




Industry Bloomberg BSE CODE	Consumers WLDL IN 505533	5.6% SSG on higher base; slow growth towards Vision 2022
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RATING	HOLD
CMP	348
Price Target	350
Potential Upside	1%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	454/287
Mkt Capital (Rs Cr)	5419
Free float (%)	38%
Avg. Vol 1M (,000)	131
No. of Shares (Cr)	16
Promoters Pledged %	0%

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4QFY19 Result Update

- Sales grew by 12.1% YoY to Rs 339 crores. The sales growth was slower due to SSSG at 5.6% on a higher base last year.
- Gross margins came at 64.1%, up 50bps YoY and 20bps QoQ primarily due to better product mix.
- Better gross margins and operational efficiency on higher sales volumes aid EBITDA margins at 7.3%, higher by 120bps YoY.
- PAT for the quarter stood at Rs 7.14 crores.
- During the quarter, company added 7 new restaurants taking total restaurant count to 296 across 41 cities. The company added 8 new McCafe's taking the total to 190.
- During FY19, the company added 51 delivery hubs, taking the total count to 216.
- The company closed down 1 Dunkin' Donuts store due to poor operational performance & being loss making and total now stands at 31 outlets.

View and Valuation

WESTLIFE SSSG growth slowed down to 5.6% for the Q4 on a higher base last year. The FY19 SSSG of 17% YoY resulted in a revenue growth of 24%. This exponential growth can be majorly attributed to management's steps taken on menu improvisation and brand extensions like McBreakfast, McCafe and McDelivery. While menu improvisation and McCafe helped in premiumisation of product mix resulting in better gross margins, Mcbreakfast and McDelivery along with ROP 2.0 and EOTF helped to extract more from the existing stores cutting down on operational expenses leading to EBITDA margin expansion. The royalty announcement is now known for the foreseeable future and management has assured that their Vision 2022 targets takes this into account. The management has guided to reach to the lower end of Vision 22 guidance to be realistic. Also, post the FY19 results, we are now wary of company's delivery on the Vision 22 target. We continue to believe that the underlying business remains strong. However, we reduce our Sales and PAT estimate by 5% and 14% respectively on the slower addition of stores than expected before. Envisaging the possibility in delay of achieving Vision 22 target especially EBITDA margins, we reduce our target valuation from 45x EV/EVITDA FY20e to 36x EV/EVITDA FY20e and arrive at a price target of Rs 350. With the recent fall in stock prices, the negatives seem to have been priced in. We downgrade our rating from ACCUMULATE to HOLD.

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	FY19	FY20E
Net Sales	833	931	1135	1402	1593
EBITDA	43	47	77	121	151
EBIT	-15	-17	10	41	70
PAT	3	-12	13	40	56
EPS (Rs)	0	-1	1	3	4
EPS growth (%)	-110%	-528%	-206%	213%	40%
ROE (%)	1%	-2%	2%	7%	9%
ROCE (%)	-2%	-2%	1%	5%	8%
BV	35	34	35	37	41
EV/EBITDA (X)	70.4	70.9	64.2	55.5	35.8
P/E (x)	1071.0	-274.2	387.3	165.5	96.2

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4QFY19 Results
Lower than estimates
Margin Expansion continues

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	303	342	350	371	339	12.1%	-8.5%	1,135	1,402	23.5%
Other Income	10	1	4	4	7	-26.1%	93.0%	18	16	-9.6%
COGS	110	123	127	134	122	10.3%	-8.9%	425	506	19.0%
Gross Margin	64%	64%	64%	64%	64%	0.6%	0.2%	63%	64%	1.4%
Employee Cost	45	46	49	50	52	16.1%	4.5%	172	197	14.9%
Other Exp	129	139	146	153	140	8.8%	-8.2%	461	578	25.5%
EBITDA	18	34	28	34	25	35.2%	-27.3%	77	121	56.0%
EBITDA Mar.	6%	10%	8%	9%	7%	1.3%	-1.9%	7%	9%	1.8%
Depreciation	18	19	20	20	21	19.6%	3.1%	67	80	18.5%
EBIT	1	15	8	14	4	389.9%	-72.4%	10	41	305%
Interest	4	4	4	5	5	26.1%	5.6%	15	18	18.1%
PBT	7	12	8	13	6	-8.2%	-52.5%	13	39	205%
Excpt. Item	-	-	-	-	-	0.0%	0.0%	-	-	0.0%
Tax	-	0	0	(1)	(1)	0%	23%	-	(1)	0.0%
PAT	7	12	8	14	7	7.9%	-47.7%	13	40	213%
PAT Margin	2%	3%	2%	4%	2%	-0.1%	-1.6%	1%	3%	1.7%

Lower SSSG on a higher base

Sales grew by 12.1% YoY to Rs 339 crores, lower than our estimates of Rs 361 crores. The SSSG came in lower at 5.6% (est. 11.5%) on a higher base last year. The company continues its efforts to drive sales higher through product premiumisation with the help of improvised menu and brand extensions. The company added net 19 stores for the financial year 19. Also, the company added 41 McCafes and 51 delivery hubs in FY19.

Better product mix and operating leverage continues to aid margins

Gross margins came at 64.1% (estimated 64%), up 50bps YoY and 20bps QoQ due to better product mix and improving supply chain efficiencies. Restaurant Operating Margins (ROM) came in line with our estimate of 13.8%, up 60bps YoY. The improving margins indicate the operational efficiency rising on account of higher volume sales and higher AUV. EBITDA Margins came in at 7.3%, up 120bps YoY lower than our expectation of 7.8%. This was primarily due to lower absorption capacity of corporate expenses due to lower restaurant operating profits in absolute terms. 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.

PAT for the quarter stood at Rs 7.1 crores (estimated Rs 12.7 crores).

Concall Highlights

- Company is well on way to achieve Vision 2022
- FY19 SSSG stands at 17% YoY
- Gross margins expansion can be attributed to better product mix and raw cost reduction
- EBITDA margin expansion is driver by enhanced operating and supply chain efficiency
- Vision 2022 talks about SSSG of 7-9% and EBITDA margin of low to mid-teens i.e. 13-15%. Margins should improve by 100bps every year
- FY19: 25 stores added, 6 closed downs, net added 19. The close downs are a result regular rejig of stores portfolio to keep a check on operation performances and also include relocation cases
- Targeting 25 net store additions in FY20. To catch up with Vision 2022 target of minimum 400 stores, store addition may be ramped up in line with the higher eat out frequency
- 25 stores are now under EOTF from 5 in FY18. 90% of the stores are now of modern design
- Sales of McCafe brand extension increased more than 50% YoY
- The company has started delivery of hot beverages and the response is good. They have also extended operating hours till 1 AM across 50+ stores
- Significant growth from digital channels and tie up with online aggregators
- Company has been doing prudent G&A spends and as an industry norm expect it to drop in % terms to sales over the next four years
- Utility costs have seen the major reduction of costs over the past three years of 300-400bps to sales
- FY19 capex stands at Rs 130 crores. It was higher due to re-imaging of old stores, faster McCafe expansion and EOTF. Expect FY20 capex to be similar

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

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

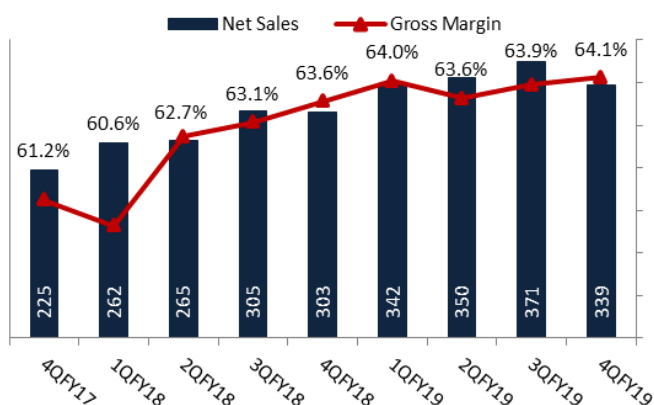


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Operating leverage to continue expand margins

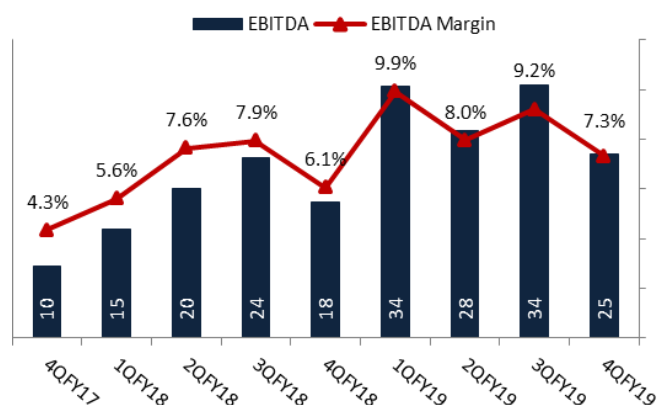


Exhibit: Sales (Rs. Crore) and PAT (Rs. Crore)

Strong Sales and PAT growth to continue going ahead

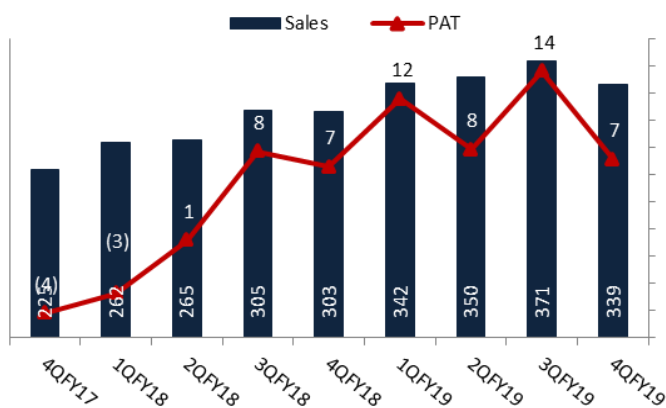


Exhibit: PAT (Rs. Crore) and PAT Margin trend

Rising operational profit to flow into PAT and PAT margin

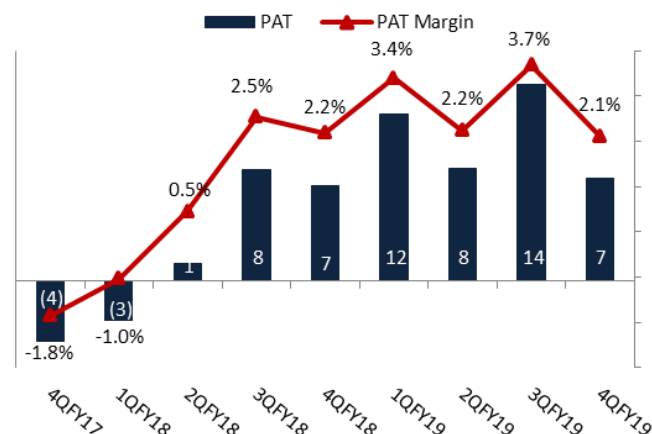


Exhibit: Return Ratios

Return ratios to improve dramatically going ahead

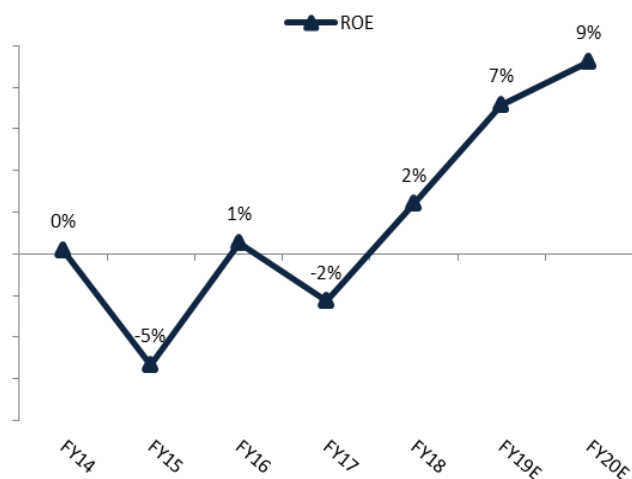
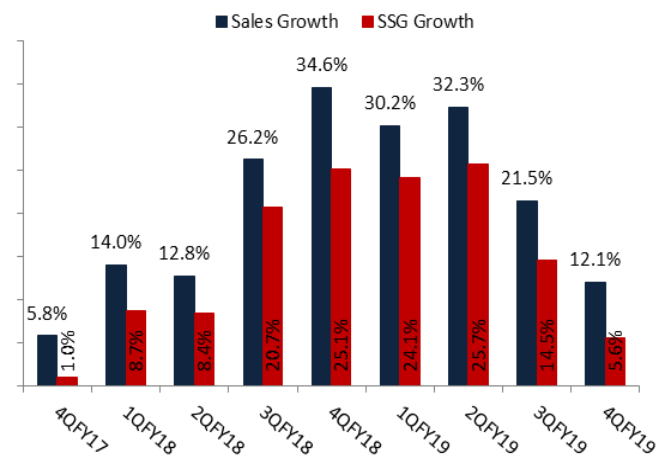


Exhibit: Same Sales Growth Trend

Strong SSSG for 14th consecutive quarter driving sales growth



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	31	31	31	31	31	31	31
Reserves	530	503	507	496	511	552	608
Networth	561	534	538	528	542	583	639
Debt	58	73	131	183	184	234	258
Other Non Current Liab	0	-	-	0	2	3	3
Total Capital Employed	619	607	669	711	728	820	900
Net Fixed Assets (incl CWIP)	441	485	521	548	574	624	650
Non Current Investments	20.0	9.7	25.0	59.6	126.6	95.9	95.9
Other Non Current Assets	72	84	88	95	105	117	117
Non Current Assets	534	579	634	702	805	836	863
Inventory	20	24	28	30	34	41	46
Debtors	6	4	4	5	6	10	11
Cash & Bank	12	7	7	7	11	9	11
Other Current Assets	165	159	165	136	73	128	182
Current Assets	203	195	204	178	124	188	250
Creditors	59	57	68	74	108	118	132
Provisions	5	6	7	7	6	6	7
Other Current Liabilities	54	104	94	89	87	80	74
Curr Liabilities	118	167	169	170	202	204	213
Net Current Assets	85	28	35	8	(78)	(16)	37
Total Assets	737	773	838	880	929	1,024	1,113

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	740	764	833	931	1,135	1,402	1,593
Change (%)	8%	3%	9%	12%	22%	24%	14%
Other Income	6	16	10	20	18	16	18
EBITDA	43	15	43	47	77	121	151
Change (%)	-26%	-65%	181%	10%	65%	56%	25%
Margin (%)	6%	2%	5%	5%	7%	9%	9%
Depr & Amor.	44	50	58	64	67	80	82
EBIT	(0)	(35)	(15)	(17)	10	41	70
Int. & other fin. Cost	5	10	15	15	15	18	21
EBT	1	(29)	(20)	(12)	13	39	66
Exp Item	-	-	23	-	-	-	-
Tax	(0)	0	0	-	-	(1)	10
Reported PAT	1	(29)	(21)	(12)	13	40	56
Adjusted PAT	1	(29)	3	(12)	13	40	56
Change (%)	LTP	PTL	LTP	PTL	LTP	213%	40%
Margin(%)	0%	-4%	0%	-1%	1%	3%	4%

*LTP - Loss to Profit, PTL - Profit to Loss

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	0%	-5%	1%	-2%	2%	7%	9%
ROCE	0%	-6%	-2%	-2%	1%	5%	8%
Asset Turnover	1.0	1.0	1.0	1.1	1.3	1.4	1.5
Debtor Days	3	2	2	2	2	3	3
Inv Days	23	28	30	30	29	30	30
Payable Days	68	65	74	74	93	85	85
P/E	5,844	(155.0)	1,071	(274.2)	387.3	165.5	96.2
Price / Book Value	9.9	8.5	5.6	6.3	9.2	11.4	8.5
EV/EBITDA	126.6	292.1	70.4	70.9	64.2	55.5	35.8
EV/Sales	7.4	5.8	3.6	3.6	4.4	4.8	3.4
FCF per Share	(1.0)	(1.4)	0.0	(0.4)	0.5	(0.5)	0.5
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	39	66
(inc)/Dec in Working Capital	(9)	(3)	7	12	51	(25)	(2)
Non Cash Op Exp	45	41	55	50	61	53	64
Int Paid (+)	3	9	15	15	15	18	21
Tax Paid	(1)	0	(0)	0	(2)	1	(10)
CF from Op. Activities	38	19	80	66	137	97	139
(inc)/Dec in FA & CWIP	(102)	(105)	(77)	(91)	(106)	(130)	(108)
Free Cashflow	(64)	(86)	3	(25)	31	(33)	31
(Pur)/Sale of Inv	(159)	20	(4)	(1)	(6)	(18)	(50)
others	1	1	1	0	0	16	18
CF from Inv. Activities	(260)	(84)	(80)	(91)	(111)	(132)	(141)
inc/(dec) in NW	180	-	0	0	0	0	-
inc/(dec) in Debt	48	36	15	41	(7)	50	24
Int. Paid	(2)	(9)	(16)	(15)	(15)	(18)	(21)
Div Paid (inc tax)	-	-	-	-	-	-	-
others	(4)	33	(0)	(0)	-	-	-
CF from Fin. Activities	222	61	(0)	26	(22)	33	3
Inc(Dec) in Cash	(0)	(5)	(1)	0	4	(2)	2
Add: Opening Balance	13	12	7	7	7	11	9
Closing Balance	12	7	7	7	11	9	11

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