Burger Chains

Sector Report

A play on Brand pull and Technology

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We are initiating coverage on Burger Chains (WDL and Burger King) with a positive view. We believe organized Burger chains will benefit from accelerated shift towards organized food service players post Pandemic given low penetration, focus on hygiene and fast catch up by convenience channel. We expect burger chains to benefit from covid 19 led restructuring by closure of unviable stores, rental negotiation, supply chain improvements which have lowered overheads by 20-30%. Burger Chains have also broad based their offering with Wraps, Rice Bowls, Puffs, Breakfast items and SIS café as a part of their menu options. We believe worst is over and expect WDL to add 25/30 stores every year while BK will add 200 stores in next 3 years. We estimate WDL to report sharp turnaround with an increase in EPS from Rs4.9 in FY22 to Rs10.2 in FY24. BK is expected to turn profitable from FY23 with an estimated EPS of Rs1.7 by FY24. We value both the stocks on DCF and initiate coverage with a Buy rating and March22' target price of Rs 618 for WDL and Rs 221 for Burger King. We initiate on Burger Chains with Buy rating.

Burger Chains offer huge scope of growth and scalability; We believe Burger chains offer huge scope of growth in India given that global leader McDonalds has ~480 stores while No2 chain Burger king has 270 stores. Stores number in USA and China stands at 13846/3386 for McDonalds and 7346/1025 for Burger King. Burger chains grew at a CAGR of 19.4% between FY14-20 and are expected to sustain momentum in the coming years led by improved affordability, rising consumer aspiration and favorable demographics.

Burger Chains will emerge stronger post pandemic: Burger Chains led by McDonalds have undertaken massive business restructuring and cost cutting by closure of non- viable stores, rental negotiation, supply chain rationalization, buying and usage of perishables and flexi hours for manpower with more focus on variable pay. Industry has seen 20-30% reduction in fixed costs with achievement of 100bps lower margins at 25% lower sales in case of WDL.

Burger chains have broad based Menu options: Burger chains have moved beyond burgers to include products like wraps, desserts, rice bowl, and breakfast menu options. Burger chains have included products to suit taste, palate and sensibilities of Indian consumers with fully vegetarian Burgers, Non Beef and Pork products in non Veg, separate kitchens for veg and non veg. This has broad based the consumer appeal and transitioned them as family restaurants.

SIS café's offer huge scalability: Burger chains led by McDonalds(McCafe) have started SIS Café's while Burger King will likely launch BK Café over time. SIS café has just 20% of capex of a normal café with 500-700 bps higher gross margin than their food business. SIS Cafés are positioned as casual meeting places and attract younger crowd which improves brand salience. McCafe has presence in 223 (227 as on 9MFY21) stores as on FY20, achieving sales of Rs14mn/store and contributing Rs3.2bn to overall sales which is expected to increase to Rs18mn/café with sales of Rs6.4bn by FY24.

Burger King India (BURGERKI IN)
Rating: BUY | CMP: Rs145 | TP: Rs221

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	8,412	5,025	11,486	14,667
EBITDA (Rs. m)	1,040	65	1,784	2,493
Margin (%)	*12.4*	*1.3*	*15.5*	*17.0*
PAT (Rs. m)	(722)	(1,515)	(63)	211
EPS (Rs.)	(2.6)	(4.0)	(0.2)	0.6
Gr. (%)	*80.0*	*52.7*	*(95.8)*	*(431.9)*
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	*(27.5)*	*(31.4)*	*(0.9)*	*3.0*
RoCE (%)	*(3.0)*	*(19.6)*	*5.5*	*11.3*
EV/Sales (x)	5.0	10.3	4.5	3.5
EV/EBITDA (x)	40.0	799.3	29.1	20.9
PE (x)	(55.6)	(36.4)	(869.0)	261.8
P/BV (x)	14.6	8.0	8.1	7.8

Westlife Development (WLDL IN)
Rating: BUY | CMP: Rs496 | TP: Rs618

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	15,473	10,038	18,318	20,901
EBITDA (Rs. m)	2,135	811	3,474	4,152
Margin (%)	*13.8*	*8.1*	*19.0*	*19.9*
PAT (Rs. m)	93	(691)	767	1,045
EPS (Rs.)	0.6	(4.4)	4.9	6.7
Gr. (%)	*(56.5)*	*(845.2)*	*(211.0)*	*36.2*
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	*1.6*	*(12.9)*	*14.3*	*16.7*
RoCE (%)	*9.5*	*(8.0)*	*24.5*	*27.9*
EV/Sales (x)	5.0	7.7	4.2	3.6
EV/EBITDA (x)	36.2	95.3	21.9	18.0
PE (x)	831.3	(111.6)	100.5	73.8
P/BV (x)	13.4	15.5	13.5	11.4

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On path to be food tech companies: Leading QSR chains are in the process of emerging as food tech companies with focus on convenience channels like delivery, take away and drive thru and increased use of technology. They have launched new mobile Apps and are focused on usage of Kiosks and handhelds for order and payment even in the stores. Dominos is on the forefront with online /mobile ordering at 98% of delivery sales. During covid other chains like McDonalds and BK have also improved their apps and are catching up in use of technology. Apps provide customer data pertaining to consumer preferences, order history, improves consumer interaction and also collects feedback from customer. App data also helps improve order accuracy, forecast trend and decide discounts on products.

Initiate with a DCF based Buy

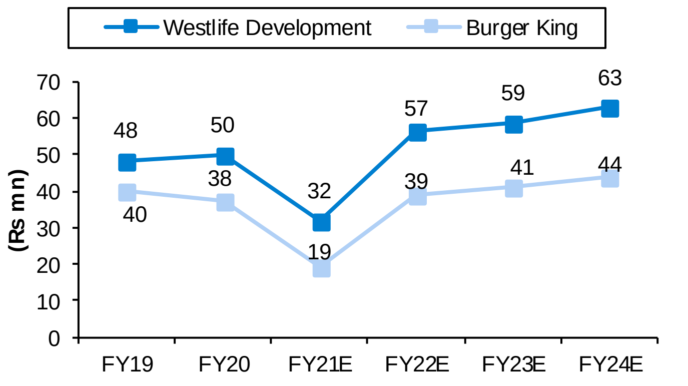
We initiate with a Buy rating and DCF based March22' target price of Rs 618 for WDL and Rs 221 for BK. We are assuming ga of 30%, gb of 7% and ROIC of 45% and 35%, WACC of 11.5% for WDL and 12% for BK. WDL is expected to turn FCF positive in FY22 while BK will turn FCF positive in FY25

Exhibit 1: Westlife to report sharp turnaround in FY22, BK to follow suit

	Burger King				Westlife Development			
	FY20	FY22	FY23	FY24	FY20	FY22	FY23	FY24
Number of Stores	260	320	390	470	319	336	371	406
System Avg Sales	38	39	41	44	50.0	56.7	58.7	62.8
Growth	*-6.1%*	*105.3%*	*6.1%*	*5.5%*	*3.2%*	*77.5%*	*3.6%*	*7.0%*
Revenue	8,412	11,486	14,667	18,747	15,473	18,318	20,901	24,585
YoY Growth	*33.0%*	*128.6%*	*27.7%*	*27.8%*	*10.4%*	*82.5%*	*14.1%*	*17.6%*
Gross Profit	5,397	7,443	9,607	12,392	10,091	11,998	13,795	16,398
Gross Margins	*64.2%*	*64.8%*	*65.5%*	*66.1%*	*65.2%*	*65.5%*	*66.0%*	*66.7%*
Operational Cost	4,357	5,659	7,114	8,973	7,955	8,524	9,643	11,310
% of Sales	*51.8%*	*49.3%*	*48.5%*	*47.9%*	*51.4%*	*46.5%*	*46.1%*	*46.0%*
EBITDA	1,040	1,784	2,493	3,419	2,135	3,474	4,152	5,089
Margins	*12.4%*	*15.5%*	*17.0%*	*18.2%*	*13.8%*	*19.0%*	*19.9%*	*20.7%*
PBT	(722)	(63)	211	640	78	1,099	1,496	2,267
PAT	(722)	(63)	211	640	93	767	1,045	1,582
EPS	(2.6)	(0.2)	0.6	1.7	0.6	4.9	6.7	10.2
WCAP	(1044)	(1265)	(1831)	(2227)	(916)	(1247)	(1367)	(1634)
FCF	(2,078)	(731)	(539)	(504)	115	678	707	1,452

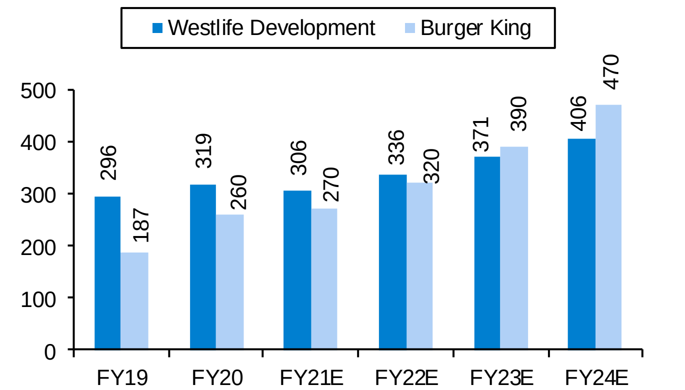
Source: Company, PL, we have not considered FY21 Nos being an abnormal year for the Industry

Exhibit 2: System average sales /store on rising trajectory



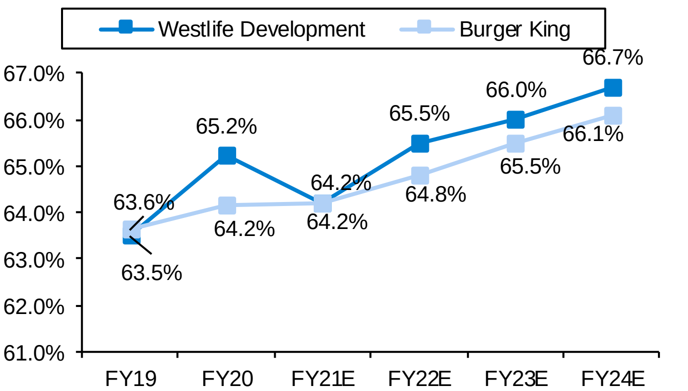
Source: Company, PL

Exhibit 3: Aggressive store additions expected in QSR's



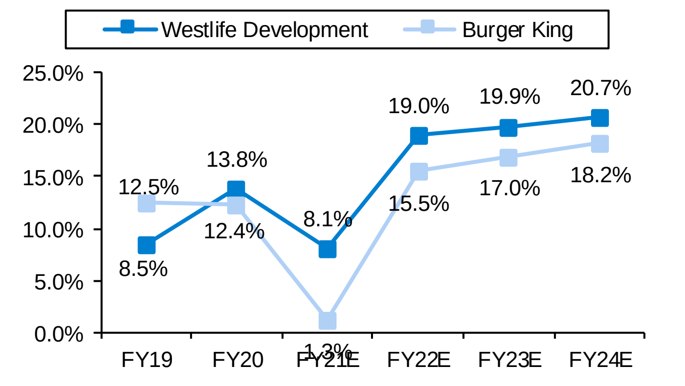
Source: Company, PL

Exhibit 4: Gross margins to rise for QSR's post pandemic



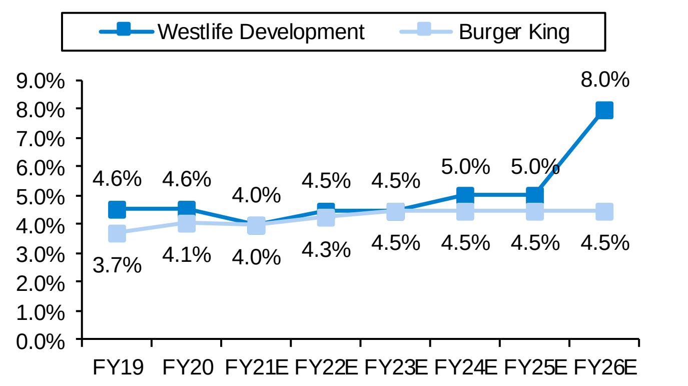
Source: Company, PL

Exhibit 5: Cost reductions will aid EBITDA margins



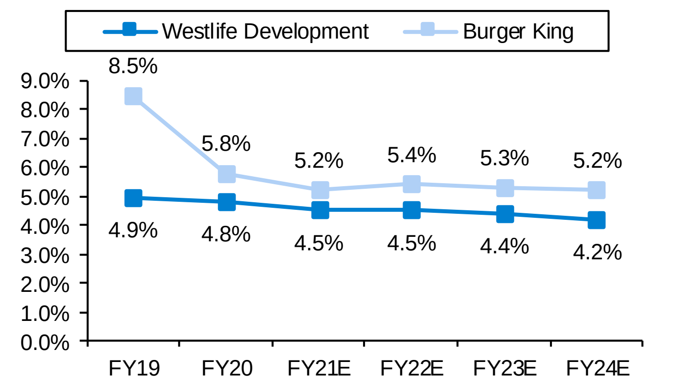
Source: Company, PL

Exhibit 6: Royalty fees will rise to 8% for WDL from FY26



Source: Company, PL

Exhibit 7: High Ad-spend (% of sales) helps brand position



Source: Company, PL

QSR industry to emerge stronger Post Covid

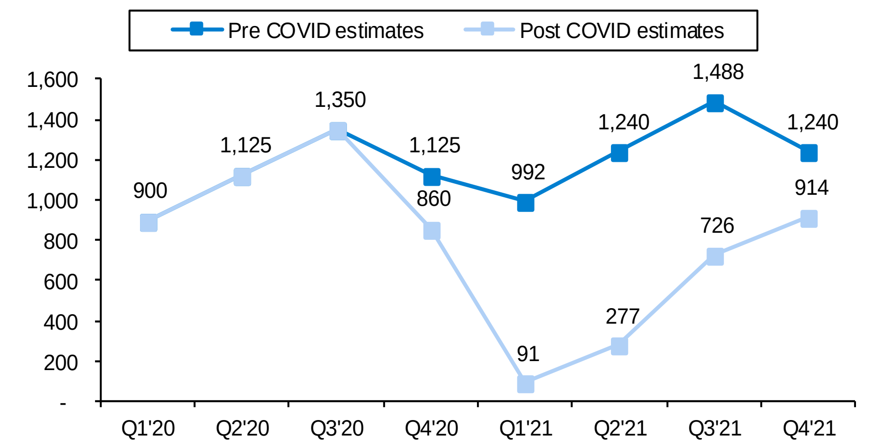
QSR Industry has rebound post lockdown, full recovery looks likely in 1-2 quarters

Indian QSR industry is worth Rs350bn and is expected to grow at a CAGR of 18.8% over FY20-25 led by structural factors like rising per capita income, low penetration, young population, emergence of brands and rising consumer aspirations. Indian QSR industry has suffered a severe blow due to Covid-19 led lockdown and its aftermath with industry de-growing by 90.8% in 1Q21.

Industry has seen gradual recovery setting in from 2Q with complete recovery expected in 4Q led by:

- Gradual reopening of restaurants for Dine in beginning June/July with a 90% restaurants in operation by Oct20.
- Setting up of new safety protocols like social distancing, use of kiosks for ordering and self- payment, 33% sitting capacity initially which has been subsequently increased to 50%
- Steady easing of restrictions and decline in Covid-10 cases has added to consumer confidence.
- Industry interactions suggest that the QSR industry will recover by Q4FY21 led by delivery and takeaway. Dine in expected to recover by 1H22.

Exhibit 8: Food Service Market has witnessed gradual recovery from 2Q21



Source: Company, PL

Increased focus on Hygiene

Covid-19 has seen significant increase in consumer focus on the quality and hygiene standards of food. It does not mean that street food has vanished and will no more be available or sold, but the awareness will flow down into both product and service at certain level. QSR's have significantly increased focus on hygiene to woo back customers with initiatives like:

- Zero contact delivery and takeaway. Regular temperature checks of staff, sanitization of delivery vehicles, hand wash, protective face mask and weekly medical checkups of employees and Sanitization of packaging materials.

- Improved quality of inputs and materials to maintain standards of product quality, more so for the players who are running cloud kitchens
- Players across segments have taken steps to ensure the quality and safety standards in the food and service.
- Introduction of channels like On the Go which allows the customer to collect the order in his vehicle, removing the need to step into the restaurant.

Exhibit 9: Host of measures followed by QSR's to ensure safety at every step of customer's journey

Source: Company, PL

Aggressive cost cutting

Food services industry was caught off guard by sudden lockdown given perishable nature of input costs, employee sustenance and safety, overheads associated with lease rentals, electricity and ancillary services. However, the industry has undertaken very aggressive cost cutting to reduce cash losses and bring down the breakeven point by adopting following measures:

Food Service Industry has seen increased towards variable lease rentals

- **Reduction in Lease rentals:** Lease rentals are one of the most critical expense head and accounted for ~12-15% of sales in the pre covid scenario. High fixed rentals are a drag in low sales scenario while fixed rentals work to the advantage of QSR player during sales uptick.
  - Most players in the Food services industry have undertaken renegotiation of lease rates to reduce the rental burden and cash flow
  - Lease rentals have been moved to a mix of fixed and variable rentals where the stores had a fixed rental. In some cases, they have even sought for complete waiver during the lockdown phase, more so in the malls.
  - There has been renegotiation of long term lease rates, although benefits have been front loaded
- **Store closures and re-locations**: QSR industry has undertaken store rationalization and closures at a rapid pace. Dominos has undertaken closure of 105 stores in 9M21, while WDL has closed 19 McDonald stores while Burger King has closed 5 stores. Industry is using Covid 19 as an opportunity to remove loss making stores and also adjust to the changed scenario.

Some locations like Food courts, Corporate parks and places near office areas might see structural shift in footfalls

Industry is moving towards flexi manpower timings and lower requirement due to higher technology interface

- Increased real estate availability on marquee locations and relatively lower rentals have given an opportunity to leading players to undertake store re-locations and move to locations with higher potential footfalls. Domino's has already opened 84 stores during 9M21 with a guidance to open 110+ stores in FY21.

- QSR's have a lot of stores in corporate parks, food courts, malls which might structurally adjust for lower footfalls. Consequently, QSR's have seen more store closure at these locations.

- Industry participants are of the view that dine in operations might normalize in 1H22 given capacity constraints and its share in sales can structurally decline by 10-15% in comparison to pre covid levels. Thus stores which were loss making and not suitable for delivery can face more pressure and have seen more closures.

- Domino's medium term aspiration of ~3000 stores indicate massive potential for QSR's to expand and with real estate availability/prices favorable, we expect capacity expansion to gather pace in the coming years. Burger King has also guided at opening 200 stores over FY20-23 with total store target of 700 stores by CY26 where as Westlife expect store opening to be in the range of 25-30 per year going ahead.

Manpower cost: Manpower cost is a critical determinant as it is ~27-32% of the total operational cost for QSR's. We note that Dominos and WDL have ~28000 and 9700 employees. The industry has mix of full time and part time (50-60%) workers in its stores depending upon the demand schedules.

- Increased usage of technology in form of ordering/ payment kiosks and Apps has reduced the number of front desk store employees.

- QSR's are moving to flexible structure whereby employees will be paid based on number of hours worked

- **Supply chain improvements:** QSR players are undertaking supply chain improvements which are aimed at cost reduction as

  - Given perishable nature of raw materials, replenishment policies are rationalized to reduce costs with focus on smaller pack sizes, lesser and faster moving variants

  - Zero based budgeting and changes in delivery loads by working with global suppliers has enabled lower costs

Market Dynamics are changing

Market dynamics are changing as 3-month long lockdown had a structural impact on the industry with increased focus on hygiene, closure of standalone and weaker player and accelerated digitization and cloud kitchen models.

Closure of weaker players, unviable stores/locations

Covid 19 has resulted in closure of 25-30% smaller eateries, large players like Dominos, McDonalds, Burger King etc. have also seem stores

Lockdown has had a severe impact on the restaurant industry as sudden lockdown resulted in deep losses given perishable nature of raw materials, high rental and overheads and manpower on the rolls. We note that several standalone and mid-sized players have been forced to closed down.

- The lockdown has shattered the financial profile of smaller restaurants. Given that post Covid, recovery will be a long drawn affair as operations have become unviable for large number of restaurants. Industry estimates that ~25-30% of smaller eateries have seen a closure.
- Some of high footfall places like Food courts, transit places and corporate parks have seen medium term change in scenario, forcing restaurants to down shutters on such places. We note that a steady move towards WFH and WFA can have long term implications for stores in corporate parks and high street locations closer to work places.
- Dominos, McDonald's and Burger King have closed 105, 19 and 5 stores till date.
- Some of the high quality restaurants have started offering home delivery which was not the case earlier. Some large brands have decided to have a fair mix of dine in and delivery models, with current preference going in for delivery and drive thru stores. This will inherently increase competition, more so in the premium and upscale segments in food services.

Emergence of Delivery and Takeaways as viable options

Delivery and takeaway are emerging as viable options and are at 100-120% of pre covid levels

In the Pre Covid era cloud kitchens and food aggregators were considered to be an emerging threat to the restaurants and QSR Industry. Home delivery and takeaways were considered as an add on for most restaurants, except players like Dominos which had ~60% sales from home delivery. For large number of dine in restaurants, home delivery was not entertained at all. However, Covid 19 has changed the scenario dramatically. Most restaurants survived on Home delivery, drive thru and takeaways which has structurally changed industry to some extent.

- Dine in recovery has been curtailed due to 50% reduction in capacity although consumer reluctance to walk in is coming down. Drive thru and takeaways are compensating for loss of dine in consumers, more so in QSR's as consumers consume in their car or outside.
- Home delivery has picked up significantly and order size is up by 30-35%. Home delivery, takeaway and Drive thru put together are at 100-120% of pre covid levels.

Delivery might soften from current levels, but will remain higher by 10-15% than pre covid levels

- Some industry players expect structural shift as Dine in will not recover to more than 75-80% of earlier levels, delivery might soften a bit, but aggregate sales will be higher than earlier levels by 10-15%.
- Covid-19 pandemic has accelerated shift of demand from unorganized to organized sector.

- Food aggregators have emerged as complementary to restaurants as they enabled the restaurants and QSR's to cater to home delivery customers as most of them don't have a viable delivery mechanism of their own.

Delivery platforms come off age

Swiggy and Zomato started as delivery platforms, however as they tried to get into creating own food service brands, it created a lot of friction with cloud kitchens and brands. However, things are now stabilizing and moving in right direction as:

Food aggregators relationship with food service providers has matured which augurs well for the industry

- Food aggregators are now seen as partners as it reduces capex for cloud kitchens/ brand owners as they need not set up delivery infrastructure. Cost of customer acquisition and delivery is lower through aggregators
- Food Aggregators help in digital marketing, containers, food and vegetable supplies and marketing strategy. Cloud kitchen focus shifts to managing catalogue, discounts, managing orders and customer interaction online and through social media.
- Food Delivery is evolving with temperature control, temper proof seals, and hygiene SOP's which will stay post pandemic also.
- Even smaller players are now reaching masses through third party aggregators. Zomato came in with big force, today large number of orders are with third parties like Ondot, shadow fax, benzo, delhivery etc.

According to a report by Google and BCG, India's online food ordering market is expected to grow at a CAGR of 25-30 per cent to USD7.5-8bn by 2022 from $4 bn currently. Mobile-based apps and tech integration (QR-based menu display, contactless payments, online meals customization, online tracking and tracing of ingredients) are emerging enablers. While food ordering frequency is expected to rise by 18-20 per cent, average order values may decline by 5-10 per cent as consumers order smaller portions, from current levels.

Cloud kitchens get a new lease of life

Covid 19 has accelerated migration towards high quality cloud kitchens. What logistics lid to Ecom, cloud kitchens might do to food services

Pre covid cloud kitchens had poor reputation with regards to quality and hygiene on most occasions. Covid 19 has provided a fresh lease of life to cloud kitchens although it has resulted in shake out of 25-30% marginal players.

- Covid accelerated growth of cloud kitchens. Industry growth and migration which would have happened in 3 years happened in just 3 months. What logistics did to Ecom, cloud kitchens might do to food services.
- Industry is evolving fast as dine in brands have entered delivery and operating as cloud kitchens as they need to lower their cost structures.
- Some players are setting up multi brand cloud kitchens. Same recipe going into a box and restaurant have different costs. Cloud kitchens have lower rent, infra, ambience and can invest in training and Food quality and still have savings (~25%).

- Cloud Kitchens are coming up for dine in, corporates, residential complexes, co living, co working etc. Shared Cloud kitchens have common – Infra, equipment, knowhow which reduces costs and risks. Cloud kitchens are here to stay and grow along with dine in model

- Zomato and Swiggy started with 2-3% delivery charge which has increased to 20-25% now. Although AOV has moved up by 30-35%, it still remains very low. Cloud kitchens are looking forward to lower discounts commissions from Swiggy and Zomato.

Wendy's partners with Rebel Foods to expand operations in India

Wendy's, third largest US Burger brand entered India around the same time as Burger King entered. However, it has not been able to scale up with just 4 restaurants and 5 cloud kitchens in NCR as of now. Now the brand franchisee Sierra Nevada Restaurants has tied up with Rebel foods to set up 250 cloud kitchens for Wendy's even as it is looking at opening 150 restaurants. Rebel foods is one the largest cloud kitchen operator with more than 300 kitchens in 35 cities.

Digital, Online and VFM emerging trends in Food services

Contactless, digital, online and use of technology are fast emerging trends which will transform food services

We interacted with several food services industry players and excerpts on the sidelines of food services events. Following are key takeaways:

- Consumers are moving towards known brands and trusted brands. Small players have really struggled as consumer don't visit dine in stores.

- Contactless and Digital are new trend in dine in restaurants. Technology will play a big role with focus on no touch ordering, payment, data access, seamless experience is key to success in coming years

- Drive Thru and takeaways is catching up as customers are comfortable walking upto stores and eating food in their cars or outside stores.

- Some smaller players will survive, many will vanish. Business use to peak on weekends, which is slowly coming back now

- Companies need to give seamless online experience, clear offers and tracking the delivery.

Customers will expect best in quality and customer experience at a low price. Those who can't – will perish

- Value for money has become even more important- bigger the player, more the expectations. Customers will expect best in quality and customer experience at a low price. Those who can't – will perish

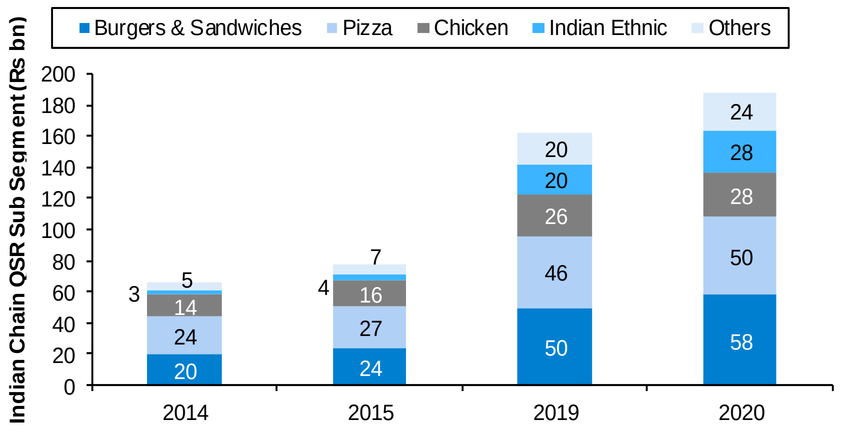
- Aggregators have been doing a good job. If they have been able to maintain timeliness they are doing fine.

Burgers and sandwiches are fastest growing segment with 19.4% CAGR in sales over FY14-20

Burgers Chains are fastest growing QSR segment

We believe India has structural growth drivers in place for sustained growth of food services industry in India and QSR's in particular. We believe young population, rising urbanization, rising consumer aspirations will continue to increase demand for fast food in the country. Within the chain QSR sub-segment, the burgers and sandwiches are the fastest growing product segment. This format grew at a CAGR of 19.4% between FY14-20, as against 13% for pizza, 12.2% chicken while Indian ethnic format grew at 45.1% on a small base.

Exhibit 10: Burgers & Sandwiches are fastest growing QSR segment



Source: Company, PL

Burgers chains have attractive entry level pricing of Rs45 for a Burger, Rs39 for Veggie strips and Rs20 for a soft serve cone

Affordability and Hygiene: Burgers have been able to strike the chord with Indian consumers as it fits well into their affordability paradigm. We note that entry level Burger starts at Rs 44 in McDonalds's (Mc Aloo Tikki) and Rs 45 in Burger King (Crispy Veg). Similarly, some of the other food options like Soft serve, French Fries, Veggie strips etc. start at a price points of Rs 39.

We note that the entry level price points of these chains is very competitive to some of the local food options like Dosa, Utappa, Chila, Idli-sambhar, Sandwiches, Ragda Patty, Bhel Puri, Wada pav etc. We believe the hygiene standards adopted at some of these QSR seem on a higher plane that most roadside food which is likely to continue attracting more and more consumers in its fold.

Exhibit 11: Entry level burgers compete with street food due to low pricing

Food Prices (Rs/Serve)	Hygiene Levels	
	Low	High
Burger	45	45
Sandwiches	25	60
Sada Dosa	20	40
Masala Dosa	25	50
Upma	20	35
Idli	20	35
Bhel Puri	20	30
Wada Pav	12	20

Source: PL, Industry

Burger chains have moved into products like Rice Bowl, Puffs, wraps, Muffins and SIS Café

Localization of menu: Burger Chains have been at the fore front of menu innovations to suit the taste and palate of Indian customers. They have created large number of veg options in India given the high number of vegetarians in India. Some of the major innovations include products like McAloo Tikki Burger, McSpicy Paneer burger, Pizza Mcpuff, Rice Bowl, Chatpata Naan, Wraps, Muffins, Dosa Masala, Veg Mcmuffin and Scrambled eggs, Veggie strips etc. We note that the extent of innovations undertaken by QSR's like McDonald's and Burger King are significant given that India has large proportion of vegetarian population and diversity based on regions and states.

Exhibit 12: Menu curated according to Indian taste preferences

Source: Company, PL

Burger Chains are now trying to cater to Breakfast, lunch and snacking options

Burger Chains catering to all day meal options and Café

Burger chains like McDonalds and Burger King have diversified their food offerings much beyond burgers to cater to food demand all day along. The companies have added products like Rice Bowl, Wraps and Nans to cater to the meal requirements. The chains have also launched full breakfast menu, although it remains a relatively small proportion as of now. Dunkin Donuts which was a Donut and Coffee chain has gone into Burgers and other food items to increase the all-day appeal.

The big transformational step has been launch of McCafe by McDonalds in its stores. The Café option has enabled the company attract young adult, college going crowd and positioning McDonald's as a casual meeting place which broadens the prospective customers. We note that even Burger King has BK Café in a few countries, which might be launched in India at a future date.

SIS Cafés have improved customer profile, sales and viability of burger chains

SIS Cafés in Burger chains have huge scalability in India

We believe SIS Cafe has a unique scalability proposition among café chains in India. We note that Café industry has been on the cross roads given high capex, low through put during week days and its positioning more as a casual meeting place. The industry has hardly seen players making money. While Café Coffee Day and Barista were the pioneers, Starbucks has shifted goalposts.

- Lavazza, exited the Barista coffee chain after their global resolve to move out of café's – to create asset light business model in food services.
- Café coffee day – never made serious money in Café despite having scale and visibility given lack of investment in Stores, shift of premium consumers towards Starbucks, more focus on vending business and inability to innovate in food business.
- Starbucks has a unique positioning and has been carefully choosing its locations with a clear premium positioning in a casual environment. Starbucks has scaled to 209 stores with loss of Rs 1.03bn in FY20. However, we see limited scalability of such a model in India as it seems really tough to replicate this brand in tier2/3 cities in India.

Burger chains have been targeting occasions

Burger chains have undertaken a lot of steps to transform their positioning. McDonalds had a positioning targeting children with special zones for Birthday's parties in McDonalds. The idea was centered around occasion to bring consumer into the stores and create lifelong affinity for the brand.

Burger chains have seen transformation with much improved ambience and positioning to target entire family than the children. The changed ambience and addition of Café in the chains has ensured that the menu has something for everyone in the family. This has gone a long way in bringing more and more consumers in the stores.

Exhibit 13: McDonalds used party zones to improve positioning with children

Source: Company, PL

Burger Chains have a long way to go

We believe Indian Burger chains have a long way to go in terms of scalability.

Exhibit 14: Burger King has the highest sales / Sq. ft amongst the pack.

	Domino's	Westlife Development	KFC	Subway	Burger King	Pizza Hut
	QSR	QSR	QSR	QSR	QSR	CDR
Outlet Count	1,314	304	454	541	270	431
APC (INR)	200-225	225-250	200-225	175-200	200-225	400-450
Avg Ticket Value (INR)	500-550	550-600	500-550	250-300	500-550	1,450-1550
COGS	22-23%	34-36%	34-36%	32-34%	35-36%	25-26%
Gross Margins	77-78%	64-66%	64-66%	66-68%	64-65%	74-75%
Advertisement	4-5%	5-6%	6-7%	4-5%	~5%	4-5%
Royalty	3-4%	4-5%*	7-8%	7-8%	4-5%	7-8%
Store EBITDA	21-23%	13-15%	14-16%	20-22%	12-14%	17-19%
Capex per store (Rs Mn)	15-20	35-40	30-35	04-05	20-25	20-25
Avg Store Size (in sq.ft.)	1400-1600	2600-3200	2500-3000	750-1000	1300-1400	2600-3200
Avg sales /Day (Rs '000)	75-80	120-130	120-130	30-35	110-120	70-80
Sales Per Store (Rs Mn)	28.3	45.6	45.6	11.9	42.0	27.4
Sales Per sq ft (Rs '000)	18.9	15.7	16.6	13.6	31.1	9.4
Average Sales/Capex(x)	1.616	1.217	1.404	2.636	1.866	1.217

*Source: Company, PL *Royalty fee of Westlife Development can contractually increase to 8% from Fiscal 2025*

Exhibit 15: McDonalds has the highest AUV amongst peers in USA

	USA				China		
	McDonalds	Burger King	Wendy's	KFC	McDonalds	Burger King	KFC
Revenue Growth	5%	2.7%	4.2%	3%			
SSG	5%	1.7%	2.9%	1%			
Stores	13846	7346	5852	4065	3383	1025	6534
AUV ($ mn)	$2.9	$1.4	$1.68	$0.68			

Source: PL, Company

4 largest burger chains have just ~1200 stores in India as against ~11000 in china and ~31100 in USA

- Indian QSR industry in general and Burger Chains (includes KFC) in particular have a long way to go given that top 4 burger chains in USA have more than 31100 stores as against ~1200 in India and ~11000 in China.
- Dominos has estimated current potential at 3000 stores and WDL at 800 stores. BK has a target of 700 stores (CY26), these show a clear headway for growth
- Covid 19 has resulted in closure of 30% eateries, which bodes well for growth in the organized food services industry.
- Demographic led story based on young population, rising urbanization, rising per capita income and aspirations will continue to drive the growth for QSR industry.
- Given that more and more players are now comfortable venturing into tier2/3 cities, the store expansion plans are likely to gather steam as we go along.

Initiating Coverage on Burger Chains

Exhibit 16: Comparing key metrics: Burger King Vs Westlife Development

	Burger King	Westlife Development
Geographical Presence	57 Cities	43 Cities
Royalty	4-5%	4-5%*
Outlet Count	270	304
Avg Store Size (sq.ft)	1300-1400	2600-3200
Capex Per Store (Rs mn)	20-25	35-40
Sales Per Store (Rs mn)	42.0	45.6
Sales Per Sq Ft (Rs '000)	31.1	15.7
Gross Margins	64-65%	64-66%
Store EBITDA	12-14%	13-15%

*Source: Company, PL *Royalty fee of Westlife Development can contractually increase to 8% from Fiscal 2025*

We initiate with a Buy rating and DCF based March22' target price of Rs618 for WDL and Rs221 for BK. We are assuming ga of 30%, gb of 7% and ROIC of 45% and 35%, WACC of 11.5% for WDL and 12% for BK. WDL is expected to turn FCF positive in FY22 while BK will turn FCF positive in FY25

Exhibit 17: Westlife to report sharp turnaround in FY22, BK to follow suit

	Burger King				Westlife Development			
	FY20	FY22	FY23	FY24	FY20	FY22	FY23	FY24
Number of Stores	260	320	390	470	319	336	371	406
System Avg Sales	38	39	41	44	50.0	56.7	58.7	62.8
Growth	*-6.1%*	*105.3%*	*6.1%*	*5.5%*	*3.2%*	*77.5%*	*3.6%*	*7.0%*
Revenue	8,412	11,486	14,667	18,747	15,473	18,318	20,901	24,585
YoY Growth	*33.0%*	*128.6%*	*27.7%*	*27.8%*	*10.4%*	*82.5%*	*14.1%*	*17.6%*
Gross Profit	5,397	7,443	9,607	12,392	10,091	11,998	13,795	16,398
Gross Margins	*64.2%*	*64.8%*	*65.5%*	*66.1%*	*65.2%*	*65.5%*	*66.0%*	*66.7%*
Operational Cost	4,357	5,659	7,114	8,973	7,955	8,524	9,643	11,310
% of Sales	*51.8%*	*49.3%*	*48.5%*	*47.9%*	*51.4%*	*46.5%*	*46.1%*	*46.0%*
EBITDA	1,040	1,784	2,493	3,419	2,135	3,474	4,152	5,089
Margins	*12.4%*	*15.5%*	*17.0%*	*18.2%*	*13.8%*	*19.0%*	*19.9%*	*20.7%*
PBT	(722)	(63)	211	640	78	1,099	1,496	2,267
PAT	(722)	(63)	211	640	93	767	1,045	1,582
EPS	(2.6)	(0.2)	0.6	1.7	0.6	4.9	6.7	10.2

Source: Company, PL, we have not considered FY21 Nos being an abnormal year for the Industry

Key Risks to our call

- Prolonged Covid 19 impact with lower focus for dine in and delay in recovery
- Any dispute between franchisee and brand owners like McDonalds and Burger king resulting in cancellation of franchisee agreement
- Any change in dealings with third part aggregators like Swiggy and Zomato which account for ~75-80% of delivery sales of Burger chains
- Increase in competition from other QSR's and traditional food products
- Change in taste and preferences of consumers

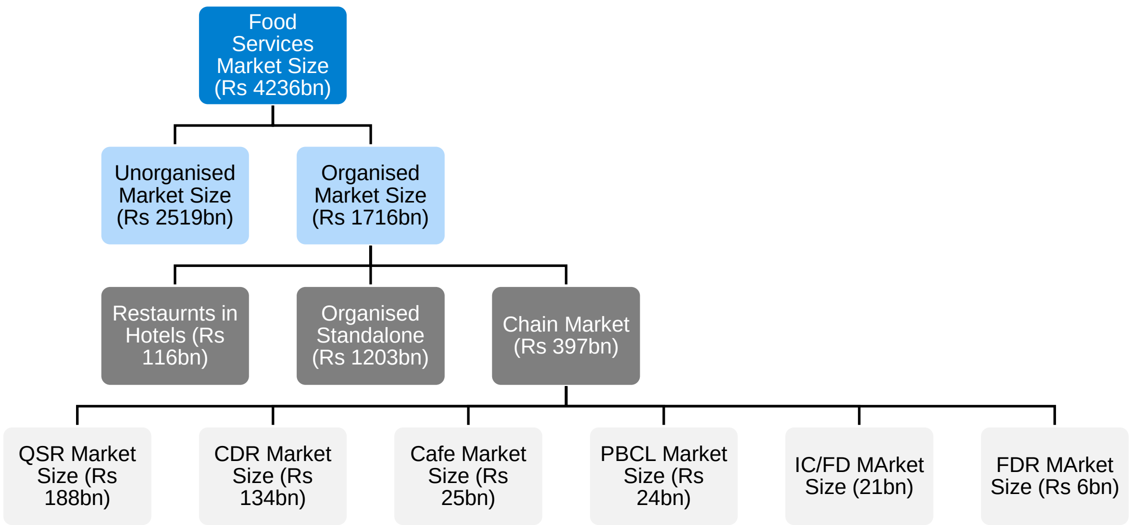
Food Services - Industry Snapshot

Exhibit 18: Organized Food Service Industry to grow at 15.4% CAGR, Chain QSR market to grow at 22.8%

Format	FY15 (Rs Bn)	FY20 (Rs Bn)	FY25E (Rs Bn)	CAGR (%) FY15-20	CAGR (%) FY20-25E
	1,950	2,519	3,075	5.3	4.1
Organised Market	835	1,601	3,274	13.9	15.4
Chain Market	175	397	966	17.8	19.5
QSR	159	348	825	17.0	18.8
Chain QSR	78	188	524	19.2	22.8

Source: Company, PL

Exhibit 19: Components of Indian Food Service Market (FY20)



Source: Company, PL

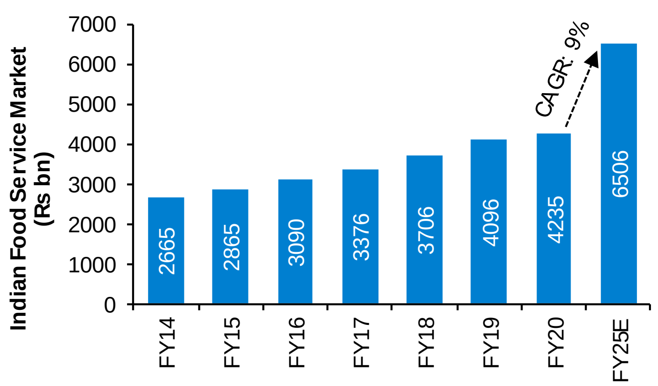
Indian food services market has gained momentum due to changing consumption pattern that with an increase in a tendency to eat out that had not traditionally been a feature of Indians' lifestyle.

Exhibit 20: Eating out frequency is the largest among millennials

Age Group	Eating out freq/month	Ordering-in freq/month	Avg Spend/ Outing (Rs)	Avg Spend/ Order (Rs)
15-24 yrs	2.3	0.9	230	124
25-34 yrs	1.9	0.7	225	118
> 35 yrs	1.5	0.3	303	107

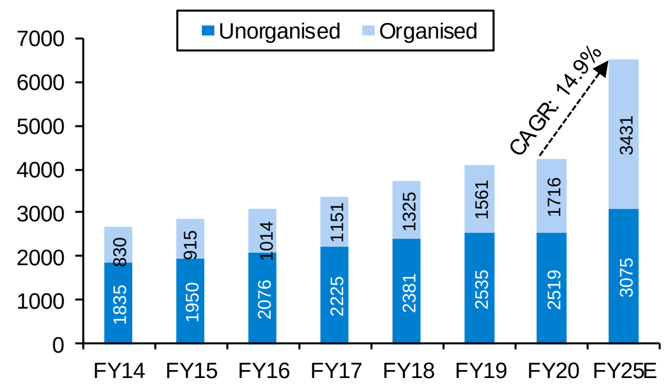
Source: Company, PL

Exhibit 21: Indian Food service market to grow at 9%



Source: Company,

Exhibit 22: Organized Markets to outpace industry growth

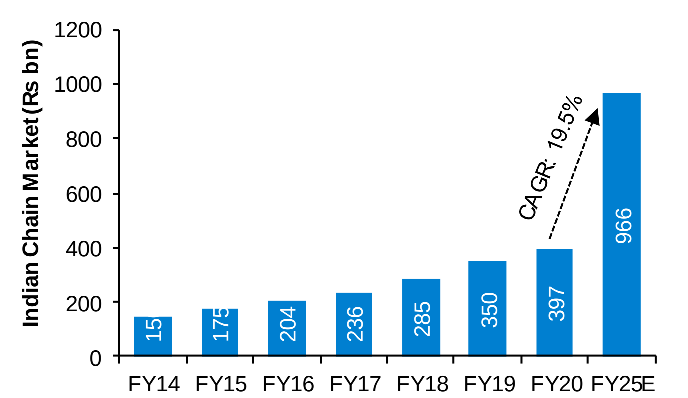


Source: Company, PL

Unorganized segment has been losing market share and organized standalone and chain markets segment share is expected to rise significantly from 28%/9% in FY20 to 35%/15% in FY25.

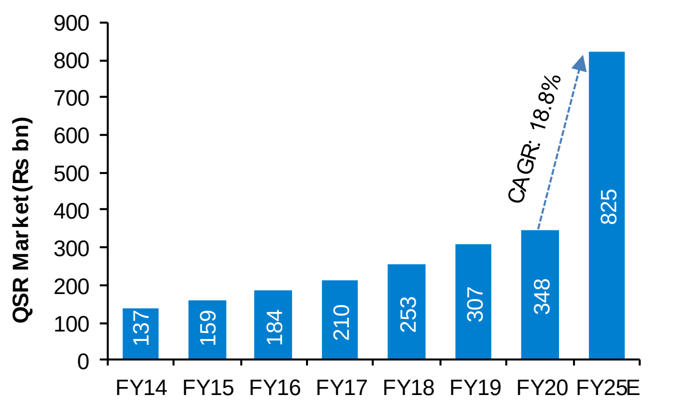
- **Chain Markets to grow at 19.5%** to Rs966bn by FY25 led by increase in presence of international brands, improving back end infrastructure, acceptance of new cuisines, changing lifestyles, rising aspirations and the emergence of new brands in these segments. QSR sub-segment is expected to grow at 18.8% driven by economic growth, demographic, cultural and lifestyle changes and increased penetration in Tier II and Tier III cities which have been growing faster than Metros, led by improved supply chains, innovation and customization in operating models and store sizes.

Exhibit 23: Indian Chain market to grow at 19.5% CAGR



Source: Company, PL

Exhibit 24: QSR markets to grow at 18.8% CAGR

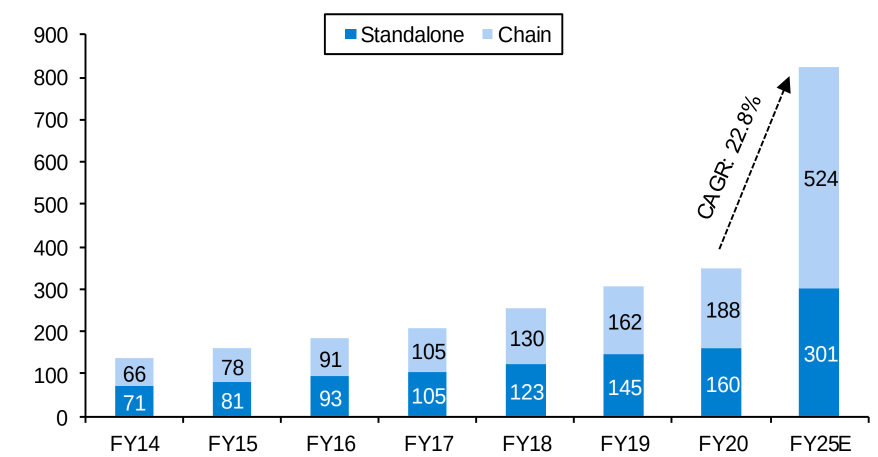


Source: Company, PL

The growth of chain QSR is primarily driven by international brands such as Domino's, McDonald's, Burger King, KFC and Subway, which account for ~45% of the total chain outlets in India.

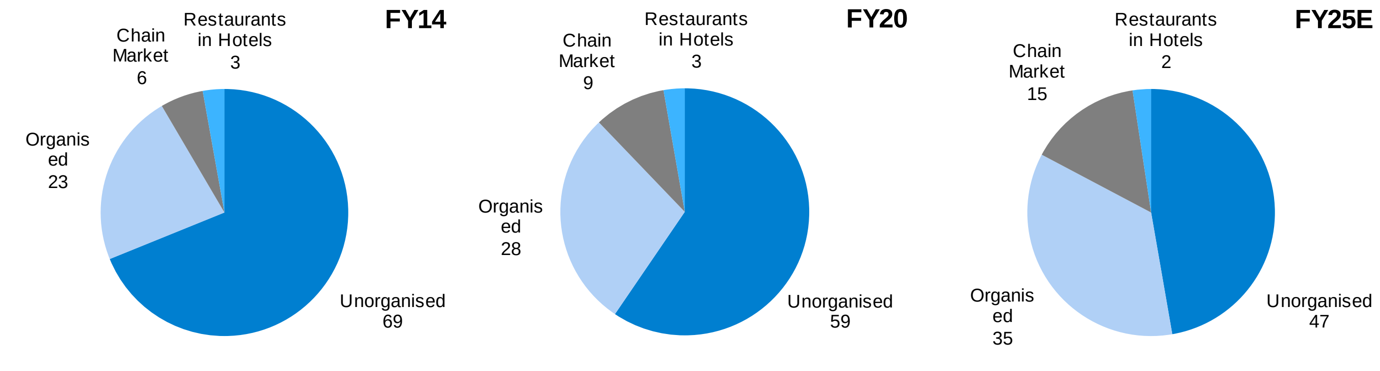
Chain QSR segment is expected to drive QSR segment with increase in share from 54% of QSR sub-segment in FY20 to 64% in FY25. Chain QSR will benefit on positioning to meet hygiene, safety, service standards, food quality, processes and delivery capabilities to exploit the new opportunities in post covid scenario.

Exhibit 25: Chain QSR's to record strong growth of 22.8%



Source: Company, PL

Exhibit 26: Chain Market segment share to grow significantly in FY25



Source: Company, PL

Exhibit 27: Growth of Key brands over the years

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	1HFY21	FY15-20
Domino's	378	465	576	726	876	1026	1127	1134	1227	1335	1354	9.1%
Subway	248	330	414	476	476	568	613	638	NA	671	541	2.6%
McDonald's	250	282	316	369	369	393	424	447	464	489	481	5.4%
KFC	151	221	299	328	352	310	310	342	380	443	454	5.2%
Burger King	-	-	-	-	12	49	88	129	187	260	261	85.1%

Source: Company, PL

Exhibit 28: QSR's - Metros and Tier 1 cities are 75-90% of Industry presence

Brands	Outlet Count	Mega Metros (%)	Mini metros (%)	Tier 1 (%)	Tier 2 and others (%)
Domino's	1354	25	32	20	23
Subway	541	37	43	12	8
McDonald's	481	36	35	17	12
KFC	454	19	37	21	23
Wow! Momo	317	29	59	6	6
Burger King	261	41	26	11	23
Jumbo King	131	83	11	6	
La Pino'z	134	27	21	33	19
Smokin Joe's	50	58	20	4	18

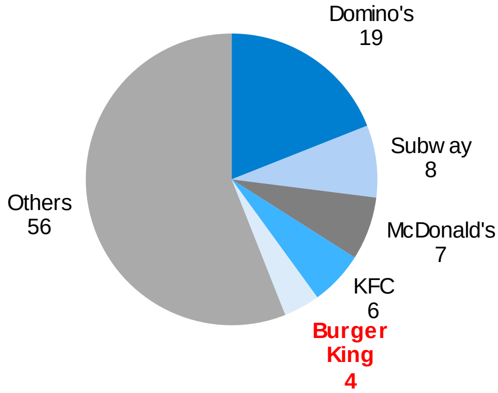
Source: Company, PL

Exhibit 29: Chain QSR's - North and West are 43-70% of stores, east just 2-17%

Brands	Outlet Count	North (%)	South (%)	East (%)	West (%)
Domino's	1354	33	28	12	27
Subway	541	38	27	7	28
McDonald's	481	32	28	2	38
KFC	454	29	40	17	14
Burger King	261	50	21	3	26

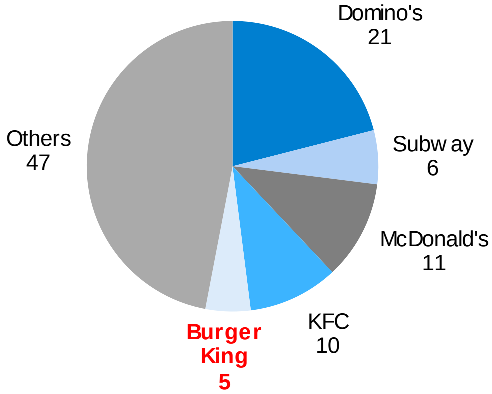
Source: PL, Company

Exhibit 30: Market share in terms of outlets



Source: Company, PL

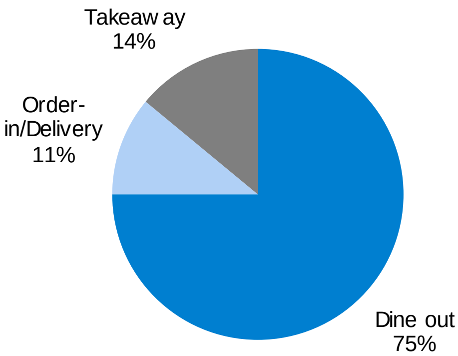
Exhibit 31: Market Share in terms of Revenue



Source: Company, PL

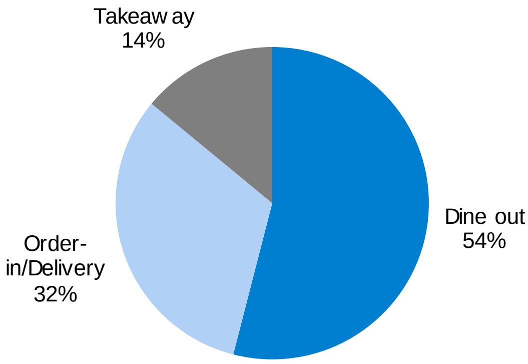
- **Pre-Covid Trends:** Pre Covid consumer preferred Dine in as the main segment for eating out. In QSR space 54% consumers preferred Dine in with their revenues comprising of 83% foods, 12% beverages and 5% desserts.

Exhibit 32: Food Services - Consumer Preferences



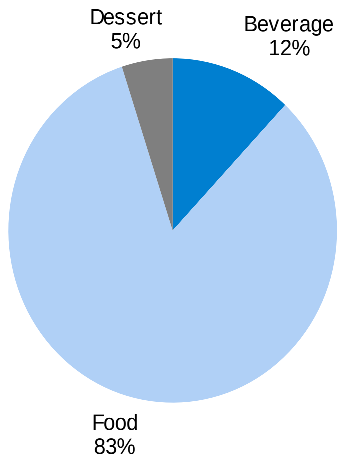
Source: Company, PL

Exhibit 33: QSR service (Pre covid)



Source: Company, PL

Exhibit 34: Food dominates QSR revenue



Source: Company, PL

Companies

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

February 25, 2021

Company Report

Burger King India (BURGERKI IN)

Rating: BUY | CMP: Rs145 | TP: Rs221

Play for the long haul

We initiate coverage on Burger King (BK) with a Buy rating and March 22' TP of Rs221. Burger king has huge competitive advantage to capitalize on emerging growth opportunities given 1) exclusive pan India master franchise of Burger King, second largest Burger brand globally 2) flexibility in tailoring menu, promotions and pricing offers 3) fixed royalty at 5% 4) cluster based approach with faster scalability and operating leverage 5) higher sales/sq ft and sales/capex (Rs31,093, 1.87x) than peers and 6) option of launching BK cafe.

We believe Burger King has created a strong consumer connect with millennials by offering premium products at value pricing. Burger King has seen strong rebound (72% recovery in 3QFY21) post lockdown led by takeaway, drive thru and Home delivery segment. While dine in normalcy is expected to take another 1-2 quarters, BK is embarking on an ambitious target of achieving 470 stores by FY24 and 700 stores by Dec26. We expect Burger King to report a loss of Rs1.5bn in FY21 and achieve PAT turnaround in FY23. We estimate sales of Rs18.7bn/Rs29.9bn in FY24/26 with PAT of Rs640mn and Rs2.33bn; launch and scale up in BK café can provide an upside of 10-15% by FY26. We believe BK will emerge as a key player in high growth QSR segment. We Initiate coverage with BUY rating and recommend investment for long term gains.

Master Franchise agreement favorable: Burger King has exclusive rights to set up stores in India till 2039. Its agreement has fixed royalty at 5% with flexibility to choose suppliers, set up its supply chain plus develop and customize products to suit Indian taste and preferences thereby providing a strong head start.

Strong value proposition with focus on Millennials: BK has adopted attractive entry level pricing (Rs45/Burger) to create strong connect with millennials who have much higher eating-out frequency. Moreover, their burger patties are flame grilled with crispier and spicy flavors to suit target consumer segment.

Strong focus on technology, cluster based supply chain: Burger King has invested in **"360º technology** whereby its servers are linked with third party logistics providers like Zomato and Swiggy. It has launched an App and is making extensive use of hand held and kiosks to reduce human intervention in stores.

BK Café provides option value: We expect Burger King to open BK Café on lines of McCafe (McDonalds) in India, which will open up another growth opportunity with capex of just Rs2.5/3mn/store and 500-700bps higher margins. We estimate BK café to add 10-15% towards profits of the company, over next 5 years. As of now we are not incorporating any benefits from launch of BK Café in our numbers.

Expansion plans on accelerator, to add 200 stores in 3 years: BK has seen 75-80% post covid recovery and plans to add 200 stores in the coming 3 years. We believe accelerated expansion will further add to its strong position in North East clusters, given little investments made by McDonalds in past few years.

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	8,412	5,025	11,486	14,667
EBITDA (Rs. m)	1,040	65	1,784	2,493
Margin (%)	*12.4*	*1.3*	*15.5*	*17.0*
PAT (Rs. m)	(722)	(1,515)	(63)	211
EPS (Rs.)	(2.6)	(4.0)	(0.2)	0.6
Gr. (%)	*80.0*	*52.7*	*(95.8)*	*(431.9)*
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	*(27.5)*	*(31.4)*	*(0.9)*	*3.0*
RoCE (%)	*(3.0)*	*(19.6)*	*5.5*	*11.3*
EV/Sales (x)	5.0	10.3	4.5	3.5
EV/EBITDA (x)	40.0	799.3	29.1	20.9
PE (x)	(55.6)	(36.4)	(869.0)	261.8
P/BV (x)	14.6	8.0	8.1	7.8

Key Data	BURG.BO | BURGERKI IN
52-W High / Low	Rs.219 / Rs.108
Sensex / Nifty	51,039 / 15,097
Market Cap	Rs.55bn/ $ 764m
Shares Outstanding	383m
3M Avg. Daily Value	Rs.-4293652546m

Shareholding Pattern (%)

Promoter's	52.88
Foreign	13.69
Domestic Institution	9.27
Public & Others	24.16
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	6.9	-	-
Relative	1.2	-	-

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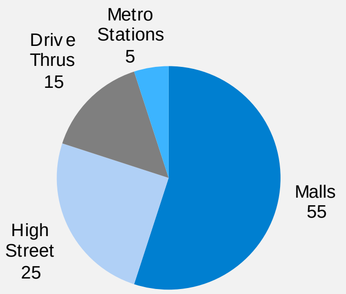
Fastest Growing QSR brand in terms of stores, with Global brand holding stake in Promoters.

Burger King – A high growth QSR chain

Burger King is one of the fastest growing QSR chain in India which has grown to a size of 270 stores in just 5 years with a topline of Rs8.4bn in FY20. Burger King India is the national master franchisee of BURGER KING brand in India, which is the second largest burger brand globally with 18675 restaurants in 100 countries.

- Burger King brand is owned by Burger King Corp, a subsidiary of Restaurant Brands International Inc., holding a portfolio of fast food brands that includes Burger King, Popeye's and Tim Hortons.
- Master franchise agreement gives 25 year exclusive rights to develop, establish, operate and franchise Burger King restaurants in India by leveraging technical, marketing and operational expertise of Burger King.
- BK Asia Pac, an affiliate of Burger King has 14.8% stake in holding company QSR Asia which has 52.88% stake in Burger King India, one of the rare cases where global brand owner has acquired stake in the franchisee.
- BK is creating 1) people-centric culture and effective technology systems 2) strong customer proposition focusing around value leadership 3) menu with wide range of vegetarian meal options and 4) use of flame grilling to gain taste advantage over peers.
- BK opened its first Burger King restaurant in Nov14, and has grown into a PAN-India QSR chain with 262 Company-owned and 8 Sub-Franchised restaurants. BK uses mix of restaurant formats, which include high street locations, shopping mall, food courts, drive thru and transit locations.

Exhibit 1: Store mix favors malls



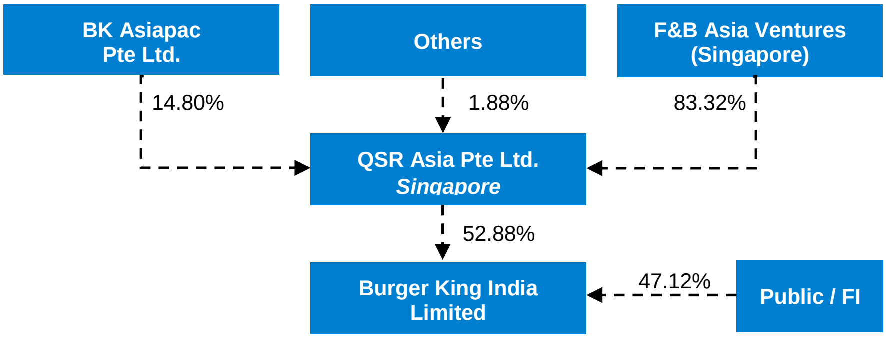
Source: Company, PL

Exhibit 2: BK's Geographical Presence

Region	Number of Stores
Delhi NCR UP, Rajasthan	92
Mumbai, Pune, Gujarat	67
Punjab, Haryana	45
Bangalore, Chennai, Kerala	41
Hyderabad, AP	16
Kolkata, Odisha	9
Total	**270**

Source: Company, PL

Exhibit 3: BK Asia Pac has 14.8% in QSR Asia, holding company of BK India



Source: Company, PL

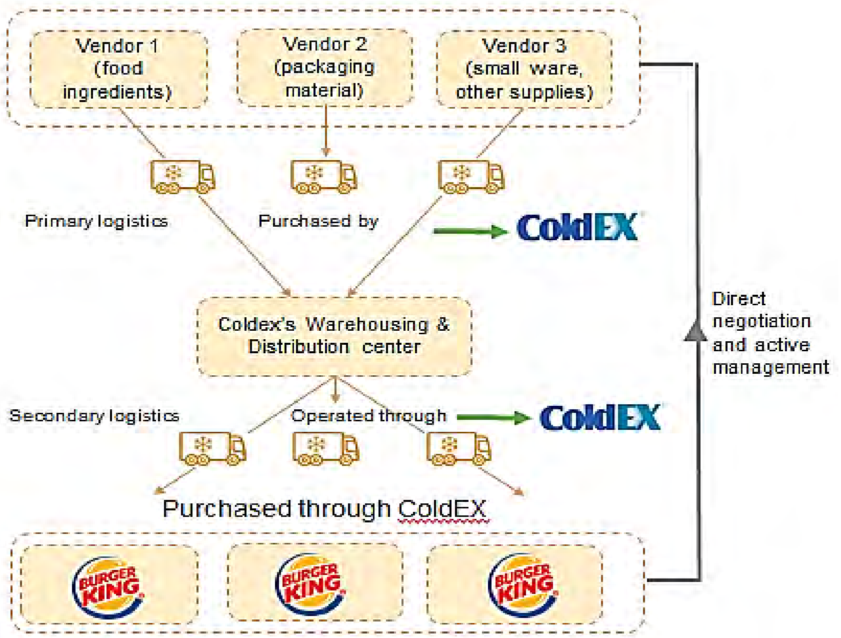
Master Franchise Agreement provides benefits like PAN India presence, fixed royalty and ability to develop own vendors which are not enjoyed by peer.

Master Franchise Agreement Favorable

Master Franchise agreement of BK has terms which favor faster scale up, give flexibility in setting up supply chain and competitive royalty rate.

- **Fixed Royalty at 5%**: BK is required to pay royalty fee for Company-owned Burger King restaurants to BK Asia at 5%, which is fixed throughout the 25-year period. While it is not variable like McDonald's (will increase from 4-5% to 8% after FY25), it is higher than 3% royalty paid by Dominos.
- **PAN India presence:** Burger King is national master franchisee of the "BURGER KING" brand in India with exclusive rights to develop, establish, operate and franchise Burger King branded restaurants in India. PAN India franchise provides flexibility to expand operations as per the economy, demand trends and capitalize on broader growth potential.
- **Ability to develop own Vendors:** Master franchise agreement provides flexibility to set up own supply chain, select ingredient and packaging material suppliers based on individual negotiations.
- BK purchases all ingredients locally from known suppliers that comply with Burger King food quality standards. It receives the support of BK Asia through its globally defined approval process for suppliers.
- BK has supply agreement for ingredients and packaging materials with ColdEX (single third-party distributor), which in turn procures from the approved suppliers. This provides access to multiple warehouses and extensive logistics network of ColdEX across the country.
- Direct management of ingredient suppliers and third party distributor helps to 1) promote and maintain the quality 2) reduces distribution costs and 3) reduce supply chain risk.

Exhibit 4: BK has supply chain arrangement with ColdEX



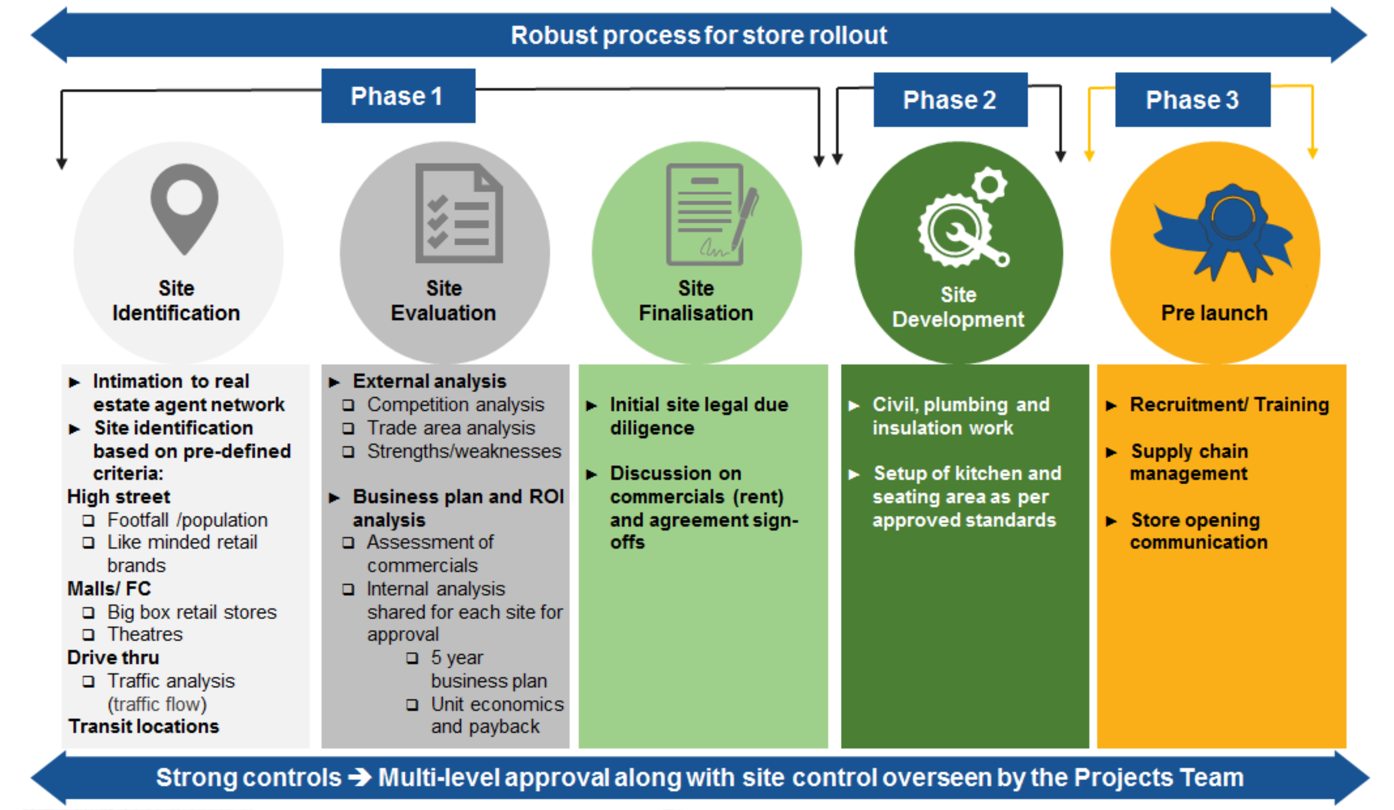
Source: Company, PL

Burger King uses cluster based approach and focuses on high traffic and high visibility locations.

Well defined restaurant development process: BK has a well-defined new-restaurant roll out process that enables it to identify locations and roll out restaurants quickly, consistently and efficiently.

- Burger King focuses on flagship locations in high traffic and high visibility locations in key metropolitan areas and cities.
- BK uses cluster based approach which helps in efficiently managing supply chain and driving down costs as it reduces third party distribution, overheads and logistics costs.
- New restaurant locations are selected based on 1) Trade area quality, demographics and business in catchment areas 2) Site quality which focuses on site visibility, footfall generation, accessibility and parking and 3) Site feasibility which focuses on space availability and operations.
- Each new restaurant location requires the approval of senior management of BK Asia. Roll-out process is managed by experienced development teams, well-defined restaurant layout and standardized equipment. It enables efficient roll out and gives flexibility to tailor the restaurants to different sized premises and catchments.

Exhibit 5: Robust store rollout process has enabled rapid store expansion



Source: Company, PL

- **Focus on brand building**: BK puts strong focus on brand awareness given huge growth opportunity led by increasing penetration and new markets. Despite requirement of parent to spend 5% of sales on marketing, BK has been spending higher (5.8-14% of sales) to strengthen the brand. It has followed an integrated marketing approach with frequent inclusive messaging and engages consumers at multiple touch points with sustained investment in social media and mass media channels (TV commercials and big ticket/ high impact media properties). BK has tied up as official partner of Mumbai Indians IPL team to increase brand awareness.

Exhibit 6: BK partnered with Mumbai Indians for brand marketing

Source: PL, Company

Strategic decision to invest heavily in the North and East cluster reaping rewards due to low investment by McDonalds.

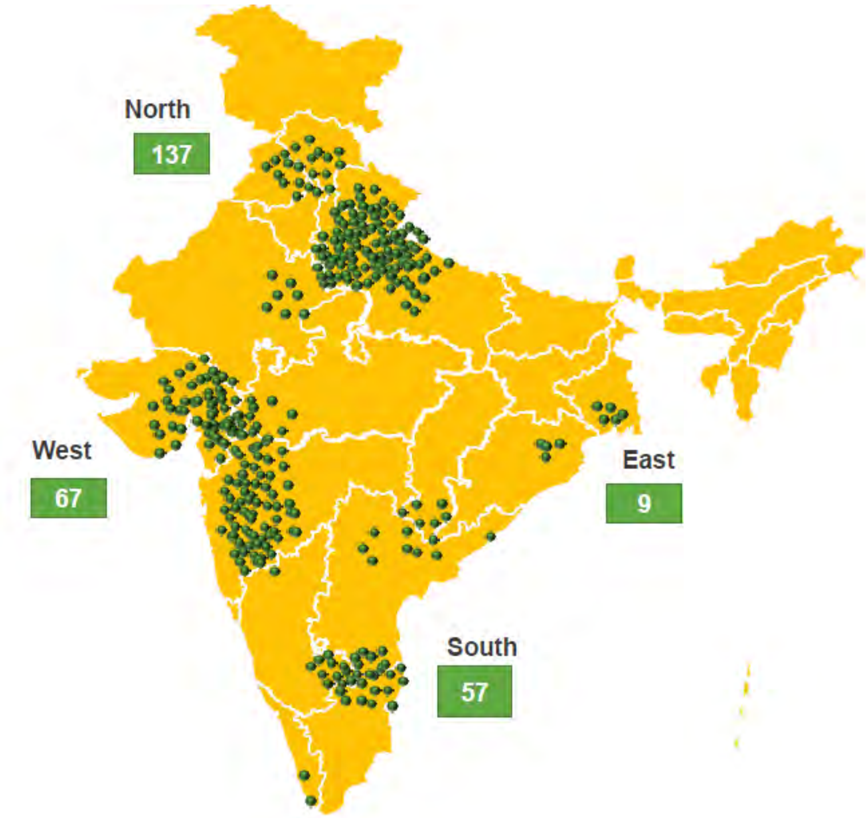
Burger King Follows Cluster based approach

Burger King is a PAN India franchise and can open stores throughout the country. Cluster based approach enables better utilization of infrastructure and overheads for achieving higher profitability.

- Burger King has 6 clusters as of now namely 1) Punjab and Haryana 2) NCR, UP and Rajasthan 3) Gujarat, Mumbai and Pune 4) Bangalore, Chennai and Kerala 5) Hyderabad and Andhra and 6) Kolkata and Odisha.
- NCR, UP, Rajasthan & Punjab, Haryana are the largest clusters with 137 restaurants while Mumbai, Pune and Gujarat have 67 restaurants. South cluster has 57 stores (Hyderabad, AP, Karnataka and Kerala) while East cluster (Kolkata and Odisha) have just 9 stores.
- Burger king has strong presence in North India which accounts for ~50% of stores. North and East territory saw little investments from McDonald's because of dispute between McDonalds and Connaught Plaza restaurants, which gave Burger king an easy ride within these clusters.
- Burger king has been opening more stores in malls, Food courts, business parks until now. However as most of mall space has been saturated, it will have to open more stores on the high street which will require more effort to grow footfalls as malls and corporate parks etc. which it targeted earlier have dedicated customers. Franchised stores have opened in Airports, Corporate parks etc. and the same trend will be sustained there.
- Although Burger King plans to maintain the same proportion of stores across clusters, we believe clusters of Kolkata and Hyderabad should likely catch up significantly in the coming few years. However, we believe that Burger King will face tough competition in West and South India due to strong presence of

McDonalds franchise Westlife Development in the region. WDL has undertaken massive store renovations and is gradually converting its stores into EoTF stores with McCafe being integral part.

Exhibit 7: North and West remain strong zones for Burger King



Source: Company, PL

Exhibit 8: BK: Capitalized on Tepid investment by MCD in North

	2015	2016	2017	2018	2019	2020	H1'21
By Region							
North	6	21	37	55	86	129	137
West	6	14	29	40	55	68	67
South	0	14	22	34	43	54	57
East	0	0	0	0	3	9	9
Total	**12**	**49**	**88**	**129**	**187**	**260**	**270**
Company Owned	12	48	85	123	181	252	261
Sub – Franchised	0	1	3	6	6	8	9
Total	**12**	**49**	**88**	**129**	**187**	**260**	**270**

Source: Company, PL

Premium Brand with Value Proposition

As against global positioning of a premium brand, Burger King positioned itself as a value brand targeting millennials with strong customer proposition. Burger King did menu localization and innovations right from the beginning, to strike a chord with highly demanding and value conscious Indian consumers.

- **Value leadership**: Despite being a premium brand internationally, Burger King has positioned itself as a value brand in India. It offers quality products at attractive price of variety innovative food offerings that includes burgers, wraps, beverages, sides, snacks, shakes and desserts across different day parts. Burger King follows aggressive pricing across the value ladder with its products.

Exhibit 9: BK's attractively priced meals offer customers value for money

Source: Company, PL

Exhibit 10: Entry level products priced very attractively

Source: Company, PL

Exhibit 11: Burger King offers entry level products at attractive prices

Burger King		McDonalds	
Product	**Price**	**Product**	**Price**
Burgers		**Burgers**	
Crispy Veg	Rs 45	McAloo Tiki	Rs 44
Crispy Chicken	Rs 69	Chicken Kebab Burger	Rs 74
Chicken Whooper Jr Lite	Rs 109	McChicken Burger	Rs 109
Veg Lite WHOPPER	Rs 99	McVeggie Burger	Rs 115
Paneer Overload	Rs 169	McSpicy Paneer	Rs 155
Fiery Chicken	Rs 169	McSpicy Chicken	Rs 155
Veg Boss WHOOPER	Rs 189	Maharaja Mac	Rs 180
Chicken Boss WHOPPER	Rs 199	Chicken Maharaja Mac	Rs 190
Snacks		**Snacks**	
Regular/ Medium / King Fries	Rs 69/79/89	Fries R/M/L	Rs 60/90/105
Crispy Veg Wraps	Rs 49	Chatpatta Aloo Naan	Rs 57
Creamy Paneer Rice	Rs 99	Spicy Rice Bowl	Rs 127
Dessert & Beverages		**Dessert & Beverages**	
Softies	Rs 15	Soft Serve	Rs 22
Softies (Chocodip)	Rs 25	McSwirl	Rs 35
Soft Drinks	Rs 59	Soft Drinks	Rs 69
Americano/Cappuccino/Latte	Rs 99	Americano/Cappuccino/Latte	Rs 125
Thick Shakes	Rs 129	Shakes	Rs 135

Source: Company, PL

Burger King brand positioned towards millennials as they constitute 60% of eating out population

- **Brand positioned towards millennials**: Burger King has positioned its brand for millennials (age group from 15 to 34 years) who account for 60% of eating-out population as:
  - BK has strong focus on its value leadership program and attractive entry level prices (Rs45) which connects the brand with millennials – mainly young school going, college going kids and people in early stage of their careers.
  - Burger King's marketing and advertising campaigns aim at improving connect with millennials, just as McDonalds's is gradually altering its positioning from being a brand for children to a family brand now.
  - BK products are designed for the millennials and adults who like slightly spicier and crisper tastes, flavors etc.

Exhibit 12: Eating out frequency is the largest among millennials

Age Group/ Frequency/month	Eating out	Ordering-in	Avg Spend/ Outing (Rs)	Avg Spend/ Order (Rs)
15-24 yrs.	2.3	0.9	230	124
25-34 yrs.	1.9	0.7	225	118
> 35 yrs.	1.5	0.3	303	107

Source: Company, PL

Exhibit 13: BK's Ad campaigns aim at improving connect with millennials

Source: Company, PL

Localized menu and extensive vegetarian offering in line with strategy followed by other QSR's

- **Strong Customer Proposition**: BK's flexibility in tailoring menu as per Indian tastes and preferences along with strong promotions and pricing, allows the brand to offer strong customer proposition. It is the only QSR brand in India to come up with flame grilled patties that gives taste advantage over competition.

- **Localization of Menu**: Global QSR brands have also transformed their menus by innovating localized products that bode well with tastes and preferences of Indians. For Eg, Brands like McDonalds and Dominos launched Glocal (Global+Local) menus. Being a late entrant helped BK as it is following the glocal strategy right from the beginning, keeping in view the tastes and local sensitivities:

    - BK launched products to cater to the Indian tastes and preferences such as the BK classic veg burger, Paneer overload burger and Crispy veg wrap, Cheesy Fries, Rice bowl and Veggie Strips.

    - BK also boosts a strong vegetarian menu which has helped increase footfalls over the years, as India accounts for a large number of Vegetarian consumers.

Exhibit 14: Localized products curated as per the taste preferences of Indians

Source: Company, PL

BK aims to be a food tech company by integrating server with aggregators and launching a mobile app

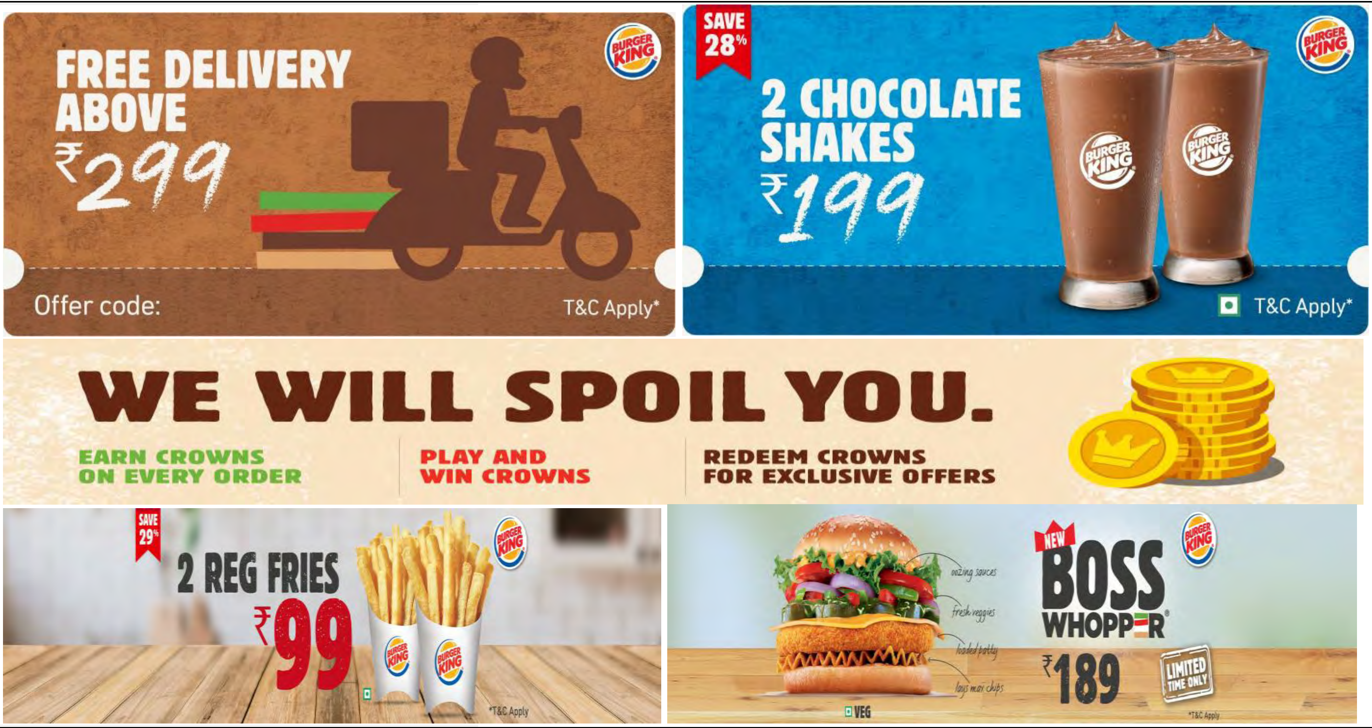
BK Aiming to be food tech company

Covid-19 has put technology transition of food services companies on a fast lane. Rising share of deliveries, takeaways, drive thru and consumer reluctance/ reduced capacity of restaurants have all led to an accelerated push towards technology.

- BK created a strong technology backbone since its inception, as it had integrated its servers with food aggregators to enable strong Omni channel presence. BK now plans to invest in technology to enhance customer experience via digital and social media platforms.
- BK has invested significantly in “360º technology with centrally controlled digital menu board, self-ordering kiosks and handheld stores.
- BK is available on mobile App and currently venturing marketing initiatives to boost app downloads. Mobile App helps in maintaining customer information like their preferences, order history etc. in order to enhance interactions and provide personalized offers.

- BK undertakes App and online specific deals, promotions etc. to increase consumer traction and grow sales from convenient channels.

Exhibit 15: BK has leveraged technology to improve customer experience and interaction



Source: Company, PL

Exhibit 16: BK has leveraged technology to improve customer experience and interaction

Source: Company, PL

- BK has evolved at fast pace post Covid-19 and leveraged its delivery and takeaway segments to recover revenues. Post Covid, dine-in recovery remains curtailed, as restaurants are allowed to operate at 50% capacity along with customer reluctance to walk in.

- BK has relatively weak distribution for home delivery and it banks upon food aggregators like Swiggy and Zomato. Despite an increase in their commission/order from ~Rs46 pre-covid to Rs70 currently, there has been an increase in net realization per order from ~Rs120 to Rs180 as the average order size increased from ~Rs240 to Rs350.

BK café to expand margins as they 500-700bps higher GRM's than food business.

BK Café to add a new growth dimension

Burger King has BK Café on the similar lines as we have McCafe of McDonalds in US and several other territories. BK Café uses 100% Arabica beans across hot and cold beverages.

- BK® Café drinks include Iced Coffee combined with silky cream and a choice of flavored syrups – Vanilla or Mocha.
- BK® Café Frappes are blended until smooth and creamy with a choice of Mocha or Caramel and topped with fluffy, whipped cream for a deliciously cool frappe experience.
- BK has started a BK® Café Subscription which offers one (1) small hot brewed coffee per day. It is available via the BK® mobile app at participating U.S. BURGER KING® restaurants in plain varieties and limited quantity.

We expect Burger King to adopt the same strategy in India and launch BK café over time in all major stores. We believe, BK Café can add a new dimension to growth paradigm of Burger King given that McCafe has played a major role in the turnaround and margin expansion at Westlife as;

- Capex on a SIS café is around Rs2.5-3mn with a potential revenue upto Rs8-10mn/ store/annum over next 5 years.
- Café has 500-700bps higher gross margins than the foods business.
- Café brings more traffic to the stores, more so on weekdays for casual meetings and improves overall standing of the brand among youth and working professionals.

We believe that BK café will be incrementally positive for the company. Our estimates don't factor in any store openings and benefits from BK Café.

Exhibit 17: BK Café to provide an additional lever of growth.

Source: Company, PL

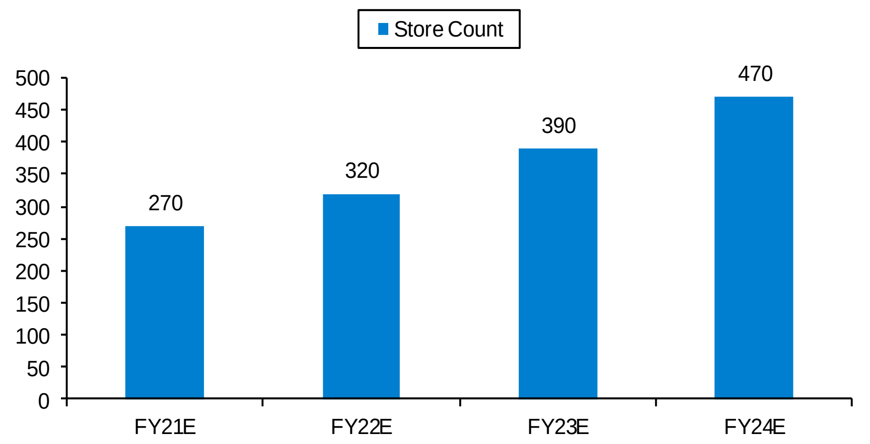
BK puts expansion plans on an accelerator

Store addition of 50/70/80 expected over FY22/23/24 with 700 stores expected by Dec'26.

Burger King is the fastest growing Burger chain in India and is the only company to open 200+stores in less than 5 years. In light of COVID-19 pandemic, the expansion of BK's restaurant network slowed down in FY21. BK follows a balanced approach thereby enabling entry of new/less developed clusters plus fast scaling up of large existing clusters.

- Despite slowdown and impact of Covid-19, BK is looking at accelerating the store opening program in coming years. BK is aiming to open 700 stores by Dec-26 by opening 50/70/80 stores in FY22/FY23 and FY24. BK plans to open 70% stores in existing clusters and 30% in new clusters.
- BK continues to identify new locations in key metropolitan areas and cities across India to build restaurants quickly, consistently and efficiently to capitalize on the growing market opportunity in India post Covid 19.
- BK has capex of Rs28mn/store and the average is likely to remain in the same band with bigger stores costing more and food courts costing less
- BK currently has 55% stores in Malls, 25% in high street, 15% in business parks and 5% in Metro stations. As BK has saturated most of available mall space, new store openings will be focused on high street and prime locations. Consequently, initial ramp up of new store sales might be slow as high street takes time for the footfalls to build in.
- As BK had gone slow on new store additions during pandemic, most store additions during FY22 are likely to be back ended and mostly centered in 2H22 (3Q/4Q22).
- Expansion of network will help achieve economies of scale through operational leverage and cost efficiencies, which will expand margins and drive profitability

Exhibit 18: Aggressive store expansion pipeline upto FY24E



Source: Company, PL

Revenues to reach pre covid levels by 4Q21. Recoveries back to normal in most geographies except North (impacted due to farmer's protest)

Post COVID recovery by 4Q, Delivery to gain by 3-5%

Burger King witnessed SSG of 29.2% in FY19. The impact of COVID-19 on Food Services Market started in March20, as people began to refrain from eating out thereby resulting in SSG of -0.3% during FY20. Nationwide lockdown resulted in closure of all restaurants hence market size declined by 31%. They reopened in April and May 2020 for delivery-only services and high quality cloud kitchens, QSR's and restaurants started delivery services. SSG for Q1FY21 was down 68.9% and Q2FY21 48.6 % primarily impacted due to covid however with resumption of dine in SSG decline reduced to 34.8% for Q3FY21 and 14.8% for Jan'21.

- Chain QSRs like Burger King, were able to adapt to the government restrictions swiftly as they had their delivery infrastructure in place and were able to enhance their delivery services despite dine-in being affected.

Exhibit 19: Maximum safety precautions undertaken to instill consumer confidence

Source: Company, PL

- Focus on drive-thru, takeaway and delivery intensified and the company launched an improved version of its BK mobile app with features like 1) Omni Channel experience in ordering for dine-in, takeaway and delivery 2) BK Crown loyalty program and 3) Exclusive offers via digital coupons.

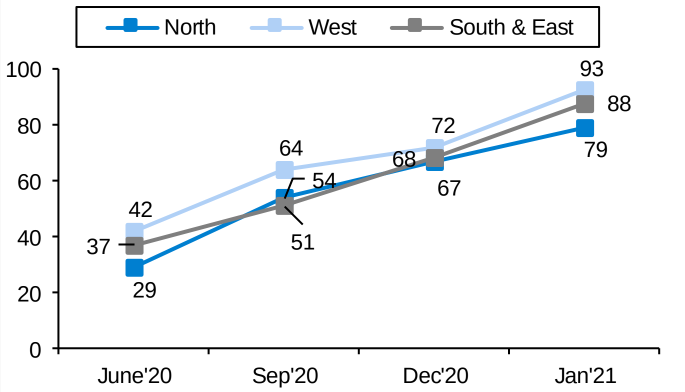
- COVID-19 crisis had a significant impact on BK's operations resulting in revenue decline of 54% in 9MFY21 to Rs2.98bn from Rs6.5bn. Same store sales declined 34.8% during Q3FY21.

- As of now, 251 own restaurants are operational as BK implemented high standards of safety and hygiene protocols covering guests, crew, sanitization, social distancing, temperature checks and safe deliveries.

- BK however expects revenues to reach pre covid levels by 4Q21 with current recovery at 72% as 3Q21 Average Daily Sales (ADS) recovery for delivery stands at 86% YoY and dine in at 60%. Recovery picked up in Jan'21 with 106% for delivery and 76% for dine in. Delivery sales have fully recovered in Jan'21 and their contribution to revenues increased from 30-32% pre covid to 38-40%. Dine in continues to enjoy larger portion of revenues as BK includes takeaways and on-the-go revenues in dine in. Significant pick up in Delivery will result in contribution being higher by 10% to ~35% post covid stabilization.

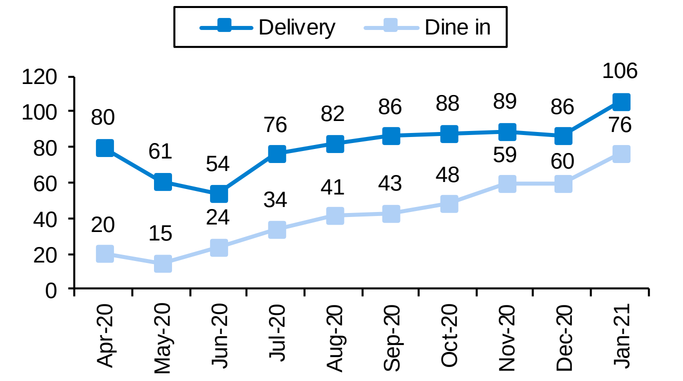
- Recoveries in major geographies are back to normal in Jan'21 with West at 93%, South and west at 88% and North at 79%. However, farmer protests led disruptions have impacted recovery in North.

Exhibit 20: West close to complete recovery in Jan21'



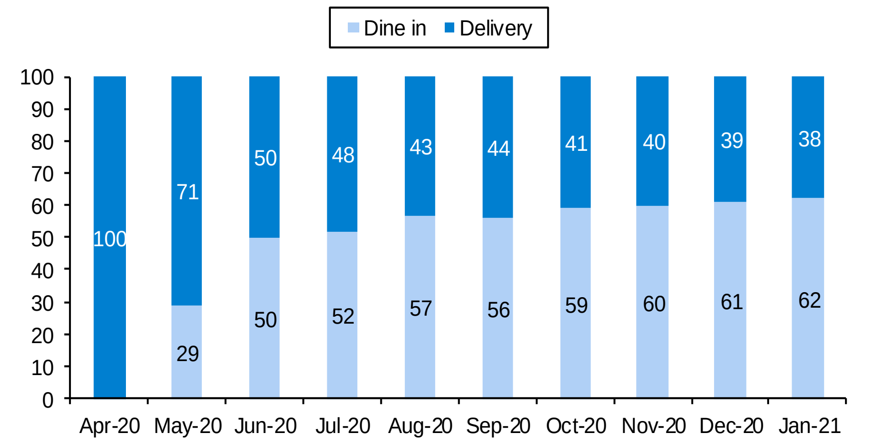
Source: Company, PL

Exhibit 21: Delivery enters growth phase in Jan21'



Source: Company, PL

Exhibit 22: Delivery share higher than pre-covid levels of 30-32%



Source: PL

Sharp rebound and store expansion to enable turnaround

Expect turnaround in FY23 with sales of Rs14.7bn in FY23 and Rs18.7bn by FY24. GRM's to expand 130/190 bps in FY23/24

BK is indicating accelerated store expansion plans in order to achieve 700 stores target by CY2026. Worst seems over for BK with full recovery likely by 4Q21.

- FY21 is expected to bring significant pressure with just 10 net store additions to 270. Sales are expected to decline by 40.3% with system average sales decline of ~50%. The recovery will be led by delivery, takeaways and drive thru. Dine in sales are unlikely to recover fully by end of FY21 and will recover during 1H22. FY21 EBIDTA is estimated at Rs 65mn and PAT loss at Rs1.51bn.

- In line with BK guidance, we factor in store addition of 50, 70 and 80 in FY22,23 and 24. We estimate System Avg sales at Rs44mn for FY24 which will increase to Rs50mn by FY26
- We estimate sales of Rs14.7bn in FY23 and Rs18.7bn by FY24. Rising economies of scale will enable 130bps gross margin expansion by FY23 (over FY20 GRM) and 190bps by FY24 (over FY20 GRM).
- Economies of scale will reduce operating costs by ~330bps for FY23 and ~395bps for FY24, from FY20 levels.
- We estimate BK to achieve PBT breakeven in FY23, as the company repaid entire debt and has cash surplus of Rs3.5bn.
- We believe BK will not require further capital infusion given expected turnaround and negative working capital.
- Our estimates don't factor in potential gains from introduction of BK Café in Burger King stores, as this can provide an upside of 250-300bps to gross and EBIDTA margins.

Exhibit 23: BK turnaround likely in FY23, expect steady growth there after

	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Opening Stores	129	187	260	270	320	390
Net Addition	58	73	10	50	70	80
Number of Stores	187	260	270	320	390	470
System Avg Sales	40	38	19	39	41	44
Growth		*-6.1%*	*-49.4%*	*105.3%*	*6.1%*	*5.5%*
Revenue	6,327	8,412	5,025	11,486	14,667	18,747
YoY Growth	*67.3%*	*33.0%*	*-40.3%*	*128.6%*	*27.7%*	*27.8%*
Gross Profit	4,027	5,397	3,226	7,443	9,607	12,392
Gross Margins	*63.6%*	*64.2%*	*64.2%*	*64.8%*	*65.5%*	*66.1%*
Operational Cost	3,237	4,357	3,162	5,659	7,114	8,973
% of Sales	*51.2%*	*51.8%*	*62.9%*	*49.3%*	*48.5%*	*47.9%*
EBITDA	790	1,040	65	1,784	2,493	3,419
Margins	*12.5%*	*12.4%*	*1.3%*	*15.5%*	*17.0%*	*18.2%*
Other Income	114	56	335	239	219	210
Depreciation	822	1,164	1,203	1,408	1,709	2,068
Interest	465	655	712	679	793	920
PBT	(383)	(722)	(1,515)	(63)	211	640
PAT	(383)	(722)	(1,515)	(63)	211	640
EPS	(1.4)	(2.6)	(4.0)	(0.2)	0.6	1.7

Source: Company, PL

Exhibit 24: Capex of Rs5.9bn by FY24 with ROE/ROCE of 9% and 21%

Particulars (Rs Mn)	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Capex	1593	2037	279	1395	1953	2232
Debt	1000	1985	0	0	0	0
Cash & Cash Equivalents	160	280	3445	3176	3104	3123
WCAP	(1869)	(1241)	(1071)	(1265)	(1831)	(2227)
ROE (%)	-14	-28	-31	-1	3	9
ROCE (%)	3	-3	-17	9	14	21

Source: Company, PL

Initiate with Buy; DCF based March22' target price of Rs221

- We expect BK to turn FCF positive of Rs647mn by FY25 which will increase to Rs1,115mn by FY26. It can achieve an EPS of Rs1.7 in FY24 which will increase to Rs6.1 by FY26. Launch and success of BK café can result in this number being higher by ~10-15%.
- We assume WACC of 12% and terminal growth rate of 7%.
- We believe Burger King offers long term growth potential given advantages like PAN India presence, strong presence in North India, fixed royalty rate, strong connect with millennials and value for money positioning in high growth Burger segment of QSR's in India.
- We believe that the brand has a long road to scalability given huge scope to expand operations in India. We initiate coverage with 15 month DCF based March22' target price of Rs221.

Exhibit 25: DCF Calculations for deriving TP for BK

Particulars (Rs Mn)	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
NOPLAT	(494)	(709)	(1,740)	(303)	(9)	430	1,105	1,932
Growth	46.6%	-43.4%	-145.4%	82.6%	97.1%	4999.4%	156.7%	74.9%
Change in WCAP	148	175	27	194	566	396	468	552
Change in Capex	1,545	2,081	178	1,407	2,070	2,526	2,365	3,107
Depreciation	395	623	637	773	967	1194	1427	1725
Net Investment	995	1,369	-493	428	531	935	458	818
FCF	-1,489	-2,078	-1,247	-731	-539	-504	647	1,115
Assumptions								
Total Terminal Value	1,28,322							
Discounted terminal value	81,551							
Discounted Free Cash Flow	-429							
Equity Value	84,298							
Equity Value as on date	84,298							
No of shares	382							
Fair value (Rs) (per share)	221							
Market Price	**145**							

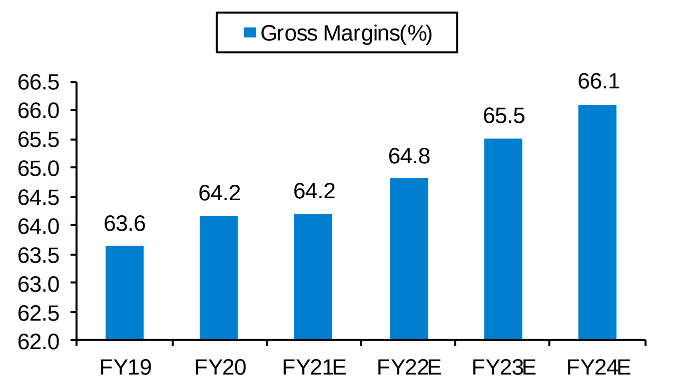
Source: Company, PL

Key risks to the forecast

- Change in consumer taste & preferences away from QSR, western fast food and fall in innovation levels.
- Sharp increase in input costs and availability.
- Disruption in supply chain.
- Delay in Post covid recovery, especially for Dine-in format.
- Significant increase in price based competition.

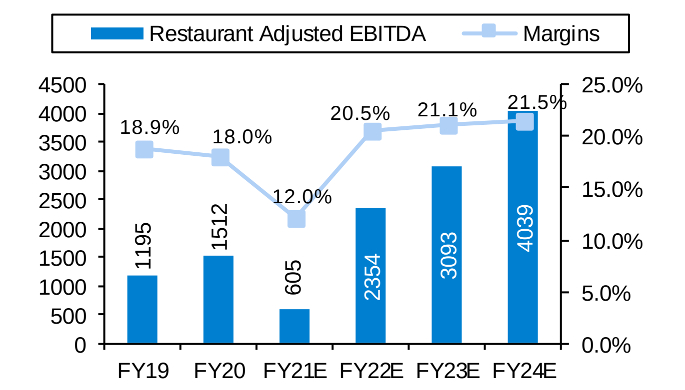
Story in Charts

Exhibit 26: 190bps Gross Margins expansion by FY24



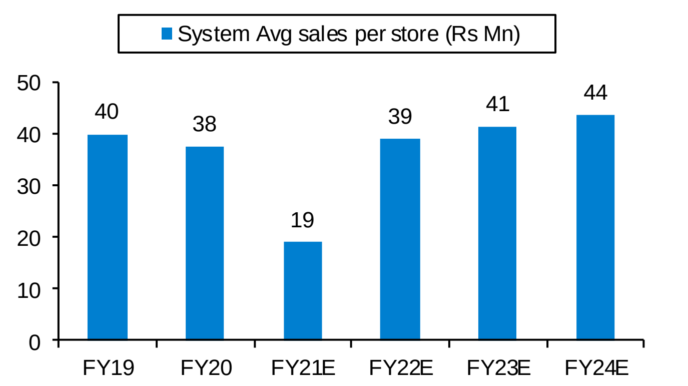
Source: Company, PL

Exhibit 27: ROM to expand 350bps by FY24



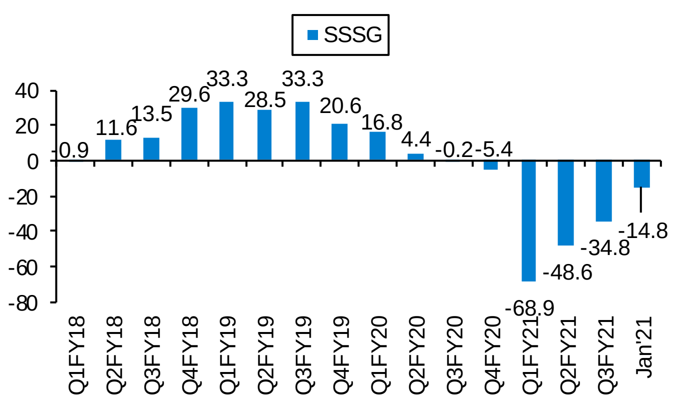
Source: Company, PL

Exhibit 28: System Avg Sales/store to grow steadily



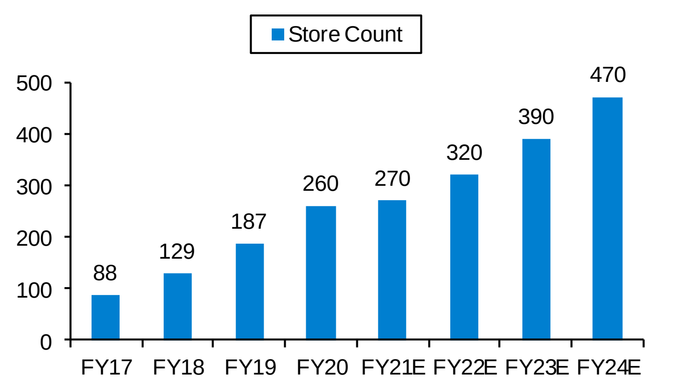
Source: Company, PL

Exhibit 29: Strong SSSG by FY19



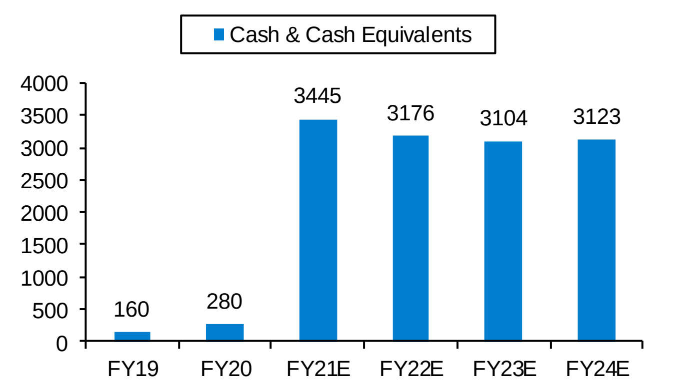
Source: Company, PL

Exhibit 30: Store count to reach 470 by FY24



Source: Company, PL

Exhibit 31: BK expected to remain Cash positive



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	**8,412**	**5,025**	**11,486**	**14,667**
YoY gr. (%)	*33.0*	*(40.3)*	*128.6*	*27.7*
Cost of Goods Sold	3,015	1,799	4,043	5,060
Gross Profit	5,397	3,226	7,443	9,607
Margin (%)	*64.2*	*64.2*	*64.8*	*65.5*
Employee Cost	1,365	1,341	1,673	2,106
Other Expenses	343	225	572	731
EBITDA	**1,040**	**65**	**1,784**	**2,493**
YoY gr. (%)	*31.7*	*(93.8)*	*2,658.0*	*39.7*
Margin (%)	*12.4*	*1.3*	*15.5*	*17.0*
Depreciation and Amortization	1,164	1,203	1,408	1,709
EBIT	**(124)**	**(1,138)**	**376**	**784**
Margin (%)	*(1.5)*	*(22.7)*	*3.3*	*5.3*
Net Interest	655	712	679	793
Other Income	56	335	239	219
Profit Before Tax	**(722)**	**(1,515)**	**(63)**	**211**
Margin (%)	*(8.6)*	*(30.2)*	*(0.6)*	*1.4*
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after tax	**(722)**	**(1,515)**	**(63)**	**211**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**(722)**	**(1,515)**	**(63)**	**211**
YoY gr. (%)	*88.7*	*109.8*	*(95.8)*	*(431.9)*
Margin (%)	*(8.6)*	*(30.2)*	*(0.6)*	*1.4*
Extra Ord. Income / (Exp)	(43)	-	-	-
Reported PAT	**(766)**	**(1,515)**	**(63)**	**211**
YoY gr. (%)	*100.0*	*97.9*	*(95.8)*	*(431.9)*
Margin (%)	*(9.1)*	*(30.2)*	*(0.6)*	*1.4*
Other Comprehensive Income	(10)	-	-	-
Total Comprehensive Income	(776)	(1,515)	(63)	211
Equity Shares O/s (m)	**278**	**382**	**382**	**382**
EPS (Rs)	**(2.6)**	**(4.0)**	**(0.2)**	**0.6**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	**13,558**	**14,082**	**16,622**	**20,217**
Tangibles	13,264	13,759	16,266	19,825
Intangibles	294	323	356	391
Acc: Dep / Amortization	**3,191**	**4,394**	**5,802**	**7,511**
Tangibles	3,142	4,326	5,712	7,397
Intangibles	49	68	90	113
Net fixed assets	**10,367**	**9,688**	**10,820**	**12,706**
Tangibles	10,122	9,433	10,554	12,428
Intangibles	245	255	266	278
Capital Work In Progress	476	350	350	400
Goodwill	-	-	-	-
Non-Current Investments	292	298	353	431
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	44	51	64	71
Current Assets				
Investments	186	-	-	-
Inventories	94	123	122	152
Trade receivables	32	41	94	121
Cash & Bank Balance	280	3,445	3,176	3,104
Other Current Assets	194	250	263	322
Total Assets	**11,977**	**14,259**	**15,256**	**17,319**
Equity				
Equity Share Capital	2,777	3,817	3,817	3,817
Other Equity	(23)	3,073	3,019	3,240
Total Networth	**2,754**	**6,889**	**6,836**	**7,057**
Non-Current Liabilities				
Long Term borrowings	1,788	-	-	-
Provisions	187	187	187	187
Other non current liabilities	8	9	10	11
Current Liabilities				
ST Debt / Current of LT Debt	197	-	-	-
Trade payables	816	785	928	1,447
Other current liabilities	561	712	828	991
Total Equity & Liabilities	**11,977**	**14,258**	**15,255**	**17,319**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	(722)	(1,515)	(63)	211
Add. Depreciation	1,164	1,203	1,408	1,709
Add. Interest	655	712	679	793
Less Financial Other Income	56	335	239	219
Add. Other	86	(7)	(12)	(7)
Op. profit before WC changes	1,182	392	2,012	2,706
Net Changes-WC	175	27	194	566
Direct tax	-	-	-	-
Net cash from Op. activities	**1,357**	**419**	**2,206**	**3,272**
Capital expenditures	(3,878)	(398)	(2,540)	(3,645)
Interest / Dividend Income	-	-	-	-
Others	121	180	(55)	(77)
Net Cash from Invt. activities	**(3,758)**	**(219)**	**(2,595)**	**(3,722)**
Issue of share cap. / premium	1,034	5,651	10	10
Debt changes	2,142	(1,975)	790	1,162
Dividend paid	-	-	-	-
Interest paid	(655)	(712)	(679)	(793)
Others	-	-	-	-
Net cash from Fin. activities	**2,521**	**2,964**	**120**	**379**
Net change in cash	**120**	**3,164**	**(268)**	**(72)**
Free Cash Flow	(2,522)	21	(334)	(373)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	**-**	**-**	**967**	**1,632**
YoY gr. (%)	-	-	-	*(28.4)*
Raw Material Expenses	-	-	347	589
Gross Profit	-	-	620	1,042
Margin (%)	-	-	*64.2*	*63.9*
EBITDA	**-**	**-**	**3**	**152**
YoY gr. (%)	-	-	-	*(41.7)*
Margin (%)	-	-	*0.3*	*9.3*
Depreciation / Depletion	-	-	309	335
EBIT	**-**	**-**	**(305)**	**(183)**
Margin (%)	-	-	*(31.6)*	*(11.2)*
Net Interest	-	-	211	234
Other Income	-	-	139	127
Profit before Tax	**-**	**-**	**(377)**	**(290)**
Margin (%)	-	-	*(39.0)*	*(17.8)*
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after Tax	**-**	**-**	**(377)**	**(290)**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**-**	**-**	**(377)**	**(290)**
YoY gr. (%)	-	-	-	*33.6*
Margin (%)	-	-	*(39.0)*	*(17.8)*
Extra Ord. Income / (Exp)	-	-	(8)	-
Reported PAT	**-**	**-**	**(385)**	**(290)**
YoY gr. (%)	-	-	-	*33.6*
Margin (%)	-	-	*(39.8)*	*(17.8)*
Other Comprehensive Income	-	-	(1)	(3)
Total Comprehensive Income	**-**	**-**	**(386)**	**(293)**
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	**-**	**-**	**-**	**-**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	(2.6)	(4.0)	(0.2)	0.6
CEPS	1.6	(0.8)	3.5	5.0
BVPS	9.9	18.1	17.9	18.5
FCF	(9.1)	0.1	(0.9)	(1.0)
DPS	-	-	-	-
Return Ratio(%)				
RoCE	(3.0)	(19.6)	5.5	11.3
ROIC	(1.1)	(10.5)	3.1	5.5
RoE	(27.5)	(31.4)	(0.9)	3.0
Balance Sheet				
Net Debt : Equity (x)	0.6	(0.5)	(0.5)	(0.4)
Net Working Capital (Days)	(30)	(45)	(23)	(29)
Valuation(x)				
PER	(55.6)	(36.4)	(869.0)	261.8
P/B	14.6	8.0	8.1	7.8
P/CEPS	90.9	(176.5)	41.0	28.7
EV/EBITDA	40.0	799.3	29.1	20.9
EV/Sales	5.0	10.3	4.5	3.5
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

February 24, 2021

Company Report

Westlife Development (WLDL IN)

Rating: BUY | CMP: Rs496 | TP: Rs618

At a tipping point of growth

We are initiating coverage on Westlife Development (WDL) with a Buy rating and March22' TP of Rs 618. We believe WDL will emerge stronger post Pandemic led by 1) McDonald's gain from consumer shift towards brands with hygiene 2) sustained menu innovations 3) strong gains through convenience channel (10% incremental sales) 4) 30% fixed cost reduction due to various initiatives and 5) strong sales recovery of 94% in Maharashtra (54% of stores) in 3Q.

WDL's expansion plans under Vision 2022 are on track (although delayed) with focus on 1) EOTF stores with 50% lower cost than global benchmarks 2) 30% capex/store reduction and 3) steady store expansion (30stores/year). We believe margin levers like EOTF stores (~Rs5m incremental sales/store), pick up in convenience channel (McDelivery, Takeaway and Drive Thru) and McCafe (Lower capex, higher GM and rising throughput) can enable WDL to achieve sales of Rs24.6bn and PAT of Rs1.6bn by FY24 with FCF of Rs1.45bn and EPS of Rs10.2. We value the stock on DCF and arrive at a March22' target price of Rs 618. Buy for long term gains.

WDL to emerge stronger post pandemic: WDL is well poised to emerge stronger post Covid19 on its brand strength as health and hygiene factors will accelerate consumer shift towards organized players. Additionally, 30% reduction in fixed cost led by 1) supply chain (inbound/outbound delivery, ordering pattern, truck loads and timings), 2) closure of 20 marginal stores 3) flexi and part time staff (60%) with variable cost and 4) increased economies of scale from convenience channel (McDelivery, Drive Thru and Aggregators) will improve profitability as these cost reduction measures are sustainable and will enable pre-covid restaurant operating margins, at 10% lower sales than pre covid levels. The benefits are visible, as 3Q21 EBIDTA margins are just 100bps lower YoY despite 25% lower topline.

Convenience channel emerges as a key driver: WDL has been investing in technology which has resulted in McDelivery sales growing by 6.3x between FY16-20.

- WDL transformed McDelivery into convenience channel which includes McDelivery, Drive Thru, Takeaway and On the go services.
- WDL increased number of delivery hubs to 269 and targets to achieve 400-450 hubs by 2022 (300-350 own and 100-150 from aggregators).
- Average order value (AOV) has seen an increase of 30-35% under the Delivery channel, although it is not margin accretive as of now.
- Rapid growth in convenience channel is likely to reduce dine-in revenue contribution from 50% pre-covid to ~40-45% post Covid.
- We estimate McDelivery sales to increase from ~Rs5.1bn in FY20 to Rs9.7bn by FY24.

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	15,473	10,038	18,318	20,901
EBITDA (Rs. m)	2,135	811	3,474	4,152
Margin (%)	*13.8*	*8.1*	*19.0*	*19.9*
PAT (Rs. m)	93	(691)	767	1,045
EPS (Rs.)	0.6	(4.4)	4.9	6.7
Gr. (%)	*(56.5)*	*(845.2)*	*(211.0)*	*36.2*
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	*1.6*	*(12.9)*	*14.3*	*16.7*
RoCE (%)	*9.5*	*(8.0)*	*24.5*	*27.9*
EV/Sales (x)	5.0	7.7	4.2	3.6
EV/EBITDA (x)	36.2	95.3	21.9	18.0
PE (x)	831.3	(111.6)	100.5	73.8
P/BV (x)	13.4	15.5	13.5	11.4

Key Data	WEST.BO | WLDL IN
52-W High / Low	Rs.523 / Rs.267
Sensex / Nifty	51,039 / 15,097
Market Cap	Rs.77bn/ $ 1,066m
Shares Outstanding	156m
3M Avg. Daily Value	Rs.293.01m

Shareholding Pattern (%)

Promoter's	59.08
Foreign	9.59
Domestic Institution	20.44
Public & Others	10.89
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.1	30.8	4.6
Relative	3.4	(0.5)	(17.4)

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WDL on the forefront of Menu Innovations: WDL offers the most comprehensive breadth of portfolio amongst burger chains in the country. Over the years, the company has tried to undertake menu innovations to emerge as a family restaurant having wider appeal ranging from breakfast to lunch to snacking and create more vegetarian options and regional tastes.

McDonalds launched McAloo Tikki Burger, Rice Bowls, Paneer Wrap in its Menu while McBreakfast menu was created by amalgamating classic Continental and Indian offerings (like Veg & Egg Muffins, Dosa Masala Brioche, Scrambled Eggs, Hot Cake and Waffles).

McCafe - a key growth driver and value creator: WDL launched McCafe as 'SIS' in McDonald's stores in 2014 which has been a key contributor to WDL's turnaround given 1) low incremental capex of just Rs2.5-3mn (v/s Rs15-20mn for a standalone café) 2) repositioning of McDonalds as a youth brand 3) premium quality at value prices (15-20% discount to competing coffee chains) and 4) margin accretion (75-80% Gross margins of coffee v/s 60-65% in food business).

- The number of McCafe SIS in India increased to 227, sales/store increased 2.3x, overall sales 8.7x in 5 years. Revenue/ McCafe increased 2.3x to Rs5-8mn in 2016 and Rs8-10mn in 2018. Sales were estimates at Rs3.2bn in FY20.
- WDL is looking at 350 McCafe's by 2022 with sales/store of Rs11-14mn which should translate into sales of Rs5bn by FY23 and Rs6.4bn by FY24.

Worst seems over, expansion back on track: WDL faced severe test since March 20 as 1) its operational area (west and south India, 57% stores in Maharashtra) had 65% of all India Covid-19 cases 2) more than 50% sales from dine-in were impacted due to lockdown. However worst seems over as

- dine in stores achieved strong recovery post reopen (94% recovery in 7+ months, 103% in 6 months' and 98% in 4 months.
- Expansion plans are back on track and WDL is aiming for 25/30 stores addition/year mainly under RPO 2 model.
- The company increased McCafe and McDelivery stores to 227 and 269, plus achieved SSSG of 15.8%/17% in FY18/FY19. Although its Vision 2022 might be delayed in store openings but it is on track for targets on SSG and margins.

Exhibit 1: WDL likely to meet its Vison 2022 targets, albeit with 1-2-year delay in some parameters

Metrics	Target	Progress
SSSG	Mid to high single digit	15.8%/17.0% in FY18/19 4% in FY20 (Covid-19 Impact in March'20).
McCafe (SIS)	300-350	227
McDelivery Hubs	300-325	269
EoTF stores	80-100	70 (FY20)
Restaurants	400-500 restaurants in 45+ cities*	304 restaurants across 43 cities.
Sales (Rs bn)	20-25bn by FY22	Rs 15.4bn in FY20, impacted by Covid-19
EBITDA Margin	Low to mid- teens	13.8% in FY20

*Source: Company, PL * Changed from 450-500 stores in 40+cities*

Initiate with Buy rating and March22' target price of Rs618

- We factor 35 stores addition in FY23 and also FY24, taking total store count to 406 stores in FY24. We estimate system average sales/store to increase from Rs31.9mn in FY21 (Rs50mn in FY20) to Rs62.8mn by FY24.
- We estimate sales of Rs20.9bn in FY23 and Rs 24.6bn in FY24. Gross margin expansion from 65.2% in FY20 to 66.7% in FY24 and EBIDTA margin of 20.7% as operating costs declined by 540 bps from FY20 levels.
- We estimate PAT of Rs1.05bn/Rs 1.58bn in FY23/24 translating into an EPS of Rs6.7 and 10.2 having ROE /ROCE of 20.9% / 37.4%.

Exhibit 2: WDL to emerge Net cash positive from FY22

Particulars (Rs Mn)	FY19	FY20	FY21	FY22	FY23	FY24
Capex	1,139	1,139	297	1,470	1,698	1,680
Debt	2,339	1,837	2,300	1,900	1,500	1,200
Cash & Cash Equivalents	2,132	1,601	2,061	2,772	3,676	5,616
WCAP	(830)	(916)	(1,027)	(1,247)	(1,367)	(1,634)
ROE (%)	3.7	1.6	-12.9	14.3	16.7	20.9
ROCE (%)	6.8	11.2	-1.4	26.7	31.1	37.4

Source: Company, PL

- WDL was FCF positive in FY20 and will again turn FCF positive by FY22 with FCF of Rs678mn which will increase to Rs1.45bn by FY24. In addition to improved operations, higher FCF will be aided by higher negative working capital of Rs717mn over FY20-24.
- We initiate coverage with DCF based March22' target price of Rs618.

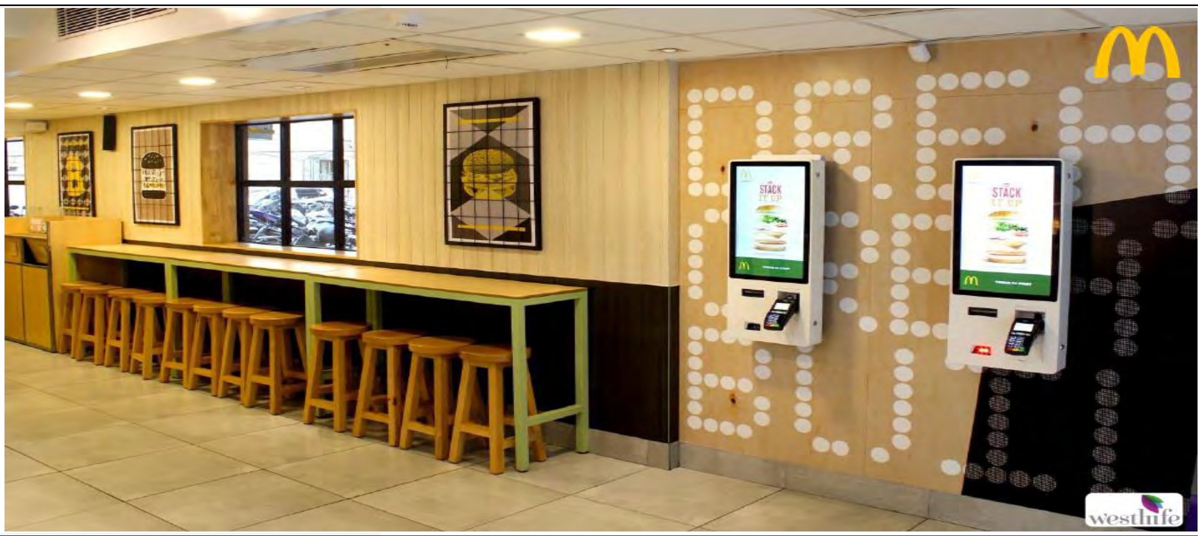
Risk factors to our call

- Re-emergence of strong covid wave in West and South India which are major operating areas for the company impacting dine in operations
- Slower than expected expansion plan of the company
- Non availability of real estate given tepid development in past few years
- Increase in competition from new and emerging brands

Exhibit 3: McDonald's EoTF store improves customer experience and incremental sales of Rs4.8-5.3mn/annum

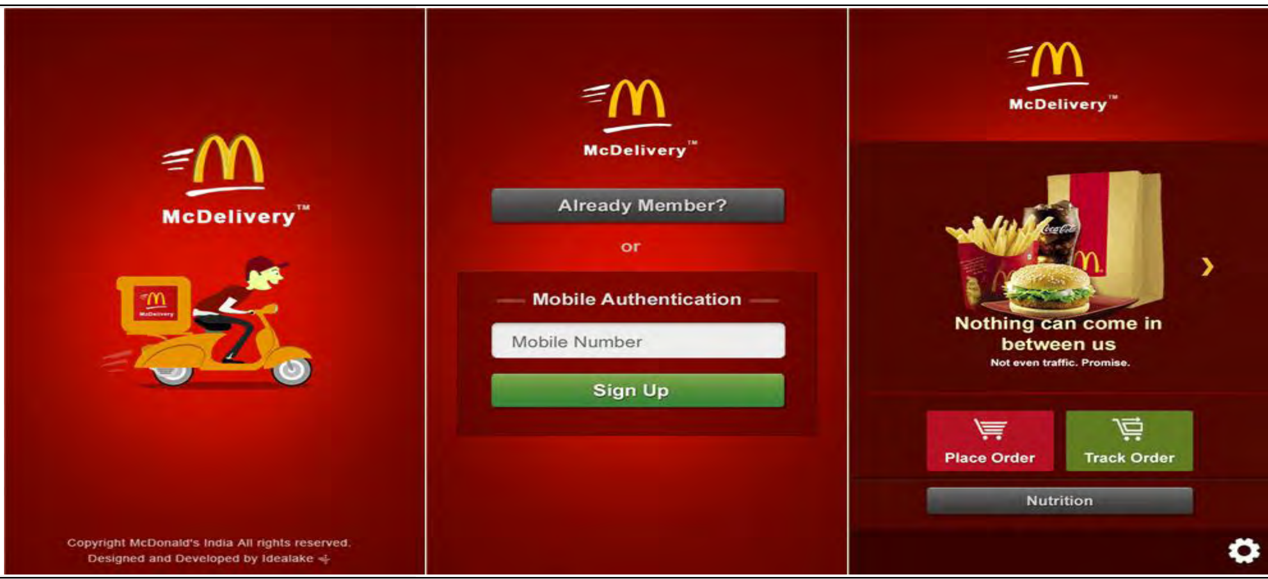
Source: Company, PL

Exhibit 4: McDonald's EoTF stores are high in ambience and Digital Adoption



Source: Company, PL

Exhibit 5: McDelivery identified as strategic pillar of future growth



Source: Company, PL

Westlife Development

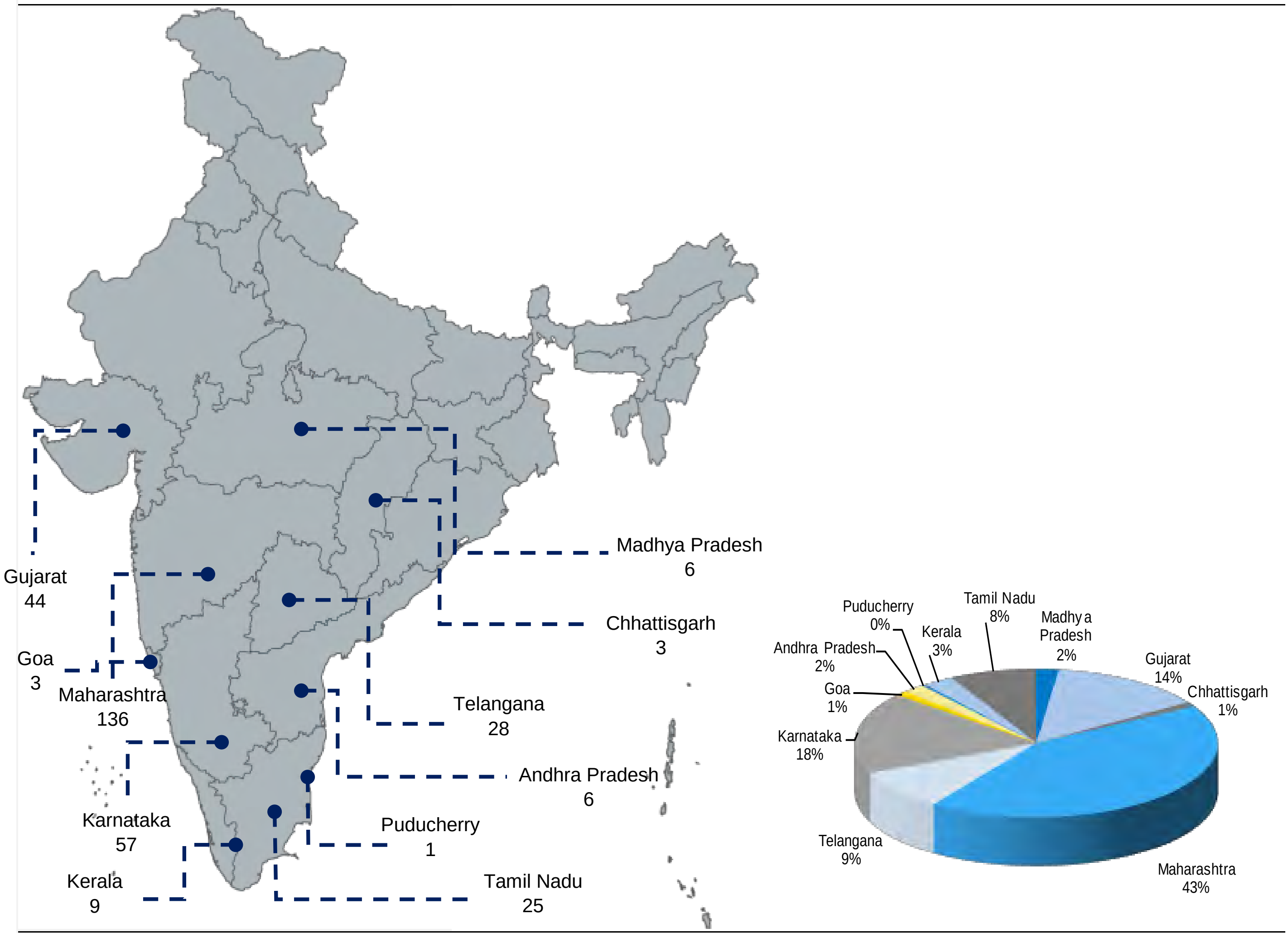
Westlife Development Limited (WDL), a part of the B L Jatia Group, operates McDonald's restaurants in West and South India, it has a master franchisee arrangement with McDonald's Corporation through its subsidiary Hardcastle Restaurants Pvt. Ltd. (HRPL). WDL operates 304 stores across 43 cities as of Dec20' and intends to open 450-500 restaurants by FY23.

WDL has broad based its offerings with McAloo Tikki Burger, Rice Bowl, Pizza Mcpuff, Wraps etc. which are India specific innovations based on taste and preferences of consumers. In line with parent, it has full range of McBreakfast, McCafe and Desserts to complete full days dining options.

WDL has identified convenience as a strong growth driver with focus on McDelivery, Drive Thru and delivery through aggregators. Delivery business is one of the key focus areas from past few years which grew 33.4% of sales in FY20.

WDL follows highest standards of safety while conducting operations and also implemented the "Golden Guarantee" program to instill confidence in consumers to eat out. The Golden Guarantee program consists a 42-point checklist across dine-in, delivery and take-out to ensure highest standards of food safety and hygiene across all channels.

Exhibit 6: WDL is McDonalds franchisee in West and South India, Maharashtra, Karnataka and Gujarat have 75% of stores



Source: Company, PL

42-point checklist under Golden Guarantee program ensures highest standards of safety

WDL to emerge stronger post pandemic

Westlife Development (WDL) is poised to emerge stronger from the pandemic given 1) increased focus on health and hygiene will increase demand for organized food service players 2) closure of ~30% food service outlets 3) cost cutting and efficiency measures and 4) increased economies of scale from significant pickup in convenience channel (McDelivery, Drive-Thru and Aggregators).

Golden guarantee program increased focus on Hygiene

Consumers are now becoming more health conscious and demand much better hygiene practices than the pre-pandemic times. This benefits organized players like WDL as the costs of maintaining hygiene will reduce price gap with un-organized players, because consumers will likely put faith on brands backed by strong hygiene and quality standards. Additionally, implementation of Golden Guarantee program having 42-point checklist across dine-in, delivery and take-out ensures highest standards of food safety, which again works in favor of WDL.

Exhibit 7: Golden Guarantee program ensuring highest standards of hygiene

Source: Company, PL

Exhibit 8: WDL follows a 42-point checklist to ensure maximum safety

Source: Company, PL

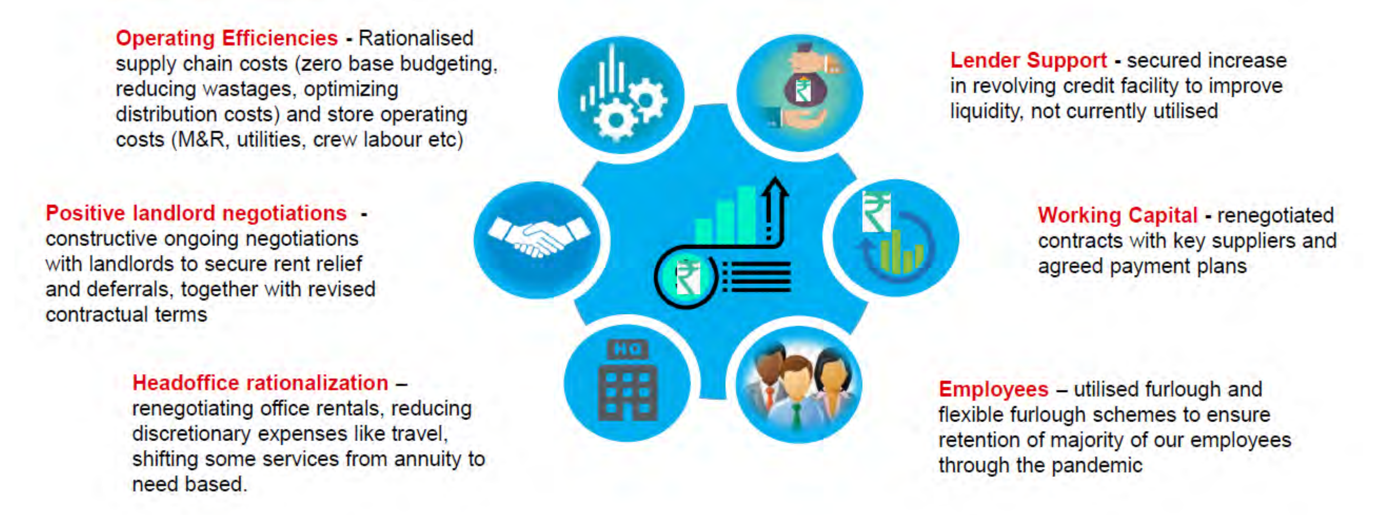
Cost rationalization measures to drive margins

Cost rationalization across supply chain, lease rental, staff cost and store closure and relocations to enable pre-covid restaurant operating margins, at 10% lower sales

Although WDL did cost rationalization under ROP1.0 and RPO 2.0 (since 2016), COVID-19 posed one of the toughest challenges for entire food services sector and the company. Consequently, a number of proactive steps were taken to emerge stronger. WDL targeted 30% saving in fixed costs.

- **Supply chain:** The company reduced its supply chain cost by undertaking zero based budgeting, optimization of inbound and outbound delivery, changes in truck load & timing, tweaking its ordering and refilling pattern etc. WDL also improved the expiry management of perishable inputs (Lettuce and other vegetables), reduced cost of consumables and worked with suppliers to reduce their cost which helped in further savings. These measures showed impressive results in past 6 months and going ahead will not only reduce costs on structural basis, but also help improve profitability in the long run.

Exhibit 9: Slew of Cost rationalization measures undertaken to drive margins



Source: Company, PL

- **Lease Rental:** WDL generally has long term store lease agreements mostly for a period of 15-20 years with rental increase clause of 10% after 5 years. Most stores have variable rent, with a minimum guarantee. Though WDL has tried to re-negotiate contracts with landlords, but their focus has been on long term rent reduction and not tactical discounts. The rent reduction benefit has been frontloaded, keeping in view the need to preserve cash.

- **Store closures and relocations:** WDL is closing ~20 stores due to Covid- 19 under network optimization, mostly in top 7 cities. Some of these stores will come up in better locations in the similar type of catchments, which can provide higher footfalls and sales, over the long term.

- **Staff Cost:** WDL has been able to optimize staff cost, as 60% of its staff is part time. The company relooked at its commitment on part-time labor and paid staff for hours worked, thereby reducing quantum of employee cost. It also undertook measures to improve efficiency whereby stores will operate with less staff, despite returning to normal hours of operation.

- It has used several smart tools for reducing consumption of utilities like water (sensor based no touch taps), electricity (LED), sanitization (Sanitizer cost) etc. which have lowered the operating costs.

WDL believes that these cost reduction measures are sustainable and will enable it to achieve pre-covid restaurant operating margins, at 10% lower sales. We believe lower breakeven and overheads can help to achieve margins higher than earlier expectations of mid- teens margins (Pre IND AS 116), under Vision 2022.

Convenience channel emerges as a key driver

WDL had identified McDelivery as a key growth driver pre-covid due to increased investment in food tech space and rapid growth seen in delivery segment. Overall food delivery market in India is expected to grow at a CAGR of 12.2% to reach US$18.1bn by FY25 from US$10.2bn in FY20 (US$4.7 bn in FY16), representing a CAGR of 21.4%.

McDelivery has been a saving grace for WDL during Covid-19 as most stores were open for dine-in, but consumers had been very hesitant to walk in, more so in metros and large cities. Nonetheless, WDL made renewed efforts in line with recent trends, in order to grow their McDelivery business.

McDelivery Hubs make a mark: McDelivery was identified as a key growth driver post its launch in 2012. However unlike Dominos, McDelivery remained a relatively smaller part of total sales, as focus was mostly on dine-in. McDelivery orders grew 3x while sales increased between 2012 and 2018 and sales grew 6.3x between FY16-20, because it emerged as one of the strategic pillars to achieve its Vision 2022 targets. Delivery has not been margin dilutive for the company, as it took 5-10% price premium and also a delivery fee of Rs25/30 from the very beginning.

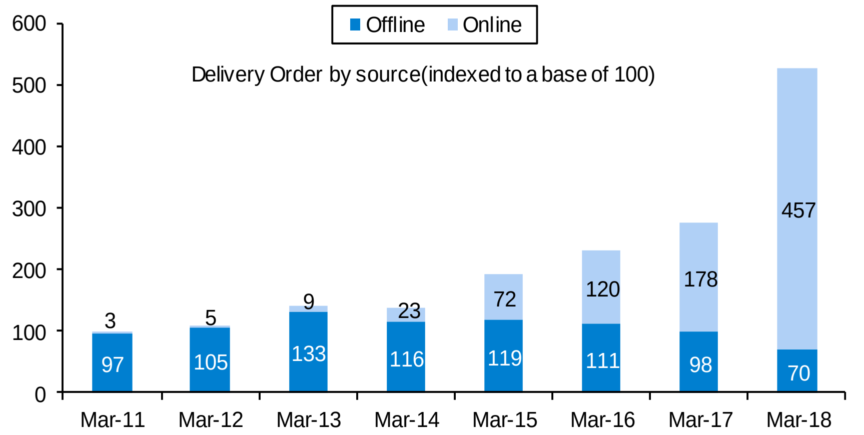
- **Tie up with Swiggy and Zomato -** WDL started the concept of McDelivery Hubs with a mix of own delivery setup and tie-up with food aggregators like Zomato and Swiggy. Tie up with food aggregators enabled the company to faster scale up the delivery business by limiting its investments in infrastructure/Transport and feet on the street. The company increased number of delivery hubs to 269 with a target to achieve 400-450 hubs by 2022 (300-350 own and 100-150 from aggregators).

- **Focus on Digital/Online:** WDL launched a **new website and mobile app** with features like Google maps based address registration, latest Google design standards, product personalization and simpler payment and checkout process.

- WDL adopted **digital marketing tools** like biddable media on Google, Facebook and app engagement programs for sharper consumer targeting.

- Consequently, the share of online orders in digital increased significantly to ~85% of McDelivery orders by 4Q18.

Exhibit 10: Online orders have grown constantly over the years.

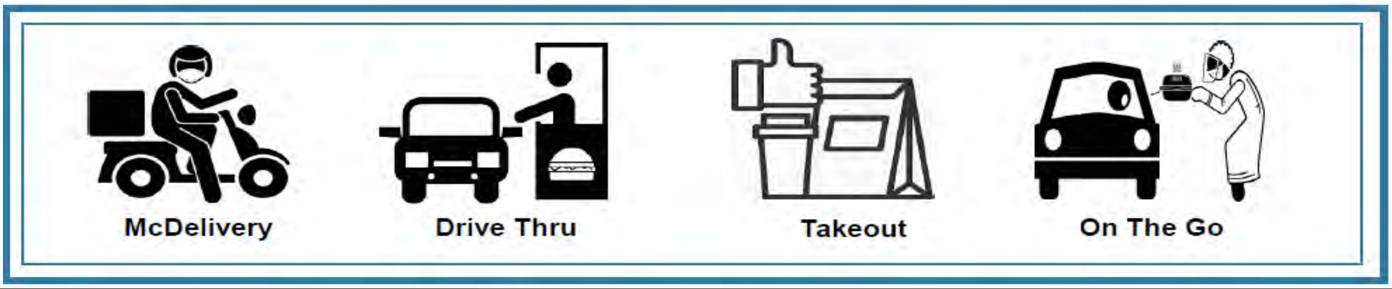


Source: Company, PL

WDL Redefines Convenience Strategy during COVID-19

WDL aligned its strategy to operate effectively during the pandemic by increasing focus on convenience channels, as dine-in was disrupted for most part of Q1FY21 and restaurants started opening from the end of April 20. WDL came up with the concept of convenience channel which included McDelivery, Drive Thru, Takeout and newly launched On the go services.

Exhibit 11: Convenience channel enabled effective operations in pandemic



Source: Company, PL

- The pandemic increased focus on delivery, as it was considered safer than dine-in and also because dine-in resumed much later than delivery. Restaurants in Maharashtra opened only in Oct20' (50% of restaurants). Contribution from convenience channel increased significantly during 1Q from initial 50% during pre-covid periods.

- **WDL ensured safety and consumer offers:** WDL focused on consumer communication to convey safety measures undertaken by the company like golden guarantee and contact less delivery. WDL also undertook consumer offers and campaigns around festivals and events like friendship day etc. to retain brand salience and consumer connect.

Exhibit 12: Safety Measures communicated to instill confidence in the consumers

Source: Company, PL

Exhibit 13: Consumers offers during festive periods

Source: Company, PL

Delivery sales at 110% of pre covid levels with 80% deliveries through aggregators and 20% through own app.

- **Delivery above pre covid levels, aggregators at 80% of delivery sales:** Delivery sales have crossed 110% of pre-covid levels in Dec20. Despite delivery being more economical through aggregators, WDL is pushing for delivery through its app, as it will help to scale the business and provide customer data for improving interactions. However, we note that McDelivery app sales are only 20% of total, while aggregator sales account for 80% of delivery sales.

Exhibit 14: Robust recovery witnessed in the convenience channel

McDelivery
- Dec'20 sales recovered 110% of pre Covid levels; 90% YoY recovery
- Higher average check compared to pre Covid levels and on YoY basis
- Offered exclusive combo offers, Deal of the day, Free delivery on our app for recruitment and retention

Drive Thru (DT)
- Sales for Dec'20 have more than doubled to that of pre Covid levels and on YoY basis
- Higher average check compared to pre Covid levels and on YoY basis
- Refreshed DT VIP club program, creating more brand visibility for drive thrus through out of home activities

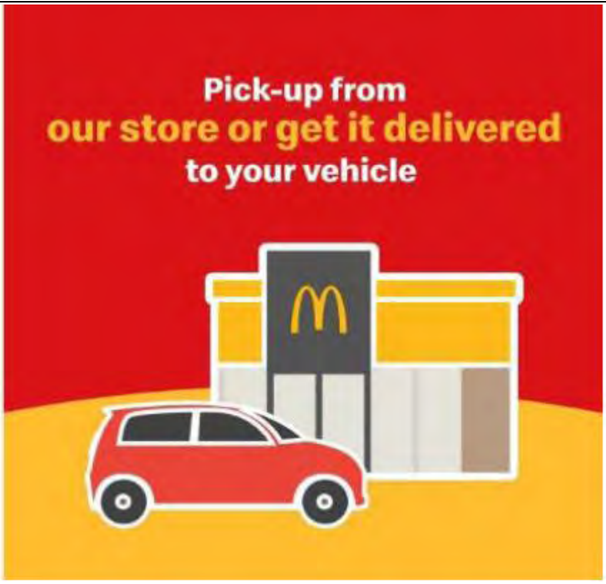
On the Go (OTG)
- McDonald's OTG platform is operational in 80% of restaurants
- Witnessing robust growth M-o-M basis
- Building brand value and increasing awareness / visibility through out of homes activities; offering exclusive combo offers on OTG

Source: Company, PL

On the Go operational at 80% of restaurants and is growing MoM while Drive thru sales have doubled.

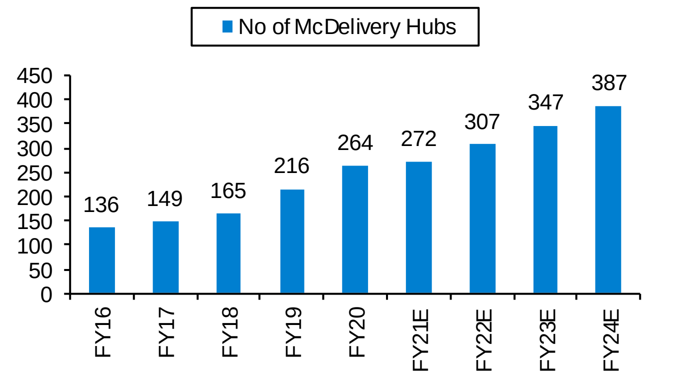
- **McDonalds Restaurants converted into Virtual drive thru:** WDL further shored up its convenience channel by launching "on the go" services in 1QFY21, wherein consumer places order using app while enroute while order is delivered to them in their vehicle. On the Go (OTG) is operational in 80% of restaurants and is growing MoM. McDonalds has been operating drive thru restaurants at specific locations like Highways, Petrol Pumps, etc. since long. Drive thru sales have seen a jump of over 100% from pre covid levels.

Exhibit 15: On the Go allowed conversion of stores into virtual drive thrus



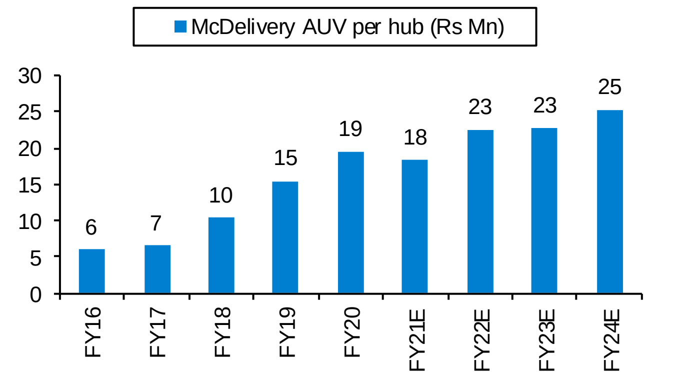
Source: Company, PL

Exhibit 16: McDelivery hubs to reach 387 by FY24



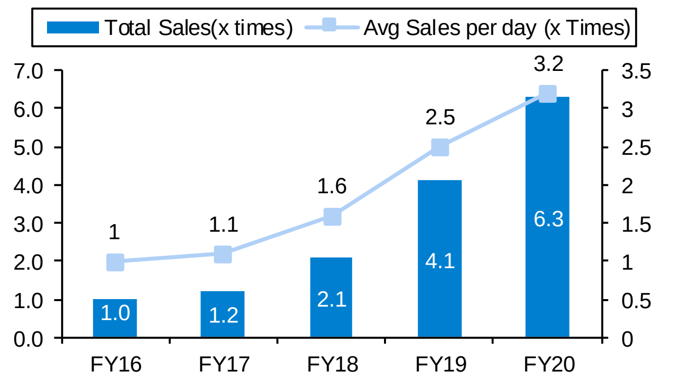
Source: Company, PL

Exhibit 17: FY21 AUV impacted due to the pandemic



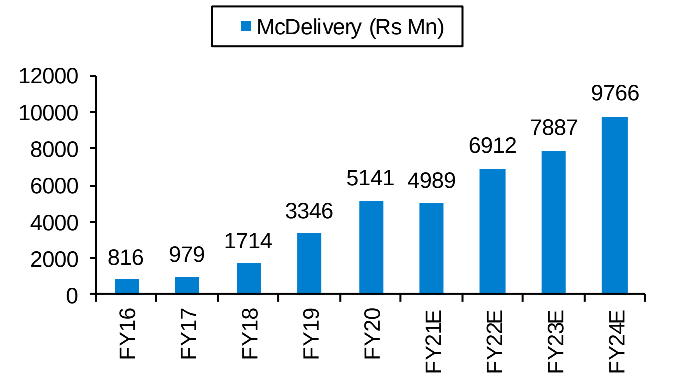
Source: Company, PL

Exhibit 18: McDelivery sales have grown 6.3x over FY16-20



Source: Company, PL

Exhibit 19: McDelivery revenues to grow 25.4% over FY21-24



Source: Company, PL

Several products like McAloo Tikki burger, Paneer Wrap, Pizza puff etc crafted to meet Indian taste preferences

WDL on the forefront of Menu Innovations

WDL offers most comprehensive breadth of portfolio amongst burger chains in the country. Over the years it has tried to undertake menu innovations to emerge as a family restaurant with wider appeal, ranging from breakfast to lunch to snacking. WDL innovated its menu around Indian taste preferences through global+local ('glocal') theme and introduced Indianised menu items. It tweaked around the global menus to launch more vegetarian options along with regional tastes.

- McDonald's launched **McAloo Tikki burger** in order to cater to large vegetarian population of India, interested in quality snack/meal at an affordable price. It was priced at Rs20 (when launched) and was amongst the first total vegetarian product at entry level that later replicated in many other countries.
- McDonald's launched **non-beef, non-pork, non-veg products** and also separated veg and non-veg kitchens in order to provide comfort to consumers plus increase footfalls and sales. It reduced the amount of Sodium, Oil, Calories and Sugar in various products and displayed their calorie count online.
- Similarly, products like **Paneer wrap, Veg Pizza Mcpuff and Maharaja Mac** (vegetarian and non-vegetarian) have been specially created for India.

Exhibit 20: Menu designed as per the taste preferences of Indians

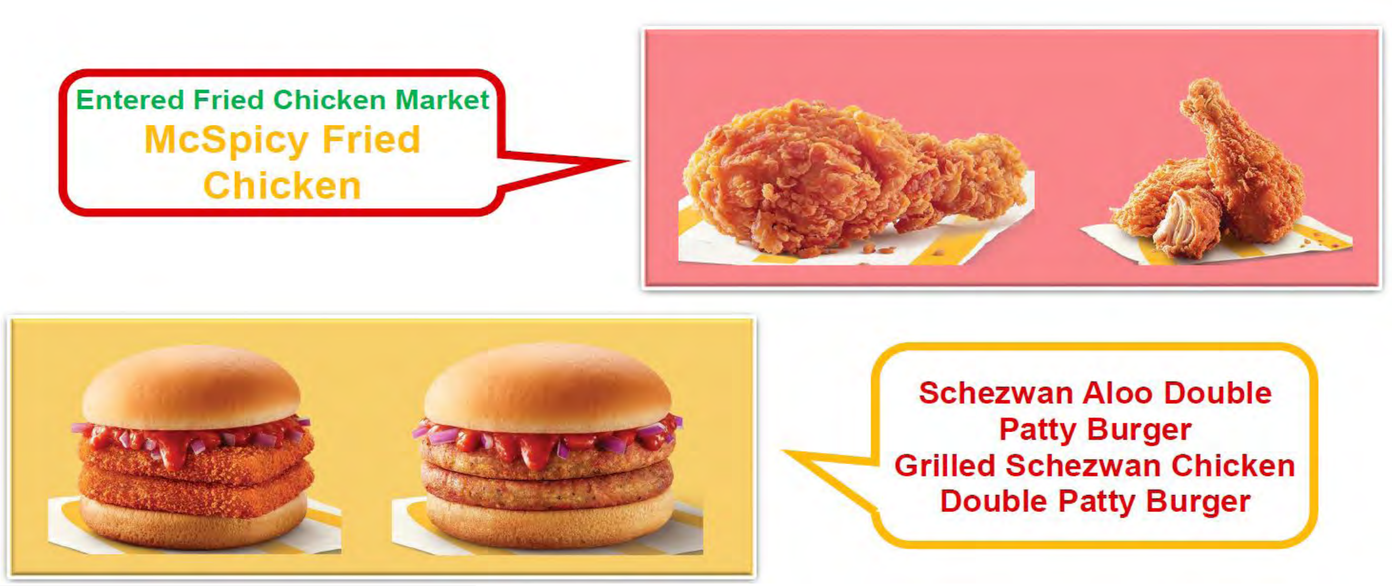
Source: Company, PL

- McDonald's has a strong presence in breakfast items globally. In line with their global positioning, WDL has also launched **breakfast products** in India. The Indian breakfast offering has scrambled eggs, Veg Muffins etc., a range different from what they have globally.

- WDL has also been adding new segments to its menu to emerge as an all-day dining option. It introduced **rice bowls, gourmet range, Chatpata Nan, Dosa Masala Brioche and Mexican Aloo wrap.**

- Recently WDL launched **Schezwan burger** and entered fried chicken market by introducing **Mc Spicy fried chicken** essentially to compete with KFC, which is leader in fried chicken segment.

Exhibit 21: Timely product launches to strengthen product offerings



Source: Company, PL

McBreakfast – a segment still in Infancy

McBreakfast provides full-day dining option but has been of limited success given preferences towards paratha, poha, idli, dosa etc

McDonald's through McBreakfast introduced the first ever branded breakfast in 2010 but had a very limited success. McDonalds later reintroduced this category in 2017. McBreakfast offers customers a range of convenient breakfast options by amalgamating classic Continental and Indian offerings (like Veg & Egg Muffins, Dosa Masala Brioche, Scrambled Eggs, Hot Cake and Waffles).

- McBreakfast has enabled WDL to provide full-day dining options and added convenience to customers fast paced lives. WDL being the first QSR to provide branded breakfast enjoys first mover advantage and is able to service customers from 7 am to 11 pm.

- Breakfast menu compliments McCafe and WDL offers several breakfast items along with McCafe products in a value meal. Introduction of breakfast has therefore helped in scaling of McCafe.

- However, McBreakfast has been of limited success in India given that Indian breakfast eating habits and preferences are ingrained towards Paratha, Poha, Upma, Idli, Dosa, Puri etc.

- We note that breakfast is the toughest category to crack in India. Global Foods major Nestle has launched Nesplus range of breakfast cereals, but is also launching Poha and other Indian products. Traditional ready to cook breakfast products have also been launched by MTR, Tata, Gits and Quaker. Earlier attempts to launch breakfast centric noodles by several players has come as a cropper. Kellogg's entered India targeting Rs20bn sales in Year 2000, however its FY20 sales were just Rs10bn.

- We believe breakfast strategy will pay off for WDL in the long term only and will need a lot of patience for investing and brand building.

Exhibit 22: WDL offers meals including McBreakfast & McCafe products

Source: Company, PL

McCafe aids margins and enables WDL to shift brand positioning from kids to youth and family brand.

McCafe - a key growth driver and value creator

WDL launched McCafe in the McDonald's stores in 2014 in line with the global extension of the brand. It enabled WDL to enter a potential USD2.25 bn USD chain coffee market in India by 2025. The Café market in India has been fast evolving with brands like Café Coffee Day, Starbucks, Costa Coffee, Barista, The Coffee Bean and Tea Leaf etc., with presence of more than 5000 cafes across India. We believe McCafe has been instrumental in turnaround at WDL:

- **Low capex in SIS model:** WDL started McCafe as a **Shop in Shop** McDonald's stores with incremental capex of just Rs2.5-3mn, which is very low in comparison to Rs15-20mn that a standalone café store of that size would spend, thus giving it a huge headstart.
- **Improved brand re-positioning:** As coffee is considered a youth drink, McCafe was a complete fit with McDonald's strategy of taking the brand positioning from initially targeting **kid's to a more youthful and family brand.**
- **Perfect fit in New Age Stores;** McDonald's changed the store interiors and seating to look more like a contemporary restaurant, a positioning which is required to attract all age groups and invite people to have a conversation around a cup of coffee.
- **Premium product with value pricing:** McCafe has aggressive pricing with 15-20% discount to its competing coffee chains. McCafe created a strong niche

in several products like Cold Frappe with Oreo purely on the basis of quality and offering.

- **Margin Accretive:** McCafe is margin accretive as coffee business has 500-700bps higher gross margins than the foods business of McDonalds.

McCafe Uniquely placed amongst Café Chains in India

We believe McCafe has a unique scalability proposition among café chains in India. We note that Café industry has been on the cross roads given high capex, low through put during week days and its positioning more as a casual meeting place. The industry has hardly seen players making money. While Café Coffee Day and Barista were the pioneers; Starbucks has shifted goalposts.

Lavazza, exited the Barista coffee chain after their global resolve to move out of café's – to create asset light business model in food services.

Café coffee day – never made serious money in Café despite having scale and visibility given lack of investment in stores, shift of premium consumers towards Starbucks, more focus on vending business and inability to innovate in food business.

Starbucks has a unique positioning and has been carefully choosing its locations with a clear premium positioning in a casual environment. Starbucks has scaled to 209 stores with loss of 1.03bn in FY20. However, we see limited scalability of such a model in India, as it seems really tough to replicate this brand in tier2/3 cities of India.

Exhibit 23: Various product offering by McCafe

Source: Company, PL

Exhibit 24: McCafe offers premium product quality at 15-20% discount than peers

	Cappuccino (Rs)	Espresso (Rs)	Hot Chocolate (Rs)	Café Latte (Rs)	Brownie (Rs)
McCafe	166	-	185	179	119
Café Coffee Day	139	129	179	149	119
Starbucks Coffee	255	295	230	230	295
Barista	195	155	255	205	220

Source: Company, PL

McCafe Sales have increased 8.7x over FY16-20 with AUV expected at Rs 11-14mn/store

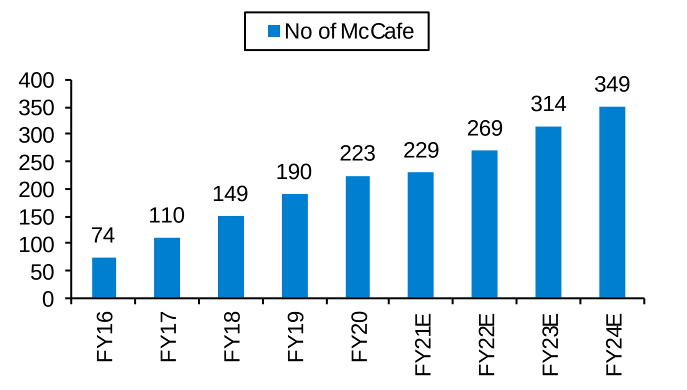
McCafe a key pillar of Vision 2022, bounces back in Covid: McCafe is one of the key pillars of Vision 2022 of WDL given high scalability, fast category growth and high gross margins. The number of McCafe's have increased to 227 and WDL plans to increase the same to 350 by 2022.

- McCafe sales/store increased 2.3x in the past 5 years and total sales have increased 8.7x during the same period.
- McCafe had a revenue of Rs5-8mn/outlet in 2016 which increased to Rs 8-10mn in FY18 and WDL has a target of Rs11-14mn/store by FY22.
- McCafe consumers have increased >4x since 2016, while average unit value has more than doubled in the past 6 years.
- Despite being dine-in centric, McCafe received a good response in convenience channels which augurs well for long term.
- We estimate that McCafe achieved sales of Rs3.2bn in FY20 and this should increase to Rs5.0bn in FY23 and Rs6.4bn in FY24.

Exhibit 25: McCafe has low Capex/outlet than standalone stores

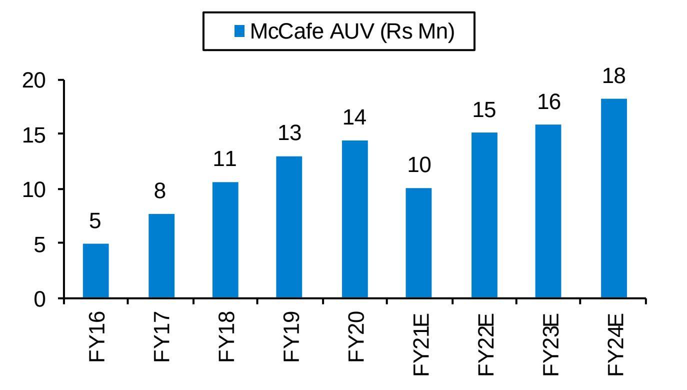
Source: Company, PL

Exhibit 26: No of McCafe's expected to reach 350 by FY24



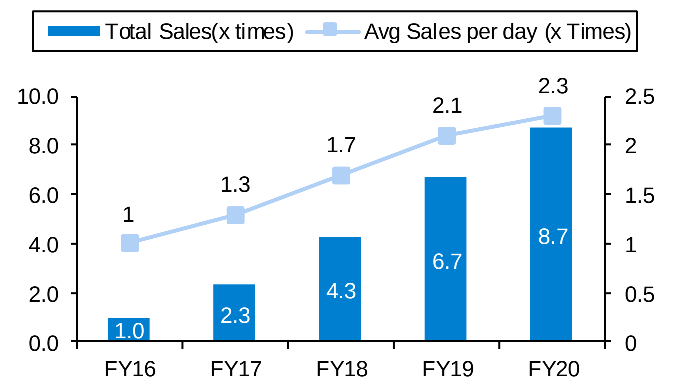
Source: PL, Company

Exhibit 27: Low Dine in impacted AUV in FY21



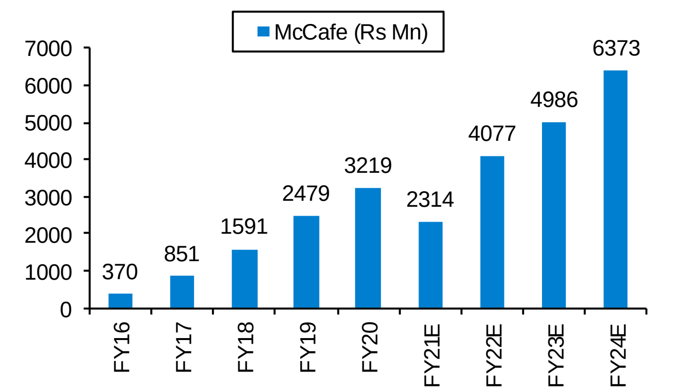
Source: PL, Company

Exhibit 28: McCafe sales have grown 8.7x since FY16



Source: Company, PL

Exhibit 29: McCafe revenue to cross Rs 6bn by FY24



Source: Company, PL

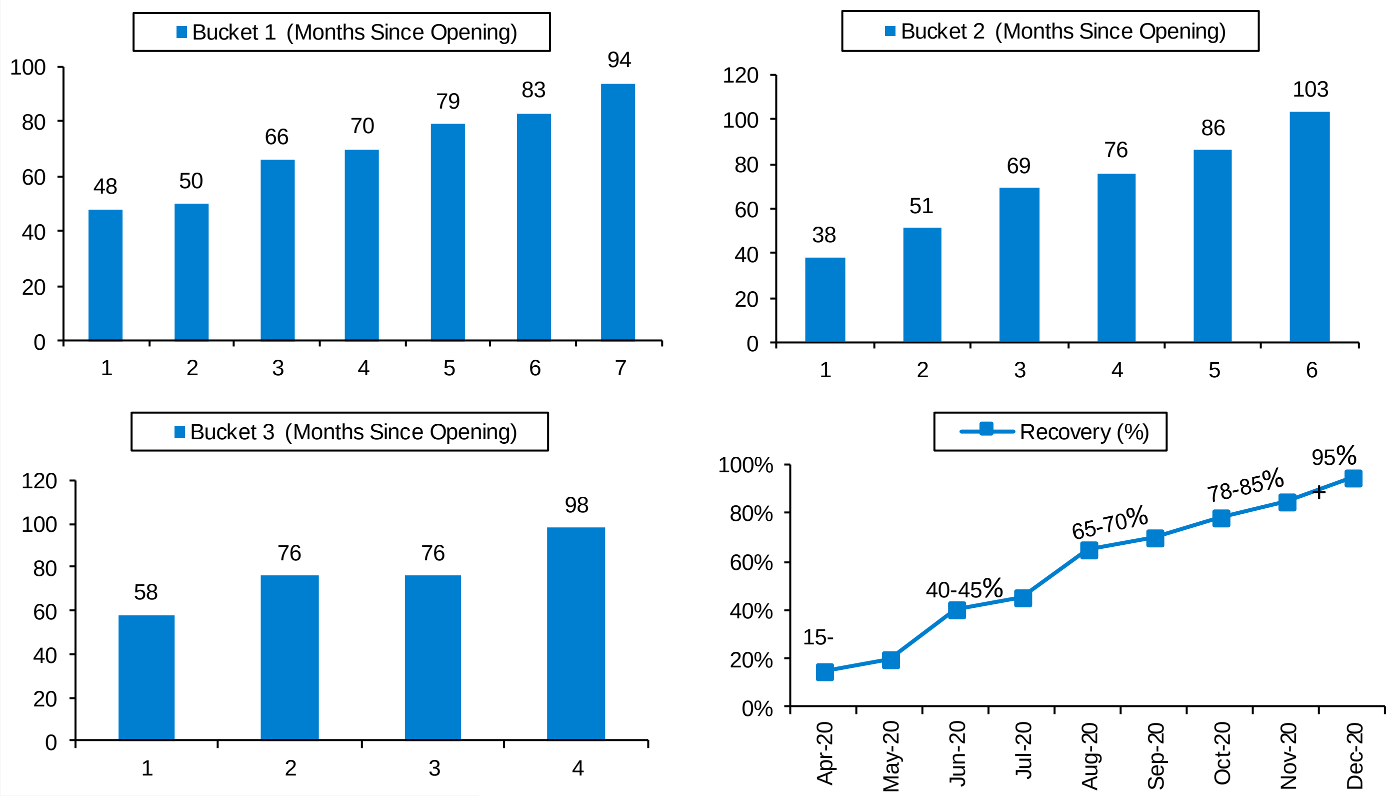
Dine in impacted more than peers as 65% of all covid cases were in West and South India and ~54% (Maharashtra) of stores resumed dine in only in Oct20'.

Dine-in recovery on a fast lane

The impact of COVID-19 on the Food Services Market started in March 20 as people started to refrain from eating out frequently due to the fear of COVID-19. National lockdown announced from 24 March 2020 resulted in complete shutdown of restaurants. The impact was wide spread and lasted much longer and deeper on more dine-in centric food service players.

- WDL was impacted more than peers, as 65% of all Covid cases were in West and South India where the company operates.
- Lockdown was lifted from 8th June 2020 onwards in most states however Maharashtra (57% of operational stores) continued to remain shut for dine-in resulting in slower recovery.
- Dine-in became operational in Maharashtra from Oct20' and WDL witnessed robust recovery when restaurant's overall sales recovered by 10-15% MoM.
- Dine-in restaurants operational for 7+ months have recovered upto 94%. Recovery of stores where dine-in was operational for 6 months has been faster and they are now operating at 103%, while dine-in restaurants operational for 4 months (mainly Maharashtra based stores) have recovered 98%.

Exhibit 30: Accelerated recovery since opening of Dine-in; Boosts 3Q recovery rate to 95%



Source: Company, PL, Bucket 3 - Maharashtra

Average bill value up 30-35% under the Delivery channel.

Post covid dine in contribution expected at 40-45% from initial 50%.

Post Covid- Convenience format catches up; bill value up 30-35%

Covid-19 has resulted in change of consumer behavior, not only for more hygiene and safety but also towards Convenience channels.

- Average bill value has seen an increase of 30-35% under the Delivery channel, although small correction in the same looks likely. This has improved the viability of delivery, although it needs to increase by 20-30% to be margin accretive for WDL.
- Rapid growth in delivery and convenience channel is likely to reduce revenue contribution of dine-in from 50% pre covid to ~40-45%, once the industry stabilizes post Covid.
- Despite lower revenue contribution, dine-in overall will likely increase in long-term as consumer's would prefer QSR chain over unorganized players due to higher safety standards being followed by such restaurants.

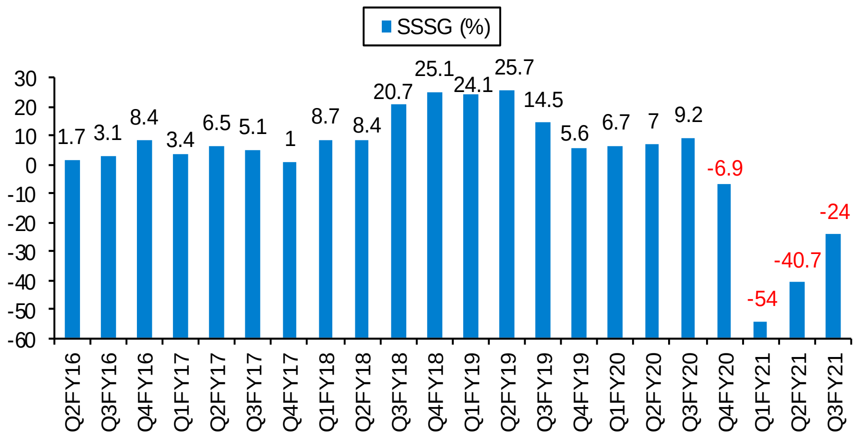
Worst Seems over, steady growth story intact

WDL is bouncing back strongly post Covid-19 as strong brands like McDonalds in particular are gaining due to increase in consumer focus on hygiene and safety. WDL has right attributes like 1) strong track record of SSG 2) robust supply chain 3) steady expansion pipeline 4) brand building and 5) Cost efficiency program like ROP 2.0 which will increase growth and improve profitability.

18 consecutive quarters of SSG growth led by impacted by Covid-19

Strong growth in SSG over the years: WDL recorded 18 quarters of strong SSG pre-covid led by 1) brand extensions such as McCafe & McBreakfast, 2) menu innovations and 3) adoption of EOTF design with improved customer experience. Shift in consumer trend towards restaurants offering high standards of hygiene and increasing contribution from convenience channel is expected to help improve SSG once sales normalize.

Exhibit 31: 18 consecutive quarters of growth impacted due to Covid-19



Source: Company, PL

Expansion plans back on track: WDL is currently present in 43 cities through 304 stores. We believe WDL will miss its Vision 2022 plan of reaching 450-500 restaurants by FY23. We estimate WDL to end FY24 with ~406 stores, given the impact of Covid-19 on expansion plans and store closures in FY21.

Capex/store lower by 30% under ROP 2.0

- **30% lower capex/store under ROP 2.0;** WDL has improved upon their restaurant design and reduced capex/restaurant over the years. ROP 2.0 strategy enabled 30% reduction in capex/restaurant. Earlier during ROP 1.0 WDL cut down on store size, increased local procurement and kitchen capacity to handle expected increase in throughput and reduce costs.

EoTF experience to drive AUV by Rs 4.8-5.3mn/store/annum

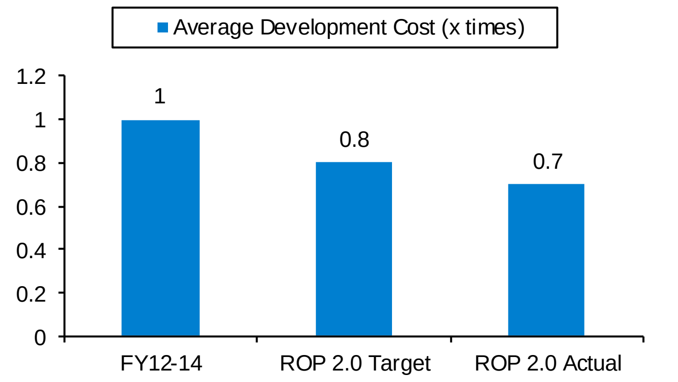
- **Incremental stores under EOTF:** WDL started EOTF (Experience of the Future) format stores from March'17. These stores have much better ambience, ordering kiosks, open kitchen and superior customer experience. WDL achieved 50% reduction in cost versus global EOTF model. All new stores are in EOTF format and old stores are being converted into EOTF stores. EOTF experience can drives AUV by Rs 4.8-5.3mn/store/annum.

- **WDL sees 800-850 store potential:** WDL remains confident about the long term potential of West and South markets with 800-850 restaurants over time. Demographic factors like increasing population and disposable income will result in shift of trends in favor of QSR's, who provide snacking options with high levels of hygiene at affordable prices.

Exhibit 32: EoTF stores provide superior customer experience, helping drive AUV by Rs4.8-5.3mn/store/annum

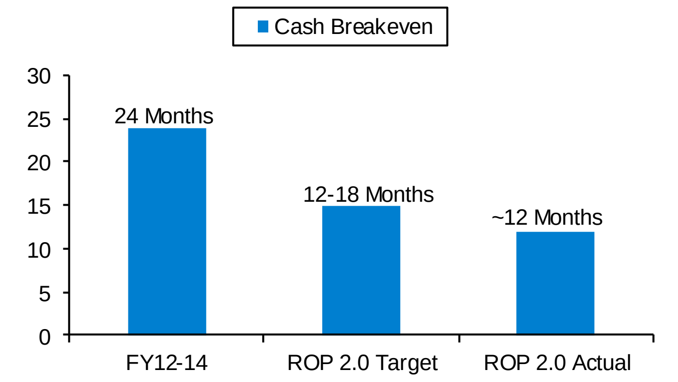
Source: PL, Company

Exhibit 33: ROP 2.0 lowered Avg Development cost by 30%



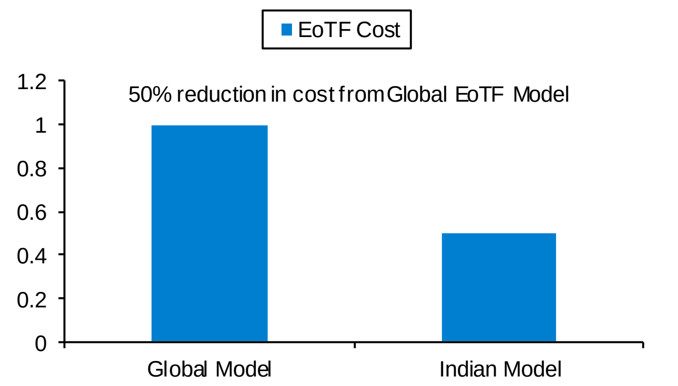
Source: Company, PL

Exhibit 34: Cash breakeven period halved under ROP 2.0



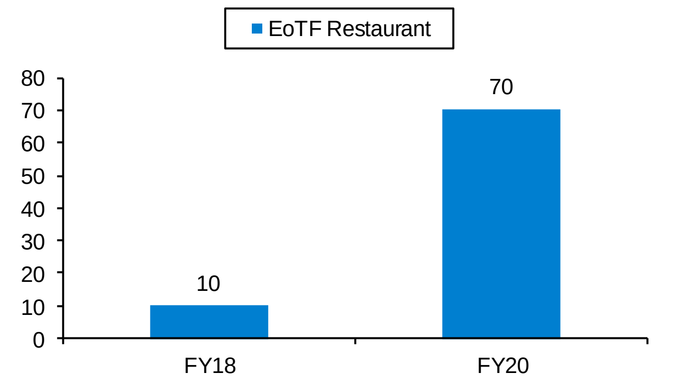
Source: Company, PL

Exhibit 35: Indian EOTF cost is half of global model



Source: Company, PL

Exhibit 36: EOTF stores gaining momentum



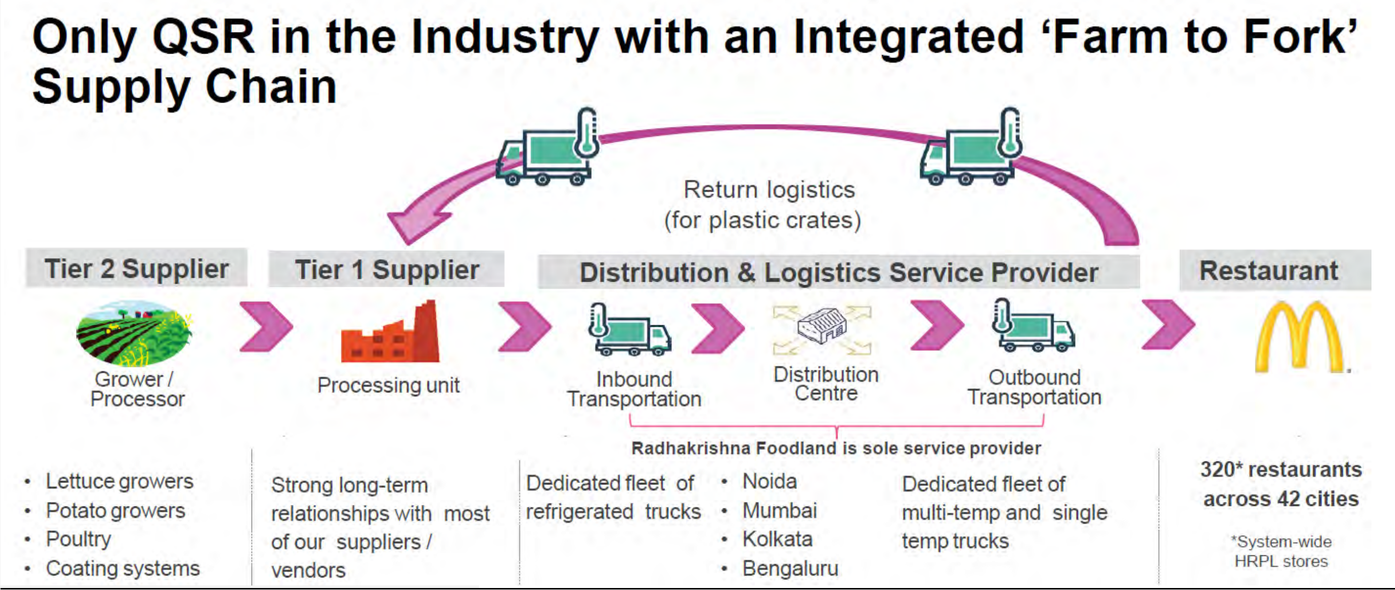
Source: Company, PL

Robust Supply Chain a key differentiator for WDL: WDL has spent ~Rs10 bn and 5 years to establish first of its kind supply chain for QSR's in the country. It has enabled WDL to cater towards evolving consumer preferences, food inflation and climatic vagaries and still provide seamless quality.

- **Domestic sources of Lettuce and Potato:** WDL has undertaken several initiatives during the initial years of business regarding ingredients like lettuce and potato. Lettuce was initially grown only within a small 60-day window in a year which if missed would result in imports at higher cost. WDL worked extensively with aggregators who worked with hundreds of farmers to ensure an entire lettuce growing ecosystem. WDL also faced difficulty in procuring potatoes for its French fries. After several initiatives undertaken by WDL it received its first indigenous potato in 2007 and shifted towards totally domestic sourcing by 2013. Initial hard work by WDL ensured regular supply of high quality ingredients which ensures consistent quality across restaurants.

- **Long term relationship with vendors:** WDL nurtured strong relationship with its vendors over the years. These tie ups have enabled the supply chain to respond to the changing palates of Indian consumers through development of solutions, enabling new and pioneering food products.

Exhibit 37: WDL's robust supply chain offers a key advantage to the company



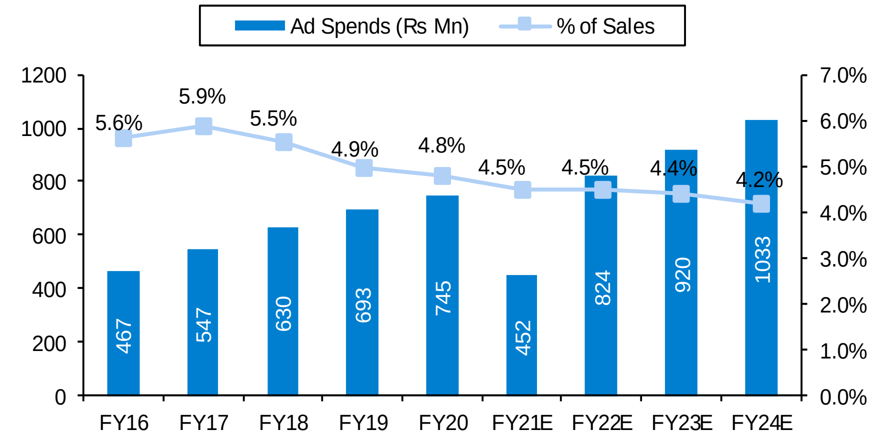
Source: Company, PL

Ad spends rationalized from ~5.7 levels during FY15-18 to 4.9%/4.8% during FY19/20.

Strong Focus on Brand building: WDL has been focusing heavily on brand building by investing ~5.7% of revenues on Ad-spends during FY15-18, to support the brand and back up new launches. Branding initiatives adopted by WDL ensured strong brand position for the McDonalds brands and also improved visibility for several products like McAloo Tikki Burger and McPuff which have become frontrunners in their category due to various marketing campaigns. Ad-spends now seem to be rationalized but stood at 4.9%/4.8% for FY19/FY20. Ad spends have declined by 80bps over past 4 years and we estimate another 60bps decline by FY24 although absolute spends will increase by 38% during the same period from Rs745mn to Rs1033mn.

Vision 2022 on track however total stores target to be delayed by 1-2 yrs.

Exhibit 38: Ad Spends being rationalized after heavy investing in initial years



Source: Company, PL

Strong Execution as Vision 2022 on track: WDL had set itself at an uphill task of achieving Sales growth to Rs 20-25bn and EBITDA margins in low to mid-teens as per its Vision 2022 led by 1) Improving SSSG% to mid-high single digit and 2) increase the number of McCafe/McDelivery from 75/124 to 300-350/300-325. WDL believed leveraging McCafe and McDelivery would help achieve SSSG% and EBITDA margin targets. Penetration was also expected to increase by taking store count to 450-500 with presence in 45+ cities.

WDL continued to increase the number of McCafe and McDelivery stores taking the total to 227 and 269 respectively which enabled SSSG of 15.8% and 17% in FY18 and FY19. SSSG decreased to 4% in FY20 due to demand slowdown and impact of pandemic in Q4FY20.

WDL achieved 13.8% margins during FY20 (post IND AS) and cost rationalization measures undertaken during FY21 will further aid margins from FY22. WDL intends to achieve their targeted margins by FY22 however expect to meet the store count target with a lag of 1 year as capex activities were stalled in FY21 due to severe impact on business.

Exhibit 39: WDL likely to meet its Vison 2022 targets, albeit with 1-2 year delay in some parameters

Metrics	Target	Progress
SSSG	Mid to high single digit	15.8%/17.0% in FY18/19 4% in FY20 (Covid-19 Impact in March'20).
McCafe (SIS)	300-350	227
McDelivery Hubs	300-325	269
EoTF stores	80-100	70 (FY20)
Restaurants	400-500 restaurants in 45+ cities*	304 restaurants across 43 cities.
Sales (Rs bn)	20-25bn by FY22	Rs 15.4bn in FY20, impacted by Covid-19
EBITDA Margin	Low to mid- teens	13.8% in FY20 (post IND AS 116)

*Source: Company, PL * Changed from 450-500 stores in 40+cities*

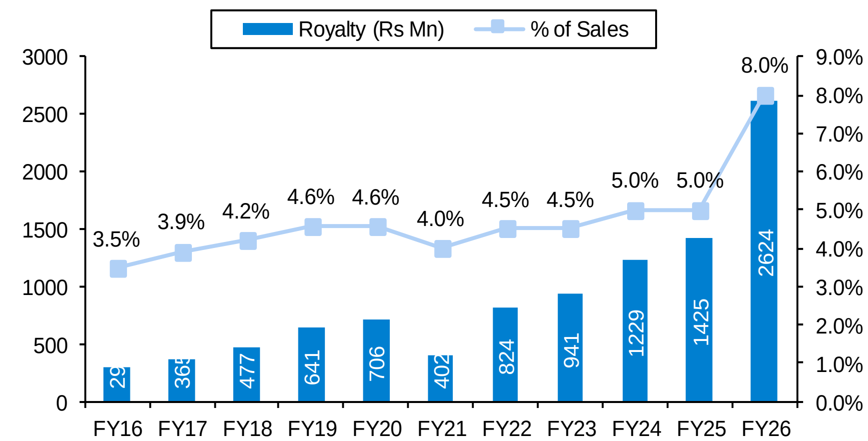
Cost rationalization to expand margins from FY22

Covid-19 has required WDL to undertake several measures to 1) Improve hygiene standards of products and restaurants and 2) Ensure financial stability in a stressed business environment. WDL undertook a slew of measure to rationalize cost during COVID-19 and emerged stronger from the pandemic by reducing its fixed overheads such that WDL is now able to achieve pre-covid restaurant operating margins at 10% lower sales. We believe steady SSG growth, cost rationalization and economies of scale will enable an increase in margins (Post IND AS) from 13.8% in FY20 to 20.7% in FY24.

Estimate sales of Rs20.9bn/Rs24.6bn by FY23/FY24 and expect sales/stores to reach Rs62.8mn by FY24 from Rs 50mn in FY20.

- FY21 has been severely impacted by the pandemic and the impact on WDL was further heightened due to the fact that it operates in South and West India which were more impacted than Northern and Eastern India. We expect FY21 revenues to decline by 35% as ~36% of total stores remained shut during 1Q21 due to Covid 19 and dine-in (~54%) also resumed only in Oct'20.
- During 9M21 WDL added 4 stores and closed 19 stores taking down the store number to 304 and we expect the company to end the current year with 306 stores as against 319 stores in FY20.
- We factor in 30, 35 and 35 store addition in FY22, 23 and 24 taking total store count above 400 stores in FY24, a 1-year delay from its Vision 2022 targets. We estimate system average sales/stores to increase from Rs32mn in FY21 (Rs50mn in FY20) to Rs62.8mn by FY24 on the back of market share gains, menu innovations and increased contribution from convenience channel (10%) with higher ticket size.
- We estimate sales of Rs18.3bn in FY22 and Rs20.9bn/Rs24.6bn by FY23/FY24. Rising economies of scale will enable expansion of gross margins from 65.2% in FY20 to 66% in FY23 and 66.7% by FY24.
- Operating costs are expected to fall by 540 bps by FY24 as against FY20 levels. EBIDTA margins are expected to increase to 19.9% and 20.7% by FY24.

Exhibit 40: Royalty to increase to 8% from FY26



Source: PL, Company

- FY21 other income includes gain from rent concessions amounting to Rs350mn which is not likely to repeat in coming years.
- Capex expected to increase from Rs 1.1bn in FY20 to Rs 1.7bn in FY24.
- WDL had a net debt of Rs236mn in FY20. We expect it to turn net cash positive from FY22 and expect net cash to increase to Rs2176mn in FY23 and Rs4416mn in FY24 on account of increased cash generated from operations.

Exhibit 41: Sales to grow at CAGR 38.1% over FY21-24

	FY19	FY20E	FY21E	FY22E	FY23E	FY24E
Opening Stores	277	296	319	306	336	371
Net Addition	19	23	-13	30	35	35
Number of Stores	296	319	306	336	371	406
System Avg Sales/ Store	48.5	50.0	31.9	56.7	58.7	62.8
Growth	*15%*	*3%*	*-36%*	*77%*	*4%*	*7%*
Revenue	14,016	15,473	10,038	18,318	20,901	24,585
YoY Growth	*23.5%*	*10.4%*	*-35.1%*	*82.5%*	*14.1%*	*17.6%*
Gross Profit	8,900	10,091	6,444	11,998	13,795	16,398
Gross Margins	*63.5%*	*65.2%*	*64.2%*	*65.5%*	*66.0%*	*66.7%*
Operational Cost	7,715	7,955	5,633	8,524	9,643	11,310
% of Sales	*55.0%*	*51.4%*	*56.1%*	*46.5%*	*46.1%*	*46.0%*
EBITDA	1,186	2,135	811	3,474	4,152	5,089
Margins	*8.5%*	*13.8%*	*8.1%*	*19.0%*	*19.9%*	*20.7%*
Other Income	141	135	489	167	254	390
Depreciation	797	1,384	1,408	1,650	1,931	2,143
Interest	177	808	816	893	979	1,069
PBT	352	78	(924)	1,099	1,496	2,267
Tax	139	(14)	(233)	332	452	685
PAT	213	93	(691)	767	1,045	1,582
EPS	1.4	0.6	-4.4	4.9	6.7	10.2

Source: Company

Exhibit 42: Debt to reduce to Rs 1.2bn in FY24 from Rs 1.84bn in FY20

Particulars (Rs Mn)	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Capex	1,139	1,139	297	1,470	1,698	1,680
Debt	2,339	1,837	2,300	1,900	1,500	1,200
Cash & Cash Equivalents	2,132	1,601	2,061	2,772	3,676	5,616
WCAP	(830)	(916)	(1,027)	(1,247)	(1,367)	(1,634)
ROE (%)	3.7	1.6	-12.9	14.3	16.7	20.9
ROCE (%)	6.8	11.2	-1.4	26.7	31.1	37.4

Source: PL, Company

Initiate with Buy rating and DCF based March22' target price of Rs618

- Strong post covid-19 rebound and benefit of cost cutting will enable the company to achieve EPS of Rs4.9 in FY22 which will increase to Rs6.7 by FY22 and Rs10.2 by FY24.
- WDL was FCF positive in FY20 and will again turn FCF positive by FY22 with FCF of Rs678mn which will increase to Rs1.45bn by FY24. In addition to improved operations, higher FCF will be aided by higher negative working capital by Rs717mn over FY20-24.
- We assume WACC of 11.5% and terminal growth rate of 7%.
- WDL's ability to leverage McCafe and McDelivery over the coming years will result in expansion of margins and scope for expanding footprint to 800-850 stores, offers long term growth potential.
- We believe that the brand has a long road to scalability given huge scope to expand operations in India. We initiate coverage with DCF based March22' target price of Rs618.

Exhibit 43: WDL to turn FCF positive from FY22

	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
NOPLAT	239	108	(917)	757	947	1,366	1,807	1,778
Growth		-54.9%	-951.0%	-182.6%	25.0%	44.3%	32.2%	-1.6%
Change in net other assets	36	194	(278)	97	81	128	176	192
Change in WCAP	(128)	87	111	220	120	267	310	305
Change in Capex	(1,139)	(1,139)	(297)	(1,470)	(1,698)	(1,680)	(1,680)	(1,680)
Less Depreciation	797	866	917	1,074	1,257	1,370	1,542	1,714
Net Investment	(434)	7	453	(79)	(240)	86	348	532
FCF	(195)	115	(464)	678	707	1,452	2,155	2,310

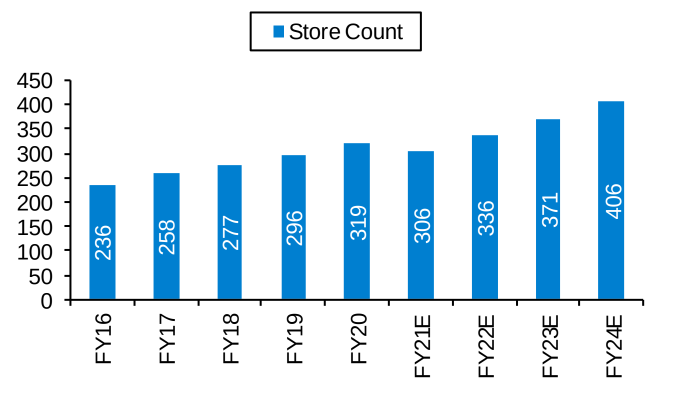
Source: PL, Company

Exhibit 44: DCF based Target price.

Assumptions	
Total Terminal Value	1,36,408
Discounted terminal value	88,337
Discounted Free Cash Flow	6,961
Equity Value	96,171
Equity Value as on date	96,171
No of shares	156
Fair value (Rs) (per share)	**618**
Market Price	**496**

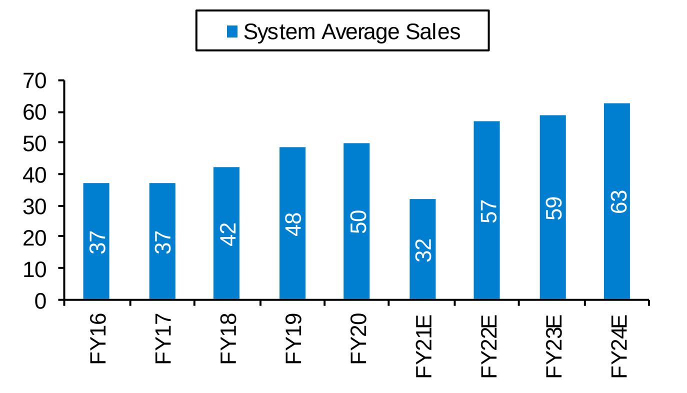
Source: PL, Company

Exhibit 45: Store count to reach 400 by FY24



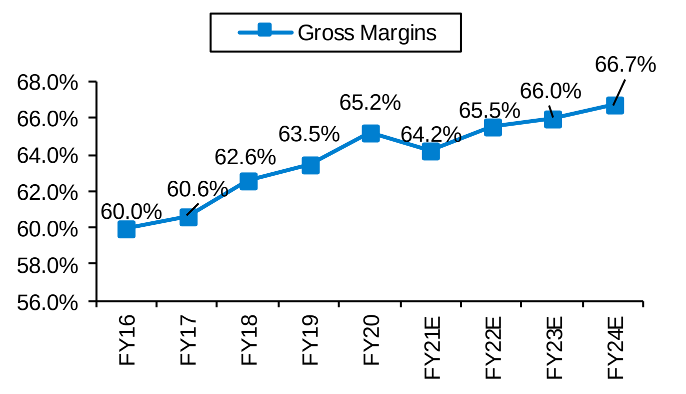
Source: Company, PL

Exhibit 46: System Avg sales to grow at 13% over FY20-24



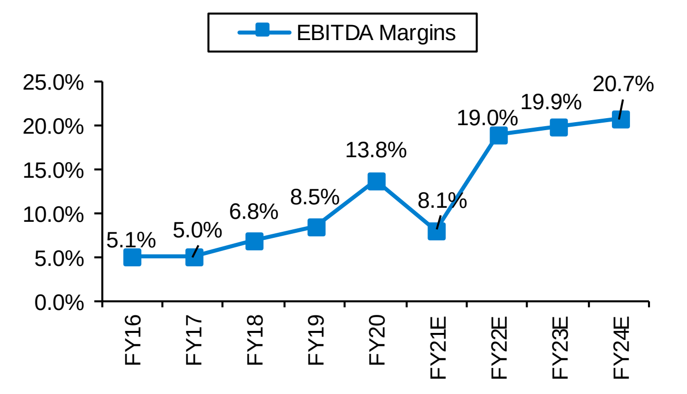
Source: Company, PL

Exhibit 47: Gross Margins to reach 66.7% in FY24



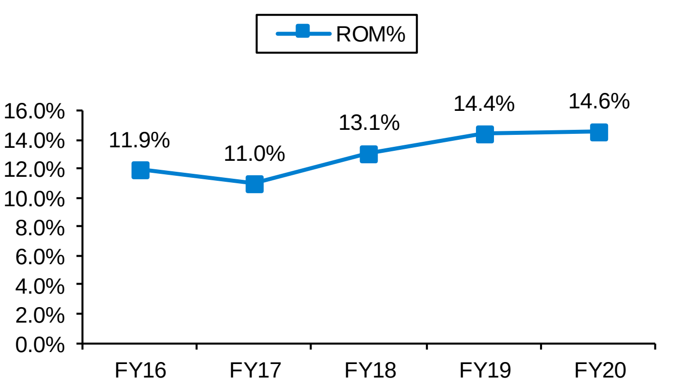
Source: PL, Company

Exhibit 48: EBITDA margins expand to high teens from FY22



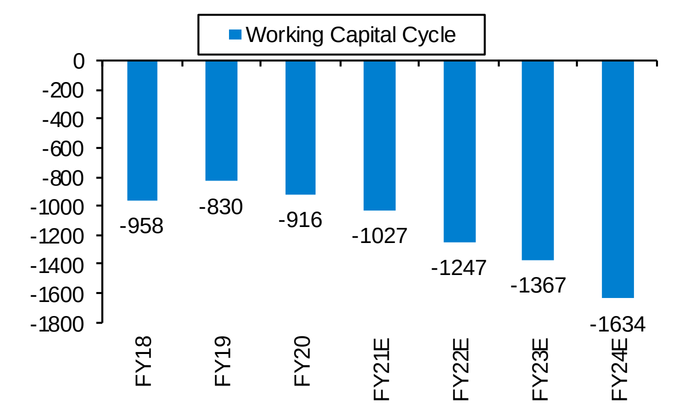
Source: PL, Company

Exhibit 49: ROM steadily improving over years



Source: Company, PL

Exhibit 50: Negative Working Cycle to release free cash



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	**15,473**	**10,038**	**18,318**	**20,901**
YoY gr. (%)	*10.4*	*(35.1)*	*82.5*	*14.1*
Cost of Goods Sold	5,382	3,594	6,320	7,106
Gross Profit	10,091	6,444	11,998	13,795
Margin (%)	*65.2*	*64.2*	*65.5*	*66.0*
Employee Cost	2,192	1,593	1,994	2,264
Other Expenses	2,582	1,927	2,894	3,261
EBITDA	**2,135**	**811**	**3,474**	**4,152**
YoY gr. (%)	*80.1*	*(62.0)*	*328.2*	*19.5*
Margin (%)	*13.8*	*8.1*	*19.0*	*19.9*
Depreciation and Amortization	1,384	1,408	1,650	1,931
EBIT	**752**	**(597)**	**1,824**	**2,221**
Margin (%)	*4.9*	*(5.9)*	*10.0*	*10.6*
Net Interest	808	816	893	979
Other Income	135	489	167	254
Profit Before Tax	**78**	**(924)**	**1,099**	**1,496**
Margin (%)	*0.5*	*(9.2)*	*6.0*	*7.2*
Total Tax	(14)	(233)	332	452
Effective tax rate (%)	*(18.2)*	*25.2*	*30.2*	*30.2*
Profit after tax	**93**	**(691)**	**767**	**1,045**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**93**	**(691)**	**767**	**1,045**
YoY gr. (%)	*(56.5)*	*(845.2)*	*(211.0)*	*36.2*
Margin (%)	*0.6*	*(6.9)*	*4.2*	*5.0*
Extra Ord. Income / (Exp)	(166)	(115)	-	-
Reported PAT	**(74)**	**(806)**	**767**	**1,045**
YoY gr. (%)	*(134.5)*	*996.3*	*(195.1)*	*36.2*
Margin (%)	*(0.5)*	*(8.0)*	*4.2*	*5.0*
Other Comprehensive Income	(10)	-	-	-
Total Comprehensive Income	(84)	(806)	767	1,045
Equity Shares O/s (m)	**156**	**156**	**156**	**156**
EPS (Rs)	**0.6**	**(4.4)**	**4.9**	**6.7**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	**17,145**	**16,958**	**19,823**	**23,135**
Tangibles	15,990	15,728	18,518	21,755
Intangibles	1,155	1,230	1,305	1,380
Acc: Dep / Amortization	**3,059**	**4,467**	**6,117**	**8,048**
Tangibles	2,839	4,176	5,751	7,603
Intangibles	220	291	366	444
Net fixed assets	**14,086**	**12,491**	**13,706**	**15,087**
Tangibles	13,151	11,552	12,767	14,152
Intangibles	935	938	939	935
Capital Work In Progress	226	226	226	226
Goodwill	-	-	-	-
Non-Current Investments	465	447	487	533
Net Deferred tax assets	214	446	391	317
Other Non-Current Assets	364	376	398	421
Current Assets				
Investments	1,571	1,915	2,498	3,321
Inventories	411	492	519	584
Trade receivables	47	83	125	143
Cash & Bank Balance	30	146	274	355
Other Current Assets	112	110	110	110
Total Assets	**17,630**	**16,843**	**18,851**	**21,220**
Equity				
Equity Share Capital	311	311	311	311
Other Equity	5,459	4,653	5,419	6,464
Total Networth	**5,770**	**4,964**	**5,731**	**6,775**
Non-Current Liabilities				
Long Term borrowings	1,837	2,300	1,900	1,500
Provisions	100	72	90	102
Other non current liabilities	7,972	7,347	8,642	10,106
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	-	-	-	-
Other current liabilities	1,951	2,159	2,489	2,737
Total Equity & Liabilities	**17,630**	**16,842**	**18,851**	**21,220**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	78	(924)	1,099	1,496
Add. Depreciation	1,384	1,408	1,650	1,931
Add. Interest	808	816	893	979
Less Financial Other Income	135	489	167	254
Add. Other	194	(278)	97	81
Op. profit before WC changes	2,464	1,022	3,738	4,488
Net Changes-WC	87	111	220	120
Direct tax	14	233	(332)	(452)
Net cash from Op. activities	**2,565**	**1,366**	**3,626**	**4,156**
Capital expenditures	(9,459)	187	(2,865)	(3,313)
Interest / Dividend Income	-	-	-	-
Others	469	(344)	(583)	(823)
Net Cash from Invt. activities	**(8,990)**	**(157)**	**(3,448)**	**(4,136)**
Issue of share cap. / premium	17	-	-	-
Debt changes	(502)	463	(400)	(400)
Dividend paid	-	-	-	-
Interest paid	(808)	(816)	(893)	(979)
Others	7,655	(740)	1,243	1,440
Net cash from Fin. activities	**6,362**	**(1,093)**	**(50)**	**61**
Net change in cash	**(63)**	**116**	**129**	**81**
Free Cash Flow	(6,894)	1,553	761	843

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	0.6	(4.4)	4.9	6.7
CEPS	9.5	4.6	15.5	19.1
BVPS	37.1	31.9	36.8	43.5
FCF	(44.3)	10.0	4.9	5.4
DPS	-	-	-	-
Return Ratio(%)				
RoCE	9.5	(8.0)	24.5	27.9
ROIC	4.7	(4.0)	11.3	12.7
RoE	1.6	(12.9)	14.3	16.7
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	(0.2)	(0.3)
Net Working Capital (Days)	-	-	-	-
Valuation(x)				
PER	831.3	(111.6)	100.5	73.8
P/B	13.4	15.5	13.5	11.4
P/CEPS	52.2	107.6	31.9	25.9
EV/EBITDA	36.2	95.3	21.9	18.0
EV/Sales	5.0	7.7	4.2	3.6
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q2FY21	Q3FY21
Net Revenue	**4,329**	**3,364**	**2,095**	**3,251**
YoY gr. (%)	*16.8*	*(0.8)*	*(47.2)*	*(24.9)*
Raw Material Expenses	1,472	1,158	764	1,115
Gross Profit	2,857	2,206	1,331	2,136
Margin (%)	*66.0*	*65.6*	*63.5*	*65.7*
EBITDA	**709**	**363**	**40**	**500**
YoY gr. (%)	*107.8*	*46.5*	*(93.2)*	*(29.4)*
Margin (%)	*16.4*	*10.8*	*1.9*	*15.4*
Depreciation / Depletion	355	354	351	350
EBIT	**354**	**9**	**(312)**	**150**
Margin (%)	*8.2*	*0.3*	*(14.9)*	*4.6*
Net Interest	202	203	217	210
Other Income	46	17	146	82
Profit before Tax	**198**	**(177)**	**(382)**	**22**
Margin (%)	*4.6*	*(5.3)*	*(18.2)*	*0.7*
Total Tax	54	(91)	(109)	-
Effective tax rate (%)	*27.4*	*51.2*	*28.6*	*1.7*
Profit after Tax	**144**	**(86)**	**(273)**	**22**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**144**	**(86)**	**(273)**	**22**
YoY gr. (%)	*5.2*	*(221.0)*	*(683.7)*	*(84.7)*
Margin (%)	*3.3*	*(2.6)*	*(13.0)*	*0.7*
Extra Ord. Income / (Exp)	-	(166)	(53)	(21)
Reported PAT	**144**	**(253)**	**(325)**	**1**
YoY gr. (%)	*5.2*	*(454.0)*	*(796.1)*	*(99.2)*
Margin (%)	*3.3*	*(7.5)*	*(15.5)*	-
Other Comprehensive Income	(1)	(8)	(1)	(1)
Total Comprehensive Income	**143**	**(261)**	**(326)**	**-**
Avg. Shares O/s (m)	15	15	15	15
EPS (Rs)	**9.6**	**(5.8)**	**(18.2)**	**1.5**

Source: Company Data, PL Research

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,829	2,740
2	Avenue Supermarts	BUY	3,296	2,968
3	Bajaj Electricals	BUY	884	768
4	Britannia Industries	BUY	4,280	3,474
5	Colgate Palmolive	Hold	1,651	1,564
6	Crompton Greaves Consumer Electricals	BUY	447	412
7	Dabur India	Accumulate	550	515
8	Emami	BUY	568	483
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Hold	1,126	1,131
11	Hindustan Unilever	BUY	2,502	2,391
12	ITC	BUY	254	226
13	Jubilant FoodWorks	Accumulate	3,261	3,114
14	Kansai Nerolac Paints	BUY	653	579
15	Marico	Accumulate	440	411
16	Nestle India	Hold	17,364	17,217
17	Pidilite Industries	Hold	1,739	1,670
18	Polycab India	BUY	1,247	1,278
19	Titan Company	Hold	1,601	1,563
20	Voltas	Hold	1,000	1,058

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Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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