

Burger King India

3QFY21 result and investor call takeaways - weak 3Q but strong pick-up in January

- ✓ **Quarter highlights** – Sales recovered to 72% led by better recovery in West and South, mall recovery continued to lag, January has seen a recovery to 86% led by recovery in North and malls with delivery ADS up 6% and dine-in recovered to 76%, GMs reach 65% in December, overall EBITDA positive with restaurant level margins at 8.5%, despite -35% SSG led by cost savings and GM improvement, added 10 restaurants in 3Q, invested in new marketing campaign and menu upliftment for Whopper, launched new omnichannel app.
- ✓ **Guidance** – 1) Store expansion – 50/70/80 new store additions in FY22/23/24, 2) SSG – flat for FY22 and 5-7% FY23 onwards and 3) Gross margins – 65.5% in FY22 and 67% by FY24.
- ✓ **Key differentiators** – 1) Only chain with franchisor owning equity in franchisee, 2) strong franchise agreement with favorable royalty rates till 2039, option for sub-franchising and control over menu, pricing, supply chain, 3) disciplined expansion using cluster based approach to control distribution costs.
- ✓ **Store opening target** – Contracted to open 700 restaurants by December 2026; started working in 2013 with a large store footprint in mind from first day, have already identified locations.
- ✓ **Gross margin outlook** – Very strong supply chain team plus cluster approach has driven GM and lowered distribution costs, exploring café business as well, will continue to be value leader, added premium segment as well with gourmet menu.
- ✓ **Pricing contribution to SSG** – 3-4% is annual price hike taken; balance would be traffic growth; 5-7% SSG guidance conservative given uncertainty on timing of recovery.
- ✓ **EBITDA margins** – Rental and gross margin are big scale leverages due to new store portfolio being signed up at better rentals; EBITDA Margins should be much higher in FY22 itself given operating leverage; even restaurant margins will improve gradually.
- ✓ **Store economics** – Paybacks of 5-5.5 years and 2.8cr capex per store, given negative WC effective capex is 2.5cr recovered over 5 years
- ✓ **Cash flows and tax rate guidance** – No tax till FY25-26 given accumulated losses, EBITDA to OCF to remain a round 100% for next 3 years
- ✓ **Demand outlook** - See increased store potential every year with increasing disposable income levels, rising millennial population of 18-35 years; expect high double digit growth for next 5 years for QSR industry
- ✓ **Delivery business** – Cost of doing delivery business with aggregators is 8% which is compensated by higher cost products on online channel; expect 65:35 as sustainable dine-in:delivery ratio.

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