

Barbeque Nation Hospitality

Estimate change	↔
TP change	↓
Rating change	↔

CMP: INR610 TP: INR675 (+10%) Neutral

Bloomberg	BARBEQUE IN
Equity Shares (m)	39
M.Cap.(INRb)/(USDb)	23.9 / 0.3
52-Week Range (INR)	958 / 592
1, 6, 12 Rel. Per (%)	-4/-27/-52
12M Avg Val (INR M)	88

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	12.5	14.3	16.4
Sales Gr. (%)	1.6	14.0	15.0
EBITDA	2.1	2.6	3.0
Margins (%)	16.8	18.0	18.3
Adj. PAT	-0.1	0.1	0.2
Adj. EPS (INR)	-3.3	3.3	5.1
EPS Gr. (%)	P/L	L/P	56.8
BV/Sh.(INR)	99.6	102.8	107.9

Ratios

RoE (%)	-3.4	3.2	4.7
RoCE (%)	4.7	7.1	7.8

Valuation

P/E (x)	N/M	187.1	119.3
P/BV (x)	6.1	5.9	5.7
EV/EBITDA (x)	13.9	11.4	7.1
Pre-IND AS EV/EBITDA (x)	27.1	16.7	13.1

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	33.7	33.8	33.8
DII	25.2	25.1	26.1
FII	17.8	18.1	17.7
Others	23.3	23.7	22.5

FII Includes depository receipts

Weak SSSG; better margin delivery

- Barbeque Nation (BBQN) delivered flat revenue growth in 3QFY24, led by 5% YoY decline in same-store-sales. Weak demand continues to adversely impact the growth metrics; similar trend witnessed across brands/formats. Dine-in revenue was flat, while delivery was up 5% YoY.
- GM was healthy at 68% (+120/200bp YoY/QoQ) and support the overall operating performance. Despite the challenging growth trajectory, operating margin improved by over 100bp YoY. However, PBT margin at ~2% is still much lower than QSR players.
- The management is looking to add 25-30 stores in FY25, despite a sluggish demand environment.
- BBQN's current valuations at 16.7x FY25E and 13.1x FY26E pre-Ind AS EV/EBITDA are comfortably positioned. However, we are watchful of BBQN's operating margin profile in FY25 amidst the existing challenging environment. We reiterate our Neutral rating on the stock, with a TP of INR675, based on 15x FY26E Pre Ind-AS EV/EBITDA.

Sluggish industry demand

- Weak SSSG:** BBQN sales was flat YoY at INR3.3b in 3QFY24 with a 2% YoY store growth. Delivery channel (14% of sales) grew 5% YoY to INR473m, led by Dum Safar. The dine-in channel (86% of sales) exhibited a stable YoY performance.
- Digital KPIs:** Cumulative App downloads stood at 6.5m vs. 6.3m in 2QFY24 and 5.4m in 3QFY23. Own digital asset contribution stood at 26.7% vs. 29.6% in 2QFY24 and 27.6% in 3QFY23.
- Store addition:** The Company added 8 stores and closed 4 stores, leading to the total count of 216 stores. Out of 216 stores, BBQN has 186 stores (closed 2 stores), 8 international BBQN stores, 16 Toscano and 6 Salt outlets. Stores in metro and tier-1 cities accounted for 168 stores and tier 2/3 accounted for 48 stores.
- Better-than-expected margins:** GM expanding 120bp YoY to 68%, improved QoQ by 200bp. EBITDA grew 7% YoY to INR663m. EBITDA margin expanded 110bp YoY to 20.2%. (est. 16.5%). Pre-Ind AS EBITDA increased 8% YoY to INR379m in 3QFY24; margin up 70bp YoY to 11.4%.
- PBT margin at 2%:** PBT was down 16% YoY to INR75m. PBT margin was at 2.3% vs. 2% in 3QFY23. BBQN reported a profit of INR48m.
- Weak 9MFY24 performance:** Sales remained flat at INR 9,565 and EBITDA declined 17.4% to INR1,574m. Adj. loss came in at INR111m.

Highlights from the management commentary

- Revenue growth has been negatively impacted by a 4.9% decline in same-store-sales, slower store expansion, and network rationalization.
- The EBITDA margin expansion of 110bp is due to the benefits derived from GP margin expansion, rationalization programs, cost initiatives, and the benefits of operating leverage.

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

- Currently, 5 restaurants are under construction and 10 more are in an advanced stage of the pipeline. The management expects to open 25-30 new stores in FY25.
- In FY25, capex would be ~INR800-900m, including the maintenance operation. The capex requirement will be financed by the company internally. Cash generation amounted to INR380m in 3QFY24 and INR800m in 9MFY24 vs INR1,050m in 9MFY23.

Valuation and view

- We broadly maintain our estimates for FY25E and FY26E.
- BBQN's PBT margin profile is weaker than QSR players. Thereby, despite a comfortable position on valuation, we are watchful of operating margin delivery in FY25.
- **BBQN's current valuation stands at 16.7x FY25E and 13.1x FY26E pre-Ind AS EV/EBITDA. We reiterate our Neutral rating on the stock with a TP of INR675, based on 15x FY26E Pre Ind-AS EV/EBITDA.**

Quarterly Performance

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
SSSG (%)	182.0	23.4	-1.2	-2.6	-7.7	-10.7	-4.9	-0.6	27.5	-6.1	-7.0	
No. of stores	195	205	212	216	212	212	216	227	216	221	217	
Net Sales	3,149	3,105	3,282	2,802	3,239	3,017	3,309	2,970	12,338	12,535	3,332	-0.7
YoY change (%)	208.8	40.6	14.5	11.6	2.9	-2.8	0.8	6.0	43.4	1.6	1.5	
Gross Profit	2,103	2,051	2,189	1,843	2,073	1,990	2,245	1,990	8,186	8,298	2,199	2.1
Margin (%)	66.8	66.1	66.7	65.8	64.0	65.9	67.9	67.0	66.3	66.2	66.0	
EBITDA	705	583	620	399	468	444	663	531	2,306	2,106	550	20.6
EBITDA growth %	N/M	41.1	-5.7	-10.5	-33.6	-23.9	7.0	33.3	72.4	-8.7	-11.3	
Margin (%)	22.4	18.8	18.9	14.2	14.4	14.7	20.0	17.9	18.7	16.8	16.5	
Depreciation	352	350	382	366	375	443	414	403	1,450	1,635	443	
Interest	175	180	183	180	187	195	190	185	717	757	195	
Other Income	30	16	12	22	40	43	16	31	80	130	40	
PBT	208	69	67	-125	-55	-151	75	-25	219	-156	-48	255.7
Tax	48	26	17	-26	-14	-32	27	-6	66	-26	-12	
Rate (%)	23.1	38.3	25.7	20.7	26.1	21.3	35.5	25.0	30.1	16.7	25.0	
Adjusted PAT	160	43	50	-99	-41	-119	48	-19	153	-130	-36	233.8
YoY change (%)	N/M	39.2	-66.1	-2,138.8	-125.3	-379.2	-2.4	-81.1	N/M	-184.9	-173.0	

Key Performance Indicators

Y/E March	FY23				FY24		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Channel mix (%)							
Dine-in	86.6	87.4	86.3	86.0	85.3	85.5	85.7
Delivery	13.4	12.6	13.7	14.0	14.7	14.5	14.3
2Y average growth (%)							
Sales	573.9	115.4	30.8	11.3	2.9	103.0	20.7
EBITDA	-	-	27.0	-6.3	-33.6	-23.9	24.1
% of Sales							
COGS	33.2	33.9	33.3	34.2	36.0	34.1	32.1
Operating Expenses	44.4	47.3	47.8	51.5	49.6	51.2	47.8
Depreciation	11.2	11.3	11.6	13.1	11.6	14.7	12.5
YoY change (%)							
COGS	149.3	38.8	11.4	8.0	11.5	-2.5	-2.7
Operating Expenses	79.6	41.6	27.7	22.7	14.8	5.3	0.9
Other Income	-59.4	-81.2	-73.5	-62.0	33.5	167.3	38.2
EBIT	-175.5	113.7	-25.0	-69.5	-73.7	-99.6	4.6

E: MOFSL Estimates



Key takeaways from the management interaction

Operating environment

- Demand environment is challenging, which led to a decline in same-store-sales of 4.9% YoY.
- Revenue growth has been adversely impacted by a decline in same-store-sales, slower store expansion, and network rationalization.
- Oct'23 has been adversely impacted by higher number of vegetarian days.
- Dine-in sales were flat YoY, and up 10% sequentially, largely driven by higher volumes.
- Delivery sales was up 5.2% YoY and 8.4% sequentially, mainly driven by Dum Safar.
- The Corporate business has shown improvement in Dec'23.

Stores and expansion

- Opened 8 restaurants including 6 salt restaurants and closed 4 restaurants during the quarter.
- Currently, 5 restaurants are under construction and 10 more are in an advanced stage of the pipeline.
- The new store expansion in FY24 is slower.
- The management expects to add 25-30 new stores in FY25.
- In 9MFY24, 2 new restaurants were added to the international market and 2-3 more stores are expected to open in FY25.

Costs and margins

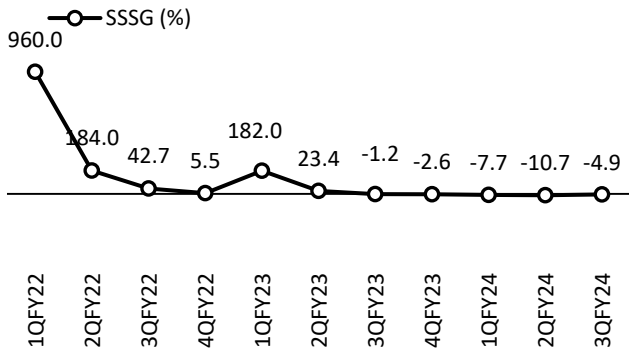
- The 120bps expansion in the GP margin is attributed to the reclassification of costs and structural enhancements in the business.
- Out of 120bp GP margin expansion, 80bp is due to reclassification adjustment of employee cost. It has no impact on the EBITDA margin. The remaining 40bp is due to the structural improvement in the business. The food cost per cover has reduced with the reduction in packaging cost.
- The EBITDA margin expansion of 110bp is due to the benefits derived from GP margin expansion, rationalization programs, cost initiatives, and the benefits of operating leverage.
- The operating margin is expected to return to the range of 13-14%.

Other points

- In FY25, capex would be ~INR800-900m, including the maintenance operation.
- The capex requirement will be financed by the company internally.
- Cash generation amounted to INR380m in 3QFY24 and INR 800m in 9MFY24 vs INR1,050m in 9MFY23.
- Salt restaurants have generated INR620m revenue and INR10m in operating profit in the last two months.
- There have been 6.5m cumulative app downloads, with ~26.7% of system revenues originating from app and web bookings.

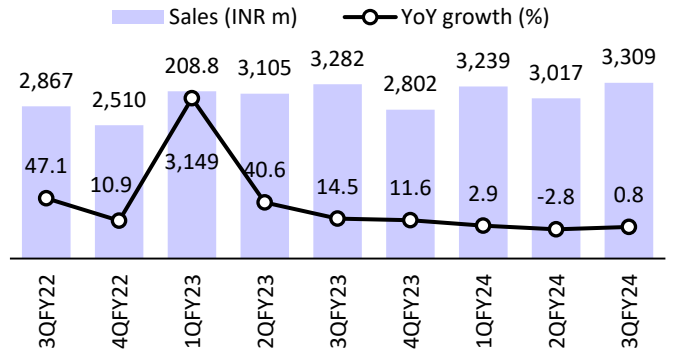
Key Exhibits

Exhibit 1: Same-store-sales declined 4.9% YoY in 3QFY24



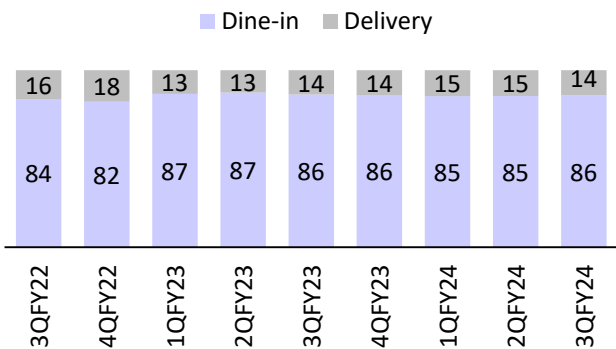
Source: Company, MOFSL

Exhibit 2: Net sales remain flat YoY at INR3.3b in 3QFY24



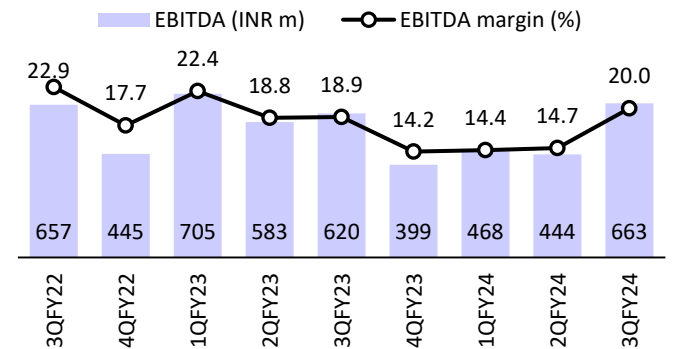
Source: Company, MOFSL

Exhibit 3: Dine-in contribution stood at 86% in 3QFY24



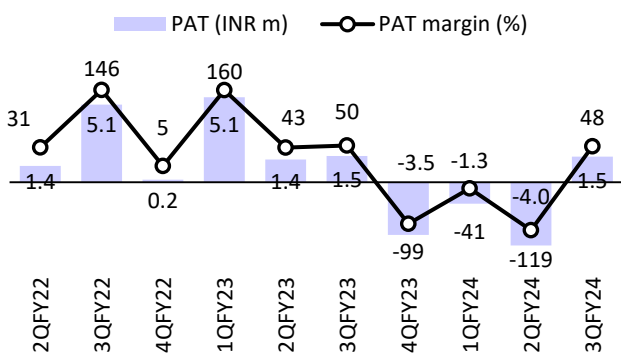
Source: Company, MOFSL

Exhibit 4: EBITDA margin came in at 20% in 3QFY24



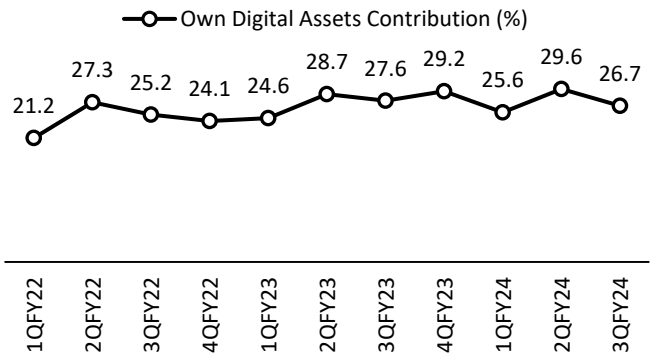
Source: Company, MOFSL

Exhibit 5: Adjusted PAT came in at INR48m in 3QFY24



Source: Company, MOFSL

Exhibit 6: Contribution from its own digital assets stood at 26.7% in 3QFY24



Source: Company, MOFSL

Valuation and view

- We broadly maintain our estimates for FY25E and FY26E.
- BBQN's PBT margin profile is weaker than QSR players. Thereby, despite a comfortable position on valuation, we are watchful of operating margin delivery in FY25.
- **BBQN's current valuations are at 16.7x FY25E and 13.1x FY26E pre-Ind AS EV/EBITDA. We reiterate our Neutral rating on the stock with a TP of INR675, based on 15x FY26E Pre Ind-AS EV/EBITDA.**

Exhibit 7: No material change in our estimates

INR m	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	12,535	14,287	12,697	14,428	-1.3%	-1.0%
EBITDA	2,106	2,565	1,936	2,626	8.8%	-2.3%
PAT	-130	127	-167	126	N/A	0.7%

Source: Company, MOFSL

Financials and valuations

Income Statement						(INR m)		
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
Net Sales	7,390	8,470	5,071	8,606	12,338	12,535	14,287	16,430
Change (%)	26.0	14.6	-40.1	69.7	43.4	1.6	14.0	15.0
Material Consumed	2,476	2,922	1,782	3,047	4,152	4,237	4,800	5,504
Gross Profit	4,914	5,548	3,288	5,558	8,186	8,298	9,487	10,926
Gross Margin %	66.5	65.5	64.8	64.6	66.3	66.2	66.4	66.5
Operating expenses	3,455	3,906	2,825	4,221	5,880	6,192	6,922	7,919
EBITDA	1,459	1,642	464	1,337	2,306	2,106	2,565	3,007
Change (%)	7.0	12.6	-71.8	188.3	72.4	-8.7	21.8	17.2
Margin (%)	19.7	19.4	9.1	15.5	18.7	16.8	18.0	18.3
Depreciation	895	1,340	1,212	1,273	1,450	1,635	1,752	1,947
Int. and Fin. Ch.	564	756	849	653	717	757	804	948
Other Non-recurring Inc.	35	38	460	263	80	130	150	155
PBT	35	-415	-1,136	-326	219	-156	159	266
Change (%)	-79.1	P/L	-	-	L/P	-171.3	L/P	67.7
Margin (%)	0.5	-4.9	-22.4	-3.8	1.8	-1.2	1.1	1.6
Tax	144	78	-197	-69	66	-26	32	67
Tax Rate (%)	416.8	-18.8	17.3	21.1	30.1	16.7	20.0	25.2
Adjusted PAT	-109	-493	-940	-257	153	-130	127	199
Change (%)	P/L	-	-	-	L/P	-184.9	L/P	56.8
Margin (%)	-1.5	-5.8	-18.5	-3.0	1.2	-1.0	0.9	1.2
Reported PAT	-384	-324	-905	-256	170	-130	127	199

Balance Sheet						(INR m)		
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
Share Capital	140	140	170	195	195	195	195	195
Reserves	1,176	-81	2,269	3,665	3,816	3,686	3,813	4,013
Net Worth	1,316	59	2,439	3,860	4,011	3,881	4,008	4,208
Loans	1,579	2,450	1,528	218	196	196	196	196
Lease Liabilities	4,200	4,816	4,498	5,887	6,649	6,346	6,914	7,690
Others	0	52	38	93	82	82	82	82
Capital Employed	7,095	7,377	8,503	10,057	10,939	10,505	11,201	12,175
Gross Block	9,619	11,910	12,049	14,411	16,749	17,313	19,177	21,393
Less: Accum. Depn.	2,986	4,507	5,456	6,410	7,356	8,991	10,743	12,690
Net Fixed Assets	6,634	7,404	6,593	8,000	9,393	8,322	8,435	8,703
RTU	3,546	4,015	3,617	4,878	5,556	4,866	4,799	4,604
Capital WIP	159	109	60	212	273	273	273	273
Goodwill	190	723	723	723	723	723	723	723
Curr. Assets, L&A	1,209	1,319	4,002	2,478	2,200	2,804	3,555	4,467
Inventory	193	149	202	358	421	412	470	540
Account Receivables	49	22	26	57	74	69	78	90
Cash and Bank Balance	120	147	2,455	853	426	1,044	1,727	2,557
Others	847	1,001	1,319	1,210	1,280	1,280	1,280	1,280
Curr. Liab. and Prov.	1,057	2,167	2,855	1,356	1,647	1,614	1,782	1,987
Other Current Liabilities	141	894	1,237	199	227	227	227	227
Creditors	768	1,125	1,468	988	1,235	1,202	1,370	1,575
Provisions	148	148	150	168	185	185	185	185
Net Curr. Assets	152	-848	1,147	1,122	553	1,191	1,773	2,480
Current tax liabilities	-40	-11	-20	0	-4	-4	-4	-4
Appl. of Funds	7,095	7,377	8,503	10,057	10,939	10,505	11,201	12,175

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
Basic (INR)								
EPS	-3.9	-17.6	-27.7	-6.6	3.9	-3.3	3.3	5.1
BV/Share	47.0	2.1	71.9	99.2	102.9	99.6	102.8	107.9
Valuation (x)								
P/E	N/M	N/M	N/M	N/M	155.2	N/M	187.1	119.3
EV/Sales	3.1	2.9	4.8	3.4	2.4	2.3	2.0	1.3
EV/EBITDA	15.6	14.7	52.3	21.7	13.1	13.9	11.4	7.1
P/BV	13.0	288.6	8.5	6.1	5.9	6.1	5.9	5.7
Return Ratios (%)								
RoE	-8.3	-833.5	-38.5	-6.7	3.8	-3.4	3.2	4.7
RoCE	-28.5	5.6	-3.0	2.8	6.2	4.7	7.1	7.8
RoIC	-28.7	5.2	-9.4	0.7	6.2	4.0	7.1	8.5
Working Capital Ratios								
Debtor (Days)	2	1	2	2	2	2	2	2
Inventory (Days)	10	6	15	15	12	12	12	12
Creditor (Days)	38	48	106	42	37	35	35	35
Asset Turnover (x)	1.0	1.1	0.6	0.9	1.1	1.2	1.3	1.3
Leverage Ratio								
Debt/Equity (x)	1.2	41.4	0.6	0.1	0.0	0.1	0.0	0.0

Cash Flow Statement

Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
(INR m)								
OP/(loss) before Tax	-295	-251	-1,115	-321	257	-156	159	266
Int./Div. Received	207	-149	-412	-137	28	-130	-150	-155
Depreciation & Amort.	1,022	1,340	1,212	1,273	1,450	1,635	1,752	1,947
Interest Paid	-488	-659	-739	-500	-559	-757	-804	-948
Direct Taxes Paid	143	78	-12	31	57	-26	32	67
Inc/(Dec) in WC	57	-291	-244	686	-38	20	-101	-123
CF from Operations	1,223	1,811	679	598	2,276	2,112	2,634	3,063
Inc/(Dec) in FA	-1,299	-840	-143	-932	-1,459	-364	-864	-1,015
Free Cash Flow	-76	971	536	-334	817	1,749	1,769	2,047
Others	7	-678	71	30	-59	130	150	155
Pur of Investments	0	0	0	0	0	0	0	0
CF from Invest.	-1,292	-1,518	-72	-902	-1,518	-234	-714	-860
Issue of Shares	320	1	1,495	1,844	15	0	0	0
Incr in Debt	302	876	73	-1,310	-22	0	0	0
Dividend Paid	-34	-34	0	0	0	0	0	0
Others	-836	-1,109	133	-1,832	-1,179	-1,261	-1,236	-1,373
CF from Fin. Activity	-247	-265	1,700	-1,298	-1,186	-1,261	-1,236	-1,373
Incr/Decr of Cash	-316	27	2,308	-1,602	-428	618	683	830
Add: Opening Balance	436	120	147	2,455	853	426	1,044	1,727
Closing Balance	120	147	2,455	853	426	1,044	1,727	2,557

E: MOFSL Estimates

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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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