

Weak trends persist; hopes pinned on H2; retain REDUCE

Retail ▶ Result Update ▶ July 25, 2024

TARGET PRICE (Rs): 875

We retain REDUCE on WESTLIFE and Jun-25E TP of Rs875, due to a lackluster Q1 (9-10% EBITDA miss) and sequential SSG moderation (-6.7% vs. -5% in Q4). Despite a weak Q4 base, lower sequential pickup at 11% in Q1 (vs. 13-14% historically) points to the demand environment remaining sluggish. With strengthening of its value platform (Rs69 combos), WESTLIFE remains hopeful of an SSG turnaround in H2 which though is already built-in, and a pent-up surprise would only motivate investors in our view. 'Vision 2027' target of delivering Rs40-45bn sales at 18-20% EBITDA margin is intact, but delivery at the lower-end is more likely, given near-term challenges. We like Westlife's aggressive store-expansion drive, digital investments, and differentiated dine-in experience, but would await a better entry point before turning constructive again. EBITDA estimate is trimmed 2-3%, to factor-in the Q1 disappointment.

Westlife Foodworld: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	22,775	23,918	25,743	30,408	35,199
EBITDA	3,815	3,693	3,610	5,266	6,393
Adj. PAT	1,116	692	310	1,259	1,809
Adj. EPS (Rs)	7.2	4.4	2.0	8.1	11.6
EBITDA margin (%)	16.7	15.4	14.0	17.3	18.2
EBITDA growth (%)	93.1	(3.2)	(2.2)	45.9	21.4
Adj. EPS growth (%)	0.0	(38.0)	(55.2)	305.8	43.7
RoE (%)	21.7	12.0	5.2	19.5	24.6
RoIC (%)	36.7	25.6	18.9	35.6	46.9
P/E (x)	117.1	188.8	421.3	103.8	72.2
EV/EBITDA (x)	34.4	35.6	36.5	24.9	20.3
P/B (x)	23.1	22.2	21.5	19.1	16.5
FCFF yield (%)	0.7	0.9	0.9	2.0	2.6

Source: Company, Emkay Research

Weak SSG drags profitability; recovery hopes remain pinned on H2: WESTLIFE reported flat topline in Q1 – 2-3% weaker than street/our estimates. The flattish print was due to a 6.7% decline in SSG, offset by the ~12% network expansion. We believe the additional pain of external issues persists as sequential pick-up at 11% is lower vs. historical levels of 13-14%. Among channels, 'On-premise' declined 3%, while 'Off-premise' channel delivered better growth at 6%. WESTLIFE has added 6 stores in Q1, and expansion pace is expected to accelerate as FY25 guidance to add 40-45 stores was maintained. McCafé's/EOTF penetration improved to 92%/75% of its network at Q1-end vs. 87%/62% YoY. Gross-margin marginally improved by 20bps to 70.8%, on account of moderating input costs/supply-chain efficiencies. Despite the GM improvement, lower fixed-cost absorption and muted trends caused a 470bps dip in EBITDA margin to 8.2%.

Earnings-call KTAs: 1) Q1 saw continued demand challenges, led by weak macros and impact of external factors; WESTLIFE expects better traction in H2 with further strengthening of its value platform. 2) Focus remained on menu refresh, with launch of entry-level McChicken Fiesta burger and focus combos at Rs69. Seasonal launches like mango-flavored desserts were also seen in Q1. The pilot launch of cookies/brownies on the McCafé platform has now rolled out to all outlets, and the company expects McCafé to contribute 17-18% to Store AOV by 2027. 3) To offset the impact from the negative brand sentiment due to news-flow around the quality of cheese, WESTLIFE has collaborated with Chef Sanjeev Kapoor to advertise usage of real cheese and regain consumer trust. 4) The impact of global actions of McDonald's franchisees around the Israel-Palestine war, which started in Q3FY24, has been prolonged (vs. initial expectations). 5) Marketing spend for Q1 was higher by 100bps, but full-year spend is expected to be stable at ~5% of sales. 6) The MyMcDonald's Rewards program gained good traction and the management expects it to boost consumer-ordering frequency. 7) WESTLIFE maintained its 'Vision 2027' guidance for store expansion (45-50 annual additions) and EBITDA-margin expansion to 18-20%. 8) Margin is expected to continue tracking an improving trajectory, with pickup in SSG and given cost controls. 9) To offset the cost inflation, WESTLIFE plans to take a 3-4% price hike every year.

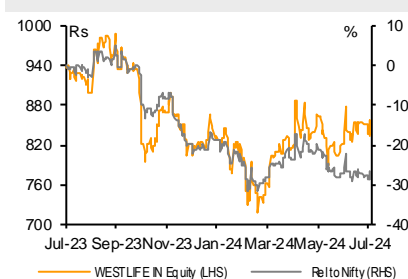
Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	4.4
CMP (25-Jul-24) (Rs)	838.0

Stock Data	Ticker
52-week High (Rs)	1,025
52-week Low (Rs)	701
Shares outstanding (mn)	155.9
Market-cap (Rs bn)	131
Market-cap (US\$ mn)	1,561
Net-debt, FY25E (Rs mn)	1,083
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	137.7
ADTV-3M (US\$ mn)	1.6
Free float (%)	43.0
Nifty-50	24,406
INR/US\$	83.7
Shareholding, Jun-24	
Promoters (%)	56.3
FPIs/MFs (%)	13.8/21.0

Price Performance

(%)	1M	3M	12M
Absolute	(4.8)	1.8	(7.1)
Rel. to Nifty	(7.4)	(5.8)	(25.1)

1-Year share price trend (Rs)



Devanshu Bansal

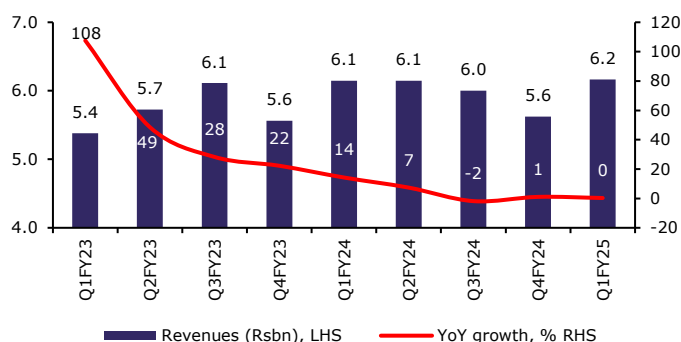
devanshu.bansal@emkayglobal.com
+91 22 6612 1385

Vishal Panjwani

vishal.panjwani@emkayglobal.com
+91 22 6624 2431

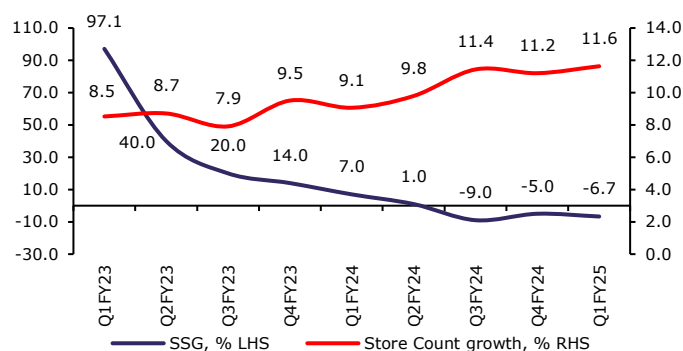
Story in Charts

Exhibit 1: Topline flat YoY, due to 6.7% decline in SSG



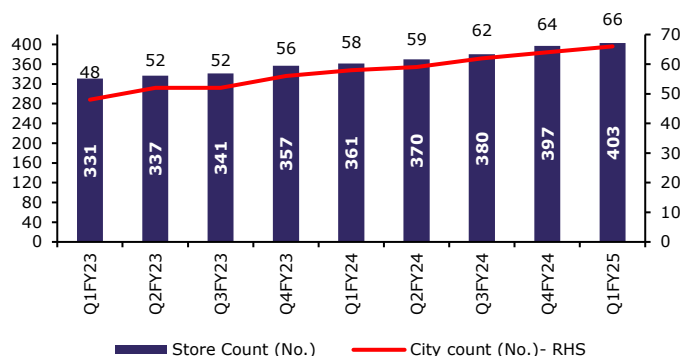
Source: Company, Emkay Research

Exhibit 2: SSG was down 6.7% amid weak eating out trends and continued macro/external challenges



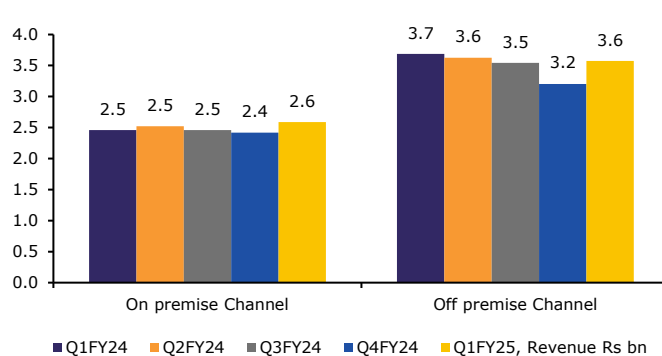
Source: Company, Emkay Research

Exhibit 3: WLDL added 6 stores in Q1, taking the total to 403 stores; guidance to add 45-50 stores in FY25 intact



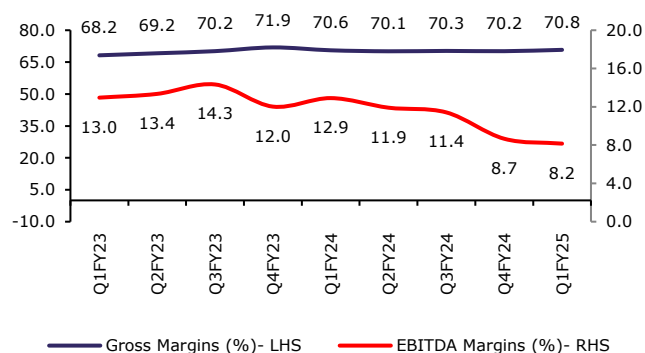
Source: Company, Emkay Research

Exhibit 4: On-premise channel declined 3%, whereas Off-premise channel witnessed 6% growth in Q1



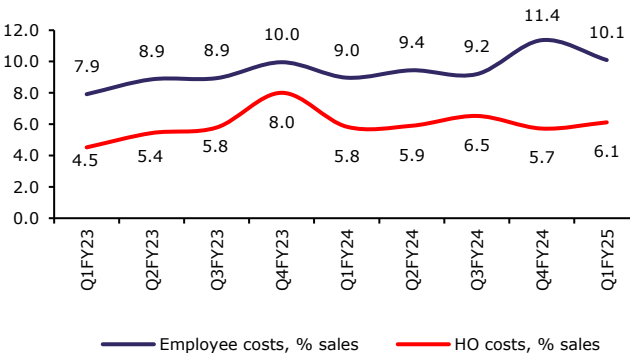
Source: Company, Emkay Research

Exhibit 5: Despite the 20bps gain in gross margin, EBITDA margin dipped by 470bps due to negative leverage and higher Ad expense



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

Exhibit 6: Employee/HO expenses were also up, by 110bps/30bps, impacting overall EBITDA margin



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q1FY25)

(Rs mn)	Actual	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net Sales	6,163	6,261	6,325	-1.6%	-2.6%	Revenue growth was weak and ~2% below street/our estimates
EBITDA*	800	878	888	-8.9%	-10.0%	EBITDA was ~100bps lower owing to negative leverage on weaker SSG
EBITDA margin*	13.0%	14.0%	14.0%	-104	-106	
PAT	33	71	89	-54.1%	-63.4%	PAT miss was due to lower EBITDA

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

Exhibit 8: Summary of quarterly results

Y/E, Mar (Rs mn)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)	FY23TD	FY24TD	YoY (%)
Revenue	6,145	6,147	6,003	5,623	6,163	0.3	9.6	17,218	18,295	6.3
Expenditure	5,092	5,151	5,042	4,852	5,363	5.3	10.5	14,207	15,286	7.6
Consumption of RM	1,809	1,837	1,784	1,678	1,801	-0.4	7.3	5,298	5,430	2.5
as % of sales	29.4%	29.9%	29.7%	29.8%	29.2%			30.8%	29.7%	
Employee Cost-Store	551	581	552	639	622	12.9	-2.6	1,480	1,684	13.8
as % of sales	9.0%	9.4%	9.2%	11.4%	10.1%			8.6%	9.2%	
Royalty	318	316	243	287	353	11.2	23.0	788	877	11.3
as % of sales	5.2%	5.1%	4.0%	5.1%	5.7%			4.6%	4.8%	
Other expenditure	2,056	2,054	2,072	1,927	2,210	7.5	14.7	5,732	6,182	7.9
as % of sales	33.5%	33.4%	34.5%	34.3%	35.9%			33.3%	33.8%	
HO Costs	359	363	392	322	377	5.1	17.2	909	1,114	22.6
as % of sales	5.8%	5.9%	6.5%	5.7%	6.1%			5.3%	6.1%	
EBITDA	1,053	997	960	771	800	-24.0	3.8	3,012	3,010	-0.1
Depreciation	429	439	455	499	494	15.2	-1.1	1,110	1,323	19.2
EBIT	625	557	505	271	306	-51.0	12.8	1,902	1,687	-11.3
Other Income	52	32	44	35	51			91	128	40.6
Interest	260	274	282	283	299	14.8	5.7	674	816	21.0
PBT	416	315	267	23	58	-86.1	146.6	1,318	998	-24.3
Total Tax	118	78	58	12	13	-89.3	5.9	302	254	-15.9
Adjusted PAT	299	237	209	12	45	-84.9	291.5	1,016	744	-26.8
Extra ordinary items	11	13	36	4	13	18.9	231.6	101	60	
Reported PAT	288	224	173	8	33	-88.7	320.9	915	684	-25.2
Reported EPS (Rs)	1.9	1.4	1.1	0.0	0.2	-88.7	320.9	5.9	4.4	-25.2
(%)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	(bps)	(bps)	FY23TD	FY24TD	(bps)
EBITDAM	17.1	16.2	16.0	13.7	13.0	-420	-70	17.5	16.5	-100
EBITM	10.2	9.1	8.4	4.8	5.0	-520	10	11.0	9.2	-180
EBTM	6.8	5.1	4.4	0.4	0.9	-580	50	7.7	5.5	-220
PATM	5.7	4.3	3.4	0.2	0.6	-510	40	6.4	4.5	-200
Effective Tax rate	28.2	24.9	21.9	50.7	21.8	-640	-2890	22.9	25.5	250

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

Exhibit 9: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	26,174	25,743	-1.6	30,753	30,408	-1.1	35,579	35,199	-1.1
EBITDA*	2,488	2,401	-3.5	3,985	3,906	-2.0	4,965	4,870	-1.9
EBITDA margin (%)*	9.5	9.3	-20 bps	13.0	12.8	-10 bps	14.0	13.8	-10 bps
Net profit	452	310	-31.4	1,385	1,259	-9.1	1,939	1,809	-6.7
EPS (Rs)	2.9	2.0	-31.4	8.9	8.1	-9.1	12.4	11.6	-6.7

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

Exhibit 10: Peer Comparison

Company name	CMP (Rs/sh)	Mcap (Rs bn)	Reco	Target Price (Rs/sh)	P/E (x)			EV/EBITDA (x) Pre IndAS-116		
					FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
JUBI	578	382	Add	600	114.9	77.2	57.8	36.8	30.6	26.1
DEVYANI	179	216	Reduce	165	265.3	135.3	82.4	40.7	29.4	22.8
WESTLIFE	833	130	Reduce	875	418.8	103.2	71.8	54.4	33.4	26.8
SAPPHIRE	1,580	101	Add	1,700	139.2	62.9	45.1	31.6	21.4	16.6

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

Westlife Foodworld: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	22,775	23,918	25,743	30,408	35,199
Revenue growth (%)	44.5	5.0	7.6	18.1	15.8
EBITDA	3,815	3,693	3,610	5,266	6,393
EBITDA growth (%)	93.1	(3.2)	(2.2)	45.9	21.4
Depreciation & Amortization	1,602	1,822	2,143	2,431	2,725
EBIT	2,212	1,871	1,468	2,835	3,669
EBIT growth (%)	322.4	(15.4)	(21.6)	93.1	29.4
Other operating income	0	0	0	0	0
Other income	210	185	186	220	255
Financial expense	927	1,097	1,235	1,354	1,480
PBT	1,495	959	419	1,701	2,444
Extraordinary items	0	0	0	0	0
Taxes	379	266	109	442	636
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,116	692	310	1,259	1,809
PAT growth (%)	0.0	(38.0)	(55.2)	305.8	43.7
Adjusted PAT	1,116	692	310	1,259	1,809
Diluted EPS (Rs)	7.2	4.4	2.0	8.1	11.6
Diluted EPS growth (%)	0.0	(38.0)	(55.2)	305.8	43.7
DPS (Rs)	0.0	1.8	0.8	3.2	4.6
Dividend payout (%)	0.0	40.0	40.0	40.0	40.0
EBITDA margin (%)	16.7	15.4	14.0	17.3	18.2
EBIT margin (%)	9.7	7.8	5.7	9.3	10.4
Effective tax rate (%)	25.3	27.8	26.0	26.0	26.0
NOPLAT (pre-IndAS)	1,652	1,351	1,086	2,098	2,715
Shares outstanding (mn)	155.9	155.9	155.9	155.9	155.9

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	1,495	959	419	1,701	2,444
Others (non-cash items)	1,602	1,822	2,143	2,431	2,725
Taxes paid	(462)	(370)	(180)	(520)	(721)
Change in NWC	317	15	(132)	250	176
Operating cash flow	3,670	3,338	3,299	4,996	5,848
Capital expenditure	(2,799)	(2,154)	(2,168)	(2,430)	(2,529)
Acquisition of business	206	(82)	0	0	0
Interest & dividend income	210	185	186	220	255
Investing cash flow	(2,384)	(2,052)	(1,982)	(2,210)	(2,274)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	60	320	0	(100)	(100)
Payment of lease liabilities	(924)	(1,084)	(1,209)	(1,360)	(1,523)
Interest paid	(144)	(196)	(198)	(183)	(168)
Dividend paid (incl tax)	0	(277)	(124)	(504)	(724)
Others	(226)	(193)	0	0	0
Financing cash flow	(1,234)	(1,430)	(1,532)	(2,146)	(2,515)
Net chg in Cash	52	(143)	(214)	640	1,060
OCF	3,670	3,338	3,299	4,996	5,848
Adj. OCF (w/o NWC chg.)	3,352	3,323	3,431	4,746	5,672
FCFF	870	1,184	1,131	2,567	3,320
FCFE	153	271	83	1,433	2,095
OCF/EBITDA (%)	96.2	90.4	91.4	94.9	91.5
FCFE/PAT (%)	13.7	39.2	26.7	113.8	115.8
FCFF/NOPLAT (%)	52.7	87.6	104.2	122.4	122.3

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	312	312	312	312	312
Reserves & Surplus	5,347	5,571	5,757	6,512	7,597
Net worth	5,659	5,883	6,069	6,824	7,909
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(604)	(708)	(778)	(856)	(942)
Total debt	2,070	2,390	2,390	2,290	2,190
Total liabilities & equity	7,126	7,565	7,681	8,258	9,158
Net tangible fixed assets	6,591	7,702	8,414	9,170	9,811
Net intangible assets	415	396	426	456	486
Net ROU assets	(750)	(1,205)	(1,749)	(2,349)	(3,004)
Capital WIP	567	447	447	447	447
Goodwill	466	466	466	466	466
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	1,583	1,521	1,307	1,948	3,008
Current assets (ex-cash)	2,007	2,012	2,300	2,530	2,855
Current Liab. & Prov.	3,300	3,350	3,506	3,987	4,488
NWC (ex-cash)	(1,293)	(1,338)	(1,206)	(1,457)	(1,633)
Total assets	7,126	7,565	7,681	8,258	9,158
Net debt	487	869	1,083	343	(818)
Capital employed	7,126	7,565	7,681	8,258	9,158
Invested capital	4,976	5,597	5,927	5,864	5,703
BVPS (Rs)	36.3	37.7	38.9	43.8	50.7
Net Debt/Equity (x)	0.1	0.1	0.2	0.1	(0.1)
Net Debt/EBITDA (x)	0.1	0.2	0.3	0.1	(0.1)
Interest coverage (x)	0.4	0.5	0.7	0.4	0.4
RoCE (%)	36.6	28.0	21.7	38.3	45.1

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	117.1	188.8	421.3	103.8	72.2
P/CE(x)	48.1	52.0	53.3	35.4	28.8
P/B (x)	23.1	22.2	21.5	19.1	16.5
EV/Sales (x)	5.8	5.6	5.2	4.4	3.7
EV/EBITDA (x)	34.4	35.6	36.5	24.9	20.3
EV/EBIT(x)	59.3	70.3	89.8	46.2	35.4
EV/IC (x)	26.4	23.5	22.2	22.3	22.8
FCFF yield (%)	0.7	0.9	0.9	2.0	2.6
FCFE yield (%)	0.1	0.2	0.1	1.1	1.6
Dividend yield (%)	0.0	0.2	0.1	0.4	0.6
DuPont-RoE split					
Net profit margin (%)	4.9	2.9	1.2	4.1	5.1
Total asset turnover (x)	3.4	3.3	3.4	3.8	4.0
Assets/Equity (x)	1.3	1.3	1.3	1.2	1.2
RoE (%)	21.7	12.0	5.2	19.5	24.6
DuPont-RoIC					
NOPLAT margin (%)	7.3	5.6	4.2	6.9	7.7
IC turnover (x)	5.1	4.5	4.5	5.2	6.1
RoIC (%)	36.7	25.6	18.9	35.6	46.9
Operating metrics					
Core NWC days	(22.8)	(23.6)	(22.9)	(21.2)	(21.7)
Total NWC days	(20.7)	(20.4)	(17.1)	(17.5)	(16.9)
Fixed asset turnover	2.5	2.2	2.0	2.1	2.2
Opex-to-revenue (%)	49.5	54.8	56.6	53.6	52.9

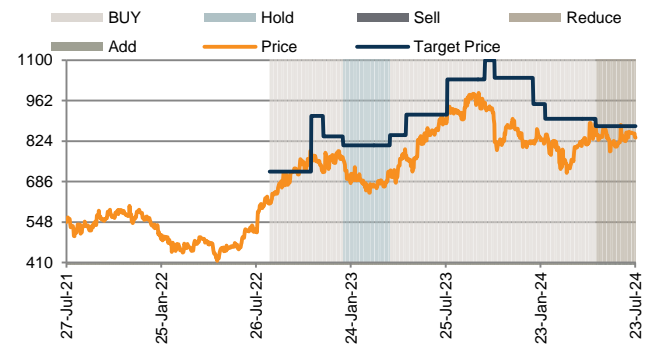
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
23-Jul-24	836	875	Reduce	Devanshu Bansal
07-Jul-24	854	875	Reduce	Devanshu Bansal
28-May-24	851	875	Reduce	Devanshu Bansal
08-May-24	867	875	Reduce	Devanshu Bansal
07-Apr-24	811	900	Buy	Devanshu Bansal
11-Feb-24	782	900	Buy	Devanshu Bansal
01-Feb-24	830	900	Buy	Devanshu Bansal
09-Jan-24	817	950	Buy	Devanshu Bansal
30-Nov-23	900	1,040	Buy	Devanshu Bansal
27-Oct-23	820	1,040	Buy	Devanshu Bansal
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: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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