

QSR | Q4FY24 Result Update

Muted Performance; Maintain SELL

- WFL's Q4FY24 results came below our estimate. The company reported 1.1% YoY revenue growth with 5% SSSG decline in Q4FY24 on a base of 14% growth (On 4-Yr CAGR basis, 13.7% revenue CAGR).
- The company opened 17 net new stores during Q4 to take the total store count to 397. WFL re-affirmed its target to add 45-50 stores in FY25E and to take the store count to 580-630 by FY27E.
- On-Premise business de-grew 2% YoY, while off-Premise business grew 8% YoY in Q4. Average annualized sales per store decreased by 5% on a TTM basis and stood at Rs 63.0mn in Q4FY24.
- We have downward revised our FY25/26E EBITDA by 20.6/15.8% to factor in significant fall in SSSG and lower operating leverage in the ensuing quarters. Though WFL has an attractive menu offering targeted towards millennials and strong brand extensions like Mc Café, we believe that the company will have to battle high SSSG base and subdued demand. We have changed our valuation methodology from PE to EV/EBITDA to capture core value of the business. Valuing the stock at 26x FY26E EV/EBITDA, we arrive at a TP of Rs 764. Maintain 'SELL' rating.

Results below our estimate

WFL's revenue grew 1.1% YoY to Rs 5.6bn in Q4FY24, came 7.3% below our estimate. On 4-yr CAGR, revenue grew 13.7%. SSSG was at -5% YoY on a base of 14%. GM declined 180bps to 70.2%. A 180bps decline in employee exp was fully offset by 180/270bps increase in RM/other expenses resp. that led to EBITDA margins contraction by 260bps to 13.3%. EBITDA stood at Rs 749mn vs Rs 887mn in Q4FY23, came 20.0% below our estimate. Net Profit stood at Rs 8mn vs Rs 201mn in Q4FY23, came 96.5% below our estimate.

Store Expansion guidance maintained

WFL has reiterated its store expansion guidance of taking the total store count to 580-630 by FY27E. Till date, WFL has 397 stores across 64 cities with 81 drive-through store, 360 McCafe and 292 EOTF stores. The company believes that the business environment will improve in H2FY25E and hence the store additions will remain high during H2. In the near term, the company is confident of maintaining GM at the current levels led by moderate inflation.

Q4FY24 Result (Rs Mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Revenue	5,623	5,564	1.1	6,003	(6.3)
Total Expense	4,874	4,677	4.2	5,082	(4.1)
EBITDA	749	887	(15.5)	920	(18.6)
Depreciation	499	412	21.2	455	9.8
EBIT	250	475	(47.4)	465	(46.3)
Other Income	52	56	(7.2)	47	10.3
Interest	282	253	11.4	281	0.3
EBT	20	277	(93.0)	231	(91.5)
Tax	12	76	(84.4)	59	(79.7)
RPAT	8	201	(96.2)	172	(95.6)
APAT	8	201	(96.2)	172	(95.6)
			(bps)		(bps)
Gross Margin (%)	70.2	71.9	(176)	70.3	(12)
EBITDA Margin (%)	13.3	15.9	(261)	15.3	(201)
NPM (%)	0.1	3.6	(348)	2.9	(274)
Tax Rate (%)	60.9	27.5	3340	25.3	3560
EBIT Margin (%)	4.4	8.5	(409)	7.7	(331)

CMP	Rs 867
Target / Downside	Rs 764 / 12%
NIFTY	22,303

Scrip Details

Equity / FV	Rs 312mn / Rs 2
Market Cap	Rs 135bn
	USD 1.6bn
52-week High/Low	Rs 1,025/ 709
Avg. Volume (no)	1,88,470
Bloom Code	WLDL IN

Price Performance	1M	3M	12M
Absolute (%)	5	9	9
Rel to NIFTY (%)	7	6	(20)

Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	56.2	56.2	56.3
MF/Banks/FIs	23.7	24.0	23.0
FIIIs	10.4	10.5	11.6
Public / Others	9.7	9.3	9.1

Valuation (x)

	FY24P	FY25E	FY26E
P/E	195.3	211.1	111.3
EV/EBITDA	40.2	37.1	29.1
ROE (%)	12.0	10.3	17.0
RoACE (%)	10.0	9.7	12.7

Estimates (Rs bn)

	FY24P	FY25E	FY26E
Revenue	23.9	27.5	32.5
EBITDA	3.7	4.0	5.1
PAT	0.7	0.6	1.2
EPS (Rs.)	4.4	4.1	7.8

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Exhibit 1: Actual V/s DART estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	5,623	6,064	(7.3)	Lower than estimated SSSG
EBITDA	749	936	(20.0)	Operating deleverage due to lower SSSG
EBITDA margin %	13.3	15.4	(210bps)	
APAT	8	221	(96.5)	Cascading effect of low EBITDA and high depreciation and Interest expenses

Source: Company, DART

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY25E			FY26E		
	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	27,452	29,819	(7.9)	32,520	35,297	(7.9)
EBIDTA	4,012	5,052	(20.6)	5,103	6,061	(15.8)
EBIDTA margin (%)	14.6	16.9	(230bps)	15.7	17.2	(150bps)
PAT	640	1,520	(57.9)	1,214	2,046	(40.7)
EPS (Rs)	4.1	9.7	(57.9)	7.8	13.1	(40.7)

Source: Company DART

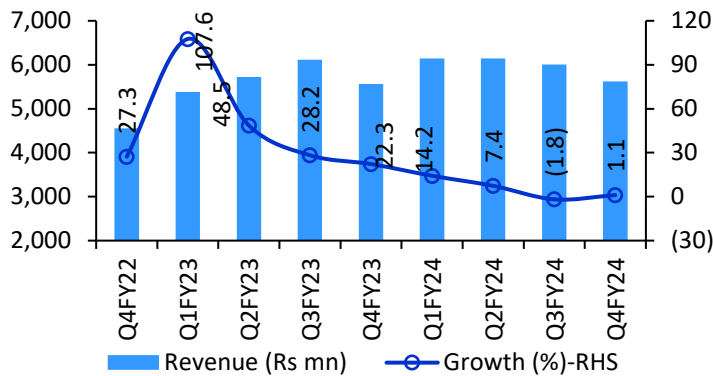
We have downward revised our revenue estimates for FY25/26E to factor in lower SSSG in Q4 (-5% vs estimates of 0%). We believe that the SSSG will gradually be back in FY25E with improvement in demand. Further, we have downward revised our EBITDA margin estimates to factor in lower than estimated margins in Q4. The company believes that it will be able to maintain margins at similar levels. However, we believe that it will take time to reach earlier aspiration level of 18-20%. In line with the revision in EBITDA, we have downward revised our EPS.

Earnings call KTAs

- WFL reported revenue of Rs 5.6bn in Q4FY24, up 1.1.% YoY despite macro challenges and subdued consumer sentiments. Going ahead, the company expects muted demand for next two quarters and post which it is expected to stabilize led by improvement in discretionary consumption and improving macro trends.
- SSSG de-grew by 5% YoY as a result of persistent softness in consumer trends and high base (14% base quarter). Furthermore, WFL faced some external issues though slight improvement sequentially led by strategic initiatives. WFL aims for high single digit SSSG, going ahead.
- GM contracted by 180bps YoY to 70.2% due to higher RM cost during the quarter. Moreover, EBITDA margins contracted by 260bps to ~13.3% due to lower operating deleverage and marketing spends. Going ahead, WFL expects stable GM in the near term and aims 18-20% operating EBITDA margin by end of FY27E.
- On-Premise business de-grew 2% YoY, while off-Premise business grew 8% YoY in Q4. Going forward, we expect that growth in off-premises business would improve with focus on digital innovation and operational experience.
- Average sales per store on TTM basis de-grew by 5% YoY to Rs 63.0mn led by menu innovation. We believe that average sales per store would remain high with continuous addition of new and innovative offerings. Moreover, WFL collaborated with Lotus Biscoff for new desserts and frappe. The company plans to launch LTO like McVeggie Feista and McChicken Fiesta for upcoming quarters.
- During the quarter, WFL opened 17 new outlets, taking the total stores count to 397 outlets across 64 cities. WFL is targeting to open 45-50 store in FY25E and 580-630 stores by FY27E. The management plans to open new stores in west and south regions with more focus on underpenetrated market in southern regions. We believe, WFL has enough headroom for store and geographic expansion.

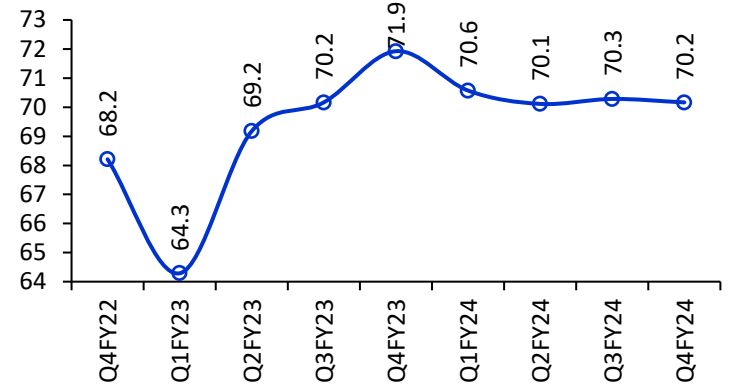
- WFL has transited ~84% of restaurants to EOTF (Experience of the future) format in Q4FY24. In addition, focus continues on digital through kiosks and mobile app. The digital sales grew 15% YoY (contributes 70% of revenue). Going ahead, the company will focus on expanding drive-through stores and unlocking their significant returns after 4-5 years.
- Drive thru is one of the key levers in terms of network expansion. WFL has envisaged to add ~580 to 630 stores by 2027 driven by drive thru stores and strong focus across South India and smaller towns. We believe, drive thru stores will support brand penetration and brand relevance in the long term.
- The company has guided capex of Rs 2000-2500mn for FY25E.

Exhibit 3: Revenue Trends



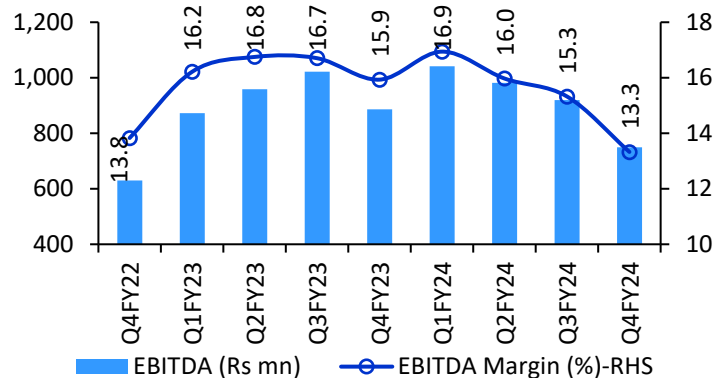
Source: Company, DART

Exhibit 4: Gross Margin Trends



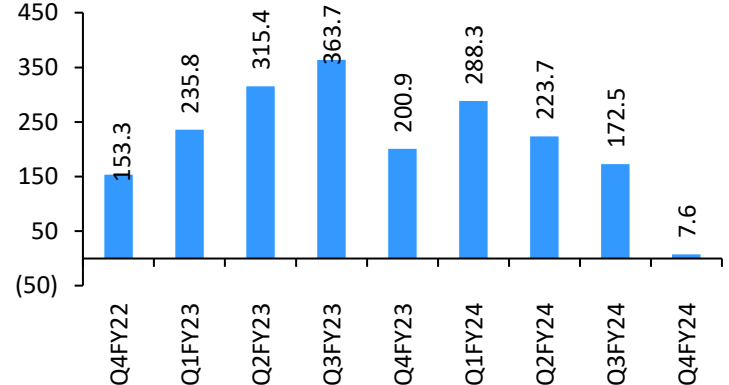
Source: Company, DART

Exhibit 5: EBITDA and EBITDA Margin Trends



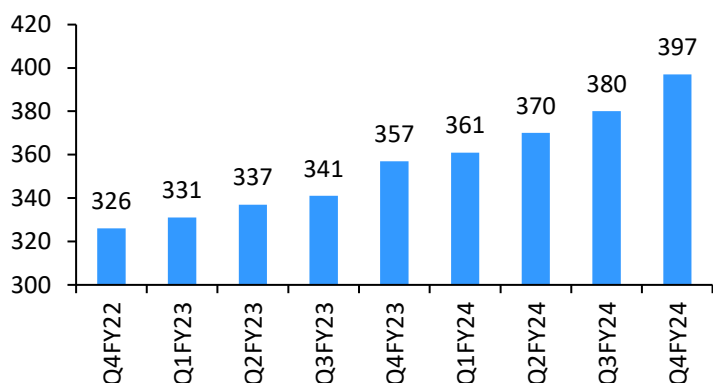
Source: Company, DART

Exhibit 6: Adj. PAT Trends



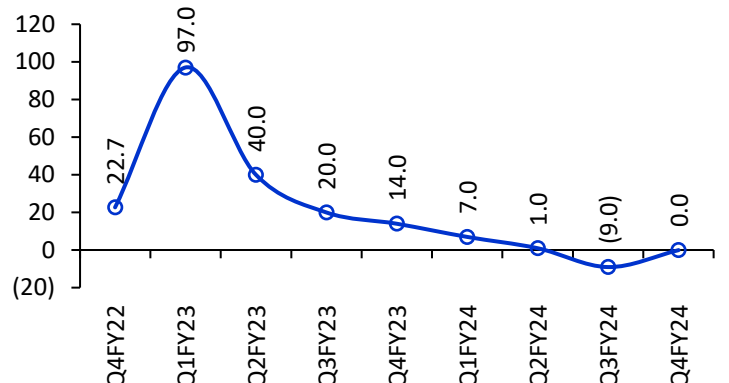
Source: Company, DART

Exhibit 7: Total Store Count



Source: DART, Company

Exhibit 8: SSSG Trajectory



Source: DART, Company

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24P	FY25E	FY26E
Revenue	22,782	23,918	27,452	32,520
Total Expense	19,041	20,225	23,439	27,417
COGS	6,860	7,107	7,961	9,431
Employees Cost	3,106	3,285	3,969	4,461
Other expenses	9,076	9,833	11,509	13,525
EBIDTA	3,741	3,693	4,012	5,103
Depreciation	1,522	1,822	2,074	2,283
EBIT	2,219	1,871	1,938	2,820
Interest	927	1,097	1,226	1,356
Other Income	203	185	154	159
Exc. / E.O. items	0	0	0	0
EBT	1,495	958	865	1,623
Tax	379	266	225	409
RPAT	1,116	692	640	1,214
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,116	692	640	1,214

Balance Sheet

(Rs Mn)	FY23A	FY24P	FY25E	FY26E
Sources of Funds				
Equity Capital	312	312	312	312
Minority Interest	0	0	0	0
Reserves & Surplus	5,347	5,571	6,211	7,425
Net Worth	5,659	5,883	6,523	7,737
Total Debt	12,030	13,625	13,762	13,899
Net Deferred Tax Liability	(604)	(708)	(708)	(708)
Total Capital Employed	17,086	18,800	19,577	20,928

Applications of Funds

Net Block	16,229	18,170	20,410	22,064
CWIP	567	447	447	447
Investments	1,299	1,380	680	680
Current Assets, Loans & Advances	1,962	1,835	2,333	2,743
Inventories	714	632	974	1,154
Receivables	107	173	232	275
Cash and Bank Balances	284	141	200	348
Loans and Advances	591	626	665	704
Other Current Assets	266	262	262	262
Less: Current Liabilities & Provisions	2,971	3,032	4,294	5,006
Payables	1,877	2,026	2,093	2,479
Other Current Liabilities	1,094	1,006	2,201	2,526
<i>sub total</i>				
Net Current Assets	(1,009)	(1,197)	(1,961)	(2,263)
Total Assets	17,086	18,800	19,577	20,928

E – Estimates

Important Ratios

Particulars	FY23A	FY24P	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	69.9	70.3	71.0	71.0
EBIDTA Margin	16.4	15.4	14.6	15.7
EBIT Margin	9.7	7.8	7.1	8.7
Tax rate	25.3	27.8	26.0	25.2
Net Profit Margin	4.9	2.9	2.3	3.7
(B) As Percentage of Net Sales (%)				
COGS	30.1	29.7	29.0	29.0
Employee	13.6	13.7	14.5	13.7
Other	39.8	41.1	41.9	41.6
(C) Measure of Financial Status				
Gross Debt / Equity	2.1	2.3	2.1	1.8
Interest Coverage	0.0	0.0	0.0	0.0
Inventory days	11	10	13	13
Debtors days	2	3	3	3
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	30	31	28	28
Working Capital days	(16)	(18)	(26)	(25)
FA T/O	1.4	1.3	1.3	1.5
(D) Measures of Investment				
AEPS (Rs)	7.2	4.4	4.1	7.8
CEPS (Rs)	16.9	16.1	17.4	22.4
DPS (Rs)	0.0	3.4	0.0	0.0
Dividend Payout (%)	0.0	77.5	0.0	0.0
BVPS (Rs)	36.3	37.7	41.8	49.6
RoANW (%)	21.7	12.0	10.3	17.0
RoACE (%)	12.9	10.0	9.7	12.7
RoAIC (%)	14.2	10.6	10.2	14.1
(E) Valuation Ratios				
CMP (Rs)	867	867	867	867
P/E	121.1	195.3	211.1	111.3
Mcap (Rs Mn)	1,35,153	1,35,153	1,35,153	1,35,153
MCap/ Sales	5.9	5.7	4.9	4.2
EV	1,46,899	1,48,637	1,48,715	1,48,705
EV/Sales	6.4	6.2	5.4	4.6
EV/EBITDA	39.3	40.2	37.1	29.1
P/BV	23.9	23.0	20.7	17.5
Dividend Yield (%)	0.0	0.4	0.0	0.0
(F) Growth Rate (%)				
Revenue	44.5	5.0	14.8	18.5
EBITDA	97.7	(1.3)	8.6	27.2
EBIT	320.0	(15.7)	3.6	45.5
PBT	NA	(35.9)	(9.7)	87.6
APAT	NA	(38.0)	(7.5)	89.6
EPS	NA	(38.0)	(7.5)	89.6

E – Estimates

Cash Flow

Particulars	FY23A	FY24P	FY25E	FY26E
Profit before tax	1,495	958	865	1,623
Depreciation & w.o.	1,522	1,822	2,074	2,283
Net Interest Exp	0	0	0	0
Direct taxes paid	(439)	(403)	(225)	(409)
Change in Working Capital	70	76	823	450
Non Cash	978	887	0	0
(A) CF from Operating Activities	3,626	3,340	3,537	3,947
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(2,691)	(2,154)	(4,315)	(3,937)
Free Cash Flow	935	1,186	(778)	10
(Inc.)/ Dec. in Investments	168	(34)	700	0
Other	0	0	0	0
(B) CF from Investing Activities	(2,522)	(2,188)	(3,615)	(3,937)
Issue of Equity/ Preference	(21)	0	0	0
Inc./(Dec.) in Debt	(817)	(758)	136	138
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	0	(536)	0	0
Other	(214)	0	0	0
(C) CF from Financing	(1,052)	(1,295)	136	138
Net Change in Cash	52	(143)	59	148
Opening Cash balances	232	284	141	200
Closing Cash balances	284	141	200	348

E – Estimates

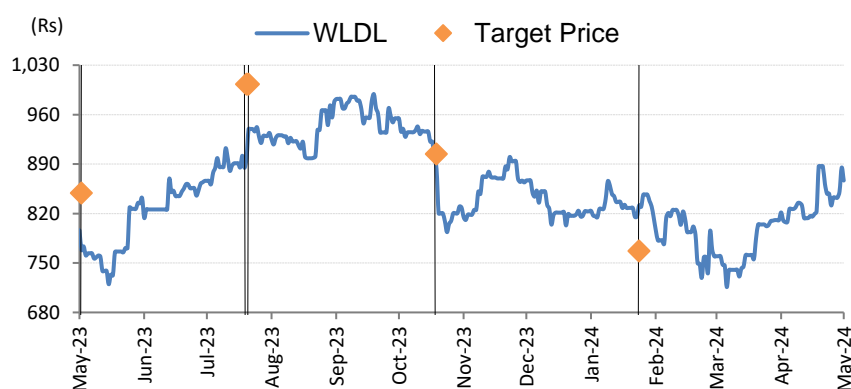
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-23	Accumulate	849	768
Jul-23	Accumulate	1,003	898
Jul-23	Accumulate	1,003	940
Oct-23	Reduce	904	883
Jan-24	SELL	767	832

*Price as on recommendation date

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