

# Westlife Foodworld

**BSE SENSEX** 61,003  
**S&P CNX** 18,036

**CMP: INR675 TP: INR745 (+10%) Neutral**



## Stock Info

Bloomberg	WLDL IN
Equity Shares (m)	156
M.Cap.(INRb)/(USDb)	107.6 / 1.3
52-Week Range (INR)	815 / 402
1, 6, 12 Rel. Per (%)	-1/7/39
12M Avg Val (INR M)	133
Free float (%)	43.8

## Financials & Valuations (INR b)

Y/E March	FY23E	FY24E	FY25E
Sales	23.0	27.3	32.9
Sales Gr. (%)	46.2	18.5	20.3
EBITDA	3.8	4.6	5.6
Margins (%)	16.5	16.7	16.9
Adj. PAT	1.2	1.6	2.2
Adj. EPS (INR)	7.4	10.0	14.1
EPS Gr. (%)	L/P	34.9	41.5
BV/Sh.(INR)	37.1	47.1	61.2

## Ratios

RoE (%)	22.1	23.7	26.1
RoCE (%)	11.4	12.6	14.2

## Valuation

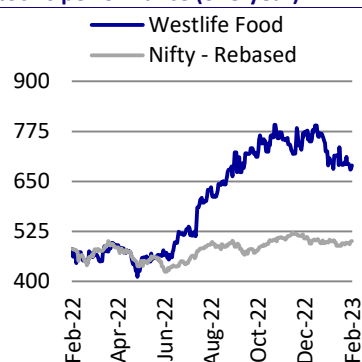
P/E (x)	91.3	67.6	47.8
P/BV (x)	18.2	14.3	11.0
EV/EBITDA (x)	28.1	23.2	18.9
Pre IND AS			
EV/EBITDA (x)	37.1	29.3	23.8

## Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	56.2	56.3	57.1
DII	23.7	24.1	22.7
FII	10.4	10.1	10.7
Others	9.7	9.5	9.4

FII Includes depository receipts

## Stock's performance (one-year)



## Supply chain bolsters growth prospects

The Westlife Foodworld (WLDL) management organized a visit to the facilities of two of its key supply chain partners - Vista Foods and Radhakrishna Foodland. Both of them have had a long association with McDonald's in India and are also critical for WLDL's growth plans, especially as the company now plans to add an unprecedented 50-60 stores annually as highlighted in [our note](#), following the unveiling of its Vision 27 program in December 2022:

### Key highlights from Vista Food facility visit and management meet

- Vista Foods India is a part of OSI international, a Chicago-based long-term global supplier to McDonald's. It started the supply chain 1.5 years before McDonald's opened its first store in the country in the mid-1990s.
- It is a key player for McDonald's India in the meat (mainly chicken) and vegetable patties/nuggets processing supply chain. About 55-60% of its capacity is used by McDonald's alone.
- Among many other plants, it also operates the largest frozen food plant in South India.
- Vista Foods India has also been crucial in setting up lettuce supply chain and the supply chain for potatoes used in french fries, both of which were non-existent earlier.
- McDonald's has been able to increase the average weight of chicken to nearly 2x, since the beginning of its operations in India.
- Being privy to McDonald's expansion plans over the next three years, Vista is a critical component of the much vaunted 'cluster-based approach', which lowers the cost of the supply chain.
- 95% of all raw materials (including coffee and palm oil) are now sourced locally and sustainably in India.
- Vista has also been able to convert used cooking oil to 99% bio-diesel.
- Stringent quality control and process discipline indicate wastage levels are only ~1%.

### Key Highlights from Radhakrishna Foodland facility visit and management meet

- Radhakrishna Foodland is the sole transport and warehousing system provider for WLDL.
- It works with McDonald's India on inventory planning, replenishment, data analytics, demand planning, warehousing, transport (to and from vendors and stores), and vendor payment mechanisms, etc.
- Its association with McDonald's goes back to the days when it started operations in India.
- In Westlife Territory (West and South India), RK Foodland has four Distribution centers at Kalamboli in Maharashtra, Bangalore, Hyderabad, and Ahmedabad. The last two facilities have been recently set up. The Hyderabad facility reduces the distance travelled to supply significantly.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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- All their modernized trucks have GPS trackers.
- The management focusses on ensuring that there are no stock-out at the store level and the trucks are fully utilized to transport inventory to and from the store as well as vendor partners, including Vista.
- Average distance travelled for Westlife has been coming down year after year. Average distance travelled for QSRs are anyway lower than FMCG products.
- Interestingly, the same truck can have multiple temperature-controlled zones and these are also customizable to single temperature. Thus, the trucks remain fully utilized at all times in their transport route.

#### Valuation and view

- As indicated in [our detailed note](#) in Dec'22 after the unveiling of WLDL's Vision 2027, building blocks are in place to capture the long-term opportunity in the QSR space.
- The visit to the supply chain partners also enabled us to appreciate key pillars that support the Vision 2027 growth plans
- We reiterate our Neutral rating on the stock, given its: 1) fair valuations, 2) a scheduled increase in royalty rates to 2x from its current levels, and 3) limited incremental gross margin levers. **Our valuation at 26x pre-Ind AS FY25E EV/EBITDA leads to a TP of INR745.**

## Vista Foods

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### Background

- Vista is the biggest supplier of McDonald's in India and is one of the company's Tier 1 partners. Vista is part of the USD8b OSI group, which is headquartered in Chicago and founded in 1909. The group has 77 sites in 18 countries.

### Role of Tier 1 supplier like Vista

- Tier1 suppliers act as a conduit between Tier 2 suppliers and the company, process the food, and hand it over to the logistics partner. Tier 2 suppliers grow/supply Lettuce, Potato, Poultry, coating systems, etc. to Tier 1 suppliers like Vista.
- All decisions on on-boarding Tier 1 suppliers are conducted with the approval of McDonald's India JV partners and it can take ~1-1.5 years for the onboarding process to be complete.
- Many of McDonald's Tier1/2 partners have been with the company for a long time and have grown with the company to attain a significant scale. For example, there are only three suppliers of lettuce and four to five suppliers of poultry for McDonald's in India across both the franchisees.
- Iceberg Lettuce as well as the variety of potatoes suitable to make fries was introduced in India by Vista and McDonalds.
- 95% of all raw materials are now locally and sustainably sourced (including palm oil and coffee) barring fish and a few niche products such as sausages and toys/books, which are part of 'Happy meal' for kids.
- Vista has also been able to convert used cooking oil to 99% bio-diesel.

### Association with McDonald's

- Vista has been a supply chain partner of McDonald's in India since inception. In fact, it began operations in India a year and half before McDonald's set up its first store in the country.
- It is the key provider of processed meat (mainly chicken) and vegetables.
- 55-60% of its capacity is used by McDonald's. Vista is aware of McDonalds' expansion plans of the next three years and will expand seamlessly to facilitate the cluster-based approach.
- Vista has nearly doubled the weight of a single chicken to 2.4 kg from 1.25kg since inception.
- Every year, it targets 5% reduction in energy, which it passes on to clients like McDonald's.
- Vista only provides marinated chicken to the McDonald's stores, unlike KFC, where the chicken is marinated at the store. Vista follows a process called injection marination, which the company believes ensures a much more widespread marination across the chicken.
- Wastage levels are only 1% because of stringent quality control and process discipline.
- The entire process of coating, frying, and grilling the patties and nuggets and refreezing them to a temperature of -18 degrees is completed at the plant itself.

- Key determinant of the chicken cost is animal feed, mainly maize and soya. Its impact is with a lag. These prices have come down from its peak in recent months.

### **Additional details**

- Vista has a capacity of ~50,000 tons.
- Its main business focus is on frozen meat and vegetables.
- Among many other plants, it also operated the largest frozen food plant in South India.
- It is a partner for ITC for the entire Masterchef range of products. It also provides raw materials to Jumbo King, Charcoal Biryani, etc.
- It also supplies to Burger King India on a transactional basis.
- It has a significantly large exports business.
- Globally, the parent (OSI) is the biggest producer of the 'Impossible Burger' in the USA.

## **RadhaKrishna Foodland**

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### **Background**

- RK Foodland, which was started nearly 30 years ago, has 34 distribution centers, occupying a space of 1.2m sq. ft., 300 temperature-controlled vehicles, which cover around 1000 points and traversing a distance of 10m kilometres every year.
- It works with McDonald's in India, Saudi Arabia, and Jordan.
- Other partners, apart from McDonalds, who are a part of their 'Digitally driven end to end supply chain' network include Taj SATS, Tata Starbucks, and Oyo.
- It works with FMCG companies such as P&G, Mondelez, Pepsico (entire snack business), and Cargill among others as part of its 'Digitally enabled supply chain' business.
- It also works with Domino's, Subway, and Hindustan Unilever.
- Its supply chain of warehouses and vehicles enable four types of storage and transport:
  - Frozen - with temperature of around -18 degrees for patties, nuggets, fries, etc.
  - Chiller - with temperature of +1.1 to +4.4 degrees, mainly for dairy
  - Air-con/Tropical - with temperature of +18 to +22 degrees
  - Ambient or room temperature
- Interestingly, the same truck can have multiple temperature-controlled zones and these are also customizable to single temperature, depending on what is being transported. This ensures that the truck is fully utilized at all times through its transport route. For example, the used cooking oil transport from McDonald's store conversion into bio-fuel is enabled through this.

**Association with McDonald's**

- RK Foodland has been associated with since McDonald's started its operations in India.
- It is the sole warehousing and transport partner for McDonald's in India.
- It works with McDonald's on inventory planning, replenishment, data analytics, demand planning, warehousing, transport (to and from vendors and stores), and vendor payment mechanisms.
- In Westlife Territory (West and South India), RK Foodland has four Distribution centers at Kalamboli in Maharashtra, Bangalore, Hyderabad, and Ahmedabad. The last two facilities have been recently set up.
- The Hyderabad facility reduces the distance travelled to supply significantly.
- All its modernized trucks have GPS trackers which helps detect any lack of movement beyond 5 minutes, so that it can identify the problem on a real-time basis.
- The key is to ensure no stockout at the store level. The trucks reach Mumbai stores every 2-3 days and in case of smaller cities such as Bhilai and Raipur, they reach once in 7 days.
- Only buns use a different and local distribution system.
- Most perishable products are dairy (which has to be consumed P+3) and buns (which have to be consumed before P+4 days).
- Average distance travelled for Westlife has been coming down year after year. Average distance travelled for QSRs are anyway lower than FMCG products.

## Financials and valuations

Consolidated - Income Statement						(INR m)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Total Income from Operations</b>	<b>11,349</b>	<b>14,020</b>	<b>15,478</b>	<b>9,860</b>	<b>15,765</b>	<b>23,046</b>	<b>27,310</b>	<b>32,858</b>
Change (%)	21.9	23.5	10.4	-36.3	59.9	46.2	18.5	20.3
Materials Consumed	4,250	5,116	5,382	3,483	5,451	7,933	9,285	11,007
<b>Gross profit</b>	<b>7,099</b>	<b>8,905</b>	<b>10,095</b>	<b>6,377</b>	<b>10,314</b>	<b>15,114</b>	<b>18,025</b>	<b>21,851</b>
Margin (%)	62.6	63.5	65.2	64.7	65.4	65.6	66.0	66.5
Employees Cost	1,716	1,975	2,192	1,782	2,095	2,493	3,156	3,898
Other Expenses	4,610	5,740	5,763	4,126	6,326	8,818	10,304	12,388
Operating Expenses	6,325	7,715	7,955	5,908	8,422	11,311	13,460	16,286
<b>Total Expenditure</b>	<b>10,575</b>	<b>12,830</b>	<b>13,337</b>	<b>9,391</b>	<b>13,873</b>	<b>19,243</b>	<b>22,746</b>	<b>27,293</b>
% of Sales	93.2	91.5	86.2	95.2	88.0	83.5	83.3	83.1
<b>EBITDA</b>	<b>774</b>	<b>1,190</b>	<b>2,140</b>	<b>469</b>	<b>1,892</b>	<b>3,803</b>	<b>4,564</b>	<b>5,565</b>
Change (%)	64.8	53.8	79.9	-78.1	303.1	101.0	20.0	21.9
Margin (%)	6.8	8.5	13.8	4.8	12.0	16.5	16.7	16.9
Depreciation	673	797	1,384	1,396	1,364	1,531	1,704	1,874
<b>EBIT</b>	<b>101</b>	<b>393</b>	<b>757</b>	<b>-927</b>	<b>528</b>	<b>2,272</b>	<b>2,860</b>	<b>3,691</b>
Int. and Finance Charges	150	177	808	845	826	930	1,058	1,199
Other Income	178	136	130	443	277	196	273	444
<b>PBT bef. EO Exp.</b>	<b>129</b>	<b>352</b>	<b>79</b>	<b>-1,329</b>	<b>-21</b>	<b>1,538</b>	<b>2,075</b>	<b>2,935</b>
EO Items	0	0	-166	42	0	0	0	0
<b>PBT after EO Exp.</b>	<b>129</b>	<b>352</b>	<b>-88</b>	<b>-1,287</b>	<b>-21</b>	<b>1,538</b>	<b>2,075</b>	<b>2,935</b>
Total Tax	0	139	-14	-293	-4	387	523	740
Tax Rate (%)	0.0	39.5	-18.1	N/M	N/M	25.2	25.2	25.2
<b>Reported PAT</b>	<b>129</b>	<b>213</b>	<b>-73</b>	<b>-994</b>	<b>-17</b>	<b>1,150</b>	<b>1,552</b>	<b>2,196</b>
<b>Adjusted PAT</b>	<b>129</b>	<b>213</b>	<b>93</b>	<b>-1,036</b>	<b>-17</b>	<b>1,150</b>	<b>1,552</b>	<b>2,196</b>
Change (%)	L/P	65.7	-56.4	P/L	-	L/P	34.9	41.5
Margin (%)	1.1	1.5	0.6	-10.5	-0.1	5.0	5.7	6.7

Consolidated - Balance Sheet						(INR m)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	311	311	311	312	312	312	312	312
Total Reserves	5,111	5,525	5,459	4,501	4,309	5,459	7,012	9,207
<b>Net Worth</b>	<b>5,422</b>	<b>5,837</b>	<b>5,770</b>	<b>4,812</b>	<b>4,621</b>	<b>5,771</b>	<b>7,323</b>	<b>9,519</b>
Total Loans	1,835	2,339	1,837	2,152	2,010	1,710	1,210	810
Lease Liabilities	0	0	7,822	7,528	8,536	9,745	11,418	13,271
Deferred Tax Liabilities	0	-63	-214	-510	-520	-520	-520	-520
<b>Capital Employed</b>	<b>7,258</b>	<b>8,113</b>	<b>15,216</b>	<b>13,982</b>	<b>14,647</b>	<b>16,707</b>	<b>19,432</b>	<b>23,080</b>
Gross Block	8,795	7,242	8,439	8,522	9,956	11,956	14,156	16,456
Less: Accum. Deprn.	3,722	1,761	2,538	3,153	4,517	6,049	7,753	9,628
<b>Net Fixed Assets</b>	<b>5,073</b>	<b>5,480</b>	<b>5,900</b>	<b>5,368</b>	<b>5,439</b>	<b>5,907</b>	<b>6,403</b>	<b>6,829</b>
Goodwill on Consolidation	466	466	466	466	466	466	466	466
Capital WIP	197	284	226	256	355	355	355	355
<b>Total Investments</b>	<b>1,843</b>	<b>2,046</b>	<b>1,576</b>	<b>1,984</b>	<b>1,504</b>	<b>1,579</b>	<b>1,816</b>	<b>2,325</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>1,712</b>	<b>1,901</b>	<b>9,249</b>	<b>8,651</b>	<b>9,691</b>	<b>11,688</b>	<b>14,289</b>	<b>17,795</b>
Inventory	337	410	411	465	559	884	1,048	1,260
Account Receivables	64	98	47	88	133	195	231	277
Cash and Bank Balance	109	92	30	110	232	61	726	606
Loans and Advances	1,201	1,301	8,760	7,988	8,766	10,548	12,285	15,651
<b>Curr. Liability &amp; Prov.</b>	<b>2,034</b>	<b>2,065</b>	<b>2,201</b>	<b>2,744</b>	<b>2,809</b>	<b>3,289</b>	<b>3,898</b>	<b>4,690</b>
Account Payables	1,397	1,487	1,594	2,024	1,722	2,518	2,984	3,590
Other Current Liabilities	565	498	507	616	953	576	683	821
Provisions	72	80	100	104	134	195	231	278
<b>Net Current Assets</b>	<b>-322</b>	<b>-164</b>	<b>7,048</b>	<b>5,907</b>	<b>6,882</b>	<b>8,399</b>	<b>10,391</b>	<b>13,105</b>
<b>Appl. of Funds</b>	<b>7,258</b>	<b>8,112</b>	<b>15,216</b>	<b>13,982</b>	<b>14,647</b>	<b>16,707</b>	<b>19,432</b>	<b>23,080</b>

E: MOSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Basic (INR)</b>								
<b>Adj. EPS</b>	<b>0.8</b>	<b>1.4</b>	<b>0.6</b>	<b>-6.7</b>	<b>-0.1</b>	<b>7.4</b>	<b>10.0</b>	<b>14.1</b>
Cash EPS	5.2	6.5	9.5	2.3	8.7	17.2	20.9	26.2
BV/Share	34.9	37.5	37.1	30.9	29.7	37.1	47.1	61.2
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Valuation (x)</b>								
P/E	816.7	492.8	1,131.3	N/M	N/M	91.3	67.6	47.8
Cash P/E	131.1	103.9	71.1	291.4	77.9	39.2	32.2	25.8
P/BV	19.4	18.0	18.2	21.8	22.7	18.2	14.3	11.0
EV/Sales	9.4	7.7	6.9	10.9	6.8	4.6	3.9	3.2
EV/EBITDA	138.1	90.2	49.9	228.4	56.6	28.1	23.2	18.9
<b>Return Ratios (%)</b>								
RoE	2.4	3.8	1.6	-19.6	-0.4	22.1	23.7	26.1
RoCE	3.9	4.2	8.9	NA	NA	11.4	12.6	14.2
RoIC	2.0	4.4	9.4	NA	NA	12.5	13.7	15.2
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	1.3	1.9	1.8	1.2	1.6	1.9	1.9	2.0
Asset Turnover (x)	1.6	1.7	1.0	0.7	1.1	1.4	1.4	1.4
Inventory (Days)	11	11	10	17	13	14	14	14
Debtor (Days)	2	3	1	3	3	3	3	3
Creditor (Days)	45	39	38	75	40	40	40	40
<b>Leverage Ratio (x)</b>								
Current Ratio	0.8	0.9	4.2	3.2	3.5	3.6	3.7	3.8
Interest Cover Ratio	0.7	2.2	0.9	-1.1	0.6	2.4	2.7	3.1
Net Debt/Equity	0.0	0.0	0.0	0.0	0.1	0.0	-0.2	-0.2

### Consolidated - Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	129	393	-88	-1,287	-21	1,538	2,075	2,935
Depreciation	673	797	1,384	1,396	1,364	1,531	1,704	1,874
Interest & Finance Charges	145	175	780	791	772	734	785	755
Direct Taxes Paid	-23	-26	-163	32	-66	-387	-523	-740
(Inc)/Dec in WC	508	-110	164	691	-145	-1,687	-1,328	-2,834
<b>CF from Operations</b>	<b>1,432</b>	<b>1,229</b>	<b>2,076</b>	<b>1,623</b>	<b>1,904</b>	<b>1,728</b>	<b>2,714</b>	<b>1,991</b>
Others	-60	-80	-80	-331	-198	0	0	0
<b>CF from Operating incl EO</b>	<b>1,371</b>	<b>1,148</b>	<b>1,996</b>	<b>1,292</b>	<b>1,706</b>	<b>1,728</b>	<b>2,714</b>	<b>1,991</b>
(Inc)/Dec in FA	-1,059	-1,426	-1,259	-491	-999	-2,000	-2,200	-2,300
<b>Free Cash Flow</b>	<b>312</b>	<b>-278</b>	<b>737</b>	<b>801</b>	<b>706</b>	<b>-272</b>	<b>514</b>	<b>-309</b>
(Pur)/Sale of Investments	-59	-73	569	-252	565	-75	-237	-509
Others	4	4	18	-16	-131	196	273	444
<b>CF from Investments</b>	<b>-1,115</b>	<b>-1,495</b>	<b>-672</b>	<b>-759</b>	<b>-565</b>	<b>-1,879</b>	<b>-2,164</b>	<b>-2,365</b>
Issue of Shares	2	2	10	28	24	0	0	0
Inc/(Dec) in Debt	-69	504	-508	332	-142	-300	-500	-400
Interest Paid	-151	-177	-152	-170	-133	-930	-1,058	-1,199
Dividend Paid	0	0	0	0	0	0	0	0
Others	0	0	-737	-643	-768	1,210	1,673	1,852
<b>CF from Fin. Activity</b>	<b>-217</b>	<b>330</b>	<b>-1,387</b>	<b>-453</b>	<b>-1,019</b>	<b>-20</b>	<b>115</b>	<b>254</b>
<b>Inc/Dec of Cash</b>	<b>39</b>	<b>-17</b>	<b>-62</b>	<b>80</b>	<b>122</b>	<b>-171</b>	<b>665</b>	<b>-120</b>
Opening Balance	71	109	92	30	110	232	61	726
<b>Closing Balance</b>	<b>109</b>	<b>92</b>	<b>30</b>	<b>110</b>	<b>232</b>	<b>61</b>	<b>726</b>	<b>606</b>

E: MOSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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