

| (%) | Jun '22 | Sep '22 | Dec '22 |
|-------------------------|------------|------------|------------|
| Promoters | 57.0 | 56.3 | 56.2 |
| Institutional investors | 32.8 | 33.9 | 33.9 |
| MFs and others | 17.0 | 19.2 | 19.4 |
| Insurance | 5.9 | 4.3 | 3.7 |
| FII | 9.9 | 10.4 | 10.8 |
| Others | 10.2 | 9.8 | 9.8 |

Source: NSE

ESG disclosure score

| Year | 2020 | 2021 | Chg |
|-------------|------|------|-----|
| ESG score | 29.8 | 30.7 | 0.9 |
| Environment | 2.1 | 2.1 | - |
| Social | 8.4 | 11.2 | 2.8 |
| Governance | 78.6 | 78.6 | - |

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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Westlife Foodworld

ADD
Maintain

Leveraging agile supply chain and centralized distribution for rapid retail expansion

Rs691

We attended supply chain familiarisation event conducted by WESTLIFE and met with the top management of Vista Processed Foods Pvt Ltd (produces frozen products for McDonald's; McD) and Radhakrishna Foodland (distributes key raw materials required at McD stores). We were impressed by the high-quality and hi-tech-focused capabilities of both the companies to handle backend support for WESTLIFE. This enables WESTLIFE to rapidly scale store expansion while enjoying the benefits of scale and cost-efficiencies simultaneously. We like supply-chain partner's incremental efforts towards optimization of distribution cost by (1) reducing food-miles through opening more distribution centers while optimizing frequency of supply as per store/catchment requirement (2) healthy capacity utilization of the food trucks (at 95% levels) by liasoning with delivery requirements of other brands (3) timely delivery (record of 95% on-time delivery). We believe, this shall aid WESTLIFE to drive operating margin expansion.

We maintain our constructive thesis on WESTLIFE and remain longstanding believers in it. Incremental focus towards McCafe, gourmet burgers, fried chicken (in south market), scale-up of convenience channel (one of the best executions), experience of the future (EOTF) stores are driving big gains. Maintain ADD. TP Rs790.

► **Vista Processed Foods (VPF):** This company is a primary supplier of frozen products (patty, nuggets, etc.) for McD globally including India. VPF is 100% owned by the OSI group, one of the largest private companies in United States. In fact, OSI was one of the first suppliers of fresh beef patties to McDonald's when it first began serving hamburgers in the 1950s.

VPF sources chicken from Venky's (located in vicinity) and the meat is processed at VPF site (mashed, coated, par-fried, chilled and packed). Mass scale production enables: (1) consistent supply of raw material to McD stores; (2) higher cost efficiency – food processing requires heavy capex into factory and equipment (bone detection x-ray machines, grinders, blenders, chillers, conveyor belt, etc.); (3) better business economics (superior back-end support enables McD to rapidly scale frontend operation and thereby enjoy operating leverage benefits).

| | | | | | | |
|--------------------------|-------------------|-------------------------|---------|--------|--------|--------|
| Market Cap | Rs108bn/US\$1.3bn | | | | | |
| Reuters/Bloomberg | WEST.BO/WLDL IN | | | | | |
| Shares Outstanding (mn) | 155.9 | | | | | |
| 52-week Range (Rs) | 792/416 | | | | | |
| Free Float (%) | 43.8 | | | | | |
| FII (%) | 10.8 | | | | | |
| Daily Volume (US\$/'000) | 2,318 | | | | | |
| Absolute Return 3m (%) | (10.8) | | | | | |
| Absolute Return 12m (%) | 44.0 | | | | | |
| Sensex Return 3m (%) | (0.9) | | | | | |
| Sensex Return 12m (%) | 7.1 | | | | | |
| | | Year to March | FY21 | FY22 | FY23E | FY24E |
| | | Revenue (Rs mn) | 9,856 | 15,761 | 22,632 | 26,848 |
| | | Adj. Net Profit (Rs mn) | (1,036) | (17) | 1,258 | 1,788 |
| | | Dil. Rec. EPS (Rs) | (6.6) | (0.1) | 8.1 | 11.5 |
| | | % Chg YoY | NM | NM | NM | 42.2 |
| | | P/E (x) | NM | NM | 85.6 | 60.2 |
| | | CEPS (Rs) | 2.3 | 8.6 | 17.7 | 22.4 |
| | | EV/EBITDA (x) | NM | 83.1 | 41.6 | 31.7 |
| | | Dividend Yield (%) | - | - | - | - |
| | | RoCE (%) | (12.8) | 7.2 | 33.2 | 35.0 |
| | | RoE (%) | (19.6) | (0.4) | 24.0 | 26.4 |

- ▶ **Radhakrishna Foodland (RKF):** Frozen food prepared by VPF is sent to the distribution centres (DC) of RKF. Post which, RKF distributes it to all McD stores in India. Distribution optimisation is relatively more complex and tedious task (vs production). However, we were impressed by RKF's hi-tech capabilities (95% deliveries on-time, 95% capacity utilisation of vehicles) to handle the same. We understand that:
 - (1) while reducing food-miles (distance travelled) is important to save cost (by doing production and having DCs closer to the markets), building large storage (of chillers) is equally important for stores that are located in small cities (like Raipur and Bhilai, which need supplies once in a week vs everyday feed required in Mumbai stores) so that distribution-cost saving could be done by reducing frequency of supplies.
 - (2) each delivery truck of RKF (300-vehicle fleet) has three compartments, each handling: frozen (-18 degree Celsius), chilled (1-4 degree Celsius) and tropical (18-22 degree Celsius) products. This helps RKF to optimise delivery of products required as per demand of respective store/catchment areas.
 - (3) Buns are directly supplied from the manufacturer to the stores (RKF is not required in this category) as the shelf life is lower (t+4 days). It also helps WESTLIFE to avoid inventory carrying in books. Milk has lower shelf life (t+3 days) followed by fresh vegetables (t+7 days) and frozen products (6-9 months).
 - (4) McD enjoys higher NSV and doesn't have to reach closer to customer home (vs FMCG companies), hence its distribution network is more optimised.
 - (5) RKF also manages reverse logistics and vendor payments for WESTLIFE.
- ▶ **Valuation and risks:** We maintain our estimates for FY23E-FY24E, modelling revenue / EBITDA CAGRs of 31% / 62 (%) over FY22-FY24E. Maintain **ADD** with a DCF-based revised target price of Rs790. Improved execution engine and accelerated share-gain potential (aided by customer's preference for hygiene) keep us positive. Key downside risks include: sustained weakness in consumer sentiment impacting restaurant throughput, and likely higher competitive intensity in the near term.

Chart 1: Vista Processed Foods, Taloja



Source: Company data, I-Sec research

Chart 2: RK Foodland Distribution Centre, Kalamboli



Source: Company data, I-Sec research

Chart 3: RK Foodland Distribution Centre, warehouse



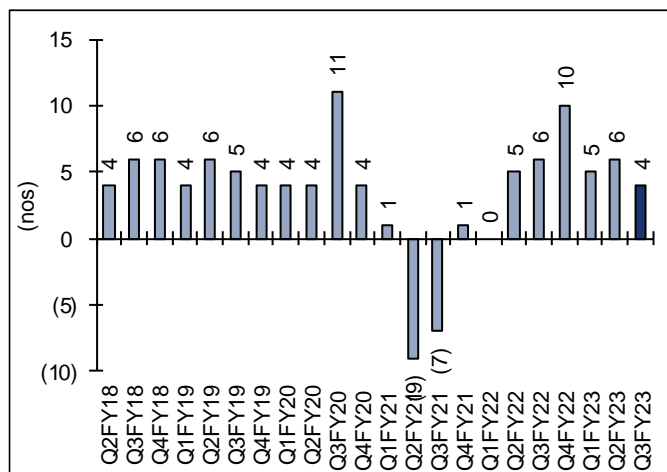
Source: Company data, I-Sec research

Chart 4: RK Foodland Distribution Centre, food-trucks



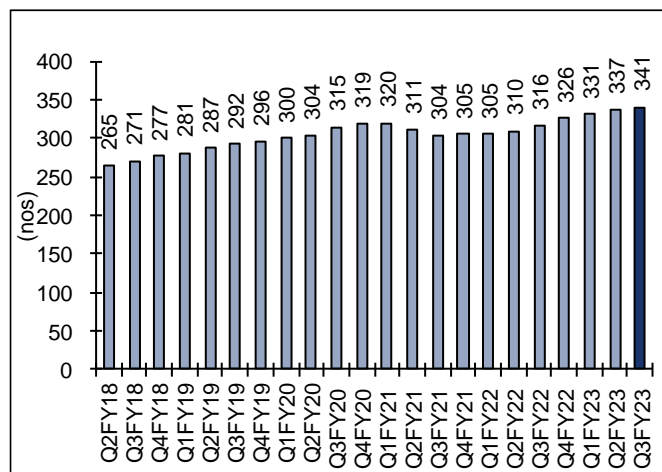
Source: Company data, I-Sec research

Chart 5: McDonald's store additions (net)



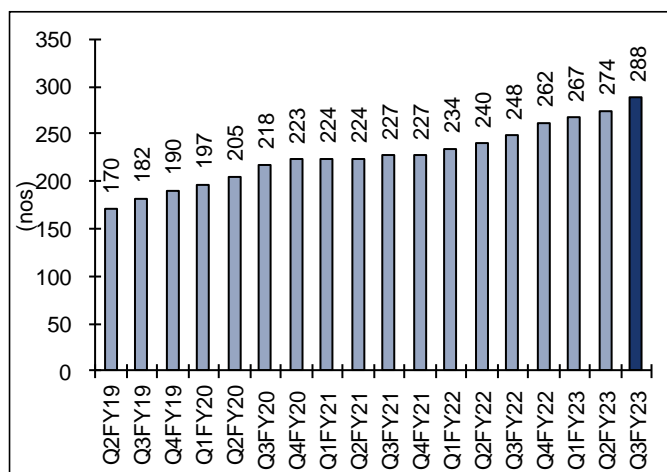
Source: Company data, I-Sec research

Chart 6: Number of stores – McDonald's



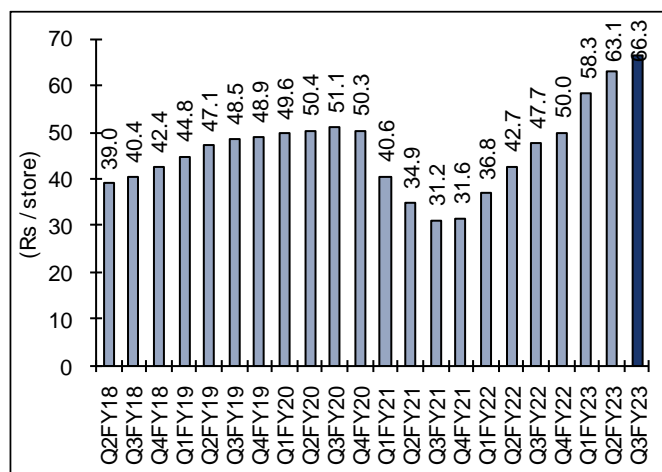
Source: Company data, I-Sec research

Chart 7: Number of stores – McCafé



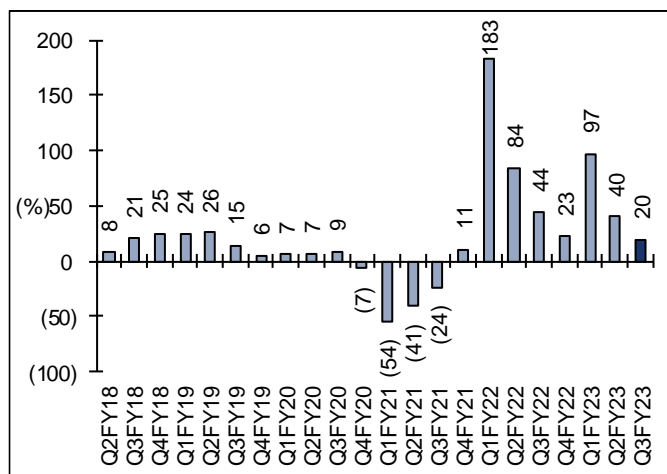
Source: Company data, I-Sec research

Chart 8: Average unit volume (AUV) – Average sales per restaurant on TTM basis



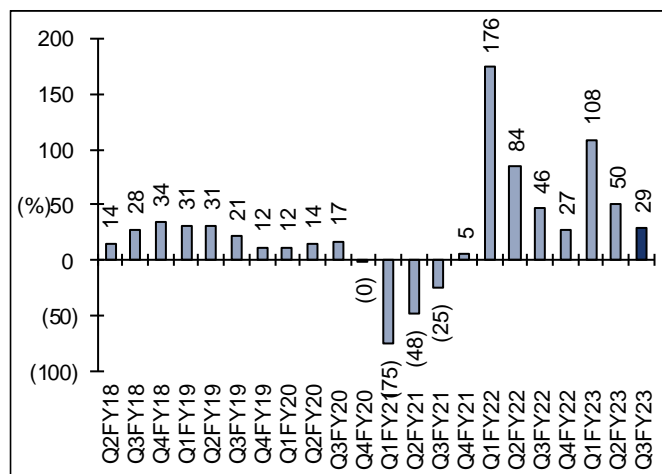
Source: Company data, I-Sec research

Chart 9: Same-store sales growth



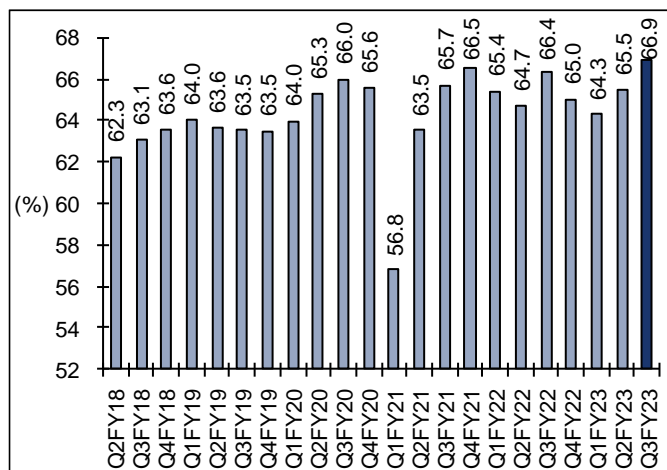
Source: Company data, I-Sec research

Chart 10: Revenue growth



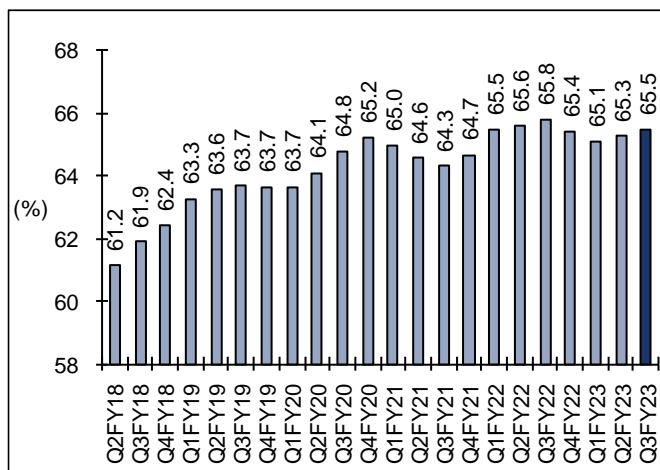
Source: Company data, I-Sec research

Chart 11: Gross margin (%)



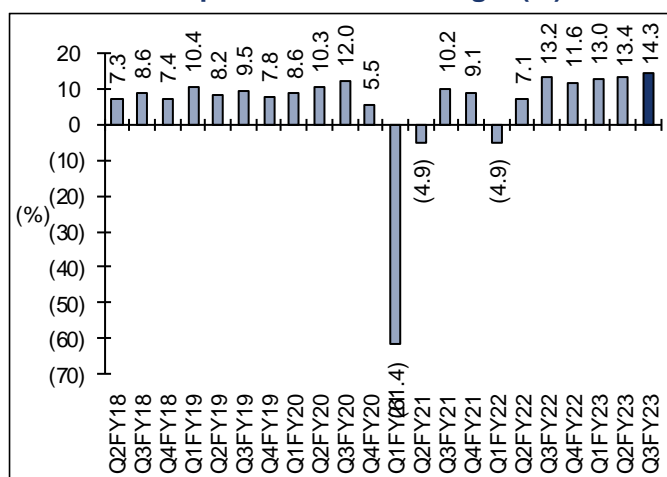
Source: Company data, I-Sec research

Chart 12: Gross margin on TTM basis (%)



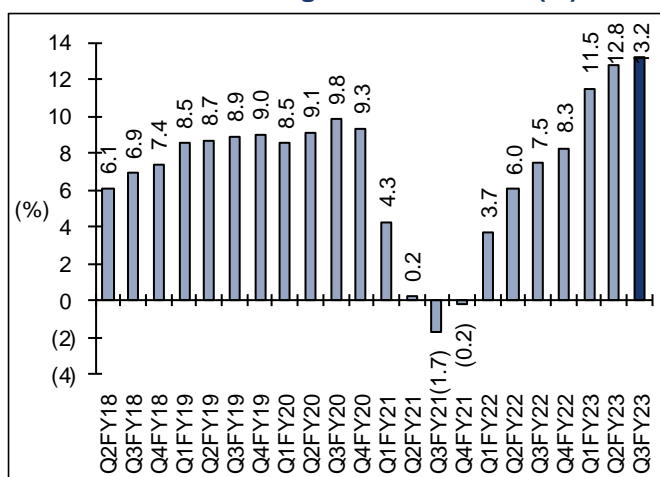
Source: Company data, I-Sec research

Chart 13: Comparable EBITDA margin (%)



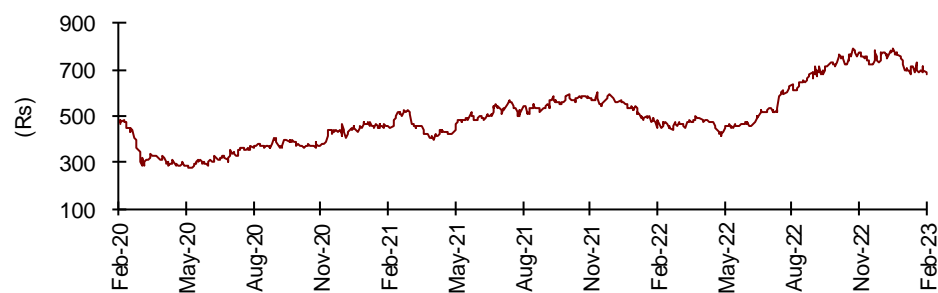
Source: Company data, I-Sec research

Chart 14: EBITDA margin on TTM basis (%)



Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financial summary

Table 1: Profit & Loss statement
(Rs mn, year ending March 31)

| | FY21 | FY22 | FY23E | FY24E |
|---|----------------|---------------|---------------|---------------|
| Net Sales & Operating income | 9,856 | 15,761 | 22,632 | 26,848 |
| Operating Expenses | 9,391 | 13,904 | 18,732 | 22,083 |
| EBITDA | 465 | 1,856 | 3,900 | 4,765 |
| % margins | 4.7 | 11.8 | 17.2 | 17.7 |
| Depreciation & Amortisation | 1,396 | 1,364 | 1,495 | 1,705 |
| Gross Interest | 845 | 826 | 922 | 887 |
| Other Income | 447 | 277 | 151 | 218 |
| Recurring PBT | (1,329) | (57) | 1,634 | 2,390 |
| Less: Taxes | (293) | (40) | 376 | 602 |
| Less: Minority Interest | - | - | - | - |
| Net Income (Reported) | (1,078) | (17) | 1,258 | 1,788 |
| Extraordinaries (Net) | (42) | - | - | - |
| Recurring Net Income | (1,036) | (17) | 1,258 | 1,788 |

Source: Company data, I-Sec research

Table 2: Balance sheet
(Rs mn, year ending March 31)

| | FY21 | FY22 | FY23E | FY24E |
|--|---------------|---------------|---------------|---------------|
| Assets | | | | |
| Total Current Assets | 2,761 | 2,571 | 3,180 | 4,828 |
| of which cash & cash eqv. | 2,094 | 1,737 | 2,104 | 3,552 |
| Total Current Liabilities & Provisions | 2,192 | 2,048 | 2,329 | 2,762 |
| Net Current Assets | 569 | 522 | 852 | 2,066 |
| Investments | 1,376 | 1,427 | 1,822 | 2,065 |
| Net Fixed Assets | 12,843 | 13,623 | 14,116 | 14,448 |
| Capital Work-in-Progress | 256 | 355 | 355 | 355 |
| Total Assets | 15,044 | 15,927 | 17,145 | 18,933 |
| Liabilities | | | | |
| Borrowings | 10,232 | 11,306 | 11,266 | 11,266 |
| Deferred Tax Liability | - | - | - | - |
| Minority Interest | - | - | - | - |
| Equity Share Capital | 312 | 312 | 312 | 312 |
| Face Value per share (Rs) | 2 | 2 | 2 | 2 |
| Reserves & Surplus | 4,501 | 4,309 | 5,567 | 7,355 |
| Less: Misc. Exp. n.w.o. | - | - | - | - |
| Net Worth | 4,812 | 4,621 | 5,879 | 7,667 |
| Total Liabilities | 15,044 | 15,927 | 17,145 | 18,933 |

Source: Company data, I-Sec research

Table 3: Quarterly trends
(Rs mn, year ending March 31)

| | Mar 22 | Jun 22 | Sep 22 | Dec 22 |
|----------------------------|--------------|--------------|--------------|--------------|
| Net sales | 4,439 | 5,362 | 5,702 | 6,092 |
| % growth (YoY) | 26.5 | 107.8 | 49.8 | 28.6 |
| EBITDA | 729 | 921 | 988 | 1,103 |
| Margin (%) | 16.4 | 17.2 | 17.3 | 18.1 |
| Other income | 41 | 0 | 54 | 36 |
| Extraordinaries (Net) | (8) | (30) | (31) | (40) |
| Adjusted Net profit | 161 | 266 | 346 | 404 |

Source: Company data, I-Sec research

Table 4: Cashflow statement
(Rs mn, year ending March 31)

| | FY21 | FY22 | FY23E | FY24E |
|---|--------------|--------------|----------------|----------------|
| Operating Cashflow | (447) | 396 | 2,230 | 2,819 |
| Working Capital Changes | 691 | (145) | (358) | (9) |
| Capital Commitments | (500) | (1,001) | (1,988) | (2,037) |
| Free Cashflow | (257) | (750) | (115) | 774 |
| Cashflow from Investing Activities | (740) | (565) | (1,737) | (1,820) |
| Issue of Share Capital | 28 | 24 | - | - |
| Inc (Dec) in Borrowings | (481) | (1,043) | (120) | (79) |
| Dividend paid | - | - | - | - |
| Chg. in Cash & Bank balance | 80 | 72 | 746 | 1,448 |
| Closing cash & balance | 110 | 232 | 700 | 2,148 |

Source: Company data, I-Sec research

Table 5: Key ratios
(Year ending March 31)

| | FY21 | FY22 | FY23E | FY24E |
|---------------------------------|---------|---------|--------|-------|
| Per Share Data (Rs) | | | | |
| EPS | (6.6) | (0.1) | 8.1 | 11.5 |
| Cash EPS | 2.3 | 8.6 | 17.7 | 22.4 |
| Dividend per share (DPS) | - | - | - | - |
| Book Value per share (BV) | 30.9 | 29.6 | 37.7 | 49.2 |
| Growth (%) | | | | |
| Net Revenue | (36.3) | 59.9 | 43.6 | 18.6 |
| EBITDA | (78.8) | 299.0 | 110.1 | 22.2 |
| PAT | (214.9) | (152.9) | 388.6 | 27.2 |
| DPS | - | - | - | - |
| Valuation Ratios (x) | | | | |
| P/E | NM | NM | 85.6 | 60.2 |
| P/CEPS | 298.6 | 79.9 | 39.1 | 30.8 |
| P/BV | 22.4 | 23.3 | 18.3 | 14.0 |
| EV / EBITDA | NM | 83.1 | 41.6 | 31.7 |
| EV / Sales | 11.0 | 6.9 | 4.8 | 4.0 |
| Operating Ratios | | | | |
| Raw Material / Sales (%) | 35.3 | 34.6 | 34.5 | 34.4 |
| Employee cost / Sales (%) | 18.1 | 13.3 | 11.0 | 11.1 |
| Royalty cost / Sales (%) | 4.5 | 4.5 | 4.6 | 4.6 |
| SG&A / Sales (%) | 37.3 | 35.6 | 32.7 | 32.2 |
| Other Income / PBT (%) | (33.7) | (489.2) | 9.2 | 9.1 |
| Effective Tax Rate (%) | 22.1 | 70.5 | 23.0 | 25.2 |
| Working Capital (days) | (44.9) | (24.7) | (11.5) | (9.5) |
| Inventory Turnover (days) | 17.2 | 13.0 | 11.0 | 11.0 |
| Receivables (days) | 3.3 | 3.1 | 3.1 | 3.1 |
| Payables (days) | 68.5 | 39.9 | 30.0 | 30.0 |
| Net D/E (x) | 0.0 | 0.1 | (0.0) | (0.2) |
| Profitability Ratios (%) | | | | |
| Net Income Margins | (10.5) | (0.1) | 5.6 | 6.7 |
| RoACE | (12.8) | 7.2 | 33.2 | 35.0 |
| RoAE | (19.6) | (0.4) | 24.0 | 26.4 |
| Dividend Payout | - | - | - | - |
| Dividend Yield | - | - | - | - |
| EBITDA Margins | 4.7 | 11.8 | 17.2 | 17.7 |

Source: Company data, I-Sec research

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