

Westlife Foodworld (WESTLIFE)

QSR | NBIE Conference Update

BUY

CMP: Rs819 | Target Price (TP): Rs1,005 | Upside: 23%

June 11, 2024

Drive-thrus to drive growth; South AUV improving

Key Points

- We recently hosted Mr. Akshay Jatia – Executive Director and Mr. Chintan Jajal – Lead of Investor Relations, Westlife Foodworld at the NBIE Investor Conference to get an overview of the current business environment and the company's future plans.
- The demand environment continues to remain challenging with some sequential improvement.
- The Southern market, where the AUV differential vs the West has reduced, is likely to be a key driver of growth going forward as Westlife will focus on adding higher number of incremental stores there.
- We have a "Buy" rating on Westlife with a target price (TP) of Rs1,005, implying an upside of 23% from the CMP.

Challenging demand environment: The demand environment continues to remain challenging. While the company is seeing some improvement in recent months, pressure still continues on YoY basis.

South market catching up: The Southern market represents a huge opportunity to the company as it is still under-penetrated. GDP per capita is also higher in South compared to most other parts of the country. AUV of the South market is also now closer to that of the West as the company believes that it has got its product portfolio right with the chicken offerings.

Network expansion: (1) The company added 17 new restaurants in 4QFY24, taking the total count to 397 (~20% Drive-thrus) across 64 cities. In FY24, it added 40 net new stores, the highest ever the company has added so far (2) For FY25, the company has guided for the addition of 45-50 stores with a focus on South India, smaller towns and Drive-thrus (3) It continues to target 580-630 restaurants by 2027-end.

View and valuation: We have not made any changes to our model post the conference. We believe that once the demand situation improves, Westlife will be the key beneficiary. The stock is now trading at ~29x FY26E pre Ind-AS EBITDA. We assign target multiple of 35x pre Ind-AS EBITDA on FY26E on the back of a resilient performance in a weak operating environment in 4QFY24 and strong structural opportunity in the QSR sector. We have a "Buy" rating on Westlife with a TP of Rs1,005, implying an upside of 23% from the CMP.

| | |
|---------------|-----------|
| Est Change | No change |
| TP Change | No change |
| Rating Change | No change |

Company Data and Valuation Summary

| | |
|-------------------------------------|-----------------------|
| Reuters: | WEST.BO |
| Bloomberg: | WESTLIFE IN |
| Mkt Cap (Rsbn/US\$bn): | 127.8 / 1.5 |
| 52 Wk H / L (Rs): | 1,025 / 709 |
| ADTV-3M (mn) (Rs/US\$): | 137.2 / 1.6 |
| Stock performance (%) 1M/6M/1yr: | (3.0) / (5.5) / (0.8) |
| Nifty 50 performance (%) 1M/6M/1yr: | 4.3 / 3.4 / 24.3 |

| Shareholding | 2QFY24 | 3QFY24 | 4QFY24 |
|--------------|--------|--------|--------|
| Promoters | 56.2 | 56.2 | 56.3 |
| DII's | 23.7 | 24.0 | 23.0 |
| FII's | 10.4 | 10.5 | 11.6 |
| Others | 9.7 | 9.3 | 9.1 |
| Pro pledge | 0.0 | 0.0 | 0.0 |

Financial and Valuation Summary

| Particulars (Rsmn) | FY23 | FY24 | FY25E | FY26E |
|----------------------|--------|--------|--------|--------|
| Revenue | 22,782 | 23,918 | 26,549 | 32,257 |
| % Growth | 44.5 | 5.0 | 11.0 | 21.5 |
| Gross margin (%) | 69.9 | 70.3 | 70.5 | 70.8 |
| EBITDA | 3,741 | 3,693 | 4,171 | 5,980 |
| EBITDA margin (%) | 16.4 | 15.4 | 15.7 | 18.5 |
| % growth | 97.7 | -1.3 | 12.9 | 43.4 |
| Adjusted PAT | 1,116 | 692 | 782 | 1,989 |
| APAT margin (%) | 4.9 | 2.9 | 2.9 | 6.2 |
| % growth | NA | -38.0 | 13.0 | 154.3 |
| EPS | 7.2 | 4.4 | 5.0 | 12.8 |
| % growth | NA | -38.0 | 13.0 | 154.3 |
| RoE (%) | 21.7 | 12.0 | 12.5 | 26.0 |
| RoCE (%) | 23.1 | 16.9 | 17.2 | 25.3 |
| P/E (x) | 114.5 | 184.6 | 163.4 | 64.2 |
| EV/EBITDA (x) [Post] | 34.3 | 34.8 | 31.0 | 21.6 |
| EV/EBITDA (x) [Pre] | 47.2 | 49.2 | 43.5 | 28.5 |

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links –

[4QFY24 Investor Presentation](#)

[FY23 Annual Report](#)

Please refer to the disclaimer towards the end of the document.

Macro environment remains challenging

- While some stabilisation has been seen in recent months, YoY there is still some pressure.
- Value proposition and omni channel will help the company to thwart competition.
- 15-17% Pre Ind-AS EBITDA margin target maintained by 2027-end.

South market

- South market is a huge opportunity and is under-penetrated.
- GDP per capita is higher than most other parts of the country.
- AUV in South is now close to the West.
- Product was the key and now with Chicken offerings it has cracked the same.

Rentals

- In some cities like Bengaluru, the rentals are high but on balance the situation on rentals remains stable.
- While entering into contracts, the company looks at both the models - variable and fixed - depending on the location.

Coffee

- While competition in the Coffee category helps in growth of the category, value proposition helps it in combating competition along with location & cost advantage and quality.
- Also, other players have to work on their food menu, which for Westlife is already a strong competitive advantage.

Margin levers

- Gross margin – product mix and cost optimization.
- Governance across line items – energy, labour, etc.
- Operating leverage.

Drive-thrus

- Drive-thrus will not impact margins much as volume growth is strong from initial levels only.

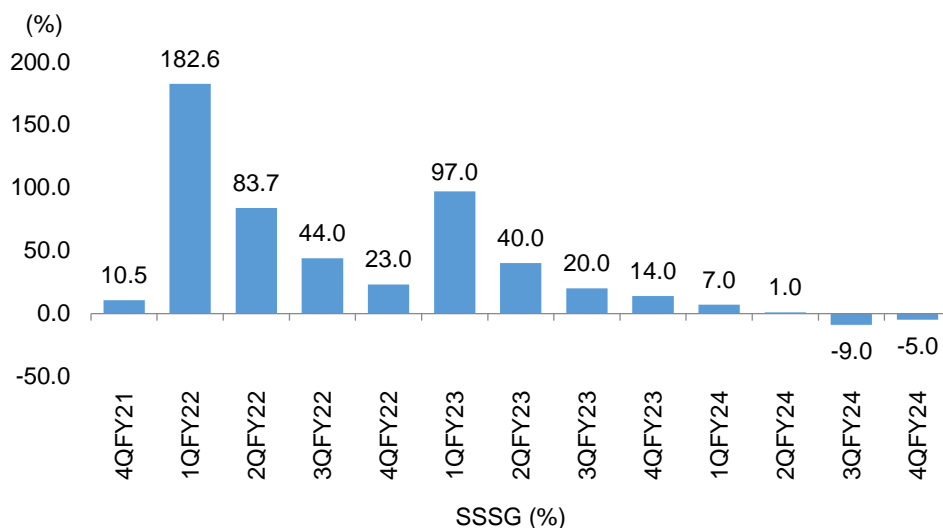
SSSG growth break-up

- To increase AUV, the priority is to improve customer footfalls (guest counts) and then average cheque size.
- 3-5% price hike is taken every year and it is usually at the lower end to combat utilities & labour inflation. The company is unlikely to take any price increases this year as the overall demand environment remains soft.

Others

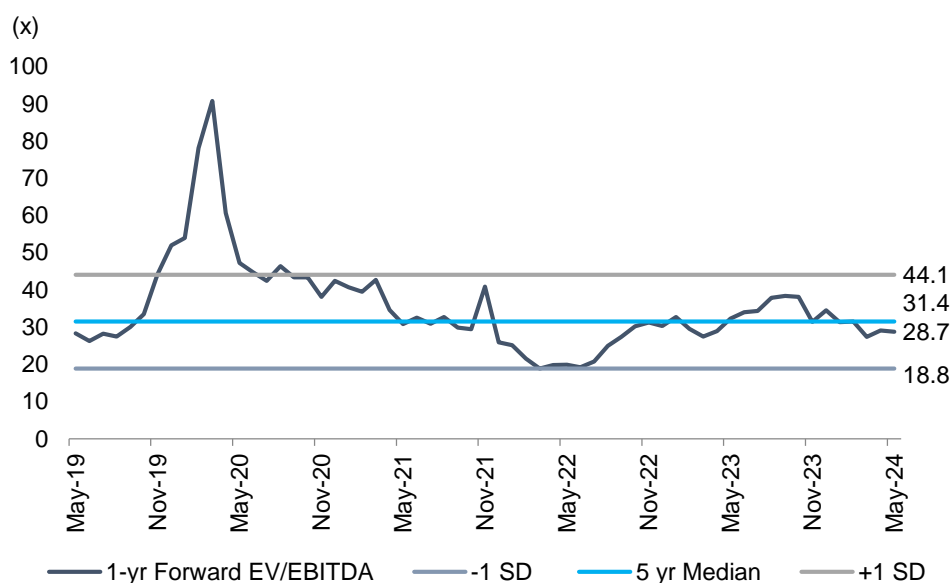
- Overall, EOTF is for improving customer experience significantly. Simultaneously, it also improves productivity.
- The company will continue to give regular guidance on royalty as well.
- No material difference in data analytics for McDelivery app vs TPAs.

Exhibit 1: SSSG stood at -5% YoY in 4QFY24 (on a relatively high base of 14%)



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) | FY22 | FY23 | FY24 | FY25E | FY26E |
|--|---------------|---------------|---------------|---------------|---------------|
| Net Revenue | 15,765 | 22,782 | 23,918 | 26,549 | 32,257 |
| % Growth | 59.9 | 44.5 | 5.0 | 11.0 | 21.5 |
| SSSG % | 57.8 | 38.2 | -1.5 | 4.5 | 15.0 |
| COGS | 5,129 | 6,860 | 7,107 | 7,832 | 9,419 |
| Staff costs | 2,095 | 3,106 | 3,285 | 3,690 | 4,161 |
| Other expenses | 6,648 | 9,076 | 9,833 | 10,856 | 12,697 |
| Total expenses | 13,873 | 19,041 | 20,225 | 22,378 | 26,277 |
| EBITDA | 1,892 | 3,741 | 3,693 | 4,171 | 5,980 |
| % growth | 149.2 | 97.7 | -1.3 | 12.9 | 43.4 |
| EBITDA margin (%) | 12.0 | 16.4 | 15.4 | 15.7 | 18.5 |
| Other income | 277 | 203 | 185 | 181 | 190 |
| Interest costs | 826 | 927 | 1,097 | 1,214 | 1,177 |
| Depreciation | 1,364 | 1,522 | 1,822 | 2,093 | 2,335 |
| Profit before tax (before exceptional items) | -21 | 1,495 | 958 | 1,045 | 2,658 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| Tax | -4 | 379 | 266 | 263 | 669 |
| PAT (before exceptional items) | -17 | 1,116 | 692 | 782 | 1,989 |
| Reported PAT | -17 | 1,116 | 692 | 782 | 1,989 |
| APAT margin (%) | -0.1 | 4.9 | 2.9 | 2.9 | 6.2 |
| % Growth | NA | NA | -38.0 | 13.0 | 154.3 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Balance sheet

| Y/E March (Rsmn) | FY22 | FY23 | FY24 | FY25E | FY26E |
|--|---------------|---------------|---------------|---------------|---------------|
| Share capital | 312 | 312 | 312 | 312 | 312 |
| Reserves | 4,309 | 5,347 | 5,571 | 6,353 | 8,342 |
| Net worth | 4,621 | 5,659 | 5,883 | 6,665 | 8,654 |
| Total debt | 2,010 | 2,070 | 2,390 | 3,140 | 3,140 |
| Other long-term liabilities | 8,669 | 10,090 | 11,334 | 11,564 | 11,798 |
| Deferred tax liability | -520 | -604 | -708 | 0 | 0 |
| Total liabilities | 14,780 | 17,216 | 18,899 | 21,369 | 23,592 |
| Gross block | 15,033 | 18,124 | 21,057 | 23,642 | 26,263 |
| Depreciation | 10,011 | 11,533 | 13,355 | 14,763 | 16,385 |
| Net block | 5,022 | 6,591 | 7,702 | 8,879 | 9,878 |
| Right of use assets | 7,718 | 8,758 | 9,606 | 8,713 | 8,989 |
| CWIP & Intangibles | 1,238 | 1,447 | 1,309 | 110 | -538 |
| Investments | 1,504 | 1,299 | 1,380 | 4,888 | 7,055 |
| Inventories | 559 | 714 | 632 | 852 | 933 |
| Debtors | 133 | 107 | 173 | 130 | 230 |
| Cash | 232 | 284 | 141 | 200 | 220 |
| Loans & advances | 907 | 1,044 | 1,050 | 1,098 | 1,151 |
| Other current assets | 142 | 142 | 157 | 172 | 190 |
| Total current assets | 1,973 | 2,291 | 2,153 | 2,453 | 2,724 |
| Creditors | 1,722 | 1,877 | 2,026 | 2,266 | 2,896 |
| Other current liabilities & provisions | 953 | 1,293 | 1,225 | 1,409 | 1,620 |
| Total current liabilities | 2,675 | 3,170 | 3,251 | 3,674 | 4,516 |
| Total assets | 14,780 | 17,216 | 18,899 | 21,369 | 23,592 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

| Y/E March (Rsmn) | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---------------|---------------|---------------|---------------|---------------|
| PAT | -17 | 1,116 | 692 | 782 | 1,989 |
| Depreciation | 1,364 | 1,522 | 1,822 | 2,093 | 2,335 |
| Other income | -277 | -203 | -185 | -181 | -190 |
| (Inc.)/dec. in working capital | -104 | 366 | 97 | 247 | 661 |
| Others | 826 | 927 | 1,097 | 1,214 | 1,177 |
| Cash flow from operations | 1,792 | 3,728 | 3,524 | 4,155 | 5,972 |
| Capital expenditure (-) | -1,859 | -3,883 | -2,553 | -2,337 | -2,320 |
| Net cash after capex | -67 | -156 | 971 | 1,818 | 3,652 |
| Inc./(dec.) in investments and other assets | 689 | 272 | 82 | -3,391 | -2,047 |
| Cash from investing activities | -1,170 | -3,611 | -2,471 | -5,728 | -4,368 |
| Inc./(dec.) in total borrowings | -142 | 60 | 320 | 750 | 0 |
| Others | 201 | 410 | 43 | -276 | -943 |
| Cash from financial activities | 59 | 470 | 190 | 278 | -1,738 |
| Others | -560 | -535 | -1,385 | 1,354 | 154 |
| Opening cash balance | 110 | 232 | 284 | 141 | 200 |
| Closing cash balance | 232 | 284 | 141 | 200 | 220 |
| Change in cash balance | 122 | 52 | -142 | 59 | 20 |

Source: Company, Nirmal Bang Institutional Equities Research

* Capex includes change in right of use assets

Exhibit 6: Key ratios

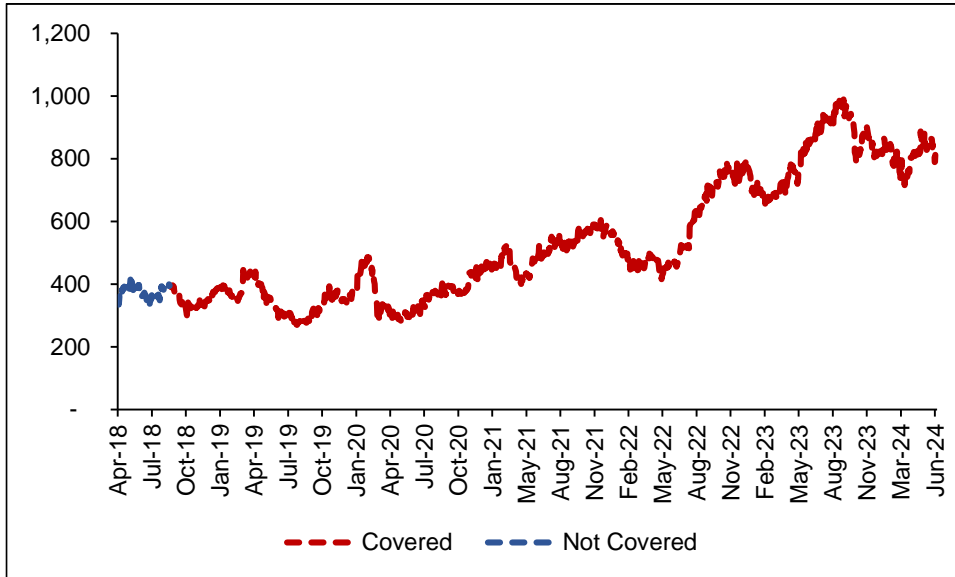
| Y/E March | FY22 | FY23 | FY24 | FY25E | FY26E |
|---------------------------------|-------|-------|-------|-------|-------|
| Per share (Rs) | | | | | |
| EPS | (0.1) | 7.2 | 4.4 | 5.0 | 12.8 |
| Book value | 29.6 | 36.3 | 37.7 | 42.7 | 55.5 |
| Valuation (x) | | | | | |
| P/Sales | 8.1 | 5.6 | 5.3 | 4.8 | 4.0 |
| EV/sales | 8.1 | 5.6 | 5.4 | 4.9 | 4.0 |
| EV/EBITDA | 67.7 | 34.3 | 34.8 | 31.0 | 21.6 |
| P/E | NA | 114.5 | 184.6 | 163.4 | 64.2 |
| P/BV | 27.6 | 22.6 | 21.7 | 19.2 | 14.8 |
| Return ratios (%) | | | | | |
| RoCE | 6.2 | 23.1 | 16.9 | 17.2 | 25.3 |
| RoE | (0.4) | 21.7 | 12.0 | 12.5 | 26.0 |
| RoIC (pre-tax) | 4.3 | 16.0 | 11.7 | 12.7 | 23.0 |
| Profitability ratios (%) | | | | | |
| Gross margin | 67.5 | 69.9 | 70.3 | 70.5 | 70.8 |
| EBITDA margin | 12.0 | 16.4 | 15.4 | 15.7 | 18.5 |
| EBIT margin | 3.4 | 9.7 | 7.8 | 7.8 | 11.3 |
| PAT margin | (0.1) | 4.9 | 2.9 | 2.9 | 6.2 |
| Liquidity ratios (%) | | | | | |
| Current ratio | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 |
| Quick ratio | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 |
| Solvency ratio (%) | | | | | |
| Debt-to-equity ratio | 0.4 | 0.4 | 0.4 | 0.5 | 0.4 |
| Net Debt to Equity ratio | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |
| Turnover ratios | | | | | |
| Total asset turnover ratio (x) | 2.6 | 3.2 | 3.2 | 2.7 | 2.7 |
| Fixed asset turnover ratio (x) | 3.1 | 3.5 | 3.1 | 3.0 | 3.3 |
| Inventory days | 36.5 | 33.9 | 34.6 | 34.6 | 34.6 |
| Debtor days | 2.6 | 1.9 | 2.1 | 2.1 | 2.0 |
| Creditor days | 127.1 | 95.7 | 100.2 | 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 |
| 28 July 2023 | Buy | 898 | 1,030 |
| 26 October 2023 | Buy | 883 | 1,045 |
| 28 November 2023 | Buy | 866 | 1,045 |
| 1 February 2024 | Buy | 832 | 960 |
| 9 May 2024 | Buy | 867 | 1,005 |
| 11 June 2024 | Buy | 819 | 1,005 |

Rating chart



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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