

Westlife Foodworld

Estimate change

TP change

Rating change



CMP: INR838

TP: INR775 (-8%)

Neutral

Weak delivery; demand challenges persist

- Westlife Foodworld (WLDL) reported a weak performance in 3QFY24 as growth metrics (SSSG, ADS) were under pressure owing to subdued demand. SSS declined 9% YoY as both dine-in and delivery businesses were hit. The floods in South India also added to the woes. Of the 9% SSS decline, 6% was due to external factors. Net revenue was down 2% YoY despite 11% YoY store growth.
- Led by subdued growth, restaurant operating margins (ROM; post-IND AS) contracted 130bp YoY and 40bp QoQ to 22.5%. PBT margin was at 4%, down 400bp YoY and 100bp QoQ. PBT saw a sharp 52% YoY decline during the quarter.
- The QSR industry has been witnessing weakness in growth metrics, leading to a sharp deceleration in the margin profile (typical trend in QSR during the downcycle). We do not foresee any near-term respite in demand. We model a 6% PBT margin in FY25E vs. 6.6% in FY23 and 4.3% in FY24E. We reiterate our **Neutral** rating on the stock.

Weak SSSG hits operating performance

- WLDL reported a 1.8% YoY decline in sales to INR6.0b, due to a 9% decline in SSS and 11% YoY store additions.
- WLDL opened 10 net stores, taking the count to 380 in 62 cities (added three cities).
- On-premise business declined 5% YoY, while off-premise grew 3% YoY.
- Average sales per store stood broadly stable YoY to INR64m (ann.) in 3QFY24.
- GM was flat YoY and QoQ at 70.3%
- EBITDA declined 13% YoY to INR960m due to operating deleverage.
- EBITDA margin contracted 200bp YoY/20bp QoQ to 16%
- Similarly, ROM was down 130bp/40bp YoY/QoQ to 22.5%.
- PAT declined 53% YoY to INR172m.
- During 9MFY24, net sales increased 6%, EBITDA remained stable, while Adj. PAT declined 25%.

Key takeaways from the management commentary

- Demand was hit during the quarter due to subdued consumer sentiments and the floods in Chennai.
- Reported SSS dropped 9% due to continuing weakness in dine-in trends, external challenges, and a high base. Adjusted for the external issues, SSS declined 3%. The company aims for a high-single-digit SSSG by FY27.
- On the normalization of inflation, management does not expect any further adverse impact on the gross margin.
- Dine-in as well as Delivery saw a dip in orders sequentially.
- In 3QFY24, 11 stores were opened and one store was closed. In 9MFY24, a total of 23 stores were opened. It is on track to add 40-45 stores in FY24.

Bloomberg	WESTLIFE IN
Equity Shares (m)	156
M.Cap.(INRb)/(USDb)	130.7 / 1.6
52-Week Range (INR)	1025 / 639
1, 6, 12 Rel. Per (%)	3/-20/-9
12M Avg Val (INR M)	147

Financials & Valuations (INR b)

Y/E March (INR b)	FY24E	FY25E	FY26E
Sales	24.2	27.3	31.9
Sales growth (%)	6.1	13.1	16.8
EBITDA	3.9	4.6	5.6
Margins (%)	16.0	16.8	17.6
Adj. PAT	0.8	1.2	2.0
Adj. EPS (INR)	4.9	8.0	12.5
EPS Growth (%)	-30.8	61.1	57.0
BV/Sh.(INR)	43.8	49.0	60.0

Ratios

RoE (%)	12.4	17.2	23.0
RoCE (%)	8.8	10.4	12.6

Valuations

P/E (x)	167.8	104.2	66.3
P/BV (x)	18.9	16.9	13.8
EV/EBITDA (x)	36.4	30.8	25.0
EV/Sales (x)	5.8	5.2	4.4

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	56.2	56.2	56.2
DII	24.0	23.7	23.7
FII	10.8	10.8	10.4
Others	9.0	9.6	9.7

FII Includes depository receipts

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- We cut our EPS estimates by 35 and 33% for FY24 and FY25 owing to the weakness in demand and margin pressure.
- WLDL has been aggressive on store addition, which was not the case historically. The current demand environment is not conducive to aggressive expansion. Therefore, the benefits of the same will be back-ended.
- The QSR industry has been witnessing weakness in growth metrics, leading to sharp deceleration in the margin profile (typical trend in QSR during the downcycle). We do not foresee any near-term respite in demand.
- We model a 6% PBT margin in FY25E vs. 6.6% in FY23 and 4.3% in FY24E. We reiterate our **Neutral** rating **with a TP of INR775 (based on 60x FY26E EPS)**.

Consolidated quarterly performance

Y/E March	(INR m)											
	FY23				FY24E				FY23	FY24E	FY24	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			3QE	(%)
SSSG %	97.1	40.2	20.0	14.0	7.0	1.0	(9.0)	(5.0)	36.0	-1.5	-2.0	
No. of McDonald's restaurants	331	337	341	357	361	370	380	397	357	397	383	
Net Sales	5,379	5,724	6,115	5,564	6,145	6,147	6,003	5,869	22,782	24,164	6,546	-8.3
YoY Change (%)	107.6	48.5	28.2	22.3	14.2	7.4	-1.8	5.5	44.5	6.1	7.1	
Gross profit	3,659	3,968	4,290	4,002	4,337	4,310	4,219	4,122	15,922	16,987	4,589	-8.1
Margin (%)	68.0	69.3	70.2	71.9	70.6	70.1	70.3	70.2	69.9	70.3	70.1	
Total Expenditure	4,458	4,736	5,012	4,645	5,092	5,151	5,042	5,015	18,851	20,300	5,466	
EBITDA	921	988	1,103	919	1,053	997	960	854	3,931	3,864	1,080	-11.1
YoY Change (%)	1,705.3	116.1	32.2	26.1	14.3	0.9	-12.9	-7.1	89.8	-1.7	5.7	
Margins (%)	17.1	17.3	18.0	16.5	17.1	16.2	16.0	14.5	17.3	16.0	16.5	
Depreciation	358	366	386	411	429	439	455	453	1,649	1,909	448	
Interest	215	226	234	253	260	274	282	309	928	1,125	274	
Other Income	0	54	36	49	52	32	44	74	140	201	53	
PBT	348	450	520	304	416	315	267	166	1,494	1,031	412	-35.1
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT after EO expense	348	450	520	304	416	315	267	166	1,494	1,031	412	
Tax	82	104	116	76	118	78	59	5	379	259	107	
Rate (%)	23.5	23.1	22.4	25.1	28.2	24.9	21.9	3.1	25.3	25.2	25.9	
Adj PAT	236	316	364	201	288	224	172	87	1,116	771	305	-43.4
YoY Change (%)	L/P	L/P	74.7	31.2	22.0	-29.2	-52.6	-56.6	L/P	L/P	-16.2	
Margins (%)	4.4	5.5	5.9	3.6	4.7	3.6	2.9	1.5	4.9	3.2	4.7	

E: MOFSL Estimates

Highlights from the Press Release

The on-premise business declined 5%, while off-premise grew 3% YoY

- Off-premise contribution remained stable at ~42% YoY
- Digital sales (through SOK and mobile apps) contributed 67% to the revenue.
- There were more than 30m cumulative app downloads, and there was a 12% YoY rise in monthly active users.
- WLDL now has a total of 380 restaurants, including 73 Drive-throughs, 343 McCafés, and 275 Experience of the Future (EOTF) restaurants.

Exhibit 1: Restaurant's operating margin

Y/E March (INR m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Sales	5,362	5,702	6,092	5,438	6,122	6,108	5,925
Other Operating income	18	22	23	126	23	39	78
Total revenue	5,379	5,724	6,115	5,564	6,145	6,147	6,003
YoY Change (%)	107.6	48.5	28.2	22.3	14.2	7.4	-1.8
Food & Paper	1,721	1,756	1,824	1,562	1,809	1,837	1,784
Payroll & employee benefits	426	507	547	554	551	581	552
Royalty	246	262	280	250	318	316	243
Occupancy and other operating expenses	1,823	1,900	2,006	1,833	2,056	2,054	2,072
<i>Total restaurant expenses</i>	<i>4,215</i>	<i>4,425</i>	<i>4,658</i>	<i>4,199</i>	<i>4,734</i>	<i>4,788</i>	<i>4,650</i>
Restaurant operating profit (Post Ind-AS)	1,164	1,299	1,457	1,365	1,412	1,359	1,352
YoY Change (%)	356.4	93.7	35.4	34.3	21.3	4.6	-7.2
<i>Restaurant operating margin (ROM) %</i>	<i>21.6</i>	<i>22.7</i>	<i>23.8</i>	<i>24.5</i>	<i>23.0</i>	<i>22.1</i>	<i>22.5</i>
Restaurant operating profit (Pre Ind-AS)	940	1,078	1,231	1,114	1,152	1,095	1,077
YoY Change (%)	1122.6	120.8	41.1	37.0	22.5	1.6	-12.5
<i>Restaurant operating margin (ROM) %</i>	<i>17.5</i>	<i>18.8</i>	<i>20.1</i>	<i>20.0</i>	<i>18.8</i>	<i>17.8</i>	<i>17.9</i>
G & A expenses	243	311	354	446	359	363	392
% of sales	4.5	5.4	5.8	8.0	5.8	5.9	6.5
EBITDA (pre Ind-AS)	697	766	877	669	793	732	685
YoY Change (%)	-648.8	179.2	39.0	27.2	13.8	-4.5	-21.9
<i>EBITDA (pre Ind-AS) %</i>	<i>13.0</i>	<i>13.4</i>	<i>14.3</i>	<i>12.0</i>	<i>12.9</i>	<i>11.9</i>	<i>11.4</i>
EBITDA (Post Ind-AS)	921	988	1,103	919	1,053	997	960
YoY Change (%)	1,705.3	116.1	32.2	26.1	14.3	0.9	(12.9)
<i>EBITDA (post Ind-AS) %</i>	<i>17.1</i>	<i>17.3</i>	<i>18.0</i>	<i>16.5</i>	<i>17.1</i>	<i>16.2</i>	<i>16.0</i>

Source: Company, MOFSL



Key takeaways from the management commentary

Performance and Outlook

- Demand was hit during the quarter due to subdued consumer sentiments and the floods in Chennai.
- Reported SSS dropped 9% due to continuing weakness in dine-in trends, external challenges, and a high base. Adjusted for the external issues, SSS declined 3%.
- About 30% of the stores across West and South are hit by external issues. These stores have witnessed 10-50% decline in daily sales from mid-Oct'23 onwards, leading to contrasting SSSG trends.
- Dine-in as well as Delivery saw a dip in orders sequentially.
- The company reinforced its value platform with its extra value meal promotion at INR149, leading to a healthy improvement in customers visiting its restaurants.
- Pricing interventions were made in Nov'23 and Dec'23.
- The company aims for a high-single-digit SSSG by FY27.

Expansion and launches

- WLDL reinforced the Everyday McSaver Meals platform with new meal offerings at better price points.
- It introduced the premium Cheesy Italian Burger as a limited-time offer.
- McSpicy Fried Chicken sustained strong performance in the South.
- It collaborated with Mondelez to launch the Cadbury Gems desserts.
- In 3QFY24, 11 stores were opened and one store was closed. In 9MFY24, a total of 23 stores were opened. It is on track to add 40-45 stores in FY24.
- It targets to open 45-50 stores in FY25 with a focus on South India, smaller towns and Drive-throughs. It aims to reach 580-630 restaurants by FY27.

Cost and Margins

- On the normalization of inflation, management does not expect any further adverse impact on the gross margin.
- Despite the addition of stores, employee expenses and other expenses remained unchanged, due to rationalization of fixed expenses.

Others

- Off-premise business grew 3% YoY led by Delivery & Drive-throughs.
- On-premise business declined 5% YoY, largely led by lower footfalls in the affected stores.
- There are multiple price points across the value platform, medium meals, and premium meals.

Exhibit 2: Store network

Store Network	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Total Restaurants	331	337	341	357	361	370	380
New Restaurants Opened	5	6	6	18	4	9	11
Closed Stores	0	0	-2	-2	0	0	-1
Net addition	5	6	4	16	4	9	10
Cities	48	52	52	56	58	59	62
Total McCafe	267	274	288	311	315	327	343
McCafe Addition	5	7	14	23	4	12	16
% of total restaurants	81%	81%	84%	87%	87%	88%	90%
Drive-Thrus	65	68	67	68	69	71	73
% of total restaurants	20%	20%	20%	19%	19%	19%	19%
EOTF	132	138	205	220	224	237	275
% of total restaurants	40%	41%	60%	62%	62%	64%	72%
New EOTF Stores	14	6	67	15	4	13	38

Source: Company, MOFSL

Exhibit 3: Digital KPIs

Digital KPIs	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
App Downloads (m)	18.5	21	22	24	25	28	30
Online business mix (%)	55%	55%	60%	59%	60%	59%	58%
Dine-in channel mix (%)	58%	45%	40%	41%	40%	41%	42%
Convenience channel mix (%)	42%	55%	0%	59%	60%	59%	58%
On premise sales growth (%)	0%	0%	42%	38%	18%	7%	-5%
Off premise sales growth (%)	0%	0%	12%	5%	9%	7%	3%

Source: Company, MOFSL

Key exhibits

Exhibit 4: SSS declined 9% (est. -2%)

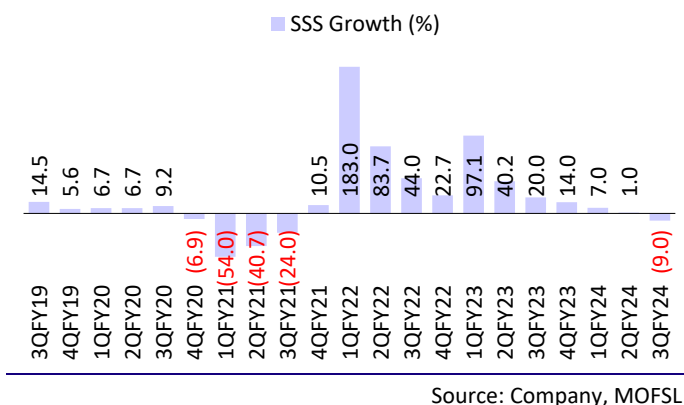


Exhibit 5: Added 10 stores (11% YoY) in 3QFY24

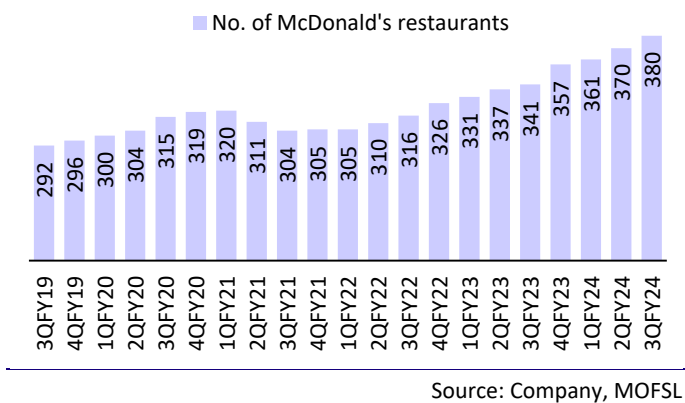


Exhibit 6: Net sales declined 2% YoY

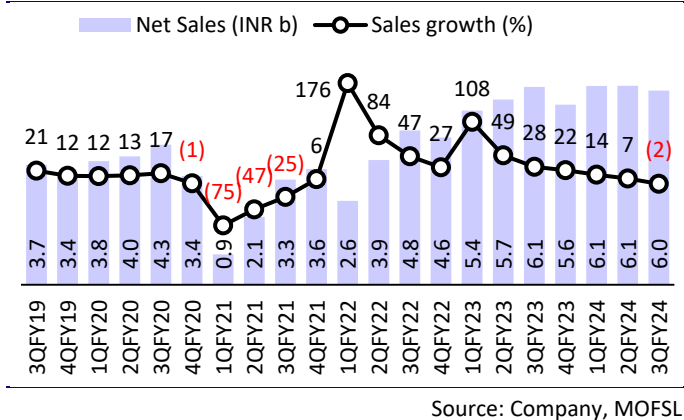


Exhibit 7: Gross margin remained flat YoY and QoQ

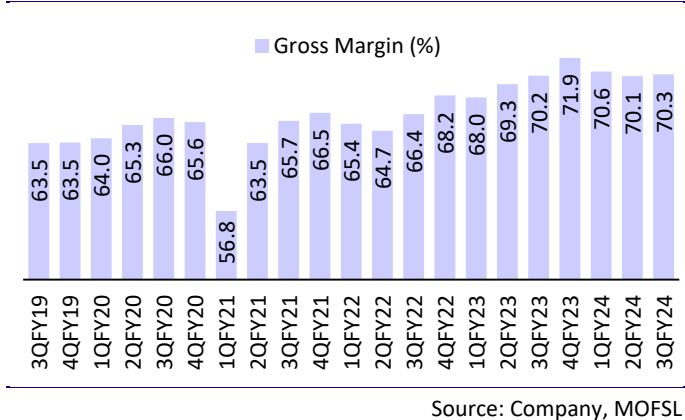


Exhibit 8: EBITDA declined 13% YoY

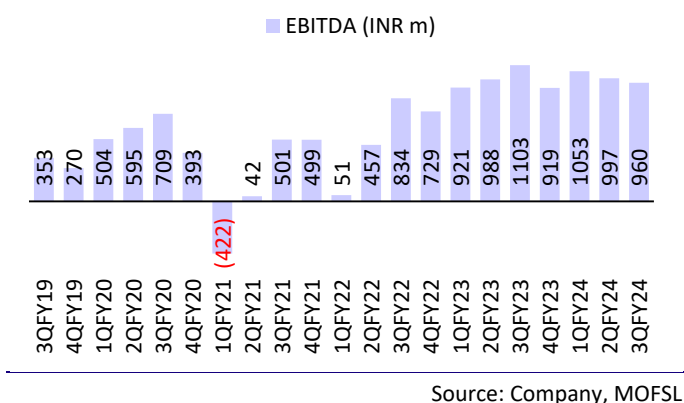


Exhibit 9: EBITDA margin contracted 200bp YoY due to operating leverage

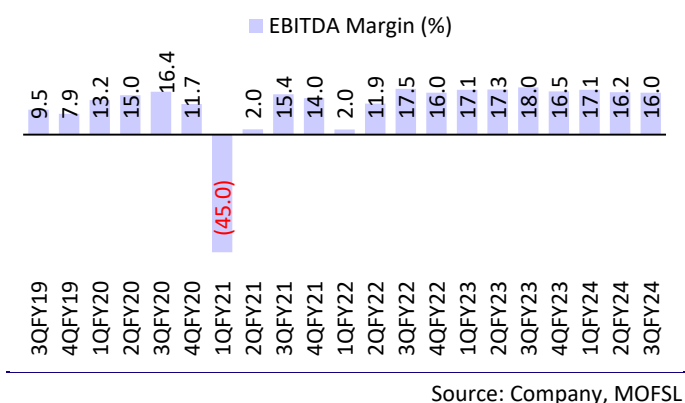


Exhibit 10: We cut our estimates by ~33-35% for FY24/FY25

INR m	New		Old		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Sales	24,164	27,339	25,477	30,069	-5.2%	-9.1%
EBITDA	3,864	4,590	4,216	5,262	-8.4%	-12.8%
Adjusted PAT	771	1,243	1,190	1,856	-35.2%	-33.1%

Source: MOFSL

Financials and valuations

Consolidated - Income Statement								INRm
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	14,020	15,478	9,860	15,765	22,782	24,164	27,339	31,934
Change (%)	23.5	10.4	-36.3	59.9	44.5	6.1	13.1	16.8
Materials Consumed	5,116	5,382	3,483	5,129	6,860	7,177	7,983	9,261
Gross profit	8,905	10,095	6,378	10,636	15,922	16,987	19,356	22,673
Margin (%)	63.5	65.2	64.7	67.5	69.9	70.3	70.8	71.0
Employees Cost	1,453	1,690	1,226	1,439	2,034	2,307	2,624	2,901
Other Expenses	6,208	6,206	4,532	7,125	9,957	10,817	12,142	14,150
Operating Expenses	7,662	7,896	5,758	8,564	11,991	13,124	14,765	17,051
Total Expenditure	12,778	13,279	9,241	13,693	18,851	20,300	22,748	26,312
% of Sales	91.1	85.8	93.7	86.9	82.7	84.0	83.2	82.4
EBITDA	1,243	2,199	619	2,071	3,931	3,864	4,590	5,622
Change (%)	46.7	77.0	-71.8	234.5	89.8	-1.7	18.8	22.5
Margin (%)	8.9	14.2	6.3	13.1	17.3	16.0	16.8	17.6
Depreciation	861	1,442	1,555	1,452	1,649	1,909	2,109	2,304
EBIT	382	757	-935	620	2,282	1,955	2,482	3,318
Int. and Finance Charges	177	808	845	826	928	1,125	1,119	1,152
Other Income	148	127	452	186	140	201	298	442
PBT bef. EO Exp.	352	76	-1,329	-21	1,494	1,031	1,660	2,607
EO Items	0	166	-42	0	0	0	0	0
PBT after EO Exp.	352	242	-1,371	-21	1,494	1,031	1,660	2,607
Total Tax	139	-14	-293	-4	379	259	418	656
Tax Rate (%)	39.5	-18.8	N/M	N/M	25.3	25.2	25.2	25.2
Reported PAT	213	-76	-994	-17	1,116	771	1,243	1,951
Adjusted PAT	213	90	-1,036	-17	1,116	771	1,243	1,951
Change (%)	67.3	-57.6	P/L	-	L/P	-30.8	61.1	57.0
Margin (%)	1.5	0.6	-10.5	-0.1	4.9	3.2	4.5	6.1

Consolidated - Balance Sheet								INRm
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	311	311	312	312	312	312	312	312
Total Reserves	5,519	5,459	4,501	4,309	5,347	6,521	7,328	9,042
Net Worth	5,830	5,770	4,812	4,621	5,659	6,832	7,639	9,354
Total Loans	2,339	1,837	2,152	2,010	2,070	1,970	1,870	1,770
Lease Liabilities	0	7,822	7,528	8,536	9,960	10,199	11,417	12,634
Deferred Tax Liabilities	-17	-214	-510	-520	-604	-616	-628	-641
Capital Employed	8,152	15,216	13,982	14,647	17,086	18,386	20,298	23,118
Gross Block	7,443	8,430	8,522	9,088	12,080	13,600	15,500	17,020
Less: Accum. Deprn.	1,963	2,538	3,153	3,649	4,608	5,754	7,037	8,449
Net Fixed Assets	5,480	5,893	5,368	5,439	7,472	7,846	8,463	8,571
Goodwill on Consolidation	466	466	466	466	466	466	466	466
Capital WIP	284	226	256	355	567	850	850	850
Right to use Asset	0	7,722	7,008	7,718	8,758	9,399	10,583	11,529
Total Investments	2,024	1,576	1,984	1,504	1,299	1,299	1,299	1,299
Current	1,065	719	1,461	1,030	1,299	1,299	1,299	1,299
Non-current	959	857	523	474	0	0	0	0
Curr. Assets, Loans&Adv.	1,966	1,535	1,643	1,973	1,825	2,004	2,569	4,997
Inventory	410	411	465	559	714	861	973	1,138
Account Receivables	98	47	88	133	107	205	231	271
Cash and Bank Balance	92	30	110	232	-182	-395	-137	1,899
Loans and Advances	1,366	1,046	980	1,048	1,185	1,333	1,501	1,690
Curr. Liability & Prov.	2,073	2,201	2,744	2,809	3,300	3,477	3,931	4,595
Account Payables	1,178	1,280	1,851	1,722	1,877	1,983	2,362	2,947
Other Current Liabilities	807	822	789	953	1,293	1,357	1,425	1,497
Provisions	89	100	104	134	130	137	144	151
Net Current Assets	-108	-666	-1,101	-836	-1,475	-1,473	-1,362	403
Appl. of Funds	8,147	15,216	13,982	14,647	17,086	18,386	20,298	23,118

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
Adj. EPS	1.4	0.6	-6.7	-0.1	7.2	4.9	8.0	12.5
Cash EPS	6.9	9.9	3.3	9.2	17.7	17.2	21.5	27.3
BV/Share	37.5	37.1	30.9	29.7	36.3	43.8	49.0	60.0
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	606.5	1,430.9	N/M	N/M	116.0	167.8	104.2	66.3
Cash P/E	120.2	84.3	248.9	90.0	46.8	48.3	38.6	30.4
P/BV	22.1	22.4	26.8	27.9	22.9	18.9	16.9	13.8
EV/Sales	9.2	8.9	13.9	8.8	6.2	5.8	5.2	4.4
EV/EBITDA	104.2	62.4	221.0	66.7	35.7	36.4	30.8	25.0
Return Ratios (%)								
RoE	3.8	1.6	-19.6	-0.4	21.7	12.4	17.2	23.0
RoCE	4.2	8.9	NA	NA	11.0	8.8	10.4	12.6
RoIC	4.3	9.4	NA	NA	12.2	9.1	10.6	13.3
Working Capital Ratios								
Fixed Asset Turnover (x)	1.9	1.8	1.2	1.7	1.9	1.8	1.8	1.9
Asset Turnover (x)	1.7	1.0	0.7	1.1	1.3	1.3	1.3	1.4
Inventory (Days)	11	10	17	13	11	13	13	13
Debtor (Days)	3	1	3	3	2	3	3	3
Creditor (Days)	31	30	69	40	30	30	32	34
Leverage Ratio (x)								
Current Ratio	0.9	0.7	0.6	0.7	0.6	0.6	0.7	1.1
Interest Cover Ratio	2.2	0.9	-1.1	0.7	2.5	1.7	2.2	2.9
Net Debt/Equity	0.0	1.4	1.6	1.9	1.9	1.6	1.6	1.2

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	352	-90	-1,287	-21	1,494	1,031	1,660	2,607
Depreciation	797	1,384	1,396	1,364	1,521	1,776	1,971	2,161
Interest & Finance Charges	177	808	845	826	927	1,125	1,119	1,152
Direct Taxes Paid	-26	-163	32	-66	-439	-259	-418	-656
(Inc)/Dec in WC	-110	164	691	-145	70	-156	213	343
CF from Operations	1,190	2,102	1,677	1,959	3,574	3,516	4,545	5,608
Others	-80	-89	-337	-202	-90	0	0	0
CF from Operating incl EO	1,110	2,013	1,340	1,756	3,484	3,516	4,545	5,608
(Inc)/Dec in FA	-1,426	-1,259	-491	-999	-2,691	-1,803	-1,900	-1,520
Free Cash Flow	-316	754	849	757	793	1,713	2,645	4,088
(Pur)/Sale of Investments	-31	569	-252	380	-32	0	0	0
Others	1	1	-63	4	-194	-59	-467	-38
CF from Investments	-1,457	-689	-806	-616	-2,917	-1,863	-2,367	-1,558
Issue of Shares	2	10	28	24	-21	0	0	0
Inc/(Dec) in Debt	504	-1,245	-311	-910	-817	-112	-112	-113
Interest Paid	-177	-152	-170	-133	-143	-1,755	-1,807	-1,902
Dividend Paid	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0
CF from Fin. Activity	330	-1,387	-453	-1,019	-981	-1,867	-1,919	-2,014
Inc/Dec of Cash	-17	-62	80	122	-414	-213	259	2,035
Opening Balance	109	92	30	110	232	-182	-395	-137
Closing Balance	92	30	110	232	-182	-395	-137	1,899

E: MOFSL Estimates

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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