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Q3FY21 result review
and earnings revision

Consumer Staples & Discretionary

Target price Rs500

Earnings revision

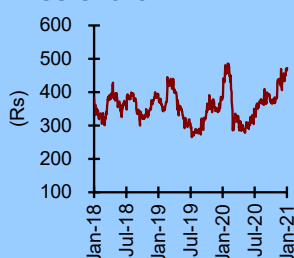
(%)	FY21E	FY22E	FY23E
Sales	↓ 2.8	↓ 2.8	↓ 2.6
EBITDA	↓ 13.6	↓ 3.3	↓ 3.1
EPS	↑ 18.5	↓ 1.0	↓ 3.1

Shareholding pattern

(%)	Jun '20	Sep '20	Dec '20
Promoters	59.1	59.1	59.1
Institutional investors	28.7	29.4	30.0
MFs and others	12.4	12.6	13.1
Insurance	6.2	6.7	7.2
FIs	10.1	10.1	9.7
Others	12.2	11.5	10.9

Source: NSE

Price chart



Westlife Development

ADD

Maintained

Rs460

Weak dine-in continues to be a drag

3Q performance was subdued as revenues declined 25% (SSSG declined 24%) despite all stores being operational. However, consistent cost optimization led the reduction in average monthly fixed cost by ~30% (renegotiating rents, reimagining supply chain, variable staff costs, etc.), thereby bringing back margins close to pre-Covid levels. Although the trajectory of improvement of convenience formats (delivery, drive-thru, takeaway and on-the-go – together contribute >50% of revenues) seems promising, recovery of core dine-in business (still at 70-75% of pre-COVID levels in Q3) depends on improvement in consumer sentiment. Long-term benefits from expansion of food service market remain intact. Store additions is a positive (opened 3 stores in Q3). **ADD**.

- ▶ **Substantial revenue decline despite all stores operational:** In 3QFY21, revenue / EBITDA / recurring PAT declined 25% / 29% / 84%. Westlife reported 24% same store sales decline. However, revenue grew 55% QoQ due to opening of one of its largest state – Maharashtra. Having said that, complete recovery across most of the large channels is yet to happen with McDelivery still at ~90% YoY and Dine-in at ~75% of pre-Covid levels (even lower YoY) even with all stores being operational. Channels like Drive-Thru have almost doubled sales on a YoY basis and On-the-Go channel is witnessing strong MoM growth.
- ▶ **Store expansion to return from FY22:** Westlife opened 3 stores and closed 10 McDonald's stores in Q3, taking the total store count to 304 (43 cities). Store closures are largely due to network optimisation and management guided to no further store closures. A key positive is the return to potential 25-30 store additions from FY22 onwards, as per management. Westlife also added 3 McCafe stores during the quarter taking the total count to 227.
- ▶ **Structural cost savings leading to lower restaurant break-even point:** Better sourcing and cost optimisation limited gross margin decline to just 30bps YoY (to 65.7%) despite lower volumes. Further, gross margins of 65.5% in Dec'20 are similar to Q4FY20 margins. Comparable EBITDA margin declined 190bps YoY to 10.2%, a strong performance given 25% revenue decline, driven by 25-30% reduction in fixed costs and optimisation of some variable cost leading to lower restaurant break-even point. This also led to a flattish (YoY) EBITDA margins of 13.1% in Dec'20, despite 20% lower sales YoY.
- ▶ **Valuation and risks:** We cut our FY22-23 earnings estimates by 1-3%; modelling revenue / EBITDA CAGR of 10 / 22 (%) over FY20-23E. Retain **ADD** with DCF-based target price unchanged at Rs500. Key downside risks include sustained weak consumer sentiment impacting restaurant throughput and food aggregators impacting economics and profitability in food delivery.

Market Cap	Rs71.6bn/US\$982mn
Reuters/Bloomberg	WEST.BO/WLDL IN
Shares Outstanding (mn)	155.8
52-week Range (Rs)	486/278
Free Float (%)	40.9
FII (%)	0.7
Daily Volume (US\$/'000)	1,623
Absolute Return 3m (%)	22.6
Absolute Return 12m (%)	20.6
Sensex Return 3m (%)	22.1
Sensex Return 12m (%)	21.6

Year to March	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	15,473	9,896	17,428	20,338
Adj. Net Profit (Rs mn)	110	(752)	1,126	1,381
Dil. Rec. EPS (Rs)	0.7	(4.8)	7.2	8.9
% Chg YoY	(72.8)	(787.0)	(249.7)	22.6
P/E (x)	653.5	(95.1)	63.6	51.8
CEPS (Rs)	9.6	4.2	16.6	19.1
EV/EBITDA (x)	32.9	104.3	22.4	18.3
Dividend Yield (%)	-	-	-	0.3
RoCE (%)	10.3	(9.9)	25.8	32.5
RoE (%)	1.9	(14.0)	20.5	20.9

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Table 1: Q3FY21 results review (Consolidated – without Ind AS116 impact)

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Same store sales growth (%)	(24.0)	9.2	-3320 bps	(40.7)	1670 bps	(39.6)	7.6	-4720 bps
Number of McDonald's stores	304	315	(11)	311	(7)	304	315	(11)
Net Revenue	3,251	4,329	(25)	2,095	55	6,285	12,113	(48)
COGS	(1,115)	(1,472)	(24)	(764)	46	(2,285)	(4,211)	(46)
Gross profit	2,136	2,857	(25)	1,331	61	4,000	7,903	(49)
Staff cost	(334)	(428)	(22)	(282)	18	(868)	(1,253)	(31)
Royalty	(149)	(198)	(25)	(95)	57	(287)	(553)	(48)
Occupancy and other exp.	(1,152)	(1,474)	(22)	(877)	31	(2,668)	(4,195)	(36)
Restaurant Operating Profit	501	758	(34)	77	550	177	1,902	(91)
G&A expense	(170)	(237)	(28)	(179)	(5)	(526)	(645)	(18)
EBITDA	331	520	(36)	(102)	(424)	(348)	1,258	(128)
Other income	59	45	30	58	2	185	106	73
Finance Cost	(43)	(34)	26	(47)	(10)	(131)	(117)	11
D&A	(216)	(222)	(3)	(220)	(2)	(654)	(646)	1
PBT	131	310	(58)	(312)	(142)	(949)	600	(258)
Tax	(28)	(82)		92		258	(157)	
Recurring PAT	103	227	(55)	(220)	(147)	(691)	444	(256)
Extraordinary items	(21)	-		(55)		(76)	(30)	
Net profit (reported)	82	227	(64)	(274)	(130)	(768)	414	(285)
EPS	0.7	1.5	(55)	(1.4)	(147)	(4.4)	2.9	(256)
Costs as a % of sales								
COGS	34.3	34.0	28 bps	36.5	-219 bps	36.4	34.8	159 bps
Gross margin (%)	65.7	66.0	-29 bps	63.5	218 bps	63.6	65.2	-160 bps
Staff cost	10.3	9.9	37 bps	13.5	-321 bps	13.8	10.3	346 bps
Royalty	4.6	4.6	2 bps	4.5	5 bps	4.6	4.6	-1 bps
Occupancy and other exp.	35.4	34.0	140 bps	41.8	-640 bps	42.5	34.6	782 bps
ROM (%)	15.4	17.5	-209 bps	3.7	1173 bps	2.8	15.7	-1289 bps
G&A expense	5.2	5.5	-24 bps	8.6	-332 bps	8.4	5.3	304 bps
EBITDA margin (%)	10.2	12.0	-186 bps	(4.9)	1504 bps	(5.5)	10.4	-1593 bps
Income tax rate (%)	21.1	26.6	-556 bps	29.5	-847 bps	27.2	26.1	103 bps

Source: Company data, I-Sec research

Table 2: Q3FY21 results review (Consolidated – with Ind AS116 impact)

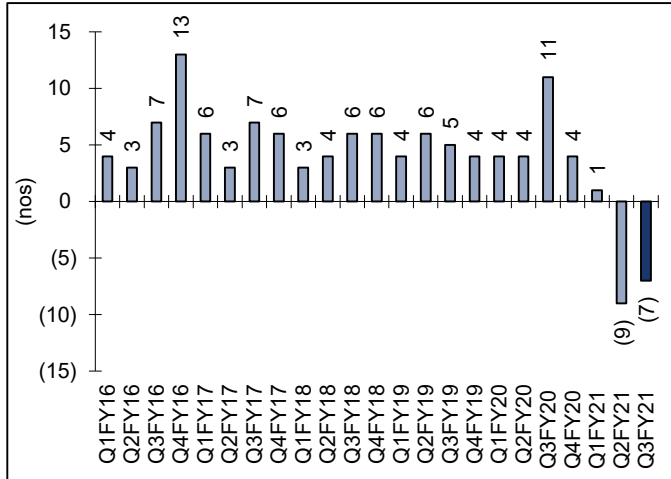
(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Same store sales growth (%)	(24.0)	9.2	-3320 bps	(40.7)	1670 bps	(39.6)	7.6	-4720 bps
Number of McDonald's stores	304	315	(11)	311	(7)	304	315	(11)
Net Revenue	3,251	4,329	(25)	2,095	55	6,285	12,113	(48)
COGS	(1,115)	(1,472)	(24)	(764)	46	(2,285)	(4,225)	(46)
Gross profit	2,136	2,857	(25)	1,331	61	4,000	7,889	(49)
Staff cost	(334)	(428)	(22)	(282)	18	(868)	(1,253)	(31)
Royalty	(149)	(198)	(25)	(95)	57	(287)	(553)	(48)
Occupancy and other exp.	(982)	(1,285)	(24)	(733)	34	(2,199)	(3,632)	(39)
Restaurant Operating Profit	671	946	(29)	221	203	646	2,451	(74)
G&A expense	(170)	(237)	(28)	(179)	(5)	(526)	(644)	(18)
EBITDA	501	709	(29)	42	1,095	121	1,807	(93)
Other income	82	45	80	146	(44)	410	113	263
Finance Cost	(210)	(202)	4	(217)	(3)	(642)	(605)	6
D&A	(350)	(355)	(1)	(351)	(0)	(1,054)	(1,030)	2
PBT	23	198	(89)	(380)	(106)	(1,165)	285	(509)
Tax	(0)	(54)		109		312	(76)	
Recurring PAT	22	144	(84)	(271)	(108)	(853)	209	(509)
Extraordinary items	(21)	-		(55)		(76)	(30)	
Net profit (reported)	1	144	(99)	(325)	(100)	(930)	179	(619)
EPS	0.1	0.9	(84)	(1.7)	(108)	(5.5)	1.8	(407)
Costs as a % of sales								
COGS	34.3	34.0	28 bps	36.5	-219 bps	36.4	34.9	148 bps
Gross margin (%)	65.7	66.0	-29 bps	63.5	218 bps	63.6	65.1	-149 bps
Staff cost	10.3	9.9	37 bps	13.5	-321 bps	13.8	10.3	346 bps
Royalty	4.6	4.6	2 bps	4.5	5 bps	4.6	4.6	-1 bps
Occupancy and other exp.	30.2	29.7	53 bps	35.0	-476 bps	35.0	30.0	501 bps
ROM (%)	20.6	21.9	-122 bps	10.6	1008 bps	10.3	20.2	-996 bps
G&A expense	5.2	5.5	-24 bps	8.6	-332 bps	8.4	5.3	304 bps
EBITDA margin (%)	15.4	16.4	-98 bps	2.0	1340 bps	1.9	14.9	-1301 bps
Income tax rate (%)	1.8	27.4	-2567 bps	28.8	-2701 bps	26.8	26.8	-1 bps

Source: Company data, I-Sec research

Conference call takeaways

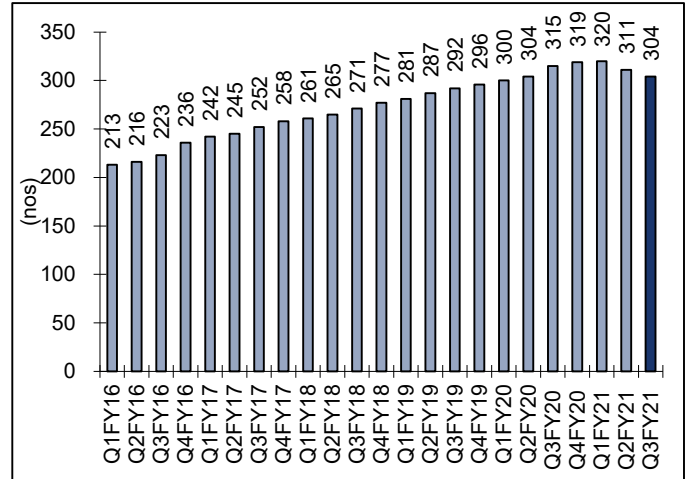
- **Industry trends:** According to management western QSR are the least impacted and have faced lowest decline in sales during the pandemic. Further, they said that around 25-30% of the standalone restaurants have either shut down or are running at sub-optimal capacity.
- Management expects consumer confidence to return with vaccine rollout and decline in covid cases. Further management believes increase in footfalls in multiplexes, opening up of colleges and transit points are important for complete recovery.
- **Impact of Bird Flu:** Management believes there is not much impact of Bird Flu as consumers either switch to vegetarians or fish products.
- **Dine-in:** Dine-in sales recovered to 75% of pre-Covid levels (~83% of pre-Covid levels in Dec'20). There was 10-15% MoM increase in recovery rate once dine-in was allowed in Maharashtra. However, overall dine-in sales continued to be impacted due to mall stores due to lower footfalls in multiplexes.
- **Convenience channels:** Convenience channels are performing well (+120% of pre-Covid levels; +106% YoY) and management expect these channels to keep contributing even after things normalise (complementary to dine-in sales) and contribute to SSSG.
- **Management plans to open ~25-30 stores from FY22.** It does not expect this trajectory to improve unless there is a sustainable increase in income growth. Further, management believes quality of real estate portfolio is also important while opening new stores.
- **Average ticket size** of McDelivery and Drive Thru are higher compared to pre-Covid levels and YoY as well.
- **Cost Savings:** Westlife was able to decrease the restaurant operating margin with focus on cost optimisation. This resulted in reduction of 25-30% in average monthly fixed cost leading to near pre-Covid levels margins.
- **100% of the stores were operational** during the quarter with some restrictions in operational hours due to night curfew.
- Working capital optimisation and treasury performance has led to **almost zero Net Debt at the end of Q3FY21.**

Chart 1: McDonald's store additions (net)



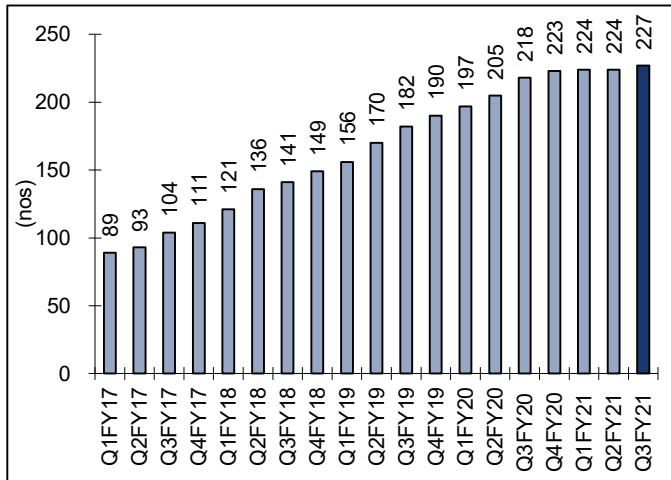
Source: Company data, I-Sec research

Chart 2: Number of stores – McDonald's



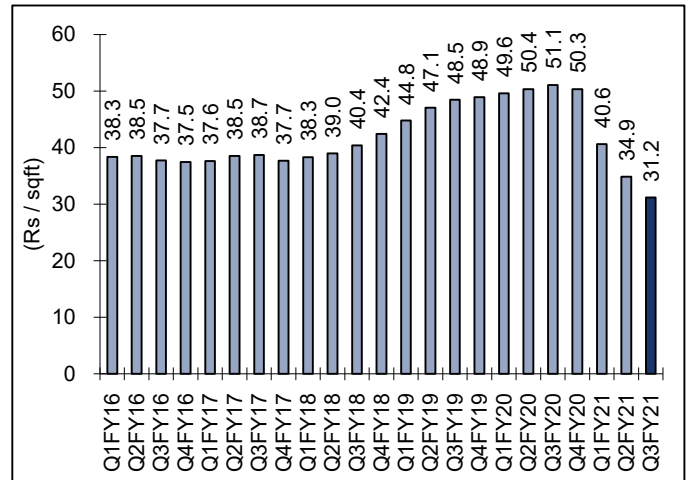
Source: Company data, I-Sec research

Chart 3: Number of stores – McCafe



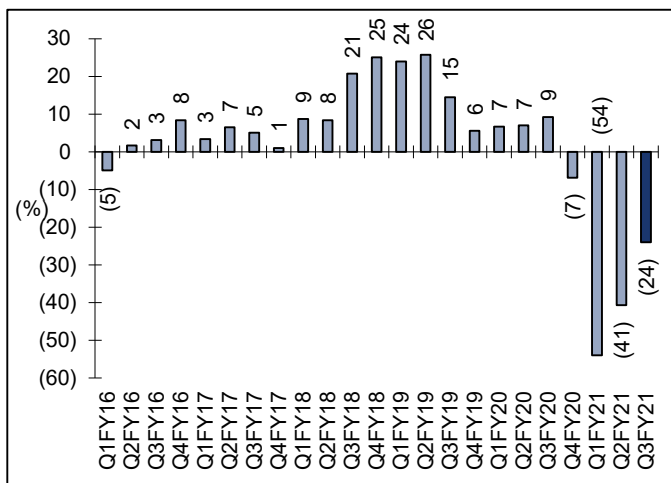
Source: Company data, I-Sec research

Chart 4: Average Unit Volume (AUV) – Average sales per restaurant on TTM basis



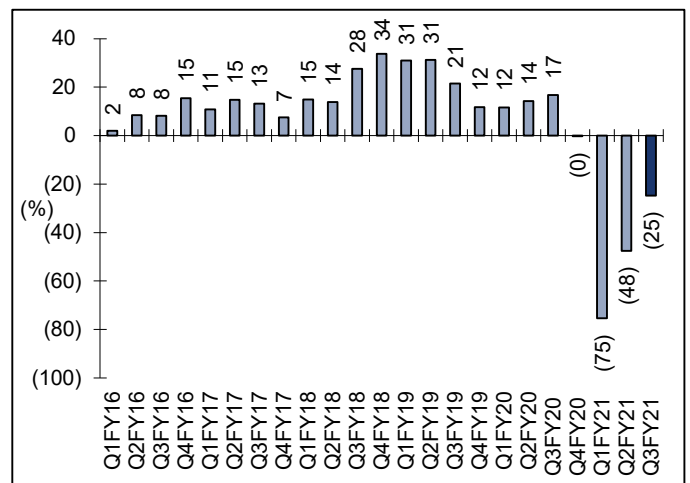
Source: Company data, I-Sec research

Chart 5: Same store sales growth



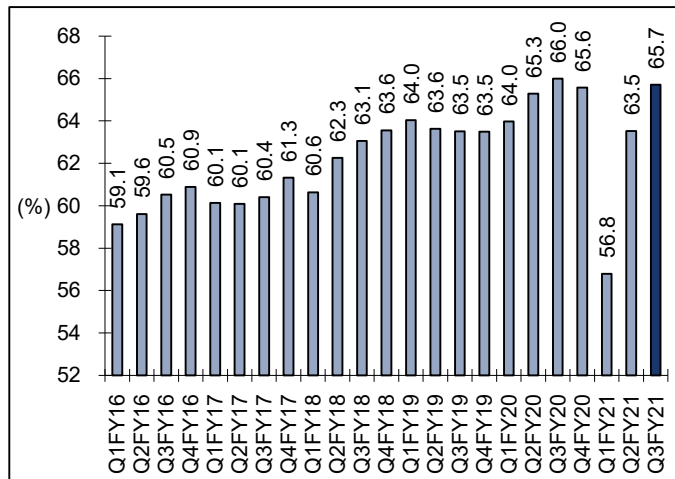
Source: Company data, I-Sec research

Chart 6: Revenue growth



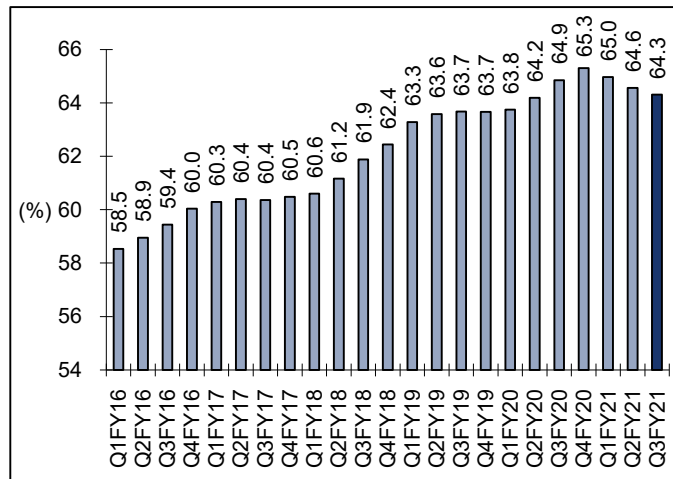
Source: Company data, I-Sec research

Chart 7: Gross margin (%)



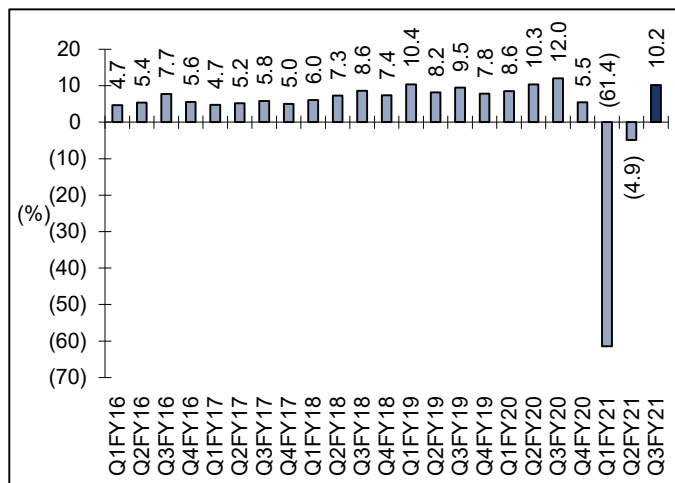
Source: Company data, I-Sec research

Chart 8: Gross margin TTM basis (%)



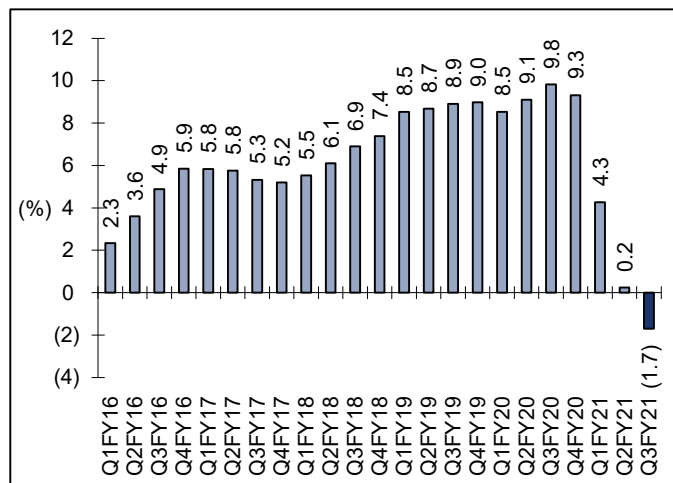
Source: Company data, I-Sec research

Chart 9: Comparable EBITDA margin (%)



Source: Company data, I-Sec research

Chart 10: EBITDA margin TTM basis (%)



Source: Company data, I-Sec research

Financial summary

Table 3: Profit & Loss statement
(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Net Sales & Operating income	15,473	9,896	17,428	20,338
Operating Expenses	13,279	9,204	14,198	16,394
EBITDA	2,194	692	3,231	3,944
<i>% margins</i>	14.2	7.0	18.5	19.4
Depreciation & Amortisation	1,384	1,404	1,450	1,587
Gross Interest	808	839	833	849
Other Income	135	546	557	337
Recurring PBT	137	(1,005)	1,505	1,845
Less: Taxes	28	(253)	379	464
Less: Minority Interest	-	-	-	-
Net Income (Reported)	292	(676)	1,126	1,381
Extraordinaries (Net)	183	76	-	-
Recurring Net Income	110	(752)	1,126	1,381

Source: Company data, I-Sec research

Table 4: Balance sheet
(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	2,277	2,596	3,168	4,078
<i>of which cash & cash eqv.</i>	30	737	1,117	1,901
Total Current Liabilities & Provisions	1,529	1,244	1,618	2,000
Net Current Assets	748	1,352	1,550	2,078
Investments	1,042	743	1,147	1,303
Net Fixed Assets	14,086	12,915	12,639	12,305
Capital Work-in-Progress	226	226	226	226
Total Assets	16,101	15,236	15,562	15,911
Liabilities				
Borrowings	10,331	10,294	9,494	8,744
Deferred Tax Liability	-	-	-	-
Minority Interest	-	-	-	-
Equity Share Capital	311	311	311	311
<i>Face Value per share (Rs)</i>	2	2	2	2
Reserves & Surplus	5,459	4,631	5,757	6,856
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	5,770	4,942	6,068	7,167
Total Liabilities	16,101	15,236	15,562	15,911

Source: Company data, I-Sec research

Table 5: Quarterly trends
(Rs mn, year ending March 31)

	Mar 20	Jun 20	Sep 20	Dec 20
Net sales	3,328	936	2,069	3,239
<i>% growth (YoY)</i>	(0.3)	(75.4)	(47.6)	(24.8)
EBITDA	370	(422)	42	501
Margin (%)	11.1	(45.1)	2.0	15.5
Other income	15	182	146	82
Extraordinaries (Net)	(153)	(1)	(55)	(21)
Adjusted Net profit	(119)	(605)	(271)	22

Source: Company data, I-Sec research

Table 6: Cashflow statement
(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	621	(267)	1,586	2,078
Working Capital Changes	164	130	(221)	101
Capital Commitments	(1,261)	(233)	(1,174)	(1,253)
Free Cashflow	(477)	(369)	191	926
Cashflow from Investing Activities	(676)	584	(617)	(916)
Issue of Share Capital	10	-	-	-
Inc (Dec) in Borrowings	(1,397)	(183)	(909)	(797)
Dividend paid	-	-	-	(281)
Chg. in Cash & Bank balance	(71)	783	380	784
Closing cash & balance	5	737	1,117	1,901

Source: Company data, I-Sec research

Table 7: Key ratios
(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS	0.7	(4.8)	7.2	8.9
Cash EPS	9.6	4.2	16.6	19.1
Dividend per share (DPS)	-	-	-	1.5
Book Value per share (BV)	37.1	31.8	39.0	46.1
Growth (%)				
Net Revenue	10.4	(36.0)	76.1	16.7
EBITDA	81.9	(68.4)	366.7	22.1
PAT	98.0	(187.8)	(350.2)	32.3
DPS	-	-	-	-
Valuation Ratios (x)				
P/E	653.5	(95.1)	63.6	51.8
P/CEPS	47.9	109.8	27.8	24.1
P/BV	12.4	14.5	11.8	10.0
EV / EBITDA	32.9	104.3	22.4	18.3
EV / Sales	4.7	7.3	4.1	3.6
Operating Ratios				
Raw Material / Sales (%)	34.8	35.6	34.0	33.8
Employee cost / Sales (%)	14.2	19.2	12.3	12.0
Royalty cost / Sales (%)	4.6	4.6	5.3	5.3
SG&A / Sales (%)	32.3	33.6	29.9	29.5
Other Income / PBT (%)	98.4	(54.3)	37.0	18.3
Effective Tax Rate (%)	20.1	25.2	25.2	25.2
Working Capital (days)	(16.4)	(30.5)	(12.7)	(12.7)
Inventory Turnover (days)	9.7	14.0	9.5	9.5
Receivables (days)	1.1	1.5	1.1	1.1
Payables (days)	30.2	40.0	28.0	30.0
Net D/E (x)	0.0	(0.0)	(0.2)	(0.4)
Profitability Ratios (%)				
Net Income Margins	0.7	(7.6)	6.5	6.8
RoACE	10.3	(9.9)	25.8	32.5
RoAE	1.9	(14.0)	20.5	20.9
Dividend Payout	-	-	-	20.4
Dividend Yield	-	-	-	0.3
EBITDA Margins	14.2	7.0	18.5	19.4

Source: Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

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