

Industry Consumers
Bloomberg WLDL IN
BSE CODE 505533

Strong SSSG; FY20 royalty rate to be 4%

RATING	ACCUMULATE
CMP	380
Price Target	423
Potential Upside	11%

Rating Change	↑
Estimate Change	↑
Target Change	↑

Stock Info

52wk Range H/L	464/287
Mkt Capital (Rs Cr)	5911
Free float (%)	38%
Avg. Vol 1M (,000)	70
No. of Shares	16
Promoters Pledged %	0%

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3QFY19 Result Update

- Sales grew by 21.5% YoY to Rs 371 crores. This was achieved on the back of strong SSSG of 14.5% even on a higher base last year.
- Gross margins came at 63.9%, up 80bps YoY and 30bps QoQ due to better product mix and improving supply chain efficiencies.
- Better gross margins and operational efficiency on higher sales volumes helped report improved EBITDA margins at 9.2%, higher by 130bps YoY & 120bps QoQ.
- Strong sales and better margins resulted in a PAT growth of 76.1% YoY to Rs 13.65 crores.
- The company announced that the royalty rate for FY20 to be at 4%.
- During the quarter, company opened eight new restaurants, including the first restaurant in Thiruvananthapuram, Kerala taking the total count to 292 restaurants across 40 cities. McDonald's also added 12 new McCafé's in the quarter, taking the total count to 182.
- The company launched 'What's Your Spice Fest' campaign that offered customers 9 new products with different spices from around the World and 2 new beverages.

View and Valuation

WESTLIFE continued strong SSSG run even on a higher base from last year. The company continued to drive higher revenue with its strategy to improvise menu by bringing in flavors from around the world and launching new products. The extensions like McBreakfast, McCafe and McDelivery continue to ramp-up helping the company to achieve better Average Unit Volume and gross margins. The royalty announcement for FY20 at 4% brings a much needed relief in terms of margins. We continue to believe that the new stores and brand extensions will lead to better revenue even on the high base and expect sales CAGR of 22% over FY18-20. The company currently enjoys nil taxation due to past losses brought forward; however in FY20 the tax would come in post its utilization. Better gross margins through brand extensions & higher volumes of sales, lower rate of royalty and operational efficiency will drive EBITDA margins to 9.7% in FY20. We increase our FY20 PAT estimates by 6% taking into factor the aforementioned points. With the royalty rate for FY20 know, the overhang on the valuations would be cleared and so, we value the stock at 40x EV/EVITDA FY20e to arrive at a price target of Rs 423 and upgrade our rating to ACCUMULATE.

Key Risks to our rating and target

- Slowdown in demand environment impacting AUV growth
- 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	1424	1679
EBITDA	43	47	77	124	163
EBIT	-15	-17	10	45	79
PAT	3	-12	13	46	66
EPS (Rs)	0	-1	1	3	4
EPS growth (%)	-110%	-528%	-206%	257%	43%
ROE (%)	1%	-2%	2%	8%	11%
ROCE (%)	-2%	-2%	1%	6%	10%
BV	35	34	35	38	42
EV/EBITDA (X)	70.4	70.9	64.2	47.4	35.9
P/E (x)	1071.0	-274.2	387.3	129.0	90.2

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3Q FY 19 Results
PAT Lower than estimates
Strong SSSG

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	305	303	342	350	371	21.5%	5.9%	931	1,135	21.9%
Other Income	4	10	1	4	4	-7.1%	-12.4%	20	18	-11.3%
COGS	113	110	123	127	134	18.5%	5.0%	366	425	16.0%
Gross Margin	63%	64%	64%	64%	64%	0.9%	0.3%	61%	63%	1.9%
Employee Cost	47	45	46	49	50	5.6%	1.6%	141	172	21.9%
Other Exp	121	129	139	146	153	26.5%	4.9%	377	461	22.3%
EBITDA	24	18	34	28	34	40.6%	22.3%	47	77	64.8%
EBITDA Mar.	8%	6%	10%	8%	9%	1.2%	1.2%	5%	7%	1.8%
Depreciation	17	18	19	20	20	20.8%	3.4%	64	67	5.6%
EBIT	7	1	15	8	14	85.7%	68.0%	(17)	10	-160%
Interest	4	4	4	4	5	27.7%	12.8%	15	15	-2.4%
PBT	8	7	12	8	13	64.9%	54.2%	(12)	13	-206%
Excpt. Item	-	-	-	-	-	0.0%	0.0%	-	-	0.0%
Tax	-	-	0	0	(1)	0%	-307%	-	-	0.0%
PAT	8	7	12	8	14	76.1%	73.4%	(12)	13	-206%
PAT Margin	3%	2%	3%	2%	4%	1.1%	1.4%	-1%	1%	2.4%

Strong SSSG continues to drive sales higher

Sales grew by 21.5% YoY to Rs 371 crores in line with our estimates on the back of strong SSSG of 14.5% even on a higher base last year. The continuous effort of the management of improving the menu through new product offerings belonging to flavours around the world along with the brand extensions like McCafe, McBreakfast and McDelivery are bearing fruits for the company. The company re-affirmed that it's on the path of achieving its Vision 2022 with growth coming in from new stores and new offerings.

Better product mix and operating leverage continues to aid margins

Gross margins came at 63.9% (estimated 64.1%), up 80bps YoY and 30bps QoQ due to better product mix and improving supply chain efficiencies. Restaurant Operating Margins (ROM) stood at 15.3%, up 30bps YoY. It came lower than our estimate of 16.1% on account higher than average A&P spends incurred by the company. Subsequently, EBITDA Margins were impacted and was reported lower at 9.2% vs our expectation of 10.8%. The improving margins indicate the operational efficiency rising on account of higher volume sales and higher AUV. Going ahead, higher sales growth, further expansion of ROP 2.0 based restaurants and increased value added products sales from brand extensions would drive margins for the company. Strong sales and better margins resulted in a PAT growth of 76.1% YoY to Rs 13.65 crores (estimated Rs 21 crores).

Concall Highlights

- For FY19, the SSSG should be higher in double digits. Going ahead, the company would be comfortable at 7-9% SSSG to achieve its vision 2022.
- Going ahead with the Good Food story, company introduced Whole Wheat Buns across restaurants in Mumbai and the West. The buns have sesame seeds lining that help in better digestion.
- McDonald's added 12 new McCafé's in the quarter, taking the total count to 182. On track to meet target of ~190 for FY 19.
- The highlight of the quarter was 'What's Your Spice Fest' that offered customers 9 new products with different spices from around the World and 2 new beverages.
- During the quarter, the company opened eight new restaurants and closed three restaurants, including the first restaurant in Thiruvananthapuram, Kerala taking the total count to 292 restaurants across 40 cities.
- The royalty for FY20 remains at 4%.
- The company continues to develop Mcdelivery system through own channels and 3rdparty aggregators. The company also put late-night delivery to trial and the response was good.
- Higher than average A&P spends lead to higher other expenses for the quarter.
- The company continues to focus on improving supply chain efficiencies along with the product mix that has aided healthy expansion of gross margin.
- By & large the company maintains the same prices across stores, except for few.
- The company has no plans to go franchise way
- The company continues to be net cash on balance sheet at December 31st.

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

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

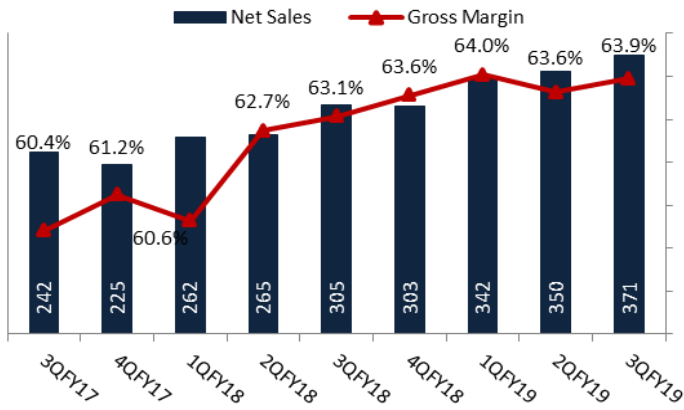


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Operating leverage to continue expand margins

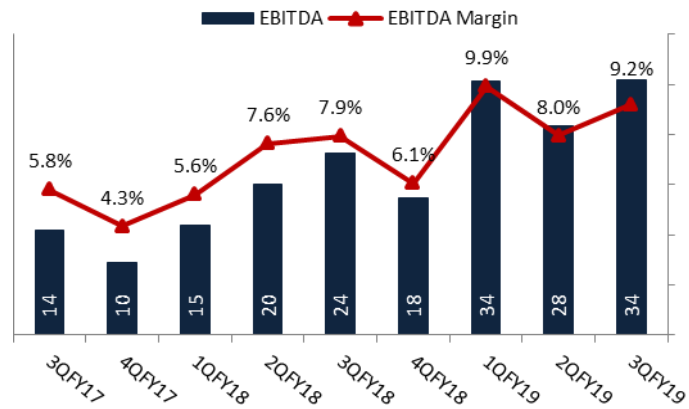


Exhibit: Sales (Rs. Crore) and PAT (Rs. Crore)

Strong Sales and PAT growth to continue going ahead

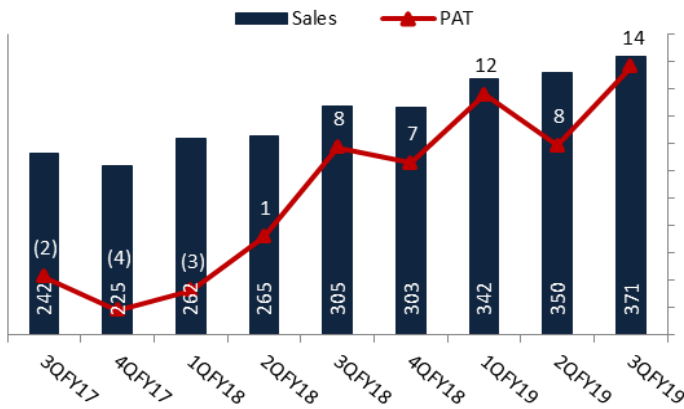


Exhibit: PAT (Rs. Crore) and PAT Margin trend

Rising operational profit to flow into PAT and PAT margin

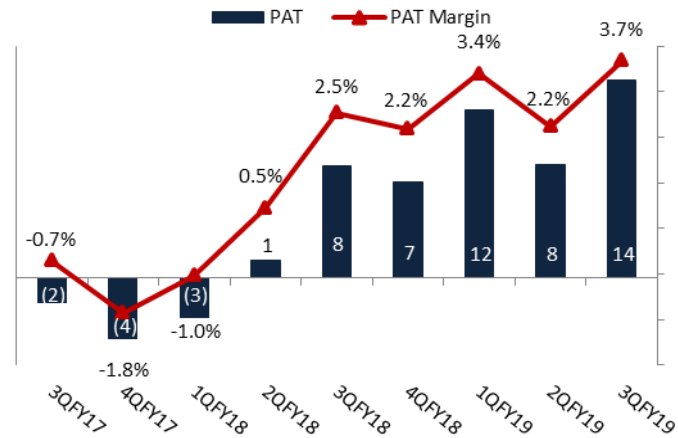


Exhibit: Return Ratios

Return ratios to improve dramatically going ahead

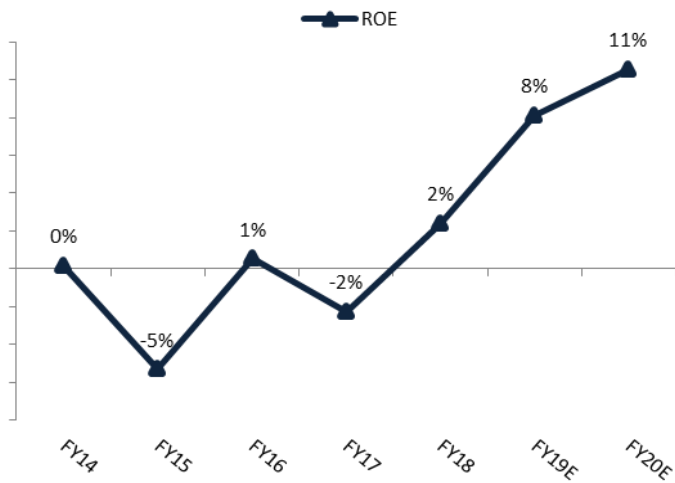
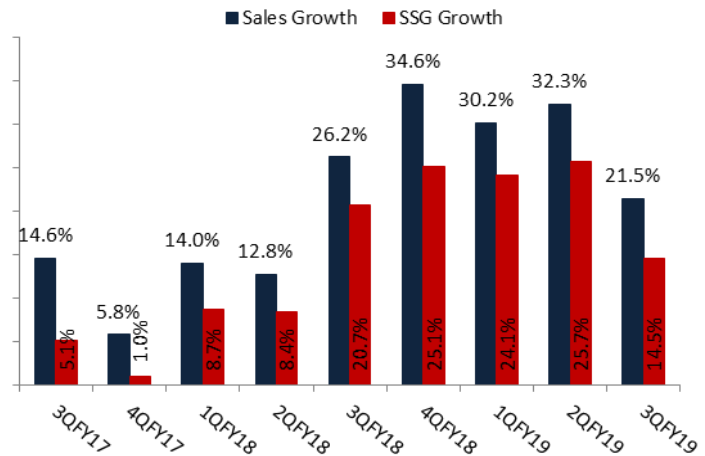


Exhibit: Same Sales Growth Trend

Strong SSSG for 14th 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
Reserves	530	503	507	496	511	557	623
Networth	561	534	538	528	542	588	654
Debt	58	73	131	183	184	147	132
Other Non Current Liab	0	-	-	0	2	2	2
Total Capital Employed	619	607	669	711	728	737	788
Net Fixed Assets (incl CWIP)	441	485	521	548	574	602	658
Non Current Investments	20.0	9.7	25.0	59.6	126.6	71.7	71.7
Other Non Current Assets	72	84	88	95	105	105	105
Non Current Assets	534	579	634	702	805	779	835
Inventory	20	24	28	30	34	41	47
Debtors	6	4	4	5	6	8	10
Cash & Bank	12	7	7	7	11	13	14
Other Current Assets	165	159	165	136	73	119	123
Current Assets	203	195	204	178	124	182	194
Creditors	59	57	68	74	108	131	152
Provisions	5	6	7	7	6	6	5
Other Current Liabilities	54	104	94	89	87	87	84
Curr Liabilities	118	167	169	170	202	224	241
Net Current Assets	85	28	35	8	(78)	(42)	(47)
Total Assets	737	773	838	880	929	961	1,029

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	740	764	833	931	1,135	1,424	1,679
Change (%)	8%	3%	9%	12%	22%	25%	18%
Other Income	6	16	10	20	18	18	18
EBITDA	43	15	43	47	77	124	163
Change (%)	-26%	-65%	181%	10%	65%	60%	32%
Margin (%)	6%	2%	5%	5%	7%	9%	10%
Depr & Amor.	44	50	58	64	67	79	84
EBIT	(0)	(35)	(15)	(17)	10	45	79
Int. & other fin. Cost	5	10	15	15	15	17	14
EBT	1	(29)	(20)	(12)	13	46	82
Exp Item	-	-	23	-	-	-	-
Tax	(0)	0	0	-	-	(0)	16
Reported PAT	1	(29)	(21)	(12)	13	46	66
Adjusted PAT	1	(29)	3	(12)	13	46	66
Change (%)	-96%	-3155%	-110%	-528%	-206%	257%	43%
Margin(%)	0%	-4%	0%	-1%	1%	3%	4%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	0%	-5%	1%	-2%	2%	8%	11%
ROCE	0%	-6%	-2%	-2%	1%	6%	10%
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	(155.0)	1,071	(274.2)	387.3	129.0	90.2
Price / Book Value	9.9	8.5	5.6	6.3	9.2	10.0	9.0
EV/EBITDA	126.6	292.1	70.4	70.9	64.2	47.4	35.9
EV/Sales	7.4	5.8	3.6	3.6	4.4	4.1	3.5
FCF per Share	(1.0)	(1.4)	0.0	(0.4)	0.5	0.4	0.2
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	46	82
<i>(inc)/Dec in Working Capital</i>	(9)	(3)	7	12	51	10	6
<i>Non Cash Op Exp</i>	45	41	55	50	61	61	67
<i>Int Paid (+)</i>	3	9	15	15	15	17	14
<i>Tax Paid</i>	(1)	0	(0)	0	(2)	0	(16)
CF from Op. Activities	38	19	80	66	137	134	152
<i>(inc)/Dec in FA & CWIP</i>	(102)	(105)	(77)	(91)	(106)	(108)	(140)
<i>Free Cashflow</i>	(64)	(86)	3	(25)	31	26	12
<i>(Pur)/Sale of Inv</i>	(159)	20	(4)	(1)	(6)	12	-
<i>others</i>	1	1	1	0	0	18	18
CF from Inv. Activities	(260)	(84)	(80)	(91)	(111)	(78)	(123)
<i>inc/(dec) in NW</i>	180	-	0	0	0	0	-
<i>inc/(dec) in Debt</i>	48	36	15	41	(7)	(37)	(15)
<i>Int. Paid</i>	(2)	(9)	(16)	(15)	(15)	(17)	(14)
<i>Div Paid (inc tax)</i>	-	-	-	-	-	-	-
<i>others</i>	(4)	33	(0)	(0)	-	-	-
CF from Fin. Activities	222	61	(0)	26	(22)	(53)	(29)
Inc(Dec) in Cash	(0)	(5)	(1)	0	4	3	1
<i>Add: Opening Balance</i>	13	12	7	7	7	11	13
Closing Balance	12	7	7	7	11	13	14

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