	<b>3,282</b>	<b>2,802</b>	<b>3,239</b>	<b>3,017</b>	<b>3,747</b>	<b>3,105</b>	<b>12,338</b>	<b>13,108</b>	<b>3,268</b>	-7.7
YoY change (%)	208.8	40.6	14.5	11.6	2.9	-2.8	14.2	10.8	43.4	6.2	5.3	
<b>Gross Profit</b>	<b>2,103</b>	<b>2,051</b>	<b>2,189</b>	<b>1,843</b>	<b>2,073</b>	<b>1,990</b>	<b>2,473</b>	<b>2,050</b>	<b>8,186</b>	<b>8,586</b>	<b>2,108</b>	
Margin (%)	66.8	66.1	66.7	65.8	64.0	65.9	66.0	66.0	66.3	65.5	64.5	
<b>EBITDA</b>	<b>705</b>	<b>583</b>	<b>620</b>	<b>399</b>	<b>468</b>	<b>444</b>	<b>796</b>	<b>488</b>	<b>2,306</b>	<b>2,196</b>	<b>526</b>	-15.7
EBITDA growth %	N/M	41.1	-5.7	-10.5	-33.6	-23.9	28.5	22.4	72.4	-4.8	-9.7	
Margin (%)	22.4	18.8	18.9	14.2	14.4	14.7	21.3	15.7	18.7	16.8	16.1	
Depreciation	352	350	382	366	375	443	443	436	1,450	1,696	375	
Interest	175	180	183	180	187	195	195	154	717	731	143	
Other Income	30	16	12	22	40	43	40	38	80	161	9	
<b>PBT</b>	<b>208</b>	<b>69</b>	<b>67</b>	<b>-125</b>	<b>-55</b>	<b>-151</b>	<b>198</b>	<b>-64</b>	<b>219</b>	<b>-72</b>	<b>17</b>	-979.2
Tax	48	26	17	-26	-14	-32	50	-16	66	-13	3	
Rate (%)	23.1	38.3	25.7	20.7	26.1	21.3	25.0	25.0	30.1	17.9	18.0	
<b>Adjusted PAT</b>	<b>160</b>	<b>43</b>	<b>50</b>	<b>-99</b>	<b>-41</b>	<b>-119</b>	<b>149</b>	<b>-48</b>	<b>153</b>	<b>-59</b>	<b>14</b>	-944.2
YoY change (%)	N/M	39.2	-66.1	-2,138.8	-125.3	-379.2	200.2	-51.8	-	-138.4	-66.9	

E: MOFSL Estimates



## Key takeaways from the management interaction

### Environment

- Demand environment continued to remain challenging but has improved sequentially.
- 2Q remains a seasonally weak quarter, which has been hit by 'vegetarian only' days. 76% of the Jul-Oct'23 days were vegetarian days (normally, its 50%).
- Gross margin is expected to be around 66% going forward

### Formats growth

- Toscano and BBQ international businesses grew 20%/25% YoY.
- Toscano, BBQ international, and delivery businesses have shown healthy SSSG while dine-in BBQ delivered negative SSS. In BBQ as well, North and West are doing better than South.
- The company is looking for both organic (by driving volume growth) and inorganic opportunities.

### Store adds

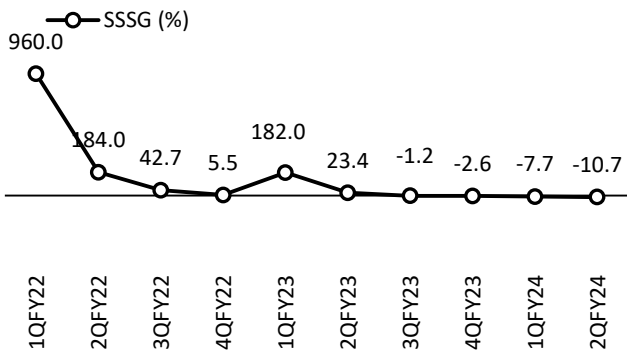
- Expects net network to reach to 220 stores by FY24 including six stores of 'SALT' format
- The company plans to add three new stores of Toscano and Salt each and five new store for BBQ. However, the closure of some stores will lead to the total store count of nearly 220.
- Management expects 25-30 new stores additions in FY25 with a mix of all four brands: BBQN, Fiesta, SALT, and Toscano

### Launched 'Fiesta': Brand extension to capitalize on BARBEQUE's strengths

- Fiesta is a multi-cuisine buffet restaurant, which retains the core service focus of BBQ Nation
- The segment focuses on value offerings, which starts from INR599

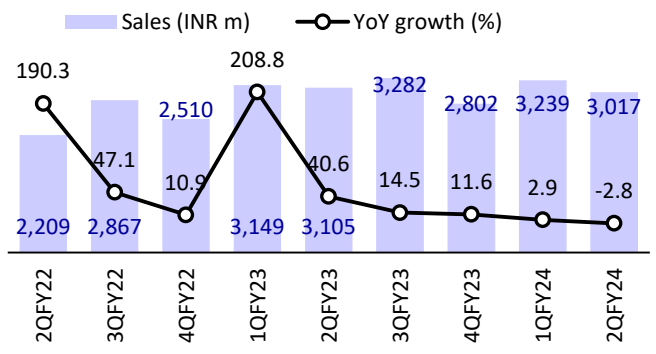
**Key Exhibits**

**Exhibit 1: SSSG remained weak**



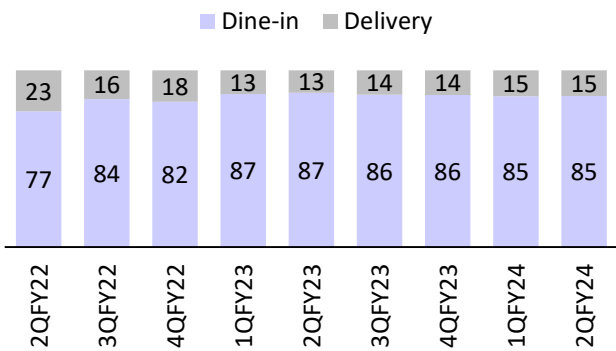
Source: Company, MOFSL

**Exhibit 2: Net sales declined 3% YoY due to weak SSSG**



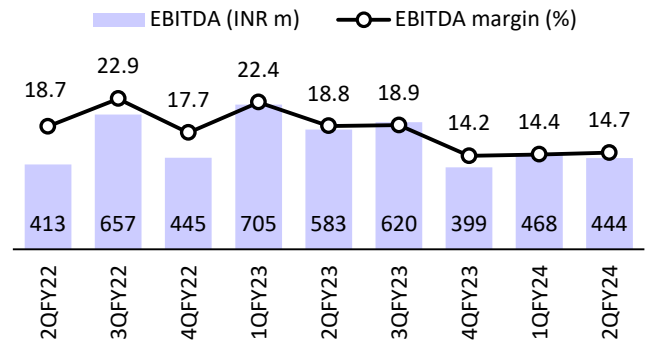
Source: Company, MOFSL

**Exhibit 3: Delivery segment grew higher than Dine-in**



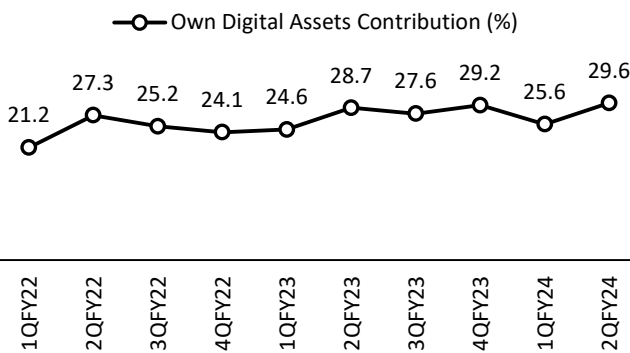
Source: Company, MOFSL

**Exhibit 4: EBITDAM declined YoY due to weak SSSG**



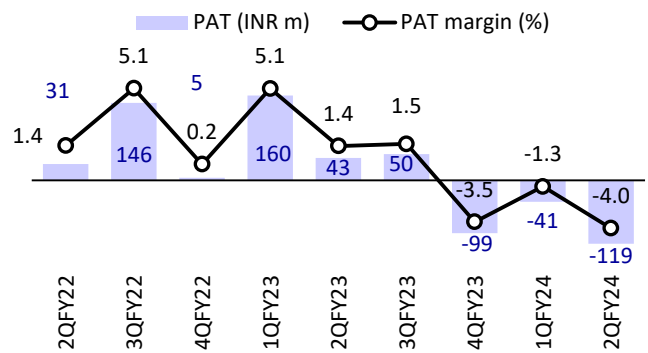
Source: Company, MOFSL

**Exhibit 5: Contribution from its own digital assets increased**



Source: Company, MOFSL

**Exhibit 6: Continued to post a loss in 2QFY24**



Source: Company, MOFSL

**Exhibit 7: We cut our estimates for FY24/FY25**

	<b>FY24E</b>	<b>FY25E</b>
<b>Revenue (INR m)</b>		
Old	13,431	15,099
Actual/New	13,108	15,149
Change (%)	-2.4	0.3
<b>Gross Profit (INR m)</b>		
Old	8,730	9,965
Actual/New	8,586	9,998
Change (%)	-1.7	0.3
<b>Gross margin (%)</b>		
Old	65.0%	66.0%
Actual/New	65.5%	66.0%
Change (bp)	50	0
<b>EBITDA (INR m)</b>		
Old	2,350	2,869
Actual/New	2,196	2,765
Change (%)	-6.6	-3.6
<b>EBITDA margin (%)</b>		
Old	17.5%	19.0%
Actual/New	16.8%	18.3%
Change (bp)	-75	-75
<b>Net Profit (INR m)</b>		
Old	176	365
Actual/New	-59	343
Change (%)	-133.4	-6.0
<b>EPS (INR)</b>		
Old	4.5	9.4
Actual/New	-1.5	8.8
Change (%)	-133.4	-6.0

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>13,108</b>	<b>15,149</b>
Change (%)	19.8	26.0	14.6	-40.1	69.7	43.4	6.2	15.6
Material Consumed	1,978	2,476	2,922	1,782	3,047	4,152	4,522	5,151
<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>8,586</b>	<b>9,998</b>
Gross Margin %	66.3	66.5	65.5	64.8	64.6	66.3	65.5	66.0
Operating expenses	2,522	3,455	3,906	2,825	4,221	5,880	6,390	7,234
<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>2,196</b>	<b>2,765</b>
Change (%)	15.9	7.0	12.6	-71.8	188.3	72.4	-4.8	25.9
Margin (%)	23.2	19.7	19.4	9.1	15.5	18.7	16.8	18.3
Depreciation	703	895	1,340	1,212	1,273	1,450	1,696	1,701
Int. and Fin. Ch.	536	564	756	849	653	717	731	795
Other Non-recurring Inc.	41	35	38	460	263	80	161	161
<b>PBT</b>	<b>165</b>	<b>35</b>	<b>-415</b>	<b>-1,136</b>	<b>-326</b>	<b>219</b>	<b>-72</b>	<b>429</b>
Change (%)	26.6	-79.1	P/L	-	-	L/P	-132.8	L/P
Margin (%)	2.8	0.5	-4.9	-22.4	-3.8	1.8	-0.5	2.8
Tax	124	144	78	-197	-69	66	-13	86
Tax Rate (%)	74.9	416.8	-18.8	17.3	21.1	30.1	17.9	20.0
<b>Adjusted PAT</b>	<b>41</b>	<b>-109</b>	<b>-493</b>	<b>-940</b>	<b>-257</b>	<b>153</b>	<b>-59</b>	<b>343</b>
Change (%)	-37.5	P/L	-	-	-	L/P	-138.4	L/P
Margin (%)	0.7	-1.5	-5.8	-18.5	-3.0	1.2	-0.4	2.3
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>-59</b>	<b>343</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	3,758	4,101
<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>3,952</b>	<b>4,296</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	6,950	8,019
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>11,181</b>	<b>12,593</b>
Gross Block	7,446	9,619	11,910	12,049	14,728	17,571	18,143	19,666
Less: Accum. Depn.	2,197	2,986	4,507	5,456	6,728	8,178	9,875	11,576
<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>8,268</b>	<b>8,090</b>
<b>Lease Deposits</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Capital WIP	185	159	109	60	212	273	273	273
Goodwill	230	190	723	723	723	723	723	723
Investments	0	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	0	0	0
<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>3,599</b>	<b>5,407</b>
Inventory	190	193	149	202	358	421	431	498
Account Receivables	56	49	22	26	57	74	72	83
Cash and Bank Balance	436	120	147	2,455	853	426	1,817	3,546
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>1,679</b>	<b>1,897</b>
Other Current Liabilities	152	141	894	1,237	199	227	227	227
Creditors	673	768	1,125	1,468	988	1,235	1,257	1,453
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>1,920</b>	<b>3,510</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>11,180</b>	<b>12,592</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	-1.5	8.8
BV/Share	52.5	47.0	2.1	71.9	99.2	102.9	101.4	110.2
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
<b>Valuation (x)</b>								
P/E	420.9	N/M	N/M	N/M	N/M	160.9	N/M	71.8
EV/Sales	3.7	3.2	2.9	4.9	3.5	2.5	2.3	1.9
EV/EBITDA	16.0	16.0	15.1	54.0	22.3	13.5	13.7	10.6
P/BV	12.0	13.4	299.3	8.8	6.4	6.1	6.2	5.7
<b>Return Ratios (%)</b>								
RoE	2.9	-8.3	-833.5	-38.5	-6.7	3.8	-1.5	8.0
RoCE	3.2	-28.5	5.6	-3.0	2.8	6.2	4.9	8.2
RoIC	3.3	-28.7	5.2	-9.4	0.7	6.2	4.2	9.5
<b>Working Capital Ratios</b>								
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
<b>Leverage Ratio</b>								
Debt/Equity (x)	0.9	1.2	41.4	0.6	0.1	0.0	0.0	0.0

### 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	-72	429
Int./Div. Received	8	207	-149	-412	-137	28	-161	-161
Depreciation & Amort.	753	1,022	1,340	1,212	1,273	1,450	1,696	1,701
Interest Paid	-472	-488	-659	-739	-500	-559	-731	-795
Direct Taxes Paid	145	143	78	-12	31	57	-13	86
Inc/(Dec) in WC	-121	57	-291	-244	686	-38	-13	-117
<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>2,222</b>	<b>2,796</b>
Inc/(Dec) in FA	-1,010	-1,299	-840	-143	-932	-1,459	-371	-723
<b>Free Cash Flow</b>	<b>266</b>	<b>-76</b>	<b>971</b>	<b>536</b>	<b>-334</b>	<b>817</b>	<b>1,850</b>	<b>2,073</b>
Others	42	7	-678	71	30	-59	788	958
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>416</b>	<b>235</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	-1,247	-1,301
<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>-1,247</b>	<b>-1,301</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>1,391</b>	<b>1,730</b>
Add: Opening Balance	53	436	120	147	2,455	853	426	1,817
<b>Closing Balance</b>	<b>436</b>	<b>120</b>	<b>147</b>	<b>2,455</b>	<b>853</b>	<b>426</b>	<b>1,817</b>	<b>3,546</b>

E: MOFSL Estimates

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NOTES



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

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