

Westlife Foodworld

Prolonged road to recovery

We downgrade Westlife Foodworld to Reduce from ADD with a TP of Rs 800 (30x FY26 Pre IND-AS EV/EBITDA) as we expect it to deliver Revenue, EBITDA and PAT CAGRs of 15/18/24% over FY23-26 on the back of (a) weak macros, (b) increased competitive intensity, as more nimble and new age brands get access to capital along with Burger King taking route of aggressive pricing to grab market share, (c) external headwinds such as geopolitical turmoil leading to boycott of certain American brands along with recent controversy relating to quality of cheese, (d) increase in royalty rate from 4.5% in FY24 to 5% in FY25.

We will turn buyers on the stock once we see above highlighted transient headwinds receding.

However, structural levers remain intact given a) its ability to drive high single SSSg on a sustainable basis owing to NPD and product customization; b) exponential growth is yet to be fully leveraged in platforms (McDelivery, McCafé and Breakfast) as heavily capitalized online food aggregators show extreme hunger for expansion and gradual building up of Café culture in India; c) massive store opening opportunity (3x potential of current stores).

■ **4Q results—disappointing show:** 4QFY24 results were much below consensus estimates owing to accelerated store expansion (added 17 stores during 4QFY24) and weak SSSg. SSS declined 5% YoY courtesy weak macros, intense competition, recent controversy related to the quality of cheese, and boycott of McDonald's brand by certain communities on account of ongoing geopolitical issues. Off-premises channel (43% of sales) grew 8% YoY owing to an intense focus on driving digital initiatives clubbed with a focus on loyalty programme. Dine-in sales (57% of sales) declined 2% YoY during 4QFY24 on account of customers downgrading to value meals/certain offers, which are available for walk-in customers.

■ **Concall takeaways:** 1) **Store opening guidance**—intends to open 45-50 stores during FY25 and majority of the store addition will be in South India and smaller cities, given they are under-penetrated; 2) **Drive-through stores** (20% of current store count) – management highlighted that it gives a lot of value once its store crosses ageing of 4-5 years; 3) **Innovations/NPD** – a) augmenting the McSpicy platform through McSpicy Deluxe burgers and new variants of Fried Chicken in South; b) Collaborated with Lotus Biscoff for new deserts and frappe; and c) focused a lot on Mcsaver meals platform; 4) achieved **cost savings** of Rs 0.4 bn in FY24; 5) intends to take **annual weighted average customary price hike of 3-5% in FY25**; 6) **Loyalty program** – for 1st year, management is trying to make repository of customer data and will try to leverage it once decent database is ready.

Quarterly/annual financial summary

(INR mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	5,527	5,438	1.6	5,925	(6.7)	15,561	22,594	23,682	27,647	32,652
EBITDA	487	669	(27.2)	685	(28.9)	1,304	3,009	2,698	3,254	4,376
APAT	99	251	(60.6)	259	(61.8)	347	1,511	1,102	1,612	2,467
EPS (INR)	0.6	2	(60.6)	2	(61.8)	1.8	8.9	6.7	10.4	15.9
P/E (x)						471.9	97.5	129.9	83.7	54.7
EV / EBITDA (x)						103.6	45.0	50.2	41.4	30.5
RoCE (%)						6.6	22.2	16.1	20.9	28.9

Source: Company, HSIE Research

REDUCE

CMP (as on 8 May 2024) INR 867

Target Price INR 800

NIFTY 22,303

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	INR 800	INR 800
EPS %	FY25E	FY26E
	n.a	n.a

KEY STOCK DATA

Bloomberg code	WESTLIFE IN
No. of Shares (mn)	156
MCap (INR bn) / (\$ mn)	135/1,618
6m avg traded value (INR mn)	150
52 Week high / low	INR 1,025/701

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.9	6.4	8.8
Relative (%)	6.0	(6.7)	(10.1)

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	56.23	56.28
FIs & Local MFs	23.99	23.01
FPIs	10.48	11.60
Public & Others	9.32	9.13
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

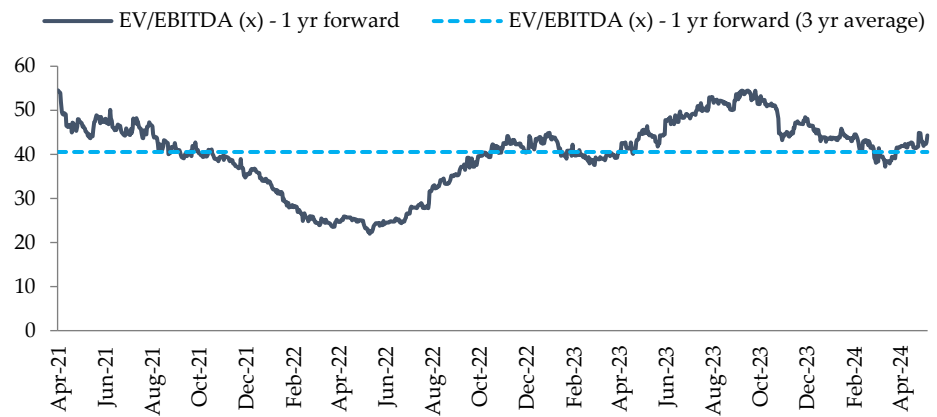
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EV/EBITDA trading at 44x on 1 year forward



SSSG (%)

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
SSSG (%)	15.8%	17.0%	4.0%	-24.4%	58.0%	36.0%	-2.0%	6.0%	6.0%

Total store count and net store addition

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Store count	277	296	319	305	326	357	397	442	487
Store addition	19	19	23	-14	21	31	40	45	45

Consolidated Pre IND-AS P&L (INR mn)

Year End	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	22,594	23,682	27,647	32,652	38,629
Growth (%)	44.5	5.0	16.6	18.0	18.2
Material Expenses	7,071	7,107	8,146	9,523	11,150
Employee Expense	2,034	2,323	2,671	3,072	3,533
Royalty Expense	1,039	1,164	1,631	1,926	2,507
Occupancy & other operating Expense	8,275	9,191	10,615	12,261	14,100
Other expenses	1,354	1,435	1,579	1,768	1,981
EBITDA (Pre IND AS)	3,009	2,698	3,254	4,376	5,661
EBITDA Growth (%)	130.7	(10.3)	20.6	34.5	29.4
EBITDA Margin (%)	13.2	11.3	11.7	13.3	14.5
Depreciation	942	1,164	1,241	1,328	1,492
EBIT	2,067	1,534	2,012	3,048	4,169
Other Income	81	136	204	306	458
Interest	144	198	61	55	49
PBT	2,004	1,472	2,155	3,299	4,578
Tax	493	370	543	831	1,154
RPAT	1,384	1,039	1,612	2,467	3,424
Adjustment	128	64	-	-	-
Adjusted PAT	1,511	1,102	1,612	2,467	3,424
APAT Growth (%)	201.0	(30.5)	25.4	29.7	17.4
Adjusted EPS (Rs)	8.9	6.7	10.4	15.9	22.0

Source: Company, HSIE Research

Consolidated Balance Sheet (INR mn)

Year End	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS					
Share Capital – Equity	312	312	312	312	312
Reserves	5,347	5,131	5,678	6,629	8,083
Total Shareholders' Funds	5,659	5,442	5,990	6,941	8,395
Minority Interest	-	-	-	-	-
Long Term Debt	-	-	-	-	-
Short Term Debt	2,070	2,070	2,070	2,070	2,070
Total Debt	2,070	2,070	2,070	2,070	2,070
Net Deferred Taxes	(604)	(604)	(604)	(604)	(604)
Long Term Provisions & Others	130	130	130	130	130
TOTAL SOURCES OF FUNDS	7,256	7,039	7,586	8,537	9,992
APPLICATION OF FUNDS					
Net Block	16,230	16,914	18,151	19,229	20,072
CWIP	567	567	567	567	567
Other Non-current Assets	453	453	453	453	453
Total Non-current Assets	17,250	17,934	19,170	20,249	21,092
Inventories	714	749	874	1,031	1,219
Debtors	107	112	131	155	183
Other Current Assets	733	733	733	733	733
Cash & Equivalents	1,583	1,640	2,155	3,281	5,190
Total Current Assets	3,136	3,234	3,893	5,199	7,324
Creditors	1,877	1,970	2,298	2,712	3,207
Other Current Liabilities & Provisions	11,253	12,159	13,178	14,198	15,217
Total Current Liabilities	13,130	14,129	15,477	16,910	18,424
Net Current Assets	(9,994)	(10,895)	(11,584)	(11,711)	(11,100)
TOTAL APPLICATION OF FUNDS	7,256	7,039	7,586	8,537	9,992

Source: Company, HSIE Research

Consolidated Cash Flow (INR mn)

Year End	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	1,495	426	1,042	1,812	2,771
Non-operating & EO Items	(20)	-	-	-	-
Interest Expenses	858	-	-	-	-
Depreciation	1,522	1,822	1,970	2,128	2,364
Working Capital Change	70	52	185	233	278
Tax Paid	(439)	(107)	(261)	(453)	(693)
OPERATING CASH FLOW (a)	3,485	2,194	2,937	3,720	4,720
Capex	(2,696)	(1,600)	(2,188)	(2,188)	(2,188)
Free Cash Flow (FCF)	789	594	750	1,533	2,533
Investments & Acquisition	234	-	-	-	-
Non-operating Income	(191)	-	-	-	-
INVESTING CASH FLOW (b)	(2,653)	(1,600)	(2,188)	(2,188)	(2,188)
Debt Issuance/(Repaid)	60	-	-	-	-
Interest Expenses	(143)	-	-	-	-
FCFE	706	594	750	1,533	2,533
Share Capital Issuance	(21)	-	-	-	-
Dividend	-	(537)	(235)	(408)	(623)
Others	(877)	-	-	-	-
FINANCING CASH FLOW (c)	(981)	(537)	(235)	(408)	(623)
NET CASH FLOW (a+b+c)	(149)	58	515	1,125	1,909
EO Items, Others	231	82	140	655	1,780
Closing Cash & Equivalents	82	140	655	1,780	3,689

Ratios

Year End	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)					
GPM	69.0	70.3	70.8	71.1	71.4
EBITDA Margin	13.2	11.3	11.7	13.3	14.5
EBIT Margin	9.1	6.4	7.2	9.3	10.7
APAT Margin	6.6	4.6	5.8	7.5	8.8
RoE	29.4	19.9	28.2	38.2	44.7
RoIC (or Core RoCE)	28.2	19.1	25.6	39.2	56.7
RoCE	22.2	16.1	20.9	28.9	35.1
EFFICIENCY					
Tax Rate (%)	24.6	25.1	25.2	25.2	25.2
Fixed Asset Turnover (x)	1.2	1.0	1.1	1.1	1.2
Inventory (days)	11.5	11.5	11.5	11.5	11.5
Debtors (days)	1.7	1.7	1.7	1.7	1.7
Other Current Assets (days)	11.8	11.3	9.7	8.2	6.9
Payables (days)	30.3	30.4	30.3	30.3	30.3
Other Current Liab & Provsns (days)	20.9	19.9	17.1	14.5	12.2
Cash Conversion Cycle (days)	(26.1)	(25.7)	(24.5)	(23.3)	(22.3)
Net D/E (x)	0.1	0.1	(0.0)	(0.2)	(0.4)
PER SHARE DATA (Rs)					
EPS	8.9	6.7	10.4	15.9	22.0
CEPS	15.0	14.2	18.3	24.4	31.6
Dividend	-	3.5	1.5	2.6	4.0
Book Value	36.4	35.0	38.5	44.6	54.0
VALUATION					
P/E (x)	97.5	129.9	83.7	54.7	39.4
P/BV (x)	23.8	24.8	22.5	19.4	16.1
EV/EBITDA (x)	45.0	50.2	41.4	30.5	23.3
EV/Revenues (x)	6.0	5.7	4.9	4.1	3.4
OCF/EV (%)	2.6	1.62	2.18	2.78	3.58
FCF/EV (%)	0.6	0.44	0.56	1.15	1.92
FCFE/Mkt Cap (%)	0.5	0.4	0.6	1.1	1.9
Dividend Yield (%)	-	0.4	0.2	0.3	0.5

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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