

Industry	Consumers
Bloomberg	WLDL IN
BSE CODE	505533

New stores and brand extensions to drive revenue growth

RATING **NEUTRAL**

CMP	320
Price Target	324
Potential Upside	1%

Rating Change 

Estimate Change 

Target Change 

Stock Info

52wk Range H/L	464/236
Mkt Capital (Rs Cr)	4985
Free float (%)	38%
Avg. Vol 1M (,000)	1488
No. of Shares	16
Promoters Pledged %	0%

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Key Highlights -

- Westlife Development Ltd is the holding company of Hardcastle Restaurants Pvt Ltd which operates McDonalds franchise in Western and Southern in India.
- WESTLIFE reported a sales growth of 32.3% YoY to Rs 350 crores on the back of strong SSSG of 25.7%.
- EBITDA margins came at 8%, up 40bps YoY and reported profit stood at Rs 8 crores.
- McDonalds network currently has 287 restaurants spread across 39 cities. McCafé's extension stands at 170 outlets and McDelivery stores count stand at 194. Capex guidance maintained at 100-120 crores for FY19 with 25-30 new stores.

2Q FY19 Results-

WESTLIFE sales grew by 32.3% YoY to Rs 350 crores in lines with estimate on the back of higher SSSG of 25.7%. Gross Margin came in at 63.6%, lower than our estimate of 64% primarily on account of product mix. Reported EBITDA Margin stood at 8% against our estimate of 10.7% due to higher ad spends and higher than expected ITC denial impact. PAT for the quarter stood at Rs.8 crores indicating PAT margin of 2.2%, significantly lower than our PAT estimate of Rs 19 crores.

View and Valuation

WESTLIFE continued its stellar SSSG run with its strategy in place of generating higher revenue with improvised menu and extensions like McBreakfast, McCafe and McDelivery. The company's original McDonalds store enhancement through 2016 announced ROP 2.0 model and EOTF have provided the company with an additional lever of growth. These strategies in right place is now generating operating leverage and is now rewarding the company with better margins. With the high base of growth from now, we expect the new stores and further brand extensions to deliver for the company sales CAGR of 21% over FY18-20. Currently the royalty rate is at 4% for the company and the company is also enjoying for near no tax due to past losses brought forward. However in FY20 the tax would come in post the utilization of past losses. Also, we have modeled our expectations taking the royalty at 5% i.e. a 1% increase from FY19 level. We have reduced our PAT estimates by 20%/11% for FY19/20e. The rate of royalty remains an uncertainty and may lead to a downside risk to earnings(check Page 3 for sensitivity analysis) and so, we remain cautious and value the stock at 30x EV/EVITDA FY20e to arrive at a price target of Rs 324 and maintain NEUTRAL.

Key Risks to our rating and target

- Rate of royalty
- Rising employee costs, rent and higher A&P spends can dent the margins

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	833	931	1135	1431	1666
EBITDA	43	47	77	136	166
EBIT	-15	-17	10	62	83
PAT	2.8	-12.1	12.9	57.6	63.3
EPS (Rs)	0	-1	1	4	4
EPS growth (%)	-110%	-528%	-206%	348%	10%
ROE (%)	1%	-2%	2%	10%	10%
ROCE (%)	-2%	-2%	1%	8%	11%
BV	35	34	35	39	43
EV/EBITDA (X)	70.4	70.9	64.2	36.3	29.7
P/E (x)	1071.0	-274.2	387.3	86.5	78.7

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2Q FY 19 Results
Lower than estimates
Healthy Growth

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	727	795	780	855	881	21.3%	3.1%	2,546	2,980	17.1%
Other Income	4	3	13	7	11	197.5%	51.8%	14	23	56.9%
COGS	188	203	200	218	224	19.1%	2.8%	616	751	22.0%
Gross Margin	74%	75%	74%	75%	75%	0.1%	0.5%	76%	75%	-1.0%
Employee Cost	156	159	142	155	170	8.8%	10.2%	585	604	3.3%
Rent	73	78	86	84	83	14.2%	-1.4%	299	316	5.7%
Other Expenses	208	219	224	257	257	23.8%	0.1%	800	863	7.8%
EBITDA	102	137	128	142	148	44.4%	3.9%	247	446	81.0%
EBITDA Margin	14%	17%	16%	17%	17%	0.1%	2.7%	10%	15%	5.3%
Depreciation	33	39	38	37	38	18.1%	5.2%	151	156	3.1%
EBIT	70	98	90	106	109	56.7%	3.4%	95	291	204.4%
Interest	-	-	-	-	-	0.0%	0.0%	-	-	0.0%
PBT	73	101	103	113	120	63.7%	6.5%	110	313	185.0%
Exceptional Item	-	-	-	-	-	0.0%	0.0%	(12)	-	-100%
Tax	25	35	35	38	42	70%	11.2%	31	107	250.3%
PAT	48	66	68	75	78	60%	4.0%	67	206	207.0%
PAT Margin	7%	8%	9%	9%	9%	0.1%	2.1%	3%	7%	4.3%

Robust revenue growth led by stellar SSSG

WESTLIFE sales grew by 32.3% YoY to Rs 350 crores in lines with estimate on the back of higher SSSG of 25.7%. The higher SSSG is driven by companies efforts to improvise its menu like recently launch 'rice bowl' menu. Apart from improvised menu, brand extensions like McCafe, Mcbreakfast and McDelivery have further helped in garnering more revenue to the company and also driving higher AUV for the company towards company's Vision 22 target fo 6 crore.

Cost rationalisation and operating leverage continues to aid margins

Gross Margin improved by 90bps YoY to 63.6% during the quarter while it came in lower by 40bps QoQ basis and our estimates primarily on account of lower product mix.

Restaurant Operating Margins (ROM) stood at 13.8%, up 70bps YoY. It came lower than our estimate of 15.7% on account higher ad spends incurred by the company on the launch of new 'rice bowl' range and higher than expected ITC denial impact. Subsequently, EBITDA Margins were impacted and was reported lower at 8% vs our expectation of 10.7%. The operating leverage still continued to come in with efforts like ROP 2.0, improved efficiency and higher SSSG. Going ahead, higher sales growth, further espansion of ROP 2.0 based restaurants and increased value added products sales from brand extensions would drive margins for the company.

Concall Highlights

- ❑ Company opened six new restaurants taking total count to 287 restaurants across 39 cities. Added 14 new McCafé's taking the total count to 170. McDelivery stores count stand at 194. Capex guidance maintained at 100-120 crores for FY19 with 25-30 new stores.
- ❑ Continuing 'The Good Food Story' from April this year, the company introduced whole wheat buns. Launched McBreakfast in the south market this quarter. Launched the new rice platform in this quarter which worked very well and has got tremendous response from customers.
- ❑ Higher gross margins primarily on account of Continuous work around product mix through brand extensions (McCafé and MDS) and increased footfalls.
- ❑ Expansion in Restaurant operating margins (RoM) due to significant operating leverage across labour & utilities led by higher SSSG.
- ❑ General & Administration expenses are higher on account of new joinees/yearly raises and increase in costs due to denial of ITC
- ❑ Business generated through food aggregators is margin accretive.
- ❑ Delivery business as a % of total sales is not that big and company's delivery riders are outsourced. Thus, not facing much impact on cost of acquisition of delivery staff due to food aggregators.
- ❑ The company takes rough 3-5% price hikes YoY. It is staggered over periods of times. Take 2-3% hike at a time. Have already taken one in Q1

Royalty Sensitivity Analysis for FY20

Royalty rate	4%	5%	6%	7%	8%
EBITDA	185	166	147	128	109
<i>EBITDA Margin</i>	<i>11%</i>	<i>10%</i>	<i>9%</i>	<i>8%</i>	<i>7%</i>
<i>Target Price @30x EV/EBITDA FY20e</i>	<i>360</i>	<i>324</i>	<i>287</i>	<i>251</i>	<i>214</i>
<i>Upside</i>	<i>12%</i>	<i>1%</i>	<i>-10%</i>	<i>-22%</i>	<i>-33%</i>

The current rate of royalty is at 4% for the company. In an earlier reported timeline, the royalty rate was proposed to be as high as 8%. However, subsequent to revision from McDonalds, this has been at constant 4% over the past two years. With the growth pace and profitability of the Indian company, any change upwards in the royalty rate would impact the profitability. We have taken a 5% royalty rate for our estimates of FY20 to be cautious. The above table shows the sensitivity of the profitability with the rate of royalty. Our price target at 30x EV/EBITDA FY20e is Rs 324 and maintain NEUTRAL. If the rate stays at current 4%, then the upside could be 12% while an upwards reversion of royalty to 8% would pose a risk of 33% in the stock price.

Exhibit: Net Sales (Rs. Crore) and Gross Margin trend

Sales growth to continue with new stores and brand extensions McCafe, McBreakfast and McDelivery

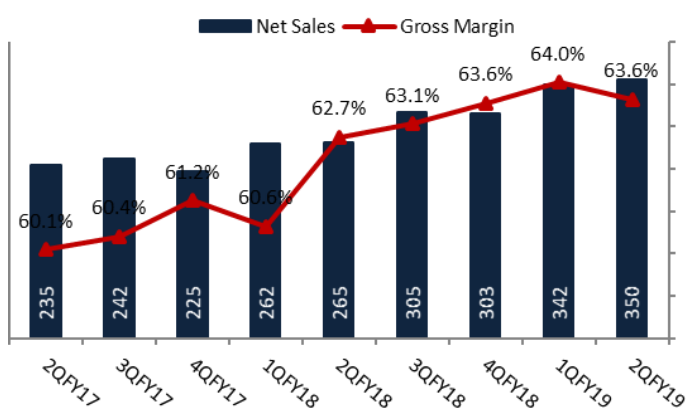


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Operating leverage to continue expanding margins

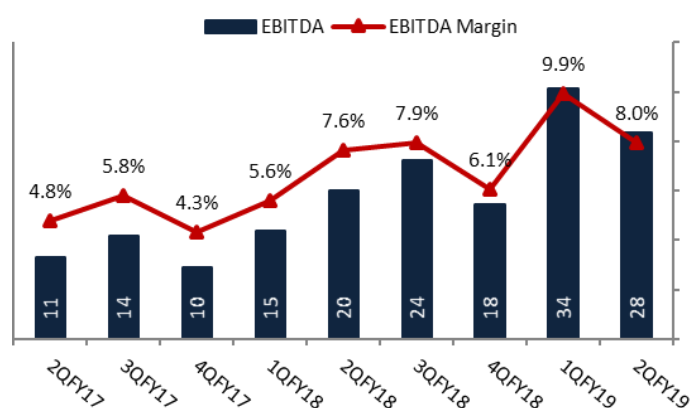


Exhibit: Sales (Rs. Crore) and PAT (Rs. Crore)

Strong Sales and PAT growth to continue going ahead



Exhibit: PAT (Rs. Crore) and PAT Margin trend

Rising operational profit to flow into PAT and PAT margin

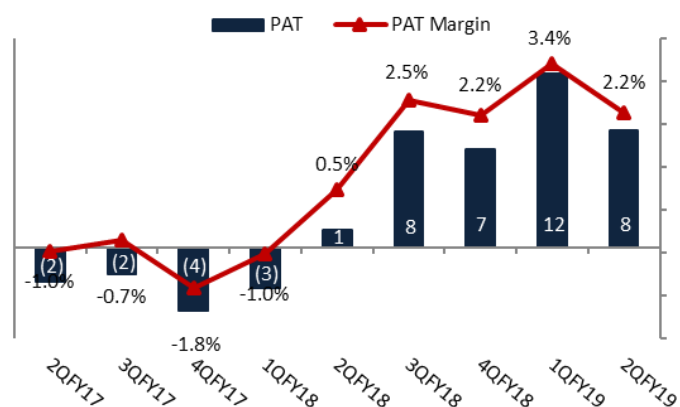


Exhibit: Return Ratios

Return ratios to improve dramatically going ahead

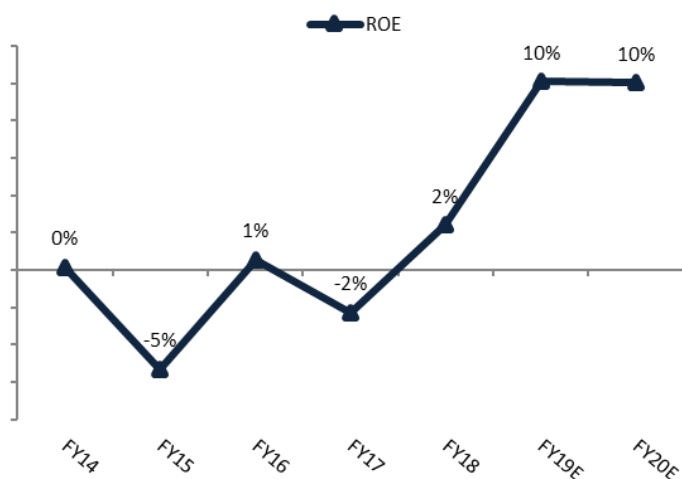
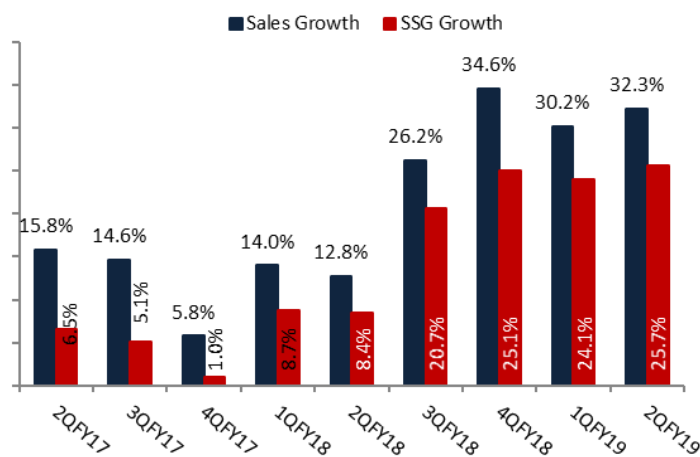


Exhibit: Same Sales Growth Trend

Strong SSSG for 13th consecutive quarter driving sales growth



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	31	31	31	31	31	31	31
<i>Reserves</i>	<i>530</i>	<i>503</i>	<i>507</i>	<i>496</i>	<i>511</i>	<i>569</i>	<i>632</i>
Networth	561	534	538	528	542	600	663
<i>Debt</i>	<i>58</i>	<i>73</i>	<i>131</i>	<i>183</i>	<i>184</i>	<i>147</i>	<i>132</i>
<i>Other Non Current Liab</i>	<i>0</i>	<i>-</i>	<i>-</i>	<i>0</i>	<i>2</i>	<i>2</i>	<i>2</i>
Total Capital Employed	619	607	669	711	728	749	797
<i>Net Fixed Assets (incl CWIP)</i>	<i>441</i>	<i>485</i>	<i>521</i>	<i>548</i>	<i>574</i>	<i>607</i>	<i>664</i>
<i>Non Current Investments</i>	<i>20.0</i>	<i>9.7</i>	<i>25.0</i>	<i>59.6</i>	<i>126.6</i>	<i>126.6</i>	<i>126.6</i>
<i>Other Non Current Assets</i>	<i>72</i>	<i>84</i>	<i>88</i>	<i>95</i>	<i>105</i>	<i>105</i>	<i>105</i>
Non Current Assets	534	579	634	702	805	839	896
<i>Inventory</i>	<i>20</i>	<i>24</i>	<i>28</i>	<i>30</i>	<i>34</i>	<i>41</i>	<i>46</i>
<i>Debtors</i>	<i>6</i>	<i>4</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>8</i>	<i>9</i>
<i>Cash & Bank</i>	<i>12</i>	<i>7</i>	<i>7</i>	<i>7</i>	<i>11</i>	<i>9</i>	<i>1</i>
<i>Other Current Assets</i>	<i>165</i>	<i>159</i>	<i>165</i>	<i>136</i>	<i>73</i>	<i>77</i>	<i>80</i>
Current Assets	203	195	204	178	124	135	137
<i>Creditors</i>	<i>59</i>	<i>57</i>	<i>68</i>	<i>74</i>	<i>108</i>	<i>132</i>	<i>149</i>
<i>Provisions</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>7</i>	<i>6</i>	<i>6</i>	<i>5</i>
<i>Other Current Liabilities</i>	<i>54</i>	<i>104</i>	<i>94</i>	<i>89</i>	<i>87</i>	<i>88</i>	<i>82</i>
Curr Liabilities	118	167	169	170	202	225	236
Net Current Assets	85	28	35	8	(78)	(90)	(99)
Total Assets	737	773	838	880	929	974	1,033

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	740	764	833	931	1,135	1,431	1,666
<i>Change (%)</i>	<i>8%</i>	<i>3%</i>	<i>9%</i>	<i>12%</i>	<i>22%</i>	<i>26%</i>	<i>16%</i>
<i>Other Income</i>	<i>6</i>	<i>16</i>	<i>10</i>	<i>20</i>	<i>18</i>	<i>14</i>	<i>14</i>
EBITDA	43	15	43	47	77	136	166
<i>Change (%)</i>	<i>-26%</i>	<i>-65%</i>	<i>181%</i>	<i>10%</i>	<i>65%</i>	<i>76%</i>	<i>22%</i>
<i>Margin (%)</i>	<i>6%</i>	<i>2%</i>	<i>5%</i>	<i>5%</i>	<i>7%</i>	<i>10%</i>	<i>10%</i>
<i>Depr & Amor.</i>	<i>44</i>	<i>50</i>	<i>58</i>	<i>64</i>	<i>67</i>	<i>74</i>	<i>83</i>
EBIT	(0)	(35)	(15)	(17)	10	62	83
<i>Int. & other fin. Cost</i>	<i>5</i>	<i>10</i>	<i>15</i>	<i>15</i>	<i>15</i>	<i>15</i>	<i>13</i>
EBT	1	(29)	(20)	(12)	13	61	84
<i>Exp Item</i>	<i>-</i>	<i>-</i>	<i>23</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Tax</i>	<i>(0)</i>	<i>0</i>	<i>0</i>	<i>-</i>	<i>-</i>	<i>3</i>	<i>21</i>
<i>Reported PAT</i>	<i>1</i>	<i>(29)</i>	<i>(21)</i>	<i>(12)</i>	<i>13</i>	<i>58</i>	<i>63</i>
Adjusted PAT	1	(29)	3	(12)	13	58	63
<i>Change (%)</i>	<i>-96%</i>	<i>-3155%</i>	<i>-110%</i>	<i>-528%</i>	<i>-206%</i>	<i>348%</i>	<i>10%</i>
<i>Margin(%)</i>	<i>0%</i>	<i>-4%</i>	<i>0%</i>	<i>-1%</i>	<i>1%</i>	<i>4%</i>	<i>4%</i>

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	0%	-5%	1%	-2%	2%	10%	10%
ROCE	0%	-6%	-2%	-2%	1%	8%	11%
Asset Turnover	1.0	1.0	1.0	1.1	1.3	1.5	1.7
Debtor Days	3	2	2	2	2	2	2
Inv Days	23	28	30	30	29	29	29
Payable Days	68	65	74	74	93	93	93
P/E	5,844.3	(155.0)	1,071.0	(274.2)	387.3	86.5	78.7
Price / Book Value	9.9	8.5	5.6	6.3	9.2	8.3	7.5
EV/EBITDA	126.6	292.1	70.4	70.9	64.2	36.3	29.7
EV/Sales	7.4	5.8	3.6	3.6	4.4	3.5	3.0
FCF per Share	(1.0)	(1.4)	0.0	(0.4)	0.5	0.6	0.1
Div Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	1	(29)	3	(12)	13	61	84
(inc)/Dec in Working Capital	(9)	(3)	7	12	51	10	1
Non Cash Op Exp	45	41	55	50	61	60	69
Int Paid (+)	3	9	15	15	15	15	13
Tax Paid	(1)	0	(0)	0	(2)	(3)	(21)
CF from Op. Activities	38	19	80	66	137	144	146
(inc)/Dec in FA & CWIP	(102)	(105)	(77)	(91)	(106)	(108)	(140)
Free Cashflow	(64)	(86)	3	(25)	31	36	6
(Pur)/Sale of Inv	(159)	20	(4)	(1)	(6)	-	-
others	1	1	1	0	0	14	14
CF from Inv. Activities	(260)	(84)	(80)	(91)	(111)	(94)	(126)
inc/(dec) in NW	180	-	0	0	0	0	-
inc/(dec) in Debt	48	36	15	41	(7)	(37)	(15)
Int. Paid	(2)	(9)	(16)	(15)	(15)	(15)	(13)
Div Paid (inc tax)	-	-	-	-	-	-	-
others	(4)	33	(0)	(0)	-	-	-
CF from Fin. Activities	222	61	(0)	26	(22)	(52)	(28)
Inc(Dec) in Cash	(0)	(5)	(1)	0	4	(2)	(8)
Add: Opening Balance	13	12	7	7	7	11	9
Closing Balance	12	7	7	7	11	9	1

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Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300002407, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFIRegistered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited-MCX/NCDEX Commodities Broker: INZ000051636 || Narnolia Velox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited-IRDA Licensed Direct Insurance Broker (Life & Non-Life) License No.134 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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