

Consumer Staples & Discretionary

Quick Service Restaurants: Continuing healthy demand trends

We recommend investors to stay overweight on Quick Service Restaurants (QSR) stocks. It presents a good opportunity (better growth comps) given (1) overall slowdown and inflationary pressure is likely to hurt many mass consumer categories (more) and (2) decent valuations post (stock price) correction over last six months. Management commentary of QSR companies is far more positive vs. near-term woes for consumer staples. Our checks suggest that QSRs are witnessing (continued) good business momentum and the price hikes appear to have been absorbed well.

We like Sapphire (given its better demographic profile in terms of GDP/income levels vs the other Yum! franchisees). The recent stock correction appears unjustified given (1) it was already trading at big discount to peers and (2) there has been continued execution improvement (all three metrics of Average Daily Sales, margins and store expansion). We also like JUBI at the current stock price as most of the concerns appear to be priced in. We stay long-term believers in Westlife. We reckon Restaurant Brands India (earlier: Burger King India) is a cyclical recovery play.

- **QSRs – ‘relative’ bright-spot amidst overall slowdown.** Given the continued slowdown concerns in most consumer categories (partly rural and inflation-led), we believe select discretionary categories may outperform (both revenue, margins) in 1HFY23. We see (1) staples (a low-ticket segment) struggling given the dependency on the bottom strata for incremental volumes and (2) discretionary companies (retail, QSRs, jewellery) performing well, for now.

Recent commentary by consumer companies also suggests this – large FMCG players have guided for weak volume trajectory and margin pressure in 1HFY23 (HUL has guided for (operating) margin decline for next 2 quarters while Marico expressed expectations of rural demand recovery in 2H, implying weak 1H).

On the other hand, most QSR companies (after reporting decent performance in 4Q) have guided of a favourable outlook. JUBI, for example, has guided that margins will remain robust even as it looks to accelerate network expansion (250 Dominos and 20-30 Popeyes in FY23E). We note that JUBI had robust margins in 4Q/FY22 despite adding 227 stores in the year; even as store-splits (vs store in new area) led to slower ramp-up trajectory. We believe price hikes ([Quick Service Restaurants implement price increases as inflation impact catches up](#)) will underpin SSSG prints and provide operating leverage (benefit).

- **Business momentum healthy (for QSRs) in 1Q:** Our checks suggests that price hikes implemented by QSRs have been absorbed well and demand momentum continues to be good (in 1QFY23). We understand in the last few years, QSRs did struggle to take meaningful price increases without any visible impact on volumes (standalone inflation hurts more). Secondly, with normal operating conditions (till now), the dine-in channel is also performing well. Besides, most QSR players are also focussing on menu innovation (new launches).

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- ▶ **Store expansion to support growth optics:** Most QSR players have guided for accelerated store expansion which should support growth optics (unless there are major macro concerns).

We note that (1) JUBI is planning to add 250 Dominos (15% addition, almost double of pre-Covid run-rate) and ~30 Popeyes stores in FY23E, (2) Sapphire is attempting to double its store network in the next 3-4 years, implying addition of ~150 outlets each year, (3) Westlife also looks to add 200+ outlets in the next 3-4 years vs pre-Covid run-rate of ~25 stores each year, (4) RBA maintains guidance (for India) of 700 stores by Dec-26 vs 315 in Mar-22.

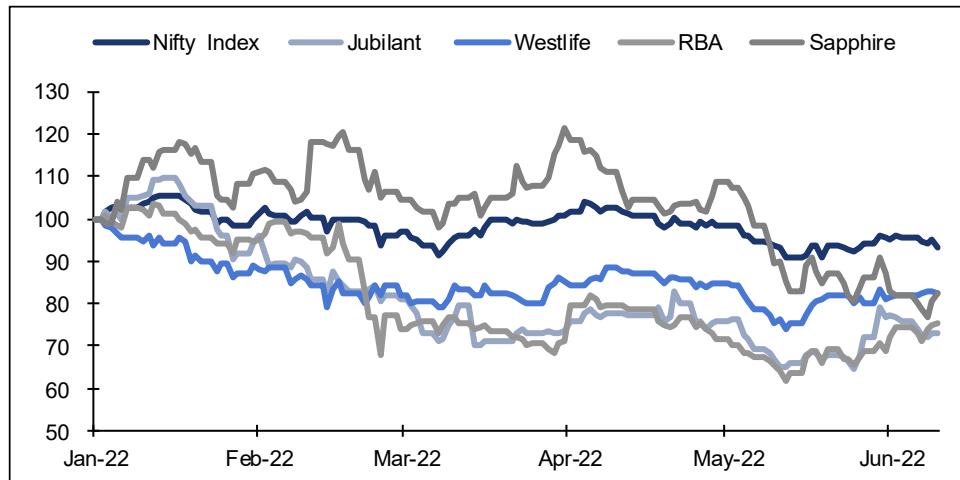
- ▶ **Recent stock corrections offer good entry-points:** We note that most QSR stocks have corrected in the last six months (down 17-27%) given, (1) expensive valuations, (2) fears of higher competition (narrative) and (3) overall slowdown concerns (and broader market weakness).

On **Jubilant Foodworks**, we believe most of the concerns are priced in and the overhang of lack of new CEO clarity is also now behind. We reiterate that success in Popeyes will be a key trigger for the stock; it is looking to accelerate expansion here (over Ekdum! and Hong's Kitchen). JUBI looks to strengthen its positioning to further accelerate growth and eventually realise cross-synergies across formats.

On **Sapphire Foods**, we believe the recent correction (~20% in the last six months) is unjustified given (1) it was already trading at a big discount to peers, (2) there has been continued execution improvement (all three metrics of Average Daily Sales, margins and store expansion). We reckon there is significant opportunity for rerating as consensus (over a period of time) fully appreciates Narrative vs. Reality about Devyani and Sapphire (margin differential, Indian promoter vs private equity, nuances of Pizza Hut delivery opportunity, markets with high non-vegetarian population adjusting for per capita income, etc.). Link to our Sapphire initiation report and menu comparison report [here](#) & [here](#).

- ▶ **Valuation and risks:** We value stocks in our coverage universe on DCF (WACC and TG ranging from 10-13%, 3-6% respectively) except Godrej Consumer and Tata Consumer, which we value on SoTP basis. Key upside risk is: better-than-expected gross margins due to correction in input prices. Key downside risk is unexpected irrational competition due to deceleration in general consumption demand. Please refer table 1 for target prices and ratings.

Chart 1: Stock performance of QSR players



Source: Bloomberg, I-Sec research

Store expansion plans for QSR players

Chart 2: Jubilant Foodworks

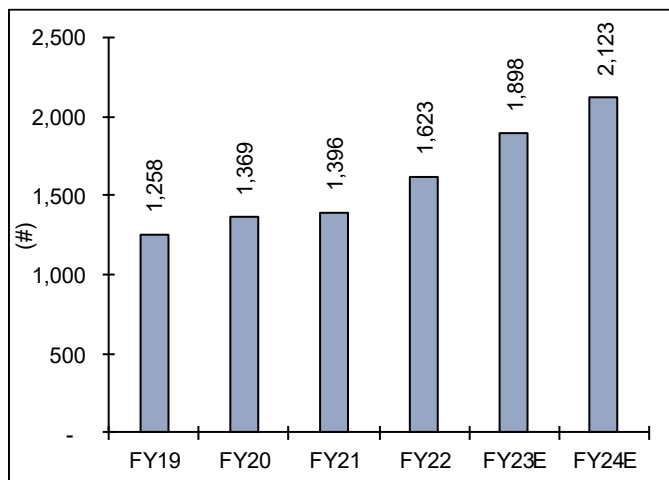


Chart 3: Westlife Development

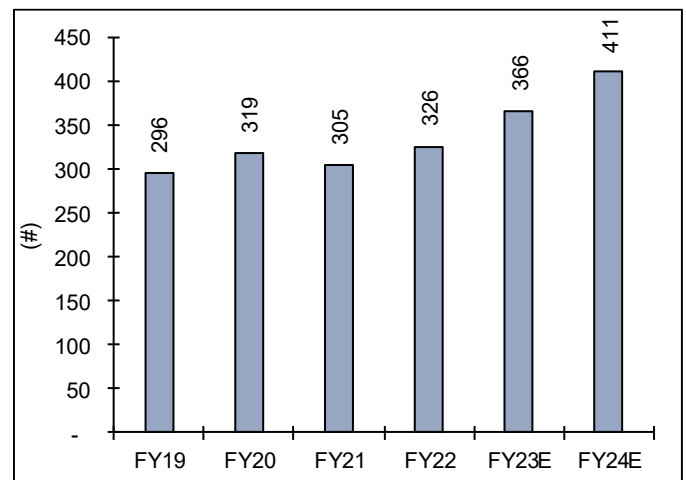


Chart 4: Sapphire Foods

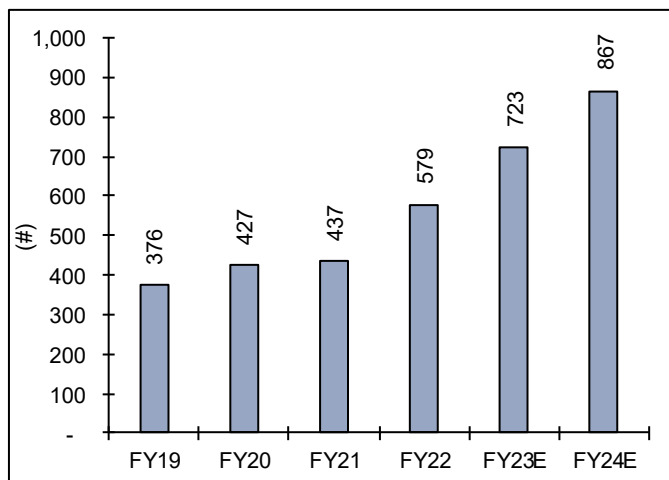
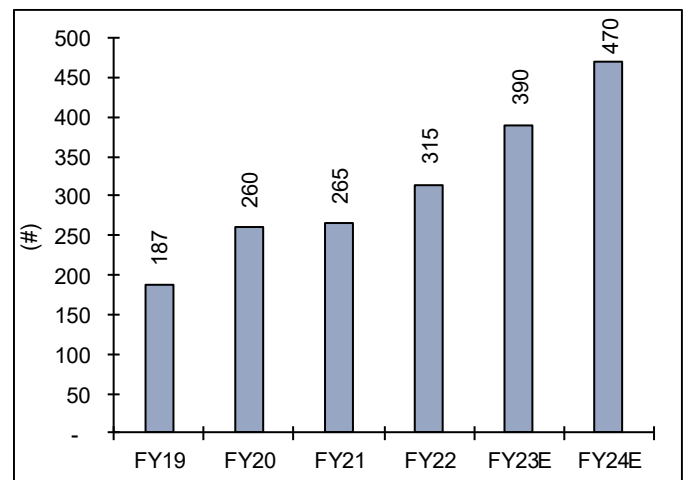


Chart 5: Restaurant Brands Asia



Source: Company data, I-Sec research

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Table 1: Valuation summary (QSR)

Company	CMP (Rs)	TP (Rs)	Rating	PE (x)		EV/EBITDA (x)		ADTV (US\$ mn)	Market cap.		EV/ sales (x)	
				FY23E	FY24E	FY23E	FY24E		(Rs bn)	(US\$ bn)	FY23E	FY24E
Restaurant Brands Asia (Burger King India)	107	125	ADD	NM	130	36	24	3.8	52	0.7	2.8	2.2
Jubilant Foodworks	525	720	BUY	59	42	36	28	39.4	341	4.4	6.4	5.2
Sapphire Foods	1,007	1,700	BUY	57	35	14	10	2.0	61	0.8	2.8	2.1
Westlife Development	464	600	BUY	78	50	36	26	0.8	72	0.9	3.6	3.0

Company	P/B (x)		P/CEPS (x)		RoE (%)		RoCE (%)		CAGR (FY22-24E) (%)		
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	Revenues	EBITDA	PAT
Restaurant Brands Asia (Burger King India)	7	7	24	17	(0)	5	5	9	36	222	NM
Jubilant Foodworks	12	9	34	27	24	25	20	21	22	29	38
Sapphire Foods	6	5	16	12	10	15	16	23	32	46	99
Westlife Development	13	10	30	24	18	23	27	34	24	89	353

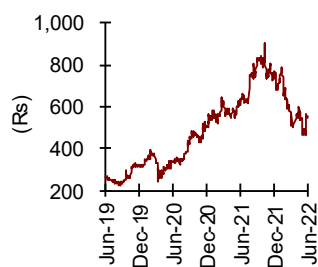
Source: Company Data, I-Sec Research

Price charts

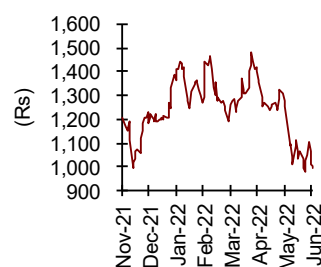
Restaurant Brands Asia (Burger King India)



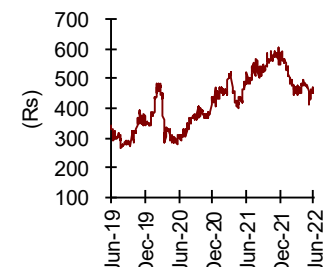
Jubilant Foodworks



Sapphire Foods



Westlife Development



Source: Bloomberg

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