

25 July 2024

India | Equity Research | Q1FY25 results review

Westlife Foodworld

Consumer Staples & Discretionary

Braving the macro challenges

Westlife Foodworld's (Westlife) SSSG performance has worsened to -6.7% YoY (vs -5% YoY in Q4FY24). This was due to (1) underperformance in on-premise business (58% revenue share), while off-premise channel witnessed stable SSSG. (2) Aggressive competitive pressure (free delivery and lower price point offering in the meal segment), in our view. Positively, business continues to recover in the affected store (due to external issues – 30% of total stores) and it has also roped in Chef Sanjeev Kapoor for driving Real Food, Real Good initiative which should help in brand building. Gross margin improvement (20bps YoY) was comforting while negative operating leverage led to sharp contraction in operating EBITDA margin (-388bps YoY). Positively, it has retained its earlier guidance on retail expansion (to add 45-50 stores in FY25) and operating profit margin (at 18-20% in medium term). Downgrade to **HOLD** (from Add).

Muted revenue growth, impacted by underperformance in on-premise channel

Revenue was flat YoY (+10% QoQ) while SSSG declined 6.7% YoY impacted by general slowdown in consumption and subdued on-premise sales. Revenue growth in on-premise and off-premise businesses stood at -3%, 6% YoY, respectively. Revenue share from off-premise business remains stable at 42%, while that from digital sale stood at 69% (up 8% YoY). TTM revenue per store declined 8% YoY to INR 61.3 led by challenging consumption and demand environment. Everyday McSaver Meals continues to drive footfall and gain market share. It has partnered with Chef Sanjeev Kapoor for driving Real Food, Real Good initiative.

Negative operating leverage impacts profitability

Gross margin improved 20bps YoY (+61 bps QoQ) to 70.8% in Q1FY25 led by strategic sourcing and cost projects initiatives. Restaurant operating margin (ROM) contracted 389bps YoY to 19.1% while operating EBITDA margin contracted 417bps YoY to 13% due to negative operating leverage and royalty. The management is targeting to reach EBITDA margin of 18-20% by 2027. EBITDA declined 24% YoY to INR 799mn, while adjusted PAT declined 85% YoY. Effective tax rate stood at 21.9% (vs 28.2% in Q1FY24).

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	22,782	23,918	26,581	31,821
EBITDA	3,931	3,781	4,180	5,404
EBITDA Margin (%)	17.3	15.8	15.7	17.0
Net Profit	1,115	692	901	1,442
EPS (Rs)	7.2	4.4	5.8	9.2
EPS % Chg YoY	(6,777.7)	(37.9)	30.2	60.0
P/E (x)	116.5	187.7	144.1	90.1
EV/EBITDA (x)	49.6	59.1	54.8	39.2
RoCE (%)	33.6	24.5	25.7	31.7
RoE (%)	21.7	12.0	14.2	19.2

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Market Data

Market Cap (INR)	130bn
Market Cap (USD)	1,551mn
Bloomberg Code	WESTLIFE IN
Reuters Code	WEST.BO
52-week Range (INR)	1,025 /701
Free Float (%)	43.0
ADTV-3M (mn) (USD)	1.6

Price Performance (%)	3m	6m	12m
Absolute	1.2	0.6	(7.6)
Relative to Sensex	(6.4)	(12.6)	(28.3)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(2.7)	(2.0)
EBITDA	(8.8)	(4.8)
EPS	(26.1)	(8.7)

Previous Reports

28-07-2023: [Q2FY24 results review](#)

28-07-2023: [Q1FY24 results review](#)

Maintains retail expansion guidance

Retail expansion rate continues to be on track with the addition of six (net) new restaurants (EOP: 403) in Q1FY25. Management maintains its guidance to open 45-50 restaurants in FY25 with plans to reach 580-630 restaurants by 2027. Now ~92% restaurants have McCafes, while ~20% restaurants offer drive-through service. Also, in Q1, Westlife converted 11 restaurants (to 303, ~86% of total) to EOTF (experience of the future) format. In the next 18-24 months, 100% stores are likely to be converted to EOTF model. The target market for FY25 store addition will be drive-thrus in South India and smaller towns.

Valuation and risks

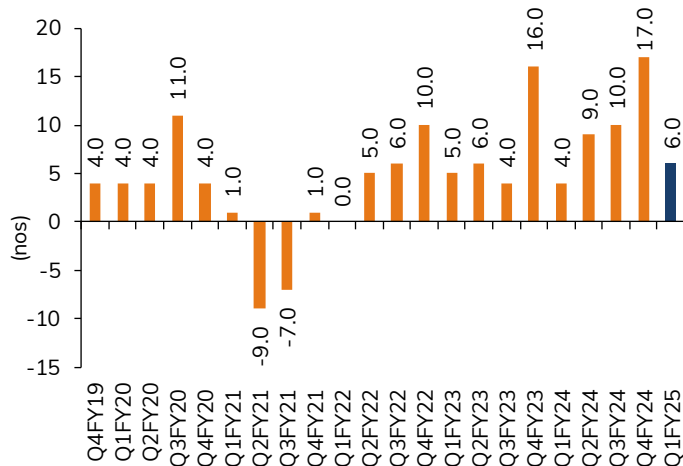
We cut our EBITDA estimates by 9/5% for FY25-26E, modelling revenue / EBITDA CAGR of 15/20 (%) over FY24-26E. Downgrade to **HOLD** (from Add) with DCF-based revised target price of INR 800 (from INR 880). Upside risk: Faster-than-anticipated recovery in demand environment. Downside risk: Sustained weak consumer sentiment impacting restaurant throughput and likely higher competitive intensity in the near term.

Exhibit 1: Q1FY25 result review (consolidated – with Ind-AS 116 impact)

INR mn	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Same store sales growth (%)	(6.7)	7.0	(13.7)	(5.0)	(1.7)
Number of McDonald's stores	403	361	42	397	6
Net Revenue	6,163	6,145	0	5,623	10
COGS	(1,801)	(1,809)	(0)	(1,678)	7
Gross profit	4,362	4,337	1	3,945	11
Staff cost	(622)	(551)	13	(639)	(3)
Royalty	(354)	(318)	11	(287)	23
Occupancy and other exp.	(2,210)	(2,056)	7	(1,927)	15
Restaurant Operating Profit	1,176	1,412	(17)	1,092	8
G&A expense	(377)	(359)	5	(322)	17
EBITDA	799	1,053	(24)	771	4
Other income	51	52	(3)	35	
Finance Cost	(298)	(260)	15	(283)	6
D&A	(494)	(429)	15	(499)	(1)
PBT	58	416	(86)	23	146
Tax	(13)	(118)		(12)	
Recurring PAT	45	299	(85)	12	290
Extraordinary items	(13)	(11)		(4)	
Net profit (reported)	33	288	(89)	8	321
EPS	0.3	1.9	(85)	0.1	290
Ratios (% of net operating revenues)					
COGS	29.2	29.4	-21 bps	29.8	-62 bps
Gross margin (%)	70.8	70.6	20 bps	70.2	61 bps
Staff cost	10.1	9.0	112 bps	11.4	-128 bps
Royalty	5.7	5.2	57 bps	5.1	63 bps
Occupancy and other exp.	35.9	33.5	239 bps	34.3	159 bps
ROM (%)	19.1	23.0	-389 bps	19.4	-35 bps
G&A expense	6.1	5.8	27 bps	5.7	39 bps
EBITDA margin (%)	13.0	17.1	-417 bps	13.7	-74 bps
Income tax rate (%)	21.9	28.2	-637 bps	50.8	-2895 bps

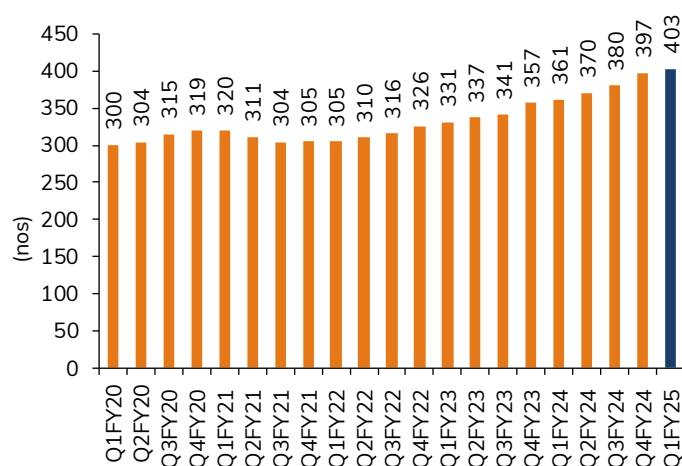
Source: Company data, I-Sec research

Exhibit 2: McDonald's store additions (net)



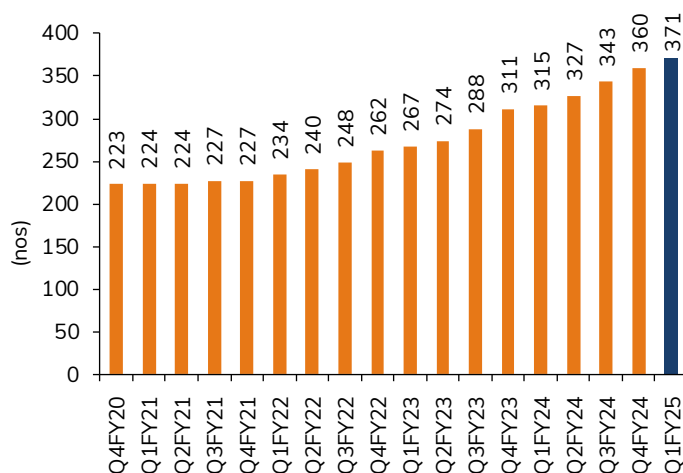
Source: Company data, I-Sec research

Exhibit 3: Number of stores – McDonald's



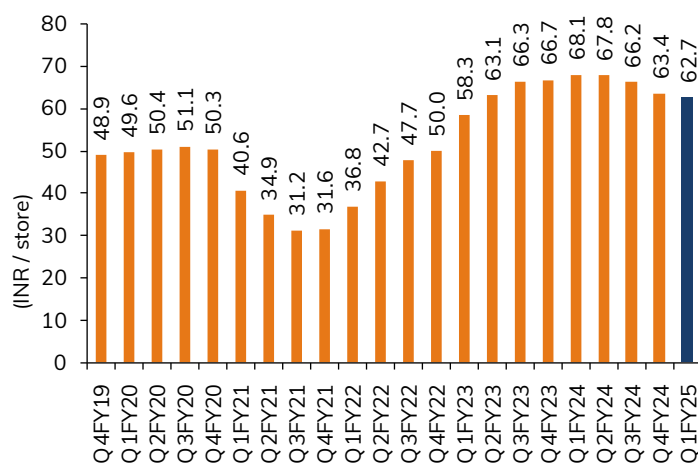
Source: Company data, I-Sec research

Exhibit 4: Number of stores – McCafé



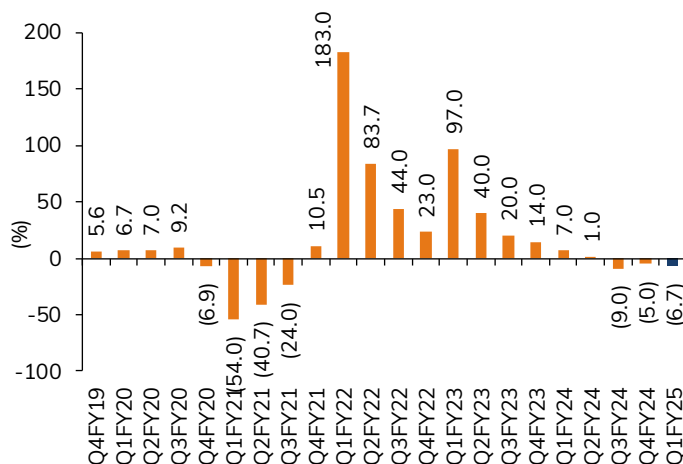
Source: Company data, I-Sec research

Exhibit 5: Average unit volume (AUV) – average sales per restaurant on TTM basis



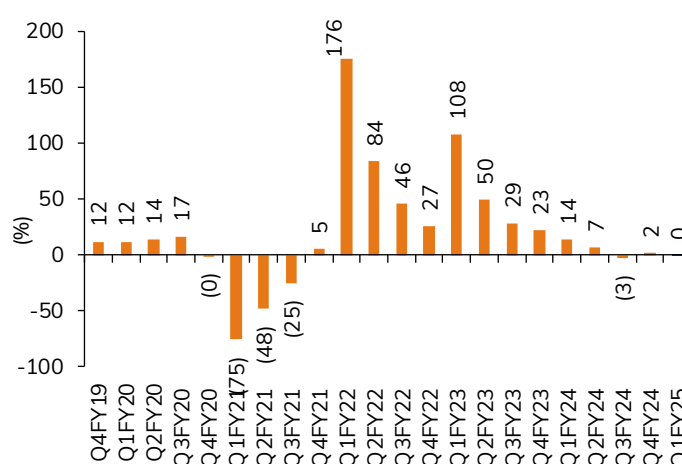
Source: Company data, I-Sec research

Exhibit 6: Same store sales growth



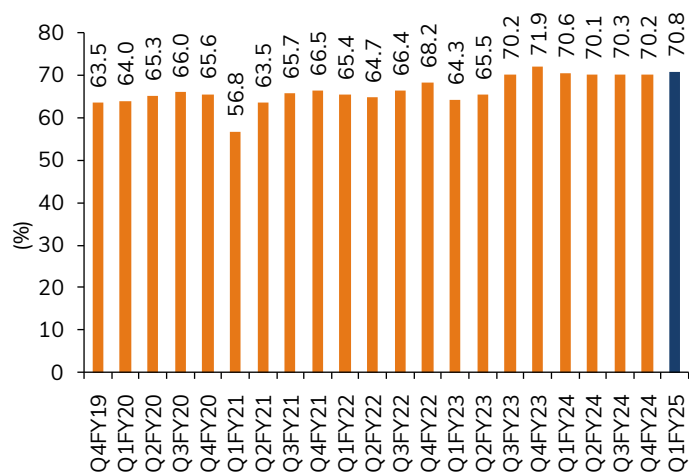
Source: Company data, I-Sec research

Exhibit 7: Revenue growth



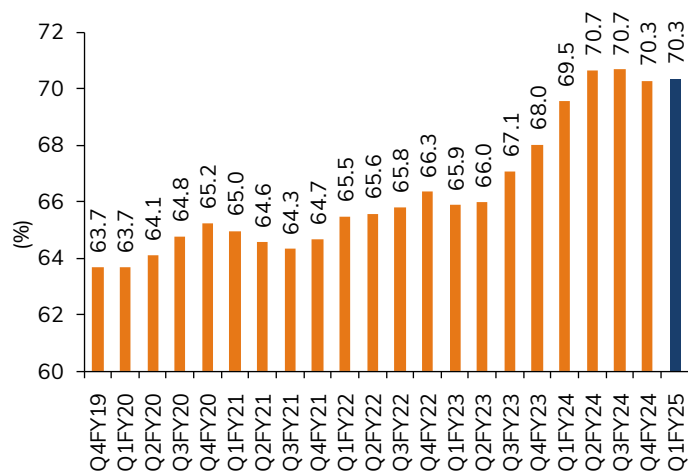
Source: Company data, I-Sec research

Exhibit 8: Gross margin (%)



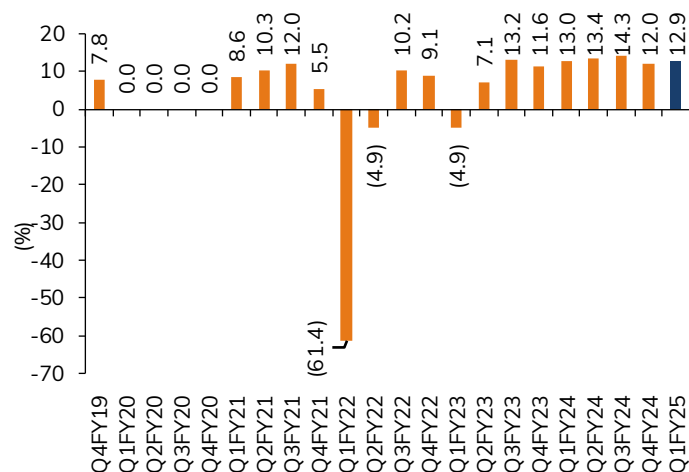
Source: Company data, I-Sec research

Exhibit 9: Gross margin on TTM basis (%)



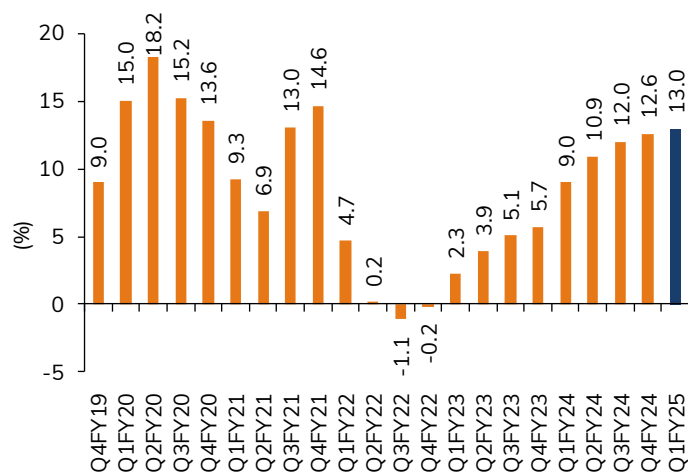
Source: Company data, I-Sec research

Exhibit 10: Comparable EBITDA margin (%)



Source: Company data, I-Sec research

Exhibit 11: EBITDA margin on TTM basis (%)



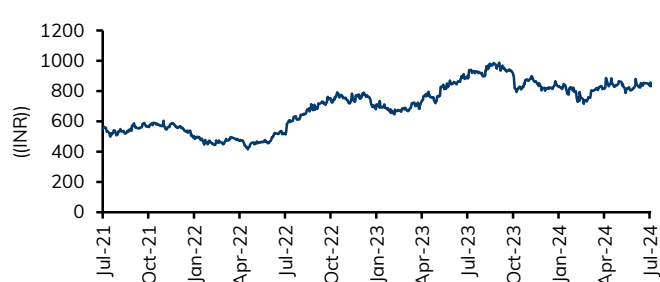
Source: Company data, I-Sec research

Exhibit 12: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	56.2	56.3	56.3
Institutional investors	34.7	34.7	34.7
MFs and others	21.0	20.1	18.1
Insurance Cos	2.6	2.6	2.5
FIIIs	10.9	12.0	14.1
Others	9.3	9.0	9.0

Source: Bloomberg, I-Sec research

Exhibit 13: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	22,782	23,918	26,581	31,821
Operating Expenses	18,851	20,138	22,401	26,417
EBITDA	3,931	3,781	4,180	5,404
EBITDA Margin (%)	17.3	15.8	15.7	17.0
Depreciation & Amortization	1,521	1,822	1,937	2,342
EBIT	2,410	1,958	2,243	3,061
Interest expenditure	927	1,099	1,209	1,321
Other Non-operating Income	141	162	185	210
Recurring PBT	1,623	1,022	1,219	1,950
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	380	266	318	508
PAT	1,243	756	901	1,442
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(128)	(64)	-	-
Net Income (Reported)	1,115	692	901	1,442
Net Income (Adjusted)	1,115	692	901	1,442

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	2,545	2,484	3,021	3,286
of which cash & cash eqv.	284	141	572	627
Total Current Liabilities & Provisions	2,336	2,443	2,649	3,171
Net Current Assets	210	41	373	116
Investments	-	-	-	-
Net Fixed Assets	7,472	8,564	9,016	9,986
ROU Assets	8,758	9,606	9,606	9,606
Capital Work-in-Progress	567	447	447	447
Total Intangible Assets	-	-	-	-
Long Term Loans & Advances	591	626	696	833
Deferred Tax assets	604	708	708	708
Total Assets	18,653	20,415	21,316	22,258
Liabilities				
Borrowings	2,070	2,390	2,390	1,890
Deferred Tax Liability	-	-	-	-
Lease Liability	9,960	11,235	11,235	11,235
Other Liabilities	964	907	907	907
Equity Share Capital	312	312	312	312
Reserves & Surplus	5,347	5,571	6,472	7,914
Total Net Worth	5,659	5,883	6,784	8,226
Minority Interest	-	-	-	-
Total Liabilities	18,653	20,415	21,316	22,258

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	6,108	5,925	5,527	6,136
% growth (YOY)	7.1	(2.7)	1.6	0.2
EBITDA	997	960	771	799
Margin %	16.3	16.2	13.9	13.0
Other Income	32	44	35	51
Extraordinaries	(13)	(36)	(4)	(13)
Adjusted Net Profit	237	209	12	45

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	3,854	3,724	2,378	3,308
Working Capital Changes	70	76	(18)	82
Capital Commitments	(2,696)	(2,166)	(2,390)	(3,312)
Free Cashflow	789	1,230	(348)	(430)
Other investing cashflow	37	309	185	210
Cashflow from Investing Activities	(2,653)	(1,845)	(2,204)	(3,102)
Issue of Share Capital	-	-	-	-
Interest Cost	(143)	(197)	(169)	(151)
Inc (Dec) in Borrowings	(817)	(758)	-	(500)
Dividend paid	-	(536)	-	-
Others	(21)	-	762	926
Cash flow from Financing Activities	(981)	(1,492)	593	275
Chg. in Cash & Bank balance	(149)	59	431	55
Closing cash & balance	84	343	572	627

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	7.2	4.4	5.8	9.2
Adjusted EPS (Diluted)	7.2	4.4	5.8	9.2
Cash EPS	16.9	16.1	18.2	24.3
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	36.3	37.7	43.5	52.8
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	44.5	5.0	11.1	19.7
EBITDA	103.0	(3.8)	10.6	29.3
EPS (INR)	(6,777.7)	(37.9)	30.2	60.0
Valuation Ratios (x)				
P/E	116.5	187.7	144.1	90.1
P/CEPS	49.3	51.7	45.8	34.3
P/BV	23.0	22.1	19.1	15.8
EV / EBITDA	49.6	59.1	54.8	39.2
P / Sales	5.7	5.4	4.9	4.1
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	69.9	70.3	70.5	70.6
EBITDA Margins (%)	17.3	15.8	15.7	17.0
Effective Tax Rate (%)	23.4	26.1	26.1	26.1
Net Profit Margins (%)	4.9	2.9	3.4	4.5
Net Debt / Equity (x)	0.1	0.1	0.1	0.0
Net Debt / EBITDA (x)	0.1	0.2	0.1	0.0
Fixed Asset Turnover (x)	2.1	1.8	1.7	1.7
Working Capital Days	(2)	(2)	(3)	(7)
Inventory Turnover Days	14	10	10	10
Receivables Days	2	3	3	3
Payables Days	36	32	32	33
Profitability Ratios				
RoCE (%)	33.6	24.5	25.7	31.7
RoE (%)	21.7	12.0	14.2	19.2
RoIC (%)	27.2	19.6	20.6	25.1

Source Company data, I-Sec research

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