Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

# Restaurant Brands Asia Ltd

## Q4 - Strong operating performance

| Consumer Discretionary | | Sharekhan code: RBA | | |
|---|---|---|---|---|
| Reco/View: Buy | ↔ | CMP: Rs. 106 | Price Target: Rs. 150 | ↔ |

↑ Upgrade ↔ Maintain ↓ Downgrade

| 3R MATRIX | + | = | - |
|---|---|---|---|
| Right Sector (RS) | ✓ | | |
| Right Quality (RQ) | ✓ | | |
| Right Valuation (RV) | ✓ | | |

\+ Positive = Neutral – Negative

### What has changed in 3R MATRIX

| | Old | | New |
|---|---|---|---|
| RS | | ↔ | |
| RQ | | ↔ | |
| RV | | ↔ | |

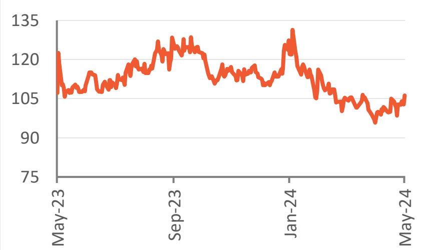
### Company details

| | |
|---|---|
| Market cap: | Rs. 5,273 cr |
| 52-week high/low: | Rs. 138 / 95 |
| NSE volume: (No of shares) | 25.7 lakh |
| BSE code: | 543248 |
| NSE code: | RBA |
| Free float: (No of shares) | 42.0 cr |

### Shareholding (%)

| | |
|---|---|
| Promoters | 15.4 |
| FII | 33.5 |
| DII | 23.1 |
| Others | 28.0 |

### Price chart




### Price performance

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 10.9 | -8.5 | -7.7 | -0.9 |
| Relative to Sensex | 9.6 | -10.6 | -20.0 | -21.0 |

*Sharekhan Research, Bloomberg*


### Summary

- Restaurant Brand Asia's (RBA's) Q4FY2024 operating performance beat expectations, mainly led by higher-than-expected consolidated EBIDTA margins of 11.6% versus expectations of 9.6%; consolidated revenues grew by 16%.
- India business' SSSG grew by 3% in FY24 (in line with guidance); expects consistent improvement in SSSG through higher footfalls. Gross margins to improve by ~200 bps to 69% by FY2027.
- Indonesia business to break even on cash basis by FY2025-end. Improvement in menu and digital capabilities will help store performance in Indonesia to improve in the coming years.
- Stock trades at 16x/12x it FY2025E/FY2026E EV/EBIDTA. We maintain a Buy with an unchanged price target (PT) of Rs. 150.


**RBA's Q4FY2024 operating performance was ahead of expectation with consolidated revenues growing by 16% y-o-y (versus expectation of 14% growth) and consolidated EBIDTA margins expanding by 627 bps y-o-y to 11.6% (against. expectation of 9.6%). Consolidated revenues grew by 16.2% y-o-y to Rs. 597 crore, driven by a 20% growth in the India business, while the Indonesia business' revenues grew by 6% y-o-y. Sharp rise in profitability of India business and the reducing losses of Indonesia business helped consolidated EBIDTA margins improve by 627 bps y-o-y to 11.6%. Consolidated EBIDTA more than doubled to Rs. 69.2 crore. PAT losses increased to Rs. 92 crore mainly on account of higher depreciation charges and interest cost. India business had 455 operational restaurants and Indonesia business had 175 operational restaurants (including Popeyes) at FY2024 end.**

### Key positives

- India same-store sales growth (SSSG) at 1.9% in Q4; fourth consecutive quarter of positive SSSG.
- Consolidated EBIDTA grew by 2.5x to Rs. 69 crore; India business EBIDTA grew by 30% y-o-y.
- Indonesia's average daily sales (ADS) improved to IDR 18 million in Q4FY2024 versus IDR 17.2 million in Q4FY2023.

### Key negatives

- India ADS down to Rs. 1.05 lakhs in Q4 versus Rs. 1,19 lakhs in Q3 due to large number of store additions in Q4.

### Management Commentary

- India business' SSSG stood at 2.9% in FY2024 in-line with the management guidance.
- The company targets footfall-based SSSG improvement in the coming years. This will be driven by good traction to value for money offering, improving digital experience at stores, building up menu's relevance to Indian consumers and increasing consumption at BK café.
- India business gross margins improved to 67% in FY2024; it will expand by 2% over FY25-27.
- India business store count stood at 455 stores; aim to expand it to 700 stores by FY2027.
- In Indonesia, the company improved the chicken menu, launched burgers at various price points and continued to build the dessert layer. All these menu level initiatives along with emphasis on store level training and execution will help the store level sales to improve in the coming years.
- Benefit of non-profitable store closures (closed 26 stores in FY2024) and reduction in general and administrative expenses by 20% will help Indonesia business' profitability to further improve in FY2025.
- Indonesia business to achieve cash breakeven in FY2025.

**Revision in earnings estimates** – We have broadly maintained operating performance for FY2025 and FY2026 while we have reduced the PAT estimates to factor in little higher depreciation cost and interest expenses.

### Our Call

**View – Maintain Buy with an unchanged PT of Rs. 150:** RBA's focus on gaining more traffic in India and Indonesia through value offerings will help in achieving better SSSG in the coming years. The India business' focus is on improving footfalls through its well-placed strategy to enhance the operating leverage while in Indonesia, the focus is on becoming a profitable venture. We expect cash flows to improve from FY2025, when both businesses attain certain maturity and deliver consistent improvement in profitability. The stock currently trades at 16x/12x its FY2025E/FY2026E EV/EBIDTA. We maintain a Buy with an unchanged PT of Rs. 150.

### Key Risks

Any disruption caused by store closures, heightened competition due to the entry of a new brand, or slowdown in expansion in key markets are some of the key risks to our earnings estimates.

**Valuation (Consolidated)** Rs cr

| Particulars | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| Revenue | 2,054 | 2,437 | 2,928 | 3,554 |
| EBITDA Margin (%) | 5.4 | 9.9 | 11.5 | 12.1 |
| Adjusted PAT | -242 | -237 | -159 | -113 |
| Adjusted EPS (Rs.) | -4.9 | -4.8 | -3.2 | -2.3 |
| P/B (x) | 6.4 | 8.4 | 11.3 | 14.9 |
| EV/EBIDTA (x) | 47.0 | 22.6 | 16.0 | 12.2 |
| RoCE (%) | - | - | - | 0.4 |

*Source: Company; Sharekhan estimates*

**Strong operating performance**

RBA's consolidated revenues grew by 16% y-o-y to Rs. 597 crore; slightly better than our expectation of Rs. 586 crore. India business grew by 20% y-o-y, while Indonesia business grew by 6.1% y-o-y. India business SSSG grew by 1.9% and ADS at Rs. 1.05 lakh, declined by 3% y-o-y. Indonesia business (Burger King) ADS came in at IDR 17.7 million, up by 11% y-o-y. Gross margins stood almost flat at 64.2%, while EBIDTA margin increased by 627 bps y-o-y to 11.6% ahead of our expectation of 9.6%. India business EBIDTA margins improved by 96 bps y-o-y to 12.5%, while EBIDTA loss in Indonesia is down by 42% y-o-y. Consolidated EBITDA grew by 2.5x y-o-y to Rs. 69 crore. The company posted a loss of Rs. 92 crore against a loss of Rs. 80 crore in Q4FY2023 mainly on account of higher interest expenses and depreciation charges. We had expected the loss to be at Rs. 53 crore. In Q4FY2024, the company opened 14 Burger King stores (net) in India, taking the total count to 455 restaurants in India (including 351 BK Café) and 175 restaurants in Indonesia (Burger King + Popeyes). In FY2024, consolidated revenue grew by 18.6% y-o-y to Rs. 2,437 crore, EBITDA margin expanded by 451 bps y-o-y to 9.9% and loss marginally reduced y-o-y from Rs. 242 crore in FY2023 to Rs. 237 crore in FY2024.

**India business**

- Revenues came in at Rs. 439 crore, registering 20.3% y-o-y growth. SSSG stood at 1.9% and ADS declined by 3% y-o-y to Rs. 1.05 lakhs. In FY2024, revenue grew by 22.3% y-o-y to Rs. 1,760 crore with SSSG at 2.9%.
- Store-level EBIDTA margins marginally declined by 38 bps y-o-y to 7.8% (pre-Ind AS level). Company's EBIDTA margins improved by 93 bps y-o-y to 2.4%.
- RBA opened 14 stores (net) in Q4 (16 restaurants opened and closed 2), taking the total to 455 operational restaurants as on March 31, 2024, including 351 BK Café. RBA is on track to achieve portfolio of 700 restaurants by FY2027.
- Gross margins came in at 67% in FY2024. RBA aims to improve gross margin by another 200 bps between FY2025-FY2027 to reach ~69% by FY2027.
- *Key priorities for India business include* – Disciplined growth (continue to open more stores and expand market share), continued focus on value leadership, digitalisation (digital ordering is currently available at ~100 stores with plans to cover all stores by December-24), improving menu relevance (introduced premium range across products and launched Whooper to suit Indian taste) and creating incremental guest occasions (expansion of BK Café).

**Indonesia business**

- Revenue grew by 6.1% y-o-y to Rs. 158 crore in Q4FY2024 and by 10.2% in FY2024 to Rs. 677 crore.
- Burger King's ADS improved by 11% y-o-y to IDR 17.8 million in Q4FY2024. Strong focus on delivery business aided in 51% y-o-y growth in delivery ADS. For FY2024, ADS improved by 8% y-o-y to IDR 18.5 million, despite geopolitical headwinds.
- Popeyes' ADS came in at IDR 20.4 million in Q4FY2024 and IDR 25.2 million for FY2024. FY2024 Popeyes' revenue rose to IDR 144 billion versus IDR 22 billion in FY2023, aided by opening of 15 new stores during the year.
- Restaurant EBITDA stood at Rs. 1.6 crore in Q4FY2024 versus loss of Rs. 6.8 crore in Q4FY2023 (Pre-IND AS level). Company level loss came in at Rs. 13.8 crore versus loss of Rs. 23.8 crore in Q4FY2023. The company achieved Restaurant EBITDA breakeven in FY2024 through cost optimization is targeting to be cash breakeven in Indonesia by FY2025.

- RBA closed 26 underperforming Burger King restaurants and opened 15 new Popeyes restaurants in FY2024, taking the total store count at FY2024-end to 150 for Burger King and 25 for Popeyes.
- *Key priorities for Indonesia business include* – Improving customer experience (improved store quality and substantial investments in staff training), improving menu relevance (enhancing core chicken offering, maintaining leadership in burgers through Whopper range and build dessert layer aided by co-branded Desserts) and achieve cash breakeven (portfolio rationalisation and rationalization in corporate overheads).

## Key concall highlights

- **Aims to achieve growth through traffic and improved profitability in India**
  - RBA delivered positive SSSG for all the quarters in India, resulting in 3% SSSG for FY2024 (in line with guidance) versus the industry decline of 4-5%. Management indicated that SSSG is largely led by traffic growth. Going ahead too, the company expects growth to be largely driven by traffic growth.
  - EBITDA for India business grew by 2.1x y-o-y in FY2024 led by multiple initiatives undertaken by the company. Management indicated that focus on improving profitability will continue going ahead.
- **Focus on stabilising existing stores and improving profitability in Indonesia**
  - The management indicated that RBA is not looking for store additions in Indonesia in FY2025. The company will wait for the geopolitical situation to improve in Indonesia before adding new stores. The current focus will be on stabilise existing stores aided by value leadership, traffic growth and enhancement in delivery channel.
  - The benefit of non-profitable store closures (closed 26 stores in FY2024) and reduction in general and administrative expenses by 20% will help Indonesia profitability to further improve in FY2025.

**Results (Consolidated)** Rs cr

| Particulars | Q4FY24 | Q4FY23 | Y-o-Y (%) | Q3FY24 | Q-o-Q (%) |
|---|---|---|---|---|---|
| **Revenue from operations** | **597.1** | **514.0** | **16.2** | **604.2** | **-1.2** |
| Material cost | 213.6 | 184.3 | 15.9 | 215.2 | -0.7 |
| Employee cost | 107.1 | 95.0 | 12.7 | 101.8 | 5.2 |
| Other expenditure | 207.2 | 207.3 | 0.0 | 218.9 | -5.3 |
| **Total expenditure** | **527.9** | **486.6** | **8.5** | **535.9** | **-1.5** |
| **EBITDA** | **69.2** | **27.4** | **-** | **68.4** | **1.3** |
| Other income | 4.6 | 4.3 | 6.8 | 3.5 | 31.4 |
| Interest expense | 47.3 | 32.0 | 47.7 | 31.7 | 49.2 |
| Depreciation | 118.7 | 79.6 | 49.0 | 80.1 | 48.1 |
| **Profit Before Tax** | **-92.1** | **-80.0** | **15.2** | **-39.9** | **-** |
| Tax | 0.0 | 0.0 | - | 0.0 | - |
| **Reported PAT** | **-92.1** | **-80.0** | **15.2** | **-39.9** | **-** |
| Adjusted EPS (Rs.) | -1.9 | -1.6 | 14.8 | -0.8 | - |
| | | | **BPS** | | **BPS** |
| GPM (%) | 64.2 | 64.1 | 8 | 64.4 | -16 |
| EBITDA Margin (%) | 11.6 | 5.3 | 627 | 11.3 | 28 |
| NPM (%) | -15.4 | -15.6 | 13 | -6.6 | -881 |

*Source: Company; Sharekhan Research*

**Geography-wise performance**

| Particulars | Q4FY24 | Q4FY23 | Y-o-Y (%/bps) | Q3FY24 | Q-o-Q (%/bps) |
|---|---|---|---|---|---|
| **India business** | | | | | |
| Revenue (Rs. crore) | 439.1 | 364.9 | 20.3 | 445.4 | -1.4 |
| Restaurant EBITDA (Rs. crore) | 34.2 | 29.8 | 14.8 | 54.3 | -37.0 |
| Company EBITDA (Rs. crore) | 10.6 | 5.4 | 96.3 | 30.2 | -64.9 |
| Restaurant EBITDA margin (%) | 7.8 | 8.2 | -38 | 12.2 | -440 |
| Company EBITDA margin (%) | 2.4 | 1.5 | 93 | 6.8 | -437 |
| | | | | | |
| **Indonesia business** | | | | | |
| Revenue (Rs. crore) | 158.1 | 149.0 | 6.1 | 158.8 | -0.4 |
| Restaurant EBITDA (Rs. crore) | 1.6 | -6.8 | - | 2.1 | -23.8 |
| Company EBITDA (Rs. crore) | -13.8 | -23.8 | -42.0 | -13.0 | 6.2 |
| Restaurant EBITDA margin (%) | 1.0 | -4.6 | 558 | 1.3 | -31 |
| Company EBITDA margin (%) | -8.7 | -16.0 | 724 | -8.2 | -54 |

*Source: Company; Sharekhan Research*

## Outlook and Valuation

### ■ Sector View – Long-term growth prospects of the QSR industry are intact

Organic same-store-sales of QSRs are likely to be muted due to weak consumer sentiments as higher inflationary pressures affected demand, while revenue growth is expected to be largely driven by strong store expansion. We expect this trend to continue in the near term. Having said that, QSRs' long-term growth prospects are intact and they are poised to beat the food services industry on higher demand for out-of-home consumption, market share gains from unorganised players, increased online delivery and food technology, menu innovation driving new demand, and incremental demand on account of offers and discounts. With robust growth drivers, QSRs are likely to grow strongly, outpacing other sub-segments in the food service industry in the coming years.

### ■ Company Outlook – Multiple strategies in place to drive profitability in the medium term

In FY2024, RBA's consolidated revenue grew by 18.6% y-o-y, EBITDA margin expanded by 451 bps y-o-y to 9.9% and loss marginally reduced y-o-y to Rs. 237 crore from Rs. 242 crore in FY2023. RBA has robust store expansion plans and aims to exit FY2027 with a count of 700 restaurants in India from 455 restaurants currently. A strong store expansion plan, differentiated menu strategy and robust traction on a digital platform will help revenue to register a 21% CAGR over FY2024-FY2026E and EBIDTA margins to reach ~12% by FY2026 from ~10% in FY2024. Further, the scale up of BK Café and improving prospects of the Indonesia business will drive the next leg of growth.

### ■ Valuation – Maintain Buy with an unchanged PT of Rs. 150

RBA's focus on gaining more traffic in India and Indonesia through value offerings will help in achieving better SSSG in the coming years. The India business' focus is on improving footfalls through its well-placed strategy to enhance the operating leverage while in Indonesia, the focus is on becoming a profitable venture. We expect cash flows to improve from FY2025, when both businesses attain certain maturity and deliver consistent improvement in profitability. The stock currently trades at 16x/12x its FY2025E/FY2026E EV/EBIDTA. We maintain a Buy with an unchanged PT of Rs. 150.

**Peer Comparison**

| Particulars | EV/EBITDA (x) | | | RoCE (%) | | |
|---|---|---|---|---|---|---|
| | FY24 | FY25E | FY26E | FY24 | FY25E | FY26E |
| Jubilant Foodworks | 31.8 | 26.5 | 23.3 | 12.9 | 16.1 | 16.9 |
| Devyani International | 25.3 | 18.2 | 14.6 | 8.7 | 9.7 | 13.5 |
| Restaurant Brands Asia | 22.6 | 16.0 | 12.2 | - | - | 0.4 |

*Source: Company, Sharekhan estimates*

## About company

RBA (formerly known as Burger King India) is the National Master Franchisee of the BURGER KING® brand in India and Indonesia. The company was incorporated in 2013 and launched its first restaurant in India in November 2014, with a target to open 700 restaurants by FY2027. RBA also operates BK Cafés™ that primarily serve coffees, shakes, and other beverages. As of March 31, 2024, the company operated 455 Burger King restaurants in India, including 351 BK Cafés and 175 restaurants (150 Burger King and 25 Popeyes) in Indonesia. The company's strategic pillars are its value leadership, brand positioning, specialised menu, and disciplined growth, among others.

## Investment theme

RBA is emerging as one of the emerging and fastest-growing QSR players in India with a market share of less than 5% in the India's QSR market. Long-term franchisee agreement with Burger King, differentiated and localisation of menu provides an edge over its peers to scale up fast in the domestic market. This along with additional growth levers coming in from the introduction of BK Café and expansion in the Indonesian market will help the company to achieve strong and consistent revenue growth in the medium to long run. Improvement in new store fundamentals, better mix, and enhancing profitability of Indonesia business will drive earnings in the coming years. Strong earnings growth with negative working capital will help in driving higher cash flows in the coming years.

## Key Risks

- **Slowdown in demand:** Any slowdown in the demand environment would impact revenue growth.
- **Increased raw-material costs:** A significant increase in key raw-material prices would impact profitability.
- **Increased competition:** Increased competition in the QSR category would act as a threat to revenue growth.

## Additional Data

**Key management personnel**

| | |
|---|---|
| Shivakumar Dega | Chairman and Independent Director |
| Rajeev Varman | Executive Director-Chief Executive Officer |
| Sumit P. Zaveri | Group Chief Financial Officer & Chief Business Officer |

*Source: Company Website*

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | ICICI Prudential Life Insurance Co Ltd | 7.50 |
| 2 | Plutus wealth management LLP | 7.10 |
| 3 | Amansa Investments Ltd | 5.68 |
| 4 | Tata AMC | 3.52 |
| 5 | Nippon Life India AMC | 3.18 |
| 6 | Franklin Resources Inc | 3.06 |
| 7 | Amansa Holdings | 3.01 |
| 8 | Quant Money Managers Ltd | 2.82 |
| 9 | FMR LLC | 2.62 |
| 10 | Valiant Maritius Partners Ltd | 2.40 |

*Source: Bloomberg*

## Understanding the Sharekhan 3R Matrix

| | |
|---|---|
| **Right Sector** | |
| Positive | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies |
| Neutral | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies |
| Negative | Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability. |
| **Right Quality** | |
| Positive | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance. |
| Neutral | Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable |
| Negative | Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet |
| **Right Valuation** | |
| Positive | Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment. |
| Neutral | Trading at par to historical valuations and having limited scope of expansion in valuation multiples. |
| Negative | Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple. |

Source: Sharekhan Research

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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669. BSE – 748, NSE – 10733, MCX – 56125, MSEI – 1043.

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