

# Westlife Foodworld | BUY

## Operating leverage drives earnings miss

Westlife's 4Q and FY24 earnings print was weak on account of sharp moderation in SSSGs vs a stellar FY23. Macro & high base apart, external issues (negative sentiment vs US brands, issue around cheese usage) impacted the SSSG delivery. While there is progressive improvement in situation, it is in a more gradual manner; hence the same store sales are likely to be soft in 1HFY25. On the positive side, store additions in the year were inline with the management guidance and gross margins were managed well too despite increased focus on value portfolio, one-time vendor incentives in base as well as lack of pricing lever. Also, as far as store economics are concerned, management indicated that they have been able to improve store breakeven point and once volumes/SSSG starts to normalise, the benefit should be visible in the profitability. Given the weakness in same store sales in 1H, we expect stock to remain under pressure in near term. However, we believe these issues are more transient in nature and internal brand metrics remain healthy. From long term perspective, we remain constructive and weakness in stock price should be looked as opportunity to add.

- Inline revenue performance; recovery in same store sales to be more gradual:** Westlife's revenue grew 1.6% yoy (SSSG: -5%) to INR 5.5bn, inline with our expectation. Store count was up 11.2% yoy (inline), as quarter witnessed net addition of 17 stores (total store count stood at 397). Average sales per store declined by 8.7% yoy while TTM average sales per store was down 5% yoy at INR63mn. Same store sales performance although soft, decline was lower vs 3QFY24 (down 9% yoy). Management highlighted that quarter still had impact of external issues (negative sentiment versus US brands) seen in previous quarter along with additional impact especially in western market owing to the issue around usage of cheese. However, progressive improvement was seen in 4Q on the back of strategic interventions and proactive communication. Demand situation has largely stabilised and management anticipates external issues to bottom out over next couple of quarters; hence, incremental macro headwinds are unlikely. On store additions, Westlife ended FY24 with 41 store additions (inline with its guidance), and remains confident about opening 45-50 stores in FY25 and reach 580-630 restaurants by 2027.
- Gross margin delivery on track; scale deleverage impacts operating performance:** GM (excl. processing charges) was tad lower vs expectation (down 163 bps yoy and 25bps qoq) at 69.6%, albeit on high base – 4QFY23 had one time incentive benefit from vendors. Input cost scenario remains broadly stable and manageable as per the management. Store level staff costs and royalty expense increased by c.15% each while other op expenses grew by c.6%. Resultant scale deleverage led to ROM (pre-IND AS) compression of 560bps yoy to 14.4%. Corporate G&A declined by 28% yoy, on a high base (4QFY23 had impact of one-time bonuses given to employees for stellar performance in FY23), as a result EBITDA margin (pre-IND AS) compression was lower at c.300bps yoy to 8.7%, translating to 25% decline in EBITDA to INR 483mn (7% below our estimate). Rep EBITDA declined by 15.6% at INR 747mn.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	940
Upside/(Downside)	8.5%
Previous Price Target	945
Change	-0.5%

### Key Data – WESTLIFE IN

Current Market Price	INR866
Market cap (bn)	INR135.2/US\$1.6
Free Float	36%
Shares in issue (mn)	155.8
Diluted share (mn)	155.9
3-mon avg daily val (mn)	INR159.1/US\$1.9
52-week range	1,025/701
Sensex/Nifty	73,466/22,303
INR/US\$	83.5

### Price Performance

%	1M	6M	12M
Absolute	5.5	6.4	8.8
Relative*	7.2	-6.1	-8.5

\* To the BSE Sensex

### Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	15,561	22,594	23,682	26,712	30,881
Sales Growth (%)	59.6%	45.2%	4.8%	12.8%	15.6%
EBITDA	1,892	3,740	3,693	4,257	5,255
EBITDA Margin (%)	12.0%	16.4%	15.4%	15.8%	16.9%
Adjusted Net Profit	-17	1,116	699	848	1,317
Diluted EPS (INR)	-0.1	7.2	4.5	5.4	8.4
Diluted EPS Growth (%)	NA	NA	NA	21.3%	55.3%
ROIC (%)	8.7%	30.0%	21.0%	25.0%	0.0%
ROE (%)	-0.4%	21.7%	12.1%	13.8%	19.2%
P/E (x)	NA	NA	NA	NA	NA
P/B (x)	29.2	23.9	23.0	21.0	18.5
EV/EBITDA (x)	71.5	36.2	36.8	31.7	25.5
Dividend Yield (%)	0.0%	0.0%	0.4%	0.2%	0.3%

Source: Company data, JM Financial. Note: Valuations as of 08/May/2024

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

**Exhibit 1. 4Q & FY24 results snapshot: Revenue inline; higher other expenses drove earnings miss** (INR mn)

	4QFY24	4QFY23	YoY chg	4QFY24E	% var	FY24	FY23	YoY chg
<b>Net Sales</b>	<b>5,527</b>	<b>5,438</b>	<b>1.6%</b>	<b>5,516</b>	<b>0.2%</b>	<b>23,682</b>	<b>22,594</b>	<b>4.8%</b>
Other Operating Income	93	123	-24.5%	100	-6.8%	227	182	24.9%
Total Revenue	5,620	5,561	1.1%	5,616	0.1%	23,909	22,775	5.0%
<b>Gross Profit</b>	<b>3,849</b>	<b>3,876</b>	<b>-0.7%</b>	<b>3,861</b>	<b>-0.3%</b>	<b>16,575</b>	<b>15,734</b>	<b>5.3%</b>
Gross Profit Margin %	69.6%	71.3%	-163 bps	70.0%	-35 bps	70.0%	69.6%	35 bps
Staff Cost	834	926	-10.0%	877	-5.0%	3,285	3,106	5.8%
Other Expenses	2,363	2,189	7.9%	2,294	3.0%	9,833	9,076	8.3%
<b>EBITDA</b>	<b>747</b>	<b>884</b>	<b>-15.6%</b>	<b>790</b>	<b>-5.5%</b>	<b>3,684</b>	<b>3,734</b>	<b>-1.3%</b>
EBITDA margin %	13.5%	16.3%	-276 bps	14.3%	-82 bps	15.6%	16.5%	-97 bps
<b>Comparable EBITDA (Pre Ind-AS 116)</b>	<b>483</b>	<b>641</b>	<b>-24.7%</b>	<b>519</b>	<b>-7.0%</b>	<b>2,634</b>	<b>2,878</b>	<b>-8.5%</b>
Comparable EBITDA margin %	8.7%	11.8%	-306 bps	9.4%	-68 bps	11.1%	12.7%	-162 bps
Depreciation	499	412	21.2%	472	5.8%	1,822	1,522	19.7%
EBIT	247	472	-47.7%	318	-22.3%	1,862	2,212	-15.8%
Net Financial Income	-228	-195	16.6%	-245	-7.0%	-903	-718	25.8%
<b>PBT</b>	<b>20</b>	<b>277</b>	<b>-93.0%</b>	<b>73</b>	<b>-73.4%</b>	<b>958</b>	<b>1,495</b>	<b>-35.9%</b>
<b>Net Profit</b>	<b>8</b>	<b>201</b>	<b>-96.2%</b>	<b>55</b>	<b>-86.1%</b>	<b>692</b>	<b>1,116</b>	<b>-38.0%</b>

Source: Company, JM Financial

**Exhibit 2. 4Q & FY24 costs breakdown**

% of revenue	4QFY24	4QFY23	4QFY24E	FY24	FY23
Cost of Goods Sold	30.4%	28.7%	31.8%	30.0%	30.4%
Staff Cost	15.1%	17.0%	15.9%	13.9%	13.7%
Other Expenses	42.7%	40.3%	41.6%	41.5%	40.2%
Depreciation	9.0%	7.6%	8.6%	7.7%	6.7%

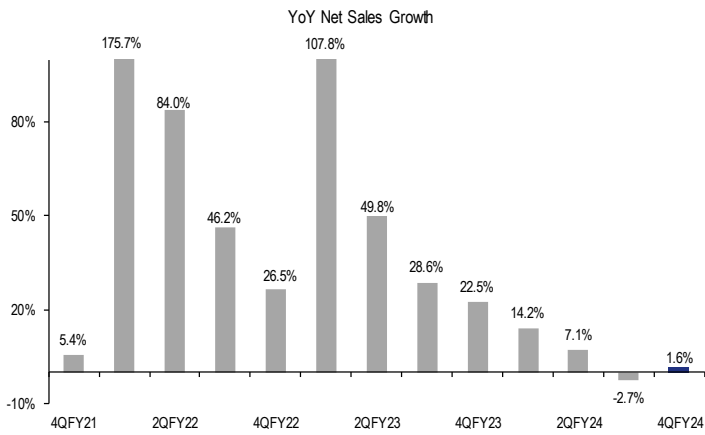
Source: Company, JM Financial

**Exhibit 3. Per store economics: Scale deleverage led to a decline in EBITDA per store**

Per store basis (INR mn)	4Q24	3Q24	4Q23	% chg. YoY	% chg. QoQ
Average revenue / store	14.2	15.8	15.6	-8.7%	-10.0%
Staff cost / store	2.1	2.2	2.7	-19.1%	-2.1%
Other expenses / store	6.8	7.3	7.0	-3.0%	-7.8%
<b>EBITDA</b>	<b>1.2</b>	<b>1.7</b>	<b>1.8</b>	<b>-32.4%</b>	<b>-27.9%</b>

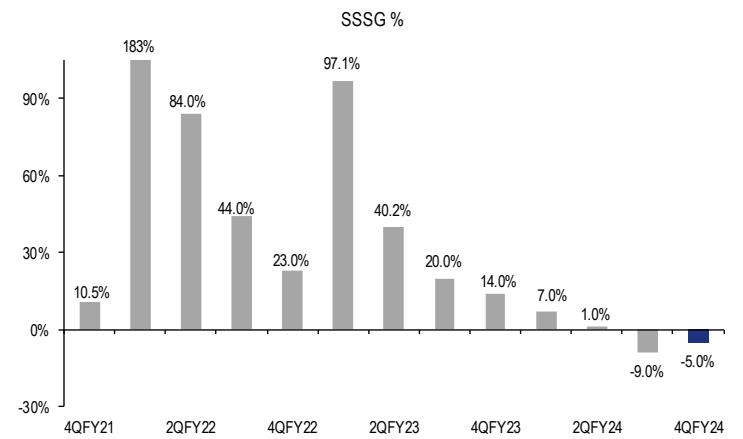
Source: Company, JM Financial

**Exhibit 4. Net sales grew 1.6% yoy on the back of store additions**



Source: Company, JM Financial

**Exhibit 5. SSSG declined 5% yoy**



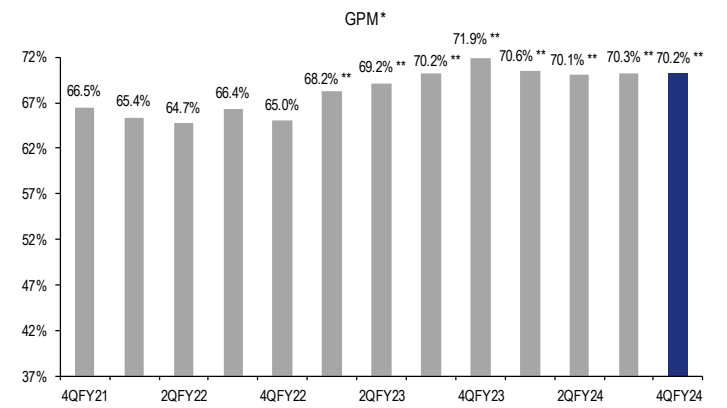
Source: Company, JM Financial

**Exhibit 6. Store count grew by 11.2 yoy with net addition of 17 stores during the quarter**



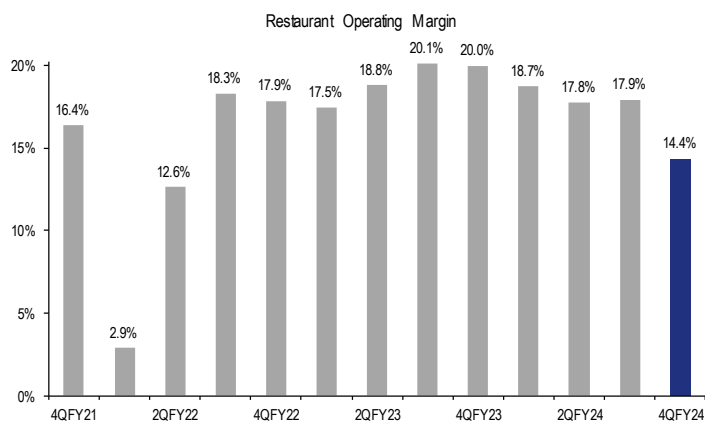
Source: Company, JM Financial

**Exhibit 7. GPM down 176bps yoy and flattish (-12bps) qoq**



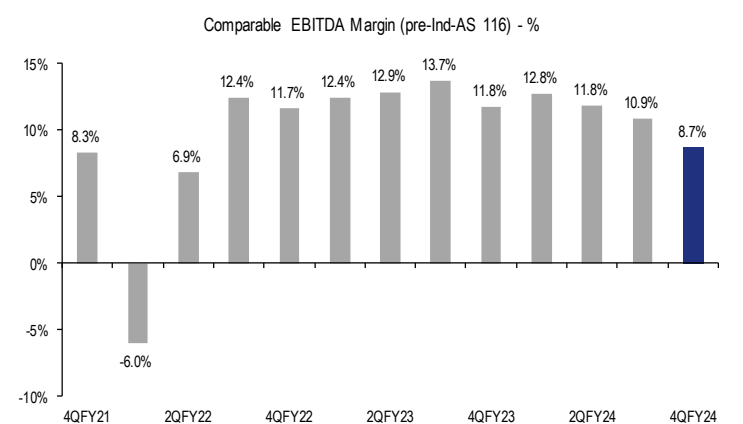
Source: Company, JM Financial, \* incl other operating income, \*\* incl processing charges

**Exhibit 8. ROM declined to 14.4%**



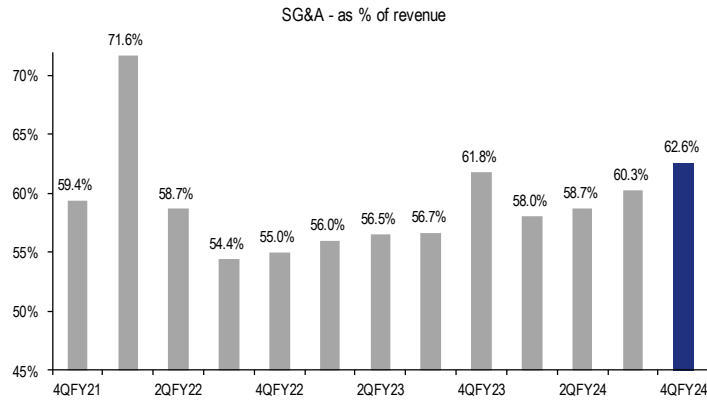
Source: Company, JM Financial,

**Exhibit 9. Comparable EBITDA margin was down 306bps yoy and 217bps qoq due to scale deleverage**



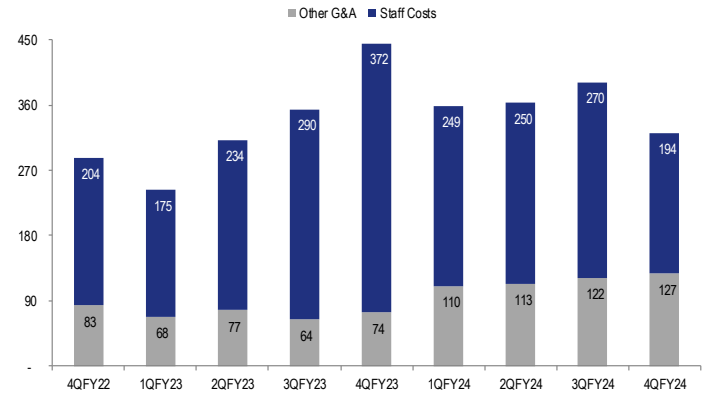
Source: Company, JM Financial

Exhibit 10. SG&amp;A grew 3% yoy but declined 3.1% qoq



Source: Company, JM Financial

Exhibit 11. Corporate overheads down 17.9% sequentially



Source: Company, JM Financial

Exhibit 12. Our 12-month DCF based price target works out to INR 940/share

(INR mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E
Revenue	14,020	15,478	9,860	15,765	22,782	23,918	26,978	31,189	35,797	40,981	46,654	52,061	57,743	63,881	70,508	77,661	85,381
yoy growth		10.4%	-36.3%	59.9%	44.5%	5.0%	12.8%	15.6%	14.8%	14.5%	13.8%	11.6%	10.9%	10.6%	10.4%	10.1%	9.9%
Comparable EBITDA (Pre Ind As 116)	1,190	1,392	-173	1,216	2,881	2,634	3,029	3,840	4,554	5,588	6,511	7,293	8,102	8,916	9,858	11,336	12,988
EBITDA margin %	8.5%	9.0%	-1.8%	7.7%	12.6%	11.0%	11.2%	12.3%	12.7%	13.6%	14.0%	14.0%	14.0%	14.0%	14.0%	14.6%	15.2%
Comparable EBIT (Pre Ind As 116)	393	526	-1,041	370	1,941	1,430	1,590	2,144	2,588	3,326	3,935	4,405	4,896	5,373	5,962	7,068	8,329
EBIT margin %	2.8%	3.4%	-10.6%	2.3%	8.5%	6.0%	5.9%	6.9%	7.2%	8.1%	8.4%	8.5%	8.5%	8.4%	8.5%	9.1%	9.8%
Tax Rate	39.5%	16.3%	22.8%	19.4%	25.3%	27.1%	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%
<b>NOPAT</b>	<b>238</b>	<b>441</b>	<b>-804</b>	<b>298</b>	<b>1,449</b>	<b>1,043</b>	<b>1,189</b>	<b>1,604</b>	<b>1,936</b>	<b>2,488</b>	<b>2,943</b>	<b>3,295</b>	<b>3,662</b>	<b>4,019</b>	<b>4,459</b>	<b>5,287</b>	<b>6,230</b>
Depreciation	797	865	868	846	940	1,204	1,439	1,695	1,967	2,263	2,576	2,888	3,207	3,543	3,897	4,268	4,659
Capex	1,925	-1,139	-105	-666	-2,387	-2,176	-2,562	-2,716	-2,875	-3,229	-3,224	-3,207	-3,377	-3,554	-3,738	-3,928	-4,126
Net working capital investment	-175	441	515	-143	225	45	892	283	348	346	425	424	451	502	532	482	511
<b>Free Cash Flow</b>	<b>2,785</b>	<b>608</b>	<b>473</b>	<b>335</b>	<b>228</b>	<b>115</b>	<b>959</b>	<b>867</b>	<b>1,375</b>	<b>1,868</b>	<b>2,720</b>	<b>3,400</b>	<b>3,943</b>	<b>4,510</b>	<b>5,150</b>	<b>6,109</b>	<b>7,274</b>
YoY Growth - %							734.4%	-9.5%	58.6%	35.8%	45.6%	25.0%	16.0%	14.4%	14.2%	18.6%	19.1%
Discounting Factor							1.00	0.91	0.83	0.75	0.68	0.62	0.56	0.51	0.47	0.42	0.39
<b>Present Value of FCF</b>							<b>959</b>	<b>788</b>	<b>1,136</b>	<b>1,403</b>	<b>1,858</b>	<b>2,111</b>	<b>2,226</b>	<b>2,314</b>	<b>2,402</b>	<b>2,591</b>	<b>2,804</b>
<b>Fade period forecast</b>	<b>FY36E</b>	<b>FY37E</b>	<b>FY38E</b>	<b>FY39E</b>	<b>FY40E</b>	<b>FY41E</b>	<b>FY42E</b>	<b>FY43E</b>	<b>FY44E</b>	<b>FY45E</b>	<b>FY36-45 CAGR</b>						
<b>FCF</b>	<b>8,574</b>	<b>10,002</b>	<b>11,547</b>	<b>13,192</b>	<b>14,912</b>	<b>16,676</b>	<b>18,448</b>	<b>20,185</b>	<b>21,841</b>	<b>23,370</b>	<b>12%</b>						
Discounting Factor	0.35	0.32	0.29	0.26	0.24	0.22	0.20	0.18	0.16	0.15							
Present Value of FCF	3,005	3,187	3,345	3,474	3,570	3,629	3,650	3,630	3,571	3,474							

**12M Forward Equity Valuation**

PV of Cash Flow - Explicit Period	20,592
PV of Cash Flow - Fade Period	34,535
PV of Terminal Value	92,056
<b>Enterprise Value</b>	<b>147,183</b>
Debt - Mar'23	2,390
Cash - Mar'23	1,521
Net Debt	869
<b>Equity value</b>	<b>146,314</b>
Mn no of shares	156
<b>12M Target (DCF value) - Rs per share</b>	<b>940</b>

Source: Company, JM Financial

## Financial Tables (Consolidated)

Profit & Loss Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>15,561</b>	<b>22,594</b>	<b>23,682</b>	<b>26,712</b>	<b>30,881</b>
Sales Growth	59.6%	45.2%	4.8%	12.8%	15.6%
Other Operating Income	204	188	236	266	308
<b>Total Revenue</b>	<b>15,765</b>	<b>22,782</b>	<b>23,918</b>	<b>26,978</b>	<b>31,189</b>
Cost of Goods Sold/Op. Exp.	5,129	6,860	7,107	8,956	10,307
Personnel cost	2,095	3,106	3,285	3,676	4,122
Other expenses	6,648	9,076	9,833	10,089	11,505
<b>EBITDA</b>	<b>1,892</b>	<b>3,740</b>	<b>3,693</b>	<b>4,257</b>	<b>5,255</b>
EBITDA (%)	12.0%	16.4%	15.4%	15.8%	16.9%
EBITDA Growth (%)	303.1%	97.7%	-1.3%	15.3%	23.4%
<b>Comparable EBITDA</b>	<b>1,216</b>	<b>2,881</b>	<b>2,634</b>	<b>3,029</b>	<b>3,840</b>
Comparable EBITDA (%)	7.8%	12.8%	11.1%	11.3%	12.4%
Depn & Amort	1,364	1,522	1,822	2,093	2,408
EBIT	528	2,219	1,871	2,164	2,847
Other Income	277	203	185	193	258
Finance Cost	826	927	1,097	1,224	1,345
PBT before Excep & Forex	-21	1,495	958	1,133	1,760
Excep & forex Inc/Loss(-)	0	0	0	0	0
PBT	-21	1,495	958	1,133	1,760
Taxes	-4	379	266	286	444
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net profit	-17	1,116	692	848	1,317
<b>Adjusted Net Profit</b>	<b>-17</b>	<b>1,116</b>	<b>699</b>	<b>848</b>	<b>1,317</b>
Net Margin (%)	-0.1%	4.9%	2.9%	3.2%	4.3%
Diluted share capital (mn)	155.9	155.9	155.9	155.9	155.9
<b>Diluted EPS (Rs)</b>	<b>(0.1)</b>	<b>7.2</b>	<b>4.5</b>	<b>5.4</b>	<b>8.4</b>
Diluted EPS Growth	NA	NA	-37.4%	21.3%	55.3%
Total Dividend + Tax	0	0	538	297	461
Dividend Per Share (Rs)	0.0	0.0	3.5	1.9	3.0

Source: Company, JM Financial

Cash Flow statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	-21	1,495	958	1,133	1,760
Depn. & Amort.	1,364	1,522	1,822	2,093	2,408
Net Interest Exp. / Inc. (-)	549	724	913	1,031	1,087
Inc (-) / Dec in WCap.	-145	70	76	892	283
Others	24	113	30	0	0
Taxes Paid	-66	-439	-403	-286	-444
<b>Operating Cash Flow</b>	<b>1,706</b>	<b>3,485</b>	<b>3,396</b>	<b>4,863</b>	<b>5,095</b>
Capex	-999	-2,691	-2,154	-2,562	-2,716
Free Cash Flow	707	795	1,241	2,301	2,379
-Inc/dec in investments	565	234	75	0	0
Other current assets	-131	-197	233	193	258
<b>Investing Cash Flow</b>	<b>-565</b>	<b>-2,653</b>	<b>-1,845</b>	<b>-2,369</b>	<b>-2,457</b>
Inc(dec) in capital	24	-21	0	0	0
Dividend+Tax Thereon	0	0	-536	0	-297
Inc/dec in loans	-142	60	320	-239	-215
Other assets	-901	-1,020	-1,276	-1,387	-1,559
<b>Financing Cash Flow</b>	<b>-1,019</b>	<b>-981</b>	<b>-1,492</b>	<b>-1,626</b>	<b>-2,070</b>
<b>Inc / Dec (-) in Cash</b>	<b>123</b>	<b>-149</b>	<b>59</b>	<b>869</b>	<b>567</b>
Opening cash balance	110	433	83	141	1,010
Closing cash balance	232	284	141	1,010	1,577

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	4,621	5,659	5,883	6,434	7,289
Share capital	312	312	312	312	312
Reserves & Surplus	4,309	5,347	5,571	6,122	6,977
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	2,010	2,070	2,390	2,151	1,936
Def. Tax Liab / Assets (-)	-520	-604	-708	-708	-708
<b>Total - Equity &amp; Liab</b>	<b>6,111</b>	<b>7,126</b>	<b>7,565</b>	<b>7,877</b>	<b>8,518</b>
Net Fixed Assets	5,442	6,836	7,382	8,014	8,534
Gross Fixed Assets	9,088	11,263	13,559	16,121	18,837
Intangible Assets	466	466	466	466	466
Less: Depn. & Amort.	3,649	4,257	5,461	6,901	8,596
Capital WIP & Net lease asse	-462	-636	-1,182	-1,673	-2,173
Investments	1,504	1,299	1,380	1,380	1,380
Current Assets	1,973	2,291	2,153	3,279	4,201
Inventories	559	714	632	713	825
Sundry Debtors	133	107	173	195	226
Cash & Bank Balances	232	284	141	1,010	1,577
Loans & Advances	1,048	1,185	1,206	1,361	1,573
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	2,809	3,300	3,350	4,796	5,597
Current Liabilities	2,675	3,170	3,251	4,388	5,012
Provisions & Others	134	130	99	407	585
Net Current Assets	-836	-1,009	-1,197	-1,517	-1,396
<b>Application of Funds</b>	<b>6,111</b>	<b>7,126</b>	<b>7,565</b>	<b>7,877</b>	<b>8,518</b>

Source: Company, JM Financial

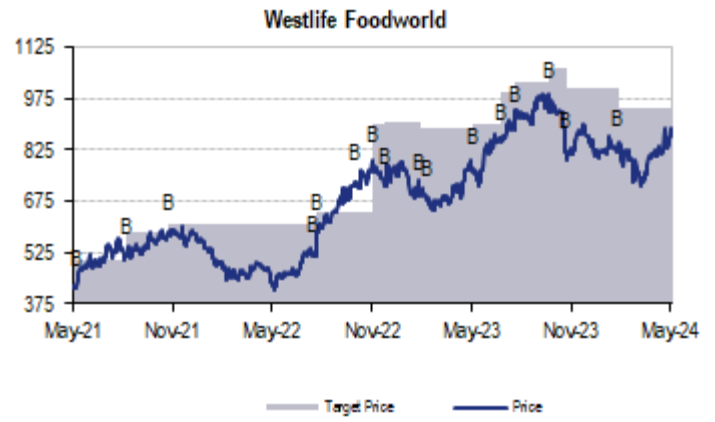
Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	-0.1%	4.9%	2.9%	3.2%	4.3%
Asset Turnover (x)	2.5	3.4	3.2	3.5	3.8
Leverage Factor (x)	1.3	1.3	1.3	1.3	1.2
RoE	-0.4%	21.7%	12.1%	13.8%	19.2%
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (Rs)	29.6	36.3	37.7	41.3	46.7
ROIC (%)	8.7%	30.0%	21.0%	25.0%	0.0%
ROE (%)	-0.4%	21.7%	12.1%	13.8%	19.2%
Net Debt-equity ratio (x)	0.1	0.1	0.1	0.0	-0.1
PER	NA	NA	NA	NA	NA
PBV	29.2	23.9	23.0	21.0	18.5
EV/EBITDA	71.5	36.2	36.8	31.7	25.5
EV/Net Sales	8.7	6.0	5.7	5.0	4.3
Debtor days	3	2	3	3	3
Inventory days	13	12	10	10	10
Creditor days	70	61	59	70	71

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
8-Oct-20	Buy	390	
8-Nov-20	Buy	415	6.4
26-Nov-20	Buy	450	8.4
22-Jan-21	Buy	510	13.3
13-May-21	Buy	500	-2.0
13-Aug-21	Buy	585	17.0
29-Oct-21	Buy	610	4.3
20-Jul-22	Buy	620	1.6
29-Jul-22	Buy	645	4.0
7-Oct-22	Buy	645	0.0
9-Nov-22	Buy	900	39.5
2-Dec-22	Buy	905	0.6
1-Feb-23	Buy	890	-1.7
15-Feb-23	Buy	890	0.0
10-May-23	Buy	900	1.1
3-Jul-23	Buy	995	10.6
27-Jul-23	Buy	1,020	2.5
27-Sep-23	Buy	1,060	3.9
27-Oct-23	Buy	1,005	-5.2
1-Feb-24	Buy	945	-6.0

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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