

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
DILs	23.7	24.0	23.0
FII	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

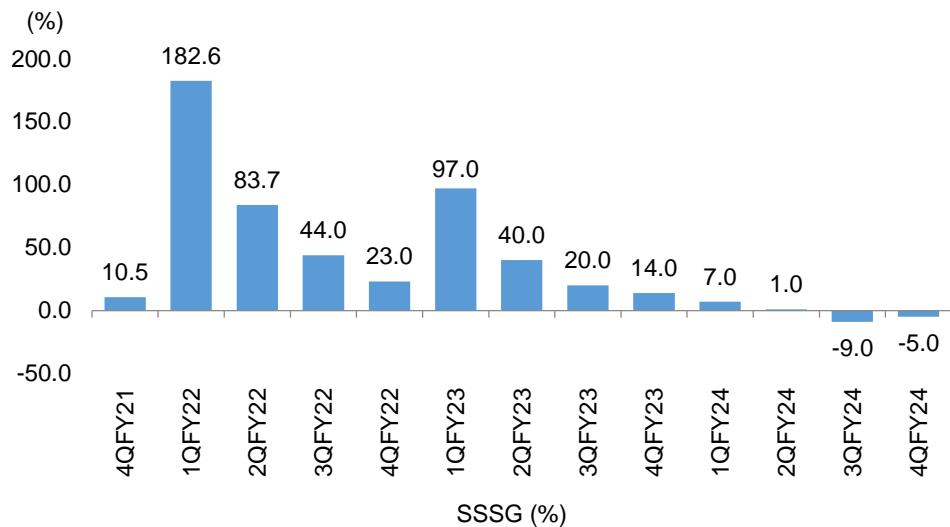
- Drive-thrus will not impact margins much as volume growth is strong from initial levels only.

SSSG growth break-up

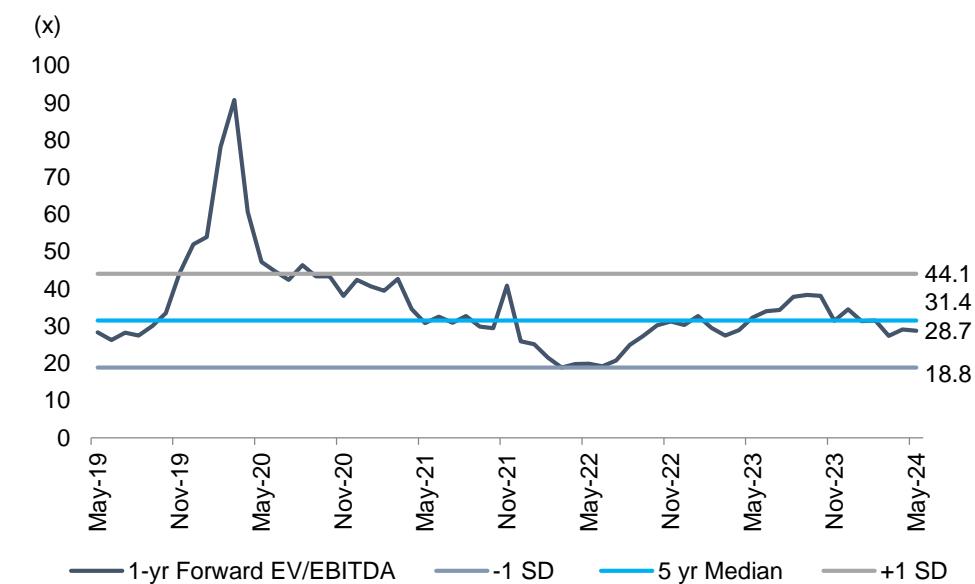
- To increase AUV, the priority is to improve customer footfalls (guest counts) and then average cheque size.
- 3-5% price hike is taken every year and it is usually at the lower end to combat utilities & labour inflation. The company is unlikely to take any price increases this year as the overall demand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

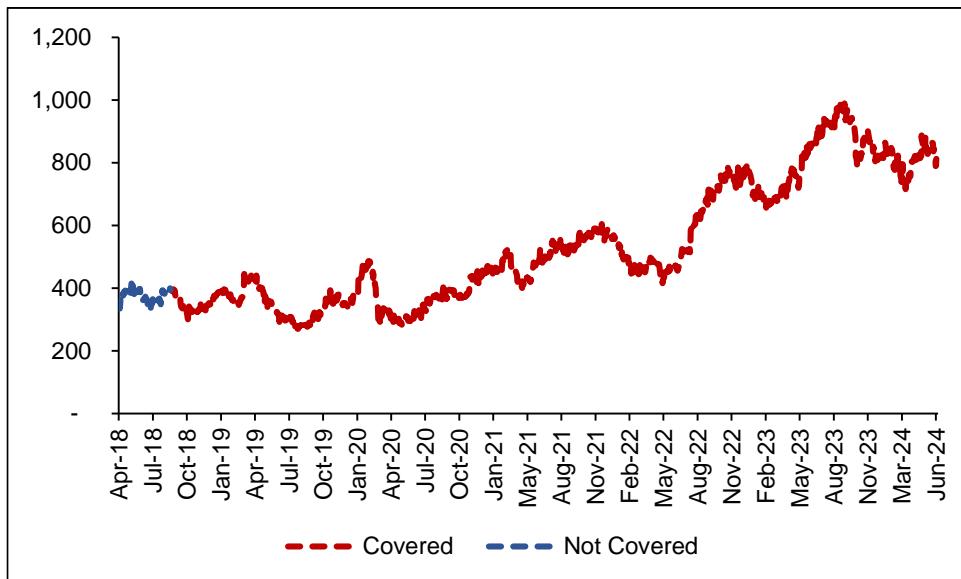
Y/E March	FY22	FY23	FY24	FY25E	FY26E
Per share (Rs)					
EPS	(0.1)	7.2	4.4	5.0	12.8
Book value	29.6	36.3	37.7	42.7	55.5
Valuation (x)					
P/Sales	8.1	5.6	5.3	4.8	4.0
EV/sales	8.1	5.6	5.4	4.9	4.0
EV/EBITDA	67.7	34.3	34.8	31.0	21.6
P/E	NA	114.5	184.6	163.4	64.2
P/BV	27.6	22.6	21.7	19.2	14.8
Return ratios (%)					
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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BUY > 15%

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