Equity Research
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BSE Sensex: 55437

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Q1FY22 result review and earnings revision

Consumer Staples & Discretionary

Target price Rs200

Earnings revision

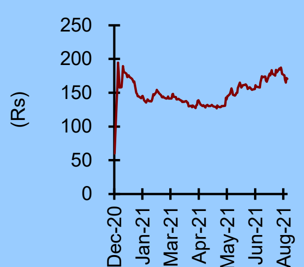
(%)	FY22E	FY23E
Sales	↑ 3.6	↑ 2.7
EBITDA	↑ 3.7	↑ 2.0
EPS	NM	↑ 3.3

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	52.9	52.7	52.6
Institutional investors	22.9	20.3	22.1
MFs and other	9.2	5.0	4.7
Banks/FIs	0.0	0.0	0.0
Insurance	0.0	0.6	0.2
FIIs	13.7	14.7	17.2
Others	24.2	27.0	25.3

Source: NSE

Price chart



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INDIA

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Burger King India

BUY
Maintained

On the right track; good recovery play

Rs171

Burger King reported a decent quarter in terms of revenue (down 24% QoQ) and gross margin print (+65%). Focus continues on strengthening (1) delivery platform (including own app), (2) value offering (Stunner Menu) and (3) store expansion. Consumer response (to innovation in Whopper range) appears good with 1 in every 3 orders having a Whopper.

We see multiple short-to-medium-term tailwinds: (1) likely sharper revenue recovery (once consumption normalize) given the over indexation of mall stores, (2) young store maturity provides operating leverage and (3) addition of BK Café as incremental growth. Key risks are (1) BKI may go-through a steep learning curve of expansion (and some potential failures) in tier-2/3/4 cities and (2) potentially higher competitive intensity in north, east India. Maintain BUY.

- **In-line revenue print.** BKIL reported revenues of Rs1.5 bn in Q1FY22, down 24% QoQ (Q1FY21 revenue of Rs385 mn). We note that while BKIL's revenue decline is lower than WLDL's (down 28% QoQ), the same needs to be seen in the context of WLDL's better recovery in Q4. Management highlighted that (1) delivery channel saw good traction with Q1FY22 ADS (delivery) 57% higher than FY20 level and (2) good recovery in July with easing restrictions – recovery in West has been good, followed by South, East and North (key geography of BKIL though).
- **Gross margins continue to be robust.** BKIL reported gross margins of 65.2% in Q1 (+290 bps YoY but down 40 bps QoQ). We note that (1) BKIL has set up most of its supply chain from scratch to avoid paying premium to existing QSR vendors, (2) has good flexibility in menu innovation and pricing. With the new Stunner Menu, (Rs 50 for veg and Rs70 for non-veg) BKIL has strengthened its value focus; the communication for the premium range (Whopper) also continues.
- **Focus on BK Café and store expansion.** In the previous quarter, BKIL had announced the plan to launch BK Café by Q4FY22. It has initiated consumer research on recipes and menu. It is looking to ramp-up the café offering to 75 stores by March-23. In terms of store network, BKIL added 5 stores in Q1FY22 (EoP store count of 270) with plans to ramp-up network to 320 in FY22E (13 under construction and 21 under pipeline) and 470 in FY24E. We note that competitive intensity in the QSR market will rise with most of the players indicating a quicker ramp-up.
- **Valuation and risks:** We increase our FY23 revenue estimates by 3%; modelling revenue / EBITDA CAGR of 71 / 329 (%) over FY21-23E. Retain BUY with DCF-based target price of Rs200. Improved execution engine and accelerated share-gain potential (preference for hygiene) keep us positive. Key downside risks are delays in store expansion plans and increased competitive intensity in north and east markets.

Market Cap	Rs65.7bn/US$884mn
Bloomberg	BURGERKI IN
Shares Outstanding (mn)	383.5
52-week Range (Rs)	219/108
Free Float (%)	47.1
FII (%)	17.2
Daily Volume (US$/'000)	8,246
Absolute Return 3m (%)	30.9
Absolute Return 12m (%)	NA
Sensex Return 3m (%)	14.6
Sensex Return 12m (%)	46.2

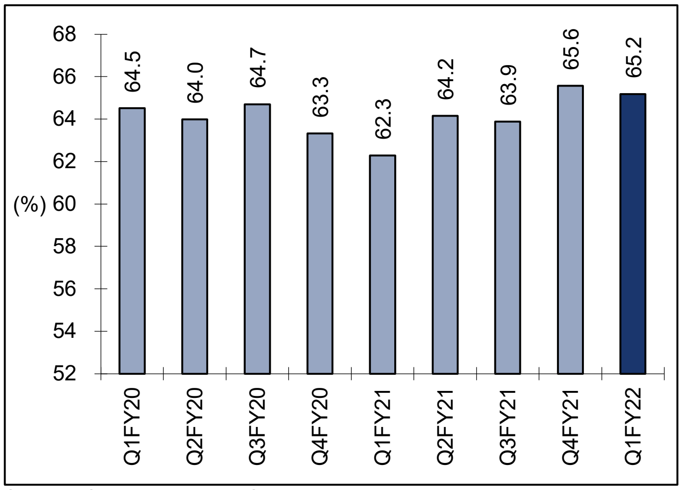
Year to March	FY20	FY21P	FY22E	FY23E
Revenue (Rs mn)	8,412	4,945	10,258	14,501
Adj. Net Profit (Rs mn)	(722)	(1,662)	(346)	359
Dil. Rec. EPS (Rs)	(2.6)	(4.3)	(0.9)	0.9
% Chg YoY	nm	nm	nm	nm
P/E (x)	nm	nm	nm	181.9
CEPS (Rs)	1.6	(1.0)	3.0	5.5
EV/EBITDA (x)	226.0	nm	99.1	43.5
Dividend Yield (%)	-	-	-	-
RoCE (%)	(1.3)	(9.4)	1.5	7.3
RoE (%)	(27.5)	(35.0)	(5.3)	5.5

Table 1: Q1FY22 results review

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Same store sales growth (%)	**-**	**(68.9)**	**6890 bps**	**(4.9)**	**490 bps**	**(39.3)**	**3.9**	**-4320 bps**
Number of stores	270	-	270	265	5	265	260	5
Net Revenue	**1,497**	**385**	**289**	**1,961**	**(24)**	**4,945**	**8,412**	**(41)**
COGS	(521)	(145)	259	(675)	(23)	(1,756)	(3,015)	(42)
Gross profit	**976**	**240**	**307**	**1,285**	**(24)**	**3,188**	**5,397**	**(41)**
Staff cost	(309)	(270)	15	(333)	(7)	(1,176)	(1,365)	(14)
Other Expenses	(651)	(260)	150	(708)	(8)	(1,862)	(2,992)	(38)
EBITDA	**15**	**(291)**	**(105)**	**245**	**(94)**	**150**	**1,040**	**(86)**
Other income	37	25	46	34	8	285	56	409
Finance Cost	(167)	(213)	(21)	(163)	2	(821)	(655)	25
D&A	(329)	(313)	5	(319)	3	(1,275)	(1,164)	10
PBT	**(444)**	**(791)**	**(44)**	**(204)**	**118**	**(1,662)**	**(722)**	**130**
Tax	-	-		-		-	-	
Recurring PAT	**(444)**	**(791)**	**(44)**	**(204)**	**118**	**(1,662)**	**(722)**	**130**
Extraordinary items	-	(14)		(56)		(77)	(43)	
Net profit (reported)	**(444)**	**(804)**	**(45)**	**(259)**	**71**	**(1,739)**	**(766)**	**127**
EPS	**(1.2)**	**(2.7)**	**(57)**	**(0.5)**	**118**	**(4.3)**	**(2.6)**	**67**
Costs as a % of sales								
COGS	34.8	37.7	-289 bps	34.4	39 bps	35.5	35.8	-32 bps
Gross margin (%)	**65.2**	**62.3**	**288 bps**	**65.6**	**-40 bps**	**64.5**	**64.2**	**31 bps**
Staff cost	20.7	70.2	-4951 bps	17.0	365 bps	23.8	16.2	755 bps
Occupancy and other exp.	43.5	67.6	-2410 bps	36.1	740 bps	37.7	35.6	209 bps
EBITDA margin (%)	**1.0**	**(75.5)**	**7648 bps**	**12.5**	**-1146 bps**	**3.0**	**12.4**	**-934 bps**
Income tax rate (%)	0.0	0.0	0 bps	0.0	0 bps	0.0	0.0	0 bps

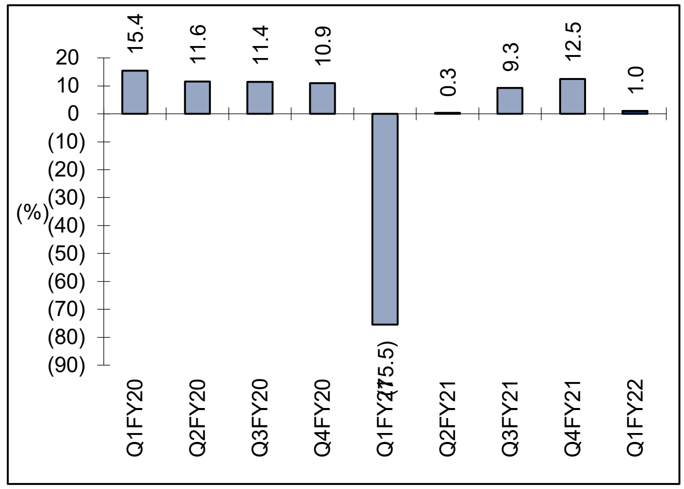
Source: Company data, I-Sec research

Chart 1: BKIL's gross margins



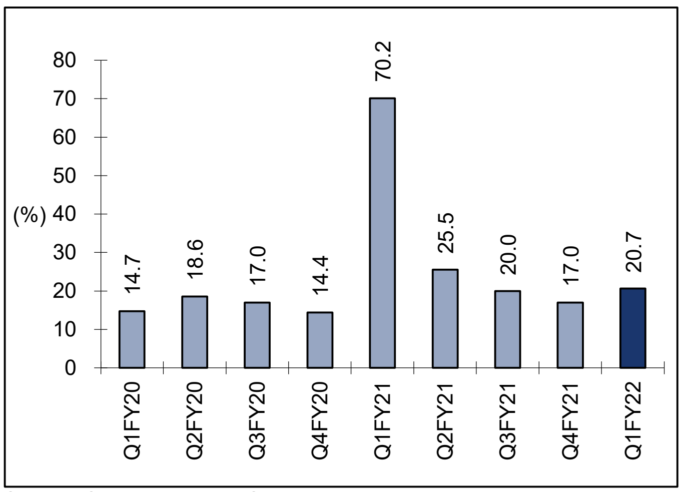
Source: Company data, I-Sec research

Chart 2: BKIL's EBITDA margin



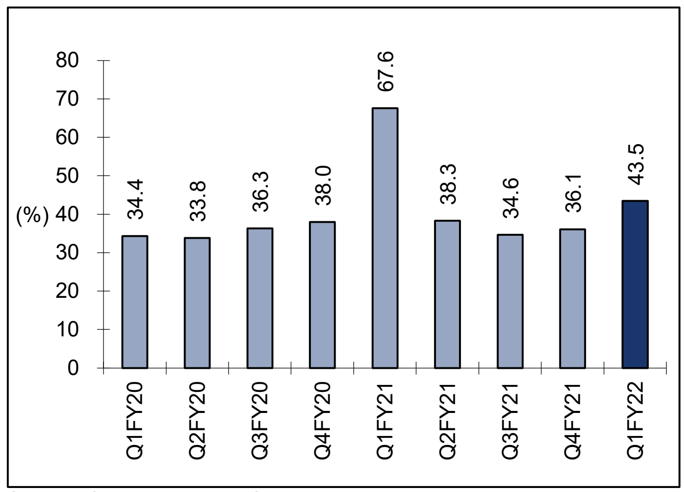
Source: Company data, I-Sec research

Chart 3: Staff costs as % of sales



Source: Company data, I-Sec research

Chart 4: Other expenses as % of sales



Source: Company data, I-Sec research

Financial summary

Table 2: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Net Sales & Operating income	**8,412**	**4,945**	**10,258**	**14,501**
Operating Expenses	**7,372**	**4,795**	**8,586**	**11,744**
EBITDA	**1,040**	**150**	**1,672**	**2,757**
% margins	12.4	3.0	16.3	19.0
Depreciation & Amortisation	1,164	1,275	1,478	1,736
Gross Interest	655	821	711	824
Other Income	56	285	170	163
Recurring PBT	**(722)**	**(1,662)**	**(346)**	**359**
Less: Taxes	-	-	-	-
Less: Minority Interest	-	-	-	-
Net Income (Reported)	**(766)**	**(1,739)**	**(346)**	**359**
Extraordinaries (Net)	(43)	(77)	-	-
Recurring Net Income	**(722)**	**(1,662)**	**(346)**	**359**

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	799	3,797	2,650	2,724
of which cash & cash eqv.	280	2,161	886	830
Total Current Liabilities & Provisions	1,065	1,357	1,300	1,814
Net Current Assets	**(266)**	**2,440**	**1,350**	**910**
Investments	335	329	432	569
Net Fixed Assets	10,367	9,855	11,109	13,155
Capital Work-in-Progress	476	301	301	301
Total Assets	**10,912**	**12,925**	**13,192**	**14,935**
Liabilities				
Borrowings	**8,158**	**6,190**	**6,803**	**8,188**
Deferred Tax Liability	**-**	**-**	**-**	**-**
Minority Interest	-	-	-	-
Equity Share Capital	2,777	3,830	3,830	3,830
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	(23)	2,905	2,559	2,918
Less: Misc. Exp. n.w.o.				
Net Worth	**2,754**	**6,735**	**6,389**	**6,748**
Total Liabilities	**10,912**	**12,925**	**13,192**	**14,935**

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	1,019	804	1,005	2,009
Working Capital Changes	108	335	(227)	338
Capital Commitments	(2,275)	(350)	(1,590)	(2,353)
Free Cashflow	**(1,148)**	**789**	**(812)**	**(6)**
Cashflow from Investing Activities	(2,304)	(3,039)	(1,894)	(2,872)
Issue of Share Capital	-	5,628	-	-
Inc (Dec) in Borrowings	1,112	(3,385)	552	1,293
Dividend paid	-	-	-	-
Chg. in Cash & Bank balance	(118)	208	(1,275)	(56)
Closing cash & balance	41	249	(1,026)	(1,082)

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS	(2.6)	(4.3)	(0.9)	0.9
Cash EPS	1.6	(1.0)	3.0	5.5
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	9.9	17.6	16.7	17.6
Growth (%)				
Net Revenue	33.0	(41.2)	107.5	41.4
EBITDA	31.7	(85.6)	1,015.6	64.9
PAT	nm	nm	nm	nm
DPS	-	-	-	-
Valuation Ratios (x)				
P/E	nm	nm	nm	181.9
P/CEPS	107.3	nm	57.7	31.2
P/BV	17.2	9.7	10.2	9.7
EV / EBITDA	226.0	nm	99.1	43.5
EV / Sales	5.4	12.8	6.2	4.4
Operating Ratios				
Raw Material / Sales (%)	35.8	35.5	34.3	33.5
Employee cost / Sales (%)	16.2	23.8	15.1	14.5
Royalty cost / Sales (%)	4.1	4.6	4.7	4.8
SG&A / Sales (%)	31.5	33.1	29.7	28.2
Other Income / PBT (%)	(7.7)	(17.1)	(49.2)	45.3
Effective Tax Rate (%)	-	-	-	-
Working Capital (days)	(25.8)	(63.4)	(22.8)	(24.6)
Inventory Turnover (days)	4.1	7.4	4.0	4.0
Receivables (days)	1.4	4.4	3.5	2.0
Payables (days)	35.4	84.2	36.0	36.0
Net D/E (x)	0.6	(0.5)	(0.3)	(0.2)
Profitability Ratios (%)				
Net Income Margins	(8.6)	(33.6)	(3.4)	2.5
RoACE	(1.3)	(9.4)	1.5	7.3
RoAE	(27.5)	(35.0)	(5.3)	5.5
Dividend Payout	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	12.4	3.0	16.3	19.0

Source: Company data, I-Sec research

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