

January 29, 2025

**RESULT REPORT Q3 FY25** | Sector: Consumer Discretionary (QSR)

# Westlife Foodworld Ltd.

## Industry momentum key for robust SSSG

**Westlife Foodworld Ltd. (WFL) 3QFY25 topline was only slightly below our subdued expectations for the quarter keeping in mind the tough operating environment. Same-store sales growth (SSSG) was up 2.8% YoY (vs est. of +4%), led by guest count (especially in dine-in) while average check remained stable. Management believes growth is coming back but gradually. Company reported QoQ improvement in gross margin led by 50bps price hike in portfolio in November'24. YoY growth will continue to look better on account of low base. We continue to remain cautious about full demand recovery especially in urban markets but are also confident that Westlife will rebound to earlier margin profile (even with increased royalty rate) once industry volume recovers. We assign a target multiple of ~25x on our March'27E EBITDA and arrive at a revised target price (TP) of Rs900 (Rs985 earlier). Maintain BUY.**

### 3QFY25 Result Highlights

- **Headline performance:** Topline grew by 8.9% YoY to Rs6.5bn (vs. est. Rs6.7bn) led by SSSG of 2.8% YoY (vs. our est. 4%). This represents a 5-year SSSG CAGR of ~4%. EBITDA came in at Rs916mn (vs. est. Rs869mn). Adjusted profit stood at Rs102mn vs our est. profit of Rs77mn.
- Off-Premise and On-Premise business, both grew by ~9% YoY.
- **Gross margin** was down ~20bps YoY to 70.1% (but up 40bps QoQ led by 50bps portfolio level price hike). Rise in employee cost as a % of revenue (up 80bps YoY) along with higher other expenses as a % of revenues (up 140bps YoY) was partially offset by lower royalty cost (due to reconciliation of incentives from parent). EBITDA margin thus came in at 14% (down 200bps YoY; vs our est. of 13%). **Pre-INDAS Op. margin stood at 9.1%.**
- **Restaurant operating margin (ROM)** came in at 20.6% versus 22.5% in base quarter impacted by operating deleverage and higher A&P spends.
- **9MFY25** revenue is up 3.2% while EBITDA & APAT are down 16.9% and down 76.3% YoY, respectively. Gross margin stood flattish at 70.2% while EBITDA margins is down 320bps at 13.2%.
- **Store additions:** Added 15 stores and closed 2 in 3QFY25; total store count now 421.

### Key Conference Call/PPT Highlights

- (1) Company expects gradual recovery in eating out trends.
- (2) 50bps price increase at portfolio level was executed in November'24. Intends to maintain quarterly improvement in EBITDA margin in the near-term.
- (3) On track for store opening guidance.

### View & Valuation

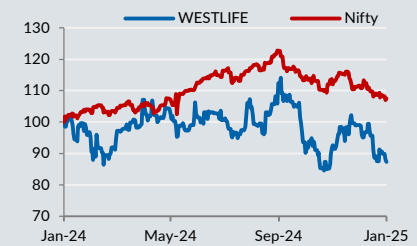
With gradual improvement in growth, we are now building ~4% SSSG CAGR over FY24-27E. This, along with aggressive store expansion (to open 200+ new restaurants in the next 3-4 years) should lead to 10.8% revenue CAGR over FY24-27E. Growth going forward will be driven transactions without any impact on average check size. The margin profile which had improved for WFL as AUV crossed the Rs60mn+ mark, has taken a hit in last 1.5-2 years due to difficult operating environment. As volume recover for the industry, operating leverage will rebound for the company. This, along with cost savings and consistent but modest gross margin improvement (led by stable input costs and mix+pricing), will support EBITDA margin expansion (building ~220bps expansion over FY24-27E). EBITDA thus expected to grow at 15.7% CAGR over FY24-27E. At CMP, the stock is trading at ~35x/25x/20x FY25E/FY26E/FY27E EBITDA (post IND-AS 116). In a normal environment, aggressive store expansion, market share gain focus, improving return ratios and a formal dividend policy in place, should command better valuation than earlier years, we believe. We continue to remain cautious about full demand recovery especially in urban markets but are also confident that Westlife will rebound to earlier margin profile (even with increased royalty rate) once industry volume recovers. We assign a target multiple of ~25x on our March'27E EBITDA and arrive at a revised target price (TP) of Rs900 (Rs985 earlier). Maintain BUY.

Reco	: BUY
CMP	: Rs 723
Target Price	: Rs 900
Potential Return	: +24.5%

### Stock data (as on January 29, 2025)

Nifty	23,163
52 Week h/l (Rs)	957 / 674
Market cap (Rs/USD mn)	113322 / 1310
Outstanding Shares (mn)	155
6m Avg t/o (Rs mn):	148
Div yield (%):	0.5
Bloomberg code:	WESTLIFE IN
NSE code:	WESTLIFE

### Stock performance



	1M	3M	1Y
Absolute return	-11.8%	-3.8%	-11.3%

### Shareholding pattern (As of Dec'24 end)

Promoter	56.3%
FII+DII	35.1%
Others	8.3%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	900	985

### Δ in earnings estimates

Rs mn	FY25e	FY26e	FY27e
EBITDA (New)	3,245	4,581	5,863
EBITDA (Old)	3,872	5,350	6,195
% change	-16.2	-14.4	-5.4

### Financial Summary (post IND-AS 116)

(Rs mn)	FY25E	FY26E	FY27E
Revenue	24,983	28,635	32,501
YoY Growth (%)	4.5	14.6	13.5
SSSG (%)	-2.7	7.7	7.5
EBIDTA	3,245	4,581	5,863
Margins (%)	13.0	16.0	18.0
Recurring PAT	101	1,049	1,782
EPS	0.6	6.7	11.4
YoY Growth (%)	-86.4	942.1	69.9
ROCE (%)	16.5	26.5	32.6
ROE (%)	1.7	16.3	22.7
P/E (x)	1115.2	107.0	63.0
EV/EBITDA (x)	35.3	25.1	19.7

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## Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	6,539	6,663	6,575	(1.9)	(0.5)
EBITDA	916	869	926	5.4	(1.1)
EBITDA Margin (%)	14.0	13.0	14.1	1.0	(0.1)
Adjusted PAT	102	77	114	32.5	(10.3)

Source: Bloomberg, YES Sec

## Exhibit 2: Quarterly result snapshot

Y/E March (Rsmn)	3QFY24	2QFY25	3QFY25	YoY (%)	QoQ (%)	3QFY20	5-yr CAGR	9MFY24	9MFY25	YoY (%)
<b>Net Revenue</b>	<b>6,003</b>	<b>6,180</b>	<b>6,539</b>	<b>8.9</b>	<b>5.8</b>	<b>4,329</b>	<b>8.6</b>	<b>18,295</b>	<b>18,882</b>	<b>3.2</b>
COGS	1,784	1,874	1,956	9.7	4.4	1,472		5,429	5,631	3.7
<b>Gross margin %</b>	<b>70.3</b>	<b>69.7</b>	<b>70.1</b>	<b>(0.2)</b>	<b>0.4</b>	<b>66.0</b>		<b>70.3</b>	<b>70.2</b>	<b>(0.1)</b>
Payroll and Employee Benefits	552	671	655	18.7	(2.4)	428		1,684	1,949	15.7
% of sales	9.2	10.9	10.0	0.8	(0.8)	9.9		9.2	10.3	1.1
Royalty	243	345	236	(2.9)	(31.7)	198		877	935	6.6
% of sales	4.0	5.6	3.6	(0.4)	(2.0)	4.6		4.8	5.0	0.2
Occupancy and Other Operating Expenses	2,072	2,144	2,346	13.2	9.4	1,474		6,182	6,700	8.4
% of sales	34.5	34.7	35.9	1.4	1.2	34.0		33.8	35.5	1.7
General & Administrative Expense	392	359	430	9.8	19.8	237		1,114	1,166	4.7
% of sales	6.5	5.8	6.6	0.1	0.8	5.5		6.1	6.2	0.1
<b>EBITDA</b>	<b>960</b>	<b>786</b>	<b>916</b>	<b>(4.6)</b>	<b>16.6</b>	<b>708</b>	<b>5.3</b>	<b>3,010</b>	<b>2,501</b>	<b>(16.9)</b>
<b>EBITDA margin %</b>	<b>16.0</b>	<b>12.7</b>	<b>14.0</b>	<b>(2.0)</b>	<b>1.3</b>	<b>16.4</b>		<b>16.5</b>	<b>13.2</b>	<b>(3.2)</b>
Depreciation	455	502	517	13.6	2.9			1,323	1,513	14.3
EBIT	505	284	399	(21.0)	40.8			1,687	988	(41.4)
<b>EBIT margin %</b>	<b>8.4</b>	<b>4.6</b>	<b>6.1</b>	<b>(2.3)</b>	<b>1.5</b>			<b>9.2</b>	<b>5.2</b>	<b>(4.0)</b>
Interest expenses	282	316	330	16.9	4.4			816	943	15.6
Other income	44	65	27	(37.8)	(57.9)			128	142	11.7
Exceptional items	(36)	(26)	(32)	-	-			(60)	(70)	-
<b>PBT</b>	<b>231</b>	<b>7</b>	<b>65</b>	<b>(71.9)</b>	<b>844.6</b>			<b>939</b>	<b>117</b>	<b>(87.5)</b>
Tax	59	3	(5)	-	-			254	11	(95.8)
Effective tax rate %	25.3	50.3	(8.2)	-	-			27.1	9.2	(17.9)
<b>Recurring/Adjusted PAT</b>	<b>209</b>	<b>29</b>	<b>102</b>	<b>(51.0)</b>	<b>250.6</b>			<b>744</b>	<b>176</b>	<b>(76.3)</b>
<b>PAT margin %</b>	<b>3.5</b>	<b>0.5</b>	<b>1.6</b>	<b>(1.9)</b>	<b>1.1</b>			<b>4.1</b>	<b>0.9</b>	<b>(3.1)</b>
<b>Reported PAT</b>	<b>173</b>	<b>3</b>	<b>70</b>	<b>(59.3)</b>	<b>1,955.1</b>			<b>684</b>	<b>106</b>	<b>(84.5)</b>
<b>EPS</b>	<b>1.1</b>	<b>0.0</b>	<b>0.5</b>	<b>(59.3)</b>	<b>1,955.1</b>			<b>4.4</b>	<b>0.7</b>	<b>(84.5)</b>

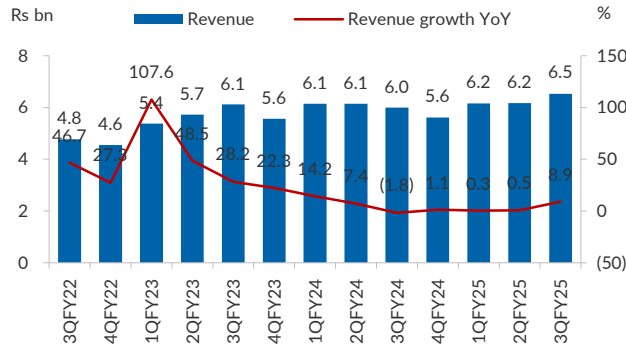
Source: Company, YES Sec

## KEY TAKEAWAYS / EXCERPT'S FROM Q3FY25 CONFERENCE CALL / PRESENTATION

- **Outlook:** The company's intent is to maintain the sequential improvement in margins. On track for store opening guidance.
- **Demand environment:** Consumption trends continue to remain soft. Eating-out occasion in current fiscal has been muted. The company expects gradual recovery in the eating out trends. The last 10 days of December were not up to the expectation, but the improvement was seen in the month of January.

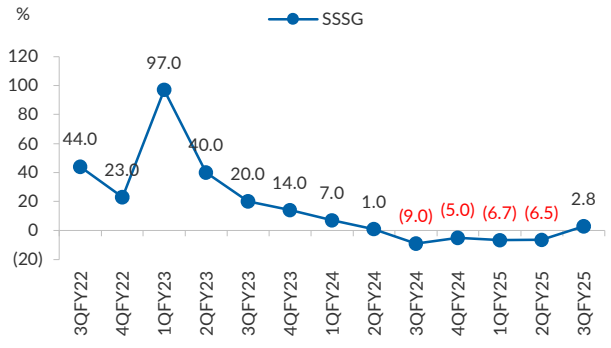
- **SSSG** improved to 2.8% YoY owing to higher footfalls and stable average check.
- **Pricing:** WESTLIFE took price hikes on few products where the products was cheaper than peers. The pricing action was done in November'24. Generally, the company takes 2-4% price increases on an annual basis which is ~50% of the annual inflation.
- **Margin:** Supply chain and cost initiatives along with price increase helped gross margins in 3Q.
- **Digital sales** help the company acquire very loyal customer. Digital touch points help in understanding customer trends better. In the long run, it expects increase in frequency and avg. ticket size from these loyal customers leading to robust sales growth. It is now focusing on improving throughput and upselling the customers.
- **AUV** is lower due to new store not yet maturing. In totality, the momentum of growth has come. Once the store matures, the SSSG will improve further. Accelerated value platform is one of the key agenda for the company. The growth in AUV will be led by growth in transaction volumes. Key levers for pickup in AUV would be menu innovation and guest count through value meals.
- **Value platform** mix improvement will not restrict GM improvement. The company is a leader in value for money in terms of brand and affordability scores. The platform will help the company offer high quality customers with upselling opportunity.
- **Fried Chicken:** All the restaurants in South and select restaurants in Non-South have fried chicken portfolio. 160 restaurants in total have fried chicken portfolio as of now. The ADS contribution from chicken is largely stable and hasn't grown exponentially but it expects to grow in the future. The company wants to establish chicken leadership in the South. In this quarter it will be launching the final version of their back-end product.
- **Royalty:** Reconciliation of incentives with parent leads to lower royalty rate in 3Q. On an annual basis there has been no change in royalty rates.
- **Geopolitical issue:** The new base got established last year due to geo-political issues. Gradually, it has started growing from that base in this quarter. However, some stores are still seeing overhang.
- **Competitive intensity:** Whenever there is subdued demand environment, there is a rush to offer best value to customers. The company doesn't see any significant competitive intensity in the market.
- **Coffee:** The company believes it is just the beginning of the coffee journey. Cafés are making customer understand a coffee experience which is helping players like McDonalds. Coffee saliency in overall ADS is growing.
- **MAU (Monthly Active Users)** are of Delivery app and store dining app combined. Delivery growth is coming through 3<sup>rd</sup> party aggregators as well as own app.
- **Staff cost** as a percentage of sales in the quarter is the new base as the company would want to maintain margins.
- **Quick commerce:** Avg delivery time is 22-25 min for McDonalds through 3<sup>rd</sup> party as well as through its own app. The management believes there is no threat from these players as of now.

**Exhibit 3: Revenues grew by 8.9% YoY to Rs6.5bn in 3QFY25**



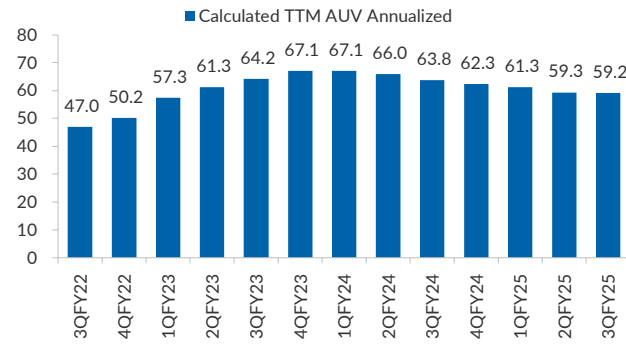
Source: Company, YES Sec

**Exhibit 4: SSSG was up 2.8% in 3QFY25 after four consecutive quarters of negative SSSG**



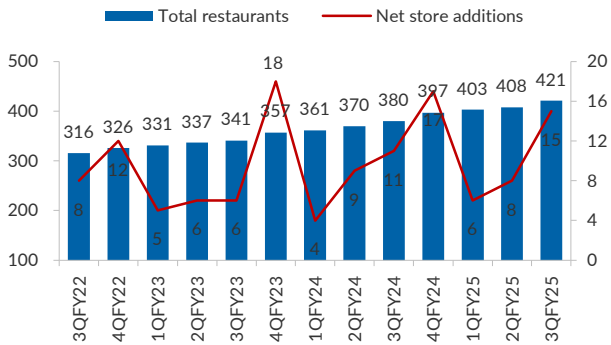
Source: Company, YES Sec

**Exhibit 5: Calculated TTM AUV was Rs59.2mn in 3QFY25; Reported TTM AUV stood at Rs60**



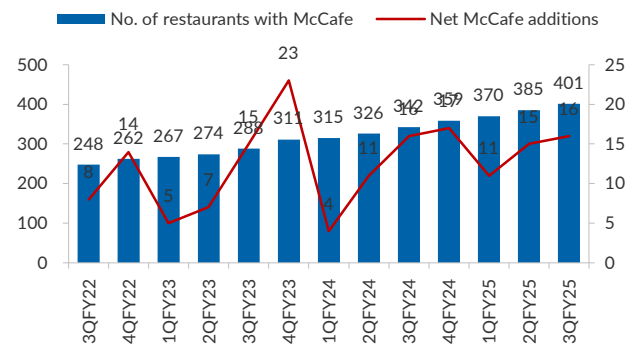
Source: Company, YES Sec

**Exhibit 6: Total restaurants as on 3QFY25 stands at 421 with 13 net store additions**



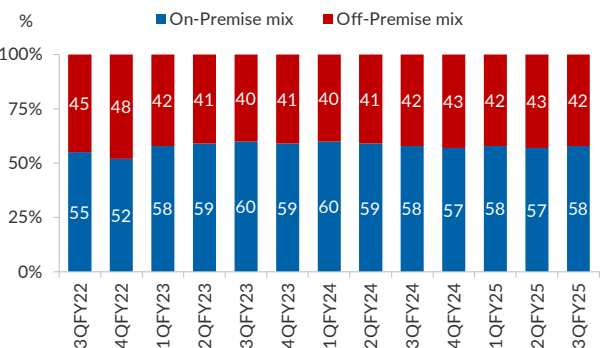
Source: Company, YES Sec

**Exhibit 7: % of restaurants with McCafé now stands at ~95% as on 3QFY25**



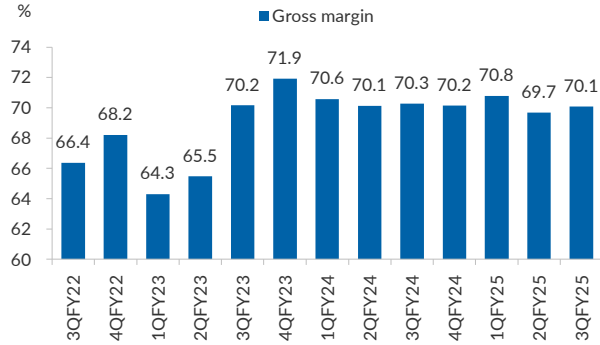
Source: Company, YES Sec

**Exhibit 8: On-Premises share stood at ~58% in 3QFY25**



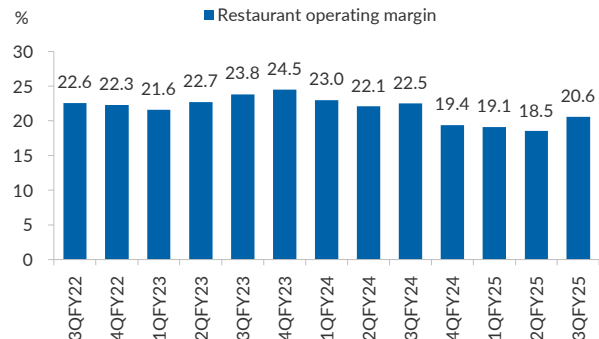
Source: Company, YES Sec

**Exhibit 9: Gross margin improved ~40bps QoQ in 3QFY25 but down by ~20bps YoY**



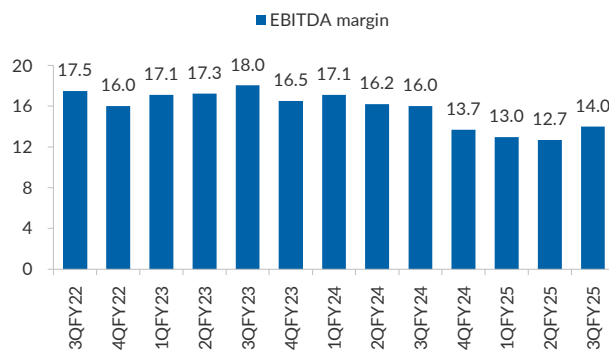
Source: Company, YES Sec

**Exhibit 10: Restaurant operating margin at 20.6% was impacted by operating leverage and A&P spends**



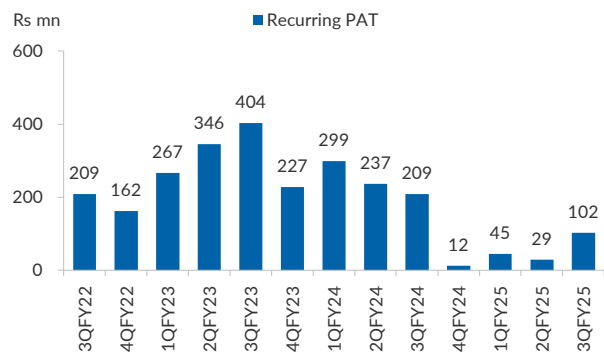
Source: Company, YES Sec

**Exhibit 11: EBITDA margin thus down ~200bps YoY to 14% in 3QFY25**



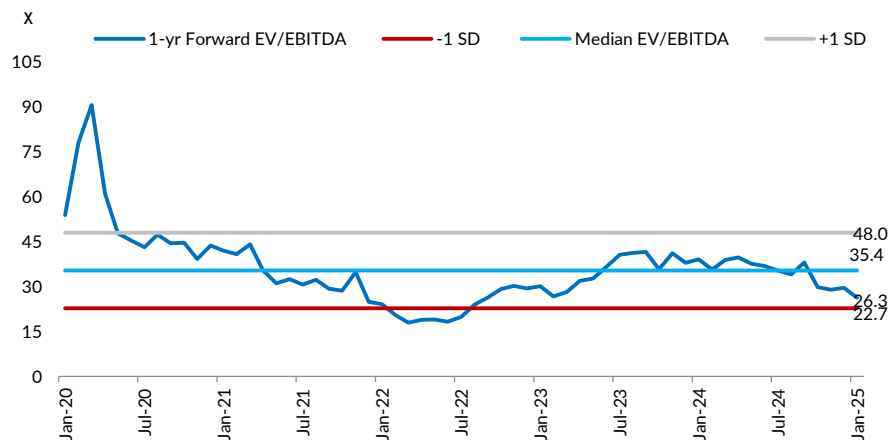
Source: Company, YES Sec

**Exhibit 12: Recurring PAT was thus down to Rs102mn in 3QFY25**



Source: Company, YES Sec

**Exhibit 13: Currently trading at ~26x 1-yr forward EV/EBITDA lower than the median multiple**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 14: Balance Sheet

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	312	312	312	312	312
Reserves	5,347	5,571	5,615	6,664	8,447
Net worth	5,659	5,883	5,927	6,976	8,758
Total debt	2,070	2,390	2,790	2,790	2,290
Other long-term liabilities	10,090	11,334	11,114	11,009	11,124
Deferred tax liability	-604	-708	0	0	0
<b>Total liabilities</b>	<b>17,216</b>	<b>18,899</b>	<b>19,832</b>	<b>20,776</b>	<b>22,172</b>
Gross block	18,125	21,057	22,785	24,856	26,963
Depreciation	11,533	13,355	14,539	15,861	17,286
Net block	6,591	7,702	8,246	8,995	9,677
Right of use assets	8,758	9,606	10,839	12,466	13,976
CWIP & Intangibles	1,447	1,309	1,285	1,277	1,271
Investments	1,299	1,380	966	773	232
Inventories	714	632	779	824	910
Debtors	107	173	155	213	187
Cash	284	142	-359	-905	-1,356
Loans & advances	1,044	1,050	1,098	1,128	1,159
Other current assets	142	157	172	190	209
Total current assets	2,291	2,154	1,846	1,450	1,109
Creditors	1,877	2,026	1,942	2,565	2,456
Other current liabilities & provisions	1,293	1,225	1,409	1,620	1,636
Total current liabilities	3,170	3,251	3,351	4,185	4,092
<b>Total assets</b>	<b>17,216</b>	<b>18,900</b>	<b>19,832</b>	<b>20,776</b>	<b>22,172</b>

Source: Company, YES Sec

### Exhibit 15: Income statement

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenue	22,780	23,918	24,983	28,635	32,501
% Growth	44.5	5.0	4.5	14.6	13.5
SSG %	36.1	-1.1	-2.7	7.7	7.5
COGS	6,860	7,107	7,449	8,461	9,425
Staff costs	3,106	3,285	3,611	3,881	4,259
Other expenses	8,885	9,745	10,677	10,136	12,954
Total expenses	18,851	20,138	21,738	22,479	26,638
EBITDA	3,929	3,780	3,245	6,157	5,863
% growth	115.1	-3.8	-14.2	41.2	28.0
EBITDA margin (%)	17.2	15.8	13.0	16.0	18.0
Other income	141	162	183	141	30
Interest costs	928	1,099	1,275	1,045	1,012
Depreciation	1,522	1,822	2,026	2,276	2,499
Profit before tax (before exceptional items)	1,620	1,022	126	2,977	2,382
Exceptional items	-128	-64	-70	0	0
Tax	379	266	11	353	599
PAT (before exceptional items)	1,212	739	108	1,049	1,782
Reported PAT	1,114	692	45	1,049	1,782
PAT margin (%)	5.3	3.1	0.4	3.7	5.5
% Growth	-	-39.0	-86.4	942.1	69.9

Source: Company, YES Sec

## Exhibit 16: Cash flow statement

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PAT	1,209	738	45	1,049	1,782
Depreciation	1,522	1,822	2,026	2,276	2,499
Other income	(141)	(162)	(183)	(141)	(30)
(Inc.)/dec. in working capital	366	97	(29)	731	(153)
Others	928	1,099	1,275	1,045	1,012
<b>Cash flow from operations</b>	<b>3,883</b>	<b>3,593</b>	<b>3,135</b>	<b>4,960</b>	<b>5,110</b>
Capital expenditure (-)	(4,610)	(3,685)	(3,086)	(3,877)	(3,811)
<b>Net cash after capex</b>	<b>(727)</b>	<b>(92)</b>	<b>49</b>	<b>1,083</b>	<b>1,299</b>
Inc./(dec.) in investments and other assets	210	60	532	287	521
<b>Cash from investing activities</b>	<b>(4,401)</b>	<b>(3,626)</b>	<b>(2,553)</b>	<b>(3,590)</b>	<b>(3,290)</b>
Inc./(dec.) in total borrowings	60	320	400	0	(500)
Others	410	41	(787)	(1,150)	(898)
<b>Cash from financial activities</b>	<b>470</b>	<b>(165)</b>	<b>(408)</b>	<b>(1,632)</b>	<b>(2,235)</b>
Others	99	55	(21)	67	181
Opening cash balance	232	284	142	(359)	(905)
Closing cash balance	284	142	(359)	(905)	(1,356)
Change in cash balance	52	(142)	153	(195)	(234)

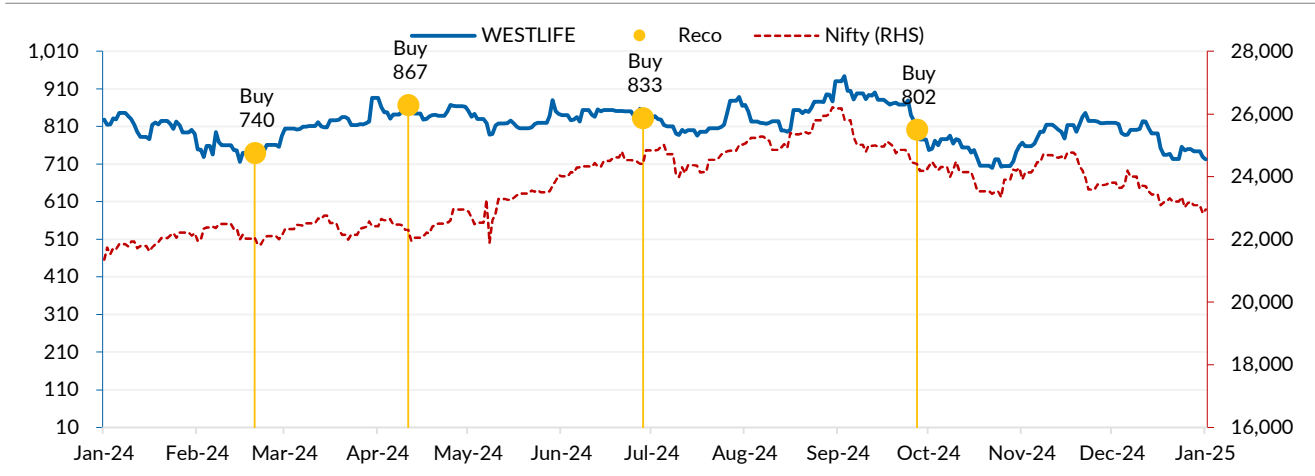
Source: Company, YES Sec

## Exhibit 17: Growth and Ratio matrix

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Per share (Rs)</b>					
EPS	7.8	4.7	0.6	6.7	11.4
Book value	36.3	37.7	38.0	44.7	56.2
<b>Valuation (x)</b>					
P/Sales	4.9	4.7	4.5	3.9	3.5
EV/sales	4.9	4.7	4.6	4.0	3.6
EV/EBITDA	28.7	29.9	35.3	25.1	19.7
P/E	92.8	152.1	1115.2	107.0	63.0
P/BV	19.8	19.1	18.9	16.1	12.8
<b>Return ratios (%)</b>					
RoCE*	35.5	26.5	16.5	26.5	32.6
RoE	23.5	12.8	1.7	16.3	22.7
RoIC*	17.3	12.2	6.8	11.8	15.5
<b>Profitability ratios (%)</b>					
Gross margin	69.9	70.3	70.2	70.5	71.0
EBITDA margin	17.2	15.8	13.0	16.0	18.0
EBIT margin	10.6	8.2	4.9	8.1	10.3
PAT margin	5.3	3.1	0.4	3.7	5.5
<b>Liquidity ratios (%)</b>					
Current ratio	0.6	0.5	0.4	0.2	0.1
Quick ratio	0.4	0.4	0.2	0.1	(0.0)
<b>Solvency ratio (%)</b>					
Debt to Equity ratio	0.4	0.4	0.5	0.4	0.3
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	3.2	3.2	2.9	2.9	2.9
Fixed asset turnover ratio (x)	3.5	3.1	3.0	3.2	3.4
Inventory days	33.9	34.6	34.6	34.6	33.6
Debtors days	1.9	2.1	2.4	2.4	2.3
Creditor days	95.7	100.2	97.2	97.2	97.2

Source: Company, YES Sec; Note: There is regrouping of Processing Charges from cost of goods sold (COGS) to other expenses starting FY23. FY22 gross margin adjusted for regrouping stood at 67.5%.

## Recommendation Tracker





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