

Westlife Foodworld

3 June, 2023

Reuters: WEST.BO; Bloomberg: WESTLIFE IN

Outperformance likely to continue

We recently hosted Mr. Saurabh Bhudolia, CFO and Mr. Chintan Jajal, Lead IR, Westlife Foodworld (WFL) to get an overall business update. Key highlights from the conference: (1) High density of highway stores and value proposition offered by the company have been a bulwark for WFL in the current uncertain environment, leading to better performance compared to peers. (2) While the unorganized market in Food Services has gained back some share post the covid shock, the value proposition offered by the McDonald's brand has served WFL well to curb this impact relative to others. (3) Incremental expansion in South India and Tier-2 cities with the Chicken offering has led to narrowing of AUV between the West and the South markets. (4) Outlook on the cost front is now better compared to the preceding quarters. WFL is not planning any price hikes currently but lower end of the average 3-5% price increase could happen in FY24 if required. (5) The company expects the beverage part of the business (McCafe) to see significant growth in future. The stock is now trading at ~33x/28x FY24E/FY25E Pre-Ind AS EBITDA. We assign a multiple of 33x on March'25 EBITDA (Pre Ind-AS) and arrive at a target price (TP) of Rs985. WFL has been our top pick in the Consumer Discretionary space and has yielded relatively healthy returns, backed by strong financial performance on a consistent basis. We continue to have a positive view on WFL over the medium term and maintain our BUY recommendation on the stock.

Key takeaways from WFL meeting hosted by Nirmal Bang as part of the NBIE conference on 29th May, 2023.

Demand environment:

- WFL has seen substantial growth post covid in the QSR space.
- Weak consumer sentiment and elevated inflation affected QSR industry 3QFY23 onwards, but WFL has been doing consistently better than industry.
- Drive-through (19-20% of network) has done well in the recent past for WFL. It has a higher salience in this channel compared to other players.

Network expansion:

- WFL is planning to reach ~600 stores by 2027.
- More than 70% of the stores are now EOTF stores, which gives them a right to win.
- Opening stores in smaller cities is easier than finding right locations in large cities.
- Capex is similar for both T1 as well as T2 cities, but returns could be better for T2 cities.
- The number of incremental store openings would be higher in South India followed by Tier 2 and Tier 1 markets.
- For stores that are to be opened in FY24, the real estate deals for have already been finalized.
- The company will continue to operate under a lease model, although it is not averse to owning a store in a great location. It has no intention to go through the sub-franchising route.

Financial Summary (Post Ind-AS)

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Net revenues	9,860	15,765	22,782	26,330	29,753
YoY growth (%)	-36.3	59.9	44.5	15.6	13.0
SSG (%)	-24.4	57.8	38.2	8.0	7.5
EBITDA	759	1,983	3,837	4,959	5,833
EBITDA margin (%)	7.7	12.6	16.8	18.8	19.6
Recurring PAT	-1,027	-17	1,146	1,771	2,252
EPS (Rs)	-6.6	-0.1	7.3	11.4	14.4
YoY growth (%)	-	-	-	54.6	27.2
RoCE (%)	-6.6	11.9	34.3	37.3	34.4
RoE (%)	-19.4	-0.4	22.3	27.1	26.3
RoIC (%)	-6.2	5.1	16.7	21.9	26.4
P/E (x)	-	-	112.5	72.8	57.2
P/BV (x)	26.8	27.9	22.8	17.3	13.3
EV/EBITDA (x) [Post Ind-AS]	169.7	65.1	33.7	25.3	21.2
EV/EBITDA (x) [Pre Ind-AS]	408.2	101.4	46.0	33.2	27.6

Source: Company, Nirmal Bang Institutional Equities Research

BUY (MAINTAIN)

Sector: Quick Service Restaurant

CMP: Rs827

Target Price: Rs985

Upside: 19%

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Key Data

Current Shares O/S (mn)	155.9
Mkt Cap (Rsbn/US\$mn)	128.9/1.6
52 Wk H / L (Rs)	852/436
Daily Vol. (3M NSE Avg.)	147,493

Price Performance (%)

	1 M	6 M	1 Yr
Westlife Foodworld	6.3	14.9	79.4
Nifty Index	2.6	(0.9)	11.8

Source: Bloomberg

[FY22 Annual Report](#)

[4QFY23 Investor Presentation](#)

Cost & Margins:

- WFL is not seeing any significant pressure on the RM basket.
- The company has decent visibility on RM prices due to periodic contracts but if there are any major fluctuations, it reworks the arrangement with supplier to mitigate any impact.
- Historically, price increases have been ~3-5%. The company is currently not planning any price hikes but will evaluate the same going forward. Lower end of the 3-5% price increase could happen in FY24.
- The company usually does not take price cuts but passes on the benefits of lower costs in the form of discounts.
- It tries to beat large part of inflation with cost savings and value chain efforts.
- It expects margin improvement going forward.

Beverages and sides

- Since the launch of the “piri piri” range, sales of beverages have also increased.
- The company expects beverage part of the portfolio to see significant growth in future.
- Current contribution of McCafe is ~10-12% and the company is looking to increase the same to 15-17%.
- It has tied up with ITC to provide mixed fruit juice as an option with the Happy Meals.
- The company has no plans to go for independent McCafe stores.
- It will look to launch a wider variety of side dishes to offer along with coffee and other beverages.

Digital

- WFL has a healthy share of own platform in the online delivery business.
- 62% of the revenue is coming from digital touchpoints, including the Self Ordering Kiosks (SOKs).
- While using SOKs, a customer experiments more, leading to higher ticket sizes.

ONDC

- On the ONDC platform, pricing remains same for WFL. Discounts are provided by the platform.
- WFL believes that it is early to call out any strategy for ONDC. It is currently watching the space as it evolves.

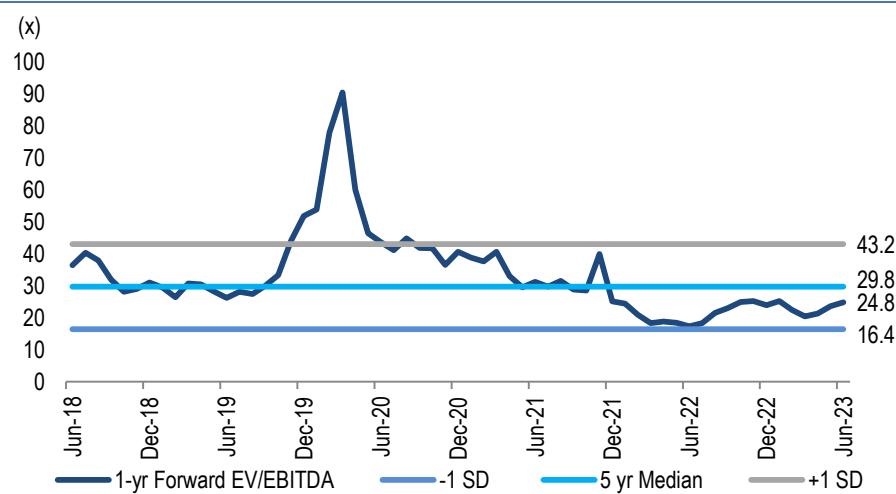
Others

- WFL believes that a wider portfolio (laddered) gives it a right to win.
- Order turnover time is less than 2-3 minutes.
- Burger as a category has seen ~200bps higher growth in the last five years compared to Pizza. Deliveries of Burger have also increased compared to the past.
- 25-30% stores have breakfast menu.
- The company has launched Chicken Big Mac for chicken leadership in West market too.
- Marquee stores do 2x or higher sales than system average.
- Dynamic offers work better than dynamic pricing per day.
- WFL believes there is some work that needs to be done in South India.
- While the unorganized market in Food Services has gained back some lost share post covid, the value proposition of McDonald's has served WFL well to curb this impact relative to others.
- Several stores do over 60 birthday parties a month.
- In the last 5-7 years, customers have started to experiment more.
- Speed, convenience, taste, value for money, variety etc make a difference to attract customers.
- Getting more number of guests is the best way of protecting margins than taking price increases.
- In South India, chicken is the growth driver. New offerings are expected in the next 6-9 months, such as change in menu, NPDs, larger footprint etc. Now the company has better product market fit and hence expanding stores at a faster pace is now a more viable option.

Exhibit 1: Valuation

Particulars	Rsmn
FY25E Pre Ind-AS EBITDA	4,494
Target EV/EBITDA Multiple	33
Target Enterprise Value	1,48,298
Net Debt	-4,980
Target Market Cap	1,53,277
Number of Shares	156
Target Price per share	985
CMP	827
Upside (%)	19

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: 1-year forward EV/EBITDA


Source: Company, Nirmal Bang Institutional Equities Research

Financials (Consolidated; Includes impact of IND-AS 116)

Exhibit 3: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	9,860	15,765	22,782	26,330	29,753
% Growth	-36.3	59.9	44.5	15.6	13.0
SSG %	-24.4	57.8	38.2	8.0	7.5
COGS	3,483	5,129	6,860	7,700	8,554
Staff costs	1,782	2,095	3,035	3,203	3,501
Other expenses	3,836	6,557	9,050	10,469	11,866
Total expenses	9,101	13,782	18,945	21,372	23,920
EBITDA	759	1,983	3,837	4,959	5,833
% growth	-65.5	161.1	93.5	29.2	17.6
EBITDA margin (%)	7.7	12.6	16.8	18.8	19.6
Other income	294	187	147	237	346
Interest costs	845	826	927	1,036	1,124
Depreciation	1,537	1,364	1,522	1,794	2,045
PBT (before exceptional items)	-1,329	-21	1,535	2,366	3,010
Exceptional items	42	0	-40	0	0
Tax	-293	-4	379	596	758
PAT (before exceptional items)	-1,027	-17	1,146	1,771	2,252
PAT	-994	-17	1,116	1,771	2,252
PAT margin (%)	-10.4	-0.1	5.0	6.7	7.6
% Growth	NA	NA	NA	54.6	27.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	312	312	312	312	312
Reserves	4,501	4,309	5,347	7,118	9,370
Net worth	4,812	4,621	5,659	7,430	9,682
Total debt	2,152	2,010	2,070	3,070	3,820
Other long-term liabilities	7,632	8,669	10,090	10,296	10,506
Deferred tax liability	-510	-520	-604	0	0
Total liabilities	14,086	14,780	17,216	20,796	24,008
Gross block	13,596	15,033	18,124	19,824	21,909
Depreciation	8,647	10,011	11,533	12,728	14,085
Net block	4,949	5,022	6,591	7,096	7,825
Right of use assets	7,008	7,718	8,758	8,962	9,279
CWIP & Intangibles	1,141	1,238	1,447	-13	52
Investments	1,984	1,504	1,299	1,312	1,325
Inventories	465	559	714	636	864
Debtors	88	133	107	240	144
Cash	110	232	284	5,335	7,475
Loans & advances	904	907	1,044	1,095	1,151
Other current assets	75	142	142	156	171
Total current assets	1,643	1,973	2,291	7,462	9,805
Creditors	1,851	1,722	1,877	2,342	2,345
Other current liabilities & provisions	789	953	1,293	1,681	1,933
Total current liabilities	2,640	2,675	3,170	4,023	4,278
Total assets	14,086	14,780	17,216	20,796	24,008

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
PAT	-1,027	-17	1,146	1,771	2,252
Depreciation	1,537	1,364	1,522	1,794	2,045
Other income	-294	-187	-147	-237	-346
(Inc./dec. in working capital)	444	-104	366	798	123
Others	845	826	927	1,036	1,124
Cash flow from operations	1,506	1,883	3,814	5,161	5,198
Capital expenditure (-)	-813	-1,859	-2,586	-2,337	-2,561
Net cash after capex	693	24	1,227	2,824	2,637
Inc./dec. in investments and other assets	-48	599	216	159	261
Cash from investing activities	-861	-1,260	-2,371	-2,178	-2,300
Inc./dec. in total borrowings	315	-142	60	1,000	750
Others	-1,431	201	410	-226	-914
Cash from financial activities	-1,117	59	-1,391	2,030	-846
Others	562	-560	0	38	87
Opening cash balance	30	110	232	284	5,335
Closing cash balance	110	232	284	5,335	7,475
Change in cash balance	90	122	52	5,051	2,140

Source: Company, Nirmal Bang Institutional Equities Research

* Capex includes change in right of use assets

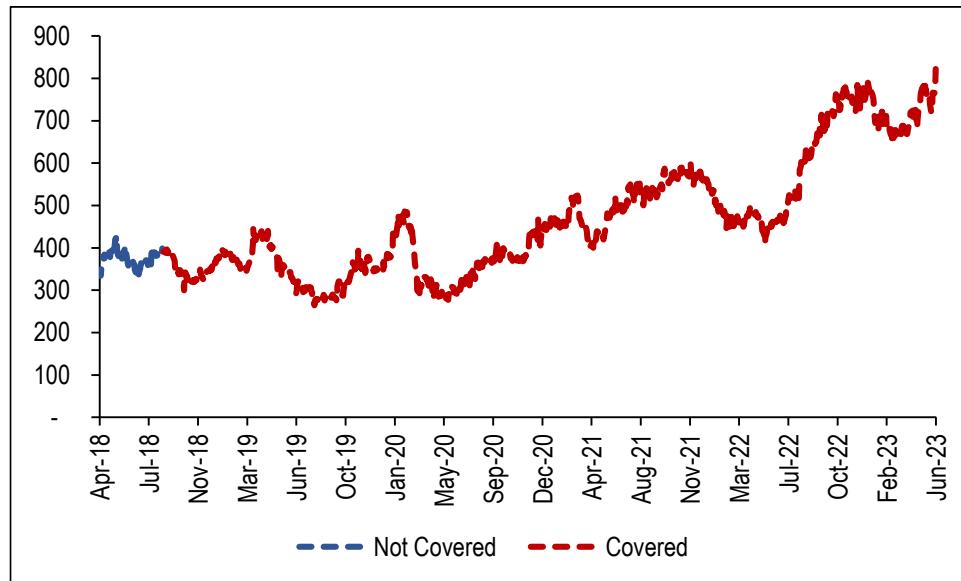
Exhibit 6: Key ratios

Y/E March	FY21	FY22	FY23	FY24E	FY25E
Per share (Rs)					
EPS	(6.6)	(0.1)	7.3	11.4	14.4
Book value	30.9	29.6	36.3	47.6	62.1
Valuation (x)					
P/Sales	13.1	8.2	5.7	4.9	4.3
EV/sales	13.1	8.2	5.7	4.8	4.2
EV/EBITDA	169.7	65.1	33.7	25.3	21.2
P/E	NA	NA	112.5	72.8	57.2
P/BV	26.8	27.9	22.8	17.3	13.3
Return ratios (%)					
RoCE	(6.6)	11.9	34.3	37.3	34.4
RoE	(19.4)	(0.4)	22.3	27.1	26.3
RoIC	(6.2)	5.1	16.7	21.9	26.4
Profitability ratios (%)					
Gross margin	64.7	67.5	69.9	70.8	71.3
EBITDA margin	7.7	12.6	16.8	18.8	19.6
EBIT margin	(7.9)	3.9	10.2	12.0	12.7
PAT margin	(10.4)	(0.1)	5.0	6.7	7.6
Liquidity ratios (%)					
Current ratio	0.7	0.6	0.6	1.2	1.3
Quick ratio	0.6	0.5	0.4	1.1	1.2
Solvency ratio (%)					
Debt-to-equity ratio	0.4	0.4	0.4	0.4	0.4
Turnover ratios					
Total asset turnover ratio (x)	1.5	2.6	3.2	2.5	2.2
Fixed asset turnover ratio (x)	2.0	3.1	3.5	3.7	3.8
Inventory days	45.9	36.5	33.0	32.0	32.0
Debtor days	2.5	2.6	2.5	2.4	2.4
Creditor days	164.0	127.1	100.0	100.0	100.0

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
6 May 2015	Buy	296	403
11 May 2015	Buy	293	403
5 June 2015	Buy	280	403
10 August 2015	Buy	295	356
9 November 2015	Buy	238	335
8 February 2016	Buy	222	280
9 May 2016	Buy	202	282
9 June 2016	Accumulate	237	246
8 August 2016	Accumulate	214	219
24 August 2018	Buy	395	485
29 October 2018	Buy	320	420
4 February 2019	Buy	380	440
4 April 2019	Buy	420	490
15 May 2019	Buy	349	450
26 July 2019	Buy	291	370
25 Oct 2019*	Buy	347	425
01 Nov 2019	Buy	350	425
24 Jan 2020	Buy	421	485
20 April 2020	Buy	326	375
13 June 2020	Buy	297	350
31 July 2020	Accumulate	354	360
23 September 2020	Accumulate	366	410
9 November 2020	Accumulate	372	410
8 January 2021	Accumulate	445	485
22 January 2021	Accumulate	452	495
9 April 2021	Accumulate	420	480
14 May 2021	Buy	420	490
7 June 2021	Buy	485	560
14 August 2021	Buy	512	600
29 August 2021	Buy	534	615
23 September 2021	Buy	538	620
29 October 2021	Buy	574	700
24 November 2021	Buy	578	700
4 February 2022	Buy	497	700
21 February 2022	Buy	470	650
24 February 2022	Buy	473	650
19 May 2022	Buy	454	600
7 June 2022	Buy	465	600
31 July 2022	Buy	584	680
14 September 2022	Accumulate	686	750
10 November 2022	Accumulate	781	815
2 December 2022	Buy	719	830
1 February 2023	Buy	735	870
22 March 2023	Buy	688	905
10 May 2023	Buy	768	935
3 June 2023	Buy	827	985

Rating track graph

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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