

QSR

Weakness in demand/margins to persist

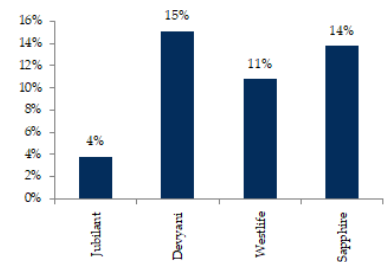
- **Demand weakness persists:** Over the past few quarters, our QSR universe has seen sustained demand deceleration. Demand normalisation and deteriorating consumer sentiment caused SSSG to turn from flat to negative. We expect a further slowdown in growth metrics (SSSG, ADS, etc.) in Q2FY24. We expect the gap between dine-in and delivery to get narrower. While QSR companies remain committed to their long-term target of rapid store expansion, we do expect near-term moderation in the number of new store openings. Demand recovery in Q3FY24 will be key monitorable, with the festive season and the World Cup benefits around the corner. On a relative basis, we expect better revenue metrics for McD and KFC and weaker revenue metrics for Domino's and PH. We expect QSR companies under our coverage to report 10% YoY growth in revenues (primarily driven by store addition).
- **Stable RM environment to aid gross margins; negative oplev to put operating margins under pressure:** With stabilizing RM prices, we expect gross margins to improve YoY across our coverage universe. However, with weak SSSG, we expect pressure on ROM and EBITDAM to sustain. We expect QSR companies under our coverage to report 3% fall in EBITDA over LY. Jubilant, Devyani, Westlife and Sapphire will report EBITDA growth (post-IND AS) of -10/9/0/4% YoY
- **Q2FY24 outliers: Westlife.**
- **Our view:** We believe that the QSR industry has multi-year growth potential, given India's rising consumer base, eating-out frequency, quicker delivery and value-for-money proposition. However, given high inflation impacting consumer wallets, we do not expect growth recovery anytime soon. Moreover, the pressure on the operating margin will be significant. We are non-consensus in our estimates for FY24/FY25/FY26 and still see a downside risk to our estimates.

We continue to like Westlife among its peers, a pure-play India QSR story with more legs for growth and margin improvement. We also like Jubilant because of its reinvestment capabilities, superior delivery expertise, and best unit economics. Although we have ADD ratings on Westlife and Jubilant, the recent run-up also covers up the upside potential on both stocks.

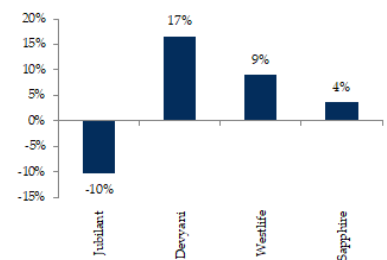
Devyani and Sapphire both are seeing pressures on growth and margin, particularly for PH. With superior control of KFC, we expect it to recover faster with limited downside risk. But PH recovery is uncertain, both on growth and margin. PH is still WIP and the current demand environment will impact this franchise more than other settled brands. We have REDUCE ratings for Devyani and Sapphire.

Company	CMP (INR)	Reco.
Jubilant	430	ADD
Devyani	218	REDUCE
Westlife	943	ADD
Sapphire	1,406	REDUCE

Revenue growth YoY (%)



EBITDA growth YoY (%)



Naveen Trivedi

naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Varun Lohchab

varun.lohchab@hdfcsec.com
+91-22-6171-7334

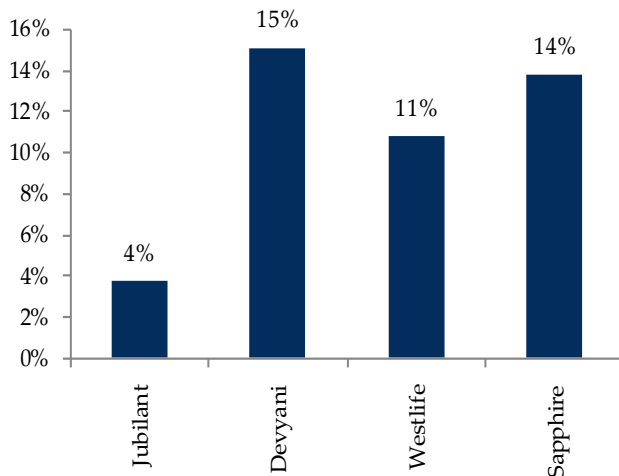
Paarth Gala

paarth.gala@hdfcsec.com
+91-22-6171-7336

Quarterly Estimates

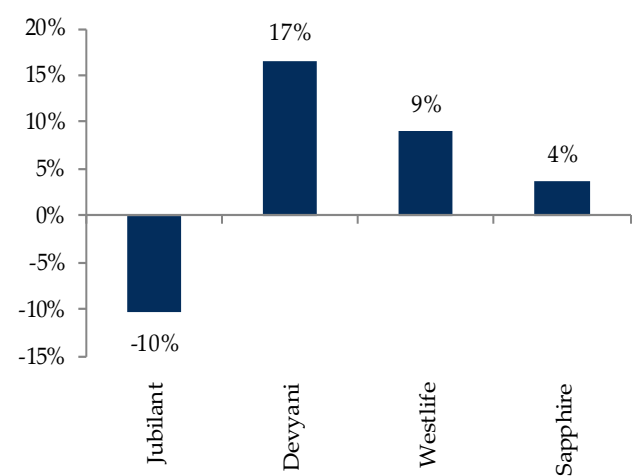
Company	NET SALES (INR bn)			EBITDA (INR bn)			EBITDA margin (%)			APAT (INR bn)			Adj. EPS (INR/sh)		
	Q2 FY24E	QoQ (%)	YoY (%)	Q2 FY24E	QoQ (%)	YoY (%)	Q2 FY24E	QoQ (bps)	YoY (bps)	Q2 FY24E	QoQ (%)	YoY (%)	Q2 FY24E	Q1 FY24	Q2 FY23
Jubilant	13.4	2.0	3.8	2.8	1.4	(10.3)	21.0	(12)	(330)	0.8	6.1	(33.0)	1.2	1.1	1.8
Westlife	6.3	3.2	10.8	1.1	2.2	9.0	17.0	(16)	(29)	0.3	12.5	2.7	2.1	1.8	2.0
Devyani	8.6	1.6	15.1	1.7	(4.3)	0.3	19.3	(119)	(285)	0.4	(10.9)	(40.2)	0.3	0.4	0.5
Sapphire	6.4	(2.1)	13.8	1.1	(11.9)	3.7	16.7	(186)	(164)	0.2	(36.8)	(41.5)	2.5	3.9	4.2
Aggregates	34.7	1.3	9.5	6.6	(2.3)	(2.8)	19.0	(71)	(241)	1.7	(3.4)	(31.3)			

HSIE QSR coverage universe - revenue growth



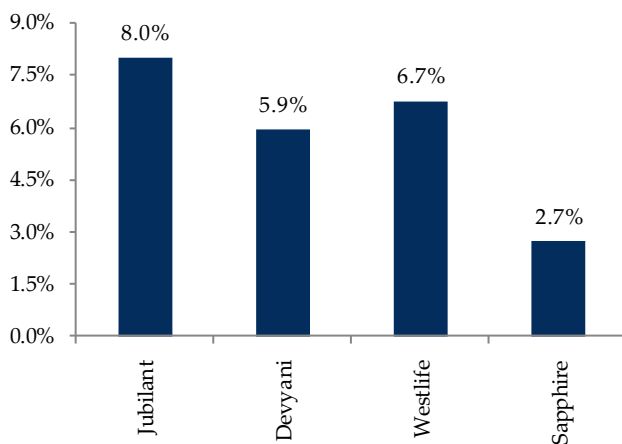
Source: Company, HSIE Research

HSIE QSR coverage universe - EBITDA growth



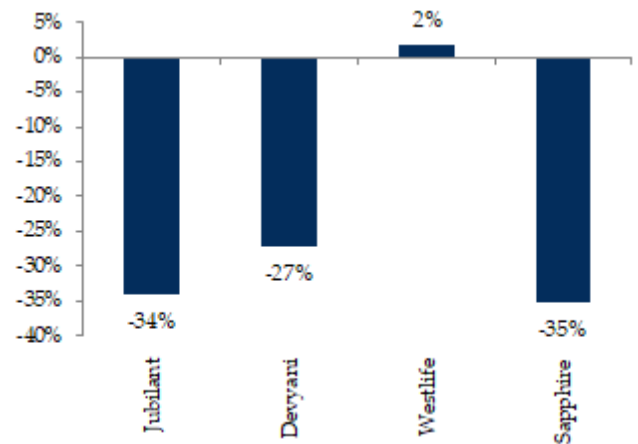
Source: Company, HSIE Research

HSIE QSR coverage universe - PBT margin



Source: Company, HSIE Research

HSIE QSR coverage universe - PBT growth



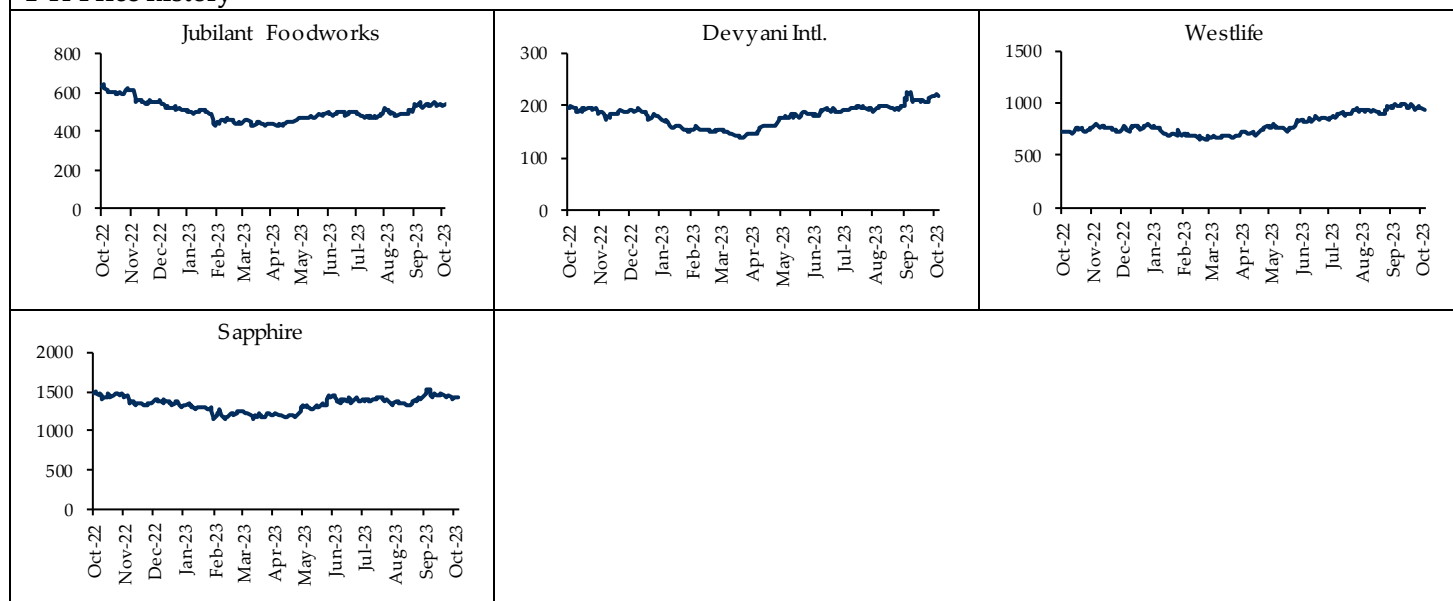
Source: Company, HSIE Research

COMPANY	Q2FY24E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Jubilant FoodWorks	WEAK	<ul style="list-style-type: none"> With sustained weakness in demand for QSR, we expect SSSG to decline 7% for Jubilant. We model 4% revenue growth with LFL SSSG at -5% (four-year CAGR at 2%). We model GM of 75.8%, down 45bps/ 20bps YoY/ QoQ. EBITDA margin is expected to fall 330bps YoY (flat QoQ) to 21%. EBITDA is expected to fall by 10% YoY. 	<ul style="list-style-type: none"> Commentary on demand trends during world cup Commentary on demand for delivery/ dine-in Outlook on demand/ store addition in FY24 Competitive intensity, pricing strategy Outlook on sustainable SSG
Westlife	AVG	<ul style="list-style-type: none"> We expect Westlife to report SSSG of 3% (four-year CAGR of 12%). We model 11% YoY revenue growth. We expect GM to expand by 150bps YoY to 70.8%. EBITDA margin is expected to fall 30bps YoY to 17% (flat QoQ). EBITDA is expected to grow by 9% YoY 	<ul style="list-style-type: none"> Commentary on demand for takeaway ordering/ dine-in Outlook on demand/ store addition in FY24 Competitive intensity, pricing strategy Outlook on sustainable SSG
Devyani	WEAK	<ul style="list-style-type: none"> We expect KFC to report 20% YoY growth in revenues aided by store openings. SSSG is likely to fall by 1% YoY. PH is expected to report 4% growth in revenues with weak SSSG of -9%. We model consolidated revenue to grow by 15% YoY We expect GM to expand by 30bps YoY to 70.5%. EBITDA margin is expected to fall 285bps YoY to 19.3% (down 120bps QoQ). EBITDA is expected to grow be flat YoY. 	<ul style="list-style-type: none"> Outlook on demand/ store addition in FY24 for KFC/PH Commentary on demand for takeaway ordering/ dine-in Competitive intensity, pricing strategy Outlook on sustainable SSG
Sapphire	WEAK	<ul style="list-style-type: none"> We expect KFC to report 18% YoY growth in revenues aided by store openings. SSSG is likely to be flat YoY. PH is expected to report 3% growth in revenues with at SSSG of -15%. We model consolidated revenue to grow by 14% YoY We expect GM to expand by 130bps YoY to 67.7%. EBITDA margin is expected to fall 165bps YoY to 16.7% (down 190bps QoQ). EBITDA is expected to grow by 4% YoY. 	<ul style="list-style-type: none"> Outlook on demand/ store addition in FY24 for KFC/PH Commentary on demand for takeaway ordering/ dine-in Competitive intensity, pricing strategy Outlook on sustainable SSG

Valuation summary

Companies	MCap (INR mn)	CMP (INR)	TP (INR)	Rating	EPS (INR)				P/E (x)				EV/EBITDA (Pre IND AS) (x)				Core RoCE (%)			
					FY23E	FY24E	FY25E	FY26E	FY23E	FY24E	FY25E	FY26E	FY23E	FY24E	FY25E	FY26E	FY23E	FY24E	FY25E	FY26E
Jubilant	350	530	500	ADD	5.9	6.2	8.1	9.8	90.1	85.2	65.2	54.2	41.3	39.6	31.9	26.6	16.4	15.6	18.6	21.6
Devyani	263	218	115	REDUCE	2.3	1.6	2.0	2.6	94.8	132.2	108.9	83.7	60.4	55.6	44.8	36.8	19.3	12.1	13.2	15.2
Westlife	147	943	850	ADD	7.2	8.3	12.3	17.6	131.8	113.4	76.8	53.7	49.1	43.6	34.6	27.2	12.5	12.5	15.0	18.3
Sapphire	89	1,406	1000	REDUCE	16.7	13.3	17.6	23.6	84.4	106.0	80.1	59.5	33.1	29.6	22.6	18.4	9.3	7.7	8.4	9.7

CMP as on 10 October

1 Yr Price history**Rating Criteria**

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

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Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com