

27 July 2023

India | Equity Research | Q1FY24 results review

Westlife Foodworld

Consumer Staples & Discretionary

Thriving against the odds

Westlife Foodworld (Westlife) maintained its strong performance across all key metrics. We are impressed with the revenue outperformance (compared to peers) led by SSSG (driven by higher guest count). We also reckon that lower price hike in burgers vs pizza (during last 2 years) and Westlife's aggressive focus on value meals (at INR 179 popular price point) have likely contributed to market share gains. Reinvestments on customer experience (72% EOTF stores, and menu – including food and beverages) continue to yield result: dine-in revenue share improved by healthy 200bps YoY to 60%. Also, in the off-premise business, the company's outperformance vs peers (9%YoY vs 8%YoY for JUBI) is encouraging. Operating profit margins remained healthy led by stable input cost, efficiency and price hikes (in earlier quarters). The journey of execution-driven outperformance continues to add up for Westlife. Maintain **ADD**.

Strongest SSSG compared to peers, dine-in continues to outperform

Revenue grew by 14% YoY led by 7% YoY SSSG driven by outperformance in the dine-in business (18% YoY) compared to off-premise (9% YoY). Annualised revenue per store grew by healthy 15% YoY and 1% QoQ to INR 66.9mn led by successful introduction of new products, such as the Jain menu, Peri Peri McSpicy range, and chicken sharers in the South. Revenue from metro grew ahead of non-metro. Revenue from digital-led sales stands at 64% driven by ~3x growth in sales through self-ordering kiosks. McCafe beverages portfolio also performed well aided by a healthy performance in cold beverages, including frappe, shakes and coolers. Management expects to deliver high single digit SSSG growth in FY24.

Healthy margins: Benefit of previous price hikes, cost optimisation

Gross margin expanded 235bps YoY (-136 bps QoQ) to 70.6% driven by stable input cost, cost optimisation and earlier price hikes (no price hike taken in 1QFY24). Sequential decline was due to one-time volume delivery incentive in 4QFY23. Restaurant operating margin (ROM) expanded by healthy 134bps YoY to 23%, while operating EBITDA margin was stable at 17.1% due to higher corporate overheads (+48% YoY). EBITDA grew 14% YoY to INR 793mn, while adjusted PAT grew 9% YoY due to higher effective tax rate (at 27.9%).

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	15,765	22,782	26,515	31,465
EBITDA	1,936	3,740	4,730	5,679
EBITDA Margin (%)	12.3	16.4	17.8	18.0
Net Profit	(17)	1,116	1,686	2,234
EPS (Rs)	(0.1)	7.2	10.8	14.3
EPS % Chg YoY	(98.3)	(6,780.8)	51.1	32.5
P/E (x)	(8,386.4)	125.5	83.1	62.7
EV/EBITDA (x)	107.6	59.1	43.8	35.5
RoCE (%)	8.4	30.9	35.6	36.9
RoE (%)	(0.4)	21.7	26.6	28.2

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Market Data

Market Cap (INR)	140bn
Market Cap (USD)	1,708mn
Bloomberg Code	WESTLIFE IN
Reuters Code	WEST.BO
52-week Range (INR)	942 /511
Free Float (%)	43.0
ADTV-3M (mn) (USD)	2

Price Performance (%)	3m	6m	12m
Absolute	21.1	26.0	75.0
Relative to Sensex	10.1	12.7	20.2

ESG Disclosure	2021	2022	Change
ESG score	30.7	31.3	0.7
Environment	2.1	2.1	0.0
Social	11.2	13.1	2.0
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	0.5	1.1
EBITDA	2.4	1.3
EPS	4.9	2.3

Previous Reports

10-05-2023: [Q4FY23 results review](#)

03-04-2023: [Company Update](#)

Retail expansion guidance maintained; incremental efforts towards premiumising customer-experience tracking well

Retail expansion rate continues to be on track with addition of 4 (net) new restaurants in Q1FY24. Management maintains its guidance to open 40-45 restaurants in FY24 with plans to reach 580-630 restaurants by 2027. Now ~87% restaurants have McCafes, while ~19% restaurants offer drive-through service. Also, in Q1, Westlife converted 4 restaurants (to 224, ~72% of total) to EOTF (experience of the future) format. In the next 24 months, 100% stores are likely to be converted to EOTF model. We note EOTF stores are rated 4.2-4.5 (out of 5) on Google (vs QSR average of 3-3.5 stars).

Valuation and risks:

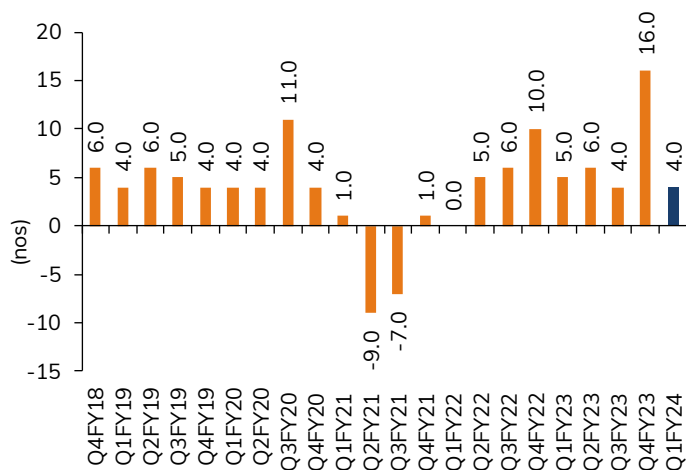
We increase our earnings estimates by 2-5% for FY24-25E, modelling revenue / EBITDA CAGR of 18 / 23 (%) over FY23-25E. We maintain ADD with a DCF-based revised target price of INR 1,000 (vs INR 850). Improved execution engine and accelerated share-gain potential (preference for hygiene) keep us positive. Key downside risks include sustained weak consumer sentiment impacting restaurant throughput and likely higher competitive intensity in the near term.

Exhibit 1: Q1FY24 result review (consolidated – with Ind-AS 116 impact)

INR mn	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Same store sales growth (%)	7.0	97.0	(90.0)	14.0	(7.0)
Number of McDonald's stores	361	331	30	357	4
Net Revenue	6,145	5,379	14	5,564	10
COGS	(1,809)	(1,921)	(6)	(1,562)	16
Gross profit	4,337	3,459	25	4,002	8
Staff cost	(551)	(426)	29	(554)	(0)
Royalty	(318)	(246)	29	(250)	27
Occupancy and other exp.	(2,056)	(1,623)	27	(1,833)	12
Restaurant Operating Profit	1,412	1,164	21	1,365	3
G&A expense	(359)	(243)	48	(446)	(19)
EBITDA	1,053	921	14	919	15
Other income	52	0	25,900	49	
Finance Cost	(260)	(215)	21	(253)	3
D&A	(429)	(358)	20	(411)	4
PBT	416	348	20	304	37
Tax	(118)	(82)		(76)	
Recurring PAT	299	266	12	227	31
Extraordinary items	(11)	(30)		(27)	
Net profit (reported)	288	236	22	201	43
EPS	1.9	1.7	12	1.5	31
Ratios (% of net operating revenues)					
COGS	29.4	35.7	-628 bps	28.1	135 bps
Gross margin (%)	70.6	64.3	627 bps	71.9	-136 bps
Staff cost	9.0	7.9	105 bps	10.0	-99 bps
Royalty	5.2	4.6	59 bps	4.5	66 bps
Occupancy and other exp.	33.5	30.2	328 bps	32.9	51 bps
ROM (%)	23.0	21.6	133 bps	24.5	-156 bps
G&A expense	5.8	4.5	131 bps	8.0	-217 bps
EBITDA margin (%)	17.1	17.1	1 bps	16.5	61 bps
Income tax rate (%)	28.2	23.5	471 bps	25.1	310 bps

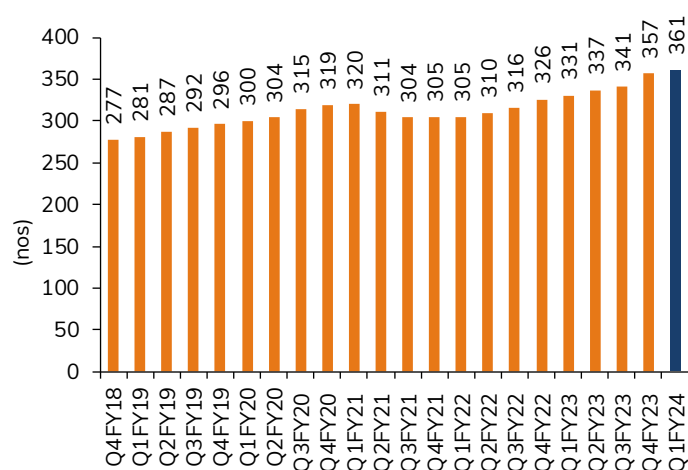
Source: Company data, I-Sec research

Exhibit 2: McDonald's store additions (net)



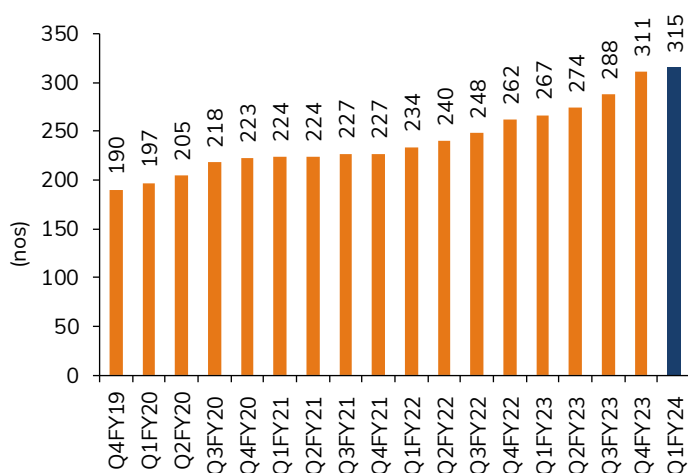
Source: Company data, I-Sec research

Exhibit 3: Number of stores – McDonald's



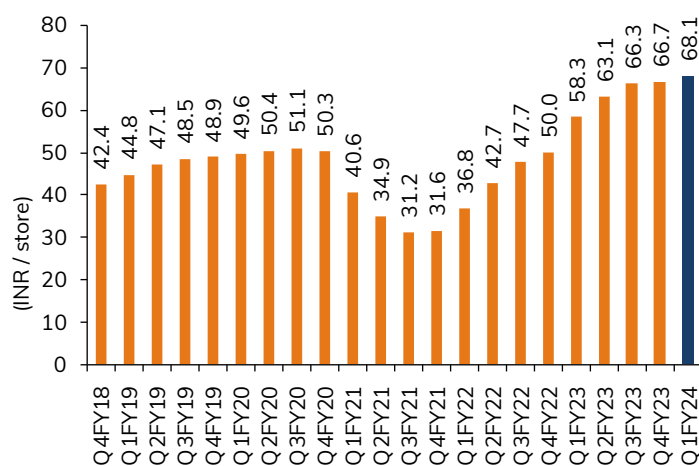
Source: Company data, I-Sec research

Exhibit 4: Number of stores – McCafé



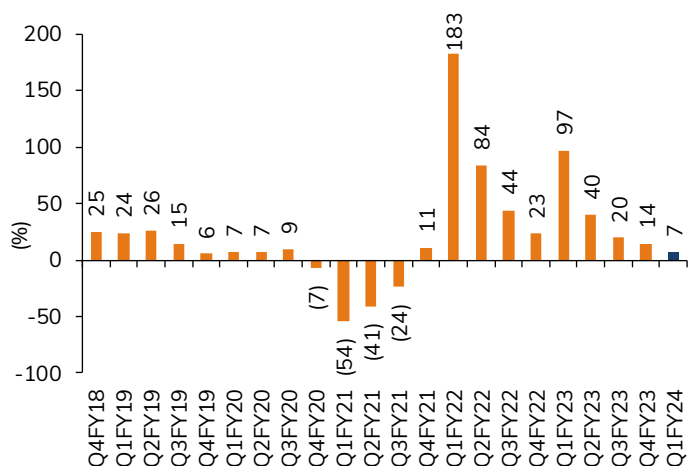
Source: Company data, I-Sec research

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



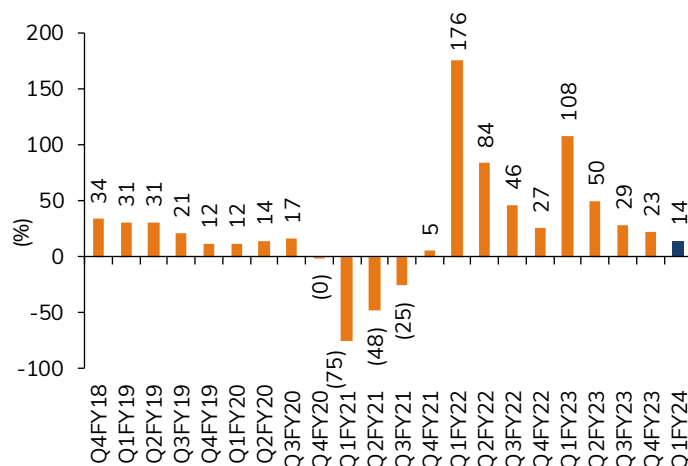
Source: Company data, I-Sec research

Exhibit 6: Same store sales growth



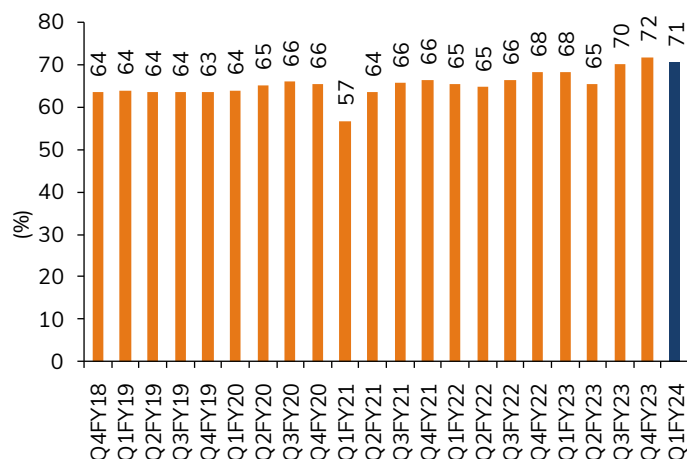
Source: Company data, I-Sec research

Exhibit 7: Revenue growth



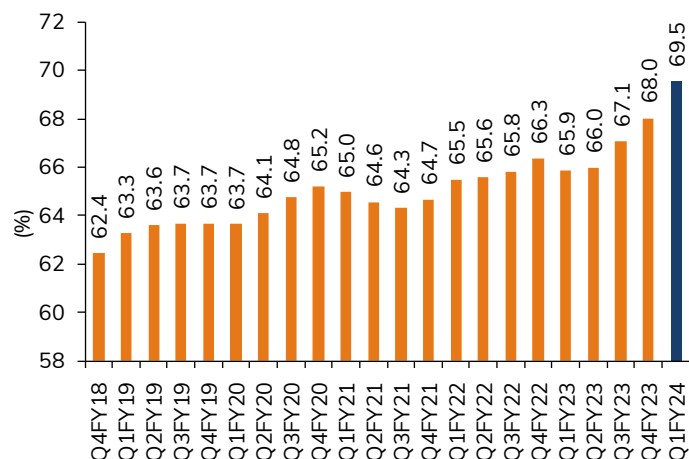
Source: Company data, I-Sec research

Exhibit 8: Gross margin (%)



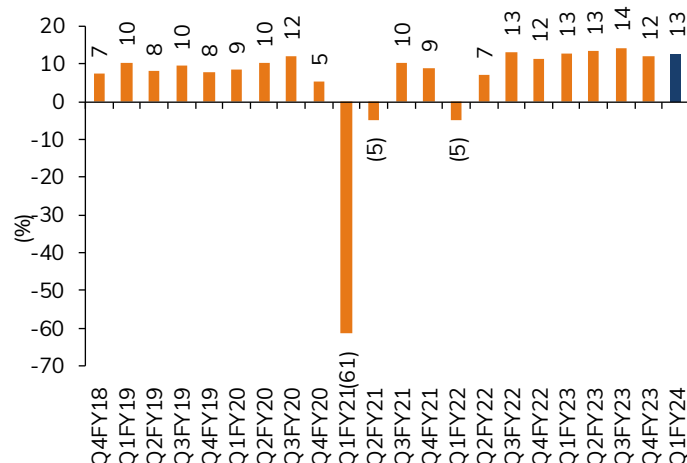
Source: Company data, I-Sec research

Exhibit 9: Gross margin on TTM basis (%)



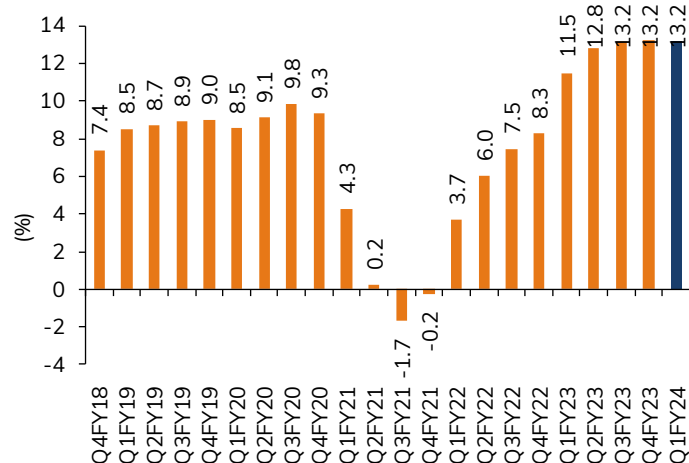
Source: Company data, I-Sec research

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'22	Mar'23	Jun'23
Promoters	56.2	56.2	56.2
Institutional investors	33.8	33.8	33.8
MFs and others	19.4	19.9	20.2
Insurance Cos	3.7	3.7	3.3
FIIIs	10.7	10.2	10.3
Others	10.0	10.0	10.0

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)

	FY22A	FY23A	FY24E	FY25E
Net Sales	15,765	22,782	26,515	31,465
Operating Expenses	13,829	19,041	21,785	25,786
EBITDA	1,936	3,740	4,730	5,679
EBITDA Margin (%)	12.3	16.4	17.8	18.0
Depreciation & Amortization	1,364	1,522	1,732	1,997
EBIT	572	2,219	2,998	3,682
Interest expenditure	826	927	1,023	1,132
Other Non-operating Income	277	203	279	435
Recurring PBT	23	1,495	2,254	2,985
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	(40)	379	567	751
PAT	(17)	1,116	1,686	2,234
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	(17)	1,116	1,686	2,234
Net Income (Adjusted)	(17)	1,116	1,686	2,234

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	2,571	2,545	4,183	5,629
of which cash & cash eqv.	232	284	1,765	3,003
Total Current Liabilities & Provisions	2,048	2,336	2,714	3,220
Net Current Assets	522	210	1,470	2,409
Investments	-	-	-	-
Net Fixed Assets	5,905	6,681	7,415	8,015
ROU Assets	7,718	8,758	8,758	8,758
Capital Work-in-Progress	355	567	567	567
Total Intangible Assets	-	-	-	-
Long Term Loans & Advances	546	591	688	816
Deferred Tax assets	520	604	604	604
Total Assets	15,927	17,863	20,028	21,794
Liabilities				
Borrowings	2,010	2,070	2,070	2,070
Deferred Tax Liability	-	-	-	-
Lease Liability	8,536	9,960	9,960	9,960
Other Liabilities	760	964	964	964
Equity Share Capital	312	312	312	312
Reserves & Surplus	4,309	5,347	6,722	8,488
Total Net Worth	4,621	5,659	7,034	8,800
Minority Interest	-	-	-	-
Total Liabilities	15,927	18,653	20,028	21,794

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	5,702	6,092	5,438	6,122
% growth (YOY)	49.8	28.6	22.5	14.2
EBITDA	988	1,103	919	1,053
Margin %	17.3	18.1	16.9	17.2
Other Income	54	36	49	52
Extraordinaries	(31)	(40)	(27)	(11)
Adjusted Net Profit	346	404	227	299

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	489	2,303	3,176	3,885
Working Capital Changes	(145)	70	50	72
Capital Commitments	(1,001)	(2,696)	(2,465)	(2,597)
Free Cashflow	(722)	(762)	193	608
Other investing cashflow	435	37	279	435
Cashflow from Investing Activities	(565)	(2,653)	(2,187)	(2,162)
Issue of Share Capital	-	-	-	-
Interest Cost	(133)	(143)	(152)	(152)
Inc (Dec) in Borrowings	(910)	(817)	-	-
Dividend paid	-	-	(312)	(468)
Others	1,429	1,530	683	815
Cash flow from Financing Activities	386	570	219	195
Chg. in Cash & Bank balance	100	(149)	691	1,238
Closing cash & balance	210	84	975	3,003

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	(0.1)	7.2	10.8	14.3
Adjusted EPS (Diluted)	(0.1)	7.2	10.8	14.3
Cash EPS	8.6	16.9	21.9	27.1
Dividend per share (DPS)	-	-	2.0	3.0
Book Value per share (BV)	29.6	36.3	45.1	56.4
Dividend Payout (%)	-	-	18.5	20.9
Growth (%)				
Net Sales	60.0	44.5	16.4	18.7
EBITDA	316.2	93.2	26.5	20.1
EPS (INR)	(98.3)	(6,780.8)	51.1	32.5
Valuation Ratios (x)				
P/E	(8,386.4)	125.5	83.1	62.7
P/CEPS	104.0	53.1	41.0	33.1
P/BV	30.3	24.8	19.9	15.9
EV / EBITDA	107.6	59.1	43.8	35.5
P / Sales	8.9	6.1	5.3	4.5
Dividend Yield (%)	-	-	0.2	0.3
Operating Ratios				
Gross Profit Margins (%)	65.4	69.9	69.9	70.0
EBITDA Margins (%)	12.3	16.4	17.8	18.0
Effective Tax Rate (%)	(171.7)	25.3	25.2	25.2
Net Profit Margins (%)	(0.1)	4.9	6.4	7.1
Net Debt / Equity (x)	0.1	0.1	(0.1)	(0.3)
Net Debt / EBITDA (x)	0.1	0.1	(0.2)	(0.4)
Fixed Asset Turnover (x)	1.7	2.1	2.0	2.0
Working Capital Days	8	(2)	(5)	(8)
Inventory Turnover Days	16	14	12	12
Receivables Days	4	2	2	2
Payables Days	49	36	32	33
Profitability Ratios				
RoCE (%)	8.4	30.9	35.6	36.9
RoE (%)	(0.4)	21.7	26.6	28.2
RoIC (%)	34.0	25.2	29.1	30.8

Source Company data, I-Sec research

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