

# Westlife Foodworld

## Challenges persist

Westlife's 3QFY25 results were marginally ahead of our estimates due to a lower-than-expected royalty rate. However, operational numbers were far weaker, with 3% SSSG. Notably, SSSG was subdued despite a favourable base (-9%) and management's aggression on the value meal platform. We maintain a REDUCE rating with a TP of Rs 680 (30x FY27 Pre-IND-AS EV/EBITDA) as we expect it to deliver revenue and EBITDA CAGRs of 11% over FY24-27, driven by (a) weak macros, (b) increased competitive intensity as more nimble and new-age brands gain access to capital, along with Burger King adopting an aggressive pricing strategy to grab market share, (c) external headwinds such as geopolitical turmoil leading to boycotts of certain American brands, and (d) the increase in the royalty rate from 4.5% in FY24 to 5.5% in FY27.

- **3QFY25 result summary:** 3QFY25 results were broadly in line with our estimates; SSSG grew 2.8% YoY after four quarters of decline, driven by (a) a favourable base, (b) new product launches, and (c) heavy discounting to drive sales growth. However, the following headwinds persist for McD: (a) a weak macro environment, (b) anti-US sentiment towards McD, and (c) increased competitive intensity. Management has continued its aggression in opening drive-thrus; 7 of 15 new stores were opened in the drive-thru format. Gross margins contracted 20 bps YoY to 70.1%, owing to inflation in key RM's (coffee, cocoa, and palm oil) and an increased contribution from the low-margin value meals portfolio. Pre-Ind AS EBITDA margin declined by approximately 230 bps YoY to 9.1%, due to higher marketing spends and aggressive store additions.
- **Outlook and valuation:** We will turn positive on the stock once we see the earlier-mentioned headwinds receding. However, structural levers remain intact, given: a) its ability to drive 6-7% SSSG on a sustainable basis owing to NPD and product customization; b) exponential growth is yet to be fully leveraged in platforms (McDelivery, McCafé, and Breakfast) as heavily capitalized online food aggregators show extreme hunger for expansion and the gradual building up of café culture in India; and c) there is a massive store-opening opportunity (potential is 3x the number of current stores).

### Quarterly/annual financial summary

(INR mn)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	FY24	FY25E	FY26E	FY27E
Net Sales	6,502	5,925	9.7	6,154	5.7	23,682	24,783	27,621	31,893
EBITDA*	595	685	(13.2)	481	23.7	2,698	2,056	2,552	3,659
APAT	155	259	(40.0)	109	42.7	1,102	505	741	1,456
AEPS (INR)	1.2	1.9	(36.5)	0.8	55.5	6.7	3.2	4.8	9.4
P/E (x)						111.4	229.1	156.3	79.5
EV/EBITDA (x)						43.2	57.0	46.3	32.5
Core RoCE (%)						15.4	8.2	12.1	26.4

Source: Company, HSIE Research

## REDUCE

CMP (as on 29 Jan 2025)	INR 723
Target Price	INR 680
NIFTY	23,163

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 725	INR 680
Pre Ind AS EBITDA %	FY25E -8.2%	FY26E -14.4%

### KEY STOCK DATA

Bloomberg code	WESTLIFE IN
No. of Shares (mn)	156
MCap (INR bn) / (\$ mn)	113/1,302
6m avg traded value (INR mn)	165
52 Week high / low	INR 960/674

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(3.8)	(13.7)	(11.3)
Relative (%)	0.9	(7.8)	(17.7)

### SHAREHOLDING PATTERN (%)

	Sep-24	Dec-24
Promoters	56.25	56.25
FIs & Local MFs	21.31	21.23
FPIs	13.72	13.90
Public & Others	8.39	8.28
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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**Con call takeaways:**

- **Store opening guidance:** Management maintains its guidance to open 45-50 stores in FY25, despite only 26 stores being added in 9MFY25. Further, management has mentioned that the majority of the store additions will be in South India and smaller cities, as they are under-penetrated.
- **NPD:** WLDL has taken active steps to expand its portfolio to make it more comprehensive: a) the early feedback for the Crispy Veggie launched in 2QFY25 has been positive, thereby driving premiumization; b) the McCrispy fried chicken variant was launched in the non-veg skewed southern region; and c) the multi-millet bun add-on was launched at a price point of INR 10.
- **Gross margin:** A portfolio-level price hike of about 50 bps was initiated in Q3. Management expects the gross margin to remain stable at ~70% levels in the near term.
- **Demand outlook:** Guest counts have returned to September'23 levels due to management's focus on the McSaver meals platform, which in turn is driving higher affordability scores and increased store traffic.
- **Drive-thru** (22% of store count) partnerships have performed well, and the focus continues to be on their expansion. Management has highlighted that these stores add a lot of value once they have been present for more than four years.
- **Chicken range:** McD launched its fried chicken range in the South India market in Aug'24. Since its launch, the offering has been made available in 160+ outlets (approximately 40% of total stores). Management mentioned their focus on improving their chicken category through better processes, launching new products, and expanding the portfolio throughout all stores.

**Consolidated P&L**

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>22,594</b>	<b>23,682</b>	<b>24,783</b>	<b>27,621</b>	<b>31,893</b>
Growth (%)	45.2	4.8	4.6	11.5	15.5
Material Expenses	7,071	7,107	7,410	8,203	9,408
Employee Expense	2,034	2,323	2,625	2,914	3,234
Other Expenses	10,668	11,790	12,895	14,176	15,838
<b>Pre Ind AS EBITDA</b>	<b>3,009</b>	<b>2,698</b>	<b>2,056</b>	<b>2,552</b>	<b>3,659</b>
<b>Pre Ind AS EBITDA Growth (%)</b>	<b>130.7</b>	<b>(10.3)</b>	<b>(23.8)</b>	<b>24.1</b>	<b>43.4</b>
<b>Pre Ind AS EBITDA Margin (%)</b>	<b>13.3</b>	<b>11.4</b>	<b>8.3</b>	<b>9.2</b>	<b>11.5</b>
Depreciation	942	1,164	1,313	1,531	1,717
<b>EBIT</b>	<b>2,067</b>	<b>1,534</b>	<b>743</b>	<b>1,021</b>	<b>1,942</b>
Other Income	81	136	149	164	181
Interest	144	198	217	196	176
<b>PBT</b>	<b>2,004</b>	<b>1,472</b>	<b>675</b>	<b>990</b>	<b>1,947</b>
Tax	493	370	170	249	491
Profit from minority/associates					
<b>RPAT</b>	<b>1,384</b>	<b>1,039</b>	<b>505</b>	<b>741</b>	<b>1,456</b>
Adjustment	(128)	(64)	-	-	-
<b>Adjusted PAT</b>	<b>1,511</b>	<b>1,102</b>	<b>505</b>	<b>741</b>	<b>1,456</b>
<b>APAT Growth (%)</b>	<b>335.0</b>	<b>(27.1)</b>	<b>(54.2)</b>	<b>46.6</b>	<b>96.7</b>
<b>Adjusted EPS (INR)</b>	<b>8.9</b>	<b>6.7</b>	<b>3.2</b>	<b>4.8</b>	<b>9.4</b>
<b>EPS Growth (%)</b>	<b>384.2</b>	<b>(25.0)</b>	<b>(51.4)</b>	<b>46.6</b>	<b>96.7</b>

Source: Company, HSIE Research

**Consolidated Balance Sheet**

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	312	312	312	312	312
Reserves	5,347	5,571	5,072	3,945	2,482
<b>Total Shareholders Funds</b>	<b>5,659</b>	<b>5,883</b>	<b>5,384</b>	<b>4,256</b>	<b>2,793</b>
Minority Interest	-	-	-	-	-
Long Term Debt	-	-	-	-	-
Short Term Debt	2,070	2,390	2,390	2,390	2,390
<b>Total Debt</b>	<b>2,070</b>	<b>2,390</b>	<b>2,390</b>	<b>2,390</b>	<b>2,390</b>
Net Deferred Taxes	(604)	(708)	(708)	(708)	(708)
Other Non-current Liabilities & Provns	130	99	99	99	99
<b>TOTAL SOURCES OF FUNDS</b>	<b>7,256</b>	<b>7,664</b>	<b>7,165</b>	<b>6,038</b>	<b>4,575</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	16,230	18,170	19,345	20,231	20,861
CWIP	567	447	447	447	447
Other Non Current Assets	453	424	424	424	424
<b>Total Non-current Assets</b>	<b>17,250</b>	<b>19,040</b>	<b>20,216</b>	<b>21,102</b>	<b>21,731</b>
Inventories	714	632	661	736	850
Debtors	107	173	181	202	233
Other Current Assets	733	783	783	783	783
Cash & Equivalents	1,583	1,521	921	73	(781)
<b>Total Current Assets</b>	<b>3,136</b>	<b>3,110</b>	<b>2,546</b>	<b>1,794</b>	<b>1,085</b>
Creditors	1,877	2,026	2,117	2,359	2,722
Other Current Liabilities & Provns	11,253	12,460	13,479	14,499	15,518
<b>Total Current Liabilities</b>	<b>13,130</b>	<b>14,486</b>	<b>15,596</b>	<b>16,857</b>	<b>18,241</b>
<b>Net Current Assets</b>	<b>(9,994)</b>	<b>(11,376)</b>	<b>(13,050)</b>	<b>(15,064)</b>	<b>(17,156)</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>7,256</b>	<b>7,664</b>	<b>7,165</b>	<b>6,038</b>	<b>4,575</b>

Source: Company, HSIE Research

**Consolidated Cash Flow**

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	1,495	958	(463)	(1,207)	(1,368)
Non-operating & EO Items	(20)	(87)	-	-	-
Interest Expenses	858	1,030	-	-	-
Depreciation	1,522	1,822	2,032	2,321	2,578
Working Capital Change	70	76	55	146	219
Tax Paid	(439)	(403)	116	302	342
<b>OPERATING CASH FLOW ( a )</b>	<b>3,485</b>	<b>3,396</b>	<b>1,739</b>	<b>1,561</b>	<b>1,771</b>
Capex	(2,696)	(2,166)	(2,188)	(2,188)	(2,188)
Free Cash Flow (FCF)	789	1,229	(449)	(626)	(417)
Investments	234	(0)	-	-	-
Non-operating Income	(191)	321	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(2,653)</b>	<b>(1,845)</b>	<b>(2,188)</b>	<b>(2,188)</b>	<b>(2,188)</b>
Debt Issuance/(Repaid)	60	320	-	-	-
Interest Expenses	(143)	(197)	-	-	-
FCFE	706	1,353	(449)	(626)	(417)
Share Capital Issuance	(21)	-	-	-	-
Dividend	-	(536)	(152)	(222)	(437)
Others	(877)	(1,079)	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(981)</b>	<b>(1,492)</b>	<b>(152)</b>	<b>(222)</b>	<b>(437)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(149)</b>	<b>59</b>	<b>(600)</b>	<b>(848)</b>	<b>(853)</b>
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	82	141	(459)	(1,308)	(2,161)

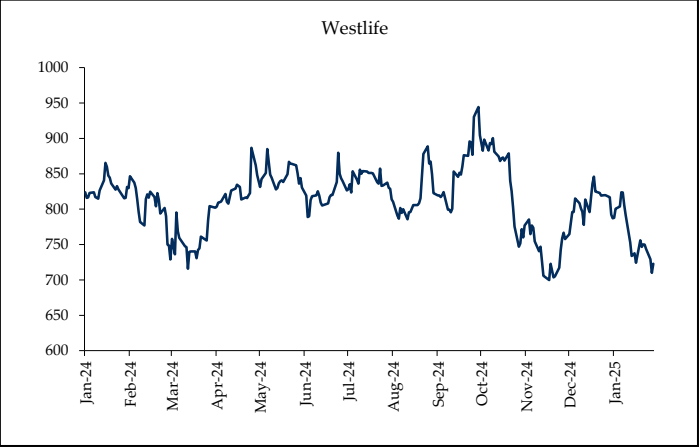
Source: Company, HSIE Research

**Ratios**

KEY RATIOS	FY23	FY24	FY25E	FY26E	FY27E
<b>PROFITABILITY (%)</b>					
GPM	69.0	70.3	70.3	70.5	70.7
EBITDA Margin	13.3	11.4	8.3	9.2	11.5
EBIT Margin	9.1	6.5	3.0	3.7	6.1
APAT Margin	6.7	4.7	2.0	2.7	4.6
RoE	32.7	19.1	9.0	15.4	41.3
RoIC (or Core RoCE)	25.4	17.8	8.2	11.4	23.2
RoCE	22.2	15.4	8.2	12.1	26.4
<b>EFFICIENCY</b>					
Tax Rate (%)	24.6	25.1	25.2	25.2	25.2
Fixed Asset Turnover (x)	1.2	1.1	1.0	0.9	1.0
Inventory (days)	11.5	9.7	9.7	9.7	9.7
Debtors (days)	1.7	2.7	2.7	2.7	2.7
Other Current Assets (days)	11.8	12.1	11.5	10.3	9.0
Payables (days)	30.3	31.2	31.2	31.2	31.2
Other Current Liab & Provns (days)	20.9	18.9	18.0	16.2	14.0
Cash Conversion Cycle (days)	(26.1)	(25.6)	(25.3)	(24.6)	(23.8)
Net D/E (x)	0.1	0.1	0.3	0.5	1.1
Interest Coverage (x)					
<b>PER SHARE DATA (Rs)</b>					
EPS	8.9	6.7	3.2	4.8	9.4
CEPS	15.0	14.2	11.7	14.6	20.4
Dividend	-	-	1.0	1.4	2.8
Book Value	36.4	37.8	34.6	27.4	18.0
<b>VALUATION</b>					
P/E (x)	83.6	111.4	229.1	156.3	79.5
P/BV (x)	20.5	19.7	21.5	27.2	41.4
EV/EBITDA (x)	38.6	43.2	57.0	46.3	32.5
EV/Revenues (x)	5.1	4.9	4.7	4.3	3.7
OCF/EV (%)	3.0	2.91	1.48	1.32	1.49
FCF/EV (%)	0.7	1.05	(0.38)	(0.53)	(0.35)
FCFE/Mkt Cap (%)	0.6	1.2	(0.4)	(0.5)	(0.4)
Dividend Yield (%)	-	-	0.1	0.2	0.3

Source: Company, HSIE Research

1 Yr Price Movement



**Rating Criteria**  
BUY: >+15% return potential  
ADD: +5% to +15% return potential  
REDUCE: -10% to +5% return potential  
SELL: > 10% Downside return potential

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