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Q4FY21 result review  
and earnings revision

## Consumer Staples & Discretionary

Target price Rs450

### Earnings revision

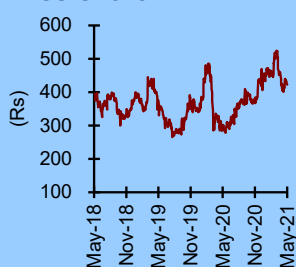
(%)	FY22E	FY23E
Sales	↓ 7.8	↓ 5.5
EBITDA	↓ 13.0	↓ 8.0
EPS	↓ 47.7	↓ 19.6

### Shareholding pattern

(%)	Sep '20	Dec '20	Mar '21
Promoters	59.1	59.1	58.0
Institutional investors	29.4	30.0	31.6
MFs and others	12.6	13.1	12.9
Insurance	6.7	7.2	7.7
FIs	10.1	9.7	11.0
Others	11.5	10.9	10.4

Source: NSE

### Price chart



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# Westlife Development

**ADD**

Maintained

**Rs420**

## Good 4Q; retains store expansion target

4Q performance was robust with revenues up 6.3% (SSSG: +10.5%) on the back of (1) strong recovery in dine-in (70% of pre-Covid in Jan-21) and (2) continued growth momentum in the convenience channel (+42% YoY). Consistent cost optimization (rental benefit, vendor-led benefits, variable staff costs, etc.), drove EBITDA margin print of 11% (adjusting for special bonus for employees). Although dine-in is again impacted (in 1Q) across its core markets, strengthened convenience formats (delivery, drive-thru, takeaway and OTG) continue to perform well this time. Despite near-term uncertainties, management sticks to store expansion target of 20-30 stores for FY22. Long-term benefits from expansion of food service market remain intact. Retain ADD with an unchanged TP of Rs450.

- **Dine-in recovery drives a good quarter:** In 4QFY21, revenue and EBITDA rose 6% and 76%, respectively with same store sales growth of 10.5%. On a sequential basis, revenue was up 10% with dine-in recovering and convenience platforms remaining resilient. MDS reported highest ever monthly sales in March-21 (up 26% YoY in Q4FY21) while other convenience channels of Drive-Thru (+80% YoY) and OTG (3X growth in last nine months) scaled-up well.
- **Maintains FY22 store expansion target:** Westlife added one store (T2 Terminal) in Q4 taking the total store count to 305 (42 cities). In FY2021, Westlife reduced its store-print by 14 stores on a net-basis (closed 19 and added 5) as part of its network optimisation initiative. A key positive is the company sticking to store expansion target of 20-30 store additions for FY22 with long-term real estate deals becoming more attractive for Westlife. It added just 4 McCafe stores in FY2021 as dine-in was impacted for most of the year.
- **Benefit of leaner cost structure seen as revenues recover:** Better sourcing and cost optimisation led to Westlife report its highest-ever gross margin print of 66.5% (up 92/79bps YoY/QoQ) despite subdued performance of margin-accretive McCafe. The quarter had an impact of special bonus for its employees, adjusting for which comparable EBITDA margin expanded to 11.0% (9.1% on reported basis); ROM print of 16.4% was the highest in the last five years. While eventual recovery in dine-in and McCafe will be margin-accretive, the benefit will be partly negated by inflationary RM pressure for the year.
- **Valuation and risks:** We cut our FY22-23 revenue estimates by 6-8%; modelling revenue / EBITDA CAGR of 40 / 145 (%) over FY21-23E. Retain ADD with DCF-based target price unchanged at Rs450. Improved execution engine and accelerated share-gain potential (preference for hygiene) keep us positive. Key downside risks include sustained weak consumer sentiment impacting restaurant throughput and food aggregators impacting economics and profitability in food delivery.

Market Cap	Rs65.4bn/US\$890mn	Year to March	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	WEST.BO/WLDL IN	Revenue (Rs mn)	15,473	9,856	16,078	19,217
Shares Outstanding (mn)	155.8	Adj. Net Profit (Rs mn)	110	(896)	589	1,109
52-week Range (Rs)	524/278	Dil. Rec. EPS (Rs)	0.7	(5.7)	3.8	7.1
Free Float (%)	42.0	% Chg YoY	(72.8)	(916.9)	(165.7)	88.5
FII (%)	11.0	P/E (x)	596.3	(73.0)	111.1	58.9
Daily Volume (US\$/'000)	1,872	CEPS (Rs)	9.6	3.2	13.0	17.2
Absolute Return 3m (%)	(8.3)	EV/EBITDA (x)	30.1	109.1	23.5	18.2
Absolute Return 12m (%)	44.3	Dividend Yield (%)	-	-	-	0.4
Sensex Return 3m (%)	(5.4)	RoCE (%)	10.3	(10.9)	21.4	33.1
Sensex Return 12m (%)	56.9	RoE (%)	1.9	(16.9)	11.5	19.0

Table 1: Q4FY21 results review (Consolidated – without Ind AS116 impact)

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Same store sales growth (%)	10.5	(6.9)	NM	(24.0)	NM	(27.1)	4.0	NM
Number of McDonald's stores	305	319	(14)	304	1	305	319	(14)
<b>Net Revenue</b>	<b>3,576</b>	<b>3,364</b>	<b>6</b>	<b>3,251</b>	<b>10</b>	<b>9,861</b>	<b>15,477</b>	<b>(36)</b>
COGS	(1,198)	(1,158)	3	(1,115)	7	(3,483)	(5,369)	(35)
<b>Gross profit</b>	<b>2,378</b>	<b>2,206</b>	<b>8</b>	<b>2,136</b>	<b>11</b>	<b>6,378</b>	<b>10,108</b>	<b>(37)</b>
Staff cost	(358)	(437)	(18)	(334)	7	(1,226)	(1,690)	(27)
Royalty	(161)	(153)	5	(149)	8	(448)	(706)	(37)
Occupancy and other exp.	(1,273)	(1,254)	2	(1,152)	10	(3,941)	(5,448)	(28)
<b>Restaurant Operating Profit</b>	<b>586</b>	<b>362</b>	<b>62</b>	<b>501</b>	<b>17</b>	<b>763</b>	<b>2,264</b>	<b>(66)</b>
G&A expense	(261)	(177)	47	(170)	53	(787)	(822)	(4)
<b>EBITDA</b>	<b>325</b>	<b>185</b>	<b>76</b>	<b>331</b>	<b>(2)</b>	<b>(24)</b>	<b>1,442</b>	<b>(102)</b>
Other income	28	15	83	59	(53)	212	122	75
Finance Cost	(39)	(31)	24	(43)	(9)	(170)	(149)	14
D&A	(214)	(220)	(3)	(216)	(1)	(868)	(866)	0
<b>PBT</b>	<b>100</b>	<b>(51)</b>	<b>NM</b>	<b>131</b>	<b>(23)</b>	<b>(849)</b>	<b>550</b>	<b>NM</b>
Tax	(48)	29		(28)		210	(128)	
<b>Recurring PAT</b>	<b>52</b>	<b>(22)</b>	<b>NM</b>	<b>103</b>	<b>(49)</b>	<b>(639)</b>	<b>422</b>	<b>NM</b>
Extraordinary items	(31)	(153)		(21)		(108)	(183)	
<b>Net profit (reported)</b>	<b>21</b>	<b>(175)</b>	<b>NM</b>	<b>82</b>	<b>(74)</b>	<b>(747)</b>	<b>239</b>	<b>NM</b>
<b>EPS</b>	<b>0.3</b>	<b>(0.1)</b>	<b>NM</b>	<b>0.7</b>	<b>(49)</b>	<b>(4.1)</b>	<b>2.7</b>	<b>NM</b>
<b>Costs as a % of sales</b>								
COGS	33.5	34.4	-93 bps	34.3	-80 bps	35.3	34.7	63 bps
<b>Gross margin (%)</b>	<b>66.5</b>	<b>65.6</b>	<b>92 bps</b>	<b>65.7</b>	<b>79 bps</b>	<b>64.7</b>	<b>65.3</b>	<b>-64 bps</b>
Staff cost	10.0	13.0	-299 bps	10.3	-25 bps	12.4	10.9	151 bps
Royalty	4.5	4.5	-5 bps	4.6	-9 bps	4.5	4.6	-3 bps
Occupancy and other exp.	35.6	37.3	-167 bps	35.4	15 bps	40.0	35.2	476 bps
<b>ROM (%)</b>	<b>16.4</b>	<b>10.8</b>	<b>561 bps</b>	<b>15.4</b>	<b>96 bps</b>	<b>7.7</b>	<b>14.6</b>	<b>-690 bps</b>
G&A expense	7.3	5.3	202 bps	5.2	205 bps	8.0	5.3	266 bps
<b>EBITDA margin (%)</b>	<b>9.1</b>	<b>5.5</b>	<b>358 bps</b>	<b>10.2</b>	<b>-110 bps</b>	<b>(0.2)</b>	<b>9.3</b>	<b>-956 bps</b>
Income tax rate (%)	48.0	57.6	-962 bps	21.1	2687 bps	24.7	23.2	149 bps

Source: Company data, I-Sec research

Table 2: Q4FY21 results review (Consolidated – with Ind AS116 impact)

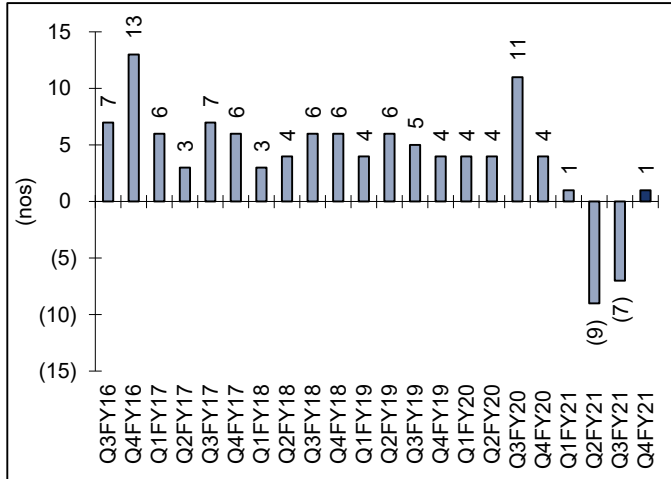
(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Same store sales growth (%)	10.5	(6.9)	1736 bps	(24.0)	3450 bps	(27.1)	4.0	-3106 bps
Number of McDonald's stores	305	319	(14)	304	1	304	315	(11)
<b>Net Revenue</b>	<b>3,576</b>	<b>3,364</b>	<b>6</b>	<b>3,251</b>	<b>10</b>	<b>9,861</b>	<b>15,477</b>	<b>(36)</b>
COGS	(1,198)	(1,158)	3	(1,115)	7	(3,483)	(5,383)	(35)
<b>Gross profit</b>	<b>2,378</b>	<b>2,206</b>	<b>8</b>	<b>2,136</b>	<b>11</b>	<b>6,378</b>	<b>10,094</b>	<b>(37)</b>
Staff cost	(358)	(437)	(18)	(334)	7	(1,226)	(1,690)	(27)
Royalty	(161)	(153)	5	(149)	8	(448)	(706)	(37)
Occupancy and other exp.	(1,099)	(1,068)	3	(982)	12	(3,298)	(4,700)	(30)
<b>Restaurant Operating Profit</b>	<b>760</b>	<b>547</b>	<b>39</b>	<b>671</b>	<b>13</b>	<b>1,406</b>	<b>2,999</b>	<b>(53)</b>
G&A expense	(261)	(177)	47	(170)	53	(787)	(821)	(4)
<b>EBITDA</b>	<b>499</b>	<b>370</b>	<b>35</b>	<b>501</b>	<b>(0)</b>	<b>620</b>	<b>2,178</b>	<b>(72)</b>
Other income	42	15	174	82	(49)	452	128	253
Finance Cost	(204)	(203)	0	(210)	(3)	(845)	(808)	5
D&A	(351)	(354)	(1)	(350)	0	(1,405)	(1,384)	2
<b>PBT</b>	<b>(14)</b>	<b>(172)</b>	<b>(92)</b>	<b>23</b>	<b>(163)</b>	<b>(1,180)</b>	<b>114</b>	<b>NM</b>
Tax	(19)	53		(0)		293	(24)	
<b>Recurring PAT</b>	<b>(33)</b>	<b>(119)</b>	<b>(72)</b>	<b>22</b>	<b>(250)</b>	<b>(887)</b>	<b>90</b>	<b>NM</b>
Extraordinary items	(31)	(153)		(21)		(108)	(183)	
<b>Net profit (reported)</b>	<b>(64)</b>	<b>(272)</b>	<b>(76)</b>	<b>1</b>	<b>(5,475)</b>	<b>(994)</b>	<b>(93)</b>	<b>NM</b>
<b>EPS</b>	<b>(0.2)</b>	<b>(0.8)</b>	<b>(72)</b>	<b>0.1</b>	<b>(250)</b>	<b>(5.7)</b>	<b>1.0</b>	<b>NM</b>
<b>Costs as a % of sales</b>								
COGS	33.5	34.4	-93 bps	34.3	-80 bps	35.3	34.8	54 bps
<b>Gross margin (%)</b>	<b>66.5</b>	<b>65.6</b>	<b>92 bps</b>	<b>65.7</b>	<b>79 bps</b>	<b>64.7</b>	<b>65.2</b>	<b>-55 bps</b>
Staff cost	10.0	13.0	-299 bps	10.3	-25 bps	12.4	10.9	151 bps
Royalty	4.5	4.5	-5 bps	4.6	-9 bps	4.5	4.6	-3 bps
Occupancy and other exp.	30.7	31.8	-104 bps	30.2	50 bps	33.4	30.4	307 bps
<b>ROM (%)</b>	<b>21.3</b>	<b>16.3</b>	<b>497 bps</b>	<b>20.6</b>	<b>61 bps</b>	<b>14.3</b>	<b>19.4</b>	<b>-512 bps</b>
G&A expense	7.3	5.3	202 bps	5.2	205 bps	8.0	5.3	267 bps
<b>EBITDA margin (%)</b>	<b>14.0</b>	<b>11.0</b>	<b>295 bps</b>	<b>15.4</b>	<b>-145 bps</b>	<b>6.3</b>	<b>14.1</b>	<b>-779 bps</b>
Income tax rate (%)	(135.2)	30.7	-16590 bps	1.8	-13698 bps	24.8	20.9	390 bps

Source: Company data, I-Sec research

## Conference call takeaways

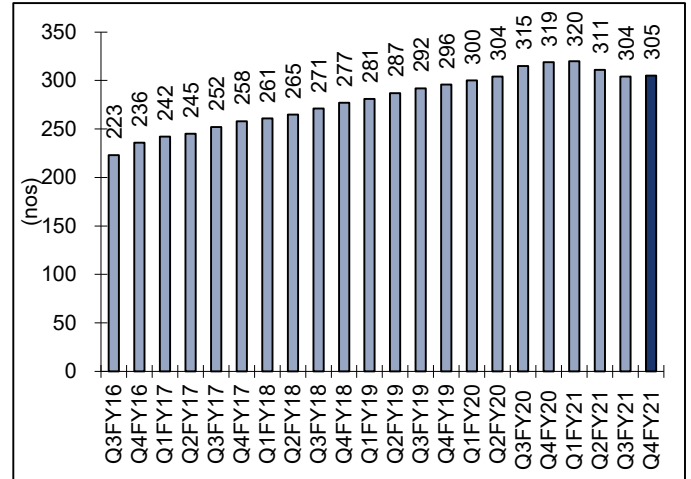
- **Industry trends:** According to management Informal Eating Out (IEO) sector grew by 5-7% in Q4FY21 and within that organised sector has grown by 18% due to consumer preference for hygiene and assurance. Further, eating out frequency grew by 5% with Indian Fast Foods was flattish and Western Fast Food grew. Management also said that they have gained market shares in Western Food Services (WFS) and IEO categories. Management also stated that QSR business has been an impulse business, however the company is now transforming itself into a convenience platform and creating more and more occasions for consumption among consumers.
- **Management plans to open ~20-30 stores from FY22.** It does not expect this trajectory to change much with second wave of covid. Management said that if Q1FY22 is a washout due to second wave of covid than this 20-30 store opening may reduce by 5 stores. Currently, the company has ~5-6 stores under development. Further, management also said that they have secured some attractive real estate deals for future store expansion.
- **Management** intends to mitigate any input inflationary pressure through raw material efficiency and increasing contribution from McCafe (higher margin product).
- **Channel Mix:** Dine-in contributed ~40-45% of sales in Jan'21 while convenience channel contributed around ~55-60% of sales when dine-in was 70% of pre-covid levels in Jan'21.
- **Dine-in:** Dine-in continued recovery sequentially with almost reaching pre-covid levels in Mar'21. Dine-in sales was ~70% of pre-covid in Jan'21.
- **Convenience channels:** Management believes the convenience channel is here to stay. Convenience channels grew by 42% in Q4FY21 and management expect these channels to keep contributing even after things normalise (complementary to dine-in sales) and contribute to SSSG. McDelivery grew by 26% YoY with highest ever McDelivery sales in Mar'21. Drive Thru sales grew by 81% YoY. On the go service grew by ~3x from July'20 to Mar'21.
- **Average ticket size** of convenience channels are higher as compared to dine-in sales.
- **McCafe** is present in around 200+ stores and continue to recover sequentially. Company has started listing McCafe as a separate restaurant.
- **Cost Savings:** Westlife was able to improve the restaurant operating margin with focus on cost optimisation working with vendors and partners.
- **100% of the stores are currently impacted** due to second wave of covid. Dine-in is impacted however McDelivery is operational and has had good response.
- **Company is currently testing gourmet range of burgers** in 5 restaurants each in west and south.
- **Working capital optimisation** and treasury performance has led to almost zero Net Debt at the end of Q4FY21.

**Chart 1: McDonald's store additions (net)**



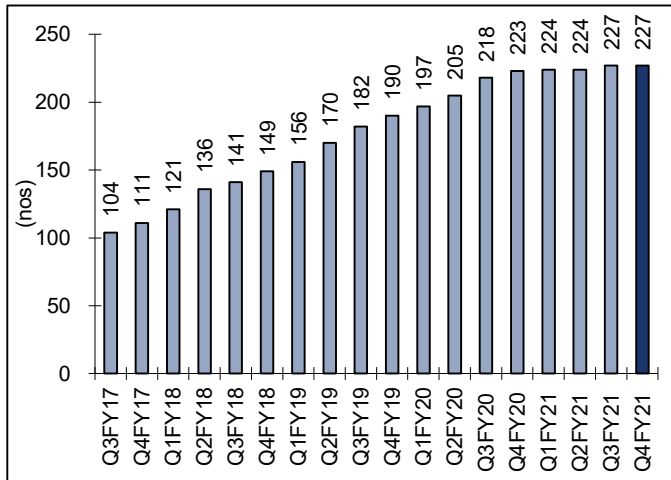
Source: Company data, I-Sec research

**Chart 2: Number of stores – McDonald's**



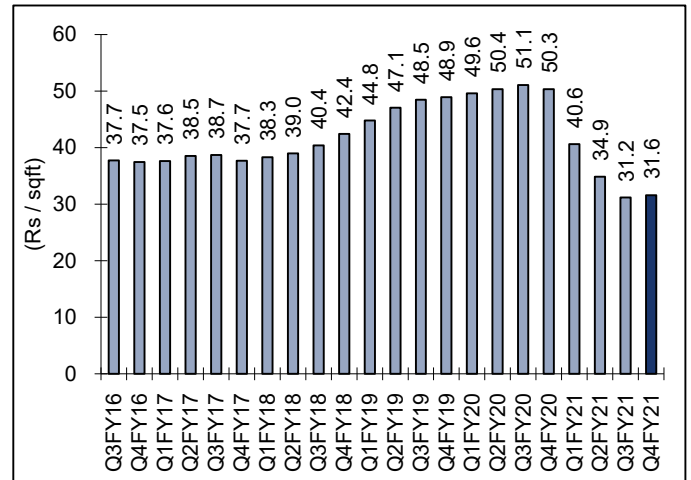
Source: Company data, I-Sec research

**Chart 3: Number of stores – McCafe**



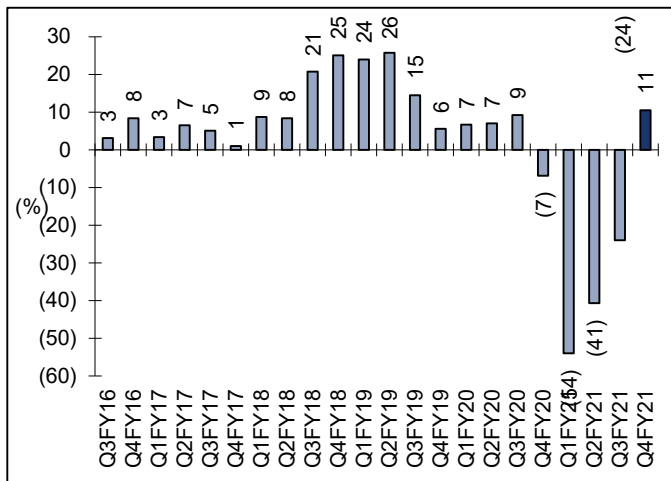
Source: Company data, I-Sec research

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



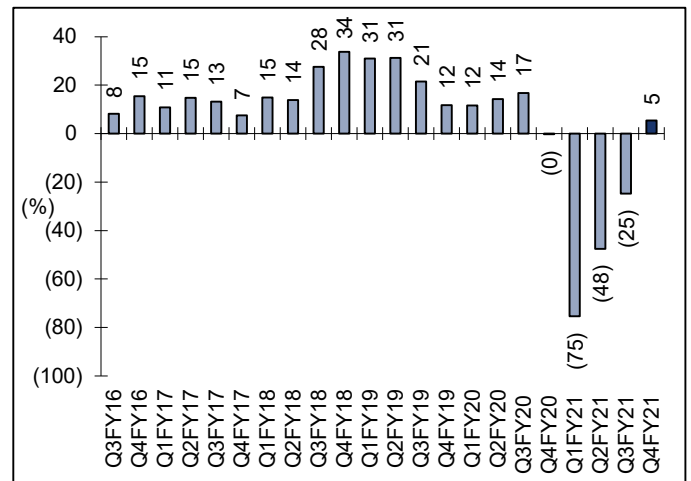
Source: Company data, I-Sec research

**Chart 5: Same store sales growth**



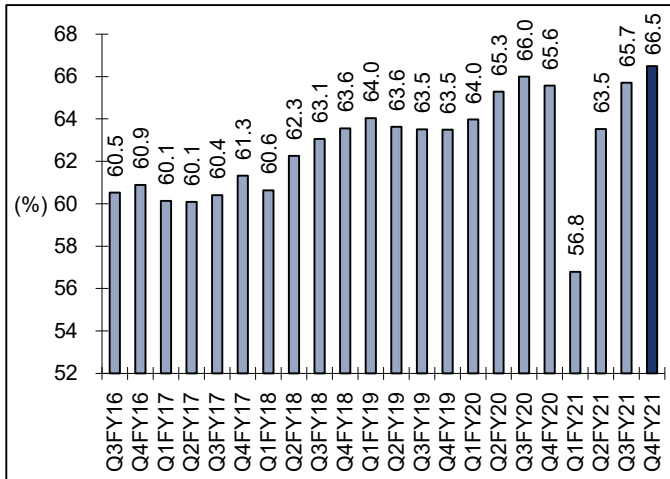
Source: Company data, I-Sec research

**Chart 6: Revenue growth**



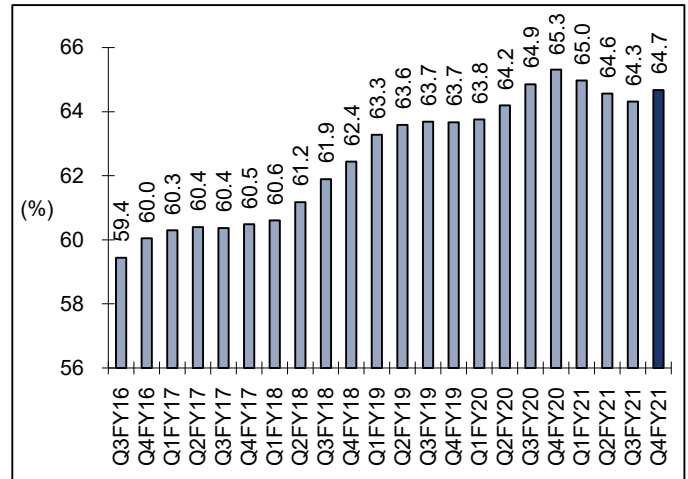
Source: Company data, I-Sec research

**Chart 7: Gross margin (%)**



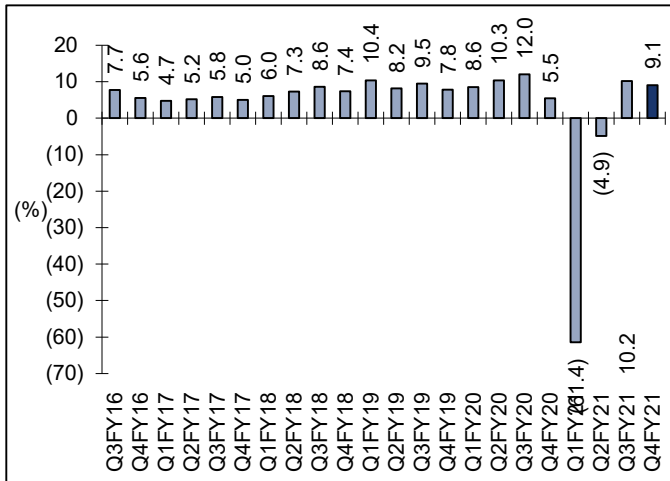
Source: Company data, I-Sec research

**Chart 8: Gross margin TTM basis (%)**



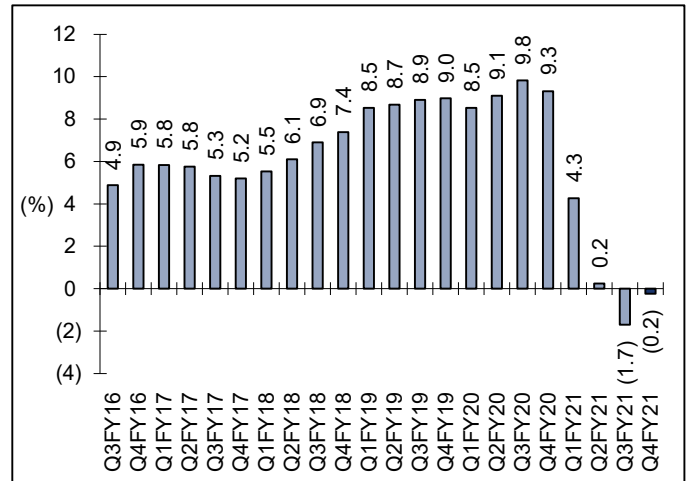
Source: Company data, I-Sec research

**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	FY21P	FY22E	FY23E
<b>Net Sales &amp; Operating income</b>	<b>15,473</b>	<b>9,856</b>	<b>16,078</b>	<b>19,217</b>
<b>Operating Expenses</b>	<b>13,279</b>	<b>9,250</b>	<b>13,267</b>	<b>15,588</b>
<b>EBITDA</b>	<b>2,194</b>	<b>606</b>	<b>2,810</b>	<b>3,629</b>
<i>% margins</i>	14.2	6.1	17.5	18.9
Depreciation & Amortisation	1,384	1,396	1,433	1,571
Gross Interest	808	845	811	807
Other Income	135	447	220	232
<b>Recurring PBT</b>	<b>137</b>	<b>(1,189)</b>	<b>787</b>	<b>1,483</b>
Less: Taxes	28	(293)	198	373
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>292</b>	<b>(797)</b>	<b>589</b>	<b>1,109</b>
Extraordinaries (Net)	183	99	-	-
<b>Recurring Net Income</b>	<b>110</b>	<b>(896)</b>	<b>589</b>	<b>1,109</b>

Source: Company data, I-Sec research

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

	FY20	FY21P	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	2,277	2,761	2,341	3,156
<i>of which cash &amp; cash eqv.</i>	30	110	(410)	307
Total Current Liabilities & Provisions	1,529	2,192	2,099	2,245
<b>Net Current Assets</b>	<b>748</b>	<b>569</b>	<b>243</b>	<b>910</b>
Investments	1,042	1,376	1,923	2,199
Net Fixed Assets	14,086	12,843	11,853	11,535
Capital Work-in-Progress	226	256	256	256
<b>Total Assets</b>	<b>16,101</b>	<b>15,044</b>	<b>14,275</b>	<b>14,901</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>10,331</b>	<b>10,232</b>	<b>8,874</b>	<b>8,624</b>
<b>Deferred Tax Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Minority Interest	-	-	-	-
Equity Share Capital	311	312	312	312
<i>Face Value per share (Rs)</i>	2	2	2	2
Reserves & Surplus	5,459	4,501	5,089	5,965
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>5,770</b>	<b>4,812</b>	<b>5,401</b>	<b>6,277</b>
<b>Total Liabilities</b>	<b>16,101</b>	<b>15,044</b>	<b>14,275</b>	<b>14,901</b>

Source: Company data, I-Sec research

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

	Jun 20	Sep 20	Dec 20	Mar 21
<b>Net sales</b>	<b>936</b>	<b>2,069</b>	<b>3,239</b>	<b>3,509</b>
<i>% growth (YoY)</i>	(75.4)	(47.6)	(24.8)	5.4
<b>EBITDA</b>	<b>(422)</b>	<b>42</b>	<b>501</b>	<b>499</b>
Margin (%)	(45.1)	2.0	15.5	14.2
Other income	182	146	82	42
Extraordinaries (Net)	(1)	(55)	(21)	(31)
<b>Adjusted Net profit</b>	<b>(605)</b>	<b>(271)</b>	<b>22</b>	<b>(33)</b>

Source: Company data, I-Sec research

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

	FY20	FY21P	FY22E	FY23E
<b>Operating Cashflow</b>	640	(387)	1,363	1,871
Working Capital Changes	164	691	(740)	(226)
Capital Commitments	(1,261)	(500)	(1,174)	(1,253)
<b>Free Cashflow</b>	<b>(458)</b>	<b>(197)</b>	<b>(551)</b>	<b>391</b>
<b>Cashflow from Investing Activities</b>	<b>(676)</b>	<b>(740)</b>	<b>(954)</b>	<b>(1,021)</b>
Issue of Share Capital	10	28	-	-
Inc (Dec) in Borrowings	(1,397)	(481)	(1,762)	(280)
Dividend paid	-	-	-	(234)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(52)</b>	<b>94</b>	<b>(1,544)</b>	<b>717</b>
Closing cash & balance	5	110	(410)	307

Source: Company data, I-Sec research

**Table 7: Key ratios**
*(Year ending March 31)*

	FY20	FY21P	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS	0.7	(5.7)	3.8	7.1
Cash EPS	9.6	3.2	13.0	17.2
Dividend per share (DPS)	-	-	-	1.5
Book Value per share (BV)	37.1	30.9	34.7	40.3
<b>Growth (%)</b>				
Net Revenue	10.4	(36.3)	63.1	19.5
EBITDA	81.9	(72.4)	364.1	29.1
PAT	98.0	(197.6)	(274.1)	49.4
DPS	-	-	-	-
<b>Valuation Ratios (x)</b>				
P/E	596.3	(73.0)	111.1	58.9
P/CEPS	43.7	130.6	32.3	24.4
P/BV	11.3	13.6	12.1	10.4
EV / EBITDA	30.1	109.1	23.5	18.2
EV / Sales	4.3	6.7	4.1	3.4
<b>Operating Ratios</b>				
Raw Material / Sales (%)	34.8	35.3	34.2	34.0
Employee cost / Sales (%)	14.2	18.1	12.4	11.8
Royalty cost / Sales (%)	4.6	4.6	5.3	5.3
SG&A / Sales (%)	32.3	35.9	30.6	30.0
Other Income / PBT (%)	98.4	(37.6)	28.0	15.6
Effective Tax Rate (%)	20.1	24.7	25.2	25.2
Working Capital (days)	(16.4)	(44.9)	(10.7)	(4.6)
Inventory Turnover (days)	9.7	17.2	12.0	11.0
Receivables (days)	1.1	3.3	1.2	1.2
Payables (days)	30.2	68.5	35.0	30.0
Net D/E (x)	0.0	0.0	(0.2)	(0.3)
<b>Profitability Ratios (%)</b>				
Net Income Margins	0.7	(9.1)	3.7	5.8
RoACE	10.3	(10.9)	21.4	33.1
RoAE	1.9	(16.9)	11.5	19.0
Dividend Payout	-	-	-	21.1
Dividend Yield	-	-	-	0.4
EBITDA Margins	14.2	6.1	17.5	18.9

Source: Company data, I-Sec research

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