

Resilient performance amidst weak consumption

WLDL's Q2FY24 print was below our estimates; revenue/EBITDA grew 7.4%/1.0%, yet PAT cut by 29.0% YoY. Management alluded, off high base (+48.5% growth) it was resilient performance amidst challenging environment. Despite continued weakness in eating-out trends WLDL saw 1% SSSG. Robust Omni-channel strategy aided by *Shravan* special menu and *McSpicy* fried chicken with Jr. NTR campaign saw 7% growth in On-premise and Off-premise channel. McDelivery app download stood at +28mn led to 14% rise in MAU reflecting 67% digital-led sales. TTM average sales/store grew to Rs66.5mn (+7.0%) YoY. Gross margin expanded to 70.1% (+560bp), reflecting ROM at 22.1% (-60bp). With higher employee cost (+14.4%), other expenses (+22.3%) and royalty payment (+20.8%), EBITDA margin cut to 16.2% (-103bp). WLDL guided for mid-single digit SSSG with 40-45 store addition in FY24E. With ~18-20% EBITDA margins it aims to build meals leadership using pricing interventions and relevant menu innovation. We tweak our earnings and retain ADD, with a revised DCF-based TP Rs954 (implying 28.7x avg. FY25E/FY26E EV/EBITDA).

Robust Omni-channel strategy healthy revenues and 1% SSSG

WLDL reported Q2FY24 revenues at Rs6.1bn (+7.4%) aided by increased guest counts driven by, (1) innovation – Shravan special menu in key markets, (2) robust Omni-channel strategy, (3) 7% growth in Dine-in/delivery sales, (4) 1% SSSG, and (5) faster growth in metro towns compared to non-metros. That said, McDelivery app download now stood at +28mn driving 14% growth in MAU setting average sales/store to Rs66.5mn (+7.0%) YoY. Management said its unique business model catering to various market segment across dayparts committed to building meals leadership yielding good success. In Q2, WLDL added 9 restaurant taking total count to 370 spread across 59 cities. We note till date 88% stores (327) offer *McCafe* portfolio while EOTF format in now introduced in 237 (74% stores). Company aims to add 40-45 new stores in FY24E evenly spread across metros and small towns adding more Drive-thrus (now 71).

Menu innovation with 59% contribution from dine-in sales lift gross margins to 70.1%

WLDL's gross margin expanded to 70.1% (+560bp) yet ROM margins lowered to 22.1% (-58bp), led by, (1) higher SG & A costs and (2) 59% contribution from dine-in sales (+7%). Despite higher employee cost (+14.4%), other expenses (+22.3%) and royalty payment (+20.8%), EBITDA margin cut to 16.2% (-103bp). WLDL expects lowering milk/cheese and chicken inflation, and effected 5% price hike in Apr'23, could help the company +100bp EBITDA margin expansion to +18% and also driven by strong operating leverage. Though management aspires to deliver mid-single digit SSSG in FY24 with premiumisation and innovation efforts could also led to margin expansion in our view.

Valuation and risks

As argued in our recent [QSR Thematic report](#) we strongly believe WLDL's multi-category, multi-channel and multi-daypart strategy driven by 3D's (digital, delivery, drive-thrus) holds lot of potential to lift volume sales with double digit SSSG. Despite revised royalty rate at 4.5% (consider as business expenses) we expect WLDL could deliver long-term value creation for the investors in our view. Noting lower than expected revenue/earnings in 1HFY24, and continued inflationary pressure, we cut earnings for FY24E/FY25E by 11.0%/11.4% and introduce FY26E earnings and retain ADD rating with a revised DCF-based TP of Rs954 (implying avg. EV/EBITDA of 28.7x FY25E/FY26E). Key risks to our call: prolonged food inflation to reflect weakness in demand, rising inflation in key RM/PM and severe competition in chicken portfolio from organized/unorganized players.

Financial and valuation summary

YE Mar (Rs mn)	2QFY24A	2QFY23A	YoY (%)	1QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	6,147	5,723	7.4	6,145	0.0	26,305	31,073	37,253
EBITDA	997	987	1.0	1,053	(5.4)	4,718	5,863	7,080
EBITDA margin (%)	16.2	17.2	(100bp)	17.1	(90bp)	17.7	18.5	18.7
Adj. Net profit	237	346	(31.5)	299	(20.8)	1,679	2,459	3,328
Adj. EPS (Rs)	0.0	2.2	(100.0)	0.0	0.0	10.8	15.8	21.3
EPS growth (%)						35.0	46.4	35.4
PE (x)						81.2	55.4	41.0
EV/EBITDA (x)						31.0	24.7	20.4
PBV (x)						18.7	14.5	11.1
RoE (%)						25.9	29.4	30.6
RoCE (%)						13.1	15.9	18.0

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India I Retail

26 October, 2023

ADD

Price: Rs874

Target Price: Rs954

Forecast return: 9%

Institutional Research

Market Data

Bloomberg:	WLDL IN
52 week H/L:	1,025/639
Market cap:	Rs137.7bn
Shares Outstanding:	155.9mn
Free float:	37.5%
Avg. daily vol. 3mth:	178,251
Source: Bloomberg	

Changes in the report

Rating:	Unchanged
Target price:	Rs954 from Rs945
EPS:	FY24E: Rs10.8; down 11.0%
	FY25E: Rs15.8; down 11.4%
Source: Centrum Broking	

Shareholding pattern

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	56.2	56.2	56.2	56.2
FII	10.4	9.7	9.6	10.1
DII	23.2	23.6	23.5	23.1
Public/other	10.2	10.5	10.7	10.6

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY24	Actual Q2FY24	Variance (%)
Revenue	6,307	6,147	(2.5)
EBITDA	1,053	997	(5.4)
EBITDA margin %	16.7	16.2	-49 bp
Other Income	59	31.8	(46.1)
Interest	246.3	273.9	11.2
Depreciation	406.3	439.4	8.1
PBT	460	315	(31.5)
Tax	113	78	(30.4)
Rep. PAT	347	224	(35.6)
Adj. PAT	347	237	(31.8)

Source: Bloomberg, Centrum Broking



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Retail

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	26,657	27,447	(2.9)	31,684	33,630	(5.8)
EBITDA	4,718	4,988	(5.4)	5,863	6,302	(7.0)
EBITDA margin %	17.7	18.2	(50bp)	18.5	18.7	(20bp)
Adj. PAT	1,679	1,883	(10.8)	2,459	2,781	(11.6)
Diluted EPS (Rs)	10.8	12.1	(11.0)	15.8	17.8	(11.4)

Source: Centrum Broking

Westlife Foodworld versus NIFTY Midcap 100

	1m	6m	1 year
WLDL IN	(10.7)	19.3	17.7
NIFTY Midcap 100	(5.5)	22.1	23.0

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E
Store count	412	462
SSS Growth	7.5	7.7
Gross Margin %	70.1	70.4
Store Margin (%) (Pre-INDAS)	19.5	20.3
Store Margin (%) (Post-INDAS)	23.6	24.3
EBITDA Margin (%) (Pre-INDAS)	13.6	14.5
EBITDA Margin (%) (Post-INDAS)	17.7	18.5

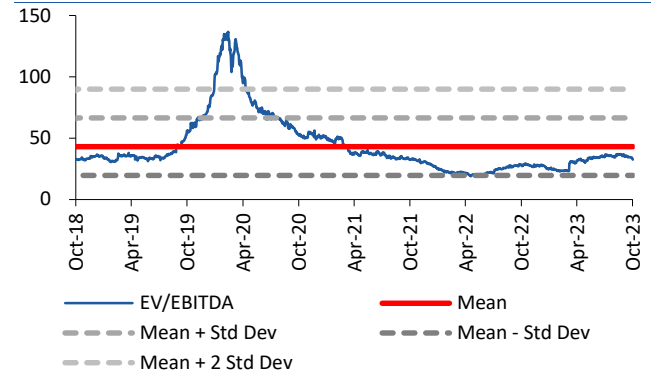
Source: Centrum Broking

Valuations

We argued in our recent [QSR Thematic report](#) we strongly believe WLDL's multi-category, multi-channel and multi-daypart strategy driven by 3D's (digital, delivery, drive-thrus) holds lot of potential to lift volume sales with double digit SSSG. Despite revised royalty rate at 4.5% (consider as business expenses) we expect WLDL could deliver long-term value creation for the investors in our view. Noting lower than expected revenue/earnings in 1HFY24, and continued inflationary pressure, we cut earnings for FY24E/FY25E by 11.0%/11.4% and introduce FY26E earnings and retain ADD rating with a revised DCF-based TP of Rs954 (implying avg. EV/EBITDA of 28.7x FY25E/FY26E). Key risks to our call: prolonged food inflation to reflect weakness in demand, rising inflation in key RM/PM and severe competition in chicken portfolio from organized/unorganized players.

Valuations	Rs/share
DCF-based target price	Rs954
WACC (%)	10.0
Terminal growth (%)	5.0

EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap	CAGR (FY23-25E)			EV/EBITDA(x) Pre-INDAS			EV/EBITDA (x) - Post			RoE(%)		
	(Rs Bn)	Sales	EBITDA	EPS	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Jubilant Foods	334.6	17.8	19.9	41.2	39.6	30.4	24.2	31.8	26.8	21.9	19.0	23.4	25.1
Devyani International	222.1	25.0	28.5	15.0	48.1	34.1	26.8	31.9	22.4	17.9	34.1	29.3	24.9
Westlife Foodworld	135.9	17.9	22.2	48.4	49.2	40.4	31.5	37.6	31.0	24.7	24.2	25.9	29.4
Sapphire Foods	87.5	21.2	23.7	(7.6)	31.6	23.0	18.4	19.5	14.5	11.7	20.6	11.5	13.2
RBA	56.1	31.8	53.3	NA	166.9	60.4	32.3	36.2	22.8	15.1	(3.7)	(1.4)	1.2

Source: Company, Centrum Broking

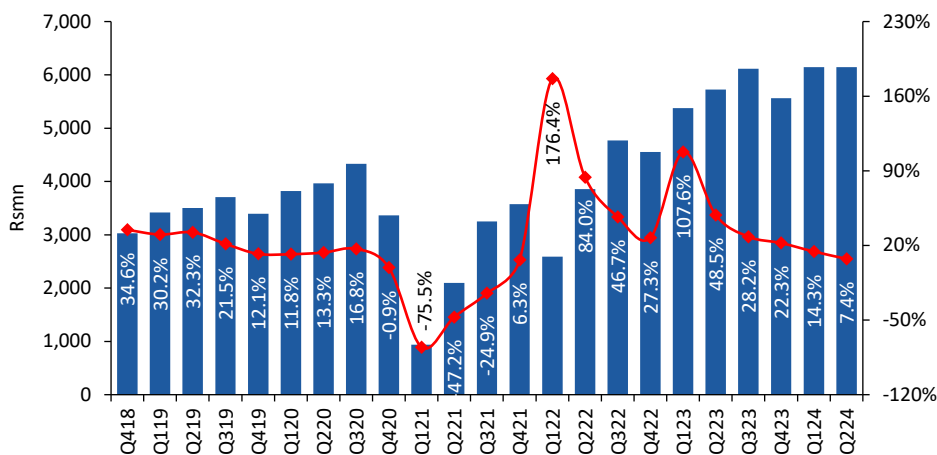
Conference call highlights

- Consol. revenues grew 7.4% to Rs6.1bn backed by 1% growth in SSSG despite off high base and continued weakness in consumer eating out trends in Q2
- Average sales/store stood at Rs66.5mn compared to Rs61.9mn (+7.4% on YoY)
- Share of consumer visits to McDonald's and brand equity scores strengthens across West and South markets
- Shravan Special menu saw good traction in key markets during the months of July and August
- On & Off premise sales grew each by 7% YoY, though Off premise contributed 41% to top line
- WLDL focused on Digital through Self ordering kiosks and Mobile Apps continues with Digital Sales contributing 67% to top line, up nearly 30 YoY
- McSpicy Fried Chicken continued the strong momentum in Southern India, though premiumization and innovation in desserts and beverages portfolio continues with Mixology, Oreo Cones and KitKat range
- The company added 9 new restaurants to reach 370 stores covering 59 cities in west and south region
- Cumulative app downloads stood at +28mn and Monthly Active Users (MAU) up by 14%
- Menu initiatives include Mixology and Oreo Cones to push top line
- Management guided major meal focus would be burger, chicken and coffee
- QSR industry has been facing several challenges due to higher inflation and subdued demand
- Management opined that 100% EOTF features would be added by FY27
- Royalty rate would be 5.2% including 18% GST charged in the P&L
- Management expect SSSG would be in the range of 7-8% for next couple of years
- Capex for FY24 –Rs2bn to 2.7bn where 60-70% cost goes for new store capex
- The company has target to open 40-45 restaurants by FY27 and target operating margin would be 18-20%
- Management confirmed that next phase of growth would be driven by Burger chicken with a target of Rs40-45bn top line by FY27
- Going forward, G&A exp. would be in the similar range while % on sales would be down gradually
- Management is very optimistic on Q3FY24 led by festive season while looking the last 20 days in Oct, still strong demand yet to come

Margins

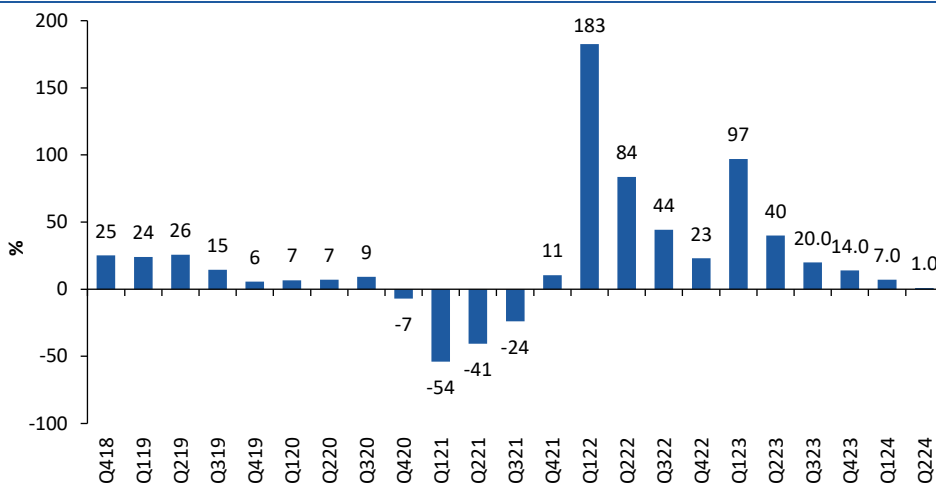
- Gross margins expanded by 560bp to 70.1% on the back of better mix and cost savings initiatives
- Restaurant operating margin (ROM) lowered by 58bp to 22.1% as on Q2FY24
- EBITDA grew moderately by 1.0% resulting in EBITDA margin at 16.2% (-103bp) despite higher other expenses (+22.3%), royalty payment (+20.8%) and employee cost (+14.4%)
- PAT dropped by 29.0% to Rs0.22bn (CentE. Rs0.35bn) while Interest expenses grew faster 21.5%

Exhibit 1: Quarterly console. net revenue growth – YoY



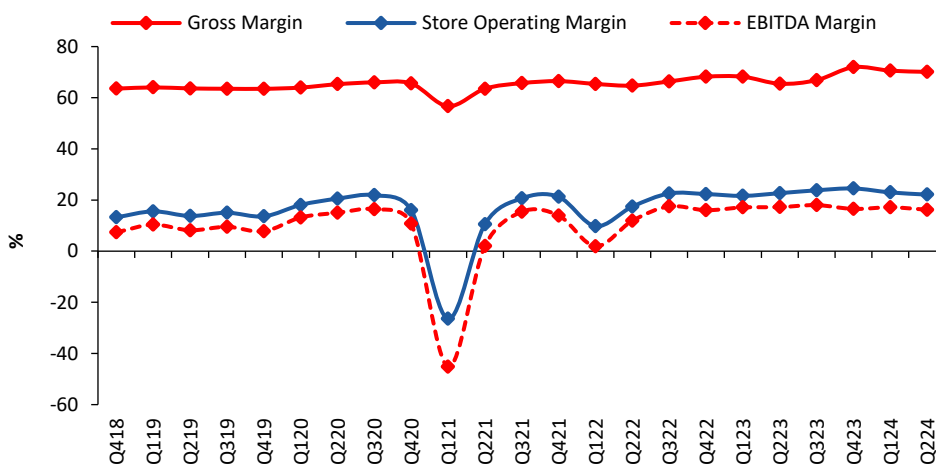
Source: Company Data, Centrum Broking

Exhibit 2: Quarterly SSSG – YoY



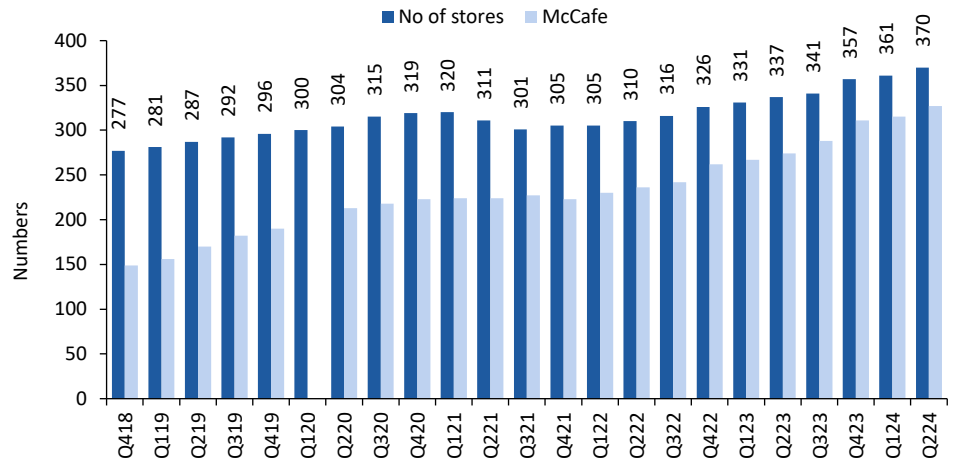
Source: Company Data, Centrum Broking

Exhibit 3: Consolidated gross margin, Store operating and EBITDA margin trend



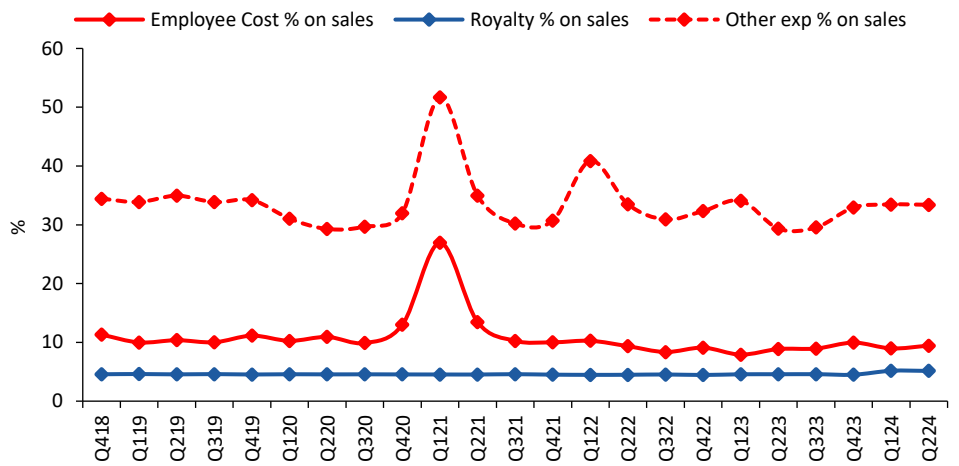
Source: Company Data, Centrum Broking

Exhibit 4: Total No. of stores along with McCafe



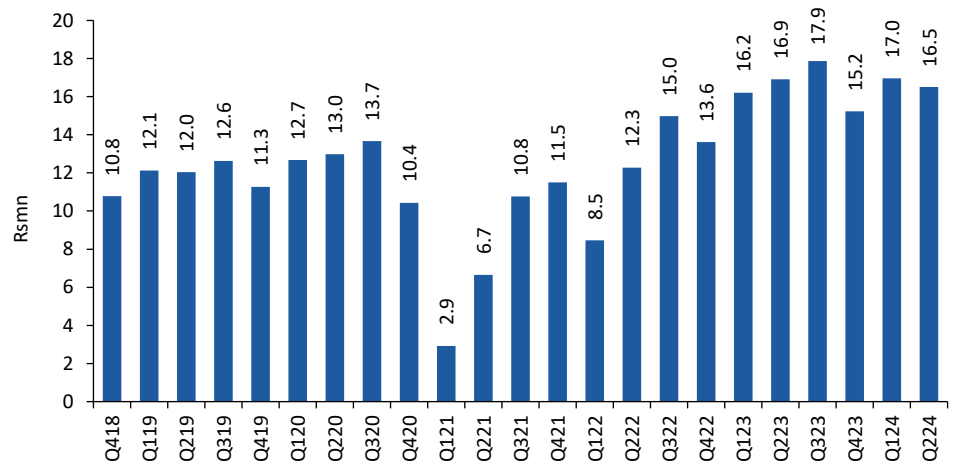
Source: Company Data, Centrum Broking

Exhibit 5: Employee, Royalty & Other exp. % on sales



Source: Company Data, Centrum Broking

Exhibit 6: Revenue per store



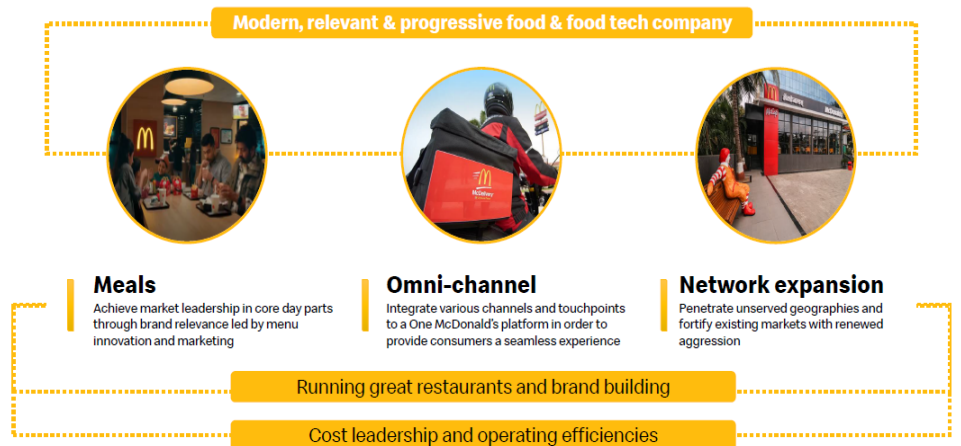
Source: Company Data, Centrum Broking

Exhibit 7: Strong Business Model



Source: Company

Exhibit 8: Strategic Focus on medium term



Source: Company

Exhibit 9: Omni channel model with unified experience

Robust Omni Channel model with unified experience

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FOODS



Source: Company

Exhibit 10: Aggressive network expansion continued

Network Expansion

Aggressive and prudent Network Expansion



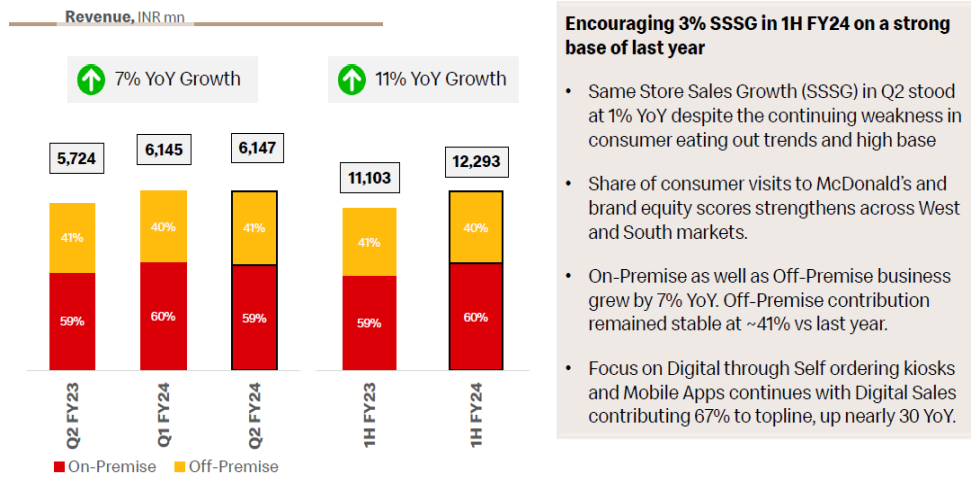
Presence in **370 restaurants** across **59 cities** (as of September 2023)



- **Added 9 restaurants during Q2 FY24 and on track to add 40 – 45 stores in FY24**
- Broad basing the store growth across Metros, Tier 1 and Smaller towns
- Aiming to reach 580-630 restaurants by 2027.

Source: Company

Exhibit 11: Resilient performance amidst challenging environment

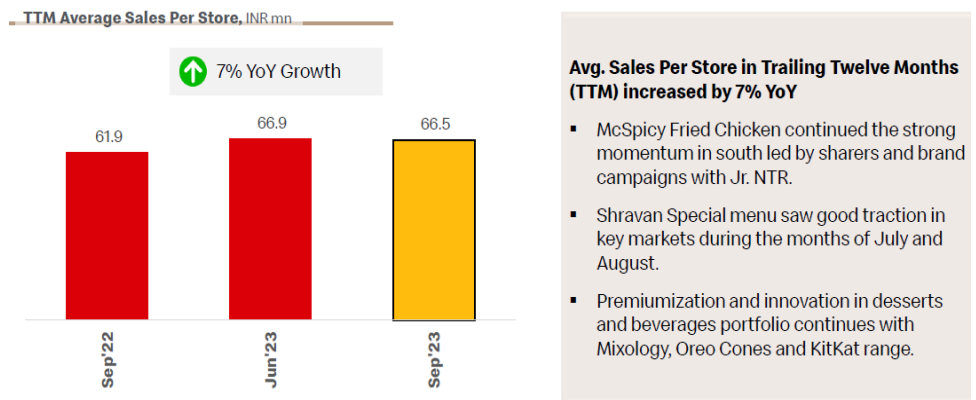


Encouraging 3% SSSG in 1H FY24 on a strong base of last year

- Same Store Sales Growth (SSSG) in Q2 stood at 1% YoY despite the continuing weakness in consumer eating out trends and high base
- Share of consumer visits to McDonald's and brand equity scores strengthens across West and South markets.
- On-Premise as well as Off-Premise business grew by 7% YoY. Off-Premise contribution remained stable at ~41% vs last year.
- Focus on Digital through Self ordering kiosks and Mobile Apps continues with Digital Sales contributing 67% to topline, up nearly 30 YoY.

Source: Company

Exhibit 12: Average Sales per store -strong trend continued



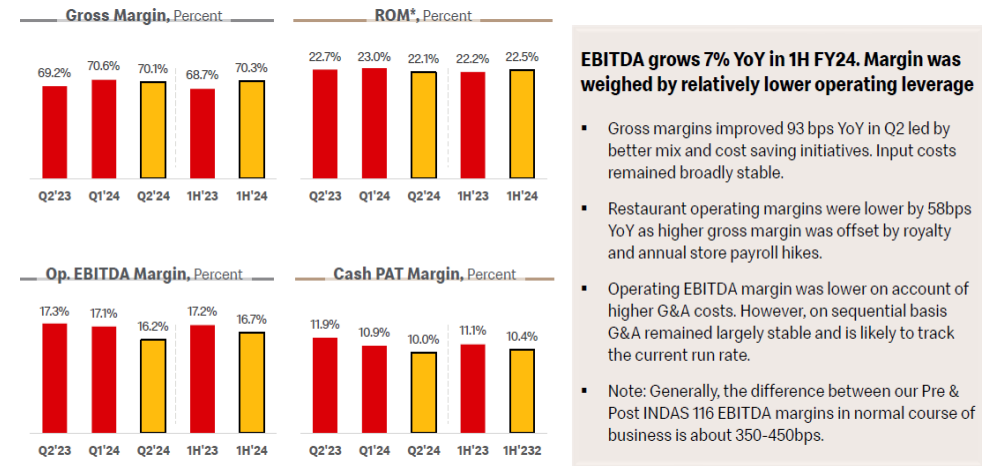
Avg. Sales Per Store in Trailing Twelve Months (TTM) increased by 7% YoY

- McSpicy Fried Chicken continued the strong momentum in south led by sharers and brand campaigns with Jr. NTR.
- Shravan Special menu saw good traction in key markets during the months of July and August.
- Premiumization and innovation in desserts and beverages portfolio continues with Mixology, Oreo Cones and KitKat range.

Note: Numbers on trailing twelve months basis to account for business seasonality

Source: Company

Exhibit 13: Profitability to improve with scale



Source: Company

Exhibit 14: McSaver Meals at Rs179



Source: Company

Exhibit 15: Menu initiatives



Source: Company

Exhibit 16: Quarterly financials

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Sales	2,590	3,854	4,768	4,551	5,379	5,723	6,113	5,564	6,145	6,147
Cost of materials	896	1,360	1,603	1,447	1,710	1,976	2,025	1,562	1,809	1,837
Gross Profit	1,694	2,495	3,165	3,104	3,669	3,747	4,088	4,002	4,337	4,310
Employee Expenses	266	360	399	414	426	507	547	554	551	581
Royalty	116	173	216	203	246	262	280	250	318	316
Other Exp	1,059	1,291	1,474	1,472	1,834	1,680	1,806	1,833	2,056	2,054
Operating Profit (Core EBITDA)	50	457	835	729	920	987	1,101	919	1,053	997
Depreciation	332	338	348	347	358	366	386	411	429	439
Interest	203	204	210	209	215	226	234	253	260	274
Other Income	65	39	2	41	1	55	38	49	52	32
Profit Before Tax	-420	-46	279	213	348	450	520	304	416	315
Tax	-112	-15	70	52	82	104	116	76	118	78
Profit After Tax	-308	-31	208	161	266	346	404	227	299	237
Margin (%)										
Gross Margin	65.4	64.7	66.4	68.2	68.2	65.5	66.9	71.9	70.6	70.1
EBITDA	1.9	11.9	17.5	16.0	17.1	17.2	18.0	16.5	17.1	16.2
Adj. PAT	-11.9	-0.8	4.4	3.5	4.9	6.0	6.6	4.1	4.9	3.8

Source: Company, Centrum Broking

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	15,561	22,594	26,305	31,073	37,253
Operating Expense	9,687	15,463	12,435	14,573	17,455
Employee cost	2,095	2,034	3,172	3,770	4,509
Others	2,087	1,354	6,332	7,478	8,844
EBITDA	1,892	3,925	4,718	5,863	7,080
Depreciation & Amortisation	1,364	1,522	1,603	1,674	1,698
EBIT	528	2,403	3,115	4,189	5,383
Interest expenses	826	928	930	974	935
Other income	282	147	53	63	76
PBT	(17)	1,622	2,239	3,279	4,447
Taxes	(4)	379	560	820	1,119
Effective tax rate (%)	24.1	23.3	25.0	25.0	25.2
PAT	(13)	1,244	1,679	2,459	3,328
Minority/Associates	0	0	0	0	0
Recurring PAT	(13)	1,244	1,679	2,459	3,328
Extraordinary items	0	(128)	0	0	0
Reported PAT	(13)	1,116	1,679	2,459	3,328

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	59.6	45.2	16.4	18.1	19.9
EBITDA	303.2	107.5	20.2	24.3	20.8
Adj. EPS	(98.8)	nm	35.0	46.4	35.4
Margins (%)					
Gross	66.3	70.4	71.0	71.8	71.8
EBITDA	12.0	17.2	17.7	18.5	18.7
EBIT	3.3	10.5	11.7	13.2	14.2
Adjusted PAT	(0.1)	4.9	6.3	7.8	8.8
Returns (%)					
ROE	(0.3)	24.2	25.9	29.4	30.6
ROCE	4.1	11.9	13.1	15.9	18.0
ROIC	2.8	11.4	13.1	17.1	20.2
Turnover (days)					
Gross block turnover ratio (x)	0.9	1.1	1.1	1.2	1.2
Debtors	3	2	2	2	2
Inventory	34	34	38	40	41
Creditors	120	96	101	108	103
Net working capital	(24)	(21)	(10)	14	7
Solvency (x)					
Net debt-equity	2.2	2.1	1.4	0.9	0.7
Interest coverage ratio	2.3	4.2	5.1	6.0	7.6
Net debt/EBITDA	5.5	3.0	2.2	1.5	1.2
Per share (Rs)					
Adjusted EPS	(0.1)	8.0	10.8	15.8	21.3
BVPS	29.6	36.3	46.8	60.4	79.0
CEPS	8.7	17.7	21.0	26.5	32.2
DPS	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	nm	0.0	0.0	0.0	0.0
Valuation (x)					
P/E	nm	109.6	81.2	55.4	41.0
P/BV	29.5	24.1	18.7	14.5	11.1
EV/EBITDA	77.3	37.6	31.0	24.7	20.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	312	312	312	312	312
Reserves & surplus	4,309	5,347	6,991	9,107	12,013
Shareholders fund	4,621	5,659	7,303	9,418	12,325
Minority Interest	0	0	0	0	0
Total debt	10,546	12,030	11,341	12,022	11,546
Non Current Liabilities	193	329	339	349	352
Def tax liab. (net)	(520)	0	0	0	0
Total liabilities	14,839	18,018	18,982	21,789	24,223
Gross block	17,272	20,986	23,585	26,124	30,700
Less: acc. Depreciation	(3,649)	(5,171)	(6,774)	(8,448)	(10,145)
Net block	13,623	15,815	16,811	17,676	20,554
Capital WIP	355	567	377	388	400
Net fixed assets	13,978	16,796	17,188	18,064	20,954
Non Current Assets	361	1,198	1,228	1,259	1,290
Investments	1,504	1,299	1,299	1,299	1,299
Inventories	559	714	949	1,128	1,349
Sundry debtors	133	107	161	200	208
Cash & Cash Equivalents	232	284	914	3,217	2,950
Loans & advances	546	81	833	863	956
Other current assets	142	510	239	285	340
Trade payables	1,722	1,877	2,548	3,002	3,303
Other current liab.	760	964	1,128	1,341	1,604
Provisions	134	130	153	181	217
Net current assets	(1,004)	(1,275)	(732)	1,168	680
Total assets	14,839	18,018	18,982	21,789	24,223

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	(17)	1,495	2,239	3,279	4,447
Depreciation & Amortisation	1,364	1,522	1,603	1,674	1,698
Net Interest	826	928	930	974	935
Net Change – WC	(154)	70	785	383	252
Direct taxes	4	(439)	(560)	(820)	(1,119)
Net cash from operations	2,323	3,613	3,383	5,942	5,677
Capital expenditure	(1,534)	(2,691)	(1,995)	(2,550)	(4,588)
Acquisitions, net	0	0	0	0	0
Investments	480	234	0	0	0
Others	(617)	0	0	0	0
Net cash from investing	(1,670)	(2,456)	(1,995)	(2,550)	(4,588)
FCF	652	1,156	1,388	3,392	1,089
Issue of share capital	(178)	0	214	0	0
Increase/(decrease) in debt	(142)	(838)	207	228	0
Dividend paid	0	0	(250)	(343)	(421)
Interest paid	(826)	(143)	(930)	(974)	(935)
Others	0	0	0	0	0
Net cash from financing	(1,146)	(981)	(759)	(1,089)	(1,356)
Net change in Cash	(493)	176	630	2,303	(267)

Source: Company, Centrum Broking

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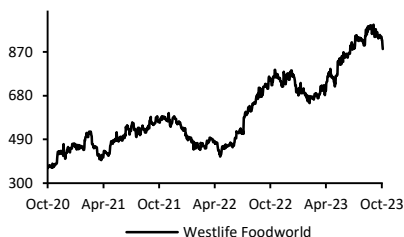
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Westlife Foodworld Ltd



Source: Bloomberg

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