

Q1FY23 Result Update

Westlife Development Ltd

Performance upswing with dine-in channel back in play

- Westlife Development (WDL) posted strong numbers across parameters, with revenue being 15% higher than our estimate (INR538cr vs est. of INR467cr), fired up by SSSG of 97% YoY (on a low base). Revenue per store continually increased to INR6.7cr (Q4FY22: INR6cr). Dine-in channel (58% of sales) grew by 14% from the pre-COVID-19 base, whereas convenience channel (42% of sales) grew 14% YoY.
- R.M. inflation brought about a 112bps YoY contraction in gross margins to 64.3%; however, cost-saving in employee spends and other overheads resulted in strong EBITDA beat (INR87cr vs est. of INR68cr) with improvement of 239bps in EBITDA margins on QoQ basis.
- On account of a fully normalized quarter after the COVID-19-induced lockdown, PAT came in at INR24cr against loss of INR33cr in the same quarter last year.
- The company opened 5 stores during the quarter, taking up its tally to 331 stores (12 stores are under ground-break). It also opened 5 McCafes and 12 EOTFs, increasing the total to 267 and 132, respectively. Westlife also plans to add 35–40 new restaurants on full-year basis.
- We maintain our BUY rating with a target price of INR688/share.

Focused strategy for dine-in channel ensues superior results

Dine-in format has been under pressure over the last two years amid the WFH scenario, with most QSR players completely changing their focus towards the convenience channel. However, WDL continued to open delivery-led large-sized stores (40-50% higher than industry average), as burgers are largely out-of-home consumption items. This strategy paid rich dividends to the company as its revenue per store improved by ~20% to INR6.7cr over the last one year (WDL's revenue per store was already ~40% higher than competition). Going forward, the company expects to maintain dine-in: delivery mix of 60:40 as the convenience channel continues to post decent growth (14% YoY on a strong base). We expect WDL to post a 26% revenue CAGR over FY22-24, led by strong footfalls, menu innovations and higher store opening run-rate.

Operating margins continue to impress

Despite high commodity inflation and COVID-19-led lockdown restrictions, WDL's margin profile has been resilient, with operating margin improving 200bps over two years. The key pillars of margin improvement are (a) higher revenue per store, (b) premiumisation strategy and (c) cost optimisation initiatives. Not only this, the company's continued focus on high-margin McCafes is also aiding its overall margin profile. With normalisation setting in, we expect WDL's margin profile to improve further and reach 17% by FY24E (from ~14% in FY20), driven by higher salience of McCafes, menu innovations from WDL on the premium end and supply chain efficiencies.

Valuations: Positive outlook, maintain BUY

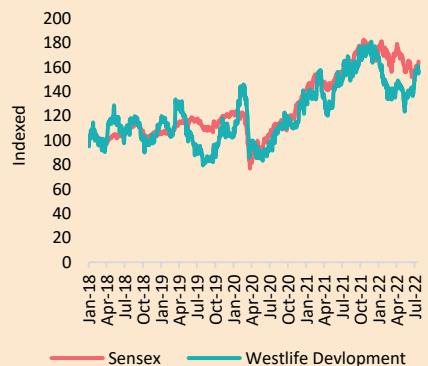
With the economy re-opening, WDL's revenue per store reached its highest ever at INR6.7cr. We expect its dine-in format to gain impetus, further enhancing the revenue per store to around INR7-7.5cr over the medium term. Although WDL opened only 5 stores during the quarter, 12 stores are already under ground-break as the company has guided to open 35-40 stores in FY23 (much better than erstwhile run-rate of 20-25 stores). The company took pricing action in the quarter to mitigate commodity inflation; moreover, we believe supply chain efficiencies and better product mix would continue to enhance its margin profile and return ratios. With a strong beat on earnings, we revise our revenue, EBITDA and PAT estimates upwards by 7%, 5% and 9%, respectively. We reiterate our BUY recommendation on the stock with a revised target price of INR688/share (previous TP: INR 658/share), valuing the company at 25x FY24E EV/EBITDA.

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CMP: INR 585
Rating: BUY
Target price: INR 688
Upside: 18%
Date: July 31, 2022

Bloomberg	WLDL:IN
52-week range (INR):	402/ 629
Share in issue (crore):	16
M-cap (INRcr):	9,111
Promoter holding (%)	56.98



	Q1FY23	Q1FY22	%YoY	Q4FY22	%QoQ	FY22	FY23E	FY24E
Net Sales (INR cr)	538	259	108	455	18.2	1,576	2,094	2,507
Growth (%)						59.9	32.8	19.7
EBITDA (INR cr)	87	2	NA	63	38.7	189	341	425
EBITDA margins (%)	16.2%	1.0%	NA	13.8%	239 bps	12.0%	16.3%	17.0%
Adj. PAT (INR cr)	24	-33	NA	15	53.8	-2	110	181
% growth						NA	NA	65
P/Sales (x)						5.9	4.4	3.7
EV/EBITDA (x)						49.1	27.1	21.6

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Particulars (INR cr)	Q1FY23	Q1FY22	% YoY	Q4FY22	% QoQ	FY22	FY23E	FY24E
Income from operations	537.9	259.2	107.6	455.1	18.2	1,576.5	2,094.3	2,507.2
Gross Profit	345.9	169.5	104.0	295.9	16.9	1,031.4	1,378.0	1,667.3
Gross margins %	64.3	65.4	-112bps	65.0	-73bps	65.4	65.8	66.5
Employee expenses	60.1	40.7	47.6	61.8	(2.8)	209.5	261.8	318.4
Other expenses	198.5	126.3	57.2	171.2	16.0	632.6	775.2	923.4
EBITDA	87.3	2.5	NA	62.9	38.7	189.2	341.1	425.5
EBITDA margins %	16.2	1.0	NA	13.8	239bps	12.0	16.3	17.0
Depreciation	35.8	33.2	7.8	34.6	3.3	136.4	143.2	150.4
Interest expenses	21.5	20.3	5.9	20.9	3.1	82.6	81.0	64.8
Other income	1.8	6.4	(71.8)	13.1	(86.2)	27.7	29.1	30.6
Profit before tax	31.8	(44.6)	NA	20.6	54.5	(2.1)	146.0	240.9
Profit after tax	23.6	(33.4)	NA	15.3	53.8	(2.1)	109.5	180.7
Extraordinary items	-	-	-	-	-	-	-	-
Adjusted net profit	23.6	(33.4)	NA	15.3	53.8	(2.1)	109.5	180.7

Revised Estimates

(INR cr)	FY23E			FY24E		
	Old	Revised	Change (%)	Old	Revised	Change (%)
Net sales	1,962	2,094	6.8	2,340	2,507	7.1
Other income	29	29	-	31	31	-
Total Income	1,991	2,123	-	2,371	2,538	-
EBITDA	315	341	8.2	404	425	5.4
EBITDA margin (%)	16.1	16.3	-	17.2	17.0	-
PBT	123	146	19.0	221	241	9.0
PBT margin	6.2	6.9	-	9.3	9.5	-
Net Profit	92	110	19.0	166	181	9.0
Adjusted Net profit	92	110	19.0	166	181	9.0
EPS (Rs.)	5.9	7.0	19.0	10.6	11.6	9.0
Adj EPS (Rs)	5.9	7.0	19.0	10.6	11.6	9.0

Source: Edelweiss Wealth Research

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Exhibit 1: Revenue growth trend (INR cr)



Exhibit 2: Strong recovery in SSSG

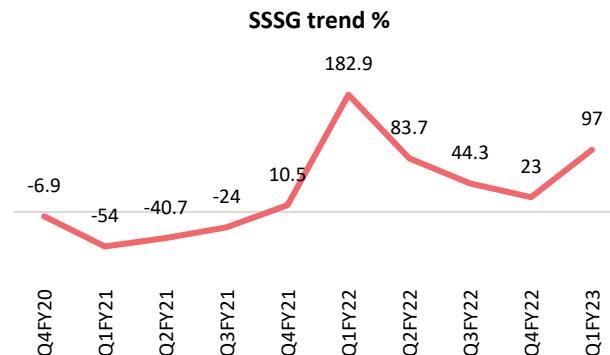


Exhibit 3: Gross margin to continue moving upward

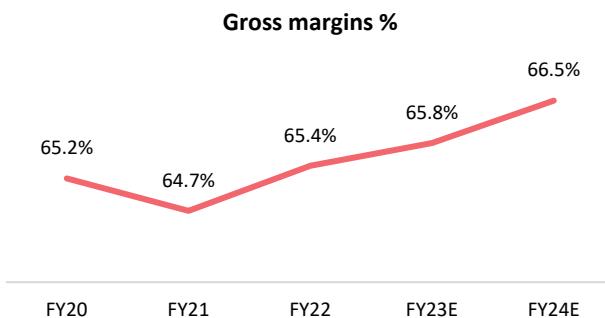
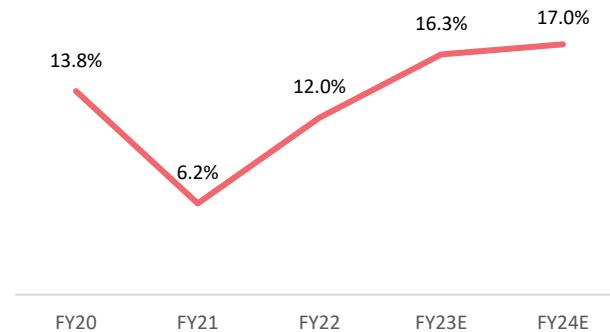


Exhibit 4: Operating margins to move in tandem with gross margin



Source: Edelweiss Wealth Research

Exhibit 5: Total number of stores



Source: Edelweiss Wealth Research

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Previous outlook

Q4FY22: WDL's revenue per store hit INR6cr consecutively over the last two quarters (despite this quarter being impacted by lockdown restrictions in Jan'22). With the economy re-opening, its dine-in format would gain impetus, thereby improving the average revenue per store going forward. The company took price hikes in May'22 to mitigate commodity inflation; however, we believe supply chain efficiencies and better product mix would help it enhance margin profile and return ratios further from here. We reiterate our 'BUY' recommendation on the stock with a target price of INR658/share, valuing the company at 26x FY24E EV/EBITDA.

Q3FY22: WDL's revenue per store has increased significantly, as it has reached INR6cr per store this quarter (up from INR5cr per store in FY21). The company's thrust on higher throughput via menu innovation (premium gourmet burgers), brand extensions and combo meals is reaping rich dividends. With the maturity of existing restaurants and expansion of high-growth and profitable brand extensions (chicken, cafes, beverages and desserts segments), we expect WDL's average revenue per store to further inch up from the current levels, thereby enhancing its margins and return ratios going forward. We reiterate our 'BUY' recommendation on the stock with a target price of INR658/share, valuing the company at 26x FY24E EV/EBITDA.

Q4FY22

Q3FY22

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Financials

Income statement

Year to March	FY20	FY21	FY22	FY23E	FY24E
Income from operations	1,547	986	1,576	2,094	2,507
Direct costs	538	348	545	716	840
Employee costs	219	178	210	262	318
Other expenses	576	399	633	775	923
Total operating expenses	1,334	925	1,387	1,753	2,082
EBITDA	214	61	189	341	425
Depreciation and amortisation	138	154	136	143	150
EBIT	75	-93	53	198	275
Interest expenses	81	85	83	81	65
Other income	13	44	28	29	31
Profit before tax	8	-133	-2	146	241
Provision for tax	-1	0	0	37	60
Core profit	9	-133	-2	110	181
Extraordinary items	17	-4	0	0	0
Profit after tax	-7	-129	-2	110	181
Minority Interest	0	0	0	0	0
Share from associates	0	0	0	0	0
Adjusted net profit	-7	-129	-2	110	181
Equity shares outstanding (Cr)	16	16	16	16	16
EPS (INR) basic	-0.5	-6.4	-0.1	7.0	11.6
Diluted shares (Cr)	16	16	16	16	16
EPS (INR) fully diluted	(0.5)	(6.4)	(0.1)	7.0	11.6
Dividend per share	0	0	0	0	0
Dividend payout (%)	0	0	0	0	0

Common size metrics- as % of net revenues

Year to March	FY20	FY21	FY22	FY23E	FY24E
Operating expenses	86.2	93.8	88.0	83.7	83.0
Depreciation	8.9	15.6	8.7	6.8	6.0
Interest expenditure	5.2	8.6	5.2	3.9	2.6
EBITDA margins	13.8	6.2	12.0	16.3	17.0
Net profit margins	(0.5)	(13.1)	(0.1)	5.2	7.2

Growth metrics (%)

Year to March	FY20	FY21	FY22	FY23E	FY24E
Revenues	10.4	(36.3)	59.9	32.8	19.7
EBITDA	77.0	(71.4)	210.2	80.3	24.7
PBT	(80.0)	(1,790.0)	98.4	NA	65.0
Net profit	(76.9)	(1,534.7)	98.5	NA	65.0
EPS	(118.2)	(1,253.7)	97.9	NA	65.0

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Balance sheet					
As on 31st March	FY20	FY21	FY22	FY23E	FY24E
Equity share capital	31	31	31	31	31
Preference Share Capital	0	0	0	0	0
Reserves & surplus	546	450	431	540	721
Shareholders funds	577	481	462	572	752
Secured loans	119	0	0	0	0
Unsecured loans	65	215	201	181	161
Borrowings	184	215	201	181	161
Minority interest	0	0	0	0	0
Sources of funds	761	696	663	753	913
Gross block	775	880	1,024	1,174	1,324
Depreciation	232	386	522	665	816
Net block	543	495	502	509	509
Capital work in progress	23	26	36	36	36
Intangible Assets	93	89	88	88	88
Total fixed assets	660	609	626	633	632
Right to use assets/Other non-current assets	771	701	772	782	792
Investments	157	198	150	170	220
Inventories	41	47	56	69	82
Sundry debtors	5	9	13	6	7
Cash and equivalents	3	11	23	50	102
Loans and advances	46	3	7	17	27
Other current assets	80	146	150	170	180
Total current assets	175	215	249	311	398
Sundry creditors and others	210	264	268	286	281
Provisions	10	10	13	14	15
Total CL & provisions	220	274	281	300	296
Net current assets	-45	-59	-32	11	102
Lease liabilities/Other long term liabilities	782	753	854	844	834
Misc expenditure	0	0	0	0	0
Uses of funds	761	696	663	753	913
Book value per share (INR)	37	31	30	37	48

Cash flow statement					
Year to March	FY20	FY21	FY22	FY23E	FY24E
Net profit	-7	-138	-2	110	181
Add: Depreciation	138	154	136	143	150
Add: Misc expenses written off/Other Assets	0	0	0	0	0
Add: Deferred tax	0	0	0	0	0
Add: Others	0	0	0	0	0
Gross cash flow	131	16	134	253	331
Less: Changes in W. C.	87	-22	15	16	39
Operating cash flow	44	39	119	237	292
Less: Capex	220	108	154	150	150
Free cash flow	-176	-70	-35	87	142

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Ratios

Year to March	FY20	FY21	FY22	FY23E	FY24E
ROAE (%)	1.6	-19.6	-0.4	21.2	27.3
ROACE (%)	9.5	-12.7	7.8	28.0	33.0
Debtors (days)	1	3	1	1	1
Current ratio	1	1	1	1	1
Debt/Equity	0.3	0.4	0.4	0.3	0.2
Inventory (days)	10	17	11	12	12
Payable (days)	50	98	40	35	30
Cash conversion cycle (days)	-39	-77	-28	-22	-17
Debt/EBITDA	1	4	1	1	0
Adjusted debt/Equity	0.0	0.0	0.1	(0.1)	(0.2)

Valuation parameters

Year to March	FY20	FY21	FY22	FY23E	FY24E
Diluted EPS (INR)	(0.5)	(6.4)	(0.1)	7.0	11.6
Y-o-Y growth (%)	(118.2)	1,253.7	(97.9)	(5,398.8)	65.0
CEPS (INR)	9.5	3.2	8.6	16.2	21.2
Diluted P/E (x)	(681.3)	(72.0)	(4,410.1)	83.2	50.4
Price/BV(x)	8.6	14.9	19.7	15.9	12.1
EV/Sales (x)	3.3	7.5	5.9	4.4	3.7
EV/EBITDA (x)	22.8	85.0	49.1	27.1	21.6
Diluted shares O/S	15.6	15.6	15.6	15.6	15.6
Basic EPS	(0.5)	(6.4)	(0.1)	7.0	11.6
Basic PE (x)	(681.3)	(72.0)	(4,410.1)	83.2	50.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

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The Team

Analysts	Sector
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Sandeep Raina	Head - Fundamental
Sagar Doshi	Head - Trading
Arun Jain	Practice Head - Trading
Kavita Chacko	Chief Economist
Dharmesh Kant	Practice Head - Trading
Praveen Sahay	Consumption, Healthcare, Building Materials
Kapil Jagasia	Consumption, Textile, QSR, Retail
Raj Jha	BFSI, NBFC
Jigar Jani	BFSI, NBFC
Anshul Verdia	Power , Chemicals
Himanshu Yadav	Cement, Logistics, Mid-caps
Sushil Sharma	IT, Capital Goods, Defence
Mohit Gupta	Auto, Auto-Anc.
Tushar Chaudari	Metals, Mid- Caps
Parag Shah	Technical Analyst
Ankit Narshana	Option Trader

Sales Team	Location
Sharad Tripathi	Mumbai
Ketan Malkan	Mumbai
Vikas Sharma	Bengaluru
Abhishek Agarwal	Kolkata
Vivek Khanna	Delhi

Coverage Universe

Sr. No	Coverage
1	Aditya Birla Fashion & Retail Ltd
2	Aegis Logistics Ltd
3	Amber Enterprises India Ltd
4	Astral Ltd
5	Balaji Amines Ltd
6	Bata India Ltd
7	Birla Corporation Limited
8	Can Fin Homes Ltd
9	Century Plyboards India Ltd
10	Cholamandalam Inv and Finance Ltd
11	City Union Bank Ltd
12	CreditAccess Grameen Ltd
13	Crompton Greaves Consumer Electricals Ltd
14	CSB Bank Ltd
15	Deepak Nitrite Ltd
16	Easy Trip Planner Ltd
17	Escorts Ltd
18	Finolex Industries Ltd
19	Home First Finance Company India Ltd
20	Indo Count Industries Ltd
21	K P R Mill Ltd
22	KNR Constructions Ltd
23	Krishna Institute of Medical Sciences Ltd
24	Lumax Industries .Ltd
25	Metropolis Healthcare Ltd
26	Minda Industries Ltd
27	Motherson Sumi Ltd
28	Navin Fluorine International Ltd
29	Neogen Chemicals Ltd
30	Newgen Software Technologies Ltd
31	Orient Electric Ltd
32	PSP Projects Ltd
33	Rossari Biotech Ltd
34	Shriram Transport Finance Company Ltd
35	SRF Ltd
36	Vinati Organics Ltd
37	Voltais Ltd
38	Westlife Development Ltd
39	Zydus Wellness Ltd
40	Tarsons Products Ltd

Sr. No	Tactical Buy
1	ACC Ltd
2	Ajanta Pharma Ltd
3	Ambuja Cements Ltd
4	Ashok Leyland Ltd
5	Axis Bank Ltd
6	Bharat Electronics Ltd
7	Brigade Enterprises Ltd
8	DLF Ltd
9	eClerx Services Ltd
10	Globus Spitsits Ltd
11	GNA Axles Ltd
12	HDFC Life Insurance Co. Ltd
13	ICICI Bank Ltd
14	Indusind Bank Ltd
15	Jamna Auto Industries Ltd
16	JK Cement Ltd
17	Larsen & Toubro Ltd
18	Mahindra and Mahindra Ltd
19	Max Financial Services Ltd
20	Max Healthcare Institute Ltd
21	PNC Infratech Ltd
22	RBL Bank Ltd
23	Sun Pharma Ltd
24	TechMahindra Ltd
25	Ultratech Cement Ltd
26	Elecon Engineering Company Ltd

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