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WESTLIFE FOODWORLD

DECENT MEDIUM-TERM OPPORTUNITY

INITIATING COVERAGE

March 17, 2024

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INITIATING COVERAGE | Sector: Consumer Discretionary (QSR)

Westlife Foodworld Ltd

Decent medium-term opportunity

We initiate coverage on Westlife Foodworld Ltd (WFL) with BUY rating based on the following arguments: (1) robust market opportunity (2) continued improvement in Average Unit Volume (AUV), albeit at a lower rate than the sharp growth seen in last 7 years (3) growing momentum of store expansion (4) earnings likely to grow at >60% over FY24E-26E (~17% over FY23-FY26E) with industry leading-SSSG (5) Despite near-term overhang, we reckon industry & WFL will emerge stronger. Price correction provides decent entry point for medium-term horizon.

Robust Foodservice market opportunity; execution continues to be key

Our recent interations with industry participants (IFF Dec'23 & FCIC Feb'24) does hint at near-term demand pain atleast till 1QFY25; nevertheless, it also makes us positive on the long-term prospects of India Foodservice market, which is expected to grow by 11.3% CAGR over 2023-2026. Shift from unorganized market (>65% of India Foodservice market), will be the biggest driver. While still insignificant, QSR is expected to grow the fastest within the organized segment over the next few years on the back of widening reach in smaller cities and the target market characterised by a younger demographic seeking covenience. WFL's adressable population (West & South of India) is close to +520mn (~240 large towns) across 11 States/UTs constituting ~55% of GDP.

Remarkable AUV growth over last 7 years; it still has legs

Within listed QSR companies, WFL has outperformed the market on Same-Store Sales growth (SSSG) in last few years. WFL's Avearge Sales Per Store/ Average Unit Volumes (AUV) have vastly improved over last 7 years esp. through Delivery channel. The Combos & Meals strategy has also played a key role. WFL now aims at scaling to Rs70-75mn level over medium-term (Rs65mn in FY23). Beside conducive factors like growing preference for meals, premiumization of burgers, scaling of fried chicken, improving McCafe beverage mix within stores, and focus on Drive-Thrus (DTs) additions, Desserts should boost growth over long term. Considering (1) India's AUV & Eating-out frequency vs other countries, (2) AUV of top 10% of stores vs System and (3) WFL's global portfolio offerings, we foresee bright prospects for further AUV improvement.

Tier 1 and smaller towns: next frontier for store growth

We believe, WFL has followed a disciplined approach of store expansion over the years and have consistently met targets. Management now intends to slightly up their annual store expansion rate to 40-50 stores (from 25-30 earlier) to reach 580-630 restaurants by 2027, with focus on South India market, Smaller towns and Drive Thrus. Despite near-term demand slowdown, pace of expansion is likely to stay put (on track to add 40–45 stores in FY24), given mounting competitive intensity.

WFL offers SSSG driven earnings growth

We envision ~9% SSSG CAGR over FY24E-26E, ~5.1% over FY23-26E. Further, aggressive store expansion (200+ new restaurants coming up in next 3-4 years, taking base to 500+ stores with 50-60% store openings in small and emerging towns) should help achieve ~16% revenue CAGR over FY24E-26E, ~11.9% over FY23-26E. Margin profile is also improving as AUV has crossed the Rs60mn+ mark, ensuring favorable operating leverage. Cost savings and consistent but modest gross margin improvement (led by stable input costs and mix+pricing) will support EBITDA margin expansion (building ~200bps expansion over FY24E-26E).

Initiate coverage with a BUY rating, target price of Rs940

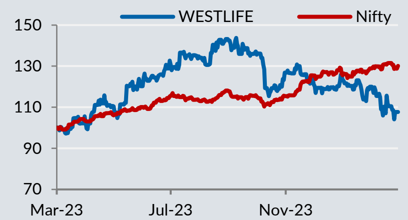
WFL now has a dividend policy in place (as near as possible to 25% of PAT) subject to need for growth capital, positive cash flow, and other parameteres. Improving return ratios command relatively better valuation than peers. We assign a target multiple of ~26x on FY26 EV/EBITDA, at a target price (TP) of Rs940 and BUY rating. We believe near-term sectoral demand pain and company-specific overhang translates into a decent medium-term investment (~14% CAGR return over next 3 years).

Reco	:	**BUY**
CMP	:	Rs 740
Target Price	:	Rs 940
Potential Return	:	+27%

Stock data (as on Mar 15, 2024)

Nifty	22,023
52 Week h/I (Rs)	1025 / 658
Market cap (Rs/USD mn)	115065 / 1388
Outstanding Shares (mn)	155
6m Avg t/o (Rs mn):	154
Div yield (%):	0.4
Bloomberg code:	WESTLIFE IN
NSE code:	WESTLIFE

Stock performance



	1M	3M	1Y
Absolute return	-10.3%	-13.0%	7.6%

Shareholding pattern (As of Dec'23 end)

Promoter	56.2%
FII+DII	34.5%
Others	9.0%

Financial Summary (post IND-AS 116)

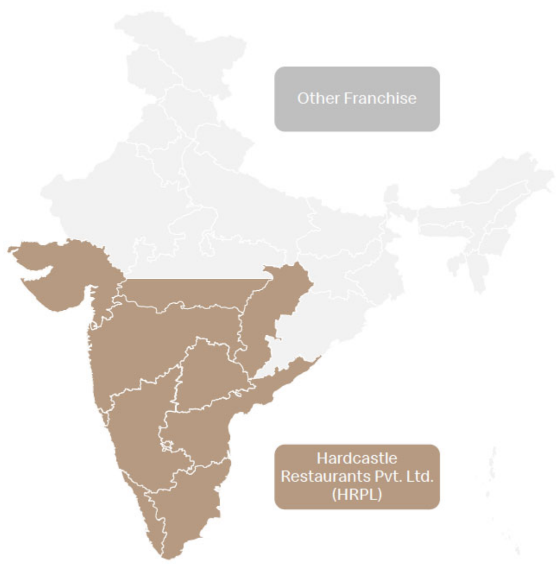
(Rs mn)	FY24E	FY25E	FY26E
Revenue	23,692	27,702	31,719
YoY Growth (%)	4.0	16.9	14.5
SSSG (%)	-2.2	10.0	8.0
EBIDTA	3,749	4,819	5,640
Margins (%)	*15.8*	*17.4*	*17.8*
Recurring PAT	672	1,438	1,930
EPS	4.7	9.2	12.4
YoY Growth (%)	*-39.4*	*96.1*	*34.2*
ROCE (%)	*23.5*	*27.9*	*27.8*
ROE (%)	*12.2*	*20.4*	*22.1*
P/E (x)	157.4	80.3	59.8
EV/EBITDA (x)	30.8	24.0	20.5

VISHAL PUNMIYA
Lead Analyst
vishal.punmiya@ysil.in

WESTLIFE FOODWORLD LTD. (WFL)

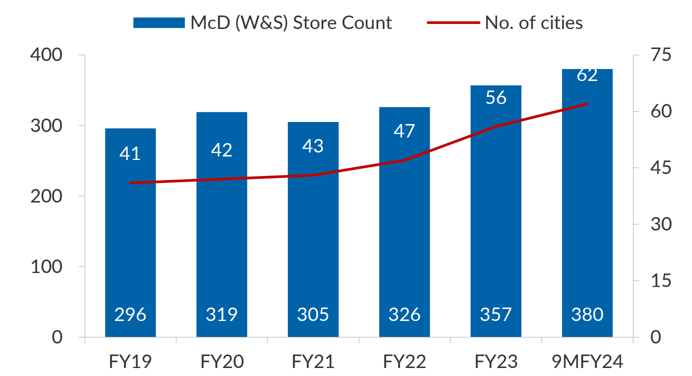
- Westlife Foodworld (WFL) formerly known as Westlife Development Ltd (WDL), focuses on setting up and operating Quick Service Restaurants (QSR) in India through its subsidiary Hardcastle Restaurants Pvt. Ltd. (HRPL). The Company operates a chain of McDonald's restaurants in West and South India having a master franchisee relationship with McDonald's Corporation USA (largest MNC food chain globally), through the latter's subsidiary.
- HRPL has been a franchisee in the region since its inception in 1996. It is present in 11 states & UT's across ~240 large towns covering +520mn population (~55% of GDP). HRPL serves over 200mn customers, annually, at its 380 (as of December, 2023) McDonald's restaurants across 62 cities in the states of Telangana, Gujarat, Karnataka, Maharashtra, Tamil Nadu, Kerala, Chhattisgarh, Andhra Pradesh, Goa and parts of Madhya Pradesh and Union Territory of Puducherry. West India contributes around 60% of the total stores. It provides employment to 11,596 permanent employees (as on FY23) with ~34% female employees.

Exhibit 1: WFL is present in 11 states & UT's across ~240 large towns covering +520mn population (~55% of GDP)



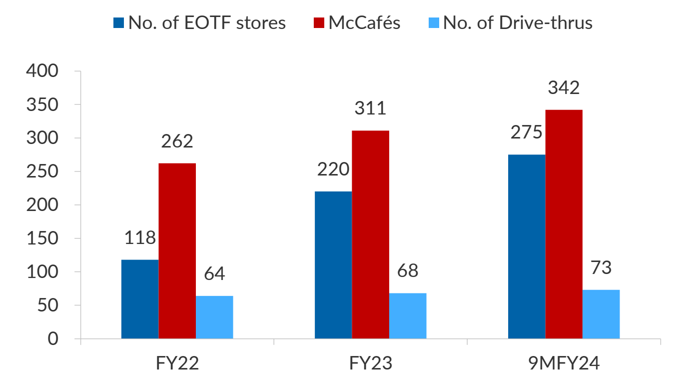
Source: Company, YES Sec

Exhibit 2: McDonalds (W&S) stores stood at 380 across 62 cities at the end of 3QFY24



Source: Company, YES Sec

Exhibit 3: Along with standalone and mall stores, WFL has decent mix of drive-thru asset and McCafés



Source: Company, YES Sec; EOTF= Experience Of The Future

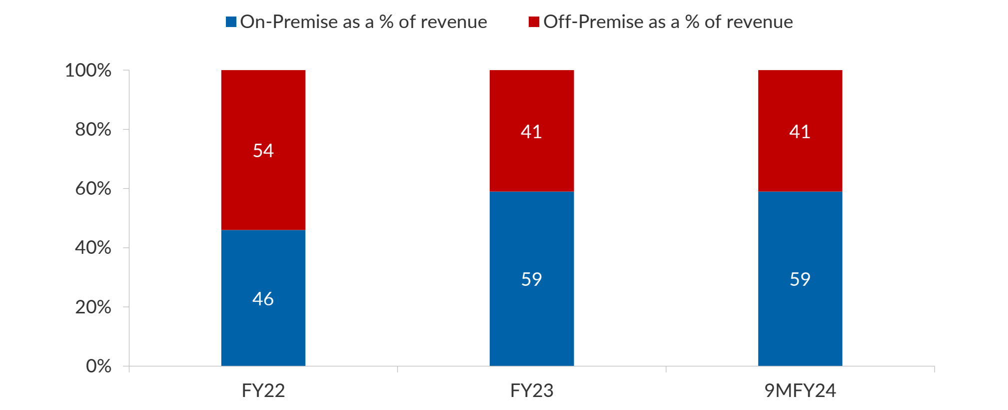
- While McDonalds competes directly into the burger category in India, it does have other categories (Chicken, Wraps, Sides, Coffee, Desserts, Shakes, Smoothies & Coolers) to offer to various age groups and thereby covering a wider addressable market to drive long term growth.
- McDonald's (WF) operates through various formats and brand extensions including standalone restaurants, drive- thrus, 24/7, McDelivery, McBreakfast and dessert kiosks. Majority (~90% as of Dec'2023) of its restaurants feature an in-house McCafé.

Exhibit 4: WFL caters to various market segments

Source: Company, YES Sec

- On-Premise, which includes Dine-in & Takeaways, formed around 59% of revenues as on 9MFY24, rest 41% is with Off-Premise channels like Delivery, On-The-Go Pickup & Drive Thrus.

Exhibit 5: Post recovery from Covid, on-premise format seems to have stabilized at ~59% revenue mix



Source: Company, YES Sec

- Integrated 'Farm to Fork' supply chain with long relationship with suppliers/vendors make WFL less susceptible to volatility in raw material prices. Around 95% of their sourcing is locally done, hence marginal impact from global commodity price movement, supply chain disruptions & currency fluctuations.

OUR VIEW IS BUILT ON THE FOLLOWING ARGUMENTS:

1) Foodservice market offers a multi-decadal growth opportunity

The Indian food services market is fragmented, comprising of many unorganized players. Due to competitive pricing, many small and mid-sized restaurants directly compete with large, organized brands in the eating out market.

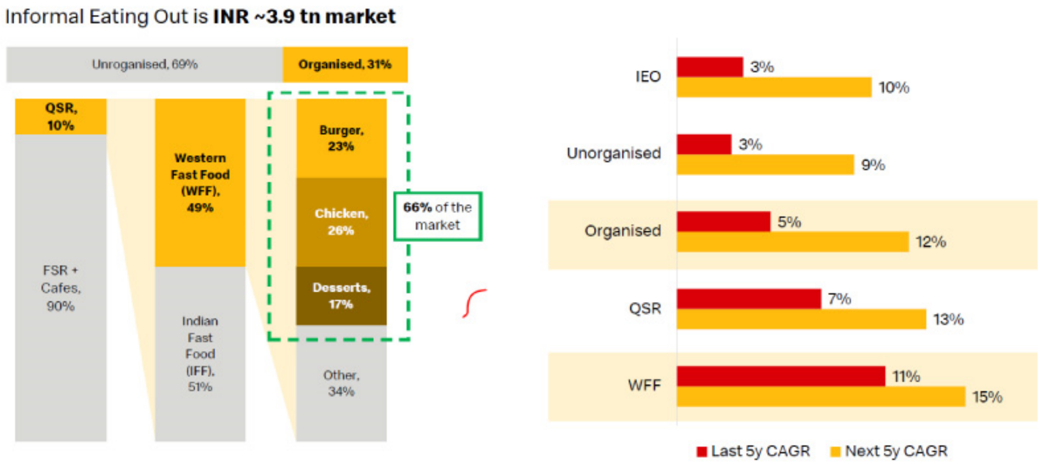
While the India Foodservice industry is expected to grow by 11.3% CAGR over 2023-2026, organized industry is expected to grow at a faster pace driven by time-pressed schedules, greater retail space availability, well-informed hygiene conscious consumer aided by rising smartphone & internet penetration, etc.

Out of the total informal eating out market of Rs3.9tn, unorganized forms the bulk at ~69%. Shift from unorganized to organized eating taking place gradually across Food industry (packaged and service) and will be a big driver of growth for organized players over the long term driven by factors such as growing income levels leading to brand aspirations, young population's higher tendency to eat-out, rising premium given to convinience, higher preference given to hygiene especially among Metros & tier I cities, store expansion by players, favorable landscape for aggregators leading to shorter delivery time, etc.

While still insignificant, QSR is expected to grow the fastest within the organized segment over the next few years on the back of widnening reach in smaller cities and the target market characterised by a younger demographic seeking covenience.

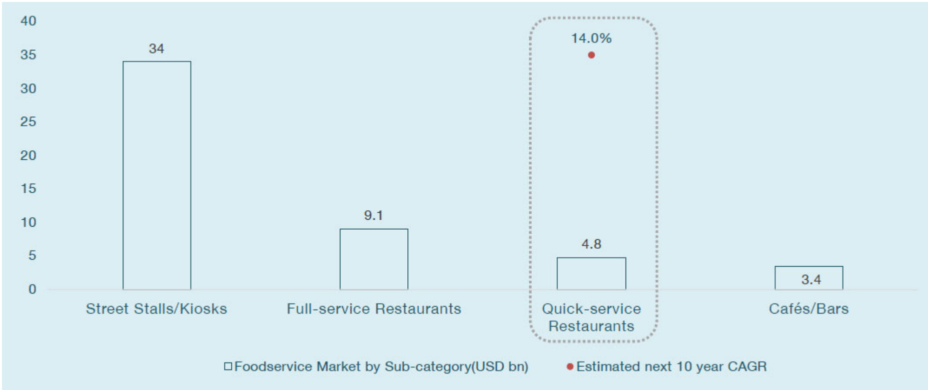
Out of the total opportunity, WFL's adressable population (West & South of India) is close to +520mn (~240 large towns) across 11 States/UTs constituting ~55% of GDP.

Exhibit 6: Indian Foodservice market construct and opportunity



Source: Company estimates, Euromonitor, YES Sec; Note: Data as of 2022

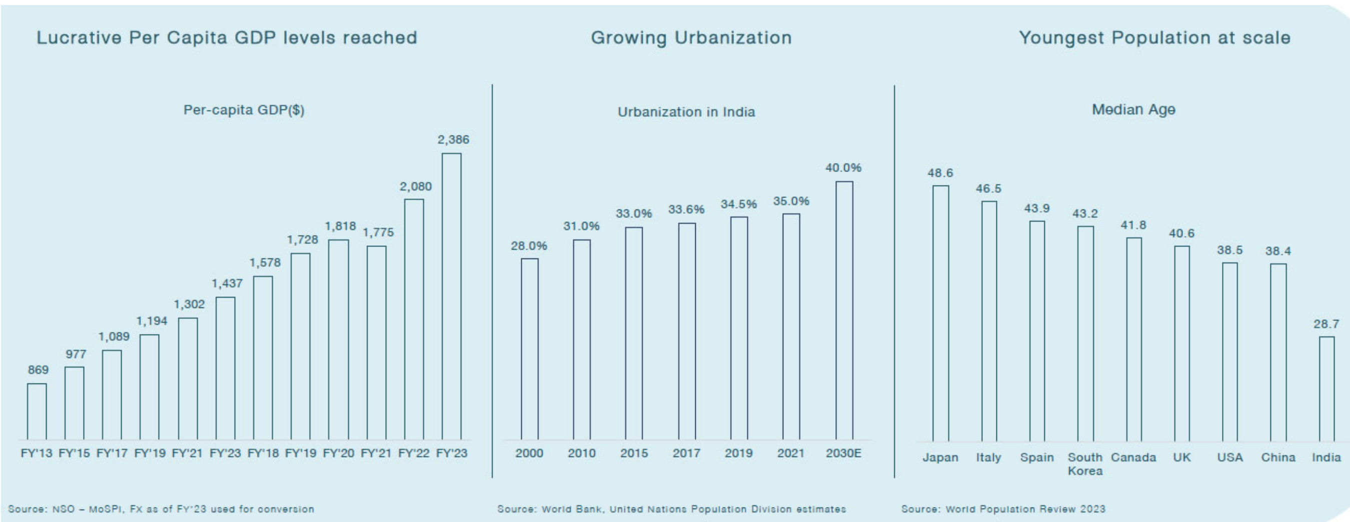
Exhibit 7: QSR is poised for strong 13-14% growth for the next 5-10 years



Source: Euromonitor, Industry Estimate, Jubilant Foodworks Presentation, YES Sec

Eating-out occasions are relatively low even in Urban India compared to other global markets as per our discussion with industry participants & experts but is on a improving trend with per capita consumption improvement especially in urban centres. This offers a huge opportunity to make the pie bigger both at the urban as well as smaller towns/cities. This along with growing urbanization and young population at scale offers strong potential for growth especially for under-penetrated category like organized India Foodservice market.

Exhibit 8: Drivers in place for long haul



Source: NSO-MoSPI, World Bank, United Nations Population Division estimate, World Population Review 2023, Jubilant Foodworks Presentation, YES Sec

Exhibit 9: Country-wise per capita spend on food services by urban population

Countries	Per Capita Spend on Food Services by Urban Population (USD)				
	CY 2014	CY 2019	CY 2020	CAGR (CY2014-19)	Growth (CY2019-20)
USA	1,735	2,239	1,616	5%	-28%
China	659	684	629	1%	-8%
Saudi Arabia	665	769	420	3%	-45%
Brazil	634	707	222	2%	-69%
South Africa	170	282	98	11%	-65%
Indonesia	219	253	139	3%	-45%
Turkey	124	181	NA	8%	NA
India	**94**	**122***	**57***	**5%**	**-54%**

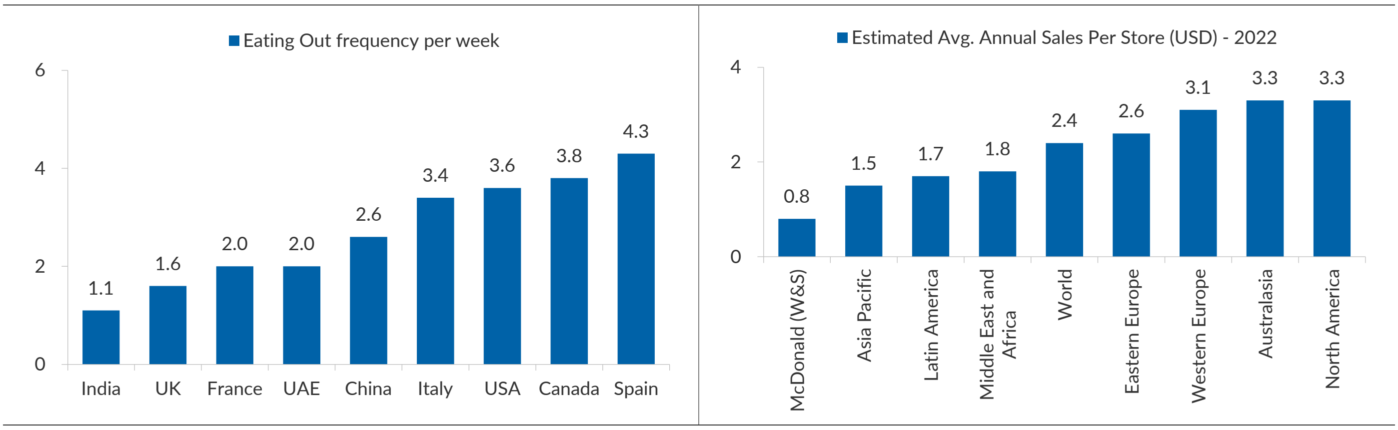
Source: Technopak research and analysis, YES Sec; Note: India data is for FY19 & FY20; 1 USD = Rs75

Exhibit 10: India has one of the lowest Average Order Value (AOV)

In USD	US	China	India
Average Order Value (AOV)	10.3	4.2	0.7

Source: Euromonitor, Industry Estimate, Jubilant Foodworks, YES Sec

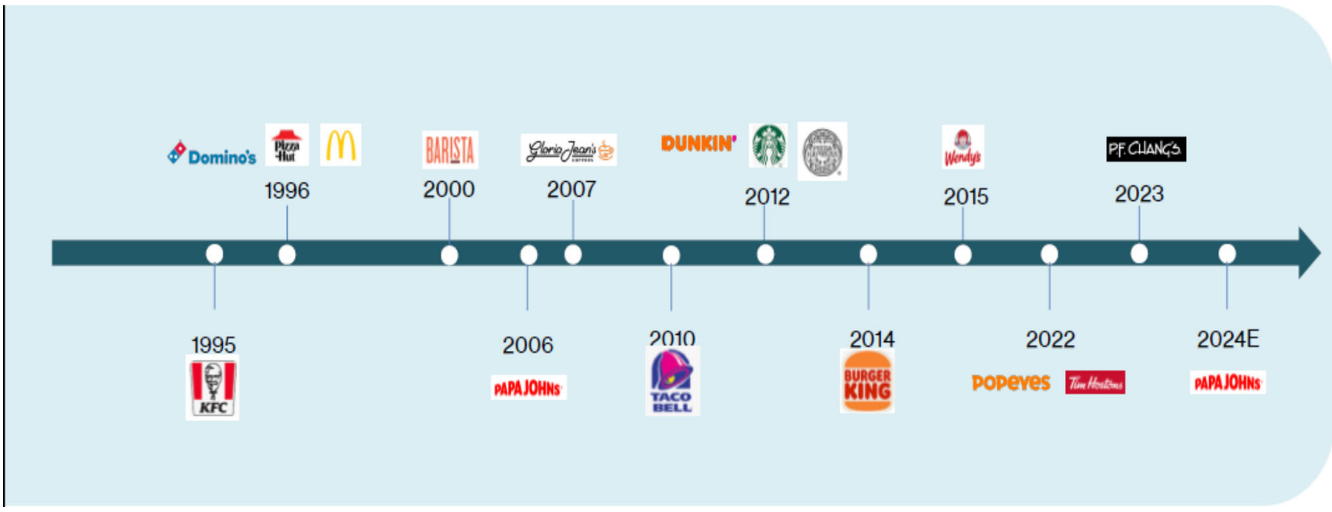
Exhibit 11: Eating-out frequency in India stands low compared to other markets



Source: Source: Company estimates, Euromonitor, GIra, YES Sec; Note: USD INR 80

Over the years, many international brands have entered the market but only a few have been able to scale the operations/revenue with good profitability. Hence, execution remains a key in the India Foodservice market. Also, since the opportunity is huge, we do expect more players/brands to enter the India Foodservice market in the future.

Exhibit 11: Only few international brands have been able to scale with profitability

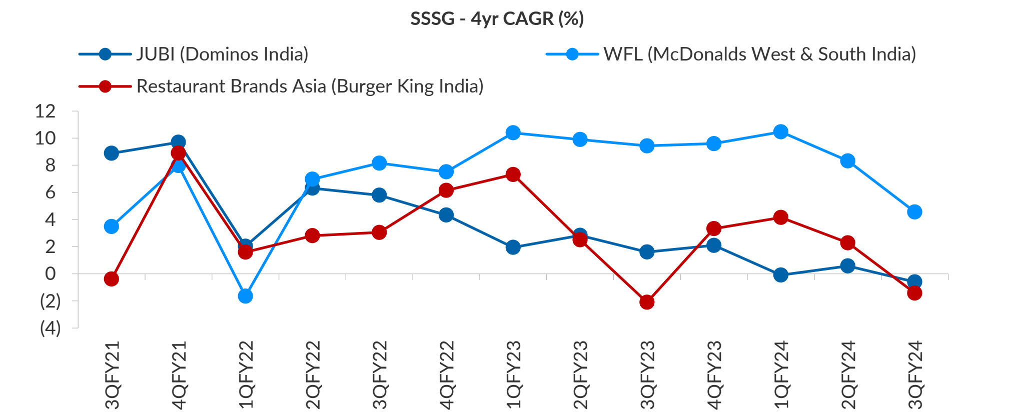


Source: Jubilant Foodworks Presentation, YES Sec

2) Strong AUV growth over last 6 years; we believe it still has legs

Within the listed QSR companies, WFL has outperformed the market on Same-Store Sales growth (SSSG) for larger part of last few years especially excluding Covid period.

Exhibit 12: SSSG (4yr CAGR) has remained superior versus peers



Source: Company, YES Sec; data for 4-year CAGR calculation not available for other listed QSR companies; SSSG= Same-Store Sales Growth

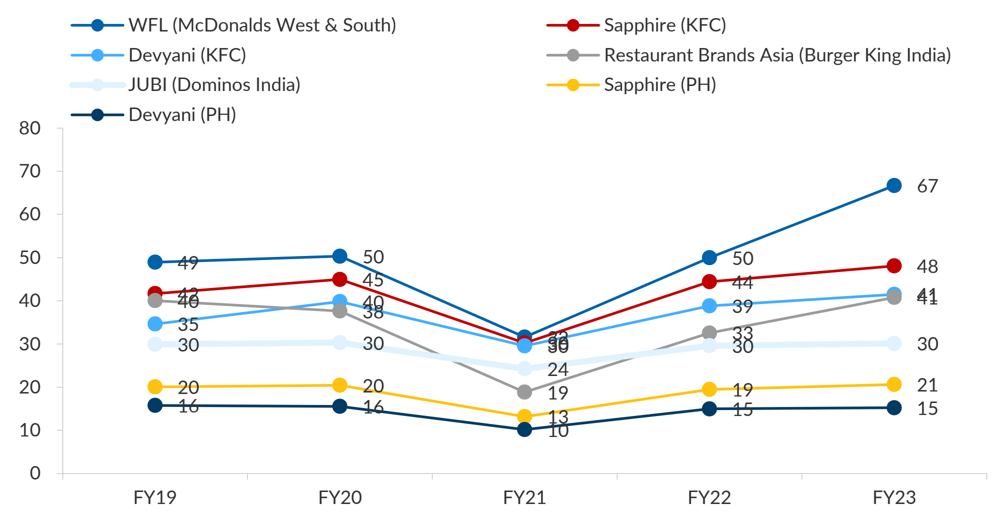
Exhibit 13: Same store sales growth YoY (SSSG) recent quarterly trend

Same store sales growth YoY-SSSG (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
JUBI (Dominos India)	5.0	3.5	25.5	5.5	(2.5)	(2.8)	(4.0)	(4.0)	(3.0)
Devyani (PH)	25.0	2.3	31.5	2.9	(6.1)	(3.2)	(5.3)	(10.4)	(12.6)
Devyani (KFC)	24.0	3.0	63.6	13.0	3.0	1.9	(0.9)	(3.9)	(4.7)
Sapphire (PH)	22.0	3.0	47.0	23.0	(4.0)	(4.0)	(9.0)	(20.0)	(19.0)
Sapphire (KFC)	29.0	15.0	65.0	15.0	3.0	2.0	0.0	0.0	(2.0)
WFL (McD West & South)	44.0	23.0	97.0	40.0	20.0	14.0	7.0	1.0	(9.0)
RBA (Burger King India)	30.0	17.0	66.0	27.0	8.6	8.3	3.6	3.5	2.6

Source: Company, YES Sec

We believe average store size of McDonalds store in West & South India is around 3,000 sq.ft., way higher than other listed QSR companies in the market. While the industry has been moving towards small store/delivery centric model over the years, WFL follows the brick-and-clicks multichannel multi-day part strategy, which gave customers more occasions and choices to experience the brand and thus justifies the store size. Key market segments of the food service industry catered by WFL: 1) Category (burgers, wraps, chicken, sides, coffee, desserts, etc.); 2) Daypart (breakfast, snacks and meals); 3) Channels (dine-in, delivery, takeaway, drive-thru, on-the-go). Through this approach the company is able to generate the highest average unit volume in the India QSR industry.

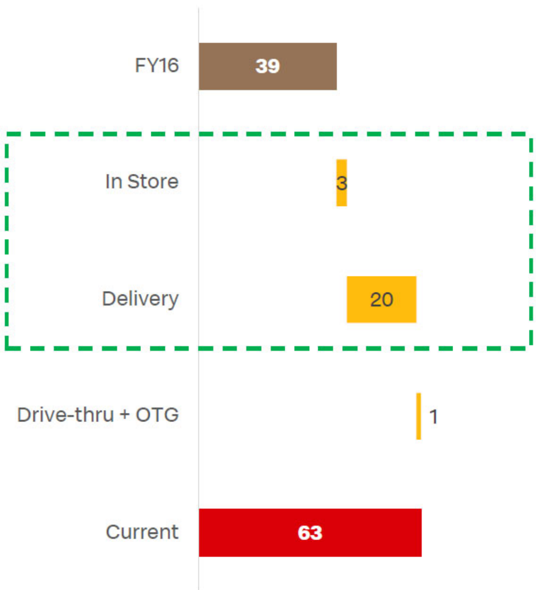
Exhibit 14: Sales per average store/ Average Unit Volumes (AUV – Rs mn) comparison with peers from FY19 till FY23 - WFL commands the highest AUV in the India QSR industry



Source: Company, YES Sec

Delivery business has scaled up well for the industry and for WFL as well over the last few years supported by Covid-induced lockdown. We believe more than 90% of the restaurants now have McDelivery which is a significant improvement from 53% in FY16. Over FY16-TTM Sept'22, around 83% of the incremental AUV was driven by Delivery.

Exhibit 15: Over FY16-TTM Sept'22, around 83% of the incremental AUV was driven by Delivery channel



Source: Company, YES Sec

Post Covid, the strong pent-up demand led to pick up in dine-in consumption led by consumers preference for offline celebration and socialization. Players like WFL, focussed on omni-channel strategy, benefitted from the trend, while on the other hand, the pizza category, where the product is considered relatively more appropriate for delivery, suffered the most on high base as dine-in's gained popularity. Relatively higher penetration and elevated competitive intensity is also hurting the well-entrenched delivery focused pizza players in India.

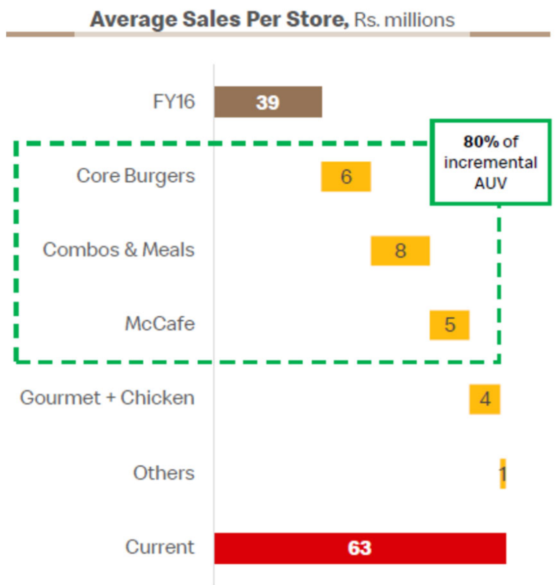
Dine-in channel also helps the company to have the undivided attention towards the brand and thus brings higher loyalty. In recent times, QSR brands who started as a delivery business, have also moved to omnichannel approach seeing the long-term opportunity in building AUV.

Its Average Sales Per Store/ Average Unit Volumes (AUV) has seen sharp improvement over last 6 years. Over FY16-TTM Sept'22, around 80% of the incremental AUV was driven by a combination of Core burgers, Combos & Meals and McCafe. The strategy to move consumers from a single product to a combo or meal offering (largely a bundle of burger+side+beverage) has worked wonders for the company over the years in terms of AUV improvement.

McCafe contributed equally to the AUV improvement as McCafe store penetration improved from ~32% in FY16 to ~85% by 3QFY23 (will most likely reach 90% penetration by end of FY24) and contributing around 12-13% of sales for stores with McCafe. We believe, McCafe has not only improved the AUV and mix, but made the brand even more relevant for today's customers.

Improvement in Delivery business during Covid has also contributed in a meaningful manner to the AUV improvement. Hence post the pent-up demand from market opening up, the delivery business looks to have stabilized, which is also reflecting in the slightly lower AUV in FY24 compared to FY23.

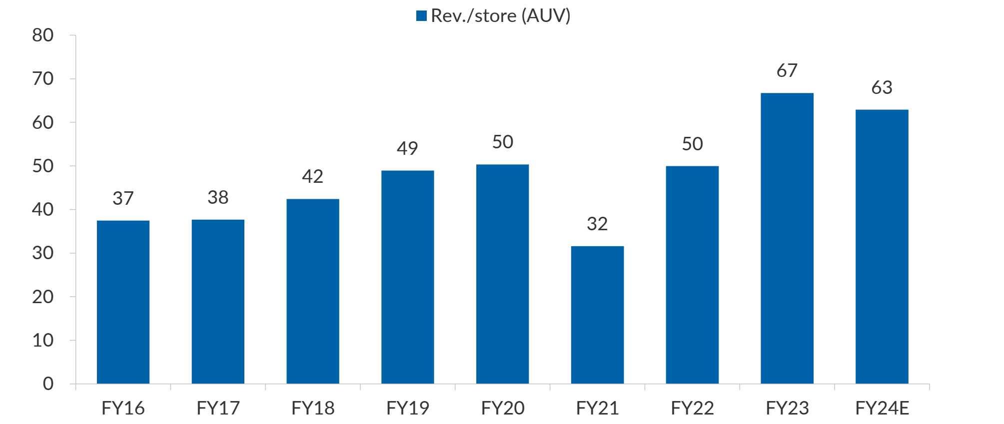
Exhibit 16: Over FY16-TTM Sept'22, around 80% of the incremental AUV was driven by combination of Core burgers, Combos & Meals and McCafe



Source: Company, YES Sec; Note: Data as on TTM Sept'22

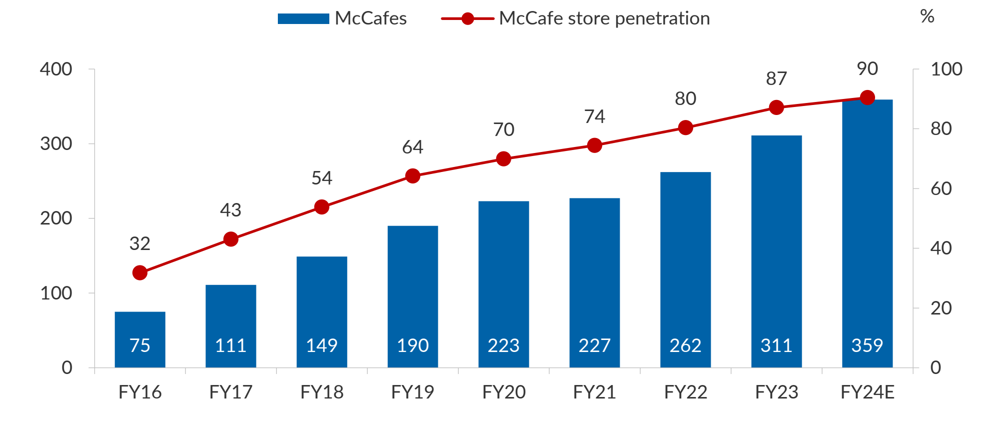
After crossing the Rs65mn mark in FY23, WFL now aims for Rs70-75mn level over the medium-term. Within the existing portfolio, along with growing preference for meals, premiumization of burgers, scaling of fried chicken, improving McCafe beverage mix within stores (driven by attracting new customers and also increasing frequency of visits) and innovative sides, we believe Desserts can bring additional leg of growth for the company over the long term.

Exhibit 17: AUV improvement has been strong over the last 5-6 years



Source: Company, YES Sec; AUV calculated as current FY revenue divided by average of current & previous year-end store

Exhibit 18: McCafe store penetration was sharp over FY16-TTM Sept'22



Source: Company, YES Sec

Along with the existing portfolio, a look at the global portfolio (products which might be fit for Indian market in the future), makes us believe that portfolio additions can take place at decent intervals to give the AUV some boost.

Exhibit 19: Example of chicken products in global portfolio; WFL's global portfolio offerings makes us believe in the prospects for further AUV growth

Source: Company, YES Sec

Within the store portfolio, there are marquee stores which does superior AUV compared to other stores. There is also decent gap between the AUV of top 10% of stores vs system. WFL is trying to unlock this opportunity which will also help scale-up AUV.

Exhibit 20: Top 10% stores vs System - Average per store

Source: Company, YES Sec

Drive-thru (DT) format has been an been imporatant asset, which gives McDonalds an additional comparative advantage gloablly as well as in India. Average sales from some of the drive thru restaurants have been higher compared to the normal stores for WFL. For e.g. Destination DT stores command 1.5x higher Avg. Sales Per Store vs other stores on an average. Going forward, looking at consumers need for convenience and expansion of highway infrastructure, WFL is looking to add considerable number of drive-thru restaurants as a part of the new projects planned especially for South India.

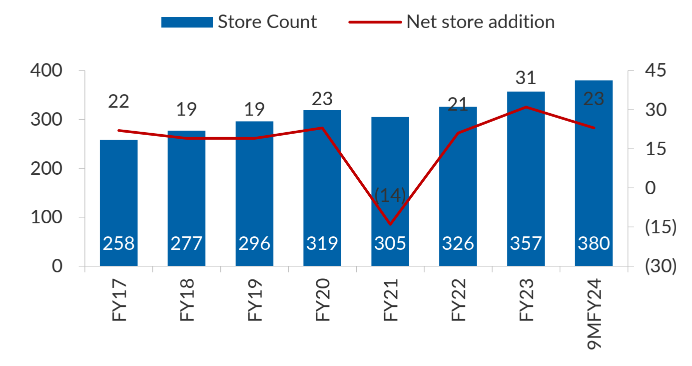
Thus we believe there is still scope of improvement in AUV levels but the growth will be at slower rate in the near term than what was seen in last 5-6 years as 1) Delivery business will now have a more stable growth on high base, 2) Store additions in non-Metro cities, that typically for the industry have lower ADS, 3) Subdued demand environment and external issue to weigh on near term performance.

3) Tier 1 and smaller towns emerging as the next frontier for store growth

At present, WFL has presence in West & South India with 380 restaurants across 62 cities (as of December 2023) which includes 73 Drive-thrus (~19% of the restaurants). Out of the total restaurants, ~90% of them have McCafe (343 McCafes) and 83% of the eligible store base are Experience-of-the-Future (EOTF) stores (275 EOTF stores). In terms of regions, we believe West India still is ~60% of its store mix and South contributes for the rest. Metros+tier 1 (T1) store mix which moved from 81% in FY16 to 74% in TTM Sep'22, would have further gone down as company continues to look for enhanced penetration in small and emerging towns.

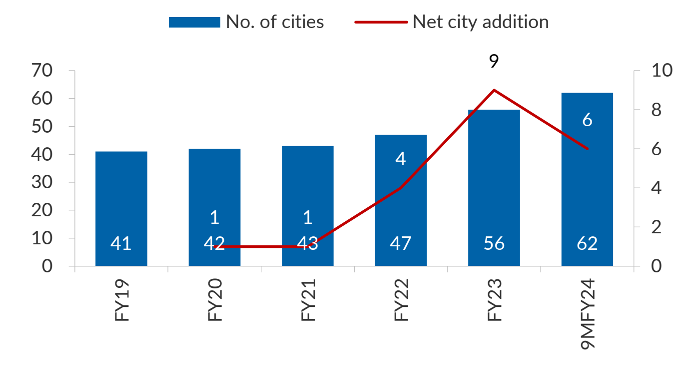
Drive-thrus are an important part of WFL's strategy. Globally, McDonald's has been a leader in in this format. In most of their successful regions, drive-thrus constitute a large portion of sales as they fall in high traffic regions and are the most preferred value-for-money brand. As on Dec'23, WFL has ~73 drive-thrus in West & South India and is growing as a format because of the need for convenience and with the help of improvement in highway infrastructure. It is a differentiating asset for WFL versus peers because it is the only brand that does drive-thrus at scale. Over the next 4 years, management believes ~30% of new restaurants will be drive-thrus.

Exhibit 21: Net store additions picking up…



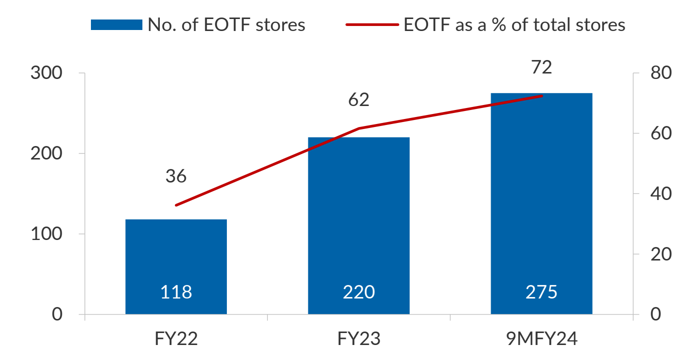
Source: Company, YES Sec

Exhibit 22: …along with city additions



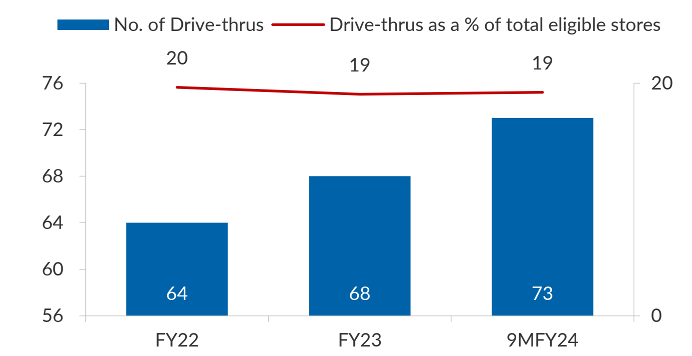
Source: Company, YES Sec

Exhibit 23: Number of stores converted into Experience of the Future (EOTF) stores have increased sharply over last 3-4 years



Source: Company, YES Sec

Exhibit 24: Drive-thrus as a % of stores has been around 20% for last few years but WFL aims to focus on this format going ahead

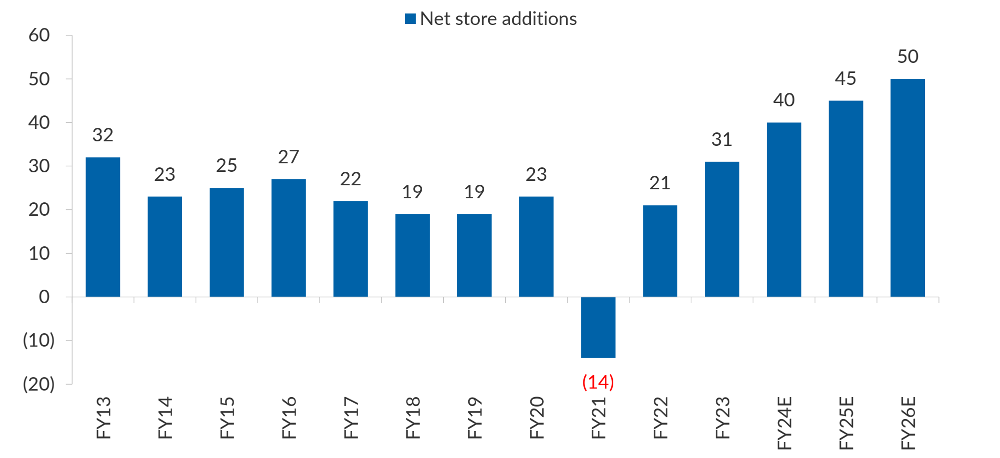


Source: Company, YES Sec

Conventionally, India's major QSR chains primarily focused on metros and tier-I cities, given high disposable income along with dense population. However, this paradigm is evolving as tier-II and tier-III cities emerge as the next frontier for Foodservice retail expansion. WFL has been watchful and disciplined about the amount of stores being added per annum over the years and have met their targets. The management has recently decided to up their annual store expansion rate to 40-50 stores (from 25-30 earlier) aiming to reach 580-630 restaurants by 2027 looking at the growth opportunity in tier 1 and smaller towns. WFL has penned the target of 45-50 stores in FY25 with a focus on South India, Smaller towns and Drive Thrus.

Despite near-term demand slowdown, we believe the pace of expansion will remain high (on track to add 40–45 stores in FY24), as competitive intensity is increasing.

Exhibit 25: Pace of store additions picking up



Source: Company, YES Sec

Even smaller burger players like *Burger Singh*, *Wat-a-Burger*, *Biggies Burger*, *etc*. have called out their immediate goal to expand their presence in tier-II and tier-III cities which they also believe has great potential as consumers in this areas still aspire to consume at Foodservice restaurants. Even from profitabilty angle, these areas are not too bad. While revenue recognized in tier-II and III areas are lower compared to Metros & tier-I, margins are good as key overheads (upfront investment as well as operating cost) are lower.

While many food service players have moved to delivery centric model, we believe that WFL's focus will remain on its standard *McDonalds* omnichannel stores (3,000-3,500 sq. ft.) over the medium-term which has longer leases, lower escalations vs industry, higher capex (but includes McCafe, EOTF, DTs, Delivery infra and various utility optimization initiatives) and high volume focus store design.

4) Gross margin improvement along with operating leverage and cost optimization program to drive operating margins

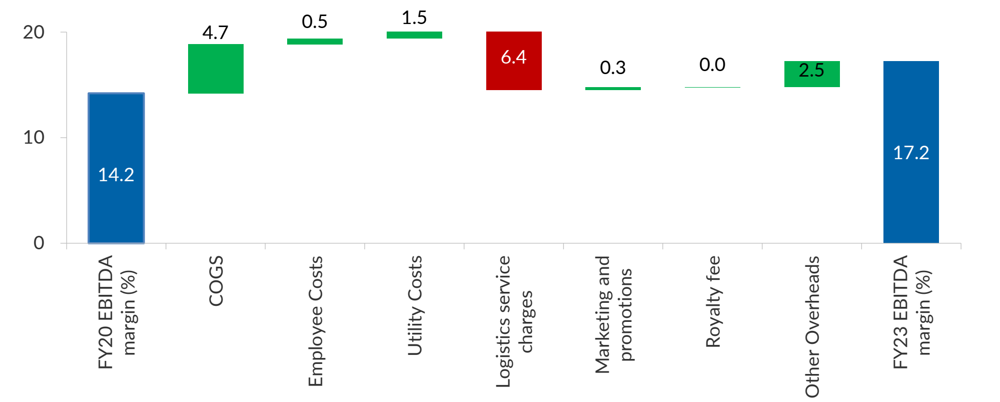
Margin expansion over FY20-23 was driven by gross margin improvement and leverage, supported by savings.

Exhibit 26: Common size statement (includes INDAS 116 impact)

Common size statement	FY20	FY21	FY22	FY23	FY24E
Revenues	100.0	100.0	100.0	100.0	100.0
Gross Profit	65.2	64.7	65.4*	69.9	70.3
Staff Cost	14.2	18.1	13.3	13.6	13.8
Other Expenses	36.9	38.9	40.5	39.0	40.7
EBITDA	14.2	7.7	11.6	17.2	15.8
EBIT	5.3	(7.9)	2.9	10.6	8.2
PBT	(0.6)	(13.1)	(1.6)	6.6	3.9
Recurring PAT	0.6	(10.4)	(1.6)	5.3	3.1

Source: Company, YES Sec; Note: There is regrouping of Processing Charges from cost of goods sold (COGS) to other expenses starting FY23. FY22 gross margin adjusted for regrouping stood at 67.5%.

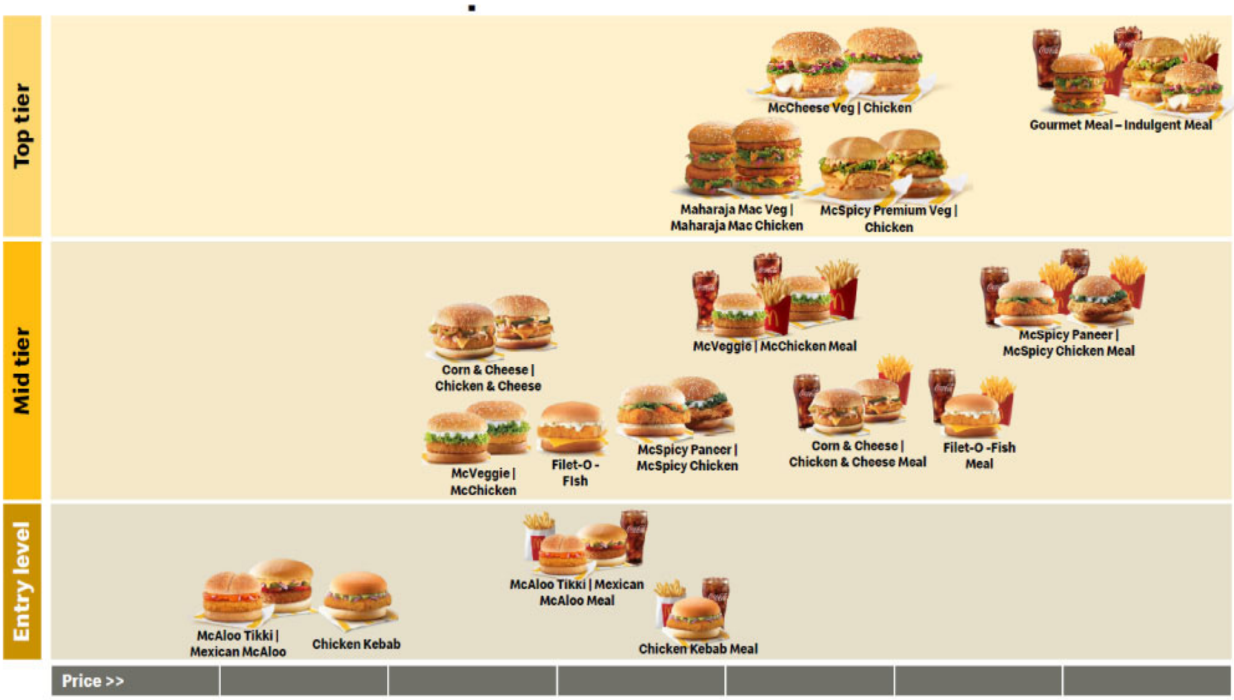
Exhibit 27: Margin expansion over FY20-23 driven by gross margin improvement and leverage, supported by savings



Source: Company, YES Sec; Note: Adjusted for regrouping of Processing charges, we believe gross margin would have driven ~270bps of margin improvement

WFL continues to have portfolio of offerings across prices points to cater to its different target audience within a family keeping in mind value-for-money quotient. Focus of the company will remain on offering value while premiumizing the portfolio and upgrading the consumers thus improving gross margins graduallly.

Exhibit 28: Pricing ladder of offerings in the core portfolio allows for customer acquisition and retention

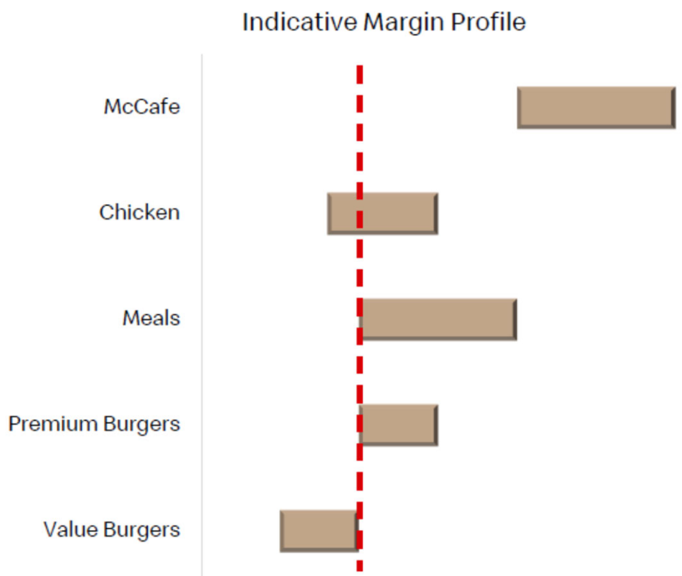


Source: Company, YES Sec

WFL also have initiatives like McSaver meals which offers its products bundled together at an affordable price.

WFL product-mix improvement journey over the last few years was driven by movement of consumers towards value combos/meals and increase in store penetration of McCafes. We believe along with improving mix of McCafe within the product mix of stores (McCafe contribution to sales for stores with McCafe will improve to 15-18% by FY28 from current 12-13%), premiumization in core and filling meals strategy will drive the next leg of product mix improvement for WFL. This along with net pricing growth and margin accretive new launches will drive gross margin expansion for the company in medium-to-long term.

Exhibit 29: Indicative margin profile of products

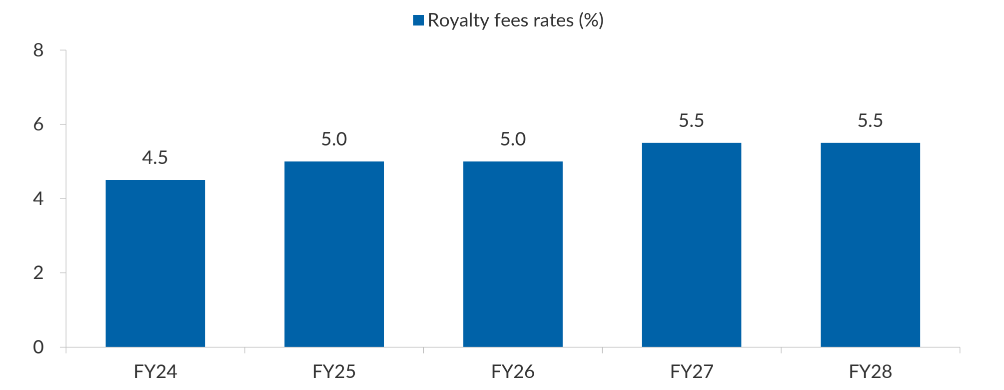


Source: Company, YES Sec

As overall volumes scales for the company with larger store network, operating leverage will have a positive impact as G&A cost as a % of revenue will reduce. In addition to that, WFL's focus on unlocking operating leverage potential by scaling up AUV towards marquee stores for rest of the stores will also have a significant benefit.

Gross margin improvement along with operating leverage and cost optimization program to drive margin expansion over the medium to long term, slightly offset by annual employee cost hikes, store gestation costs and increase in royalty rates (which will increase progressively from current 4.5% to 5.5% by FY28 [excluding GST]).

Exhibit 30: Royalty rates increase likely to be progressive over the medium-term

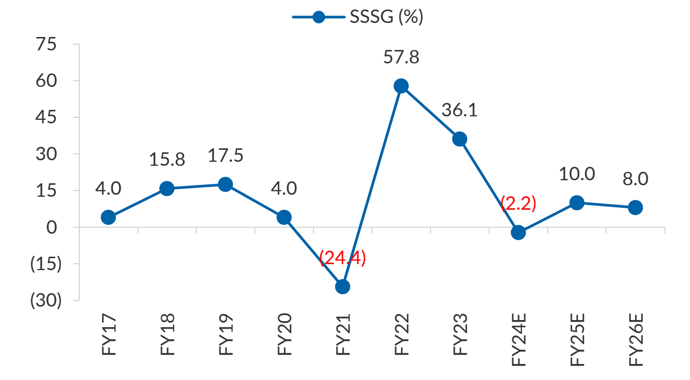


Source: Company, YES Sec

WFL offers SSSG driven earnings growth

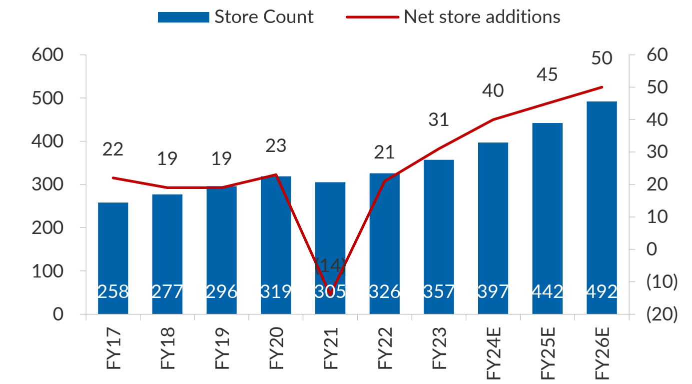
We are building ~9% SSSG CAGR over FY24E-26E, ~5.1% over FY23-26E. This, along with aggressive store expansion (200+ new restaurants in the next 3-4 years, taking the base to 500+ stores with 50-60% store openings in small and emerging towns) should lead to ~16% revenue CAGR over FY24E-26E, ~11.9% over FY23-26E. The margin profile is also improving as AUV has crossed the Rs60mn+ mark, leading to favorable operating leverage. This, along with cost savings and consistent but modest gross margin improvement (led by stable input costs and mix + pricing), will support EBITDA margin expansion (building ~200bps expansion over FY24E-26E).

Exhibit 31: SSSG impacted in FY24 due to subdued demand YoY and other external issues



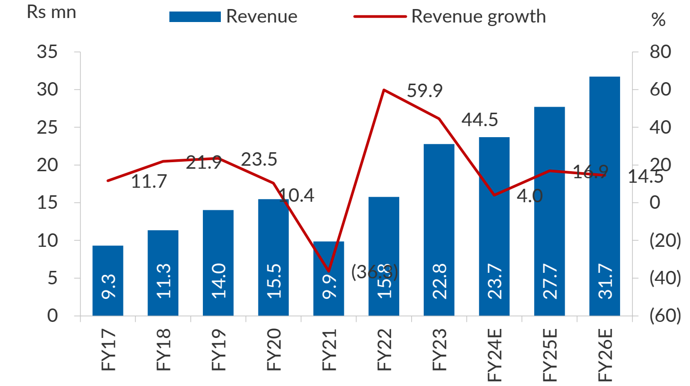
Source: Company, YES Sec

Exhibit 32: WFL is on track to add 40–45 stores in FY24 and targeting 45-50 stores in FY25



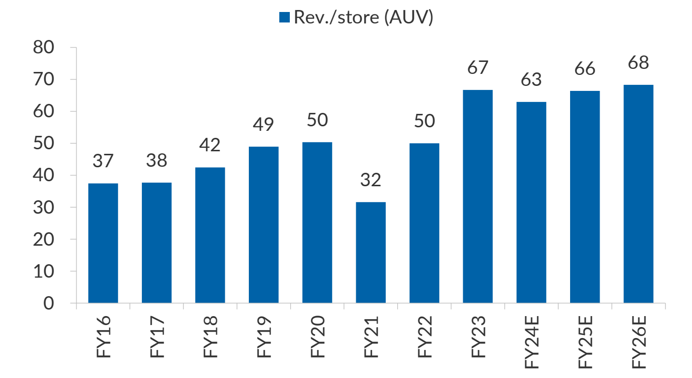
Source: Company, YES Sec

Exhibit 33: We thus expect revenues to grow by ~12% CAGR over FY23-26E (~16% CAGR over FY24E-26E)



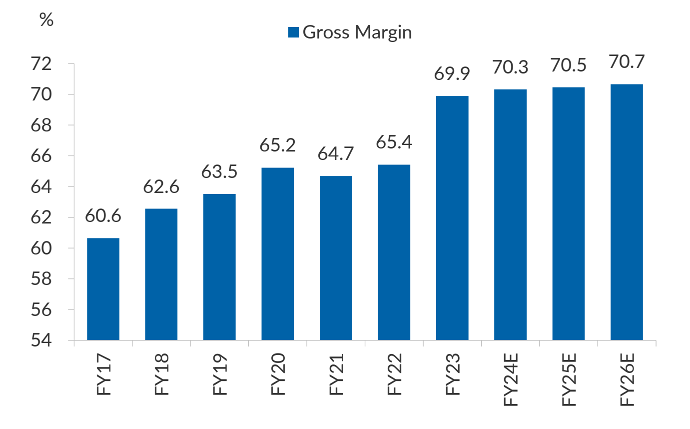
Source: Company, YES Sec

Exhibit 34: AUV to recover in FY25 to almost FY23 levels and restart the gradual improvement journey



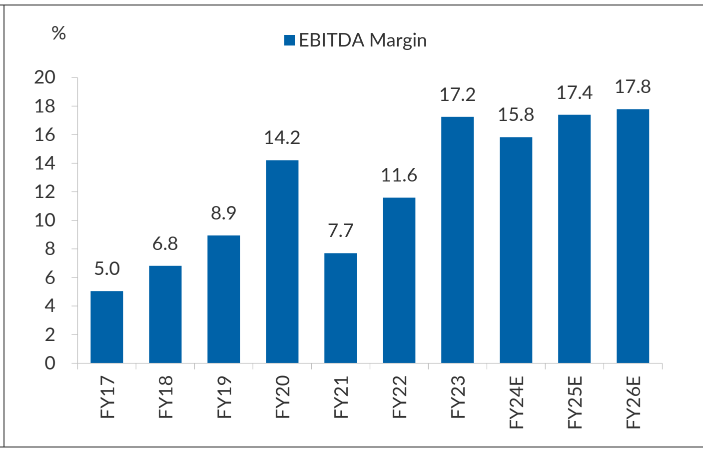
Source: Company, YES Sec

Exhibit 35: Product mix & net pricing to help gross margin improvement over the next few years..



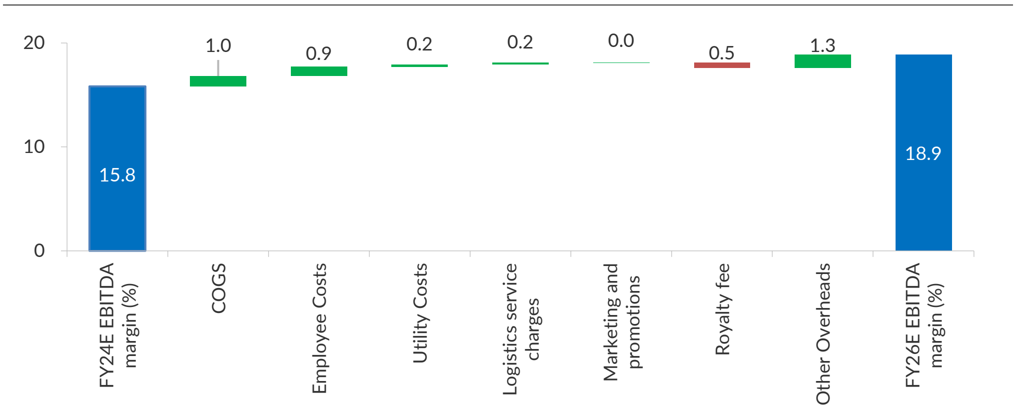
Source: Company, YES Sec; Note: There is regrouping of Processing Charges from cost of goods sold (COGS) to other expenses starting FY23. FY22 gross margin adjusted for regrouping stood at 67.5%.

Exhibit 36: ..this along with operating leverage & cost savings (slightly offset by increase in some overheads like royalty fees) to drive EBITDA margin



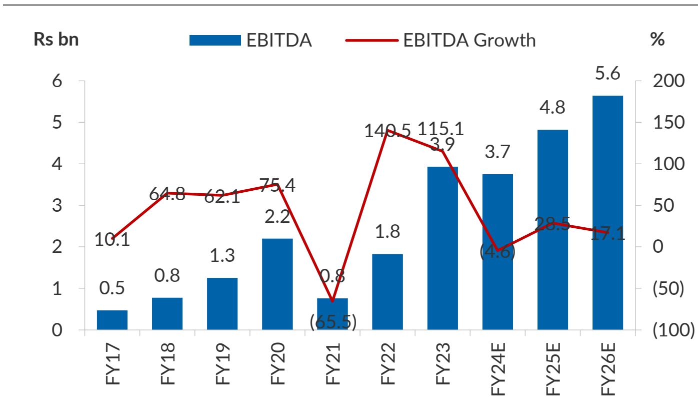
Source: Company, YES Sec

Exhibit 37: Margin expansion over FY24E-26E to be driven by operating leverage and mix+pricing supported by cost optimization measures



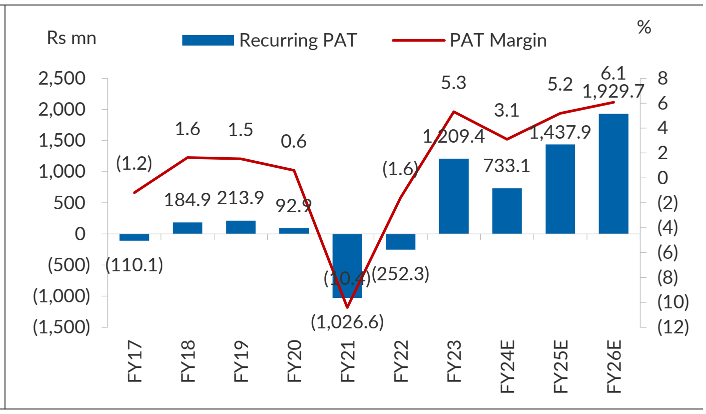
Source: Company, YES Sec

Exhibit 38: We thus build EBITDA to grow by ~13% CAGR over FY23-26E (~23% CAGR over FY24E-26E)



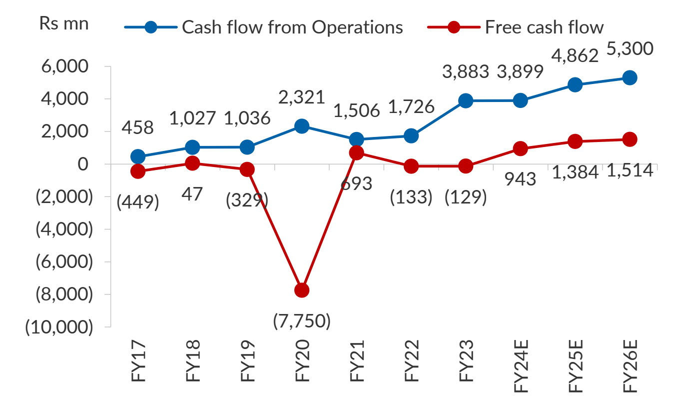
Source: Company, YES Sec

Exhibit 39: Expect recurring PAT to grow by ~17% CAGR over FY23-26E (~62% CAGR over FY24E-26E)



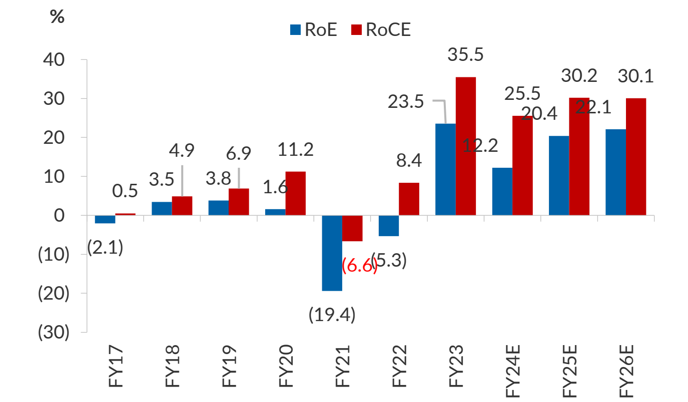
Source: Company, YES Sec

Exhibit 40: FCF to remain positive with stable business environment



Source: Company, YES Sec

Exhibit 41: Return ratios to improve in FY25 and FY26



Source: Company, YES Sec

Recent quarter results hint at near-term revenue pain for sector, as also WFL

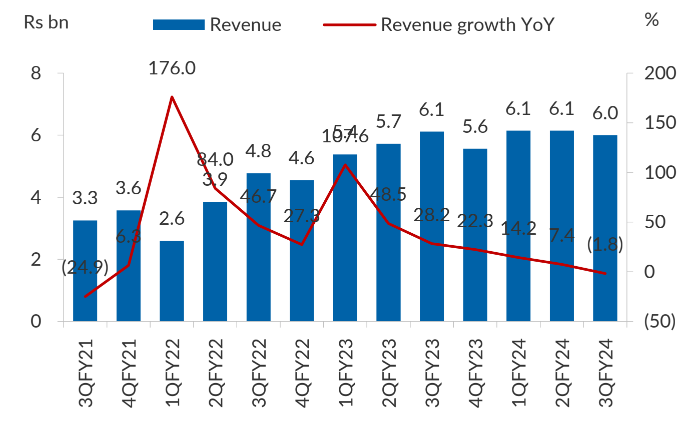
- WFL saw subdued (weakness in eating out trend) demand in 3QFY24. Festive season saw some uptick, but weakness continued thereafter. Reported SSSG was partly impacted by floods in South India and external issues.
- External issue impact: About 30% of WFL stores across West and South were impacted by external issues. These stores witnessed 10-50% decline in daily sales from mid-October'23 onwards leading to contrasting SSSG trends. Normalized SSSG would have declined by 3% versus the reported 9% decline. Slowdown in market, high base and slight delay in being aggressive on value platform led to 3% SSSG decline (normalized for external issue). External issue impact was higher in South India than in West India. External issue might take 1-2 quarter to get resolved but seems to have bottomed out. WFL has initiated various measures to highlight that McDonald's India is a truly Indian Company. Overall demand trends seem to have largely stabilized currently.
- On Premise business declined 5% YoY, largely led by lower footfalls in affected stores. Off-Premise business grew by 3% YoY led by Delivery & Drive thrus. Off-Premise contribution was 42% to total sales.
- **Average** TTM Sales Per Store remains stable at Rs64.4mn.
- **Margins performance:** Overall gross margin came in at 70.3%, up 10bps YoY/20bps QoQ with stable inflation. Lower operating leverage slightly offset by some incentives in royalty for record store openings meant that EBITDA margin down 200bps YoY to 16%.
- WFL added 11 restaurants & closed 1 during Q3 FY24. Company continues to target 40-45 store opening in FY24. It aims to open more store in FY25 compared to what it opens in FY24 with a focus on South India, smaller towns and 'Drive Thrus' format, aiming to reach 580-630 restaurants by 2027.

Exhibit 42: Recent quarters result snapshot

Y/E March (Rsmn)	3QFY23	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY23	9MFY24	YoY (%)
Net Revenue	**6,115**	**6,147**	**6,003**	**(1.8)**	**(2.4)**	**17,218**	**18,295**	**6.3**
COGS	1,824	1,837	1,784	(2.2)	(2.9)	5,721	5,429	*(5.1)*
Gross margin %	***70.2***	***70.1***	***70.3***	**0.1**	**0.2**	***66.8***	***70.3***	**3.6**
Payroll and Employee Benefits	547	581	552	1.0	(4.9)	1,480	1,684	*13.8*
% of sales	*8.9*	*9.4*	*9.2*	0.3	(0.2)	*8.6*	*9.2*	0.6
Royalty	280	316	243	(13.3)	(23.2)	788	877	*11.3*
% of sales	*4.6*	*5.1*	*4.0*	*(0.5)*	*(1.1)*	*4.6*	*4.8*	0.2
Occupancy and Other Operating Expenses	*2,006*	*2,054*	*2,072*	3.3	0.9	*5,309*	*6,182*	*16.4*
% of sales	*32.8*	*33.4*	*34.5*	*1.7*	*1.1*	*30.8*	*33.8*	3.0
General & Administrative Expense	*354*	*363*	*392*	10.7	8.0	*909*	*1,114*	*22.6*
% of sales	*5.8*	*5.9*	*6.5*	0.7	0.6	*5.3*	*6.1*	0.8
EBITDA	**1,103**	**997**	**960**	**(12.9)**	**(3.7)**	**3,012**	**3,010**	**(0.1)**
EBITDA margin %	***18.0***	***16.2***	***16.0***	***(2.0)***	***(0.2)***	***17.5***	***16.5***	***(1.0)***
Depreciation	386	439	455	18.0	3.6	1,110	1,323	*19.2*
EBIT	717	557	505	(29.6)	*(9.3)*	1,902	1,687	*(11.3)*
EBIT margin %	***11.7***	***9.1***	***8.4***	***(3.3)***	***(0.6)***	***11.0***	***9.2***	***(1.8)***
Interest expenses	234	274	282	20.6	2.9	674	816	21.0
Other income	36	32	44	20.2	37.4	91	128	*40.2*
Exceptional items	(40)	(13)	(36)	-	-	(101)	(60)	-
PBT	**480**	**302**	**231**	**(51.9)**	**(23.5)**	**1,217**	**939**	***(22.9)***
Tax	116	78	59	(49.8)	(25.4)	302	254	*(15.9)*
Effective tax rate %	*24.3*	*26.0*	*25.3*	*1.1*	*(0.6)*	*24.8*	*27.1*	2.3
Recurring/Adjusted PAT	**404**	**237**	**209**	**(48.3)**	**(11.9)**	**1,016**	**744**	**(26.8)**
PAT margin %	***6.6***	***3.9***	***3.5***	***(3.1)***	***(0.4)***	***5.9***	***4.1***	***(1.8)***
Reported PAT	**364**	**224**	**173**	**(52.6)**	**(22.9)**	**915**	**684**	**(25.2)**
EPS	**2.6**	**1.4**	**1.1**	**(57.3)**	**(22.9)**	**6.5**	**4.4**	**(32.6)**

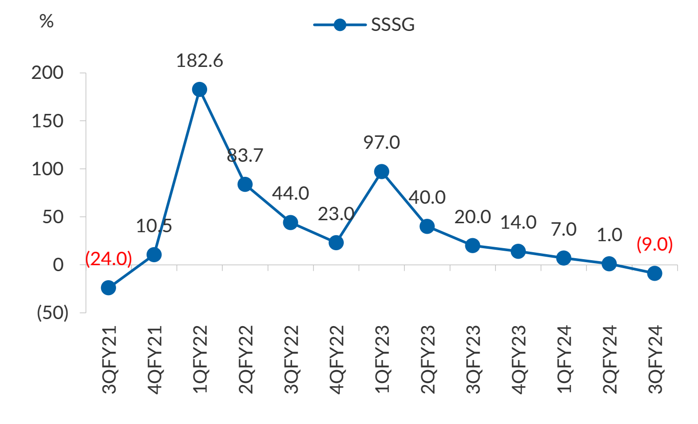
Source: Company, YES Sec

Exhibit 43: Revenues down by 1.8% YoY to Rs6bn in 3QFY24



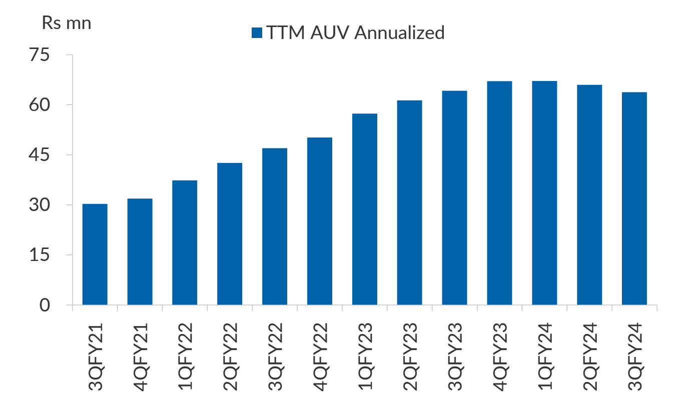
Source: Company, YES Sec

Exhibit 44: Reported SSSG declined 9%; adjusted for external issues the decline would stand at ~3%



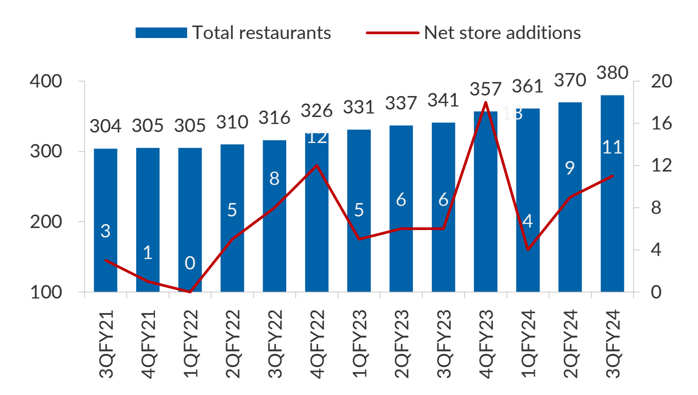
Source: Company, YES Sec

Exhibit 45: AUV down slightly in recent quarters led by subdued demand YoY and other external issues



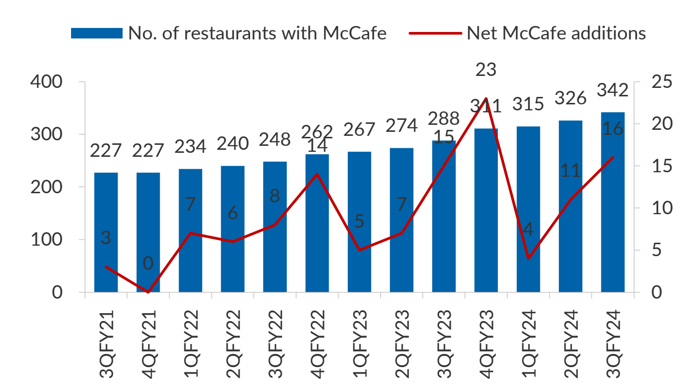
Source: Company, YES Sec

Exhibit 46: Total restaurants as on 3QFY24 stands at 380



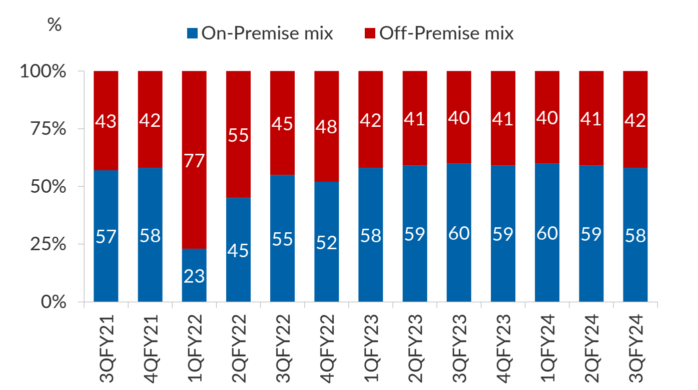
Source: Company, YES Sec

Exhibit 47: % of restaurants with McCafe now stands at ~90% as on 3QFY24



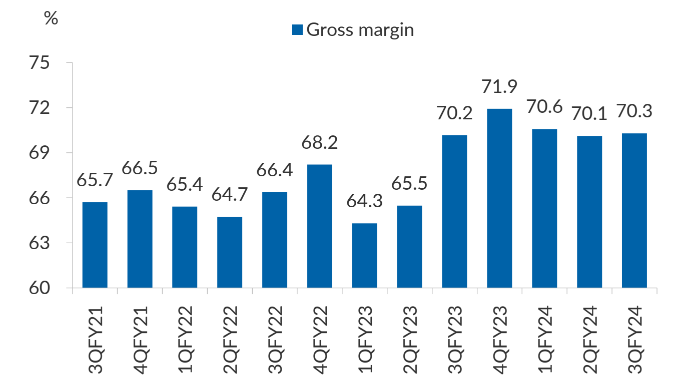
Source: Company, YES Sec

Exhibit 48: On-Premise came back post Covid impact and now stands at ~59% as on 9MFY24



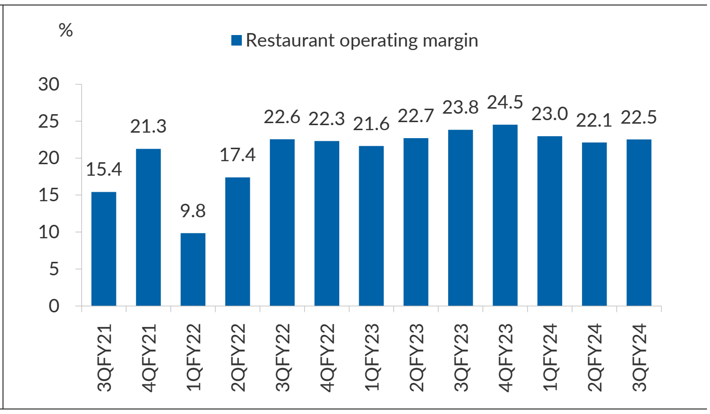
Source: Company, YES Sec

Exhibit 49: Gross margin up 20bsp QoQ in 3QFY24 with normalized inflation



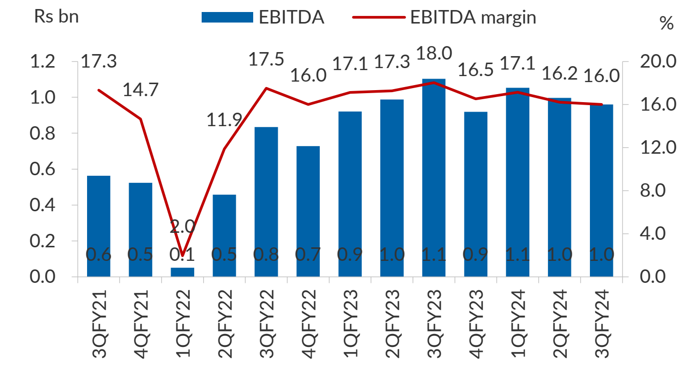
Source: Company, YES Sec

Exhibit 50: Restaurant operating margin impacted by deleverage



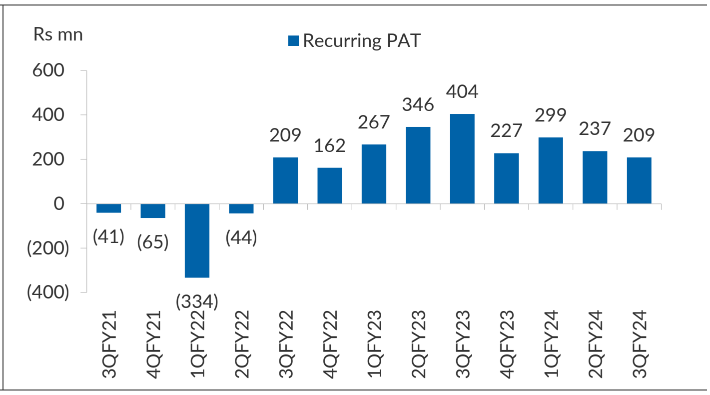
Source: Company, YES Sec

Exhibit 51: EBITDA margin thus down 200bps YoY to 16%



Source: Company, YES Sec

Exhibit 52: Recurring PAT thus down to Rs209mn



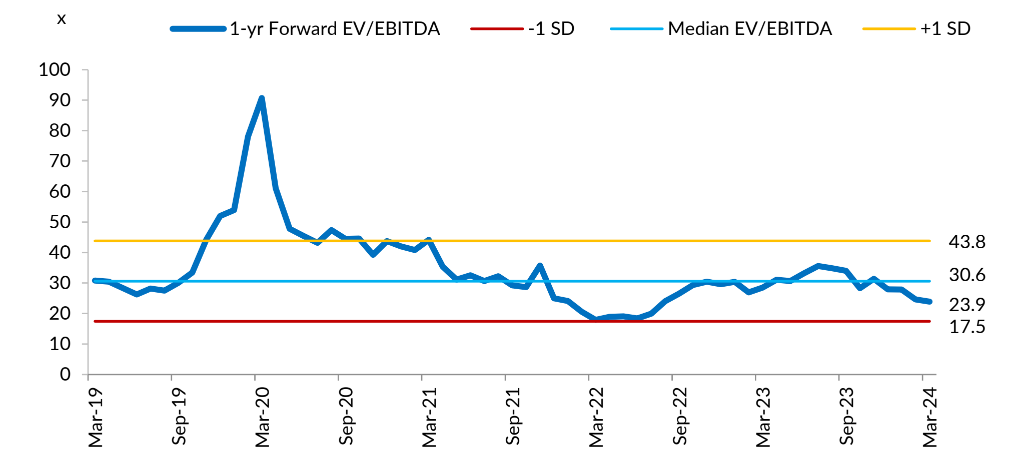
Source: Company, YES Sec

Westlife Foodworld Ltd

We initiate coverage on WFL with a BUY rating and a target price of Rs940

- Our preference for WFL is based on its focused strategy on targeting the India Foodservice opportunity through McDonalds (West & South) franchisee and drive topline growth with consistent industry leading SSSG delivery supported by store expansion.
- To compete against incumbents, new players and unorganized market, McDonalds possesses following USP's: (1) An "All day" menu (2) Continuous focus on value (3) Combos, Customizations & Innovations and (4) Sustaining quality & taste over the years.
- After crossing the Rs65mn mark in FY23, WFL is now aiming for Rs70-75mn level over the medium-term.
- We are building ~9% SSSG CAGR over FY24E-26E, ~5.1% over FY23-26E. This, along with aggressive store expansion (to open 200+ new restaurants in the next 3-4 years, taking the base to 500+ stores with 50-60% store openings in small and emerging towns) should lead to ~16% revenue CAGR over FY24E-26E, ~11.9% over FY23-26E.
- The margin profile is also improving as AUV has crossed the Rs60mn+ mark, leading to favorable operating leverage. This, along with cost savings and consistent but modest gross margin improvement (led by stable input costs and mix+pricing), will support EBITDA margin expansion (building ~200bps expansion over FY24E-26E).
- At CMP, the stock is trading at ~24x/20x FY25E/FY26E EBITDA (post IND-AS 116).
- WFL has recently introduced a dividend policy (as near as possible to 25% of PAT) subject to need for growth capital, positive cash flow and other parameteres stated in the policy. Improving return ratios command beter valuation than earlier years.
- We initiate with a BUY rating based on EV/EBITDA multiple of ~26x on March'26E EBITDA (post IND-AS 116), arriving at a TP of Rs940.
- We believe near-term sectoral demand pain and company-specific overhang translates into a decent medium-term investment (~14% CAGR return over next 3 years).
- **Overhangs**: Along with subdued demand for the sector, external issues (highlighted in 3QFY24 earnings) will remain the only other overhang in near term, since the FSSAI (apex food safety standards regulator of the country) has given a clean chit to WFL on the the ongoing scrutiny by state authorities regarding use of 'Fake Cheese'.
- **Risks to our estimates**
  - Extremely high competition especially in WFL's operating areas of West & South India markets.
  - Changes in consumers perception with respect to healthy eating habits or changes in other dietary habits.
  - Concerns about food safety, foodborne illness or other negative food-related incidents and negative publicity revolving around it could have an adverse effect on the Foodservice industry.
  - Any other external issues.

Exhibit 53: Currently trading at ~24x 1-yr forward EV/EBITDA lower than the median multiple



Source: Company, YES Sec

FINANCIALS

Exhibit 54: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	312	312	312	312	312
Reserves	4,309	5,347	6,019	7,457	9,387
Net worth	4,621	5,659	6,331	7,769	9,698
Total debt	2,010	2,070	2,570	3,570	3,570
Other long-term liabilities	8,669	10,090	10,296	10,506	10,721
Deferred tax liability	-520	-604	0	0	0
Total liabilities	**14,780**	**17,216**	**19,197**	**21,845**	**23,989**
Gross block	15,033	18,125	19,825	21,731	23,802
Depreciation	10,011	11,533	12,586	13,729	14,981
Net block	5,022	6,591	7,238	8,002	8,821
Right of use assets	7,718	8,758	9,749	11,214	12,814
CWIP & Intangibles	1,238	1,447	1,165	1,098	1,030
Investments	1,504	1,299	759	766	774
Inventories	559	714	553	922	755
Debtors	133	107	136	141	168
Cash	232	284	1,811	2,745	2,762
Loans & advances	907	1,044	1,095	1,151	1,212
Other current assets	142	142	156	171	188
Total current assets	1,973	2,291	3,751	5,130	5,085
Creditors	1,722	1,877	1,784	2,432	2,312
Other current liabilities & provisions	953	1,293	1,681	1,933	2,223
Total current liabilities	2,675	3,170	3,465	4,365	4,534
Total assets	**14,780**	**17,216**	**19,197**	**21,845**	**23,989**

Source: Company, YES Sec

Exhibit 55: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	**15,765**	**22,780**	**23,692**	**27,702**	**31,719**
% Growth	**59.9**	**44.5**	**4.0**	**16.9**	**14.5**
SSG %	**57.8**	**36.1**	**-2.2**	**10.0**	**8.0**
COGS	5,451	6,860	7,032	8,185	9,309
Staff costs	2,095	3,106	3,261	3,742	4,221
Other expenses	6,392	8,885	9,649	10,956	12,549
Total expenses	13,939	18,851	19,943	22,884	26,079
EBITDA	**1,826**	**3,929**	**3,749**	**4,819**	**5,640**
% growth	**140.5**	**115.1**	**-4.6**	**28.5**	**17.1**
EBITDA margin (%)	**11.6**	**17.2**	**15.8**	**17.4**	**17.8**
Other income	108	141	174	231	281
Interest costs	826	928	1,114	1,133	1,123
Depreciation	1,364	1,522	1,799	1,995	2,220
Profit before tax (before exceptional items)	-256	1,620	1,010	1,922	2,579
Exceptional items	0	-128	-85	0	0
Tax	-4	379	254	484	649
PAT (before exceptional items)	**-252**	**1,212**	**735**	**1,438**	**1,930**
Reported PAT	**-252**	**1,114**	**672**	**1,438**	**1,930**
PAT margin (%)	**-1.6**	**5.3**	**3.1**	**5.2**	**6.1**
% Growth	**-**	**-**	**-39.4**	**96.1**	**34.2**

Source: Company, YES Sec

Exhibit 56: Cash flow statement

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PAT	(252)	1,209	733	1,438	1,930
Depreciation	1,364	1,522	1,799	1,995	2,220
Other income	(108)	(141)	(174)	(231)	(281)
(Inc.)/dec. in working capital	(104)	366	427	527	309
Others	826	928	1,114	1,133	1,123
Cash flow from operations	**1,726**	**3,883**	**3,899**	**4,862**	**5,300**
Capital expenditure (-)	(1,859)	(4,012)	(2,956)	(3,478)	(3,786)
Net cash after capex	**(133)**	**(129)**	**943**	**1,384**	**1,514**
Inc./(dec.) in investments and other assets	519	210	649	152	195
Cash from investing activities	**(1,339)**	**(3,802)**	**(2,307)**	**(3,326)**	**(3,590)**
Inc./(dec.) in total borrowings	(142)	60	500	1,000	0
Others	201	410	(305)	(923)	(908)
Cash from financial activities	**59**	**470**	**(91)**	**(570)**	**(1,796)**
Others	(324)	(499)	98	(21)	67
Opening cash balance	110	232	284	1,811	2,745
Closing cash balance	232	284	1,811	2,745	2,762
Change in cash balance	122	52	1,599	945	(19)

Source: Company, YES Sec

Exhibit 57: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
EPS	(1.6)	7.8	4.7	9.2	12.4
Book value	29.6	36.3	40.6	49.8	62.2
Valuation (x)					
P/Sales	7.3	5.1	4.9	4.2	3.6
EV/sales	7.3	5.1	4.9	4.2	3.6
EV/EBITDA	63.4	29.5	30.8	24.0	20.5
P/E	NA	95.4	157.4	80.3	59.8
P/BV	25.0	20.4	18.2	14.9	11.9
Return ratios (%)					
RoCE*	8.4	35.5	25.5	30.2	30.1
RoE	(5.3)	23.5	12.2	20.4	22.1
RoIC*	3.8	17.3	12.4	16.5	18.0
Profitability ratios (%)					
Gross margin	65.4	69.9	70.3	70.5	70.7
EBITDA margin	11.6	17.2	15.8	17.4	17.8
EBIT margin	2.9	10.6	8.2	10.2	10.8
PAT margin	(1.6)	5.3	3.1	5.2	6.1
Liquidity ratios (%)					
Current ratio	0.6	0.6	0.6	0.7	0.6
Quick ratio	0.5	0.4	0.6	0.6	0.6
Solvency ratio (%)					
Debt to Equity ratio	0.4	0.4	0.4	0.5	0.4
Turnover ratios					
Total asset turnover ratio (x)	2.6	3.2	2.7	2.4	2.4
Fixed asset turnover ratio (x)	3.1	3.5	3.3	3.5	3.6
Inventory days	34.3	33.9	32.9	32.9	32.9
Debtors days	2.6	1.9	1.9	1.8	1.8
Creditor days	119.6	95.7	95.0	94.0	93.0

Source: Company, YES Sec; Note: There is regrouping of Processing Charges from cost of goods sold (COGS) to other expenses starting FY23. FY22 gross margin adjusted for regrouping stood at 67.5%.

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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 7th Floor, Urmi Estate Tower A, Ganpatrao Kadam Marg, Opp. Peninsula Business Park, Lower Parel (West), Mumbai – 400 013, Maharashtra, India.

✉ research@ysil.in | Website: www.yesinvest.in

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Details of Compliance Officer: Name: Aditya Goenka, **Email id:** compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

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Digitally signed by VISHAL SURESHKUMAR PUNMIYA
Date: 2024.03.17 21:26:49 +05'30'

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