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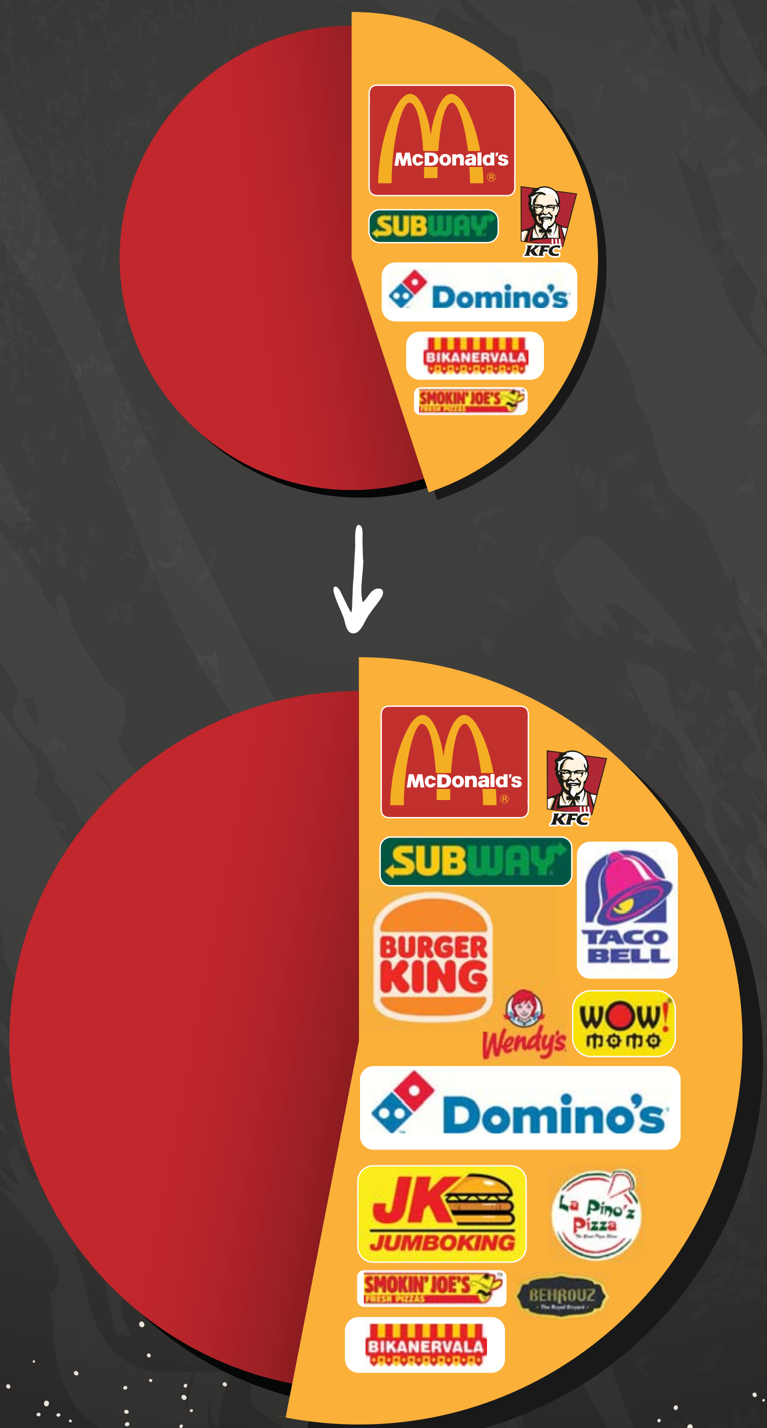
The India QSR Story: Slice & Bite



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QSR Sector Thematic

7 June 2021

Sector Update

Tempting prospects

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The entry of international brands of *Domino's* and *McDonalds's* in India during the mid-1990s marked not just the emergence of the Quick Service Restaurant (QSR) format, but also paved the way for the growth of the organized food services industry in India, which was basically non-existent in the country. The QSR format seems to be the perfect mix of maintaining decent consumer connect along with being lucrative. Thus, over the years it has become an integral part of the industry as depicted by its ~11% contribution to the overall organized segment. Over FY14-FY20, the QSR format (commanding the highest share in the chain market) grew at a CAGR of 19.1%, ahead of the chain market's growth of 17.6% and much ahead of the overall organized market's growth of 12.9%. International brands have dominated the QSR market with +50% share of revenue on the back of (i) brand equity (ii) investments behind increasing geographical presence (iii) menu glocalization (iv) value focus (v) ability & agility in keeping up with trends (vi) focused marketing efforts (vii) backend integration and (viii) investment in technology. With a healthy demand outlook and surge in investments, the industry is expected to witness substantial growth and operations of large segment of the unorganized market are expected to get streamlined into organized market. Brands with clear strategy, strict focus on capital allocation and steady expansion plans will sustain over the long term. In the near term, there is pain due to the curbs led by resurgence in Covid cases, but due to the resilient convenience channel and stringent standard operating procedure (SOPs) in place, the QSR sector should see faster recovery once these curbs are lifted. To value the future potential of this industry in an optimum way, we are now valuing the QSR companies on DCF basis. Based on which we continue to maintain our Buy rating on Westlife Development (WDL) and remain positive on the its ability deliver strong performance in the medium-term. We also continue to like the market leader, Jubilant Foodworks (JUBI), which operates at scale nowhere close to the 2nd player, has better financial metrics and has also recently taken strides to diversify. We continue to have an Accumulate rating on JUBI. Recently listed Burger King India Ltd. (BKIL), unlike WDL, is a pan-India play. We believe that with its current strategy and margin profile, it should become profitable by FY23. We Initiate coverage on BKIL with an Accumulate rating.

QSR format will be the quickest to recover in the food services industry: Just as the food services industry was reviving from last year's curbs (varying from state to state, recovery ranged from 60-80% vs pre-covid level of operations as per media reports), fresh set of restrictions imposed by many states post the resurgence in covid-19 cases have threatened to derail the recovery made so far. Most of these states have allowed restaurants to offer their services only via home deliveries that too in restricted hours. Given that dine-in operations have higher saliency in the overall organized segment, these restrictions will turn out to be a big blow to the already distressed industry, especially small standalone restaurants. This is where the QSR sector, stands to benefit, as the format has transitioned to comfort food across price segments, catering to all income levels/segments benefitting from any downtrading along with addressing the aspirational demand in non-Metro areas. The top players in the QSR space benefit in a big way, since they have the necessary infrastructure, healthy balance sheet and an established convenience channel to cater to the consumer demand. Shutdown of ~30% (as per industry experts & media articles) food service formats in tier I cities/metros (majority belonging to the organized standalone & unorganized segment), due to the pandemic, has shifted demand towards the QSR segment & certain other affordable formats of the chain market, which further strengthens the space.

Leading growth within discretionary space: Within our consumer coverage universe, revenue of QSR companies has grown at a CAGR of 19% over the last three years (FY17-FY20; since FY21 was an abnormal year) compared to other discretionary categories in our coverage - Paints and Alcoholic Beverages, which have grown at 10.7% and 5.4%, respectively (our FMCG coverage companies have grown at 6%). This is despite the fact that two leading brands, *Domino's* and *McDonald's* operated by JUBI and WDL (West & South India), respectively, have existed for ~25 years in the country, thereby making them fairly matured brands. Over FY20-FY23E, we expect the revenue of our QSR coverage companies to grow at 12.1% CAGR on the back of healthy growth momentum led by growing volumes/penetration through value centric customer proposition, premiumization, ramp-up in convenience channel, introduction of innovations & product platforms and store expansion beyond metros & tier-I areas.

Multiple legs of growth for the future: (i) International QSRs have struck a chord with Indian consumers through their value proposition by including variety of entry level products, affordable meal upgradation options and discounted prices on combos & meals. Hence, while the average Indian consumers' ability and willingness to spend on aspirations, experiments and socializing over food have increased, their stickiness in terms of cost-consciousness will continue to drive them towards fast food brands. (ii) While value remains the belly of the market, companies have not shied away from introducing premium offerings to meet customer need of a better indulgence, which aids the company in increasing ticket size as well as margins. (iii) QSR companies have also expanded beyond their core offerings – from pizza to pasta (*Domino's*), from burgers to beverages, breakfast, fried chicken, rice bowl, etc. (*McDonald's*, *Burger King*) - to enhance consumer trials and eventually scale up consumption of these offerings. (iv) Convenience channel (delivery, takeaway, drive-thru, on-the-go) is another key driver of growth since it is not just the need of the hour for any QSR brand, but also a significant enabler of the future due to increase in frequency of ordering and a growing user base. (v) Strong growth prospects of the organized food services industry and attractive real estate prices have led to many serious QSR players opting for ambitious expansion plans, especially beyond Metros & Tier-I cities, which will have a direct bearing on their growth.

Company	Rating	Mcap		CMP (Rs)	TP (Rs)	Upside/ Downside (%)	EV/EBITDA (x)		P/E (x)		*Pre-tax RoCE (%)*	
		Rsbn	$bn				FY22E	FY23E	FY22E	FY23E	*FY22E*	*FY23E*
BKIL	Accumulate	60.1	0.8	157	155	-1	32.9	22.4	-	214.8	*5.6*	*14.1*
JUBI	Accumulate	418.9	5.7	3,175	3,110	-2	34.7	26.4	81.7	53.8	*59.1*	*65.5*
WDL	Buy	75.5	1.0	485	560	16	28.1	19.7	178.3	60.0	*14.1*	*25.6*

Source: Company, Nirmal Bang Institutional Equities Research

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INDUSTRY DYNAMICS

Industry poised for growth led by the organized segment

India's Food Services industry has come a long way from what it was before 1990s, when the number of organized brands were very few and included home-grown brands *like Haldiram's, Nirula's, Honest, Sarvana Bhavan* and UK-based (now South Africa-based) *Wimpy*. The market otherwise was dominated by unorganized players. The revolution in this sector began in mid-1990s with organized players like *McDonald's*, *Domino's*, *KFC*, *Baskin Robbins,* etc. starting to open their outlets in the country. With the entry of these international brands, segmentation based on offerings and service started in India.

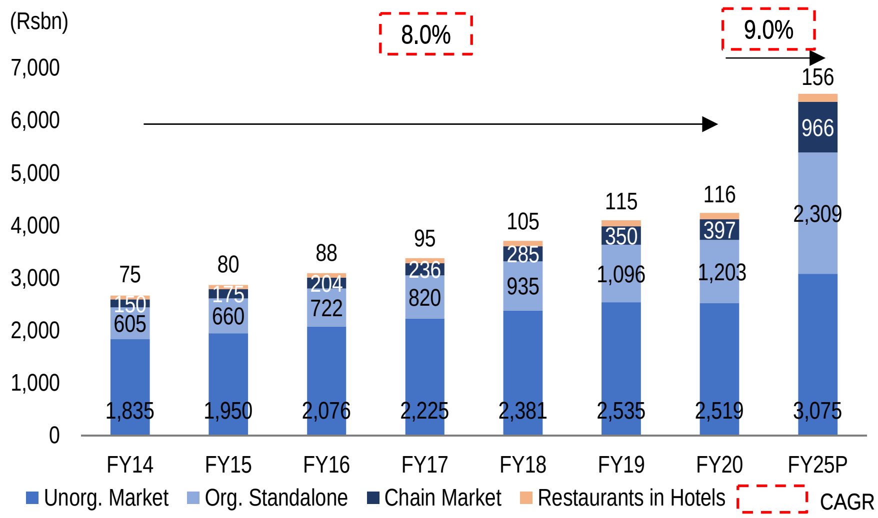
Exhibit 1: Evolution of food services industry in India since 2000

PHASE I (2001-2010)	PHASE II (2010-2016)	PHASE III (2016 Onwards)
Costa Coffee, Punjab Grill, Pizza Hut, Barista, Hard Rock Cafe, Subway, Chili's	Nando's, Starbucks Coffee, Barbeque Nation, IHOP, Krispy Kreme, Carl's Jr., Taco Bell, Pizza Express	Rebel Foods, Zomato, Burger King, Swiggy
Formats started getting defined in terms of QSR, CDR, FDR etc.	Driven by consumer needs, clear distinction between formats in terms of price points started emerging	Food aggregators & cloud kitchens started growing
Focus restricted to metros & tier I cities	Industry players started focusing beyond Tier I cities	Prominent growth in Tier II cities with cluster saturation in Tier I cities
Franchisee models were prominent and partnerships & JVs were being explored	JV structure gained prominence. P/E-backed ventures started emerging	Expansions of brands and emergence of new concepts took place

Source: Technopak, Nirmal Bang Institutional Equities Research
Note: QSR = quick service restaurants; CDR = casual dining restaurants; FDR = fine dining restaurants

The Indian food services industry, valued at ~Rs4.2tn as at FY20, has gained strong momentum in the last decade on account of various factors, including a favourable macro-economic environment, demographic dividend, deepening technology & internet penetration, growth in organized retail, convenience, changing consumer consumption patterns etc. All these factors have led to an increase in consumers' propensity to eat out, which was not traditionally a frequent feature of Indian public's lifestyle.

Exhibit 2: India's food services industry, which has grown by 8% over the past six years, is expected to grow at a higher rate by ~9% over FY20-25P



Source: Technopak, Nirmal Bang Institutional Equities Research

Favourable Macros and Demographics

(i) A growing level of urbanization leads to growth across all sectors as well as increase in consumption. In India, urbanization has risen from 28% in CY2000 to 34.5% in CY2019 and is expected to rise further to 37% by CY25. Lifestyles in urban areas are also dictated by higher incomes, disproportionately higher discretionary spends and an increasing significance of discretionary spends on experiences such as eating out.

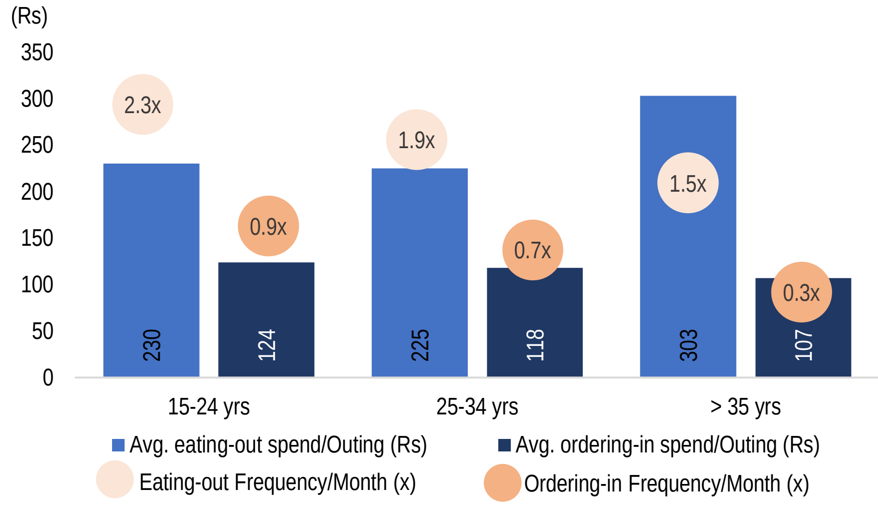
(ii) India has one of the youngest populations versus other leading economies. The median age in India in CY20 is estimated to be 28.7 years compared to 38.5 and 38.4 years in the United States and China, respectively. The growing working age population has been a key factor contributing to the growth of the food business. The working age population in India has risen notably, from 36% in FY2000 to 49.8% in FY2019 and the momentum is expected to continue, leading to rising income levels per household besides high discretionary spends in the long term.

(iii) Over the years, food consumption habits have been changing on account of scarcity of time on personal & professional fronts and increase in aspirational levels. This has resulted in higher involvement of dine-in and ordering-in to de-stress hectic consumer routines.

Increasing trend of consuming outside food, led by the millennials

When it comes to consuming meals, most research studies have shown that the millennials (15-34 years) have lower willingness and lack of time to cook, leading to a strong preference for convenience. Their willingness to experiment, urge for variety, keeping up with new food fads, etc. further drive higher consumption of outside food. India has the highest number of millennials in the world, with ~34% of its population comprising of them. In FY20, the millennials in India ate out ~2x/month and ordered in ~1x/month. Even going ahead, this segment of the population could become the largest disruptive force for India's consumption sector, including the food services industry.

Exhibit 3: Average eating-out and ordering-in frequency is highest among the millennials



Source: Technopak, Nirmal Bang Institutional Equities Research

In terms of market segmentation, as evident from the exhibit below, the propensity to consume non-home cooked meals (i.e., outside food) has increased over the last few years, not just in urban areas but also in smaller cities. The perception prevalent in earlier times that outside meals were unhealthy has also been dissipating and is becoming irrelevant. Eating out without the need for a special occasion but rather as part of a shopping experience or a leisure outing has increasingly become a trend in urban areas. Simultaneously, a lot of consumers want to experiment with new cuisines. With the millennial population of India expected to grow at a faster rate than other age groups, this trend is likely to accelerate further even in smaller cities.

Exhibit 4: Frequency and average spends on outside food have been increasing across cities

	Eating-out						Ordering-in					
	Frequency/Month			Spend/Outing (Rs)			Frequency/Month			Spend/Outing (Rs)		
	FY14	FY17	FY20	FY14	FY17	FY20	FY14	FY17	FY20	FY14	FY17	FY20
Mega Metros	5.7	6.1	6.3	902	998	1,039	1.0	1.7	2.1	410	466	495
Mini Metros	5.0	5.3	5.5	752	829	861	0.9	1.4	1.9	360	410	433
Tier I & II	4.3	4.6	4.8	612	674	706	0.6	0.9	1.1	263	299	316

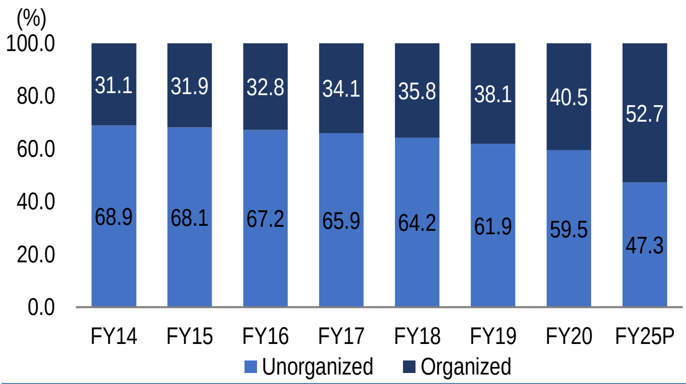
Source: Technopak, Nirmal Bang Institutional Equities Research

Needle slowly and slowly tilting towards the organized segment

While currently the unorganized segment dominates the food services industry (at 59.5% share as on FY20), the share of the organized segment is expected to reach 52.7% by FY25 due to various factors, including a heightened sense of health & hygiene, rising urbanization, changing lifestyles, increased exposure to global trends, rise in aspirational levels, etc.

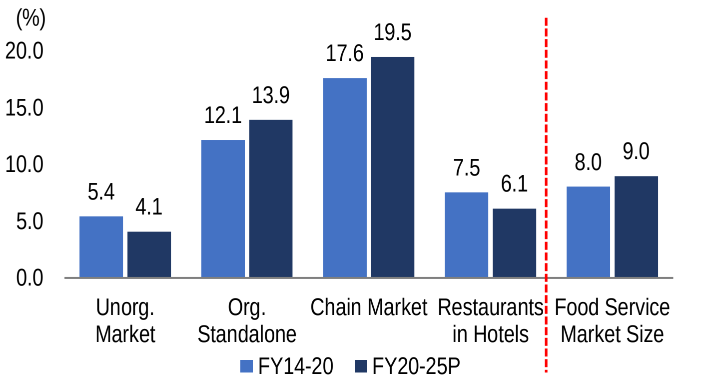
Within the organized space, the chain segment will grow the fastest given the elevated level of hygiene compared to standalone food outlets, strong brand recall of players in this segment addressing the growing brand consciousness of the country's population, affordability of many formats etc.

Exhibit 5: Mix of organized segment likely to improve due to accelerated growth in standalone and chain formats



Source: Technopak, Nirmal Bang Institutional Equities Research

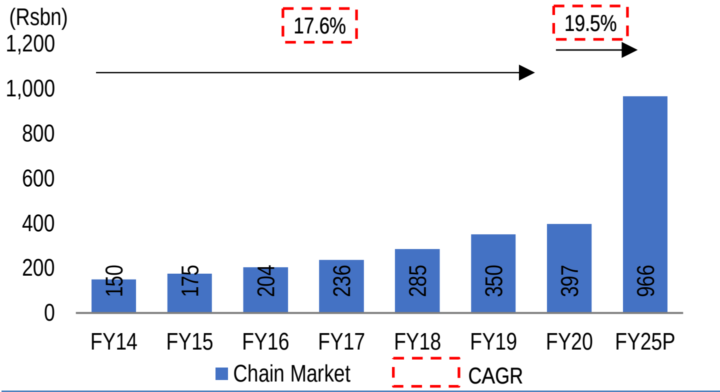
Exhibit 6: Chain market to grow the fastest among all segments of food services industry during FY20-25P



Source: Technopak, Nirmal Bang Institutional Equities Research

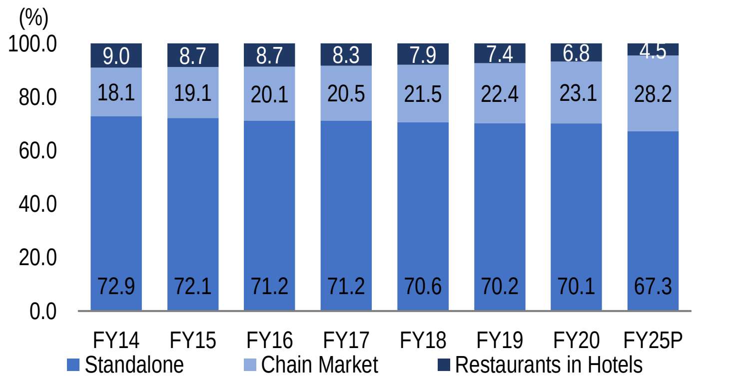
Chain segment to pace ahead, driven by expansion in QSR format

Exhibit 7: Over FY20-25P, the chain segment is expected to grow at a market-leading rate of 19.5% to Rs966mn…



Source: Technopak, Nirmal Bang Institutional Equities Research

Exhibit 8: …which will in turn lead to increase in its weight within the organized space



Source: Technopak, Nirmal Bang Institutional Equities Research

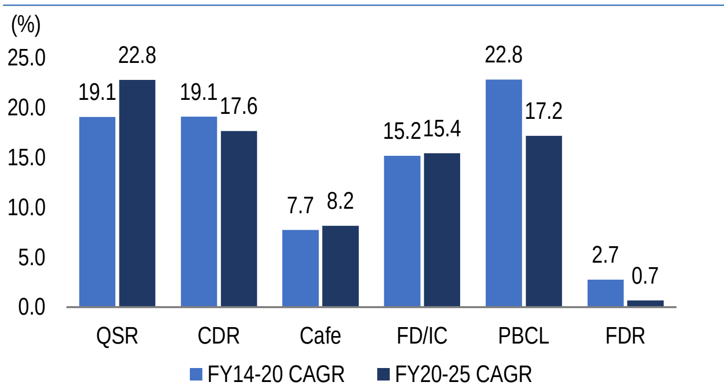
Much like the global scenario, the QSR space in India has transitioned from being just a hygienic & affordable format to also being a comfort food format. This has led to an enhanced addressable market of the QSR industry since it not only serves the aspirational demand of price-sensitive consumers but also the demand of consumers falling in the high-income bracket.

Exhibit 9: Growth in Chain Food Service Market Size to be led by QSRs and CDRs

Chain Food Service Market Size (Rsbn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY25P	*FY14-20 CAGR (%)*	*FY20-25 CAGR (%)*
Total	150	175	204	236	285	350	397	966	*17.6*	*19.5*
QSR	66	78	91	105	130	162	188	524	*19.1*	*22.8*
CDR	47	56	67	81	98	118	134	302	*19.1*	*17.6*
Cafe	16	17	18	19	21	24	25	37	*7.7*	*8.2*
FD/IC	9	10	12	13	15	19	21	43	*15.2*	*15.4*
PBCL	7	9	11	12	15	21	24	53	*22.8*	*17.2*
FDR	5	5	5	6	6	6	6	6	*2.7*	*0.7*

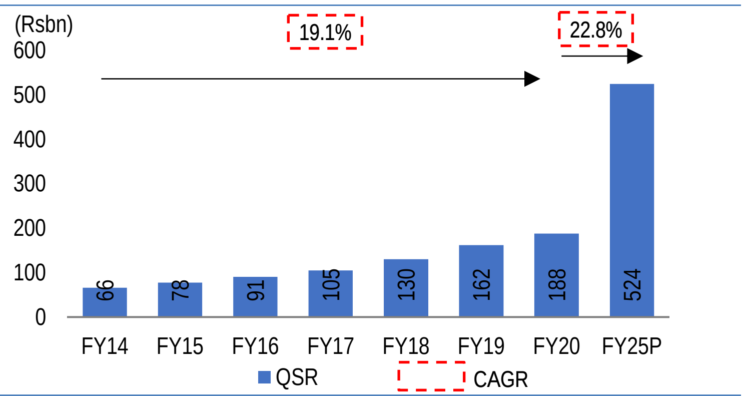
Source: Technopak, Nirmal Bang Institutional Equities Research
Note: FD/IC = frozen desserts; PBCL = pub, bar, club and lounge

Exhibit 10: QSR format will continue to drive expansion of the chain market, by growing at a leading rate of 22.8%….



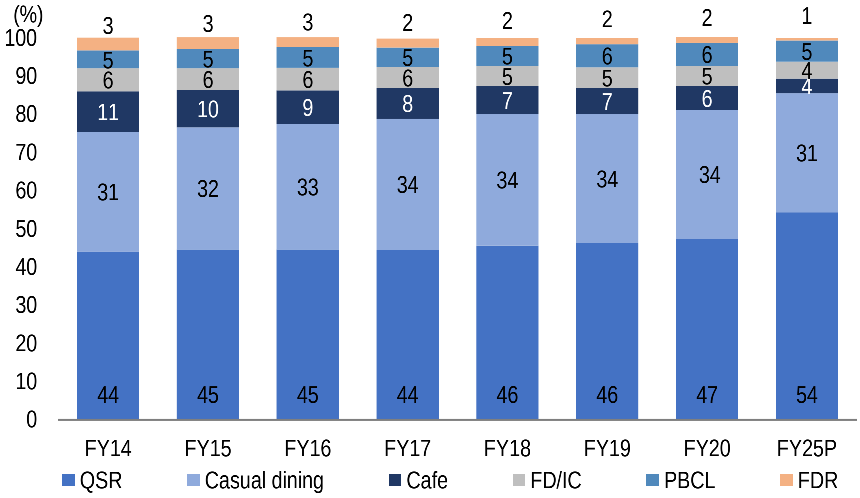
Source: Technopak, Nirmal Bang Institutional Equities Research

Exhibit 11: … and is expected to grow to Rs524bn by FY25P from Rs188bn in FY20



Source: Technopak, Nirmal Bang Institutional Equities Research

Exhibit 12: Driven by its accelerated pace of growth, QSR will eat into the share of other formats in the chain market, resulting in a higher share of 54% by FY25E

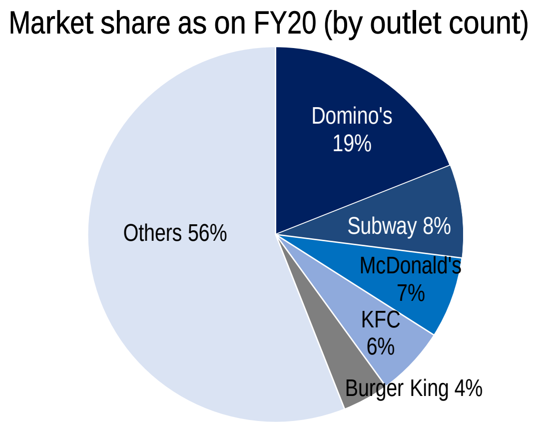


Source: Technopak, Nirmal Bang Institutional Equities Research

The QSR segment is a tight-knit market dominated by leading international brands having physical stores. As on FY20, the overall share of these key international brands in terms of the number of outlets in the chain QSR market was ~44%, contributing ~53% to the total revenue of the QSR chain market.

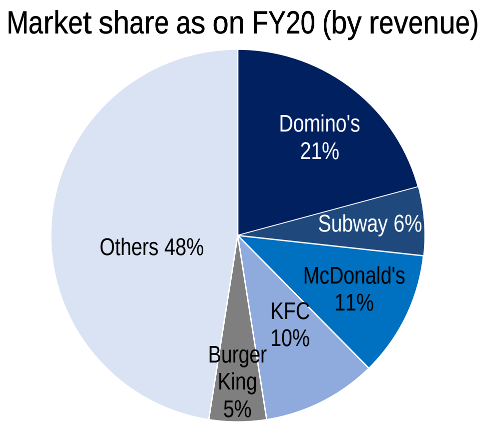
Domino's Pizza dominates the chain QSR market with ~19% market share in terms of outlet count and 21% in terms of revenue. The balance portion of the pie, which primarily comprises home-grown QSR brands (including cloud-based kitchens), is extremely heterogenous, commoditized and competitive.

Exhibit 13: International QSR brands dominate Indian QSR market with…



Source: Technopak, Nirmal Bang Institutional Equities Research

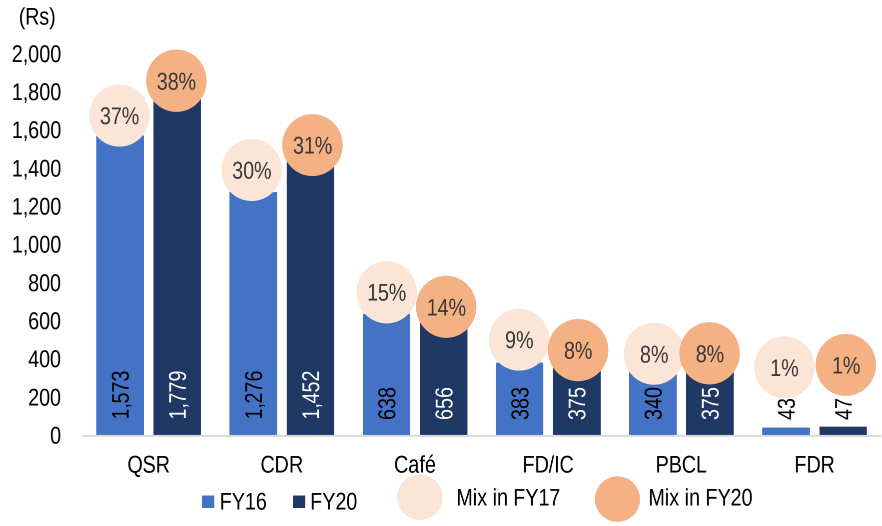
Exhibit 14: …Domino's commanding the highest share in terms of no. of outlets and revenue



Source: Technopak, Nirmal Bang Institutional Equities Research

In terms of spends on different formats within the chain segment, an average household spends the highest on the QSR format (38% in FY20) followed by CDR (31% in FY20) and the Café format (14% in FY20), driven by easy access, affordability, availability of options etc.

Exhibit 15: An average household consumes most from QSRs in terms of spends



Source: Technopak, Nirmal Bang Institutional Equities Research

Value focus products and discounts offered through food combos & other promotions will continue to remain key drivers

While the average Indian consumer's ability and willingness to spend on aspirations, experiments and socializing over food have increased, they continue to be cost-conscious and look at value for money options when eating out and cost-efficient functions when ordering in.

Exhibit 16: Comparison of lowest priced SKUs from the core portfolio of coverage QSR companies

Brand	Option	Burger/Pizza	Price
BURGER KING	Veg.	Crispy Veg.	Rs55
	Non-veg.	King Egg (All day breakfast) /Crispy Chicken	Rs59/Rs79
M	Veg.	McAloo Tikki	Rs45
	Non-veg.	Chicken Kebab	Rs76
Domino's	Veg.	Onion/Tomato (Pizza Mania)	Rs59
	Non-veg.	Chicken Sausage (Pizza Mania)	Rs95

Source: Company, Nirmal Bang Institutional Equities Research

Note: Data points above are for the lowest priced combo and are taken from menus in physical stores/ websites of respective brands on 2nd Jun'21 for Mumbai region

The predominant nature of cost-consciousness of Indian consumers also attracts them to combos & value meals that provide them with a discount ranging from 12%-25%, and which consequently allow QSR companies that offer such deals to increase their average ticket size.

Exhibit 17: *King Deals'* (Burger King) meal, *McSaver* (McDonald's), *Meal Box* (KFC) and *Meal of the day* (Subway) are prominent examples of food combos offering good discount compared to standalone offerings

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Examples of combos offered by key brands

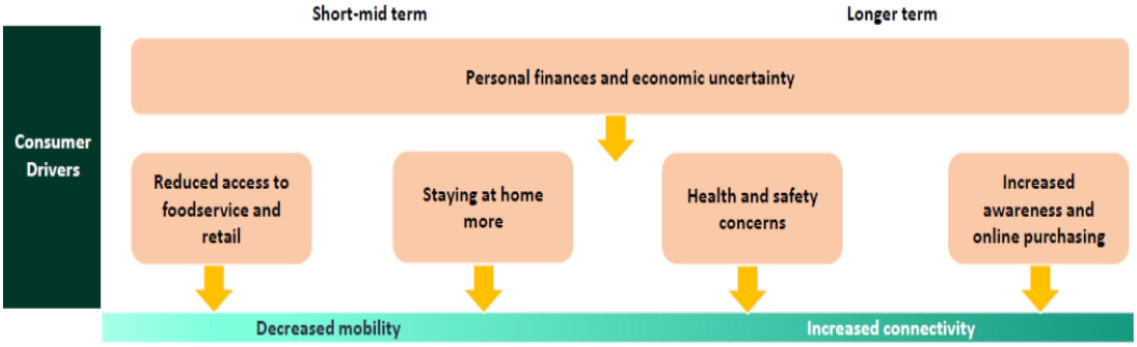
Brand	Option	Burger/Pizza Price	Sides Price	Beverage Price	Total price of standalone products (A)	Combo Price (B)	Discount of 'B' over 'A'
Burger King	Veg.	Crispy Veg. (Rs55)	Fries (Rs70)	Pepsi (Rs58)	Rs183	Rs152	17%
	Non-veg.	Crispy Chicken (Rs79)	Fries (Rs79)	Pepsi (Rs58)	Rs216	Rs179	17%
McDonald's	Veg.	McAloo Tikki (Rs45)	Fries (Rs62)	Coke (Rs71)	Rs178	Rs138	22%
	Non-veg.	McChicken (Rs112)	Fries (Rs62)	Coke (Rs71)	Rs245	Rs207	16%
Domino's	Veg.	Onion/Tomato (Pizza Mania) (Rs59)	-	Pepsi (Rs60)	Rs119	Rs99	17%
	Non-veg.	Chicken Sausage (Pizza Mania) (Rs95)	-	Pepsi (Rs60)	Rs155	Rs141	9%

Source: Company, Nirmal Bang Institutional Equities Research

Note: Data points above are for the lowest priced combo and are taken from menus in physical stores/ websites of respective brands on 2nd Jun'21 for Mumbai region

Aftermath of the first Covid wave in favor of QSR players; similar pattern likely to repeat post second wave

Exhibit 19: Key drivers of change in consumer behaviour due to Covid



Source: Devyani International Ltd. (DIL) DRHP, Nirmal Bang Institutional Equities Research

Exhibit 20: Adoption of various sustainable ways of working by the food service industry

COVID-19	Food	Production	Delivery	Experience	Digital/ Technology
Pre COVID	Strong street food culture, infusing western food with local flavors	Method: Efficient, consistent, seamless	Channel: Takeaway /Online – an additional avenue, small share, incremental growth	Offer: Enjoyable, Fun, Unique, Socializing via Dine-in Location: Malls, Popular, High footfalls etc.	Role: Enabler, Convenience, Ease
Post-COVID	Safety and hygiene, healthy eating, authentic local delicacies	Explore the use of "dark kitchens" or "ghost kitchens" to reduce operating costs	Develop a D2C strategy independently or in collaboration with delivery partners	Recreate the restaurant/brand experience within the home to enhance quality perceptions, Convenience	Contactless payment, Social media activation

Source: DIL DRHP, Nirmal Bang Institutional Equities Research

Exhibit 21: QSRs have been much resilient versus other organized formats

	Quick Service Restaurant	Full Service Restaurant	Coffee & Tea Shop	Pubs, Clubs, and Bars
Initial impact (Until H1)	The initial lockdown restrictions on outlets and spread of COVID-19 among delivery personnel hampered QSR revenues significantly during the first half.	FSRs were hit significantly by initial strict lockdown measures and consumers' reluctance to dine-out. Decline in disposable incomes also played a key role, owing to FSR's high average transaction value.	Lockdown restrictions hampered these outlets' revenues like other channels. However, as consumers visit these outlets not just their products, but also for ambience, home deliveries were not of much help.	Strict restrictions on these outlets hampered their businesses. Furthermore, deliveries and take-aways weren't of much help in the pub, club, and bar channel, as in other channels.
Subsequent impact (Until H2)	Relatively higher dependence on takeaway transactions, compared to other channels, helped QSRs recover during H2. Contactless dine-ins introduced by key players also were instrumental.	FSRs recovered to some extent as typical dine-in restaurants as well adopted food deliveries. Even fine-dining venues, such as Taj, started offering their dishes at consumers' doorstep.	Owing to WFH policies of offices and reluctance of people to socialize, these outlets were slow to recover. Socializing is a key driver of transactions in these channels.	These outlets remained shut for a significant part of H2. Even when they opened there were restrictions, such as prohibition of new year parties, which were aimed at preventing large social gatherings.
Outlook 2021	Quick service restaurants will see a better recovery compared to other channels, owing to their better suitability for take-aways. Investments of operators in expansion and technology will also drive the growth.	Home dining will play a crucial role in recovery. FSR operators will invest significantly in hygiene, safety, and packaging. Paucity of manpower and tighter budgets for rentals will push operators to trim their dine-in operations.	Recovery of income levels of consumers, which is expected to drive their impulse spending, will help the channel. Also, rise in work from anywhere culture is also likely to bring more income to these outlets.	Demand from urban consumers, especially young professionals willing to party and socialize, will drive the recovery in 2021. Craft spirits will grow in demand from young, high income individuals.

Significant negative impact | Moderate negative impact | No impact | Moderate positive impact | Significant positive impact

Source: DIL DRHP, Nirmal Bang Institutional Equities Research

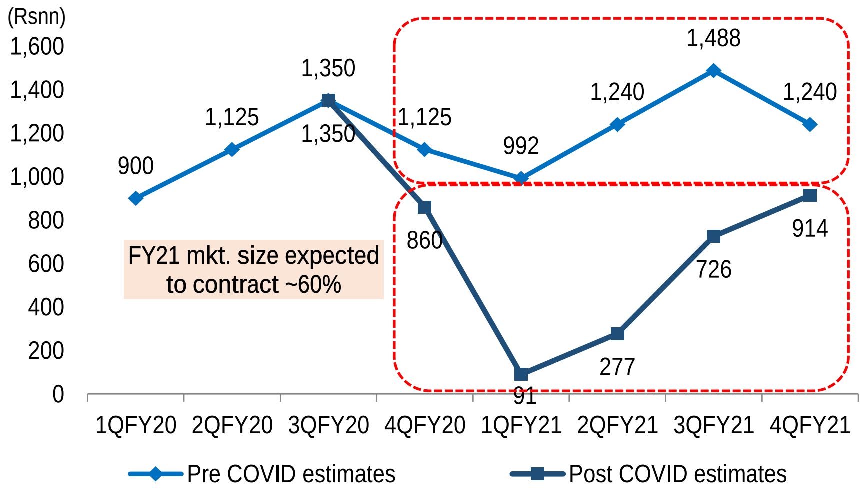
Shift of demand in favour of QSRs and certain other affordable formats

During the first Covid wave, standalone & unorganized players bore the brunt of the lockdown and witnessed severe contraction, thus pushing a lot of them out of business. As per industry sources, ~30-40% of food service establishments present in metros & tier I cities are estimated to have shut down, most of which are part of either standalone or unorganized segment. Consequently, these closures led to capacity contraction and any incremental demand was diverted to QSR & other affordable formats of the chain market. Further, QSR formats have also been seeing better demand due to concerns over health & hygiene compared to unorganized & certain portion of standalone outlets. Thus, the chain market saw a faster recovery and did well in the context of the overall food services industry.

Just as the food services industry was reviving from the first Covid wave (varying from state to state, recovery ranged from 60-80% vs pre-Covid level of operations, as per media reports), a fresh set of restrictions imposed by many states post the latest resurgence in Covid cases have threatened to dent the recovery made so far. Most of these states have allowed restaurants to offer their services only via home deliveries, that too during stipulated hours. Given that dine-in operations have higher saliency in the overall organized segment, these restrictions will turn out to be a big blow to the already distressed industry, especially small standalone restaurants. Hence, a similar trend, wherein the QSR format will spearhead recovery through the convenience channels, is expected to pan out during the second Covid wave.

Going ahead, affordable formats (mass to mid-price range) of the chain market, including QSRs and certain portion of CDRs & cafes are likely to see better demand, driven by trade-downs from relatively expensive formats due to pressure on disposable incomes.

Exhibit 22: Food services market, especially the unorganized segment, took a significant hit due to the pandemic



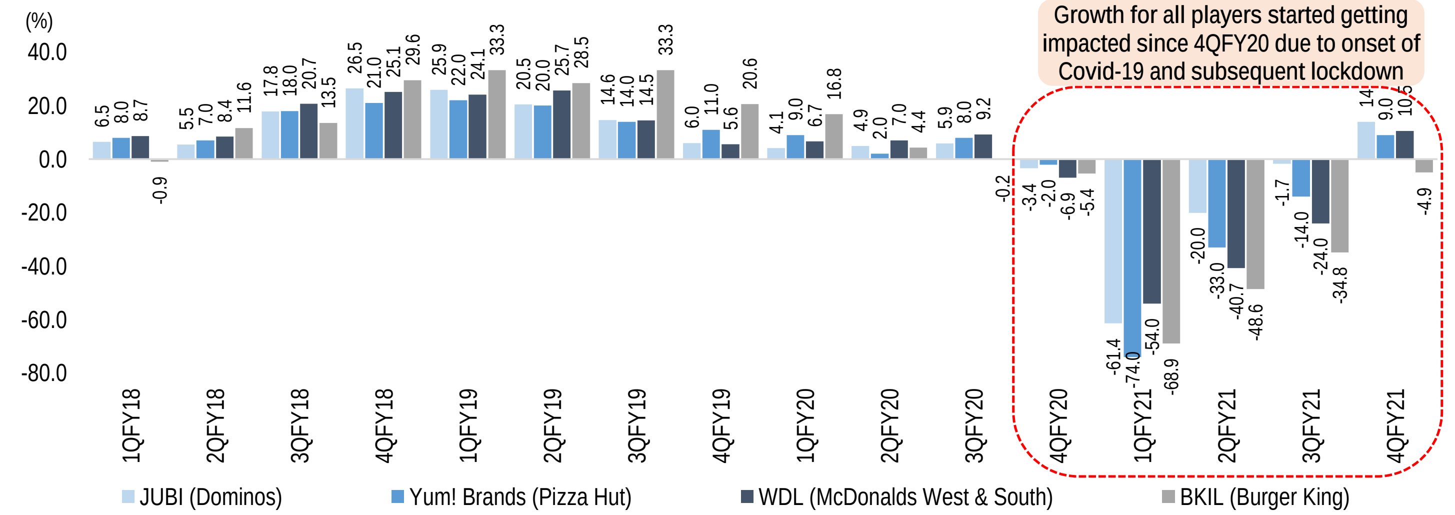
Source: Technopak, Nirmal Bang Institutional Equities Research

Exhibit 23: Delivery as well as dine-in operations of QSRs revived relatively faster in few states during the first wave

		Maharashtra	Andhra Pradesh	Karnataka	Tamil Nadu	Uttar Pradesh	Delhi
QSR	Dine-in	Oct-20	Jun-20	Jun-20	Jun-20	Aug-20	Aug-20
	Delivery	May-20	Apr-20	Apr-20	Apr-20	May-20	May-20
CDR	Dine-in	Oct-20	Jul-20	Jul-20	Jun-20	Aug-20	Aug-20
	Delivery	May-20	Apr-20	Apr-20	Apr-20	May-20	May-20
Café	Dine-in	Oct-20	Jul-20	Jul-20	Jun-20	Aug-20	Aug-20
	Delivery	May-20	Apr-20	Apr-20	Apr-20	May-20	May-20
FDR	Dine-in	Oct-20	Jul-20	Jul-20	Jun-20	Aug-20	Aug-20
	Delivery	May-20	May-20	May-20	May-20	May-20	May-20
PBLC	Dine-in	Oct-20	Jul-20	Jul-20	Jun-20	Sep-20	Sep-20
	Delivery	May-20	Sep-20	Apr-20	Apr-20	May-20	May-20

Source: Technopak, Nirmal Bang Institutional Equities Research

Exhibit 24: SSSG/System sales growth rates of leading international QSR chains in India over the recent quarters



Source: Company, Nirmal Bang Institutional Equities Research

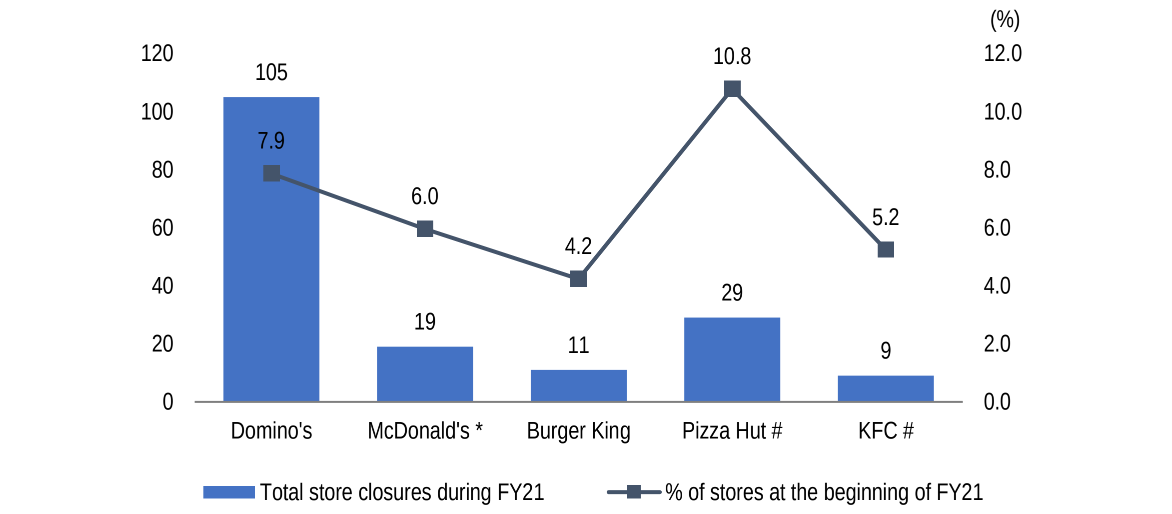
Note: In case of Yum! Brands, growth represents system sales growth (System sales include the results of all restaurants regardless of ownership, i.e. including Company-owned and franchise restaurants)

4QFY21 SSSG is estimated for JUBI

Rationalization of store portfolio

On the higher side, any QSR brand carries ~20% 'toxic' stores that do not make enough revenue to generate returns. In good times, brands tend to continue with these stores with the hope that in future they would generate returns. However, Covid has forced QSR companies to shut down such stores and even re-look at overextended/flanker brands, which in turn is favourable for a company's financial position.

Exhibit 25: Store closures by leading brands during FY21



Source: Company, Nirmal Bang Institutional Equities Research

*Note: *WDL stores; #DIL stores*

Other affordable formats like CDRs and cafes have also rationalized their footprint & operations and have realigned their focus on sustainable profitability.

Drop in rentals served as an enabler for expansion of QSRs

Given the uncertainties about the pandemic, many organized players had not only put their expansion plans on hold during the initial period of the lockdown but even closed non-performing stores.

Due to relatively longer period of lockdown and restrictions on operations, a lot of players, especially unorganized and small standalone formats had to eventually shut shop. Consequently, not only some good quality real estate freed up, but there was also notable reduction in the rental costs. For serious QSR players, this has resulted in following:

- Renegotiation of rentals (to the tune of 20-30%) for existing real estate due to better bargaining power and
- Reassurance in the growth prospects of the organized food services sector (due to their resilience in the time of distress). Hence, in order to grow ahead of the overall market, many QSR brands have announced aggressive expansion plans by capitalizing on cheap real estate.

Exhibit 26: Some of the newer brands in the Indian market have started their expansion plans in recent months

Brand	Core Food Category	Commentary
BURGER KING	Burger	At the time of launching its IPO, BKIL announced that it will be opening at least 700 restaurants by the end of Dec'26.
Wendy's	Burger	Wendy's launched in India in May'15, announced in Dec'20 that it has struck a deal with Rebel Foods, to launch 250 cloud kitchens across India.
Popeyes	Fried Chicken	JUBI has entered into an exclusive Master Franchise and Development Agreement with PLK APAC Pte. Ltd., a subsidiary of Restaurant Brands International Inc, to develop, establish, own & operate, and sub-license Popeyes Restaurants in India & few other neighbouring countries.
KFC	Fried Chicken	KFC increased its restaurant count from 450 to 480 restaurants since the onset of the pandemic. The company expects to add more than 25 outlets in the ongoing year.
Wat-a-Burger!	Burger	At the start of the year Wat-a-Burger announced that it is planning to accelerate its expansion in Maharashtra & Karnataka as part of its FY21-22 plan and add 40 new outlets to its existing network of 60 outlets. Other targeted states include Bihar, Telangana, & Tamil Nadu.
Burger Singh	Burger	In addition to its 35+ outlets spread across India & ~4 cloud kitchens in Gujarat, Burger Singh aims to add over 45 outlets in Gujarat and 12 outlets Punjab by end of FY21.
JK Jumboking	Vada pav/Burger	From the current +110 stores, the brand aims to reach 1,000 stores in the next five to seven years

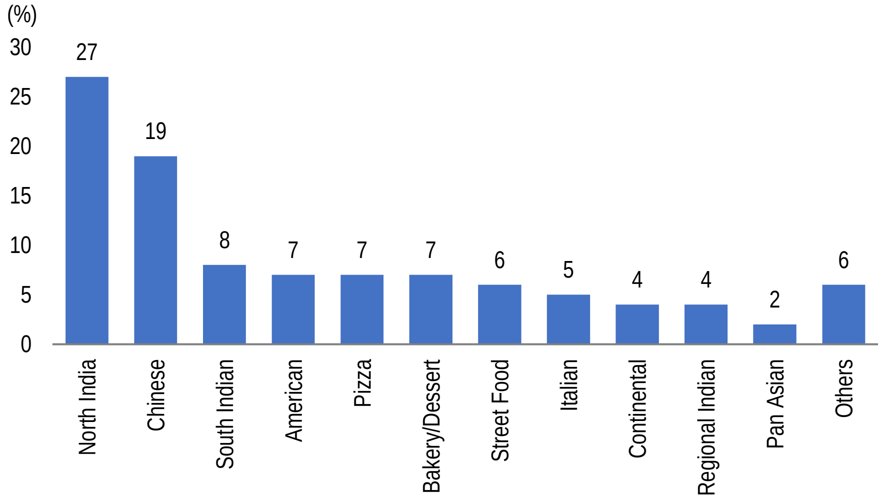
Source: Company, Media, Nirmal Bang Institutional Equities Research

Even established players like JUBI and WDL, which had put their expansion plans on hold during 1HFY21, have resumed their original expansion plans. JUBI plans to open 100 stores per year and WDL aims to open 20-30 stores per year in FY22.

Burgers and pizzas will continue to be a dominant category for the QSR format

In the case of the organized food services market, comprising chain and standalone segments (i.e., excluding restaurants in hotels), ~27% contribution comes from North Indian cuisine followed by 19% from the Chinese cuisine. However, the mix is not the same within the sub-segments of chain and standalone outlets. For example, the North Indian cuisine would have a higher contribution in the standalone format versus QSR.

Exhibit 27: For the overall food services industry, the Indian cuisine has the highest share followed by the Chinese cuisine



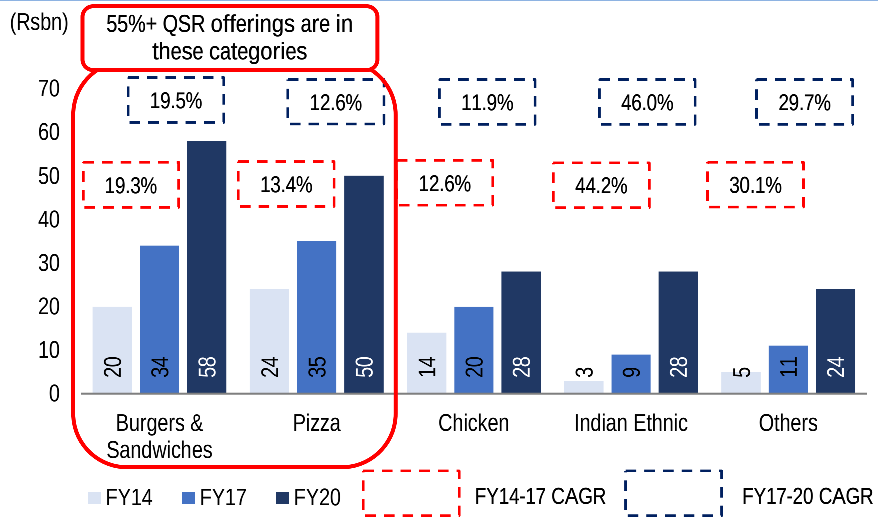
Source: Technopak, Nirmal Bang Institutional Equities Research

Until now, QSR was synonymous with burgers & pizzas since this category was popularized by international brands, which were able to successfully penetrate into the Indian markets.

One of the key reasons as to why these international brands have been able to successfully scale up is because they were able to rightly bet on select products, which would suit the consumers' palate. On the other hand, the Indian cuisine focused QSRs had been on the side-lines till recently since it took time to evaluate which products would cater to the hyperlocal crowd of India. Existence of a strong unorganized segment (at times even preferred by consumers) also made it difficult for the home grown QSRs serving Indian cuisine to scale up. Further, global brands serving international cuisines had a long tenure to improve their systems and business models to a tee (with seamless supply side & back-end processes). This has made it relatively easy for new entrants (in international cuisines) to streamline their business by adopting similar business models.

It is only now, through a gradual learning curve that QSRs focusing on the domestic ethnic cuisine have notably scaled up. However, it is expected that burgers & pizzas will continue to dominate the QSR space in India since the Indian cuisine focused QSRs (dominated by homegrown brands) have a long way to go in formalizing what is largely catered to by the unorganized space and even by some standalone formats.

Exhibit 28: Burgers & Sandwiches category, valued at Rs58bn as of FY20, dominates the QSR format followed by the Pizza category



Source: Technopak, Nirmal Bang Institutional Equities Research

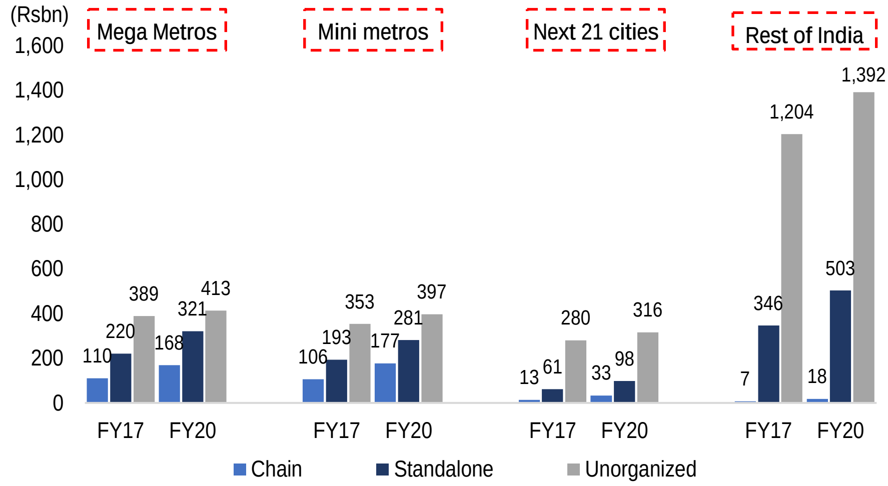
Prospects of QSR industry beyond metros & tier I cities

In FY20, Delhi and Mumbai, the two mega metros in India, contributed 21.9% to the total revenue of the food services industry (excluding restaurant in hotels), followed by six mini metros (Kolkata, Bengaluru, Chennai, Hyderabad, Pune and Ahmedabad), which contributed 20.8%.

The eight largest cities, as mentioned above, have been the major centres of development for the organized food services industry. In FY20, these eight cities accounted for ~87% of the total revenue of the chain food services industry in India (the two mega metros contributed ~42%) on the back of heightened economic activity, rising disposable incomes, a shift in lifestyle (driving a higher need for convenience) and increase participation by women in the workforce.

On the other hand, while for the overall food services industry ~60% revenue comes from cities beyond mega & mini metros, for the chain segment, only 13% revenue is generated from these cities. Hence, since a large chunk of revenue is coming from established urban areas, it is difficult for the chain market brands to scale up in smaller towns.

Exhibit 29: Segments of food services industry by city type (FY17 vs. FY20)



Source: Technopak, Nirmal Bang Institutional Equities Research

Even in terms of number of outlets, the QSR brands have been conventionally concentrated in mega & mini metros with ~50% outlets present in these areas. While established brands have extended their presence into tier I cities over the last decade, it is only in recent years that they have been making their presence felt in smaller cities as well.

Exhibit 30: Most international QSR brands are well entrenched in smaller cities with decent headroom to grow further

Brand	Total Outlet Count	Mega Metros (%)	Mini Metros (%)	Tier I (%)	Tier II & Others (%)
Domino's	1,354	25	32	20	23
Subway	541	37	43	12	8
McDonald's	481	36	35	17	12
KFC	454	19	37	21	23
Wow! Momo	317	29	59	6	6
Burger King	261	41	26	11	23
Jumbo King	131	83	11	6	
La Pino'z	134	27	21	33	19
Haldiram	80	79	9	7	5
Bikanervala	82	61	9	14	16
Smokin Joe's	50	58	20	4	18
Taco Bell	57	32	54	12	2
Street food by Punjab Grill	41	47	34	12	7

Source: Technopak, Nirmal Bang Institutional Equities Research

Note: Store count as on 30th September 2020

However, QSR brands, which form majority of the chain market, have headroom to grow in smaller cities as believed by experts and industry players.

In order to capitalize on demand from smaller cities to its fullest, the QSR brands will have to ensure that they customize formats and product offerings & prices as per the demographics of those areas.

On the other hand, if the macro-economic environment of the country does not recover as expected, wherein the real income and consequently disposable income does not grow, it will be difficult for QSR & other affordable formats within CDRs & cafes to scale up substantially in smaller cities. In that case, industry players will have to shift their focus from pan-India presence with wider market penetration to cluster-saturation wherein brands will have to micro segment markets and try to capture higher market share in specific clusters.

Online delivery channel - From a supplementary driver; now a necessary channel of growth for the food services industry

Driven by increasing digital literacy, enhanced access to high-speed internet facilities, increased usage of smartphones, rising working population and preference for convenience & more variety have catalysed the growth of the online food ordering market (convenience channel). In addition, discounts and cash-back offers provided by the online food delivery aggregators have also played a crucial role in attracting consumers to order-in.

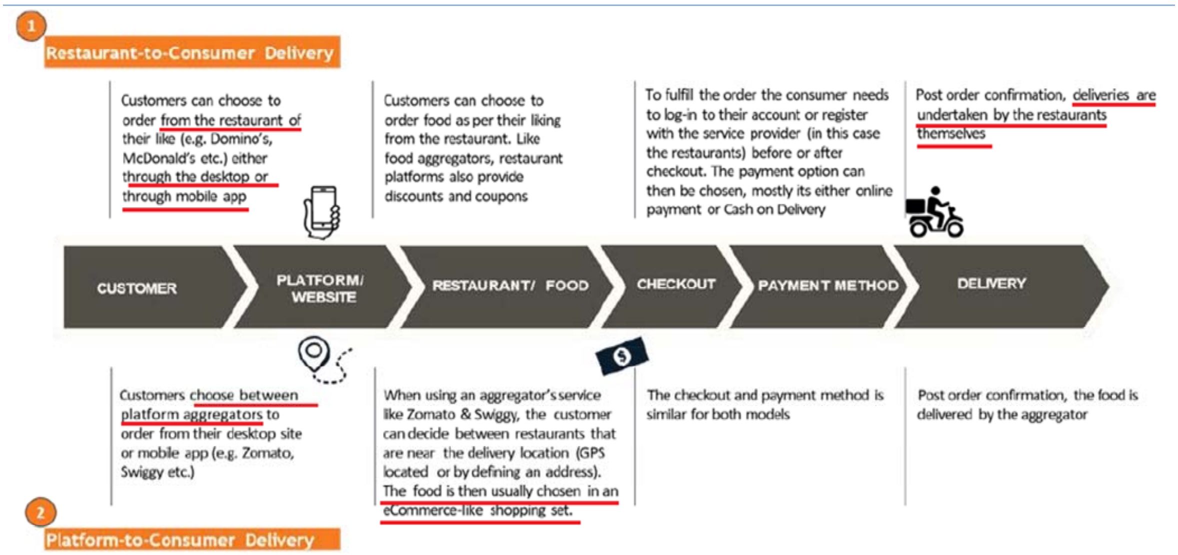
Exhibit 31: Indian online food delivery market has barely scratched the surface – it is only 20% of the US and barely 5% of the China online delivery market

	Unit	India	US	China
		As of 2019		
Population	billion	1.36	0.33	1.43
Access to Internet / Population	%	43%	88%	63%
Online Food Delivery Market	$ billion	4.2	21	90
Restaurant Food / Food Consumption	%	10%	54%	58%
Online Food Delivery Users	million	45-55	90-120	430-470
Online Food Delivery Users / Access to Internet (Computed on basis of mid-point of ranges)	%	9%	36%	50%

Source: RedSeer, Nirmal Bang Institutional Equities Research

While both the mediums of online food delivery, i.e., Restaurant-to-Consumer Delivery segment (delivery of meals carried out directly by the restaurants through their websites or apps) and Platform-to-Consumer Delivery segment (online delivery services that provide customers with meals from partner like Zomato, Swiggy, etc.), have grown over the recent years, the latter has grown exorbitantly (100% CAGR over FY16-FY20) on the back of discount-led volume growth & availability of a wide range of food products.

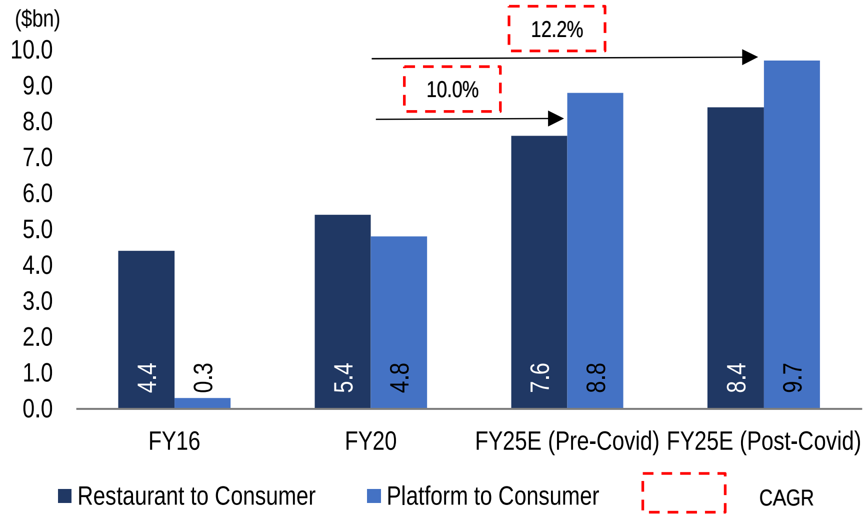
Exhibit 32: Currently there are two prominent business models for online delivery



Source: Technopak, Nirmal Bang Institutional Equities Research

Growth of the overall online food delivery segment has been fast-tracked post the outbreak of the pandemic. The expected rate of growth of the overall online delivery market has increased from 10% pre-Covid to 12.2% post-Covid due to increased focus on hygienic and safe delivery measures taken by restaurants (e.g.: zero contact delivery) and consumers' preference for food delivery over dine-in during this period.

Exhibit 33: Online food delivery expected to grow at a CAGR of 12.2% over FY20-FY25



Source: Technopak, Nirmal Bang Institutional Equities Research

Restaurant to consumer delivery

Western fast-food brands have stayed with the times by establishing their own digital assets to benefit from the pick-up of technology-led delivery.

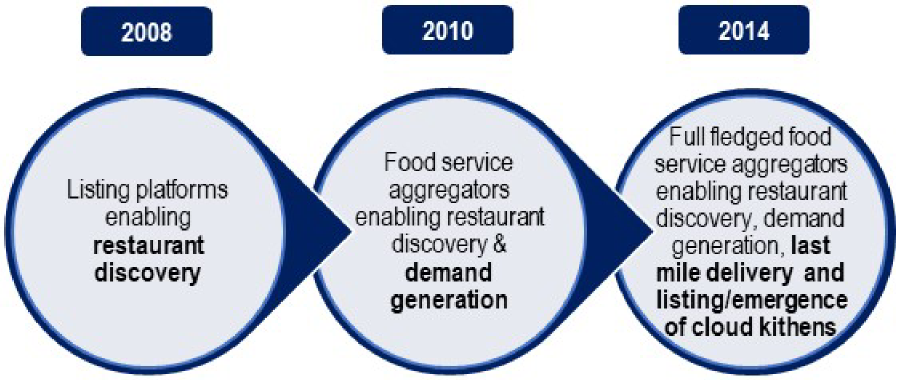
- Domino's Pizza: JUBI launched the web-based ordering platform in 2013 followed by the launch of its mobile app in 2014. The brand executes the delivery orders placed on its own platform (as well as aggregator platform) through its own delivery fleet.
- McDelivery: A similar timeline was followed by WDL for McDonalds (West & South), wherein it launched the web-based ordering platform in 2013 followed by the launch of its mobile app in 2014. Order fulfilment takes place through third party delivery fleet.
- KFC & Pizza Hut: Both the brands of Yum! Brands India had launched their respective online ordering platforms during 2015-2016.

Besides the above, many large chain market players are realising the benefits of having their own assets (helps in establishing loyal customer base, improves brand recall, better connect with customers etc.). The youngest QSR player in India, Burger King, launched its online ordering platform in 2020 followed by a newer version, which features a loyalty program and facilitates omni channel ordering. Even Barbeque Nation, a player in the premium CDR space, launched its own app in Nov'20.

Covid has led to brands expanding their scope of delivery in terms of ease of ordering. For example, on-the-go (wherein order is delivered to customer's vehicle which is parked at the designated pick-up spot outside the brand's store) is a newly emerged convenience channel and has been undertaken by market-leading brands like McDonalds (West & South), Domino's Pizza, KFC etc during the lockdown.

Platform to consumer delivery

Exhibit 34: Evolution of role of food tech players in India

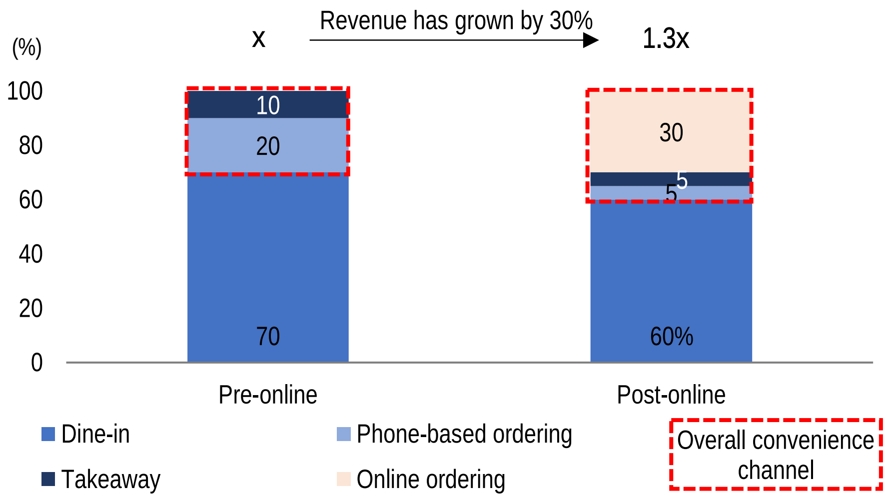


Source: Media, Nirmal Bang Institutional Equities Research

Evolution of relationship between food aggregators and smaller brands: When delivery aggregators started their operations, the listings predominantly comprised cloud-only brands since local brands were not interested in getting listed. However, even before covid, ordering from aggregators became the norm for the millennials, especially in the top 4-6 cities. Gradually, these local brands started understanding the importance of delivery and accordingly started getting listed on aggregator platforms. The outbreak of covid has increased the importance of delivery and things have changed more in favour of the aggregators as against smaller brands.

As per RedSeer Consultancy, partnering with online aggregators has resulted in restaurants witnessing ~30% growth in business compared to the pre-online period on the back of a wider consumer base and better brand visibility. Further, using existing kitchen infrastructure has resulted in better kitchen utilisation, thereby positively impacting the bottomline of restaurants as well.

Exhibit 35: Online partnerships have enabled restaurants to increase overall topline by 30% with incremental sales coming in from online channel



Source: RedSeer, Nirmal Bang Institutional Equities Research

Ramp-up in the usage of delivery platforms has had a two-fold effect on the overall QSR industry – on the one hand, it has helped newer/challenger brands with weak customer connect increase their reach, thereby having a positive impact on their sales. On the other hand, discounts offered by these platforms have also put certain pressure on the overall profitability of these companies.

For the established international QSR brands, the use of aggregator platforms is only selective/bare minimum, as they have their own digital platforms with a loyal customer base. Further, these players have been listed on the food aggregators platforms for a long time and hence have an established relationship with them.

Tech giants are also trying to get a share of the pie: Media reports have stated that *Amazon* and *Google* have launched their own food delivery offerings in India. *Amazon* has launched *Amazon Food* in select Bengaluru pin codes and is said to operate on a similar model as *Swiggy* and *Zomato* by leveraging the service and delivery expertise it has built in India through its existing e-commerce & OTT offerings. However, *Google* is said to operate on a third-party model, much like how it operates in the US where the last-mile delivery is fulfilled by the likes of *DoorDash*, *Postmates*, etc. In India, Google has partnered with *Dunzo* and other third-party APIs for the last-mile delivery.

#OrderDirect gaining momentum

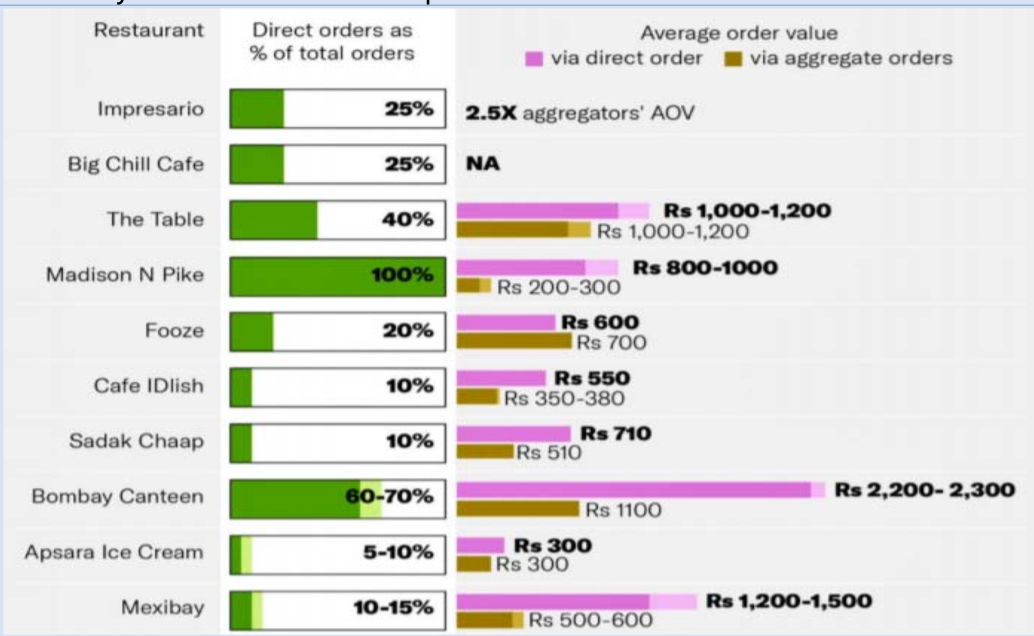
The umbrella body of the restaurant industry in India – the National Restaurants Association of India – has been actively advocating direct orders since the few weeks to empower the food industry and develop better relationships with customers.

Any restaurant with high volume and high profitability makes a maximum profit of a bit upwards of 30% profit margin. Pre-covid, ~90% of restaurants considered sales coming in through aggregators as incremental revenue and hence they were willing to sacrifice margins to aggregator commission & fees. Up until recently, the industry has been totally dependent on food aggregators for delivery. Given that delivery is the only source of revenue for restaurants in these times, they are giving up 30-35% of order value to aggregators through discounts, commissions and marketing, essentially leaving them with nothing. While restaurants do acknowledge the wide reach of Zomato and Swiggy, they are of the view that having direct ordering capabilities (cost of which won't be more than 20% of revenue) will help them save on the commission charges payable to the aggregators and pass on the benefit to consumers. Direct ordering is not a binary solution, it is an additional channel. Further, when customers order directly from restaurants, they also get access to user data and feedback which accordingly help them to augment their services.

Another observation that prompted the restaurant industry to adopt the direct ordering channel is the increase in average order volumes (AOV). AOVs are higher ~2-3x when customer orders directly, since at that time they are not driven by discounting but by the desire to consume good food.

Large restaurant chains have seen an increase in direct delivery orders to the tune of 15-25% of sales over the past two months and plan to focus on increasing this as an alternate and additional channel to aggregators such as Swiggy and Zomato.

Exhibit 36: Many restaurants have seen improvement in AOV and notable traction in direct orders



Source:Media, Nirmal Bang Institutional Equities Research

If this movement gains sustainable traction, the restaurant-to-customer delivery market may land up growing faster than expected.

Potential of cloud kitchen & its scalability

A key consequence of increased use to technology in the food services industry has been the emergence of Cloud-based kitchens (a.k.a. Ghost or Dark kitchens). This concept has gained popularity for its pocket-friendly dynamics such as low capital investment, quick turnaround times, limited human resources, target driven marketing, ease of customer acquisition, etc.

While dark kitchen is a food service business, it is more of an industrial business rather than a restaurant business. Product is the only key factor which would drive branding for a cloud kitchen brand. A dark kitchen model resembles closest to a QSR business model since both offer proprietary products, quick service is key and delivery is an important element (rather the only element for dark kitchens).

To think of it, Domino's is the originator of dark kitchen concept…

The company started in 1960s and the focus was on home delivery where the concept was to service from back alleys due to lower rentals. While it was not tech driven like most cloud kitchens are today, a number was made famous on which customers could call on to place order. It was only in the 1990s, that the focus of the brand shifted to delivery and take-away. Onset of covid led to realignment of focus back to delivery business.

India has ~500+ cloud-only brands with 1000+ cloud kitchens concentrated in top 4-5 cities in India. As per RedSeer, the cloud kitchen market in India was valued at US$400mn in 2019 and is likely to expand to US$2bn by 2024.

Exhibit 37: Key cloud kitchen brands in India

Source: Nirmal Bang Institutional Equities Research;

Note: The above is a non-exhaustive list

Keeping aside the low costs, consumers' demand for more variety and growing appetite for convenience are also driving emergence of new cloud kitchen players in the food services industry. Even the outbreak of covid has given a significant boost to the delivery/takeaway market, which is in turn benefitting the cloud kitchen market as well.

Restrictions to scalability

While it may seem that there is no stopping the expansion of cloud kitchens, it has become difficult to ascertain as to who is a serious player due to the low entry barriers in this space (low set-up & introduction cost, low operational cost etc. as mentioned above) over the last few years. Many of the existing cloud kitchens are running on under-utilised or completely unutilised capacities. Hence, the concept of cloud kitchens has become infamous for its mortality rate.

Beyond tier-1 cities, the potential of cloud kitchens becomes restrictive as the real estate advantage is lost. Thus, the scalability of this concept is highly dependent on metros & urban geographies where there is no paucity of food options.

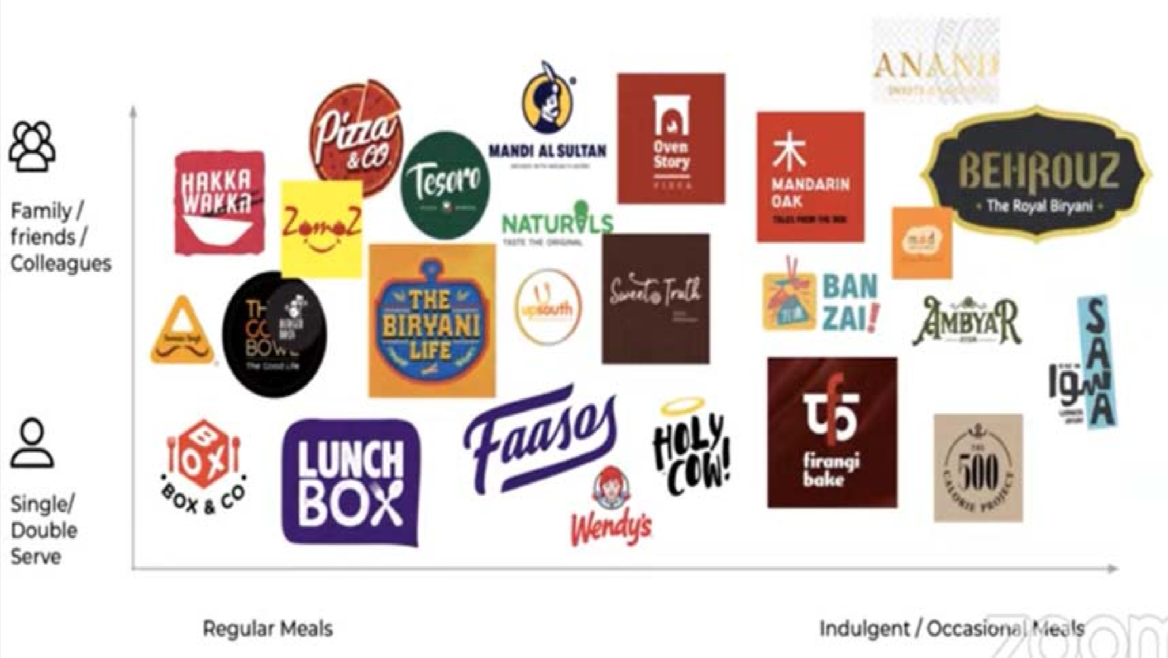
Standardization, flexibility, supply chain systems are some of the key factors dark kitchens need to get right before trying to scale up.

Vis-a-vis QSR brands with physical presence, cloud-based kitchens lack brand recognition and awareness due to lack of physical presence and customer retention. Hence, the scalability of international QSR brands is much more visible than the cloud kitchen brands.

REBEL FOODS (REBEL) – Classic example of a scalable cloud kitchen model

- Mr. Jaydeep Burman and Mr. Kallol Banerjee started operations of Rebel Foods (formerly Faasos) in 2011 with the motto of competing with global QSR giants in India.
- However, when the aggregator business started picking up in 2015, the company realised that 75% of its business comes from delivery and only 25% comes from dine-in. Further, QSR is very capex/overheads heavy business with India having the highest rent-to-sales ratio in the world. Hence in 2015, the company converted few of its dine-in outlets to only kitchens and booked kitchen spaces on industrial estates with lower rents and scaled up the business from there. This conceptualized (rather celebretized!) cloud kitchens in India.
- Further, since wraps required only a small space in the kitchen, the company thought of utilising the remaining space for another brand. With biryani being a highly unorganized, high in demand and a largely scattered category, Behrouz Biryani was born.
- In 2018, Faasos was renamed Rebel Foods. In 2019, it expanded overseas with the first outlet in Indonesia, followed by UAE, UK.
- Eventually Rebel launched launch brand after brand from the same kitchen and completely transformed its economies of scale and built the business since his strategy also leads to unmatched same kitchen sales growth versus the conventional same store sales growth of brick & mortar QSR companies as well as tremendous operating leverage. Also given the low capex, payback period is less than 12 months, versus 3-5 years for traditional F&B outlets. All these factors (economies of scale, low rentals, high operating leverage) lead to a steady state kitchen attaining an EBITDA margin of ~35% (kitchen EBITDA for Top ~15% kitchens is 30% and for all cloud kitchens is ~24%).
- Currently Rebel operates 20 brands which addresses different consumer demands across spectrum (single-person to groups, regular to indulgence). The company is looking to double down on many of its categories (similar to product flanking) to ensure market success and move beyond the discount-led competition. So far, this strategy has been used by Rebel for its biryani-focussed brands — *Behrouz Biryani* (leader in biryani category) and *The Biryani Life* — with plans to do the same across its brands. With this, the company can divide its brands into two— a power brand and an active brand and keep the power brand to be the premium player and the active brand to wage discount war.
- The pandemic opened up new business avenues as brick & mortar food outlets shuttered and moving beyond in-house brands, the company started Rebel Launcher, inviting food companies whose outlets had closed to operate from their kitchens. For example, in Bengaluru brands like Naturals Ice Cream, Mad Over Donuts and Anand Sweets started delivering from Rebel's kitchens. Deal with The Wendy's Company has been a game-changing partnership where in as part of Wendy's expansion plans, Rebel will partner with Sierra Nevada Restaurants (Wendy's master franchise for India), to develop and operate 250 Wendy's cloud kitchens in the country. While ~26 Wendy's cloud kitchens have already been set-up, 12 new kitchens will be set up in the coming weeks.
- At present, Rebel is present in 6 countries and across 45 cities. The company has at least 10 of its brands being serviced from 350 kitchens thereby resulting into 3,500 internet restaurants.

Exhibit 38: Rebel's brands address all food missions - single-person to groups, regular to indulgence



Source: Dark Kitchen & Delivery Summit, Nirmal Bang Institutional Equities Research

Exhibit 39: Behrouz Biryani and The Biryani Life (which is priced considerably lower than Behrouz) versus competitors

	Rebel Foods		Competitors	
	Behrouz - The Royal Biryani	The Biryani Life	Biryani by Kilo	Biryani Blues
Price For Two People (approx):	INR 700	INR 350	INR 700	INR 600
Presence	35 Cities	35 Cities	17 Cities	6 Cities

Source:Media, Nirmal Bang Institutional Equities Research

Journey going ahead

Since the concept is still urban and youth centric, cloud-based kitchens will be able to further disrupt the market only to the extent they manage to create a strong and loyal consumer base and are able to create brands that are accepted across consumer groups.

In order to leverage the digital play and get immediate access to rapid scale, well-known brands following a brick & mortar model may foray into cloud kitchens through partnerships/alliances (classic case being the collaboration between *Wendy's* & *Rebel Foods*) and certain players may even follow a plug & play model (*Swiggy Access*). Further, in case of cloud-only brands, leading players may try to open few physical stores to strengthen their brand connect with consumers.

Other offshoots of increasing application of technology on the industry

i. Emergence of new businesses such as restaurant discovery platforms and reservation platforms

Online discovery platforms like Zomato (and the erstwhile Foodpanda) have become widely popular sources of information regarding alternatives for eating out. These platforms don't just serve as directories but also allow user generated content in the form of reviews, ratings & photographs (thereby bringing credibility) and provide other useful information like cost for two, types of meals served, availability of valet, Wi-Fi etc.

Another extension of tech-driven dining experience is table reservation platforms like Zomato and Dineout, EazyDiner followed by the relatively smaller Table Grabber, Clicktable etc. These platforms not only encourage consumers to step out of homes and opt for dine-in a restaurant without going through the hassle of wondering if a table will be available when they arrive, but also provide real-time status on the availability of seats, rating & reviews and exclusive deals & discounts to the diners at the best restaurants in the respective geography.

ii. Kiosks and Tabletop Ordering System

Another technology which has already impacted the QSR segment globally is self-ordering/self-checkout kiosks. A kiosk is ultimately a new-age technology that can help companies manage their workforce by reassigning employees to more value-added tasks (i.e., from order fulfilment to one focused solely on customer satisfaction) and improving their experience. While globally, many QSR brands have been investing in introducing their kiosk model, in India the usage of such self-ordering & checkout system is still at a nascent stage. McDonald's (WDL) is the only QSR which has introduced this concept in a scalable manner (under their 'Experience of The Future' EOTF restaurants).

Exhibit 40: McDonald's (West & South) had 66 EOTF as on FY20

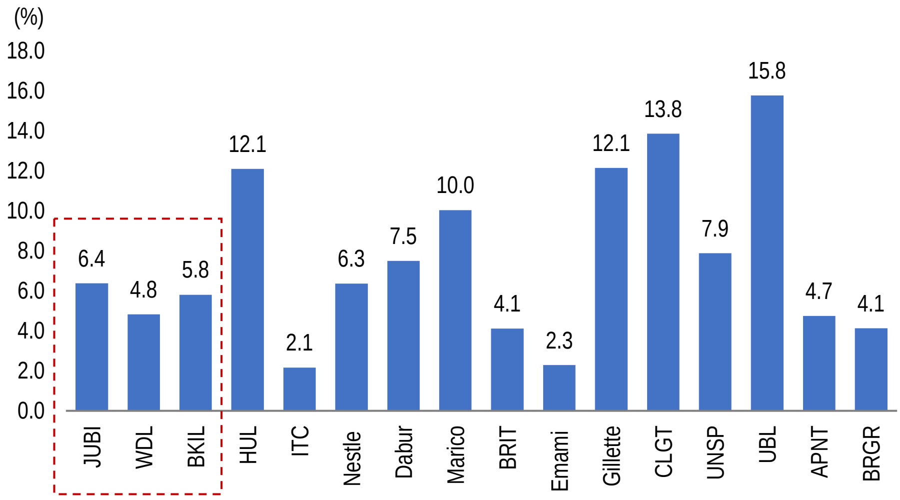
Source:Company, Nirmal Bang Institutional Equities Research

Tabletop ordering systems is another intervention of technology, which provide diners with the ease of scrolling through the entire menu digitally and give orders. There is no need for servers to physically take orders from each table and orders placed through digital menus are directly transferred to the kitchens. These systems decrease the table turnaround time, serve more guests and ensure better service delivery.

Advertising & marketing remains important for the QSR industry

Consumer companies have to continuously spend on marketing & advertising campaigns in order to remain competitive, retain a loyal customer base, increase brand awareness & positioning and remain relevant. The organized food services industry, especially the QSR market, is no exception. Globally, fast-food industry has a rich history of marketing, starting with advertising of core products and extending to varieties of localized menus and advertisements of combos & promotions.

Exhibit 41: Ad spends as a % of net revenue of coverage universe (as on FY20)

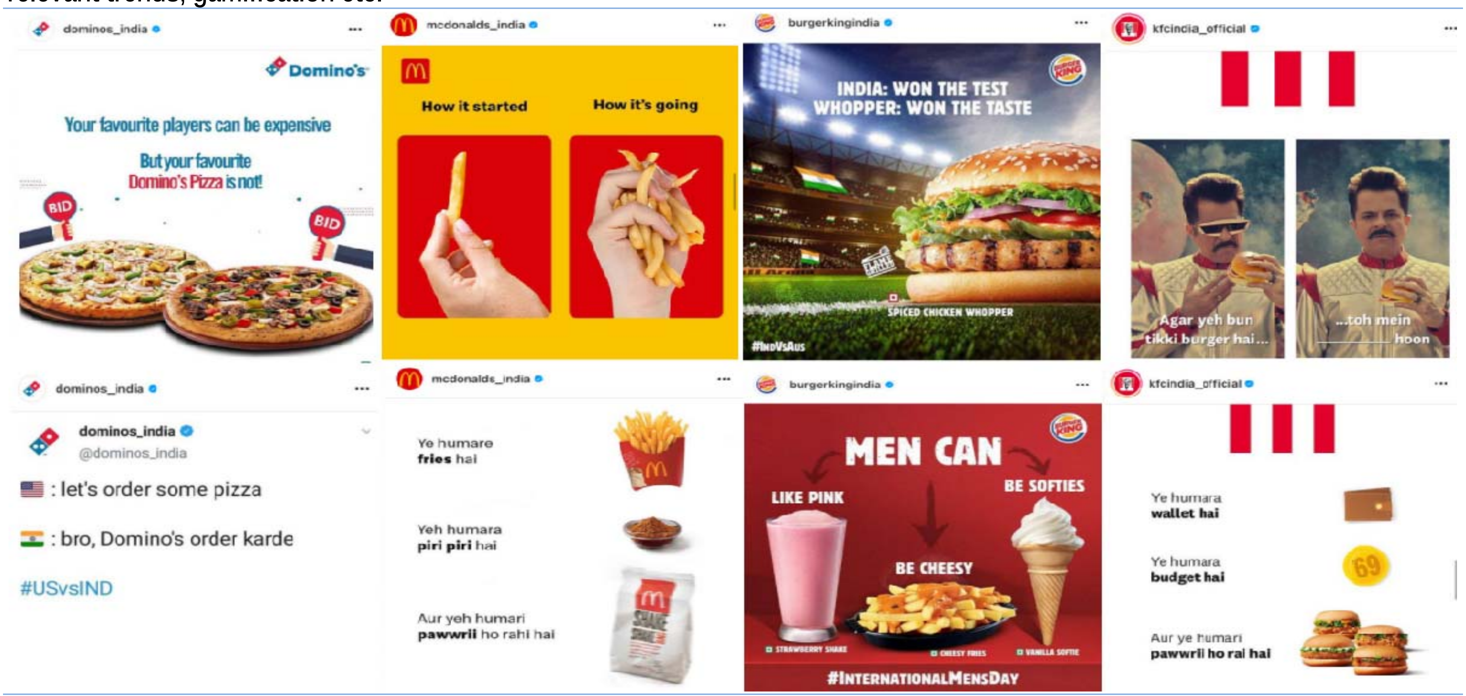


Source: Company, Nirmal Bang Institutional Equities Research

In India, food services companies are likely to invest 4%-6% of their net revenue on marketing, of which ~65%-70% is on conventional mass media & television marketing and ~30%-35% is on online & digital media marketing.

The importance of online & digital media marketing is continuously growing given the potential to reach out to a wider base of consumers, the increased no. of active users of social media platforms, establishment of direct connect with customers etc.

Exhibit 42: QSRs have been ensuring visible presence and customer engagement across social media platforms through relevant trends, gamification etc.



Source: Social media, Nirmal Bang Institutional Equities Research

Players leverage sporting events like the Indian Premier League (IPL) to drive orders

Since its launch in 2008, the ~50-day Indian Premier League (IPL) has been a flagship event for sports fans in India. To leverage the golden combination of *Sports, Entertainment and Food,* not just large food brands, but also many standalone restaurants & cafes have accelerated marketing efforts by introducing season-friendly menus, putting up screens, launching promotions/offers etc. to drive additional footfalls/orders during that period. Even food aggregators leverage the IPL season through heavy discounting and engaging in marketing campaigns/partnerships.

As per Redseer, during IPL season of 2019, daily average order volume of food aggregators surged by 20% versus the pre-game period. During the delayed 2020 IPL season held during 19th Sep'20-10th Nov'20, Swiggy saw a 30% increase in orders during match days compared to pre-game period according to Kantar.

Exhibit 43: IPL related promotions/campaigns by QSR players & food aggregators during recent seasons

Source: Company, Media, Nirmal Bang Institutional Equities Research

SECTOR VIEW

The entry of international brands of Domino's and McDonalds's in India during the mid-1990s marked not just the emergence of the Quick Service Restaurant (QSR) format, but also paved the way for the growth of the organized food services industry in India, which was basically non-existent in the country. The QSR format seems to be the perfect mix of maintaining decent consumer connect along with being lucrative. Thus, over the years it has become an integral part of the industry as depicted by its ~11% contribution to the overall organized segment. Over FY14-FY20, the QSR format (commanding the highest share in the chain market) grew at a CAGR of 19.1%, ahead of the chain market's growth of 17.6% and much ahead of the overall organized market's growth of 12.9%. International brands have dominated the QSR market with +50% share of revenue on the back of (i) brand equity (ii) investments behind increasing geographical presence (iii) menu glocalization (iv) value focus (v) ability & agility in keeping up with trends (vi) focused marketing efforts (vii) backend integration and (viii) investment in technology. With a healthy demand outlook and surge in investments, the industry is expected to witness substantial growth and operations of large segment of the unorganized market are expected to get streamlined into organized market. Brands with clear strategy, strict focus on capital allocation and steady expansion plans will sustain over the long term. In the near term, there is pain due to the curbs led by resurgence in Covid cases, but due to the resilient convenience channel and stringent standard operating procedure (SOPs) in place, the QSR sector should see faster recovery once these curbs are lifted.

Within our consumer coverage universe, revenue of QSR companies has grown at a CAGR of 19% over the last three years (FY17-FY20; since FY21 was an abnormal year) compared to other discretionary categories in our coverage - Paints and Alcoholic Beverages, which have grown at 10.7% and 5.4%, respectively (our FMCG coverage companies have grown at 6%). This is despite the fact that two leading brands, Domino's and McDonald's operated by JUBI and WDL (West & South India), respectively, have existed for ~25 years in the country, thereby making them fairly matured brands. Over FY20-FY23E, we expect the revenue of our QSR coverage companies to grow at 12.1% CAGR on the back of healthy growth momentum led by growing volumes/penetration through value centric customer proposition, premiumization, ramp-up in convenience channel, introduction of innovations & product platforms and store expansion beyond metros & tier-I areas.

Exhibit 44: Listed QSR companies have grown ahead of other coverage discretionary segments

Sector	Revenue CAGR		EBITDA CAGR	
	FY17-FY20	FY15-FY20	FY17-FY20	FY15-FY20
QSR	19.0	13.9*	61.3	32.1*
FMCG	6.0	7.7	9.6	14.4
Paints	10.7	7.7	12.1	15.2
Alcoholic Beverages	5.4	4.3	13.2	12.9

Source: Company, Nirmal Bang Institutional Equities Research
Note: 5-yr CAGR excludes BKIL as financials for the company are available only from FY17

To value the future potential of this industry in an optimum way, we are now valuing the QSR companies on DCF basis. Based on which, we continue to maintain our Buy rating on WDL and remain positive on the its ability deliver strong performance in the medium-term. We also continue to like the market leader - JUBI, which operates at scale nowhere close to the 2nd player, has better financial metrics and has also recently taken strides to diversify. We continue to have an Accumulate rating on JUBI. Recently listed, BKIL, similar unlike WDL is a pan-India play. We believe with its current strategy and margin profile, it should become profitable by FY23. We Initiate coverage on BKIL with an Accumulate rating.

Peer comparison of listed QSR Players

Exhibit 45: Category comparison

Domino's Pizza
- Pizza
- Sides (Pasta, Garlic Bread, Burger Pizza, Taco Mexicana, Parcel, etc.)
- Beverage (aerated, ice tea etc.)
- Dessert (Choco lava cake, brownie etc.)

McDonald's
- Burger
- Breakfast
- Wraps
- Rice Bowl
- Sides (Fries, Chicken, McPuff, Naan, etc.)
- Beverage (45+ products of hot and cold beverages including McCafe portfolio)
- Dessert (Sundae, Soft Serve, McFlurry, etc.)

Burger King
- Burger
- Breakfast (All Day)
- Wraps
- Rice Bowl
- Sides (Fries, Chicken, etc.)
- Beverage (aerated, Coffee, Thick Shakes, Cream Shakes, Smoothies)
- Dessert (Sundae, Softy)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 46: Key financial metrics & unit economics

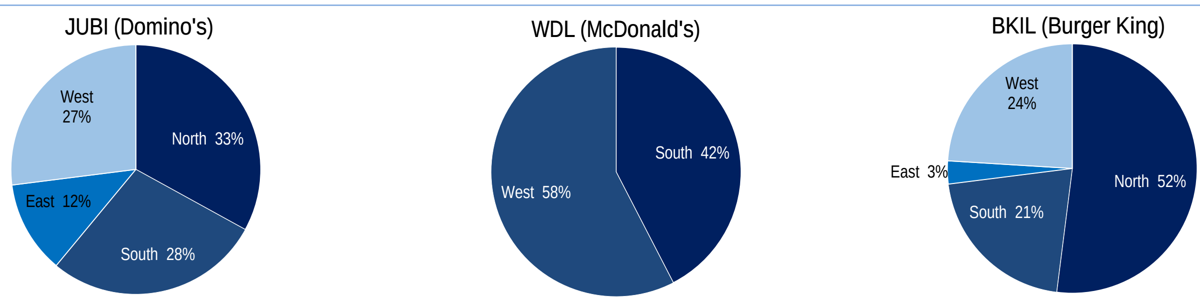
Parameters/Company	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Net rev. (Rsmn)							
JUBI	20,937	24,379	25,834	30,184	35,631	39,273	33,405
WDL	7,643	8,334	9,308	11,349	14,019	15,478	9,860
BKIL	-	-	2,299	3,781	6,327	8,412	4,945
Net rev. growth (%)							
JUBI	20.5	16.4	6.0	16.8	18.0	10.2	-14.9
WDL	3.2	9.0	11.7	21.9	23.5	10.4	-36.3
BKIL	-	-	-	64.4	67.3	33.0	-41.2
SSSG (%)							
JUBI	0.2	3.2	-2.5	13.9	16.8	3.0	-0.2
WDL	-5.6	1.9	4.0	15.8	17.5	4.0	-33.9
BKIL	-	-	-	12.2	29.2	-0.3	-39.3
No. of stores							
JUBI	876	1,026	1,117	1,134	1,227	1,335	1,335
WDL	209	236	258	277	296	319	305
BKIL	12	49	88	129	187	260	265
Sales/store (Rsmn)							
JUBI (Standalone)	25.9	25.3	23.8	26.5	29.9	30.3	24.7
WDL	38.9	37.5	37.7	42.4	48.9	50.3	31.6
BKIL			33.6	34.8	40.0	37.6	18.8
Sales/sq. ft. (Rs)							
JUBI (Standalone)	25,898	25,344	23,762	26,481	29,908	30,334	24,670
WDL	13,648	13,143	13,222	14,886	17,171	17,661	11,089
BKIL			22,379	23,233	26,698	25,093	12,558
Gross margin (%)							
JUBI	74.8	76.2	75.6	74.6	75.1	75.0	78.1
WDL	58.4	60.0	60.6	62.3	63.5	65.2	64.7
BKIL			59.9	62.0	63.6	64.2	64.5

Parameters/Company	FY15	FY16	FY17	FY18	FY19	FY20	FY21
EBITDA (Rsmn)							
JUBI	2561	2,636	2,411	4,401	5,998	8,756	7,952
WDL	152	426	470	755	1,189	2,140	610
BKIL	-	-	-39	81	790	1,040	150
EBITDA/store (Rsmn)							
JUBI (Standalone)	3.3	2.9	2.3	4.0	5.1	6.8	5.9
WDL	0.8	1.9	1.9	2.8	4.1	7.0	2.0
BKIL	0.0	0.0	-0.6	0.7	5.0	4.7	0.6
EBITDA/sq. ft. (Rs)							
JUBI (Standalone)	3,281	2,858	2,301	3,966	5,148	6,847	5,921
WDL	271	672	667	991	1,456	2,442	686
BKIL	0	0	-379	499	3,333	3,102	381
EBITDA margin (%)							
JUBI	12.2	10.8	9.3	14.6	16.8	22.3	23.8
WDL	2.0	5.1	5.0	6.7	8.5	13.8	6.2
BKIL	-	-	-1.7	2.1	12.5	12.4	3.0
PAT (Rsmn)							
JUBI	840	968	699	1,962	3,198	3,049	2,352
WDL	-291	-186	-121	167	213	93	-1,036
BKIL	-	-	-718	-822	-383	-722	-1,839
RoE (%)							
JUBI	13.0	12.7	8.7	20.3	25.4	27.2	18.5
WDL	-5.3	-3.5	-2.3	3.1	3.8	1.6	-19.6
BKIL	-	-	-	-25.1	-14.3	-27.5	-38.8
Pre-tax RoCE (%)							
JUBI	21.9	20.6	12.8	34.1	43.9	49.8	40.1
WDL	-3.1	-0.8	0.5	4.6	6.9	11.2	-6.6
BKIL	-	-	-	-13.8	2.6	-1.6	-17.7

Source: Company, Nirmal Bang Institutional Equities Research

Note: 1. Financial metrics of JUBI and WDL are based on consolidated basis unless mentioned otherwise
2. JUBI's avg. store size assumed at 1,000 sq.ft.; WDL's avg. store size assumed at 2,850 sq.ft.; avg. store size assumed at 1,500 sq.ft.
3. Sales/store and sales/sq.ft. are calculated on average basis
4. EBITDA & PAT is including impact of INDAS-116

Exhibit 47: Broad based regional distribution in terms of store count – JUBI has the most geographically diversified operations



Source: Technopak, Nirmal Bang Institutional Equities Research
Note: Regional distribution for JUBI is on basis of 1,354 stores (before closure of 100 stores in 2QFY21); Regional distribution for WDL is calculated based on ~318 stores

Exhibit 48: Valuation sheet of coverage universe

Company name	MCap (US$bn)	CMP	Target Price	Current Rating	CAGR FY21-FY23E			P/E (X)			EV/EBITDA (X)		
					Sales	EBITDA	PAT	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Consumer discretionary													
Jubilant Foodworks	5.7	3,175	3,110	Acc	28.9	38.1	82.0	178.1	81.7	53.8	51.5	34.7	26.4
Westlife Development	1.0	485	560	Buy	38.5	148.2	-	-	178.3	60.0	123.7	28.1	19.7
Burger King	0.8	157	155	Acc	71.8	314.0	-	-	-	214.8	377.6	32.9	22.4
Asian Paints	38.5	2,925	2,580	Acc	15.5	15.8	19.7	89.4	74.2	62.4	57.1	49.1	42.1
Berger Paints	10.6	796	620	Sell	17.6	22.7	26.5	107.4	75.3	67.2	64.9	48.2	42.7
United Spirits	6.3	629	685	Buy	12.1	37.6	65.2	103.2	46.1	37.8	46.8	31.2	26.1
United Breweries	4.9	1,337	1,385	Buy	34.5	82.3	133.8	259.6	67.2	47.5	86.6	34.2	25.9
Consumer staples													
Hindustan Unilever	75.5	2,342	2,760	Buy	11.2	18.5	21.1	69.1	56.5	47.2	47.9	39.7	33.9
Nestle India	23.1	17,427	17,550	Acc	12.1	15.4	18.2	80.2	65.4	57.4	51.3	42.1	37.9
Britannia Industries	11.5	3,489	3,835	Acc	7.5	5.0	7.0	45.4	45.2	39.6	33.6	33.5	29.7
ITC	35.3	209	240	Acc	9.6	16.5	14.0	19.7	16.2	15.2	15.4	11.4	10.5
Dabur India	13.2	544	575	Acc	10.0	12.2	11.8	56.8	50.8	45.5	45.5	40.2	35.8
Colgate-Palmolive (India)	6.3	1,697	1,700	Acc	7.9	5.9	4.5	44.6	43.7	40.8	30.0	28.5	26.6
Marico	8.6	487	440	Acc	12.0	14.1	12.8	54.0	47.9	42.4	38.6	33.9	29.3
Emami	3.3	539	580	Buy	10.7	8.7	5.8	33.1	31.6	29.6	27.3	25.5	22.9
Gillette India	2.5	5,658	6,020	Acc	6.8	4.0	8.6	53.9	51.2	45.7	34.2	34.1	30.8

Source: Company, Nirmal Bang Institutional Equities Research
Note: CMP as on 4th June'21
** FY21 estimated for JUBI*

GLOBAL FAST-FOOD MARKET

Over the coming years, global fast-food/QSR restaurants will continue to expand as the global economy improves. Change in consumer tastes & preferences, increase in demand for international cuisines, increase in number of fast-food restaurants and adoption of online ordering systems will drive the growth of the global fast-food market.

Taking into account the impact of Covid, industry reports estimate the global market for fast-food chain restaurants at US$652.3bn in CY20. This is projected to grow at a CAGR of 3.1% to US$809bn by CY27. The fast-food chain restaurants market in the US is estimated at US$176.2bn in CY20. Among the emerging economies, China, India and Brazil will continue to dominate in terms of fast-food consumption, owing to their large population base and growth in the number of QSRs. Rising international expansion of US-based fast-food chains will continue to be the primary driver of industry growth, as emerging economies increasingly demand more fast-food options. China, the world`s second largest economy, is expected to reach a market size of US$167.1bn by CY27, trailing a CAGR of 5.8% over the period. The segment of *Burgers & Sandwich* (highest consumed fast food as per certain reports) is projected to record a 3.8% CAGR and reach a global market size of US$216.5bn by CY27.

Exhibit 49: 10 companies control more than 50 brands present throughout the world

Source: Media, Nirmal Bang Institutional Equities Research
Note: FAT Brands acquired Johnny Rockets in 2HCY20

Exhibit 50: Key global listed QSR (brand owners + franchisee owners) players

Company	Country of brand's operations	Brand
	QSR BRAND OWNERS	
McDonalds Corp.	USA	McDonald's
Restaurant Brands Intl. Inc.	USA & Canada	Burger King, Tim Hortons, Popeyes
Domino's Pizza Inc.	USA	Domino's
Yum Brands Inc.	USA	KFC, Pizza Hut, Taco Bell
Starbucks Corp.	USA	Starbucks
The Wendy's Company	USA	Wendy's
Chipotle Mexican Grill Inc.	USA	Chipotle
	FRANCHISEE OWNERS	
Yum China Holdings Inc.	China	KFC, Pizza Hut, Taco Bell
Domino's Pizza Enterprises	ANZ, Europe	Domino's
Alsea	Latam, Europe	Domino's, Starbucks, Burger King, Chili's
Arcos Dorados Holdings Inc	Latam	McDonald's
BK Brasil	Brazil	Burger King, Popeyes
AmRest Holdings SE	Central & Eastern Europe	KFC, Pizza Hut, Starbucks, Burger King
Domino's Pizza Group	UK, Ireland	Domino's
Collins Foods Ltd	Australia, Europe	KFC, Taco Bell
DP Eurasia	Eurasia	Domino's
Jubilant Foodworks	India, Sri Lanka, Bangladesh, Nepal	Domino's, Dunkin' Donuts, Popeyes
Westlife Development	India	McDonald's
Burger King	India	Burger King

Source: Company, Nirmal Bang Institutional Equities Research

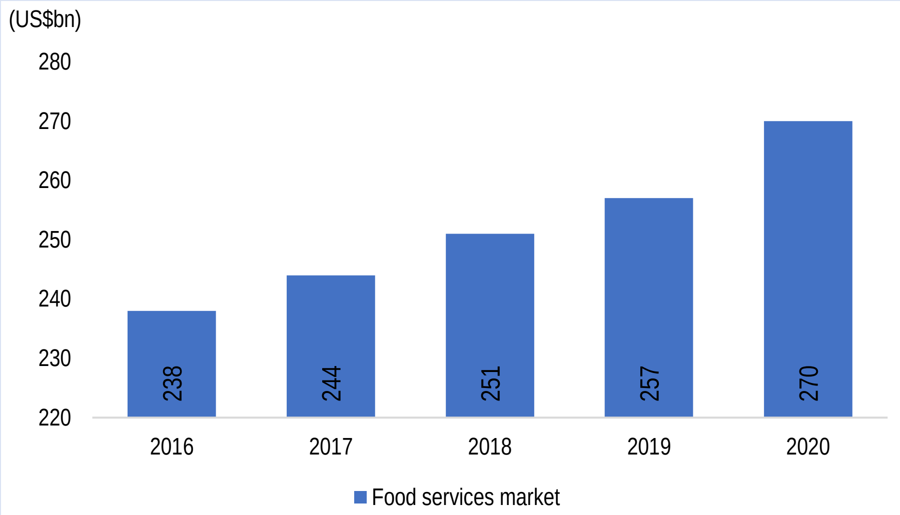
Exhibit 51: Valuation of global QSR companies – Indian companies trading at premium due to their growth potential

Company	Mcap	3yr CAGR (FY18-FY21)			3 yr Avg (FY19-FY21)			P/E (x)			EV/EBITDA (x)		
	$bn	Rev.	EBITDA	EPS	EBITDA margin	RoE	RoCE	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
QSR BRAND OWNERS													
McDonalds Corp.	173.4	-5.6	-1.1	0.4	53.8	-	20.4	35.6	27.0	24.4	20.3	18.8	17.4
Restaurant Brands Intl. Inc.	31.8	2.8	-11.6	-0.2	32.2	28.0	8.7	37.1	25.9	22.2	24.7	14.7	13.0
Domino's Pizza Inc.	16.6	13.9	13.9	28.6	19.6	-	81.7	34.7	32.9	28.5	22.2	21.4	19.5
Yum Brands Inc.	35.3	-1.3	-17.0	-6.2	36.9	-	57.6	30.5	28.1	25.2	25.0	19.0	17.8
Starbucks Corp.	131.4	1.7	-3.7	-16.9	20.5	45.5	35.8	87.2	37.5	31.1	32.1	23.7	20.5
The Wendy's Company	5.0	12.3	12.7	10.0	26.6	40.3	9.5	34.6	31.0	26.8	16.3	17.3	16.2
Chipotle Mexican Grill Inc.	37.5	10.2	25.5	20.8	13.7	18.1	-	103.7	54.2	41.1	49.1	35.6	28.0
FRANCHISEE OWNERS													
Yum China Holdings Inc.	28.6	2.1	16.6	27.9	19.8	22.0	18.0	37.9	33.3	28.6	12.4	14.1	12.4
Domino's Pizza Enterprises	7.8	21.1	19.1	7.8	18.1	35.5	13.2	61.0	53.6	46.2	25.8	20.3	18.1
Alsea	1.4	-3.3	2.6	-	17.9	-7.4	4.3	-	-	49.0	11.6	8.4	6.8
Arcos Dorados Holdings Inc	1.4	-15.8	-24.6	-	10.0	-6.8	-	-	177.4	26.2	13.0	10.7	8.1
BK Brasil	0.6	7.9	-	-	4.8	-4.7	-1.0	-	-	-	-21.4	13.9	7.6
AmRest Holdings SE	2.0	7.2	-7.6	-	12.0	-7.9	1.4	-	-	-	25.8	9.4	7.9
Domino's Pizza Group	2.5	2.1	8.1	4.2	19.6	210.3	13.4	21.3	19.7	18.5	17.9	15.2	14.5
Collins Foods Ltd	1.1	15.7	31.6	0.5	13.9	10.4	6.6	53.7	29.5	26.0	10.3	11.5	10.2
DP Eurasia	0.1	17.6	16.5	-	14.4	-62.0	-5.5	-	66.0	19.5	9.3	5.7	4.5
Jubilant Foodworks	5.7	3.4	21.8	6.2	21.0	23.7	44.6	178.1	81.7	53.8	51.5	34.5	26.3
Westlife Development	1.0	-4.6	-6.9	-	9.5	-4.7	3.8	-	178.0	59.3	123.7	28.1	19.6
Burger King	0.8	9.4	22.6	-	9.3	-26.8	-5.6	-	-	214.8	377.6	31.8	21.7

Source: Company, Nirmal Bang Institutional Equities Research
Note: CMP as on 4th Jun'21

LATAM fast food market

Exhibit 52: LATAM food services market has grown at 3.2% over the 2016-2020



Source: Statista, Nirmal Bang Institutional Equities Research

In terms of long-term growth, LATAM continues to be one of the most attractive regions for the food service market, due to the presence of both large and fast-growing Brazil as well as many smaller, rapidly developing markets that have high potential for future chained development. Similar to India, majority of the food service market in LATAM is dominated by informal segment.
In case of the QSR sector, while McDonald's is the oldest brand existing in this region, Domino's and Burger King have also established a strong presence in this market over the years. There are three companies controlling a chunk of QSR market in LATAM – Alsea, Arcos Dorados and BK Brasil.

Alsea: Alsea operates ~19 food brands, Domino's, Burger King & Starbucks being the largest ones, in Latin American countries and European countries. In CY20, ~64% of revenue came in from LATAM countries, the balance coming in from Europe. In terms of store format, ~50% revenue was generated from QSRs brands, ~28% from coffee chains, ~15% from CDRs and balance from family restaurants in CY20.
Arcos Dorados: This company ranks no. 1 in the Latin American QSR market and is the largest independent franchisee in the McDonald's system comprising of 4-5% of McDonald's system wide sales.
BK Brasil: BK Brasil is the master franchisee of Burger King Corporation in Brazil with exclusive rights to manage and develop the Burger King brand in the country. While the brand entered the Brazilian market in 2004, the company started its operations in 2011 and is currently the third largest fast food chain in Brazil and the second largest hamburger fast food chain after McDonald`s.

We believe there are two key reasons as to why listed Indian QSRs trade at a premium to LATAM QSRs:

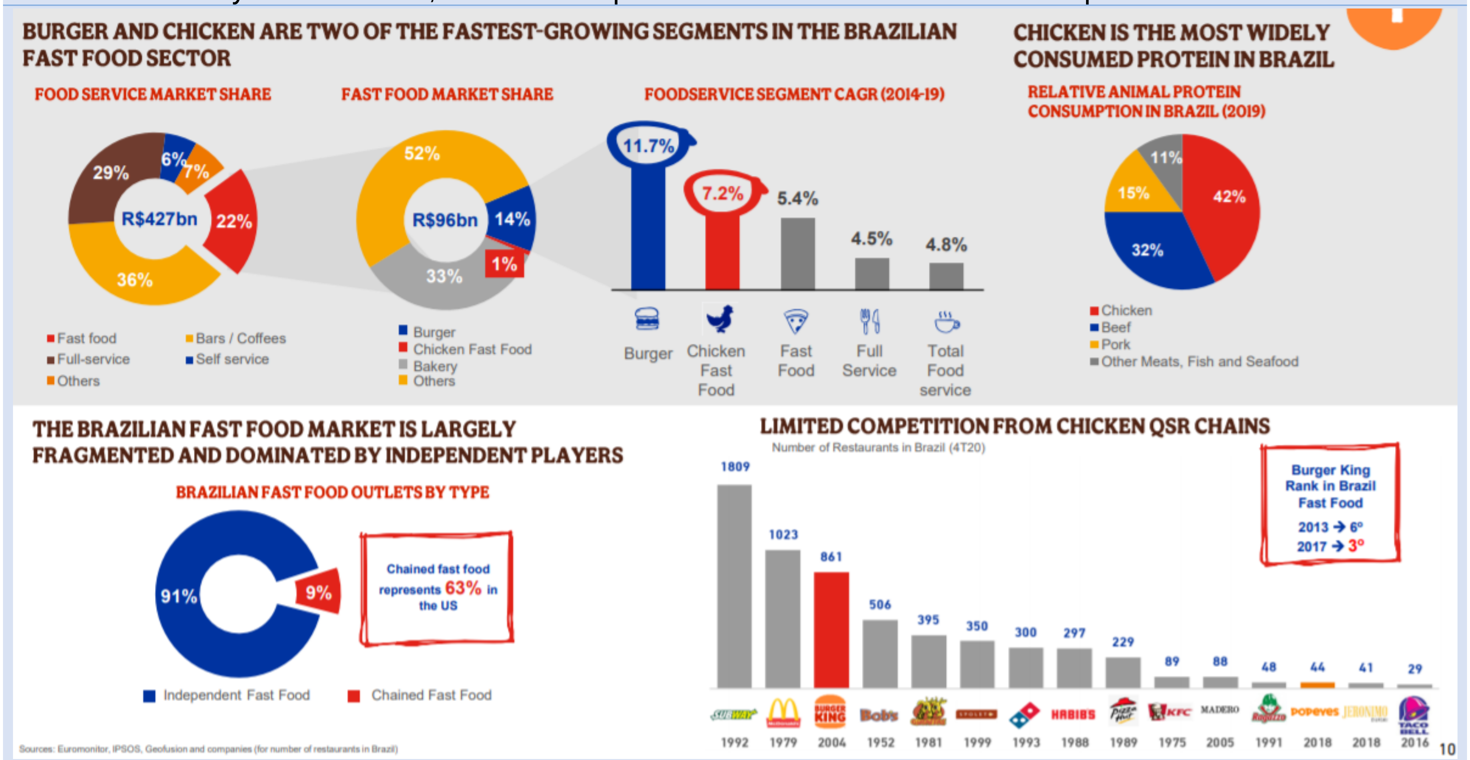
i. Leveraged companies as compared to their Indian counterparts

Even if we ignore the year of 2020 where business operations of QSRs were impacted due to the unforseen event of Covid-19, Alsea and Arcos Dorados have have significant debt in their balance sheet (BK Brasil is a net cash company as funds raised from IPO in Dec'2017). Against this, all three listed Indian companies are either net cash companies (JUBI, BKIL) or are marginally leveraged companies (WDL).

ii. Slower pace of store expansion % of new store openings per year much lesser as compared to India

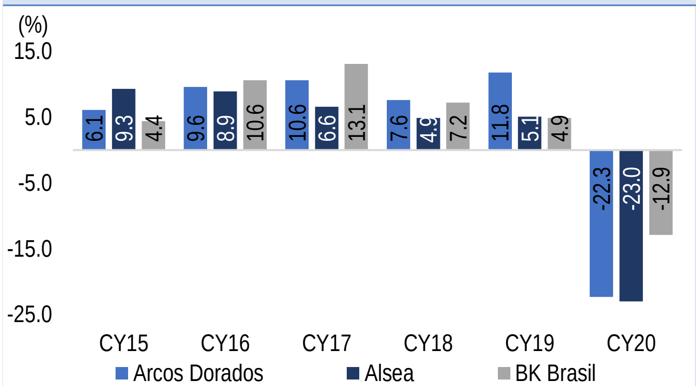
Except BK Brasil's number of outlets which have grown at 10.1% over CY15-CY20 due to its late entry in Brazil, store expansion for Arcos Dorados and Alsea (including only QSR units) has been at a tepid rate of 0.9% and 1.8%. On the other hand, JUBI and WDL's store expansion has been 8.8% over the same period whereas BKIL's number of stores have grown at 85% (on a small base of 12 outlets).

Exhibit 53: Sector dynamics in Brazil, which makes up for +40% of LATAM's fast-food consumption



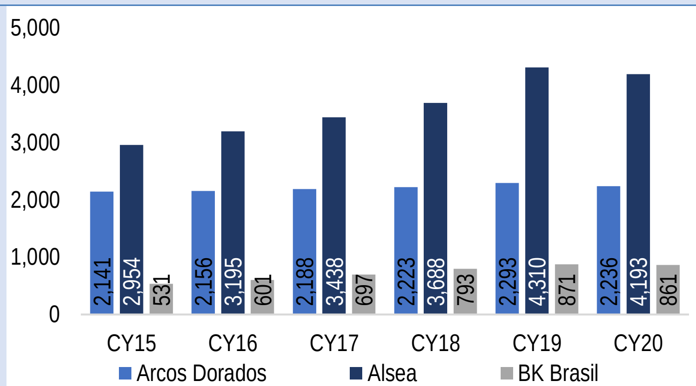
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 54: Comparable sales growth impacted in CY20 due to the pandemic



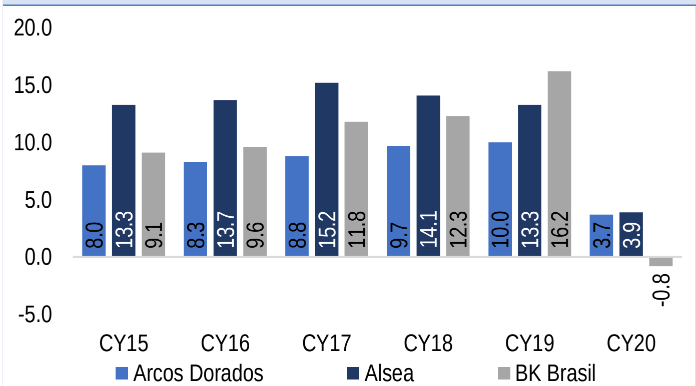
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 55: No. of stores for BK Brasil has grown at 10.1% over last five years



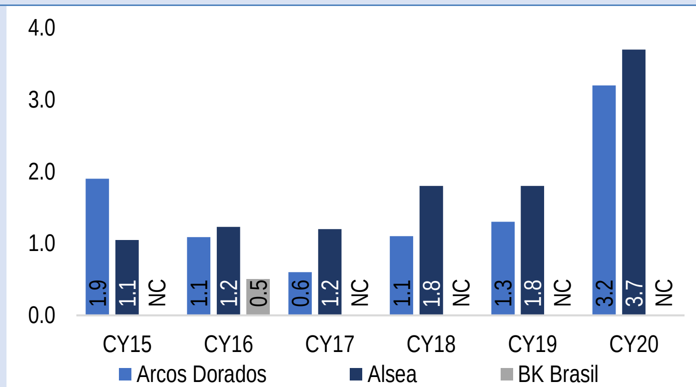
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 56: Alsea records the highest EBITDA margin due to significant contribution of its *Starbucks* outlets



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 57: Alsea has had the highest net debt ratio among the three comapnies



Source: Company, Nirmal Bang Institutional Equities Research
** NC = Net cash*

RISKS FOR THE QSR INDUSTRY

Real income growth: Growth in real income (driven by macro factors) is very important for the growth of the food services industry. If the macro-economic environment of the country does not build up as expected, wherein the real income and consequently disposable income does not grow, it will be difficult for QSR & other affordable formats within CDRs & cafes, to scale up substantially in smaller cities.

Covid-19 remains a near term pain for overall food services industry: The outbreak of the pandemic and the consequent lockdown by the Government, have had a substantial impact on the entire food services industry. Different states and regions in India have been disproportionately affected by COVID-19 and the measures implemented in each state have varied due to regional and regulatory differences in each state in India. By Dec'20/Jan'21, a declining covid-19 graph and opening up of markets led to many prominent QSRs reaching pre-covid levels of operations; some have even started seeing growth but ~25-30% of the restaurant industry has seen permanent closure. However, given that the covid-19 graph of India has gradually started rising again, any consequent lockdown/restrictions in operating hours could hamper the entire food services industry, including the QSR brands.

Fragmented market and increasing competition: With ~60% of the total food services industry (by revenue) being driven by the unorganized segment, the Indian food services industry remains highly fragmented. While the market fragmentation has facilitated international & domestic chains to grow at a fast pace, the appeal of the high growth potential of this industry is attracting more & more players, thereby leading to rise in competition for the existing players.

Shortage of skilled staff and high attrition: While the food services industry is labour intensive, it has a shortage of trained manpower. The gap between supply and demand requirement for talented manpower, which is likely to be filled with unskilled workers, may potentially lead to decrease in the quality of service provided to consumers. The shortage of skilled manpower coupled with an attrition rate of 35-40% leads to higher cost of manpower. Though international brands such as Domino's, Pizza Hut, McDonald's and Burger King are known to have created strong in-house training programmes to address the demand and supply gap, the attrition rate for the overall industry remains fairly high at 35-40%.

High real estate prices: Rentals being the second highest cost component after raw materials for most food services companies, (~12%-15% of revenue generally and occasionally 20%). Driven by higher demand and availability of easy credit, real estate prices in India have been increasing for over a decade. Hence, any disproportionate increase in real estate prices will exert pressure on the profitability of companies in the food services industry and will hinder the growth of their outlets.

Higher preference for non-junk food or home cooked food: Outside food is termed by some as junk food. The perception of the industry as a whole being unhealthy can have negative consequences. While there would be always certain section of the society who will prefer home cooked over outside but higher preference by people for non-junk food citing health reasons might dent the growth potential for QSR industry in the country.

Company Section

Burger King India Ltd.

7 June 2021

Bloomberg: BURGERKI IS

Initiating Coverage

After reigning North, BKIL now challenging Rest of India

Although a late entrant in the Indian QSR space, Burger King India Ltd. (BKIL) has proved its salt's worth by increasing the brand's market share from 0% to 5% in terms of revenue and to 4% in terms of outlets within just 6 years of presence - also making it the fastest growing QSR brand in India. We believe that the company's market share is bound to expand further on the back of the following: benefits that the pan-India Master Franchise & Development Agreement (MFDA) offer, an aggressive mindset towards growth (plan to open 700 stores by CY26 is a pre-eminent target laid out in the MFDA), cluster-based expansion strategy and technological backbone. Globally, the brand is targeted at millennials (15-35 years) and India with its highest population of millennials and consumers who eat out represents a significant opportunity for the brand to stand among the winners. Further, novelty factor, consumer propositions, entry level & value products, wide variety and the globally renowned flame-grilled *Whopper* will drive trials besides attracting footfalls, thereby supporting Same Store Sales Growth (SSSG). While platforms like *All Day Breakfast, beverages, rice and chicken* are relatively new and don't contribute meaningfully currently, they would gradually ramp up and incrementally add to the topline. The company is also rolling out its Value 2.0 program across India. This paired with delivery traction from BKIL's newly launched App will drive SSSG. We expect the company to deliver 71.8% revenue CAGR over FY21-23E (20.2% over FY20-23E). Over the medium term, revenue growth will be led by (a) aggressive store expansion target (b) maturity of older stores whose ADS is 30-40% higher than average (c) ramp up of products across price points & (d) recovery from impacted base starting 2QFY22. We have built 314% CAGR over FY21-23E (35.2% over FY20-23E) in EBITDA (includes INDAS 116 impact). Operating performance over the medium term to be driven by (a) efficiencies (b) premiumization (c) cluster-based penetration strategy (d) normalization of marketing spends and (c) operating leverage driven by recovery & store expansion. Albeit vis-a-vis both the listed QSRs, the *Burger King* brand lags in terms of its market presence due to its infancy in the Indian QSR space, but it already operates at a decent margin profile in its short tenure. In the second Covid wave, because of its current dine-in centric model (pre-covid ~70% of the brand's revenue came from dine-in) as well as 55% mall portfolio, *Burger King* may stand to lose in the near term with a lagged recovery compared to JUBI and WDL, which have a relatively higher salience of convenience channels and diversified store portfolio. However, the brand has all the ingredients for establishing itself in the Indian QSR market over the long term, if executed well. While the company is still not profitable at PAT level, we expected BKIL to clock profit by FY23 itself. At the current market price (CMP), BKIL trades at 32.9/22.4x FY22E/FY23E EBITDA. We initiate coverage on the stock with an Accumulate rating and a DCF based target price (TP) of Rs155 implying an EV/EBITDA multiple of 22.5x FY23E EBITDA. Recovery and execution of the store expansion plan is the key monitorable.

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Net revenues	6,327	8,412	4,945	10,880	14,601
YoY growth (%)	*67.3*	*33.0*	*-41.2*	*120.0*	*34.2*
SSSG (%)	29	0	-39	91	11.5
EBITDA	790	1,040	150	1,745	2,568
EBITDA margin (%)	*12.5*	*12.4*	*3.0*	*16.0*	*17.6*
Adjusted PAT	-383	-722	-1,839	-236	279
EPS (Rs)	-1.4	-2.6	-4.8	-0.6	0.7
RoCE (%)	*2.6*	*-1.6*	*-17.7*	*5.6*	*14.1*
RoE (%)	*-14.3*	*-27.5*	*-38.8*	*-3.6*	*4.2*
RoIC (%)	*-0.5*	*-1.4*	*-12.0*	*2.1*	*6.5*
P/E (x)	NA	NA	NA	NA	214.8
EV/Sales (x)	6.6	5.4	11.4	5.3	3.9
EV/EBITDA (x)	53.1	43.3	377.6	32.9	22.4

Source: Company, Nirmal Bang Institutional Equities Research; Including IND AS 116 impact

Initiate with ACCUMULATE

Sector: Quick Service Restaurant

CMP: Rs157

Target Price: Rs155

Downside: 1%

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Key Data	
Current Shares O/S (mn)	383.5
Mkt Cap (Rsbn/US$mn)	60.1/823
52 Wk H / L (Rs)	219/108
Daily Vol. (3M NSE Avg.)	3,169,880

Price Performance (%)

	1 M	3 M	Since IPO
Burger King	21.2	-	-
Nifty Index	15.4	17.3	54.5

Source: Bloomberg

Prospectus
4QFY21 Investor Presentation

A BRIEF ABOUT BURGER KING INDIA LTD. (BKIL)

Burger King brand, a.k.a. the *Home of The Whopper*, was founded in 1954 in USA and is owned by Burger King Corporation, a subsidiary of Restaurant Brands International Inc, which holds a portfolio of other globally renowned fast-food brands like *Popeyes* and *Tim Hortons*. In terms of number of restaurants, *Burger King* is the world's second largest fast-food burger brand with a footprint of 18,691 restaurants as on 31st Mar'21. *Burger King* has a number of franchisees globally (over 60-70 in Europe and Canada) that operate the brand in their respective regions.

India was the 100th country that the brand entered, with BKIL being the national master franchisee of the *Burger King* brand, having the exclusive rights to develop, establish, operate and franchise *Burger King* branded restaurants in the country. BKIL set up its first restaurant on 9th Nov'2014 and as at Mar'2021 it had a network of 265 restaurants (256 own stores and 9 sub-franchised stores) in 57 cities across India. Of these 265 restaurants, 251 were operational till Mar'2021 whereas the remaining outlets were affected by Covid-19 and are likely to be operational post markets opening up.

The recent launch of its IPO was driven by the shift from an unorganized market to an organized market and softening of real estate prices. Funds from the IPO were aimed to be utilized towards repayment/prepayment of outstanding borrowings obtained for setting up new company-owned restaurants (~Rs1.65bn), capital expenditure for setting up new company-owned restaurants (~Rs1.77bn) and for general corporate purposes. While the company has repaid its borrowings, the capex amount would be spent over the coming years.

TWO THINGS STAND OUT FOR BURGER KING IN INDIA

1. Leveraging the Master Franchise and Development Agreement (MFDA) to its best:

BKIL's promoter QSR Asia Pte. Ltd. (QSR Asia) has entered into a MFDA dated 19th Nov'13 with BK AsiaPac Pte. Ltd. (BK AsiaPac) (amended through agreements dated 12th Nov'2014, 31st Oct'2019 and 18th Nov'2020), making BKIL the national master franchisee of the *Burger King* brand in India. The MFDA, which expires on 31st Dec'2039, gives BKIL the exclusive right & license to develop, establish, operate and franchise *Burger King* restaurants in India. It also gives BKIL the right to use and permit the sub-franchisees to use the *Burger King* Marks and the *Burger King* System in India (collectively referred to as the Development Rights).

In a nutshell, the MFDA gives BKIL flexibility in terms of (i) tailoring menu, promotions & pricing, supply chain, distribution, advertising etc. (ii) rights to sub-franchise (iii) a favourable royalty rate, which is capped at 5% till Dec'2039.

Exhibit 1: Key highlights from the MFDA

Key highlights from the MFDA

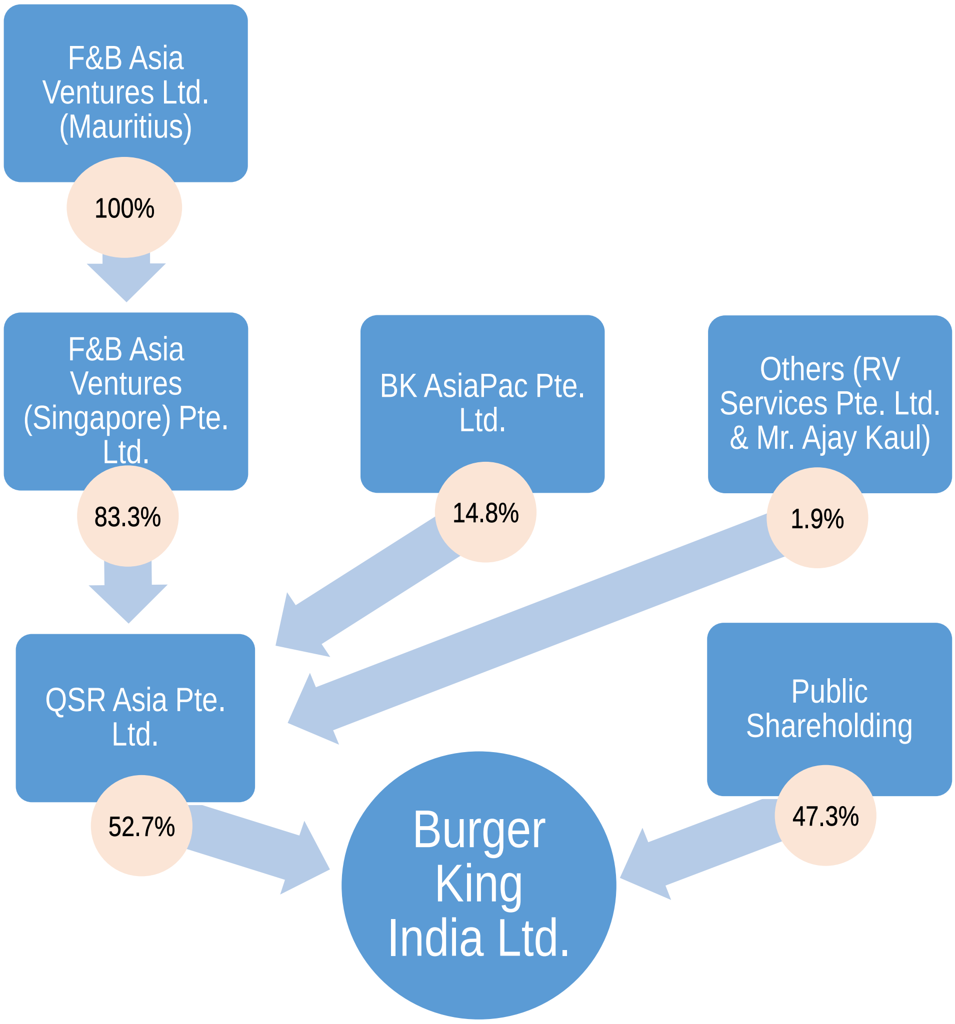
STORE EXPANSION	FRANCHISE RIGHTS & PAYMENTS THEREON (COMPANY-OWNED BURGER KING RESTAURANTS)	GRANT OF SUB-FRANCHISE FOR RESTAURANTS	MAJOR DECISIONS	MENU & PRICING	DEFAULT & TERMINATION
As per the MFDA, BKIL is obligated to develop and **open at least 700 restaurants by 31 Dec'26.** At all times, company-owned Burger King restaurants should be atleast 60% of the total number of Company-owned and Sub-Franchised Burger King Restaurants in India at the end of each development year. If BKIL is not able to achieve 100% of the cumulative restaurant opening target for any development year, but has achieved 70% of the difference between such target and the total number of Burger King restaurants open in India on 31 Dec of the prior development year, then BKIL has the flexibility to cure the shortfall by achieving such cumulative opening target within the first six months of the subsequent development year.	The T&C applicable to BKIL w.r.t. the operation of Company-owned Burger King Restaurants are set forth in the Company Franchise Agreement, and a unit addendum to the same is executed for each company-owned Burger King Restaurant. The franchise rights for each Company-owned Burger King Restaurants are valid for **20 years** from their commencement date (from the date the unit addendum is entered into independent of the term or termination of the MFDA). BKIL is also required to pay BK AsiaPac a non-refundable one-time fee upon the opening of each Burger King restaurant of **US$15,000, increasing to US$25,000 from CY20 to CY22**, and for all periods thereafter **US$35,000** while the MFDA remains in effect. BKIL is required to pay a monthly **royalty fee** based on a percentage of sales (net of sales & GST) of its Company-owned Burger King Restaurants. The monthly royalty fee ranges from 2.5% to 5% of such sales, depending on the opening date of the restaurant. Company-owned Burger King Restaurants are required to contribute **5% of the sales** (net of sales & GST) of company-owned Burger King restaurants for **marketing and advertising**.	Sub franchisees are required to enter into a franchise agreement for each Sub-Franchised Burger King Restaurant. BKIL is required to pay BK AsiaPac a non-refundable fee for the opening of such Sub-Franchised Burger King Restaurant. BKIL is required to pay a monthly royalty fee w.r.t. each Sub- Franchised Burger King Restaurant that is equivalent to the fees for Company-owned Burger King Restaurants. BKIL may retain the excess of the royalty fee charged to the sub franchisees over such amounts. BKIL is also required to contribute **5% of sales** (net of sales & GST) of the Sub-Franchised Burger King Restaurant's for **marketing and advertising** and track expenditures for the same. BKIL is also obligated to provide certain services in relation to the sub-franchised Burger King Restaurants.	BKIL is required to obtain the prior written approval of BK AsiaPac for the following actions, among others: (i) BKIL or any of its subsidiaries consolidating, amalgamating, merging, selling, conveying, transferring, leasing or otherwise disposing of all of its property and assets to any person or permitting any person to merge with or into BKIL or any of its subsidiaries; (ii) BKIL or any of its subsidiaries, among others, winding up, dissolving, liquidating, reorganizing and readjusting or any other relief that may be sought under any bankruptcy, insolvency or similar law and appointment of a trustee, receiver, administrator or liquidator; (iii) BKIL or any of its subsidiaries acquiring control of the assets or equity interests of any person who is the transferee or assignee by contract of, the rights to develop, own or operate any RBI brand anywhere in the world; (iv) changes in the permitted business activities of BKIL or any of its subsidiaries	BKIL has the **authority to establish a local menu** for the Company-owned and sub-franchised Burger King restaurants operating within India, subject to the essential menu items being offered and all suppliers and product ingredients being approved by BK AsiaPac. All local menu items must be approved by BK AsiaPac, subject to certain conditions. BKIL has the **right to determine and adjust in its sole discretion the prices of all products and services offered** in any of the Company-owned and sub-franchised Burger King restaurants in India.	BK AsiaPac may immediately terminate the Development Rights or MFDA if: (i) BKIL or the Promoter assigns or transfers the Development Rights or the MFDA, duplicates the Burger King System, violates the confidentiality provisions or acquires an interest in a competitor, (ii) BKIL or the Promoters initiate bankruptcy/insolvency proceedings, (iii) BKIL or Promoters challenge the validity of the Burger King Marks or any other BK IP, (iv) if a competitor acquires control of BKIL or any of subsidiaries. BK AsiaPac may terminate Development Rights or the MFDA if BKIL fails to remedy certain defaults within an agreed upon cure period, including, among others: (i) failure to pay the amounts payable to BK AsiaPac, once due, (ii) failure to achieve the cumulative Burger King restaurant opening target for any development year (subject to a 6m cure period upon 70% achievement as stated earlier), (iii) failure to comply with any material term of the Company Franchise Agreement or any unit addendum (excluding any breach cured within the applicable cure period), (iv) a sub franchisee breaches any material term of any franchise agreement to which it is a party (excluding any breach cured within the applicable cure period), (v) BKIL fails to comply with the debt to equity ratio i.e. not more than 2:1, at any time (excl. any breach cured within the applicable cure period), (vi) the Company undertakes any major decision (as stated earlier) without first receiving the prior written approval of BK AsiaPac (subject to certain exceptions and the breach cured within the applicable cure period).

Source: Company, Nirmal Bang Institutional Equities Research

2. Holding structure - Only QSR in India where the franchiser holds equity in a franchise business

Since *Burger King* was a late entrant in India (with its first restaurant opening in Nov'2014, nearly 20 years after the entry of other QSRs), the company decided to structure its business model differently. BKIL is owned by a holding company called QSR Asia (before the IPO, QSR Asia held ~94.3% stake and after the IPO in Dec'2020, its stake fell to 52.9%), which has two large shareholders. One is BK AsiaPac, which is Burger King Global Corporation. The second large shareholder is F&B Asia Ventures, which is based out of Singapore and owns *Burger King* Indonesia, *Domino's* Indonesia, *Harry's* in Singapore and a few other restaurants. F&B Asia Ventures Ltd. (Mauritius) holds the entire shareholding of F&B Asia Ventures (Singapore). In turn, private equity player Everstone owns 45% of F&B Asia Ventures Ltd. (Mauritius) and the rest is with the limited partners (LPs) of Everstone. BKIL is probably the only QSR company in India currently where the franchiser owns equity in the franchisee, thereby aligning the interests of both the parties.

Exhibit 2: Holding structure of the company as on 31st Mar'21; BKIL is probably the only QSR company in India currently, where the franchiser owns equity in the franchisee



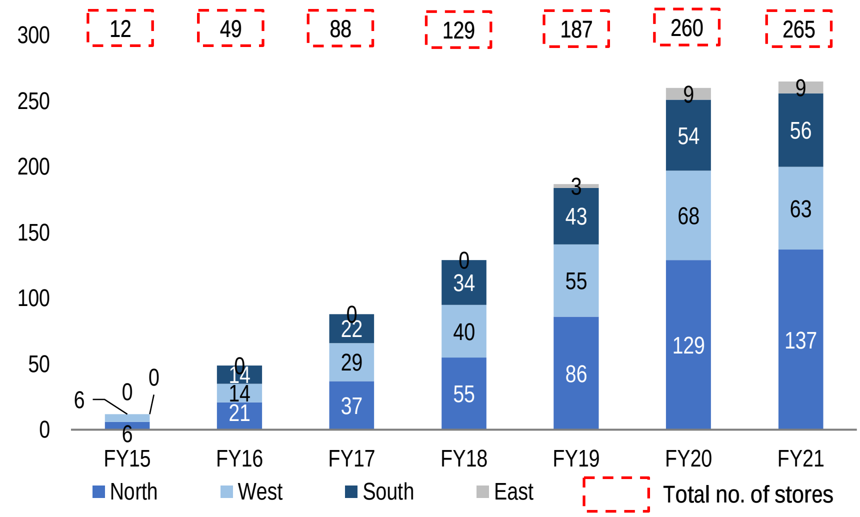
Source: Company, Nirmal Bang Institutional Equities Research

REVENUE DRIVERS

1. No. of restaurants has grown significantly over FY15-20; aggressive plan for future expansion in place but execution is the key

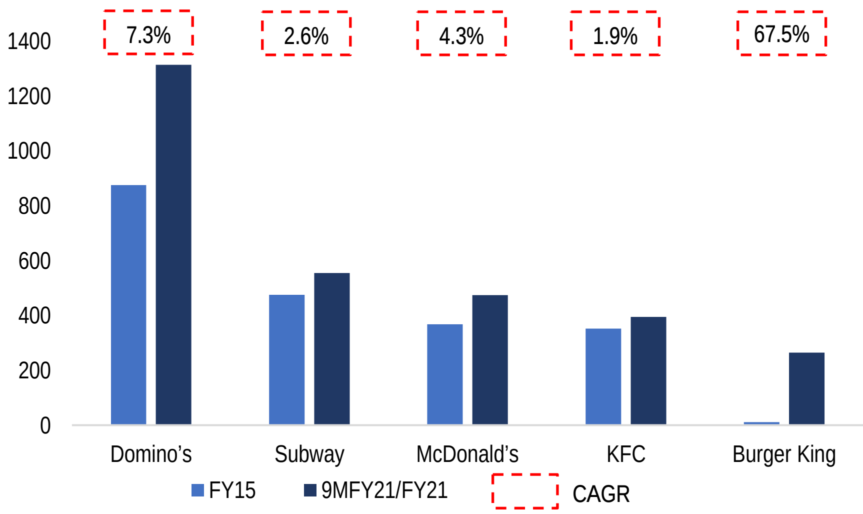
As per Technopak, *Burger King* has been one of the fastest growing international QSR chains in India to reach 200 restaurants during the first five years of its operations. Since opening the first *Burger King* restaurant in India in Nov'2014, the brand has grown to a pan-India QSR chain with 265 restaurants now across 17 states & UTs and 57 cities across India as at the end of Mar'2021. North region has seen the highest restaurant additions till date with 137 stores contributing ~52% to the total pan-India store count.

Exhibit 3: *Burger King* restaurants have grown significantly since FY15; North has seen the bulk of the expansion till date



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Growth of key international brands by no. of outlets in India over FY15-FY21



Source: Company, Nirmal Bang Institutional Equities Research
Note: As per latest available data
Store growth for Domino's is from FY15-9MFY21

Post-2010 QSR entrants have benefited from a fairly ready-made platform and playbook

Opening of the first store by *McDonalds* and *Domino's* in 1996 marked the beginning of the QSR wave in India. While the 'Indian Eating Out' market was substantial during this time, it was highly fragmented with no organized pan-India player. Even a brand like *KFC* had to face failure at the start for various reasons, including incorrect market research inputs, unrealistic assumptions, lack of understanding of local tastes, underestimating the hyper-local nature of consumption in India and inappropriate pricing.

What the growth trajectories of *McDonalds* and *Domino's* in India have shown is that only thorough surveys, strong localization of menu, attractive pricing without compromising on global-standard quality, using cluster approach for gradual penetration, development of reliable supply systems & sourcing, selection of right real estate and aggressive yet focused marketing to ensure good brand recall a Food Service brand can succeed in a market like India. All these catalysts, established through a gradual learning curve, are more or less part of any QSR's playbook in India now.

Exhibit 5: Evolution of chain market in India

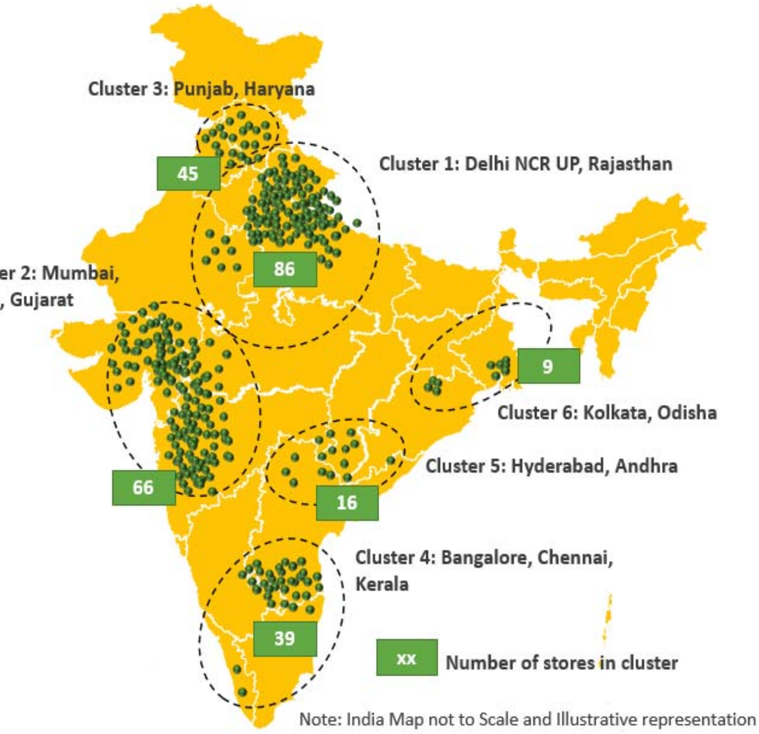
PHASE I (1991-2001)	PHASE II (2001-2010)	PHASE III (2010 Onwards)
High focus on Metro & Mini Metros	Thin Penetration in Tier I & II Cities	Penetration in newer segments (Travel, Education, Medical) and increased penetration in Tier I & II cities
Ownership/ Franchise Model & Management contracts	Continuation with franchisee model & JV's	Emphasis on contracts more centred around revenue sharing
Funded by personal capital & conventional means	Partnerships/ JVs with related business interest, Initiation of PE funding	Expansions under brands & emergence of new brands/concept. PE driving expansion
Customer acquisition, sustainable revenue growth	New Opportunity areas with Focus on CRM, Expansion & extended capacity building	Customer engagement, format diversification & Product enhancement

Source: Company, Nirmal Bang Institutional Equities Research

Just like some of the other big QSR brands, BKIL follows a disciplined approach in expanding its network using a cluster-based approach & penetration strategy to enable a structural & faster pace of growth and to provide greater convenience & accessibility for customers across geographies. It launches its brand from flagship locations in high traffic and high visibility areas in key metros & cities across India before developing new restaurants within that cluster.

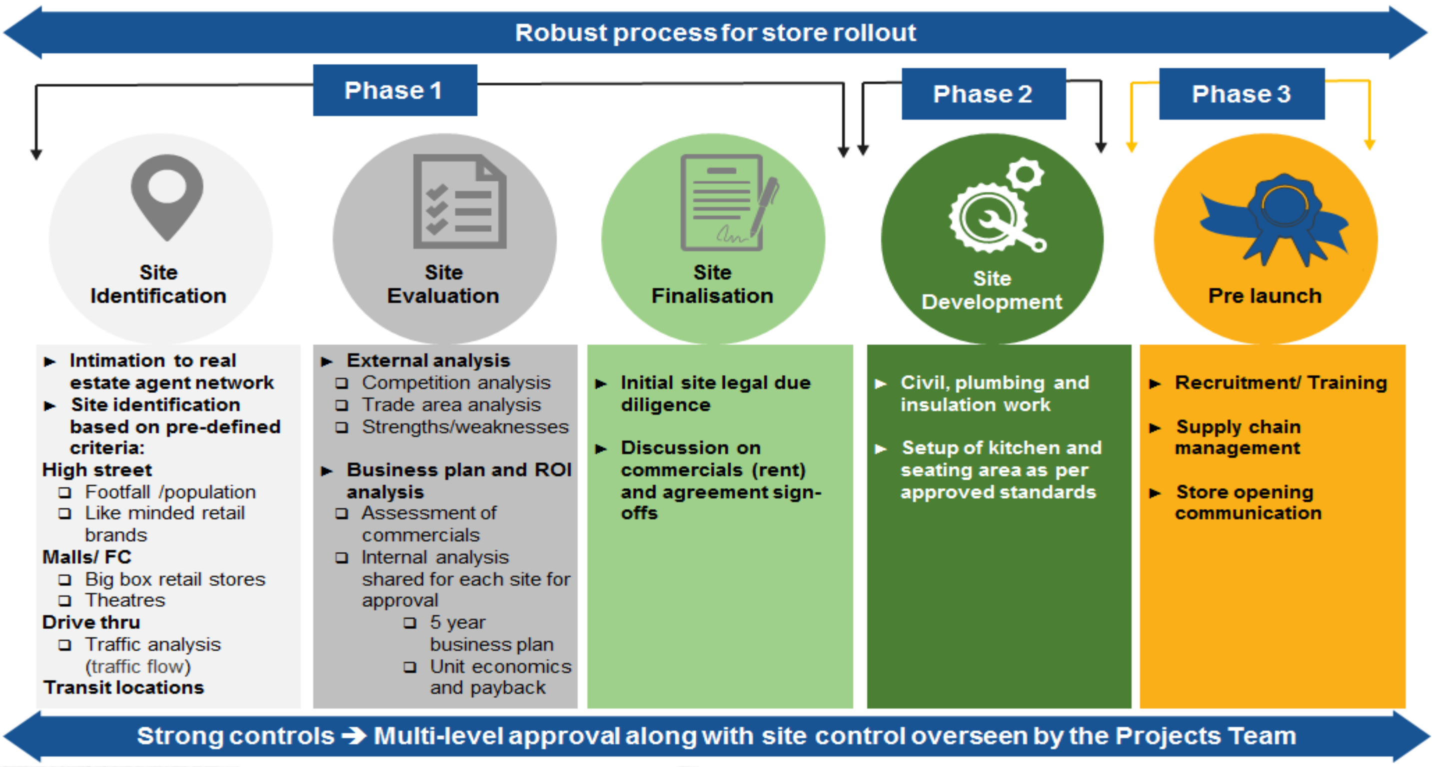
As on 31st Mar'21, North India (Cluster 1 & Cluster 3) is the company's biggest cluster, accounting for ~52% of the company's stores followed by West (Cluster 2), which accounts for ~24% and South (Cluster 4 & Cluster 5), which accounts for ~21% of the stores. BKIL entered East India (Cluster 6) only in 2019 with its first restaurant in Kolkata and hence expansion in this cluster, which makes up just ~3% of total stores, would be one of the company's key focus areas over the medium term.

Exhibit 6: The brand's presence extends to 6 clusters; East (currently only Kolkata & Odisha) being the latest cluster



Source: Company, Nirmal Bang Institutional Equities Research

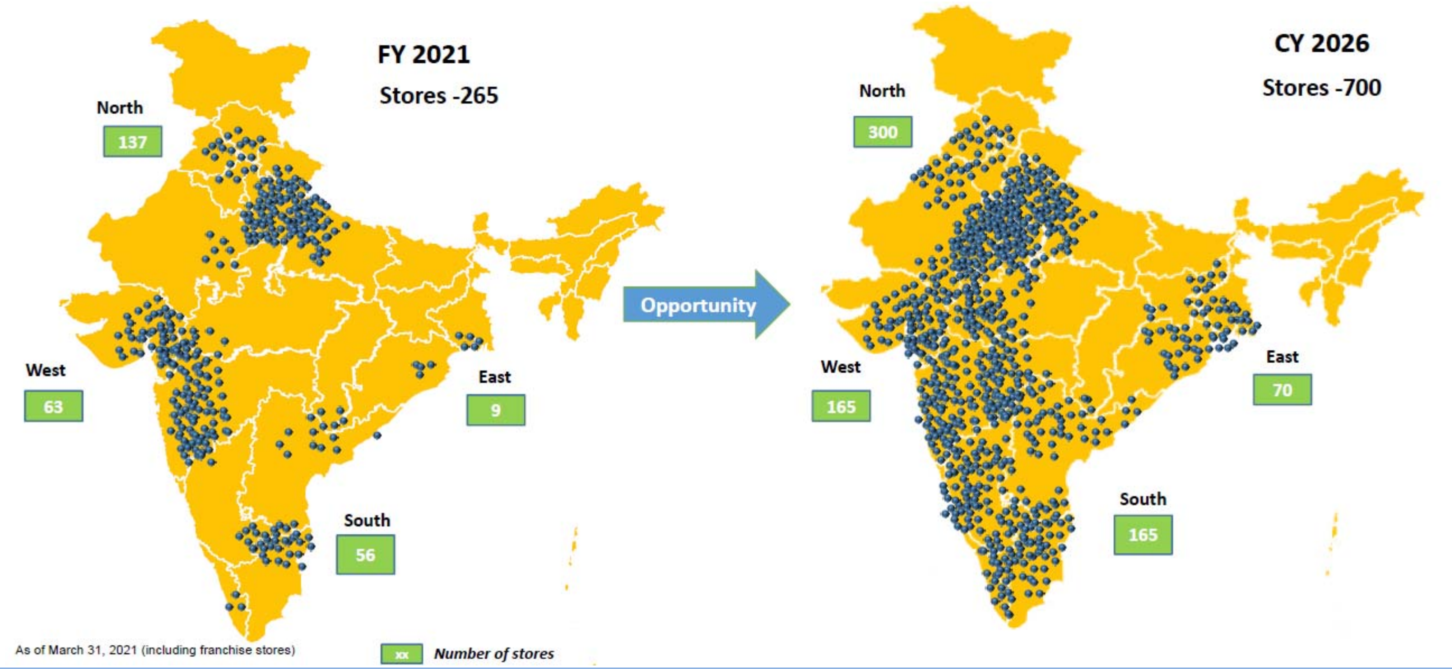
Exhibit 7: Process for its new restaurant roll-outs



Source: Comapny, Nirmal Bang Institutional Equities Research

Given the potential for growth in the markets the brand is already present in, it is likely that ~70% growth will come from existing markets and ~30% from new markets.

Exhibit 8: Spread of stores as at end of FY21 versus the opportunity till CY26



Source: Company, Nirmal Bang Institutional Equities Research

Benefiting from irregularities of McDonalds' Northern operations

In the mid-1990's, McDonald's, through McDonald's India Pvt. Ltd. (MIPL), signed two JVs to enter the Indian market – one with Connaught Plaza Restaurants Pvt. Ltd. for North & East India (CPRL), headed by Mr. Vikram Bakshi, and one with Hard Castle Restaurants (HRPL; subsidiary of WDL) for West & South India, headed by Mr. Amit Jatia. In 2008, when CPRL was operating ~70 McDonald's outlets, MIPL offered to buy-out Mr. Bakshi's stake of CRPL for US$7mn (only ~US$2mn more than his initial investment), thereby raising concerns over valuation for Mr. Bakshi. In Aug'2013, Mr. Bakshi was ousted as MD of CRPL on allegations of financial irregularities, post which the conflict took a legal turn. In June'2017, CPRL temporarily suspended operations of 43 (out of 55) McDonald's outlets in Delhi due to expiration of *eating house licenses*. While Mr. Bakshi was reinstated as MD in July'2017, in Aug'2017, McDonald's announced that it was prematurely terminating its JV with CPRL on account of non-payment of royalties, shutting down 165+ of its outlets in the region. However, Mr. Bakshi kept these outlets operational, post which further legal battles ensued.

In 2019, it was announced that both parties had agreed to an out-of-court settlement, and as part of the agreement, the US fast food chain will buy out Mr. Vikram Bakshi (and his entities') 50% stake in CPRL for an undisclosed sum, post which CPRL became wholly owned by MIPL and its affiliate McDonald's Global Markets LLC. This also led to temporary closure of McDonald's outlets in this region for conducting a comprehensive assessment of operational protocols and employee training.

In Feb'2020, it was announced that MMG Group's chairman Mr. Sanjeev Agrawal was selected as the new partner to operate McDonald's outlets in North & East India. But, neither the terms & conditions of the agreement nor the nature of the partnership have been made public.

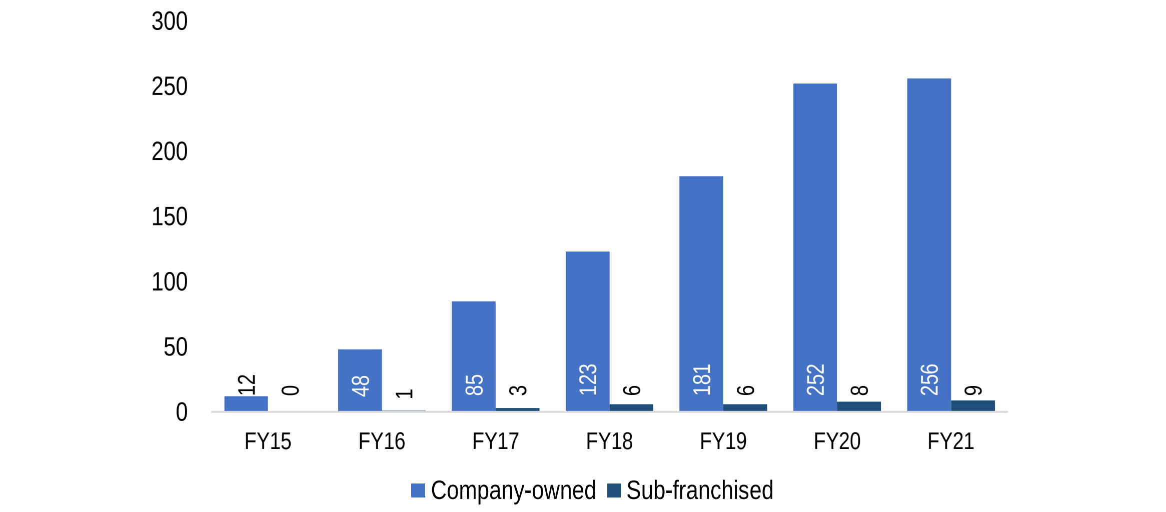
We believe that the conflict and inconsistency in operations of McDonalds in North & East presented a good opportunity to QSR players like *Burger King* to expand their restaurants rapidly in the said period. A bunch of other global burger chains such as *Johnny Rockets*, *Carl's Jr*, *Barcelos* and *Wendy's*, who entered over the last few years mostly through North India, did try their luck, but lost their aggression after starting with a bang. Even some local burger players like *Burger Singh*, *Wat-a-Burger*, etc. entered the market.

The MFDA also grants BKIL the rights to sub-franchise provided that at no point of time should the company-owned *Burger King* restaurants be less than 60% of the total no. of company-owned & sub-franchised *Burger King* restaurants in India as determined at the end of each development year. The sub-franchising strategy primarily focuses on sub-franchising in locations where access to direct ownership of restaurants may be restricted due to the type of location (like airports or certain shopping malls where one party directly owns all the outlets).

The sub-franchised *Burger King* restaurants are operated and managed by sub-franchisees, with technical & operational support including training programs, operations manuals, access to *Burger King's* supply & distribution network and marketing support provided by BKIL. In exchange for these, BKIL collects a monthly sub-franchisee royalty fee as a percentage of net sales.

Since many of the company's sub-franchised restaurants are located in transit locations, they were more significantly impacted by Covid-19 than the company-owned stores, as government restrictions prevented operations which led to these stores remaining shut till 1HFY21. As of Mar'2021, BKIL had 9 sub-franchised *Burger King* stores across India, of which only 2 were not operational.

Exhibit 9: No. of sub-franchised stores as a % of total stores in India has hovered ~3% in recent years and has to stay <40% at any given point of time as per the MFDA

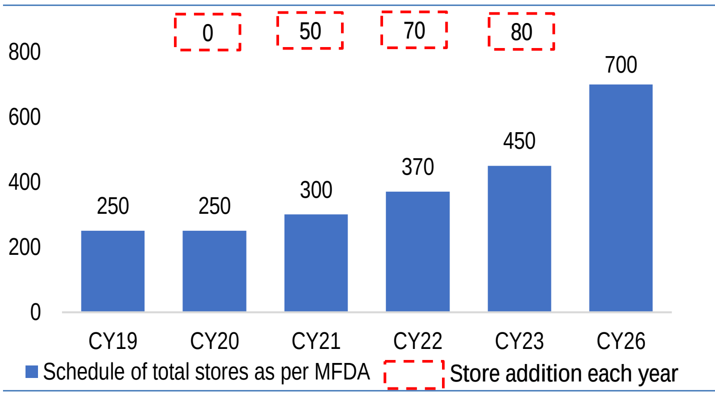


Source: Company, Nirmal Bang Institutional Equities Research

BKIL had done a study with McKinsey in 2013 which showed that ~1,000 Burger King restaurants could be built in India at that time and accordingly the company framed its store vision.

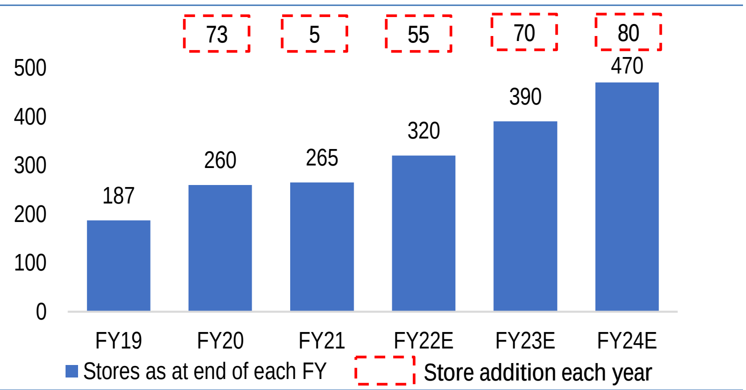
Going forward, as per the MFDA, BKIL is required to open at least 700 restaurants by the end of Dec'2026.

Exhibit 10: Schedule of target no. of stores at the end of each development year till CY26 as per the MFDA



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Target no. of stores as at the end of each FY over the medium term (as guided by BKIL)



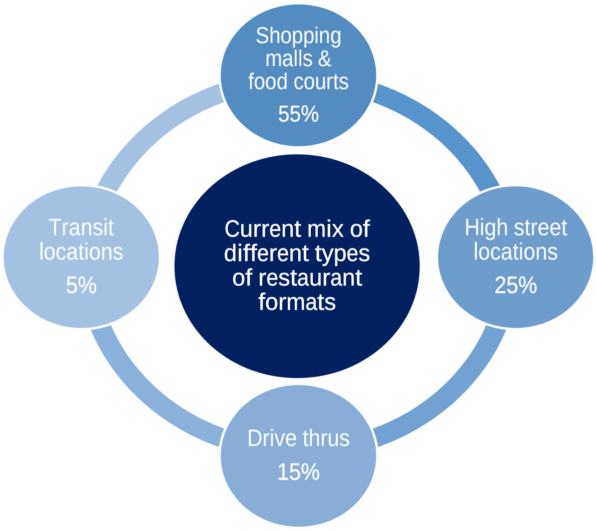
Source: Company, Nirmal Bang Institutional Equities Research

What happens if the company fails to follow the expansion plan as laid down in the MFDA?

Even if BKIL is able to achieve 70% of the opening target for any development year, it will be given a six-month cure period in the next development year to open the balance no of stores. Failure to comply with the above will give BK AsiaPac Pte. Ltd. the right to terminate the MFDA. However as per the RHP, "To the extent a termination of the Master Franchise and Development Agreement is solely due to a Development Default, Company will be entitled to open at least 35 Burger King restaurants per calendar year through December 31, 2039 under previously agreed terms".

In India, the portfolio of *Burger King* restaurants is slightly skewed towards mall restaurants (including food courts). Out of the total, ~55% of Burger King stores are located in malls, ~25% in high streets, 15% are drive-thrus and 5% are in metros & stations. Since the brand is mostly done with its potential mall presence, we believe that going ahead, BKIL is likely to focus on expanding its non-mall portfolio i.e., standalone/high street outlets. BKIL's clear orientation towards mall stores is one of the key reasons why its sales/sq.ft. are higher than WDL (mall stores tend to be smaller in size with common seating areas). In the long term, when BKIL diversifies its store portfolio towards other non-mall store formats, we believe its average store size may increase.

Exhibit 12: In terms of new store openings, BKIL is likely to focus on expanding its non-mall portfolio i.e., standalone/high street/transit outlets since it has largely exhausted its potential mall presence

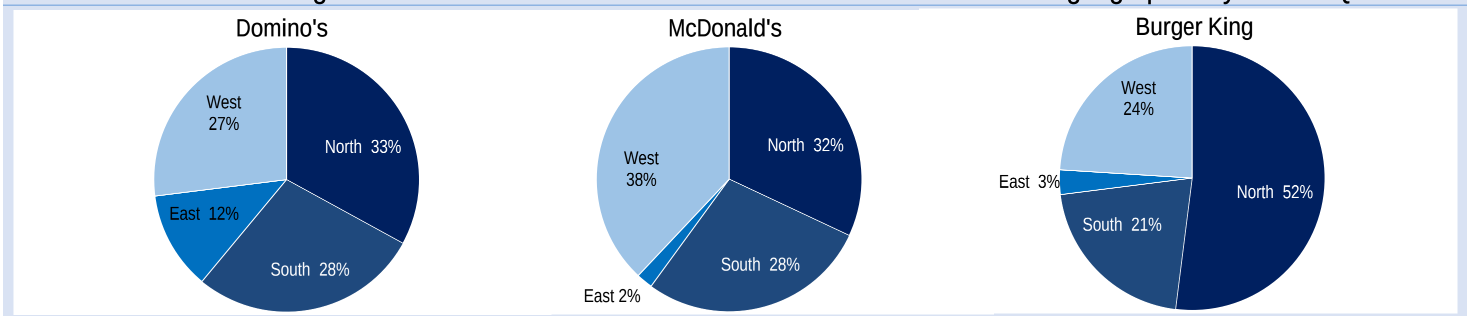


Source: Company, Nirmal Bang Institutional Equities Research

Domino's is the most geographically diverse QSR brand

In terms of outlet count and geographical presence, Domino's is the most regionally diversified brand. While *McDonald's* is fairly present across North, South and West regions (WDL operated ~305 *McDonald's* stores as on Mar'21 with ~42% stores in South and ~58% stores in West), its presence in the East is limited to 2%. Currently, *Burger King* is pre-dominantly present in the North (~52%). The company recently stated that expansion in Eastern markets, which it had entered last year, would be one of the company's key focus areas over the medium term.

Exhibit 13: Broad-based regional distribution in terms of store count – Domino's is the most geographically diverse QSR brand



Source: Company, Nirmal Bang Institutional Equities Research
Note: Regional distribution for JUBI is on basis of 1,354 stores (before closure of 100 stores in 2QFY21); Regional distribution for McDonald's is calculated based on WDL having ~318 stores

2. Gaining traction through menu design & establishing value leadership

The MFDA provides BKIL with the flexibility to tailor the *Burger King* menu, promotions & pricing as per the Indian palate and preferences without compromising on the *Burger King* global quality assurance standards.

Key points include:

a. Focus on **value leadership** through a wide entry level menu, number of promotional offerings, creation of accessible meal options and introduction of new products that are designed to attract and cater to customers looking for everyday value.

b. Development of **innovative offerings** to cater to an even wider market in the future by including different parts of menu offerings based on regional or national preferences (chicken wings/rice).

c. Focus on **premium offerings, snacks & add-ons and accessible meal conversion** options for its consumers to enhance the average ticket price.

As evident from the above, offering a wide variety forms an integral part of the brand's customer proposition. Within its 18 burger offerings, developed specifically for India (covering both value and premium), 7-8 are veg. burgers - targeting consumers seeking vegetarian food options. Further, while the brand's core strength is burgers (estimated to be ~65% of portfolio consumption), it also provides other offerings, including wraps, rice, beverages, sides, snacks, shakes & desserts (balance ~35% of portfolio consumption) across different day parts, including breakfast, lunch, dinner, snack times and late night to enhance consumer experience. Further the *Burger King* menu follows a barbell strategy – with *Whopper* & *King's Collection* which helps drive frequency & premiumization and on the other end is the value menu which helps drive traffic.

Exhibit 14: Category comparison

Burger King	McDonald's	Domino's Pizza
• Burger • Breakfast (All Day) • Wraps • Rice Bowl • Sides (Fries, Chicken, etc.) • Beverage (aerated, Coffee, Thick Shakes, Cream Shakes, Smoothies) • Dessert (Sundae, Softy)	• Burger • Breakfast • Wraps • Rice Bowl • Sides (Fries, Chicken, McPuff, Naan, etc.) • Beverage (45+ products of hot and cold beverages including McCafe portfolio) • Dessert (Sundae, Soft Serve, McFlurry, etc.)	• Pizza • Sides (Pasta, Garlic Bread, Burger Pizza, Taco Mexicana, Parcel, etc.) • Beverage (aerated, ice tea etc.) • Dessert (Choco lava cake, brownie etc.)

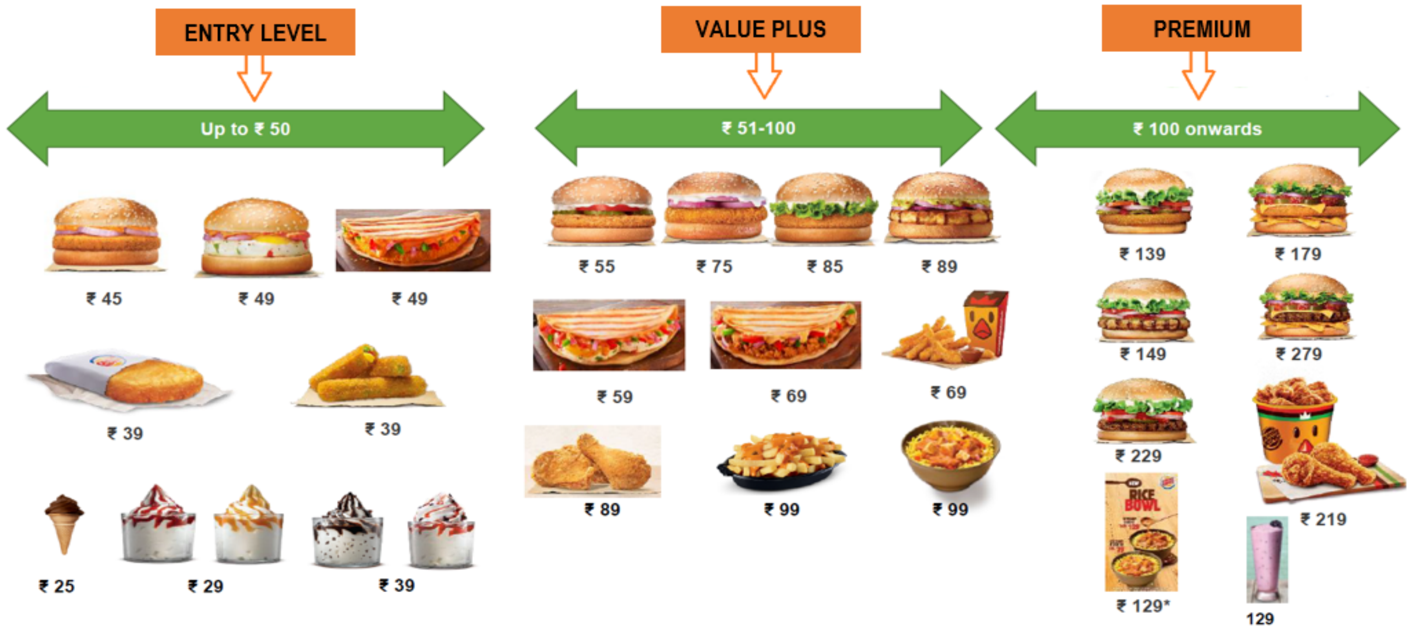
Source: Company, Nirmal Bang Institutional Equities Research

a. Aim is to be a value player and not cross the fine line to be known as a discount player

It is pretty much clear that while the average Indian consumers' ability and willingness to spend in terms of aspirations, experimenting and socializing over food have increased, they continue to be cost-conscious and look at value-for-money options when eating out and also cost-efficient functions (preferring less or no delivery charge) when ordering in.

BKIL has various avenues to enhance its value proposition, including *(i) "2 for" promotions (ii) under Rs100 product offerings across core & more products and (iii) promotional offerings like King Deals, which combine burgers/wraps with Fries and Pepsi.* Further, *Burger King* has soft launched a branded value proposition – the *Stunner menu* – which offers variety of formats like rice, burger, volcano, rice across all its 265 outlets. With all veg products are priced at one price point of Rs50 and chicken products at one price point of Rs70, this range would help the company is recruiting new consumers. Although this range would be offering value for money to consumers it is unlikely that this menu would be margin dilutive.

Exhibit 15: The brand offers products across all price points with a strong entry level & value plus (below Rs100) menu across burgers, wraps, rice, sides and drinks



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Latest value offering: *Stunner Menu* at Rs50/Rs70 for veg/non-veg. variants

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: "*2 for*" and "*King Deals*" promotions

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Comparison of lowest priced SKUs from the core portfolio of coverage QSR companies

Brand	Option	Burger/Pizza	Price
BURGER KING	Veg.	Crispy Veg.	Rs55
	Non-veg.	King Egg (All day breakfast) /Crispy Chicken	Rs59/Rs79
McDonald's	Veg.	McAloo Tikki	Rs45
	Non-veg.	Chicken Kebab	Rs76
Domino's	Veg.	Onion/Tomato (Pizza Mania)	Rs59
	Non-veg.	Chicken Sausage (Pizza Mania)	Rs95

Source: Company, Nirmal Bang Institutional Equities Research
Note: Data points above are for the lowest priced combo and are taken from menus in physical stores/ websites of respective brands on 2nd Jun'21 for Mumbai region

Indian consumers, who are very value conscious, have found appeal in combos & value meals that provide them with a discount ranging from 12-25% compared to standalone products, and which consequently allow QSR companies that offer such deals to increase their average ticket size. BKIL spends ~70-75% of its marketing budget towards its value & combo deals out of its core products (for e.g. two burgers for Rs69/79).

Exhibit 19: Examples of combos offered by key brands

Brand	Option	Burger/Pizza Price	Sides Price	Beverage Price	Total price of standalone products (A)	Combo Price (B)	Discount of 'B' over 'A'
BURGER KING	Veg.	Crispy Veg. (Rs55)	Fries (Rs70)	Pepsi (Rs58)	Rs183	Rs152	17%
	Non-veg.	Crispy Chicken (Rs79)	Fries (Rs79)	Pepsi (Rs58)	Rs216	Rs179	17%
McDonald's	Veg.	McAloo Tikki (Rs45)	Fries (Rs62)	Coke (Rs71)	Rs178	Rs138	22%
	Non-veg.	McChicken (Rs112)	Fries (Rs62)	Coke (Rs71)	Rs245	Rs207	16%
Domino's	Veg.	Onion/Tomato (Pizza Mania) (Rs59)	-	Pepsi (Rs60)	Rs119	Rs99	17%
	Non-veg.	Chicken Sausage (Pizza Mania) (Rs95)	-	Pepsi (Rs60)	Rs155	Rs141	9%

Source: Company, Nirmal Bang Institutional Equities Research
Note: Data points above are for the lowest priced combo and are taken from menus in physical stores/ websites of respective brands on 2nd Jun'21 for Mumbai region

b. Innovating beyond core and expanding presence of platforms

While the brand's core strength is burgers, it also provides other offerings, including wraps, rice, beverages, sides, snacks, shakes & desserts across different day parts, including breakfast, lunch, dinner, snack times and late night to enhance consumer experience.

Breakfast platform

Till recently, *McDonald's* was the only organised Western Fast-Food player in the domestic breakfast space, valued at US$2bn. Breakfast category was launched in 2010. *McBreakfast*, the first ever branded breakfast category in India was introduced in 2017 and has been incrementally contributing to its average unit volume but at a gradual pace. Similarly, we expect even *Burger King's* average unit volume to benefit from its relatively new breakfast platform, which in comparison to WDL is not restricted to morning but is an all-day offering.

Exhibit 20: *Burger King's* recently launched breakfast platform will increase its AUVs going ahead

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: *McDonald's* (WDL - West & South; W&S) launched its breakfast menu in 2010 and *McBreakfast* in 2017

Source: Company, Nirmal Bang Institutional Equities Research

Beverages

The Indian out-of-home beverage market is valued at ~US$3bn and is also a high gross margin business. While beverages being part of every combo would form a decent chunk of *Burger King's* portfolio, the brand still has a long way to go in terms of having a full-fledged beverage play in order to incrementally contribute to the ADS as well as margins. It is important to note that café business of WDL i.e., *McCafé* has done exceptionally well for them over the past few years, both in terms of ADS and margins with incremental investments being very low.

Exhibit 22: *Burger King's* beverage offerings still at a relatively nascent stage; likely to widen with BK Café launch

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: *McCafé* is the second largest coffee player in India in terms of number of units sold

Source: Company, Nirmal Bang Institutional Equities Research

Beverage offerings globally by *Burger King*

While coffee has been a part of *Burger King's* beverage portfolio across the globe for the past several years, the QSR brand has launched a separate coffee brand extension in few of its geographies.

In Mar'19, Burger King Corp. announced that its consumers can sign up for a subscription-based service of *BK Café* through the BK app, wherein for US$5/month, subscribers can get a small cup of brewed coffee every day (*Link*). The membership program was launched to get more people into the restaurant assuming that they will purchase more than just that subscribed cup of coffee and the more people use an app & interact with a brand, the more customer loyalty that brand can build. Other drinks offered under *BK Café* include Iced Coffee and Frappes.

Exhibit 24: *BK Café* was launched in 2019 in the US (through a subscription-based model for the entry level offering)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 25: *Burger King* Netherlands has been test-marketing Crown Café since mid-2019

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: TAB Gida, the Turkish franchise of Burger King, had launched Burger King Café (My BK Café) in 2011 with a wide menu portfolio (10+ hot beverage offerings, 15+ cold beverage & juice offerings and 15+ bakery offerings)

Source: Company, Nirmal Bang Institutional Equities Research

Following the strategy in the abovementioned geographies and seeing the potential of the café market in India, BKIL announced the launch of ***BK Café*** during the 4QFY21 results. It will be launched in 4QFY22 and expects to open 75 BK Café by March 2023. The Café industry is valued at Rs24bn and is growing at 7%. With the urban consumer increasingly adopting coffee as a lifestyle beverage, BKIL is looking to gain from the incremental dine-in and take away occasions that the café model offers, post lockdown.

Exhibit 27: BKIL would be introducing BK Café by 4QFY22 and expects to open 75 BK Café by March 2023

Source: Company, Nirmal Bang Institutional Equities Research

Rice platform

Rice Bowls, launched in 2020, is in line with the company's strategy of catering to the Indian palate. Rice is an important offering and is served globally, especially in the South-Asian markets. In India, it also completes the product offering so that when a family comes in for a meal, they can opt for burger, wraps or rice. Given the above-mentioned importance of rice in India, many QSRs have ensured that their portfolios include this offering. In 2013, *KFC* launched its *Rice Bowlz* and in 2018, *McDonald's* (W&S) launched its rice bowls. Even JUBI announced its foray into the rice platform through its biryani venture *Ekdum!* in late 2020.

Exhibit 28: *Burger King* offers one veg. and non-veg. variant of its rice bowl

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 29: *McDonald's* (W&S) had also introduced the rice platform in 2018

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 30: *KFC* started its *Rice Bowlz* in 2013

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 31: JUBI launched a new homegrown brand *Ekdum!* in 2020 to foray into the biryani segment

Source: Company, Nirmal Bang Institutional Equities Research

Fried Chicken

In India, the organized fried chicken market is estimated at Rs15bn, growing at a CAGR of 20%. We believe that the unorganized players have a dominant pie of the overall fried chicken market but are sanguine about the shift to the organized space (given the heightened sense of hygiene, marketing efforts made by the organized players and the shift towards trusted brands). With KFC undoubtedly being the market leader in the organized chicken space, both burger QSRs - WDL and BKIL - have launched their fried chicken versions to attract new consumers from both, organized and unorganized segments.

BK Fried Chicken is a regional specific product launched by BKIL in the East and South regions of India, as well as in Punjab in Jan'2020. During 1HCY20, even WDL forayed into the fried chicken market in South India and expects to attain a mid to high single digit market share in that region over the medium term. Even JUBI has forayed into the chicken QSR segment by entering into an exclusive MFDA with PLK APAC Pte. Ltd., a subsidiary of Restaurant Brands International Inc., to operate and sub-license the *Popeyes* brand in India, Bangladesh, Nepal and Bhutan.

Exhibit 32: BK Fried Chicken launched in East, South and Punjab

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 33: McSpicy Fried Chicken is a tailor made product for South India

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 34: KFC has been the undisputed leader in the chicken QSR segment

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 35: JUBI will also enter the segment through *Popeyes* (the distant second global leader in chicken QSR segment)

Source: Company, Nirmal Bang Institutional Equities Research

c. Premiumization & upgradation

The dynamic nature of Indian consumers is driving QSR companies to introduce product offerings that go beyond basic products in the menus either by differentiated raw materials or by an innovative cooking style. Prominent examples of the same include *Burger King's* Flame Grilled products (cooked on open flame/fire rather than using pan-grilling or frying techniques) and *Carls Jr's* Char Gilled products (cooked over live charcoal). Even WDL seems to be test marketing premium range of burgers – The Gourmet Collection – in certain flagship stores of Mumbai and Bengaluru. These premium products usually have higher price points than the basic offerings (~3x-4x of the lowest prices core SKUs) and improve average ticket size.

Not just in India, but also globally, the flagship product *Whopper* is used to build up the *Burger King* brand. BKIL has introduced *Whopper Jr. Lite,* which is priced Rs30-40 lower vs the standard *Whopper* to encourage consumer trials.

Exhibit 36: *Burger King* India's Whopper range

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 37: *Burger King's* premium range of taste-based burgers - The King's Collection - to provide a wider choice and variety in order to drive the frequency of consumer visits

Source: Company, Nirmal Bang Institutional Equities Research

While continuing to focus on building its value leadership, the brand also focuses on premium offerings, snacks & add-ons and accessible meal conversion options for consumers, which will enable it to upsell to higher price points and enhance the average ticket price. These will also enable the brand to precisely target different market segments and increase footfalls by catering to consumers' choice of flavours and price points.

While absolute margins for premium products would be higher compared to entry/value products, we believe that % margins for premium products would be similar to entry/value products (~65%) since at an overall level the brand is priced at a premium compared to its nearest peer. Currently, the brand's premium portfolio contribution stands in low single digits. Most of the brand's burgers are priced using incremental pricing wherein the burgers are priced at increments of Rs5-20, enabling consumers to upgrade to higher value burgers more easily. Strategy is to acquire consumers at value and migrate them upwards. Hence, increase in the mix of premium portfolio will only happen gradually.

Exhibit 38: Incremental pricing approach will help consumers upgrade gradually

Vegetarian offerings	Rs.	Non-vegetarian offerings	Rs.
Crispy Veg	45	King Egg	49
BK Classic Veg	79	King Egg Supreme	59
Smokey Veg Surprise	89	Crispy Chicken	79
Veg Chilli Cheese	109	Classic Chicken	99
Veg Whooper Jr. Lite	109	Chicken Whooper Jr. Lite	119
Paneer King	119	Chicken Tandoor Grill	149
Veg Whopper	129	Chicken Whooper	169
		Fiery Chicken	179
		Mutton Whopper	259

Source: Company, Nirmal Bang Institutional Equities Research;
Note: Data points above are for the lowest priced combo and are taken from physical stores/ websites of respective brands on 2nd June'21 for Mumbai region

Exhibit 39: Burger King vs. McDonalds (W&S) - Highest priced SKUs

BURGER KING	McDonald's
Veg. Burgers	Veg. Burgers
Veg. Boss Whopper (Rs179)	Veg. Maharaja Mac (Rs184)
Non-Veg. Burgers	Non-Veg. Burgers
Chicken Boss Whopper (Rs189)	Chicken Maharaja Mac (Rs194)
Mutton Boss Whopper (Rs279)	
Veg. Wraps/Naan	Veg. Wraps/Naan
Crispy Veg. Naan (Rs49)	Big Spicy Paneer Wrap (Rs184)
Non-Veg. Wraps/Naan	Non-Veg. Wraps/Naan
Chicken Keema Naan (Rs.69)	Big Spicy Chicken Wrap (Rs194)
Veg. Sides	Veg. Sides
Peri Peri Fries (King) (Rs110)	Mexican Cheesy Fries (Rs117)
Non-Veg. Sides	Non-Veg. Sides
8pc Fried Chicken (Rs699)	8pc Fried Chicken (Rs620)
Beverages	Beverages
Creamy Shakes (Rs169)	Mocha Frappe(Rs216)

Source: Company, Nirmal Bang Institutional Equities Research
Note: Excluding double patty burgers; *Data points above are for the lowest priced combo and are taken from physical stores/ websites of respective brands on 2nd June'21 for Mumbai region*

3. Building up convenience channels & focus on technology:

While young demographics, India-centric offerings, value-based pricing and a strong marketing push have been key drivers of QSR penetration in India over the past few years, online food delivery platforms (it is among the most important convenience channels followed by drive-thru, takeaway and on-the-go) have contributed in a big way in the recent times. The industry has seen a massive ramp-up in the delivery channel since 2018, leading to a sharper focus and investments by dine-in centric players towards this channel.

As a QSR, BKIL was 20 years late in India, but this gave it the benefit of hindsight, which enabled it to significantly invest in technology since the first day of operations. BKIL was one of the first QSR brands to get on board with the food aggregators in India and has an integrated customer platform with them.

The overall food delivery market has increased from US$4.7bn in FY16 to US$10.2bn in FY20, led by rise of access of QSRs to more households across India through the delivery aggregators, which has helped the QSRs to increase daily sales and same store sales at restaurants. The adverse impact of Covid-19 has only hastened the trend of food deliveries even further. Pre-covid, the ratio between dine

-in and delivery was ~70:30. Due to the pandemic-led rise in demand for food delivery services, the contribution of food delivery to the overall sales of BKIL has increased to ~38%. Over the medium term, delivery salience is expected to normalize at 35%.

Delivery execution by listed players

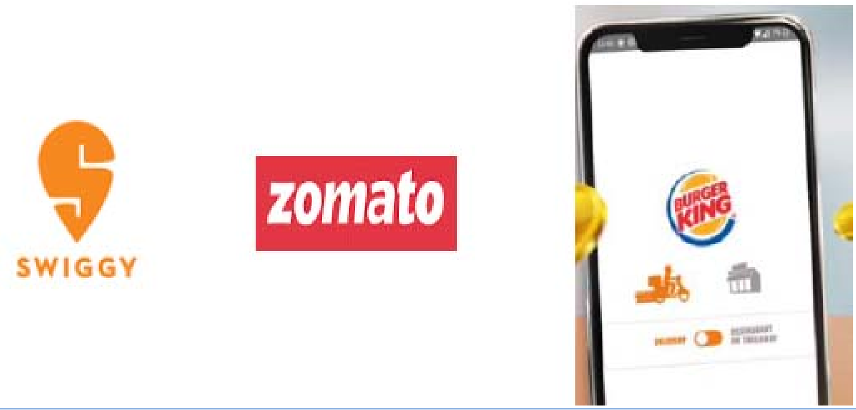
JUBI: Irrespective of the platform in which order is placed, delivery is executed by JUBI's own fleet of riders.

WDL: Orders taken from food aggregator platforms are executed by the respective aggregator. But orders taken from the company's own app is executed by third-party delivery service providers engaged by the company.

BKIL: Orders taken from food aggregator platforms are executed by the respective aggregator. As per our checks, orders taken from the company's own app is executed by third-party delivery service providers engaged by the company.

During the lockdown, the company relaunched its *BURGER KING* app. It has also introduced a loyalty program to enhance customer engagement and to enable collation of consumer data. The features of the new version of the App include (i) the Omni Channel experience in ordering for dine-in, takeaway and delivery (ii) the BK Crown loyalty program, and (iii) exclusive offers through digital coupons.

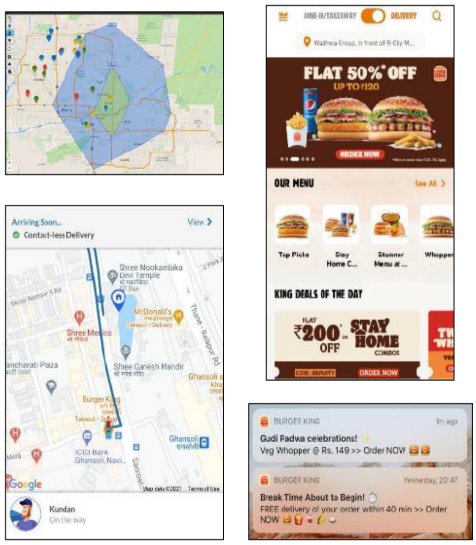
Exhibit 40: *Burger King* was the first QSR brand to integrate technology with food aggregators



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 41: Strengthening the digital platform via BK app

Improving App Experience *40% improvement in app speed*	• 8 features rolled out for better user journeys in Q4. Continuous monthly app release.
Improving Guest Connectivity *30% Improvement in delivery time*	• Polygon Trade Area Mapping to • Improve delivery efficiencies • Rider tracking
Strengthening CRM & Analytics *4X growth in guests ordering from BK App*	• Analytic stacks to map consume cohorts • Driving cohort based campaigns for higher conversions



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 42: *Burger King's* app and online ordering platform offers a loyalty program, a first among QSRs

Source: Company, Nirmal Bang Institutional Equities Research

BKIL uses a *360º technology* approach - in its interactions with customers as well as across operations (stores, supply chain and in the management of business). All the restaurants are equipped with a centrally controlled digital menu board, which provides the brand with flexibility to alter menu placement of its products to match consumers' preferences. BKIL also has a management facing app to measure and monitor key metrics for operational performance, sales and profitability, leverage best practices across the organization in order to drive efficiencies. The insights gained from the data gathered also serve to enhance consumer experience and drive sales at the restaurants.

4. Leveraging growth in millennial population and favourable macros

India's food consumption landscape is moving on to the next stage of evolution, driven by rapid urbanization, rise in disposable incomes, changing consumption habits, large millennial population (aged 15-34 years), less time to make food, preference for branded players etc.

The millennial population of India (~34% of total population), being a key driver of the food services industry's growth, has become more discerning in its consumption habits, both in terms of the frequency at which they eat or order from outside as well as the variety they seek. As on FY20, millennials accounted for ~60% of the Indians eating out. Burger King has positioned its brand to target this large and growing millennial population in India by connecting with them through its value leadership, strong entry menu at attractive price points and advertising & marketing campaigns.

Key revenue metrics and unit economics over the past few years for BKIL and its peers

Exhibit 43: BKIL treads ahead on per sq. ft. metric compared to its nearest competitor while trailing on per store metric

Parameters/Company	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Net rev. (Rsmn)							
BKIL			2,299	3,781	6,327	8,412	4,945
WDL	7,643	8,334	9,308	11,349	14,020	15,478	9,860
JUBI (est.)	20,937	24,379	25,834	30,184	35,631	39,273	33,405
Net rev. growth (%)							
BKIL				64.4	67.3	33.0	-41.2
WDL	3.2	9.0	11.7	21.9	23.5	10.4	-36.3
JUBI (est.)	20.5	16.4	6.0	16.8	18.0	10.2	-15.9
SSSG (%)							
BKIL				12.2	29.2	-0.3	-39.3
WDL	-5.6	1.9	4.0	15.8	17.0	4.0	-33.9
JUBI (est.)	0.2	3.2	-2.5	14.1	16.8	2.9	-0.2
No. of stores							
BKIL	12	49	88	129	187	260	265
WDL	209	236	258	277	296	319	305
JUBI (est.)	876	1,026	1,117	1,134	1,227	1,335	1,335
Store additions (Net)							
BKIL		37	39	41	58	73	5
WDL	25	27	22	19	19	23	-14
JUBI (est.)	150	150	91	17	93	108	0
Store growth (%)							
BKIL	-	308.3	79.6	46.6	45.0	39.0	1.9
WDL	13.6	12.9	9.3	7.4	6.9	7.8	-4.4
JUBI (est.)	20.7	17.1	8.9	1.5	8.2	8.8	0.0
Sales/store (Rsmn)							
BKIL			33.6	34.8	40.0	37.6	18.8
WDL	38.9	37.5	37.7	42.4	48.9	50.3	31.6
JUBI (Standalone) (est.)	25.9	25.3	23.8	26.5	29.9	30.3	24.7
Sales/sq. ft. (Rs)							
BKIL			22,379	23,233	26,698	25,093	12,558
WDL	13,648	13,143	13,222	14,886	17,171	17,661	11,089
JUBI (Standalone) (est.)	25,898	25,344	23,762	26,481	29,908	30,334	24,670

Source: Company, Nirmal Bang Institutional Equities Research

Note: 1. Financial metrics of JUBI and WDL are based on consolidated basis unless mentioned otherwise
2. JUBI's avg. store size assumed at 1,000 sq.ft.; WDL's avg. store size assumed at 2,850 sq.ft.; BKIL's avg. store size assumed at 1,500 sq.ft.
3. FY21 numbers for JUBI are estimated
4. Sales/store and sales/sq.ft. are calculated on average basis

Net revenue & SSSG (Comparison on pre-covid basis):

While companies operating established brands like *Domino's* (JUBI) and *McDonald's* (WDL) have grown at a 3-yr CAGR of 15.0% and 18.5% respectively, brands like *Burger King* (BKIL), which is relatively new to India, has grown at a 3-yr CAGR of 54.1%.

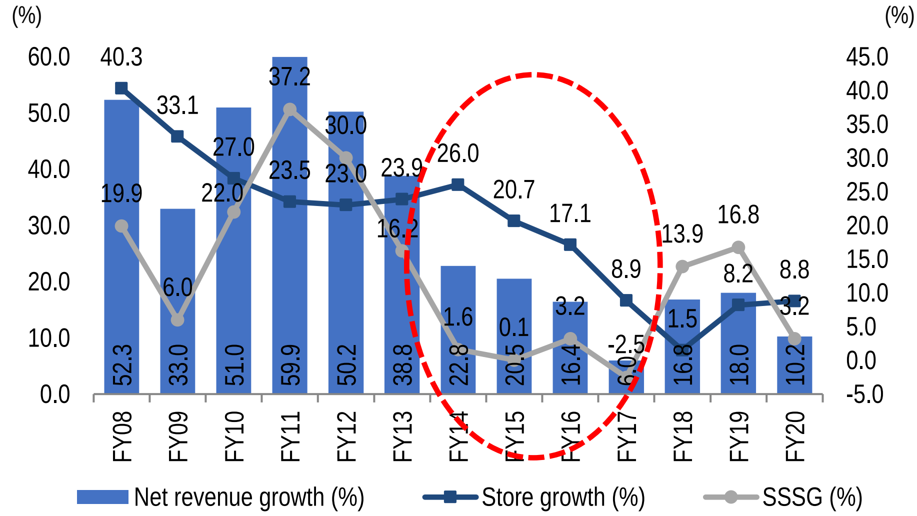
JUBI did well in terms of revenue before FY17 (it was growing in strong double digits). But, in FY17, growth suffered due to an adverse demand environment. This was also the year when there was a change in CEO with the exit of Mr. Ajay Kaul. On the other hand, WDL's SSSG picked up and has been ahead of JUBI over the last four years (pre-Covid). On a 3-yr average basis, BKIL's SSSG (13.7%) has been slightly ahead of the SSSG recorded by JUBI (11.2%) and WDL (12.3%).

Store addition:
WDL has been and prefers to be consistent when it comes to store additions. On the other hand, BKIL has been aggressive and will continue to remain so for the next few years to catch up and benefit from the tailwinds. After taking a recalibrated approach in FY17 due to the demand environment, JUBI has been adding >90 stores in the last two years (pre-Covid).

Unit economics:
WDL generates the highest sales/store and has managed to grow the fastest over FY17-FY20 at 10.1%, led by the value platform, meal offerings, menu innovations and ramp-up of brand extensions. This is in line with the global scenario since the *McDonald's* brand is able to leverage the same store for multiple revenue generating platforms (Breakfast, Café, etc) compared to other QSR brands.
In terms of per sq.ft. metric, JUBI generates the highest sales/sq.ft. in absolute terms and has grown at a CAGR of 8.5% over the last three fiscals. The company will continue to clock the highest sales/sq.ft. compared to its peers on the back of its delivery-oriented format, which requires a smaller store size. BKIL's sales/sq.ft. are higher than WDL's given the fact that most of its stores (~55%) are located in malls, which tend to occupy relatively less area with easy footfalls.

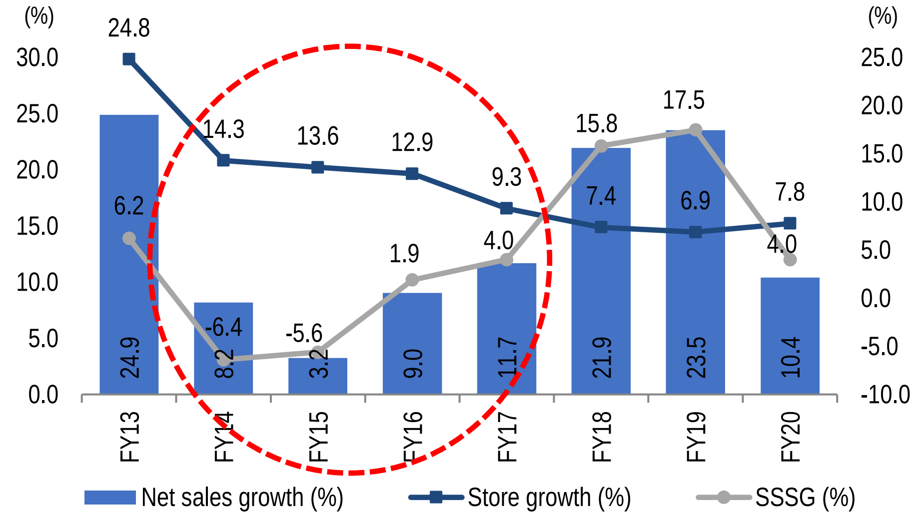
Despite seeing strong store expansion before FY14, JUBI and WDL saw muted SSSG during FY14-FY17 due to consumption slowdown and demonitization, post which SSSG improved due to individual measures taken by the respective companies.

Exhibit 44: JUBI's net revenue growth vs. store growth vs. SSSG (before covid)



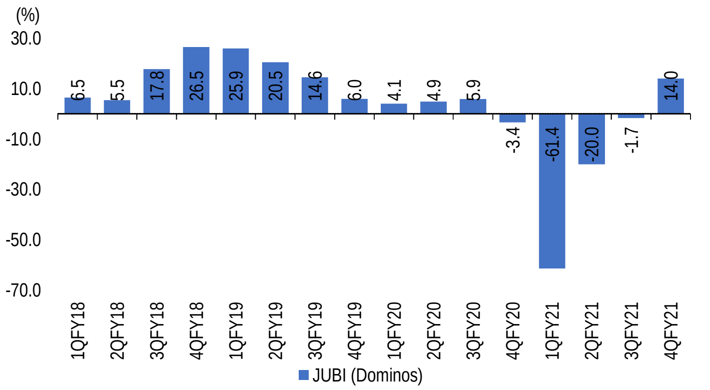
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 45: WDL's net revenue growth vs. store growth vs. SSSG (before covid)



Source: Company, Nirmal Bang Institutional Equities Research

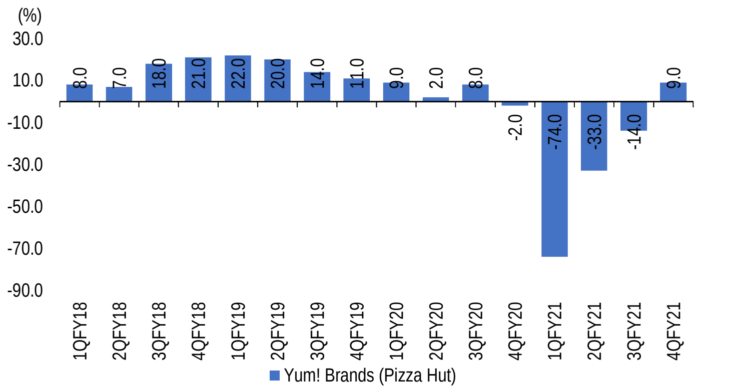
Exhibit 46: *Domino's Pizza's* SSSG over the past few quarters



Source: Company, Nirmal Bang Institutional Equities Research

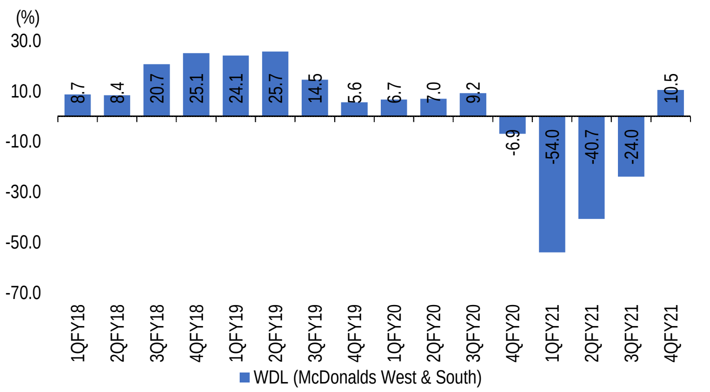
**estimated for 4QFY21*

Exhibit 47: *Pizza Hut's* system sales growth in India over the past few quarters



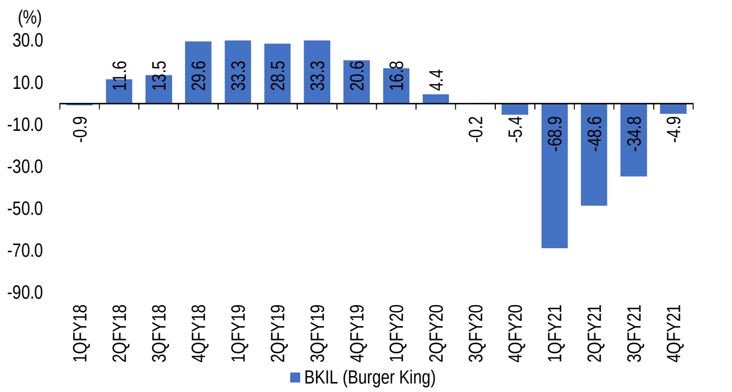
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 48: *McDonald's* (West & South) SSSG over the past few quarters



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 49: *Burger King's* SSSG over the past few quarters



Source: Company, Nirmal Bang Institutional Equities Research

MARGIN DRIVERS

Over the coming years, margin expansion will be driven by ramp-up in scale, improvement in unit economics & cost efficiencies and operational leverage.

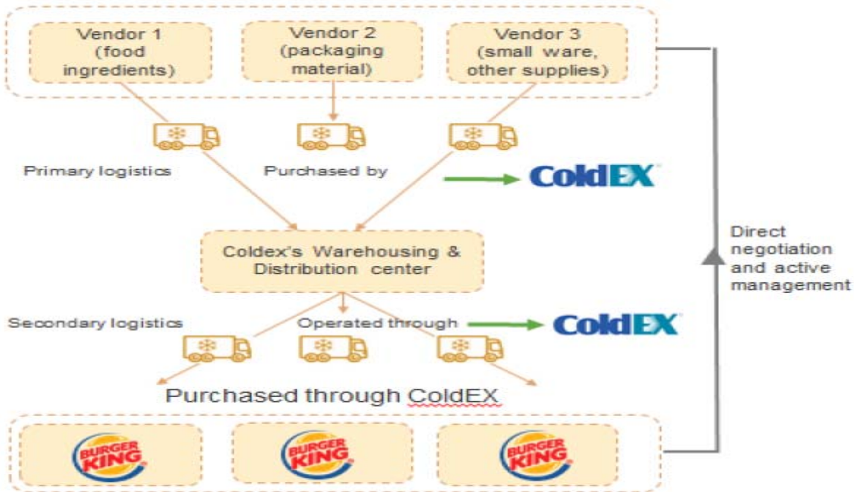
a. Cost of Goods Sold (COGS)

Historically, the company's cluster-based approach has helped it in leveraging the company's vertically managed & scalable supply chain, thereby aiding it to drive down costs and improve gross margins due to the proximity of its restaurants to each other and to the distribution centres of the third-party distributor.

Further, BKIL's arrangement with ColdEx, its third-party distributor has historically helped it to manage, plan and reduce its working capital requirements since the distributor buys from suppliers and holds the ingredients & packaging materials with itself until it delivers the product to the Burger King restaurants.

Even going ahead, gross margin expansion will be driven by scale, mix improvement (expect BK café to contribute to margins in medium term) and cost efficiencies, led by the brand's cluster-based approach.

Exhibit 50: BKIL's supply chain arrangements with ColdEx, its third-party distributor



Source: BKIL RHP, Nirmal Bang Institutional Equities Research

Exhibit 51: Gross margin trend over the recent years

Company	FY15	FY16	FY17	FY18	FY19	FY20	FY21	Commentary
BKIL	-	-	59.9	62.0	63.6	64.2	64.5	Gross margin has expanded from 59.9% in FY17 to 64.5% in FY21, i.e., an expansion of ~460bps on the back of cluster approach & penetration strategy and increase in purchasing power from direct & indirect suppliers. Further, at the moment, the brand only levies delivery charges for orders above Rs299. Hence, if this threshold is removed, it may help expand gross margin further.
WDL (Cons.)	58.4	60.0	60.6	62.3	63.5	65.2	64.7	Gross margin for WDL has expanded by ~630bps during FY15-FY21 on the back of scale, supply chain efficiencies, improvement in product mix and aided by increase in McCafé contribution. Further, the company has been levying delivery charges of ~Rs30-35 since 2005, which has ensured coverage of delivery related costs.
JUBI (S/A)	74.9	76.3	75.8	74.8	75.2	75.0	78.1	Gross margin for JUBI has broadly remained range-bound in ~74-76% range over the past few years. JUBI started levying delivery charges at the fag end of 1QFY21, which is likely to aid expansion of gross margin going ahead (some positive impact is already being reflected in FY21 numbers).
JUBI (Cons.)	74.8	76.2	75.6	74.6	75.1	75.0	78.1	

Source: Company, Nirmal Bang Institutional Equities Research

**FY21 numbers for JUBI are estimated*

Why gross margin of BKIL is almost similar to Westlife despite McCafé?
According to us, firstly, the size of its restaurant network has historically enabled it to enhance its purchasing power with suppliers. BKIL also engages in strategic or long-term contracting with third-party distributors for select categories of ingredients. This reduces distribution cost and the arrangement with third-party distributor also helps it to reduce working capital requirements with respect to supply chain since the third-party distributor buys from suppliers and holds the ingredients & packaging materials BKIL require as its own inventory until it delivers the product to the restaurants. Further, we believe that while BKIL doesn't have a Cafe format, it does sell beverages (not sure about the exact mix), which is a high gross margin category. Lastly, globally and to some extent in India, *Burger King* is a slightly premium player compared to its peers.

b. Royalty expenses

BKIL is required to pay a monthly royalty fee ~2.5-5% (depending on the opening date of the restaurant) of sales from *Burger King* restaurants. Since FY17, the royalty cost has stayed well below the MFDA capped rate of 5% (which is valid till CY39).

Among the listed QSR peer set, while JUBI has the lowest royalty expenses (as a % of net revenue) paid to the parent, royalty expenses for WDL are the highest and will increase going ahead - from 4% currently to 4.5% in FY23 & FY24, 5% in FY25 & FY26 and there onwards will increase to 8%.

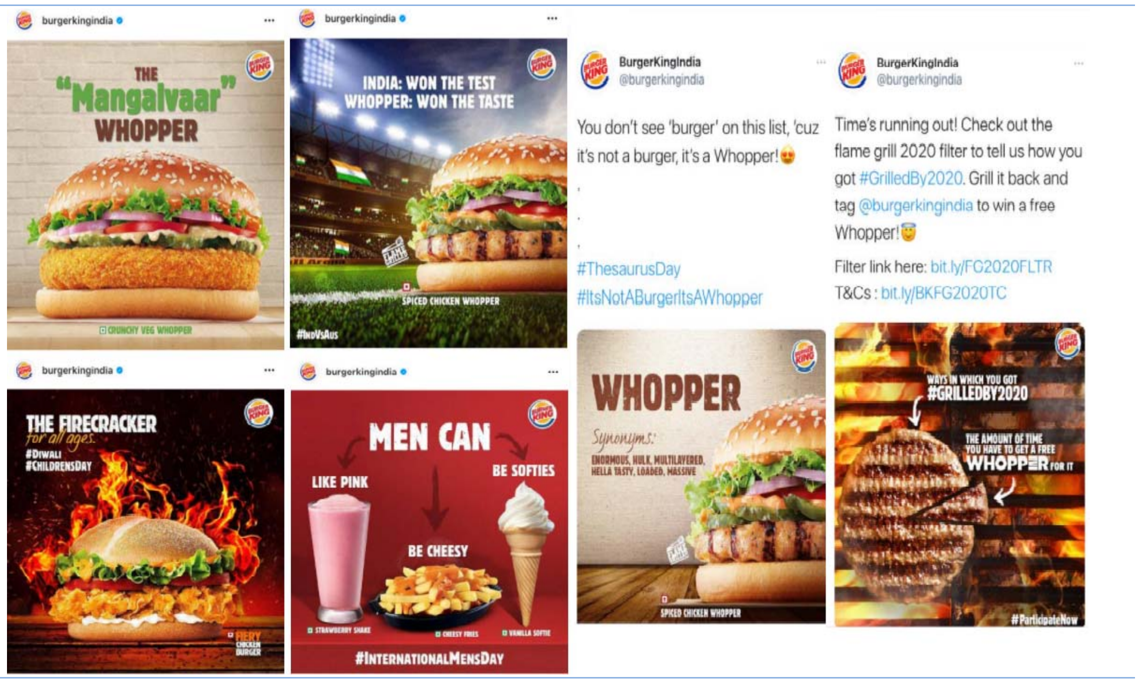
c. Advertising and marketing expenses

Brand awareness is very critical for the continuous growth of QSR companies since revenue is heavily influenced by brand marketing & advertising and client engagement. Since the brand's launch in India in Nov'2014, it has used an integrated marketing approach by targeting consumers at multiple touch points through conventional media and social media platforms. ~70-75% of marketing spends is towards the core portfolio (value/combo/deal for e.g.: 2 burgers for Rs69/79) and the balance is for other products.

Importance of *Whopper*: Globally and in India, communication for *Whopper* has always been used to build the *Burger King* brand. Ads for the Whopper increase during the festive season to benefit from the price insensitivity during that period.

As per the MFDA, BKIL is required to contribute 5% of sales of its company-owned Burger King restaurants for marketing and advertising. Over the past few years, BKIL has spent substantially, over and above the mandatory 5% laid down by the MFDA, on marketing costs to increase brand awareness. Thus, we believe that A&SP is likely to stabilize at 5% of revenue going ahead.

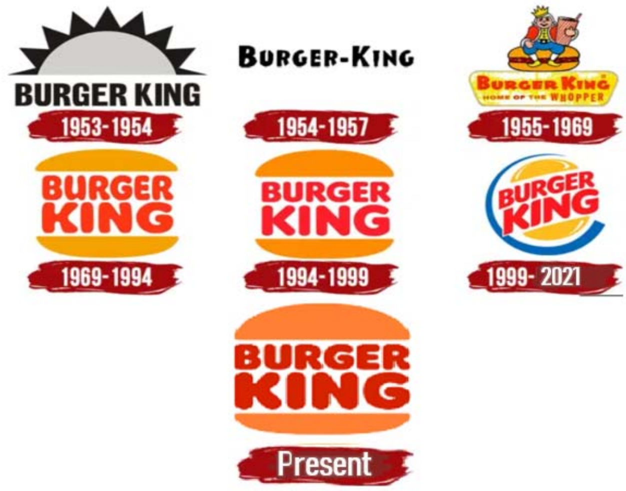
Exhibit 52: Similar to global scenario, Burger King India has a strong presence on social media



Source: Media, Nirmal Bang Institutional Equities Research

In Jan'2021, Restaurant Brands International, owner of the *Burger King* brand announced a new visual identity of the brand after nearly 20 years. However, BKIL announced adoption of the new design on 1st Apr'2021. We are not sure about the incremental cost for the change in logo and hence are not building the same in our numbers.

Exhibit 53: Change in the brand's logo over the years



Source: Media, Nirmal Bang Institutional Equities Research

Exhibit 54: Announcement of new brand logo by the company on social media

Source: Social Media, Nirmal Bang Institutional Equities Research

d. Rental costs:

The company does not own the underlying property for any of its restaurants or it's Registered & Corporate Office. It generally enters into long-term lease deeds or sub-lease agreements that have an initial term that typically ranges from 5 to 20 years. (JUBI's agreements generally range between 6 and 21 years and WDL's lease period ranges between 15 and 20 years). Several arrangements are based on the revenue share model along with a fixed minimum monthly guaranteed amount, which the company is required to pay, regardless of the revenue generated at the relevant restaurant.

Due to Covid-19, BKIL has engaged in rent relief negotiations with all its landlords and has arrived at negotiated agreements with respect to reduction in rent and rental obligations during the ongoing pandemic.

e. Employee costs

BKIL's number of employees as well as employee productivity has been increasing. With the increase in operations, employee cost, as a % of revenue, has reduced.

Hence, even going forward, employee costs for BKIL are likely to reduce as the company builds up scale with improvement in productivity.

Exhibit 55: Employee data

Parameters/Company	FY15	FY16	FY17	FY18	FY19	FY20
No. of permanent employees						
BKIL	-	-	2,332	3,204	4,854	6,141
WDL	7,298	6,921	7,805	8,719	9,537	9,908
JUBI	27,122	27,719	23,671	27,539	28,286	31,514
Sales/permanent employee						
BKIL	-	-	1.0	1.2	1.3	1.4
WDL (Consolidated)	1.0	1.2	1.2	1.3	1.5	1.6
JUBI (Consolidated)	0.8	0.9	1.1	1.1	1.3	1.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 56: Movement of key cost line items over the past few years

Parameters/Company	FY15	FY16	FY17	FY18	FY19	FY20
BKIL (as a % of net sales)						
Rent	-	-	3.4	3.3	4.3	4.5
Employee costs	-	-	22.3	18.6	15.3	16.2
A&SP	-	-	10.2	14.1	8.5	5.8
Royalty/franchisee fee	-	-	3.0	3.2	3.7	4.1
Power & fuel	-	-	9.2	8.6	7.5	8.4
Commission and delivery expenses	-	-	1.8	2.2	4.6	5.5
Repairs & Maintenance	-	-	3.0	3.2	2.5	2.8
WDL (as a % of consolidated net sales)						
Rent (including conducting charges)	9.4	9.0	9.2	9.3	9.6	4.6
Employee costs	14.9	14.9	15.1	15.2	14.1	14.2
A&SP	5.6	5.6	5.9	5.5	4.9	4.8
Royalty/franchisee fee	3.5	3.5	3.9	4.2	4.6	4.6
Power & fuel	11.8	10.9	9.7	8.7	7.8	7.8
Repairs & Maintenance	3.0	3.1	3.1	3.2	3.1	3.2
JUBI (as a % of consolidated net sales)						
Rent	9.9	10.5	11.7	10.6	9.7	2.1
Employee costs	21.2	23.6	23.0	20.3	19.1	20.3
A&SP	5.6	5.3	5.7	4.9	4.9	6.4
Royalty/franchisee fee	3.3	3.3	3.3	3.3	3.5	3.5
Power & fuel	5.9	5.7	5.6	5.3	4.7	4.4
Freight & forwarding	2.9	2.7	3.0	2.8	3.0	3.0
Repairs & Maintenance	1.9	2.2	2.8	2.6	2.6	2.5

Source: Company, Nirmal Bang Institutional Equities Research
Note: Rent cost as a % of sales reduced drastically in FY20 for JUBI and WDL due to adoption of INDAS-116

Exhibit 57: EBITDA margin trend over the recent years

Company	FY15	FY16	FY17	FY18	FY19	FY20	FY21	Commentary
BKIL								Expansion in gross margin and increase in operating leverage helped the company to expand EBITDA margin by ~1940bps pre-INDAS 116 (~1410bps post-INDAS 116) over FY17-FY20 and will also drive margins going ahead.
Pre INDAS-116			-17.0	-10.7	2.4	2.4	-12.5	
Post INDAS-116			-1.7	2.1	12.5	12.4	3.0	
WDL (Cons.)								EBITDA margin has expanded by ~730bps pre-INDAS 116 (~1180bps post-INDAS 116) over FY15-FY20, led by improvement in gross margin and other cost rationalization measures taken under ROP 2.0. Going forward, improvement in gross margin along with operating leverage (as a result of stronger sales growth) should lead to a sharp improvement in operating margin.
Pre INDAS-116	2.0	5.1	5.0	6.7	8.9	9.3	-0.2	
Post INDAS-116	2.0	5.1	5.0	6.7	8.5	13.8	6.2	
JUBI								Standalone EBITDA margin has expanded by ~220bps pre-INDAS 116 (~990bps post-INDAS 116) over FY15-FY20, mostly driven by operating leverage and cost efficiencies. Flow-through of gross margin expansion and cost rationalization will drive expansion of operating margin in the medium term.
S/A; pre INDAS-116	12.7	11.3	9.7	15.0	17.2	14.8	-	
S/A; post INDAS-116	12.7	11.3	9.7	15.0	17.2	22.6	24.0	
Cons; post INDAS-116	12.2	10.8	9.3	14.6	16.8	22.3	23.8	

Source: Company, Nirmal Bang Institutional Equities Research
**FY21 numbers for JUBI are estimated*

Exhibit 58: Key financial metrics – Unit economics

Parameters/Company	FY15	FY16	FY17	FY18	FY19	FY20	FY21
EBITDA/store (Rsmn)							
BKIL			-0.6	0.7	5.0	4.7	0.6
WDL (Consolidated)	0.8	1.9	1.9	2.8	4.1	7.0	2.0
JUBI (Standalone)	3.3	2.9	2.3	4.0	5.1	6.8	5.9
EBITDA/sq. ft. (Rs)							
BKIL			-379	499	3,333	3,102	381
WDL (Consolidated)	271	672	667	991	1,456	2,442	686
JUBI (Standalone)	3,281	2,858	2,301	3,966	5,148	6,847	5,921

Source: Company, Nirmal Bang Institutional Equities Research

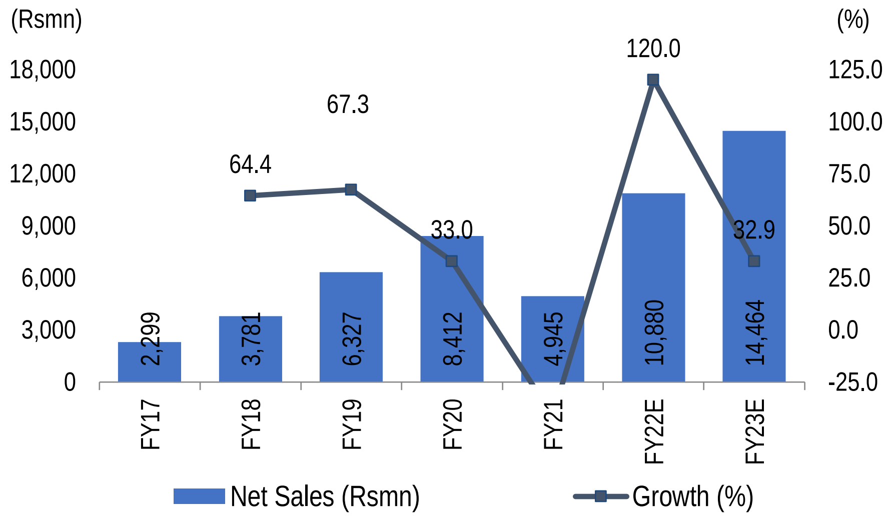
Note: 1. JUBI's avg. store size assumed at 1,000 sq.ft.; WDL's avg. store size assumed at 2,850 sq.ft.; BKIL's avg. store size assumed at 1,500 sq.ft.

2. EBITDA/store and EBITDA/sq.ft. are calculated on average basis

3. FY21 numbers for JUBI are estimated

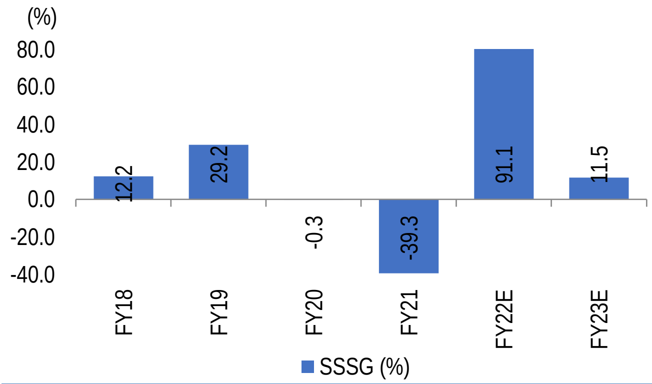
FINANCIAL STORY IN CHARTS

Exhibit 59: We expect net revenue to grow 71.8% over FY21-23E



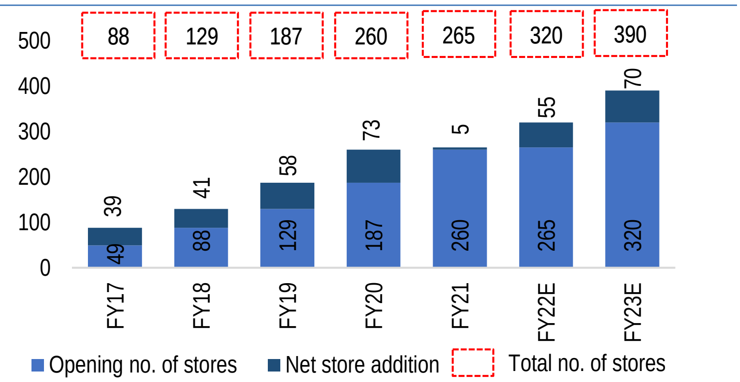
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 60: Same store sales will start normalizing from FY23E



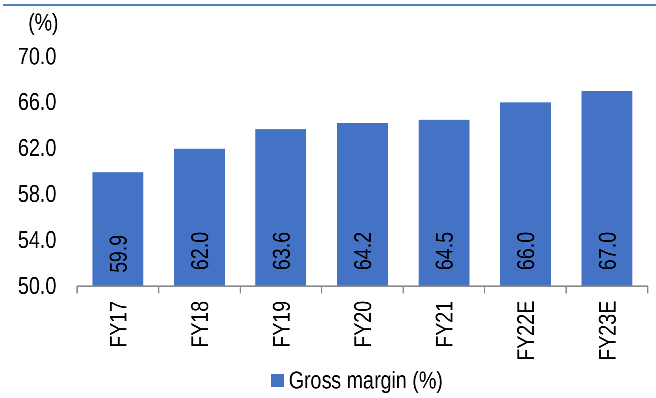
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 61: We build in store expansion on the basis of target set by the company



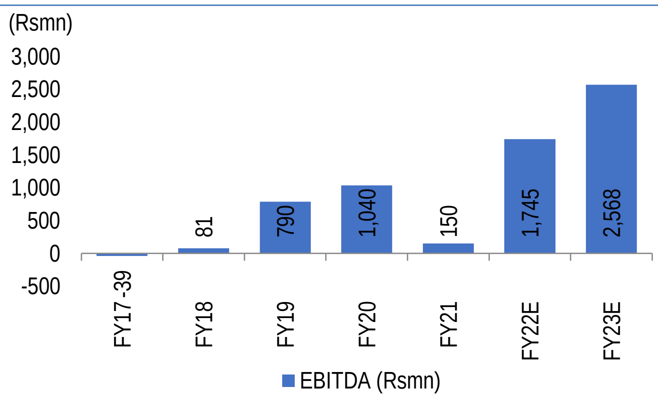
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 62: Gross margin likely to expand by ~250bps in the next two years



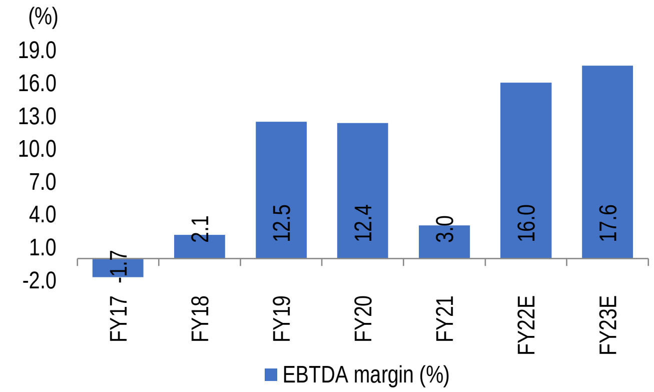
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 63: We model absolute EBITDA growth of 35.2% over FY20-23E (314% over FY21-23E), leading to ...



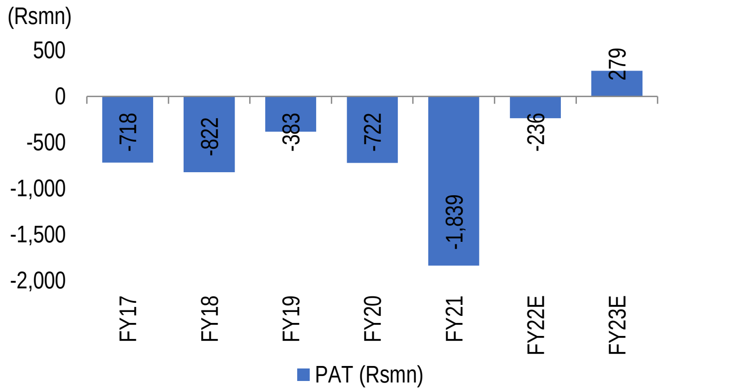
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 64: ...EBITDA margin expansion of ~520bps over FY20-23 (1450bps over FY21-23)



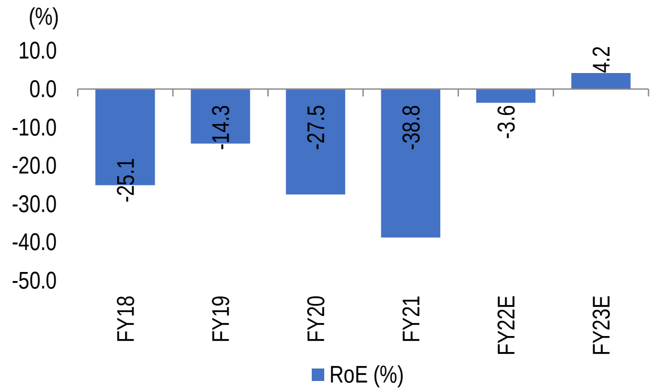
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 65: We expect BKIL to start generating profits from FY23E



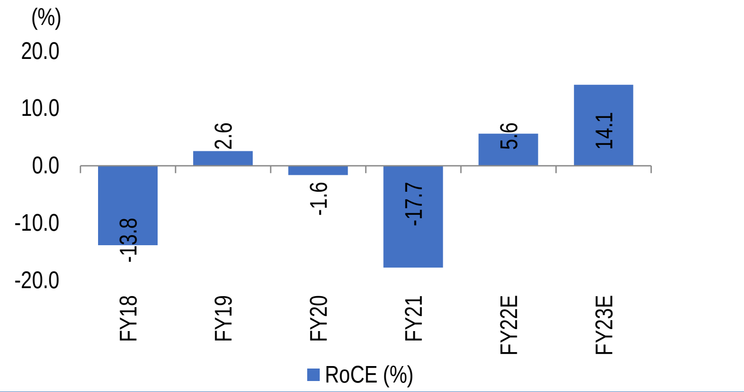
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 66: Return ratios will improve with expansion; in FY23E, we build in 4.2% RoE...



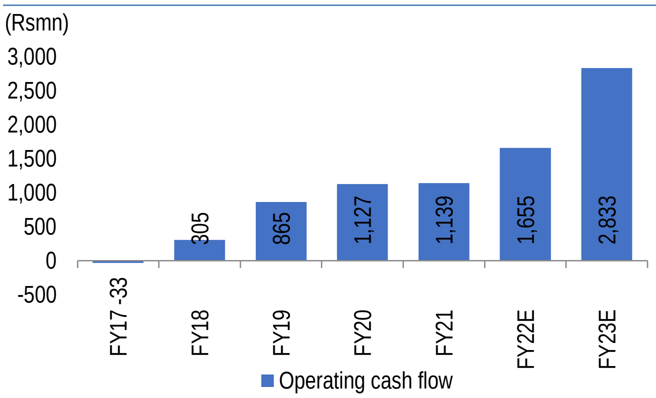
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 67: ..and 14.1% RoCE



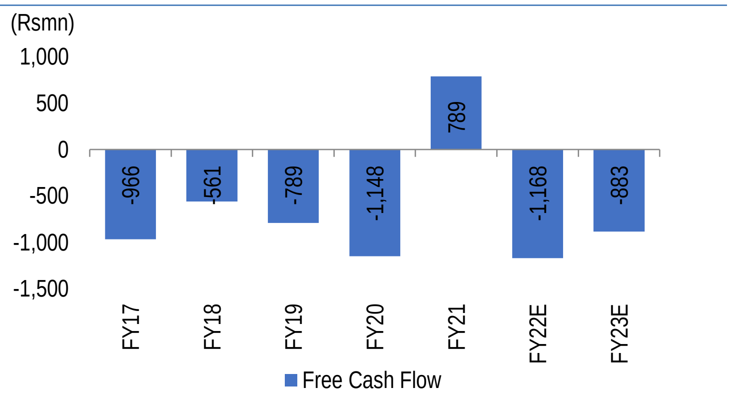
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 68: BKIL has been clocking positive OCF since FY18



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 69: We don't expect BKIL to generate positive FCF in the medium term on account of store expansion led capex (positive FCF in FY21 due to lower capex)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 70: Cash conversion cycle (CCC)

No. of Days	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Inventory days	-	4	3	4	7	5	5
Debtor days	-	2	2	2	3	2	1
Creditor days	-	30	30	31	72	38	32
On average basis (sales)	-	-24	-24	-25	-62	-32	-26
Inventory days	-	12	10	10	20	15	15
Debtor days	-	2	2	2	3	2	1
Creditor days	-	80	83	86	203	112	97
On average basis (COGS/sales)	-	-66	-71	-74	-180	-95	-80
Inventory days	6	5	4	4	7	7	5
Debtor days	2	2	3	1	4	1	2
Creditor days	31	42	35	35	84	38	36
On year-end basis (sales)	-22	-34	-28	-30	-72	-30	-29
Inventory days	16	13	11	11	21	19	15
Debtor days	2	2	3	1	4	1	2
Creditor days	77	110	97	99	237	111	109
On year-end basis (COGS/sales)	-59	-94	-82	-86	-212	-90	-91

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 71: Common size P&L (as a % of net revenue)

(as a % of Revenue)	FY17	FY18	FY19	FY20
Revenue	100.0	100.0	100.0	100.0
RM cost	40.1	38.0	36.4	35.8
Gross margin	59.9	62.0	63.6	64.2
Employee expenses	22.3	18.6	15.3	16.2
Rent	3.4	3.3	4.3	4.5
Power and fuel	9.2	8.6	7.5	8.4
Operating supplies	1.8	1.7	1.4	1.5
Advertising and marketing expenses	10.2	14.1	8.5	5.8
Repairs and maintenance	3.0	3.2	2.5	2.8
Royalty fees	3.0	3.2	3.7	4.1
Commission and delivery expenses	1.8	2.2	4.6	5.5
Other operating expenses	6.9	4.9	3.4	3.1
EBITDA margin	-1.7	2.1	12.5	12.4
Depreciation / Amortization	19.5	16.9	13.0	13.8
Interest & Finance Charges	11.9	9.8	7.3	7.8
Other Income	1.8	2.8	1.8	0.7
Taxes	0.0	0.0	0.0	0.0
Adj. PAT margin	-31.2	-21.7	-6.0	-8.6

Source: Company, Nirmal Bang Institutional Equities Research
Note: Numbers are including impact of IND AS-116

VALUATION AND VIEW

Although a late entrant in the Indian QSR space, Burger King India Ltd. (BKIL) has proved its salt's worth by increasing the brand's market share from 0% to 5% in terms of revenue and to 4% in terms of outlets within just 6 years of presence - also making it the fastest growing QSR brand in India. We believe that the company's market share is bound to expand further on the back of the following: benefits that the pan-India Master Franchise & Development Agreement (MFDA) offer, an aggressive mindset towards growth (plan to open 700 stores by CY26 is a pre-eminent target laid out in the MFDA), cluster-based expansion strategy and technological backbone. Globally, the brand is targeted at millennials (15-35 years) and India with its highest population of millennials and consumers who eat out represents a significant opportunity for the brand to stand among the winners. Further, novelty factor, consumer propositions, entry level & value products, wide variety and the globally renowned flame-grilled Whopper will drive trials besides attracting footfalls, thereby supporting Same Store Sales Growth (SSSG). While platforms like All Day Breakfast, beverages, rice and chicken are relatively new and don't contribute meaningfully currently, they would gradually ramp up and incrementally add to the topline. The company is also rolling out its Value 2.0 program across India. This paired with delivery traction from BKIL's newly launched App will drive SSSG.

We expect the company to deliver 71.8% revenue CAGR over FY21-23E (20.2% over FY20-23E). Over the medium term, revenue growth will be led by (a) aggressive store expansion target (b) maturity of older stores whose ADS is 30-40% higher than average (c) ramp up of products across price points & (d) recovery from impacted base starting 2QFY22. We have built 314% CAGR over FY21-23E (35.2% over FY20-23E) in EBITDA (includes INDAS 116 impact).

Operating performance over the medium term to be driven by (a) efficiencies (b) premiumization (c) cluster-based penetration strategy (d) normalization of marketing spends and (c) operating leverage driven by recovery & store expansion.

Albeit vis-a-vis both the listed QSRs, the Burger King brand lags in terms of its market presence due to its infancy in the Indian QSR space, but it already operates at a decent margin profile in its short tenure. In the second Covid wave, because of its current dine-in centric model (pre-covid ~70% of the brand's revenue came from dine-in) as well as 55% mall portfolio, Burger King may stand to lose in the near term with a lagged recovery compared to JUBI and WDL, which have a relatively higher salience of convenience channels and diversified store portfolio. However, the brand has all the ingredients for establishing itself in the Indian QSR market over the long term, if executed well.

While the company is still not profitable at PAT level, we expected BKIL to clock profit by FY23 itself. At the current market price (CMP), BKIL trades at 32.9/22.4x FY22E/FY23E EBITDA. We initiate coverage on the stock with an Accumulate rating and a DCF based target price (TP) of Rs155 implying an EV/EBITDA multiple of 22.5x FY23E EBITDA. Recovery and execution of the store expansion plan is the key monitorable.

Exhibit 72: DCF valuation (includes IND AS 116 impact)

Particulars (Rsmn)	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Profit/(loss) before Tax	-1,738	-236	279	804	1,464	2,357	3,408	4,460	5,600	6,690	7,734	8,707
Depreciation	1,324	1,538	1,850	2,242	2,688	3,185	3,698	4,147	4,566	5,033	5,539	6,075
Net interest	821	606	658	751	851	949	1,033	1,079	1,095	1,103	1,106	1,105
Others	401	-163	-219	-278	-346	-432	-525	-610	-697	-786	-873	-961
Direct Taxes Paid	-5	0	0	0	0	-46	-904	-1,123	-1,410	-1,684	-1,947	-2,192
Change in WC	335	-90	265	268	358	338	304	248	340	219	313	207
Cash flow from Operations	1,139	1,655	2,833	3,787	5,014	6,351	7,013	8,202	9,495	10,575	11,873	12,941
Less: Capex	-350	-2,823	-3,716	-4,471	-4,937	-5,539	-5,270	-4,234	-4,374	-5,127	-5,127	-5,763
Free cash flow	789	-1,168	-883	-684	77	812	1,743	3,968	5,122	5,447	6,746	7,179
Discounting Period		0	1	2	3	4	5	6	7	8	9	10
Discounting Factor		1.00	0.90	0.80	0.72	0.65	0.58	0.52	0.47	0.42	0.38	0.34
PV of Free cash flow		-1,168	-792	-550	56	526	1,013	2,068	2,395	2,285	2,539	2,424

DCF Valuation	Rsmn
PV of explicit cash flows	10,788
PV of terminal cash flows	46,976
Total Enterprise value	57,764
Net debt / (cash)	-1,523
Equity value	59,288
No. of o/s shares	383
Value per share (Rs)	155
CMP (Rs)	157
Upside (%)	-1.2

Cost of equity (%)	11.5
Cost of debt (%)	5.9
WACC (%)	11.5
Terminal growth rate (%)	6.0

Implied multiple (FY23E)	x
EV/EBITDA	22.5
EV/Sales	4.0
P/E	212.3

FV sensitivity to change in WACC and terminal growth rate

%		Terminal Growth Rate						
		5.7	5.8	5.9	6.0	6.1	6.2	6.3
WACC	10.9	171	173	176	179	182	185	189
	11.1	163	165	168	170	173	176	179
	11.3	155	158	160	162	165	167	170
	11.5	148	150	153	155	157	159	162
	11.7	142	144	146	148	150	152	154
	11.9	136	138	140	142	143	145	147
	12.1	131	132	134	136	137	139	141

Upside/downside

%		Terminal Growth Rate						
		5.7	5.8	5.9	6.0	6.1	6.2	6.3
WACC	10.9	8.9	10.6	12.4	14.3	16.2	18.2	20.4
	11.1	3.8	5.4	7.0	8.7	10.5	12.3	14.2
	11.3	-0.9	0.5	2.0	3.6	5.2	6.8	8.6
	11.5	-5.2	-3.9	-2.6	-1.2	0.3	1.8	3.4
	11.7	-9.3	-8.1	-6.9	-5.6	-4.2	-2.9	-1.4
	11.9	-13.1	-12.0	-10.8	-9.7	-8.4	-7.2	-5.9
	12.1	-16.6	-15.6	-14.6	-13.5	-12.4	-11.2	-10.0

Source: Company, Nirmal Bang Institutional Equities Research

KEY RISKS

Risk in terms of lower-than-expected growth in stores, SSSG, revenue and profitability could pan out due to any of the following:

- Dependence on MFDA and termination risk: BKIL is highly dependent on the MFDA and the Company Franchise Agreement for the usage of the Burger King systems, Burger King marks, sub-franchising. As stated in exhibit 1, non-compliance of certain T&C of the MFDA could lead to termination of the contract by BK AsiaPac, thereby having a significantly adverse impact on business, results of operations, financial condition and prospects.

- Store expansion through unfavourable real estate: The company's profitability will be muted in the medium term on account of the aggressive store expansion plans of opening 700 restaurants by the end of Dec'2026. However, any restaurants opened in areas which may have different competitive conditions, consumer tastes, discretionary spending patterns & economic conditions than existing locations, may cause delay in reaching optimal sales at restaurants and breakeven. Further, cannibalisation of restaurant sales as store network continues to grow and becomes denser, could adversely impact SSSG. Hence, opting for any unfavourable locations/real estate in order to meet the target would further delay the profitability.

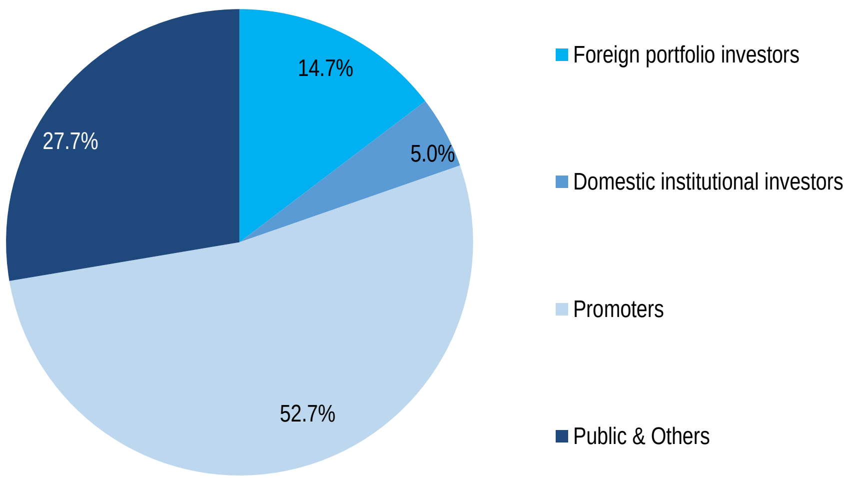
- Delay in dine-in operations: After a declining covid-19 graph and opening up of markets, many prominent QSRs reached pre-covid level of operations. However, Burger King's operations, being more skewed towards the dine-in channel, took relatively more time for recovery vis-à-vis its peers. Given the second Covid wave and the consequent lockdown/restrictions in operating hours within certain regions, growth/recovery of the entire food services industry, including QSRs will be hampered. If the second Covid wave is prolonged than expected it may take further time for the full recovery of the company's operations.

- Competition from other QSRs/CDRs, aggregators and new food services platforms: Operations of delivery aggregators have increased competition with other QSR brands as well as relatively new food services platforms like cloud kitchens (which do not offer in-restaurant services and only serve food through delivery aggregators, requiring less capital expenditure to offer food services). Currently, the company depends on delivery aggregators for a substantial portion of its delivery channel. Hence, if there is any delay in ramping up its delivery through its own app & digital platform, any tiff with the aggregators would directly affect delivery operations of the brand. Further, if cloud kitchens are able to further disrupt the market by creating a strong & loyal consumer base, it could affect operations of QSRs like Burger King. Given that the Indian food services industry (especially QSRs) is a fast-growing market, entry of more international QSR brands will continue to pose a threat. Even in terms of recruiting personnel and sites for restaurants, the company competes with other players in the industry.

- Change in consumer preferences: If consumers' dining preferences change towards other alternatives or towards eat at home occasions, it will have a direct impact on the company's operations. Further, increase in health awareness could affect the public's perception of the QSR industry, thereby adversely affecting the brand's business, financial condition or prospects.

CURRENT SHAREHOLDING

Exhibit 73: Shareholding breakdown as on March 2021



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 74: Top 10 shareholders

Name of the shareholder	% Holding
AIL	7.4
FMR	3.0
SBI Funds Management Pvt. Ltd.	2.0
Valiant Mauritius Partners Ltd.	1.7
FIL	1.7
Aditya Birla Sun Life Asset Management Co. Ltd.	1.1
Sundaram Asset Management Co. Ltd.	0.7
Matthews International Capital Management	0.6
HDFC Asset Management Co. Ltd.	0.5
Invesco Asset Management India Pvt. Ltd.	0.3

Source: Company, Nirmal Bang Institutional Equities Research

BOARD OF DIRECTORS

Name	Designation	Background
Mr. Rajeev Varman	Chief Executive Officer & Whole Time Director	Mr. Varman was appointed as the CEO and WTD in Feb' 2014. He is responsible for management and running of business of BKIL both at strategic & operational level and overview innovation in across all areas including operations & production. He has over 20 years of work experience in food and beverage industry. Prior to joining BKIL, he has worked with Tricon/Taco Bell brand, Lal Enterprises Inc., and Burger King Corporation.
Mr. Shivakumar Pullaya Dega	Chairman and Independent Director	An alumnus of IIT-Madras and IIM-Calcutta, he joined the Aditya Birla Group in Jan'2018 and is currently serving as the Group Executive President for corporate strategy and business development of Aditya Birla Management Corporation Pvt. Ltd. He previously served as the Chairman and CEO of PepsiCo India Holdings Pvt. Ltd. and as a MD of Nokia India Pvt. Ltd. He has also worked with Godrej Consumer Products Ltd., Mother Dairy Fruit and Vegetable Pvt. Ltd., Nourishco Beverages Ltd. and Alpha Payment Services India Pvt..Ltd.
Mr. Ajay Kaul	Non-Executive Director*	An alumnus of the IIT-Delhi and XLRI Jamshedpur, Mr. Kaul was appointed as an Additional Director in Oct' 2018 and is responsible for advising the leadership team of BKIL. He has significant work experience in the food and beverage industry. Prior to joining BKIL, he was the CEO and WTD of Jubilant FoodWorks Ltd.
Mr. Amit Manocha	Non-Executive Director*	An associate member of the Institute of Chartered Accountants of India, Mr. Manocha was appointed as an Additional Director in Jul' 2016 and is responsible for advising the leadership team of BKIL. He is presently an MD at Everstone Capital Asia Pte. Ltd. and has previously worked with Everstone Capital Advisors Pvt. Ltd. as a principal – private equity
Mr. Jaspal Singh Sabharwal	Non-Executive Director*	Mr. Sabharwal has been associated with BKIL since its incorporation and was appointed as an Additional Director of the Company in Nov' 2013 and is responsible for advising the leadership team of BKIL. He has significant work experience in the food and beverage industry. In the past, he was a partner at Everstone Capital Advisors Pvt. Ltd. and before that he worked with Coca-Cola India Inc. for over 10 years
Mr. Peter Perdue	Non-Executive Director*	Mr. Purdue was appointed as an Additional Director (Non-Executive) in Oct' 2019. He joined Restaurant Brands International Inc. in July 2013 as a management trainee and has served in various capacities, among others, senior analyst (global finance), manager (finance), senior manager (finance) and director (franchise performance).
Mr. Sandeep Chaudhary	Independent Director	Mr. Chaudhary has an expertise in human capital and business management. He served at Aon Consulting Pvt. Ltd. for more than 17 years and was the CEO from Feb' 2014 to Jan' 2019.
Mrs. Tara Subramaniam	Independent Director	Mrs. Subramanium has over 34 years of work experience in banking, real estate, project financing and business development. Prior to joining BKIL, she has worked with HDFC Limited, JM Financial Group (where she served as the MD) and SGE Advisors (India) Pvt. Ltd.

Source: Company, Nirmal Bang Institutional Equities Research

** Nominated by the Promoter*

MANAGEMENT & LEADERSHIP

Name	Designation	Background
Mr. Rajeev Varman	Chief Executive Officer & Whole Time Director	Mr. Varman was appointed as the CEO and WTD in Feb' 2014. He is responsible for management and running of business of BKIL both at strategic & operational level and overview innovation in across all areas including operations & production. He has over 20 years of work experience in food and beverage industry. Prior to joining BKIL, he has worked with Tricon/Taco Bell brand, Lal Enterprises Inc., and Burger King Corporation.
Mr. Sumit P. Zaveri	Chief Financial Officer	Mr. Zaveri is an associate member of the Institute of Chartered Accountants of India and also holds a degree from the Institute of Cost and Works Accountants of India. He has 18 years of work experience in finance control, treasury, budgeting and management information systems. Previously, he has worked with companies such as Natures Basket Ltd. and various companies within the Tata Group He joined BKIL in Sept' 2019 and is responsible for finance & accounting functions and is also responsible for overseeing property related documentation, commercial contracts, agreements and litigation management.
Mr. Abhishek Gupta	Chief of Business Development and Operations Support Officer	Mr. Gupta joined BKIL in Mar' 2014 and has 18 years of work experience in the areas of talent management, operations and business development. Previously, he has worked with companies such as Career Forum Pvt. Ltd., North Delhi Power Ltd. and various companies within the Tata Group. He is responsible for securing new sites for achieving growth of new restaurants & their construction. He is also responsible for securing all licenses and permissions for the operations of restaurants and overseeing all external interfaces/ liaisons of the operations team.
Mr. Kapil Grover	Chief Marketing & Digital Officer	Mr. Grover joined BKIL in Dec’20 from JUBI where he was the Chief Marketing Officer (CMO). He was previously with BKIL as the CMO between 2016-2018 before moving to JUBI. With close to two decades in the industry, he has had stints with KFC India, Radico Khaitan and Luxor Writing Instruments in the past.
Ms. Namrata Tiwari	Chief People Officer	Ms. Tiwari joined BKIL on Jun' 2014. She has over 21 years of work experience in all the facets of human resource and has previously worked with Kaya Ltd., Toyo Engineering India Ltd., Marico Ltd., Mahindra-British Telecom Ltd., Shopper’s Stop Ltd., Pfizer Ltd. She is responsible for the development & execution of people strategies, compensation & rewards strategies, human resource compliance, organisational structure & culture and overseeing the administration function of BKIL.
Ms. Madhulika Rawat	Company Secretary and Compliance Officer	Ms. Rawat is a registered fellow member of the Institute of Company Secretaries of India. She has over 12 years of work experience in the areas of legal, secretarial and compliances. Previously, she has worked with companies such as YES Bank Ltd., Adlabs Entertainment Ltd., Reliance MediaWorks Ltd., SI-Group India Ltd. and Monsanto India Ltd. She joined BKIL in Nov' 2020 and is responsible for the secretarial and compliance function of the company.

Source: Company, Nirmal Bang Institutional Equities Research

FINANCIALS (CONSOLIDATED)

Exhibit 75: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	6,327	8,412	4,945	10,880	14,601
% YoY Growth	*67.3*	*33.0*	*-41.2*	*120.0*	*34.2*
SSG %	*29.2*	*-0.3*	*-39.3*	*91.1*	*11.5*
COGS	2,301	3,015	1,756	3,702	4,822
Staff costs	969	1,365	1,176	1,752	2,336
Other expenses	2,268	2,992	1,862	3,681	4,875
Total expenses	5,537	7,372	4,795	9,135	12,033
EBITDA	790	1,040	150	1,745	2,568
% growth	*872.0*	*31.7*	*-85.6*	*1064.6*	*47.1*
EBITDA margin (%)	*12.5*	*12.4*	*3.0*	*16.0*	*17.6*
Other income	114	56	108	163	219
Interest costs	465	655	821	606	658
Depreciation	822	1,164	1,275	1,538	1,850
Profit before tax (before exceptional items)	-383	-722	-1,839	-236	279
Exceptional items	0	-43	-77	0	0
Tax	0	0	0	0	0
Adjusted PAT	-383	-722	-1,839	-236	279
Reported PAT	-383	-766	-1,916	-236	279
PAT margin (%)	*(5.9)*	*(8.5)*	*(36.4)*	*(2.1)*	*1.9*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 77: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Share capital	2,650	2,777	3,830	3,830	3,830
Reserves	-154	-23	2,905	2,669	2,949
Net worth	2,496	2,754	6,735	6,499	6,778
Lease liabilities	4,740	5,977	5,973	6,785	7,836
Other Long-Term Liabilities	8	8	8	13	19
Borrowings	1,000	1,985	0	0	0
Total liabilities	8,245	10,725	12,716	13,297	14,633
Gross block	4,608	6,521	6,871	8,418	10,570
Depreciation	975	1,533	2,146	2,993	4,038
Net block	3,633	4,987	4,724	5,425	6,532
Right-of-use assets	4,292	5,380	5,131	5,655	6,397
Capital work-in-progress	202	476	301	361	379
Investments	384	186	1,243	1,491	1,566
Other LTA	261	335	329	395	434
Inventories	69	94	100	198	202
Debtors	59	32	60	30	74
Cash	160	280	2,161	1,119	779
Other current assets	144	206	233	280	336
Total current assets	431	613	2,554	1,626	1,391
Creditors	609	816	1,140	1,125	1,435
Other current liabilities & provisions	351	436	426	530	631
Total current liabilities	960	1,252	1,566	1,656	2,066
Total assets	8,245	10,725	12,716	13,297	14,633

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 76: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
PAT	-388	-778	-1,743	-236	279
Depreciation	823	1,171	1,324	1,538	1,850
Other income	364	627	1,222	443	439
(Inc.)/dec. in working capital	66	108	335	-90	265
Cash flow from operations	865	1,127	1,139	1,655	2,833
Capital expenditure (-)	-1,654	-2,275	-350	-2,823	-3,716
Net cash after capex	-789	-1,148	789	-1,168	-883
Inc./(dec.) in investments and other assets	515	209	-1,017	-85	144
Cash from investing activities	-1,140	-2,066	-1,367	-2,908	-3,572
Dividends paid (-)	0	0	0	0	0
Inc./(dec.) in share	1,000	0	5,628	0	0
Inc./(dec.) in borrowings	0	2,007	-1,985	817	1,057
Others	-639	-948	-1,534	-606	-658
Cash from financial activities	361	1,059	2,109	211	399
Opening cash balance	74	160	280	2,161	1,119
Closing cash balance	160	280	2,161	1,119	779
Change in cash balance	86	120	1,881	-1,042	-340

Source: Company, Nirmal Bang Institutional Equities Research;

Exhibit 78: Key ratios

Y/E March	FY19	FY20	FY21	FY22E	FY23E
Per share (Rs)					
EPS	-1.4	-2.6	-4.8	-0.6	0.7
Book value	9.4	9.9	17.6	17.0	17.7
Valuation (x)					
EV/sales	6.6	5.4	11.4	5.3	3.9
EV/EBITDA	53.1	43.3	377.6	32.9	22.4
P/Sales	6.6	5.2	12.1	5.5	4.1
P/E	NA	NA	NA	NA	214.8
P/BV	16.6	15.8	8.9	9.2	8.9
Return ratios (%)					
RoCE*	2.6	-1.6	-17.7	5.6	14.1
RoE	-14.3	-27.5	-38.8	-3.6	4.2
RoIC*	-0.5	-1.4	-12.0	2.1	6.5
Profitability ratios (%)					
Gross margin	63.6	64.2	64.5	66.0	67.0
EBITDA margin	12.5	12.4	3.0	16.0	17.6
EBIT margin	-0.5	-1.5	-22.8	1.9	4.9
PAT margin	-5.9	-8.5	-36.4	-2.1	1.9
Liquidity ratios (%)					
Current ratio	0.4	0.5	1.6	1.0	0.7
Quick ratio	0.2	0.2	1.4	0.7	0.5
Solvency ratio (%)					
Debt to Equity ratio	0.2	0.6	-0.5	-0.4	-0.3
Turnover ratios					
Total asset turnover ratio (x)	0.8	0.8	0.4	0.8	1.0
Fixed asset turnover ratio (x)	1.7	1.7	1.0	2.0	2.2
Inventory days	10	10	20	15	15
Debtors days	2	2	3	2	1
Creditor days	83	86	203	112	97

Source: Company, Nirmal Bang Institutional Equities Research

Jubilant Foodworks

7 June 2021

Reuters: JUBI.BO; Bloomberg: JUBI IN IN

Company Update

Potential enablers in the making

Jubilant Foodworks' (JUBI) continuous improvement in revenue trajectory, expansion of store network, investment in technology & data science, innovations, brand equity, strong balance sheet and most importantly, its recent aggression in diversifying its cuisine/brand/format portfolio will serve as pillars for maintaining its dominant position in the QSR space. Scale-up of JUBI's international operations in Bangladesh & Sri Lanka, home-grown brand *Hong's Kitchen*, Biryani foray *Ekdum!* and the latest attainment of exclusive franchise rights for *Popeyes* provide further runway for growth over the medium to long term. Recent investments in Barbeque Nation Hospitality Ltd. (BHNL) and DP Eurasia N.V. (DP Eurasia) are not built into our numbers but are also expected to be value accretive to the company and the shareholders. The reason we stood by our Accumulate rating for JUBI was that its valuation had become rich for the core portfolio. However, over the last couple of years, the company has made efforts to diversify the business but it will take time for the newer brands/formats to contribute meaningfully to its overall operations. Changes to our model has led to upward revision of -2.8%/10.9% in our FY22E/FY23E EPS. At the current market price (CMP), the stock is trading at 81.7x/53.8x FY22E/FY23E EPS. To value the future potential of the industry in an optimum way, we are now shifting our valuation methodology for all QSR companies to DCF and hence get a revised target price (TP) of Rs3,110 (Rs2,930 earlier) implying a PE multiple of 52.7x FY23E EPS and EV/EBITDA multiple of 26.5x FY23E EBITDA. We thus maintain our Accumulate rating.

Strategy for core business intact; winning in international markets: Despite competition intensifying within the QSR chain segment in India over the past few years on account of new entrants and new concepts (viz. cloud kitchens, DIY boxes etc.), Domino's Pizza has managed to achieve the highest market share in terms of number of outlets (19% in FY20) as well as revenue (21% in FY20), driven by attractive value proposition, aggressive marketing and a strong home delivery network. The company sees potential of ~3,000 Domino's Pizza stores in India over the medium term, thereby indicating that there is headroom for ~1,700 more Domino's stores. Store addition FY21 onwards will include a mix of relatively compact stores (700-800 sq. ft.), optimized specially for takeaway & delivery. Expansion will take place through fortressing, strengthening presence in markets with low footprint and venturing into new markets. On the international front, a potential combined opportunity of 300-400 stores in markets of Sri Lanka and Bangladesh will serve as good levers for future growth. Efforts towards constant menu innovation/renovation (e.g., plant protein pizza where Domino's was first-to-market, stuffed garlic bread, pasta, etc.) have always aided the company in igniting new customer interest and maintaining a loyal customer base.

Expanding portfolio through new brands: While Dunkin' Donuts has gone through descaling of operations on account of lack of profitability and operating inefficiencies, its future lies in more compact & kiosk-like stores which offer beverages, donuts & simpler foods (the unit economics have been encouraging for the stores opened). Over the last few years, the company has done a lot of work on *Hong's Kitchen* in terms of removing complexities (by standardizing food, simplify operations & automatizing kitchen operations), and has also refined its hiring & training playbook. Both these strategies have resulted in a set of guidelines and SOPs to scale the brand further. JUBI also announced the launch of its Biryani brand *Ekdum!* in Dec'20, marking its entry into the Indian cuisine (most consumed cuisine in India with 27% share of the organized food services market) with extensive menu offerings and competitive pricing. This format leverages the lack of presence by any national player in a largely fragmented category and can help grow the organized category better by offering a credible/hygienic/safe QSR brand. Although JUBI might see lower gross margins in both *Hong's Kitchen* and *Ekdum!* Biryani since food cost is relatively higher in these cuisines, operating margins would rise up to Domino's levels once the requisite scale is achieved. Further, being mindful of the unpleasant experience from the Dunkin' format, JUBI is likely to be more watchful while scaling up *Hong's Kitchen* and *Ekdum!* i.e., by prioritizing achievement of right store economics before expansion of footprint. In Mar'21, JUBI also acquired exclusive franchise rights of the US origin & globally present *Popeyes* brand for India and its neighbouring countries of Bangladesh, Nepal and Bhutan, which will allow it to tap the fast-growing category of fried chicken.

Recent investments expected to add value in the future: JUBI has made two investments in the last few months: (i) Acquisition of 10.76% stake in BHNL for a consideration of ~Rs960mn; BHNL is a well-run and premium dine-in franchise. Although a strategic player in the industry, JUBI is more of a financial investor in BHNL and will not participate in running this business in any manner. (ii) Acquisition of 100% stake in Fides Food Systems (through WOS Jubilant Foodworks Netherlands), which holds 32.81% equity shares in DP Eurasia (5th largest master franchisee of Domino's globally), operating in Turkey, Russia, Azerbaijan and Georgia for a consideration of ~Rs2.5bn (GBP24.8mn).

Margin drivers: JUBI has seen its highest gross margins during 9MFY21 on the back of lower discounting, favourable input costs, reduction in wastage and introduction of delivery charges. We believe that operating leverage and efficiency gains will help drive EBITDA margins over the medium term. Over the medium to long term, JUBI may also see cost synergies from its new brands/formats due to even higher bargaining power.

Digital & Technology: JUBI's investments on building a strong digital platform has worked very well, which is evident from the increase in revenue contribution from own assets (new consumers are coming primarily through the app rather than dine-in/aggregator platforms) and increase in app downloads over the past few years. Recently, the company also launched Hindi version of the Domino's app and is likely to add further language support to the app, which will make the experience more personalized and drive further growth from its own assets. Going ahead, JUBI will continue to focus on improving the ordering process, driving new customer traffic to assets, improving customer conversion in comparison to aggregator apps and improving digital interfaces for store employees & delivery staff for seamless order delivery. Further, loyalty program for Domino's Pizza is in the pilot stage in a couple of markets.

ACCUMULATE

Sector: Quick Service Restaurant

CMP: Rs3,175

Target Price: Rs3,110

Downside: 2%

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Key Data	
Current Shares O/S (mn)	132.0
Mkt Cap (Rsbn/US$bn)	369.1/5.1
52 Wk H / L (Rs)	3,240/1,596
Daily Vol. (3M NSE Avg.)	608,603

Price Performance (%)

	1 M	6 M	1 Yr
Jubilant FoodWorks	2.1	9.8	65.9
Nifty Index	5.7	17.3	54.5

Source: Bloomberg

FY20 Annual Report

3QFY21 Results & Investor presentation

Exhibit 1: Financial summary

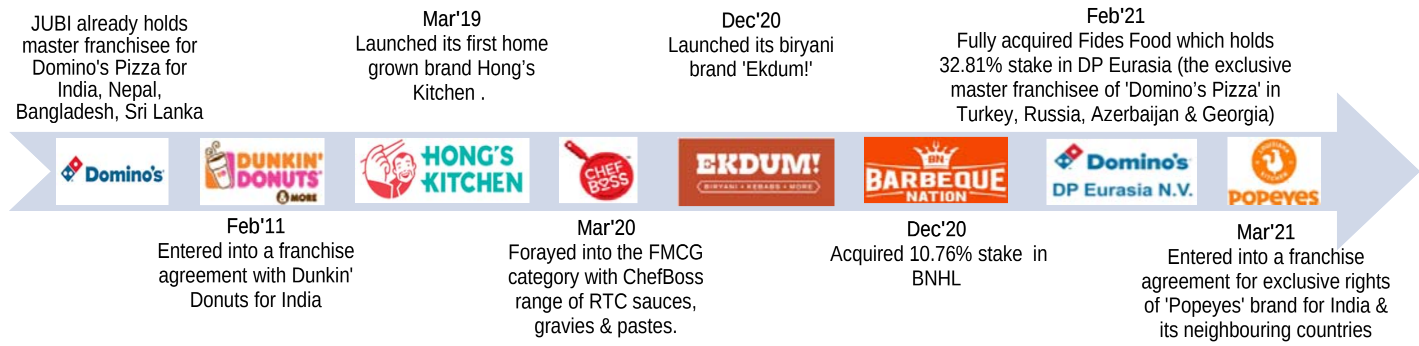
Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net revenues	35,631	39,273	33,405	46,016	55,529
YoY growth (%)	*18.0*	*10.2*	*-14.9*	*37.8*	*20.7*
SSSG (%)	16.8	3.0	-16.0	22.0	9.0
EBITDA	5,998	8,756	7,952	11,719	15,166
EBITDA margin (%)	*16.8*	*22.3*	*23.8*	*25.5*	*27.3*
PAT	3,198	3,049	2,352	5,125	7,788
EPS (Rs)	24.2	23.1	17.8	38.8	59.0
YoY growth (%)	*63.0*	*-4.7*	*-22.9*	*117.9*	*52.0*
*RoCE (%)**	*43.9*	*49.8*	*40.1*	*59.1*	*65.5*
RoE (%)	*25.4*	*27.2*	*18.5*	*32.3*	*37.8*
*RoIC (%)**	*77.7*	*42.2*	*21.8*	*43.5*	*69.9*
P/E (x)	131.0	137.4	178.1	81.7	53.8
P/BV (x)	33.3	37.3	33.0	26.4	20.3
EV/EBITDA (x)	68.7	47.0	51.5	34.7	26.4

Source: Company, Nirmal Bang Institutional Equities Research

** ROCE & ROIC are on pre-tax basis*

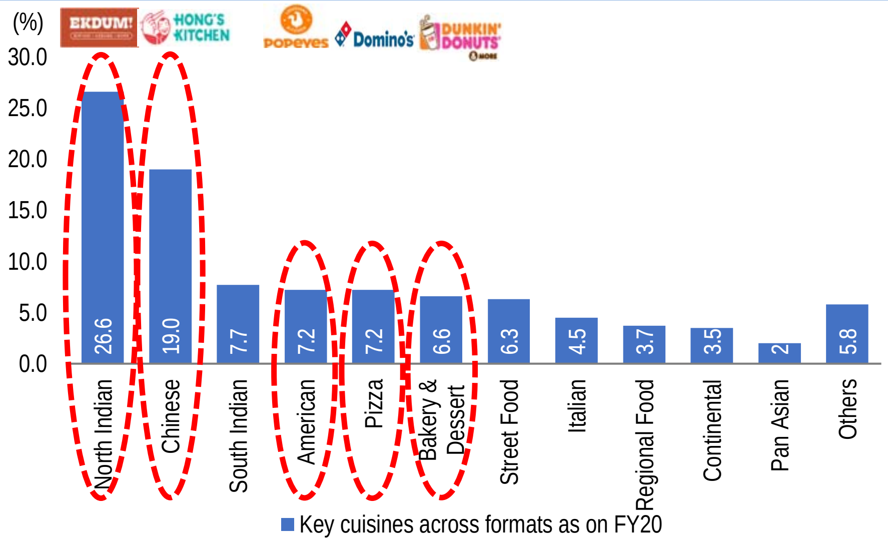
Expanding beyond domestic core…

Exhibit 2: JUBI recent aggression to diversify its portfolio shows the company's seriousness to maintain its leadership position in the QSR space



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: JUBI is now present across key cuisine formats of the Indian market



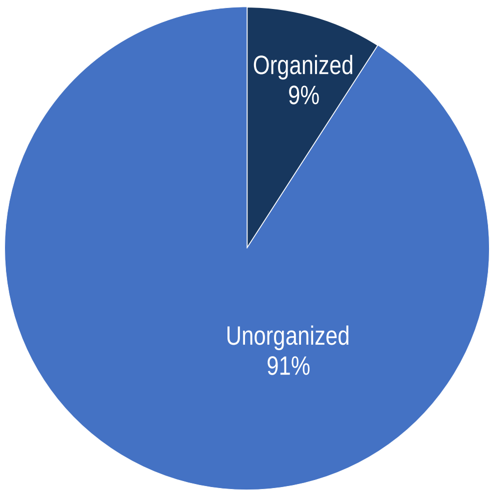
Source: BNHL RHP, Nirmal Bang Institutional Equities Research

Entry into the highest consumed cuisine: As on FY20, North Indian cuisine's size stood at Rs426bn, commanding the highest share of 26.6% in the Indian Organized Food Services market, followed by the Chinese format, which was valued at Rs304bn with a market share of 19%. With its new foray into the biryani category (the highest consumed dish as per food aggregators), JUBI has become part of India's highest consumed cuisine. Although still at a nascent stage, the company's entry will play a role in formalization of a highly unorganized space. Further, it should be relatively easier to scale up the brand considering that it has an extensive menu catering to the hyperlocal nature of the biryani category. The company is even indirectly exposed to the North Indian cuisine through its 10.76% stake in BNHL.

Exhibit 4: JUBI has opened three Ekdum! restaurants in Gurgaon offering delivery, takeaway and dine-in with an extensive menu comprising of ~20 local variants at competitive prices starting at Rs99 onwards

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: While the absolute amount of the biryani market size varies, unorganized forms +90% of it



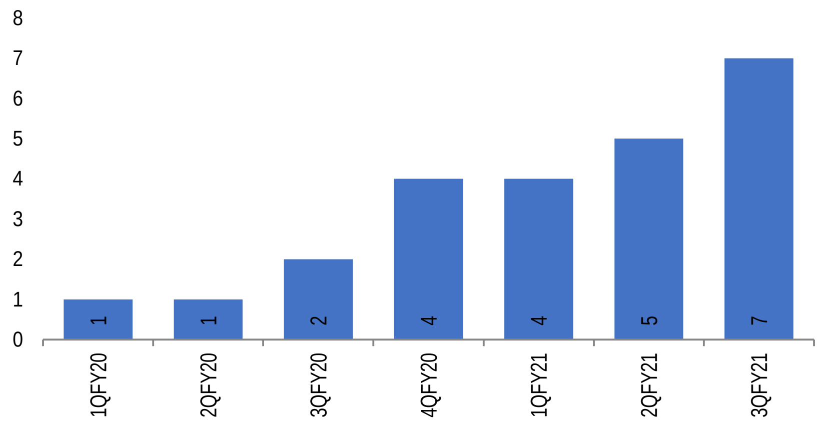
Source: Industry, Media, Nirmal Bang Institutional Equities Research

Exhibit 6: Key stats of biryani chain start-ups in India; Biryani is the highest consumed dish as per aggregators

Source: Media, Nirmal Bang Institutional Equities Research

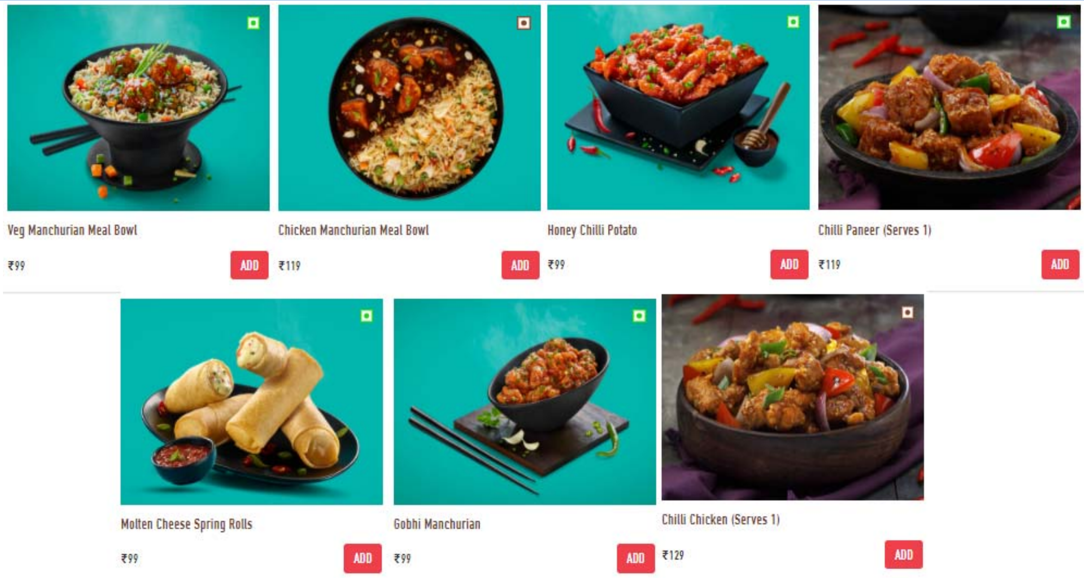
JUBI to accelerate pace in its Chinese foray: JUBI, through its first home grown brand Hong's Kitchen (launched in Mar'19), has tried to address the mid-market segment between the unorganized food joints and premium fine-dine restaurants serving the Chinese cuisine. While the management expected to close FY21 with 15 Hong's Kitchen stores at the start of the year, it managed to open only 7 stores as at the end of 3QFY21. However, the company expects accelerated store expansion for this brand going ahead.

Exhibit 7: Number of *Hong's Kitchen* stores quarterly trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Focus on value offerings continues even for Hong's Kitchen wherein its *Incredibles* range has been receiving an encouraging response



Source: Company, Nirmal Bang Institutional Equities Research

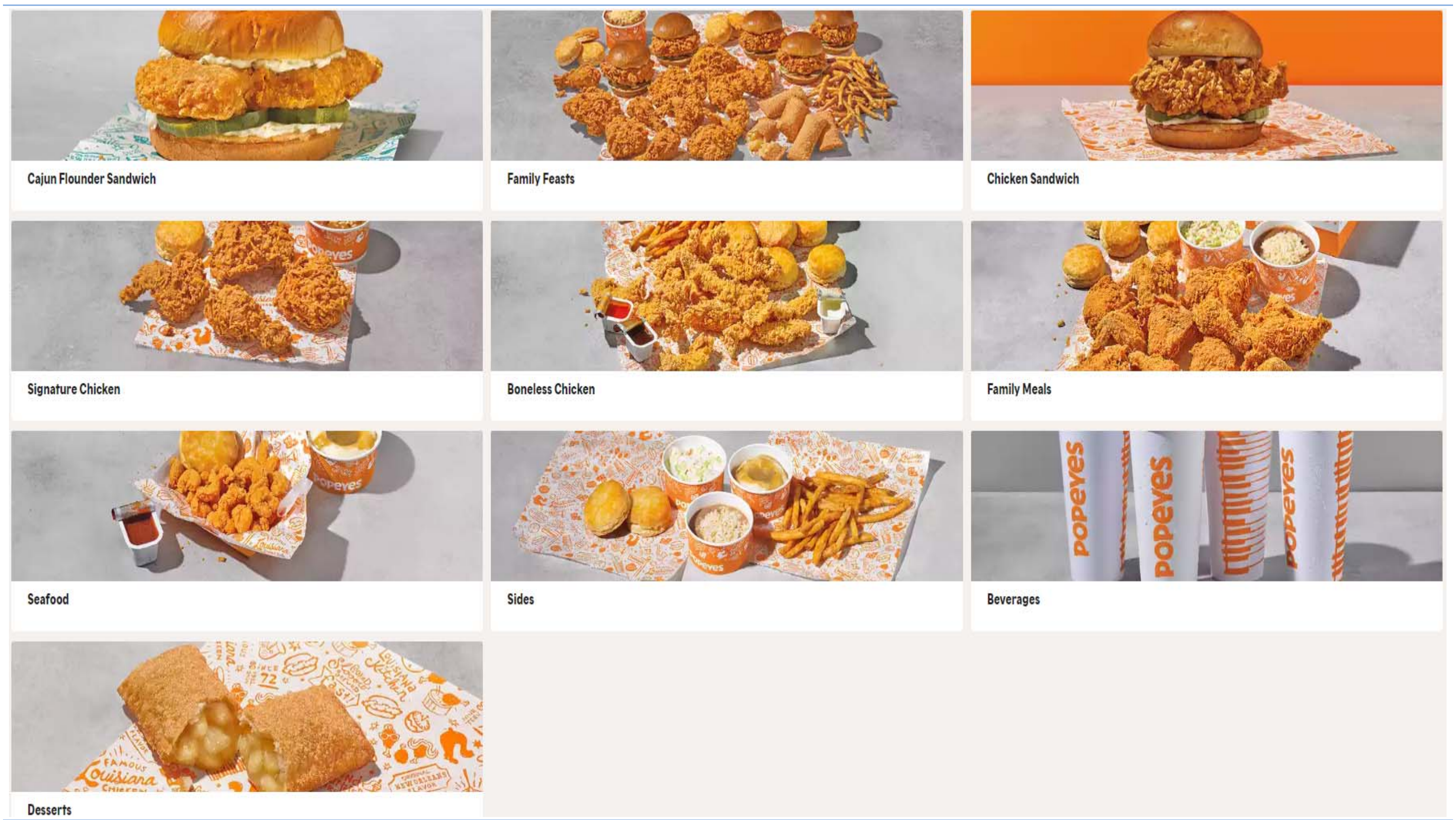
Entry into the fried chicken QSR space: JUBI has entered into an exclusive MFDA with PLK APAC Pte. Ltd., a subsidiary of Restaurant Brands International Inc., to operate and sub-license the *Popeyes* brand in India, Bangladesh, Nepal and Bhutan. This gives JUBI an entry into the Rs28bn chicken QSR segment. Founded in 1972, the brand was acquired by Restaurant Brand International in 2017. It is the world's second-largest quick service chicken restaurant brand in terms of number of outlets (first being KFC). The brand is not only known for its chicken sandwich taste but also because it offers it at the lowest price band in the US among peers. Some of its key offerings are chicken sandwich, spicy chicken, chicken tenders, fried shrimp and other regional items. With this menu, *Popeyes* can be considered a direct competitor to KFC, which is a big player in chicken space in India. Burger King India and WDL also have chicken products but they serve as extensions in their menu rather than the core menu. Further, none of the QSR players market their chicken products as chicken sandwich currently.

Exhibit 9: Popeyes is a distant second in terms of presence and scale, but growth and per store revenue metrics are ahead of KFC

Parameters	2017	2018	2019	2020
System-wide sales (US$mn)				
Popeyes	3,512	3,732	4,397	5,143
KFC	24,515	26,239	27,900	26,289
System-wide sales growth (%)				
Popeyes	5.1	8.9	18.5	17.7
KFC	6.0	6.0	9.0	-5.0
System Restaurant count				
Popeyes	2,892	3,102	3,316	3,451
KFC	21,487	22,621	24,104	25,000
Revenue/store (US$mn)				
Popeyes	1.2	1.2	1.3	1.5
KFC	1.1	1.2	1.2	1.1
Comparable sales growth (%)				
Popeyes	-1.5	1.6	12.1	13.8
KFC	3.0	2.0	4.0	-9.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Popeyes US menu snapshot



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Brand history since inception

Source: BK Brasil, Nirmal Bang Institutional Equities Research

Exhibit 12: Global footprint will now be extended to India

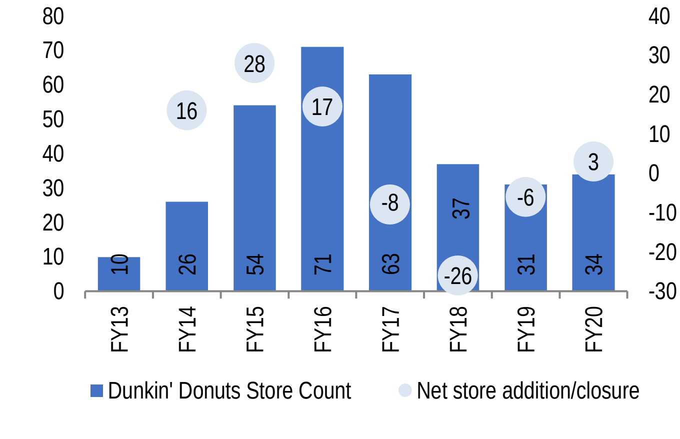
Source: BK Brasil, Nirmal Bang Institutional Equities Research

Exhibit 13: Similar to other QSR brands that enter India, menu localisation can also be expected in case of *Popeyes*

Source: BK Brasil, Nirmal Bang Institutional Equities Research

Expanding Dunkin' Donuts through smaller formats: While Dunkin' Donuts has gone through descaling of operations on account of lack of profitability and operating inefficiencies, its future lies in more compact & kiosk-like stores which offer beverages, donuts & simpler foods (the unit economics have been encouraging whenever the company has opened such stores).

Exhibit 14: No. of Dunkin Donuts stores over the years



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: JUBI is trying out small/kiosk format stores

Source: Company, Nirmal Bang Institutional Equities Research

Recent Investments

JUBI has made two investments in the recent months.

(i) Barbeque Nation Hospitality Ltd. (BNHL): JUBI acquired 10.76% stake in BHNL for a consideration of ~Rs960mn; BNHL is a well-run and premium dine-in franchise. Although a strategic player in the industry, JUBI is more of a financial investor in BHNL and will not participate in running this business in any manner.

Exhibit 16: Financial summary – BNHL

Y/E March (Rsmn)	FY17	FY18	FY19	FY20	FY21
Net revenues	4,965	5,863	7,390	8,470	5,071
YoY growth (%)	-	18.1	26.0	14.6	-40.1
SSG (%)	-	7.2	5.6	-2.8	-44.3
EBITDA	1,197	1,363	1,459	1,642	924
EBITDA margin (%)	24.1	23.2	19.7	19.4	-56.3
Adj. PAT	46	-84	-281	-493	-940
EPS (Rs)	3.2	2.5	-3.9	-17.6	-27.7
RoCE (%)	-	*8.4*	*-75.0*	*17.3*	*5.9*
RoE (%)	-	*3.3*	*-7.9*	*-71.7*	*-72.6*

Source: Company, Nirmal Bang Institutional Equities Research

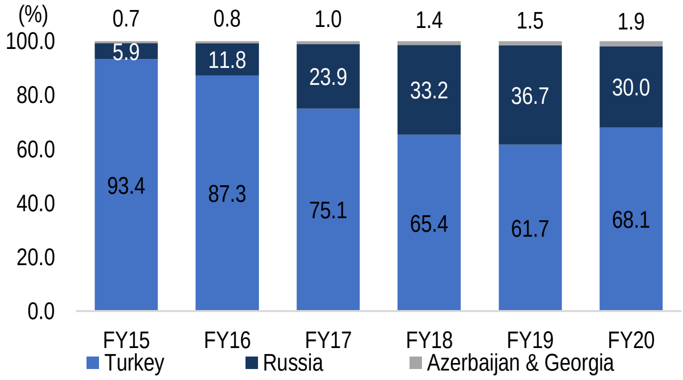
(ii) DP Eurasia: In Feb'21, JUBI incorporated a wholly-owned subsidiary company called Jubilant Foodworks Netherlands B.V. (Jubilant Foodworks Netherlands). Subsequently, Jubilant Foodworks Netherlands acquired 100% stake in Fides Food Systems, which holds 32.81% equity shares in DP Eurasia (5th largest master franchisee of Domino's globally), operating in Turkey, Russia, Azerbaijan and Georgia for a consideration of ~Rs2.5bn (GBP24.8mn).

Exhibit 17: Financial summary - DP Eurasia (Consolidated)

Y/E Dec (TRYmn)	FY16	FY17	FY18	FY19	FY20
System sales	647	860	1,125	1,370	1,570
Turkey	566	646	736	846	1,069
Russia	76	205	374	503	472
Azerbaijan & Georgia	6	9	16	21	29
Net revenues	451	627	857	980	1,019
YoY growth (%)	*41.3*	*38.9*	*36.8*	*14.4*	*4.0*
Adjusted EBITDA	75	91	111	125	70
Turkey (incl. Azerbaijani & Georgian businesses)	72	81	97	109	119
Russia	3	11	24	25	-37
Costs relating to Dutch corporate expenses	0	1	10	9	12
EBITDA margin (%)	11.6	10.6	9.8	9.1	4.4
Adjusted PAT	35.8	16.9	-7.1	2.9	-87.1

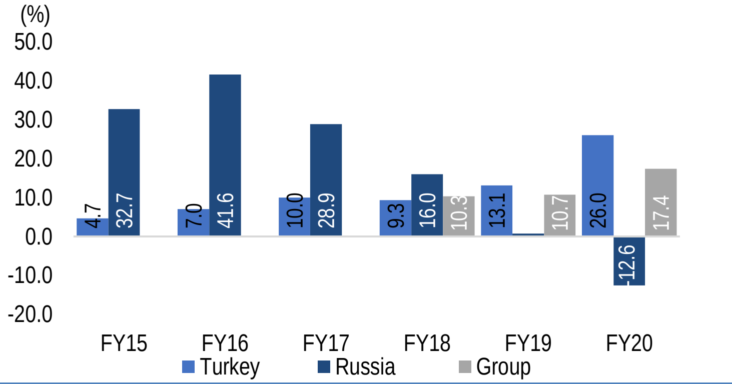
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Mix of Russian business impacted due to pandemic led lockdown



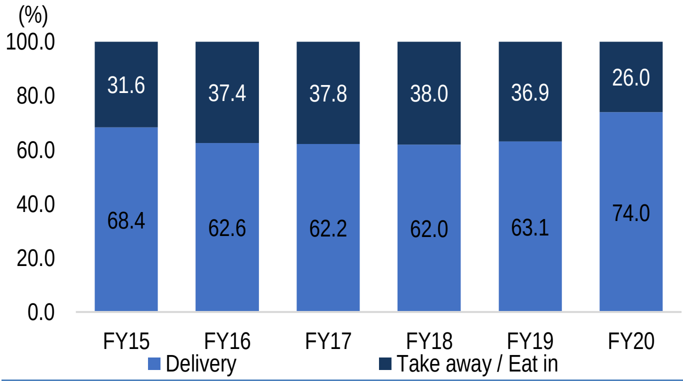
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: System sales like-for-like growth favourable for Turkey due to temporary reduction in VAT rate



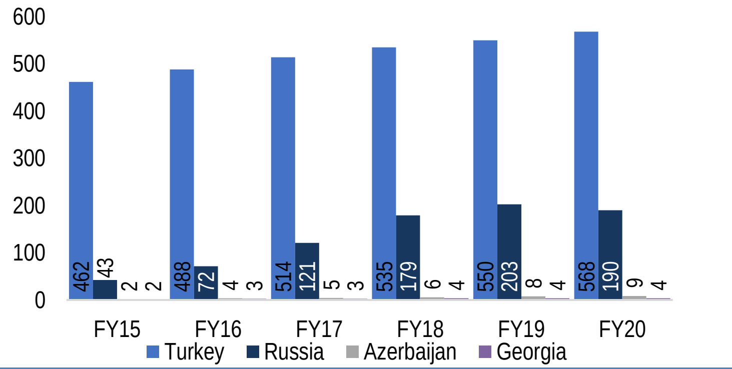
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Mix skewed towards delivery due to onset of pandemic



Source: Company, Nirmal Bang Institutional Equities Research

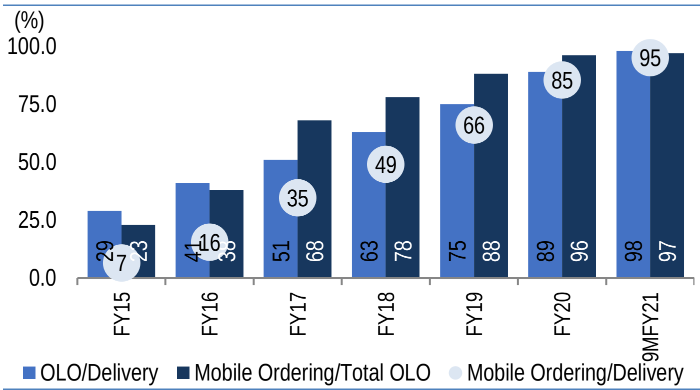
Exhibit 21: Store count as on end of each financial year



Source: Company, Nirmal Bang Institutional Equities Research

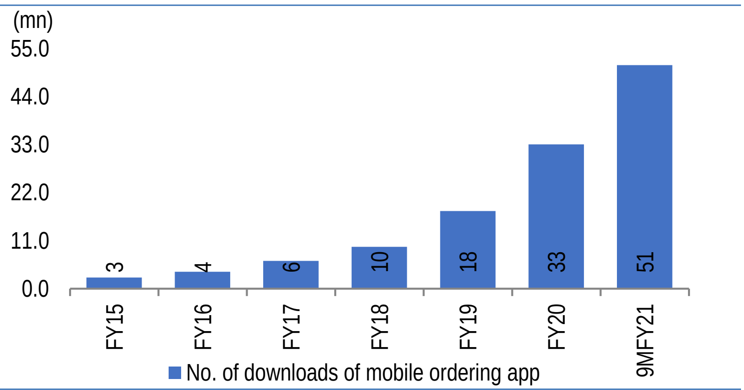
Digital continues to remain an integral part of the company

Exhibit 22: Revenue contribution from own assets has increased substantially over years with…



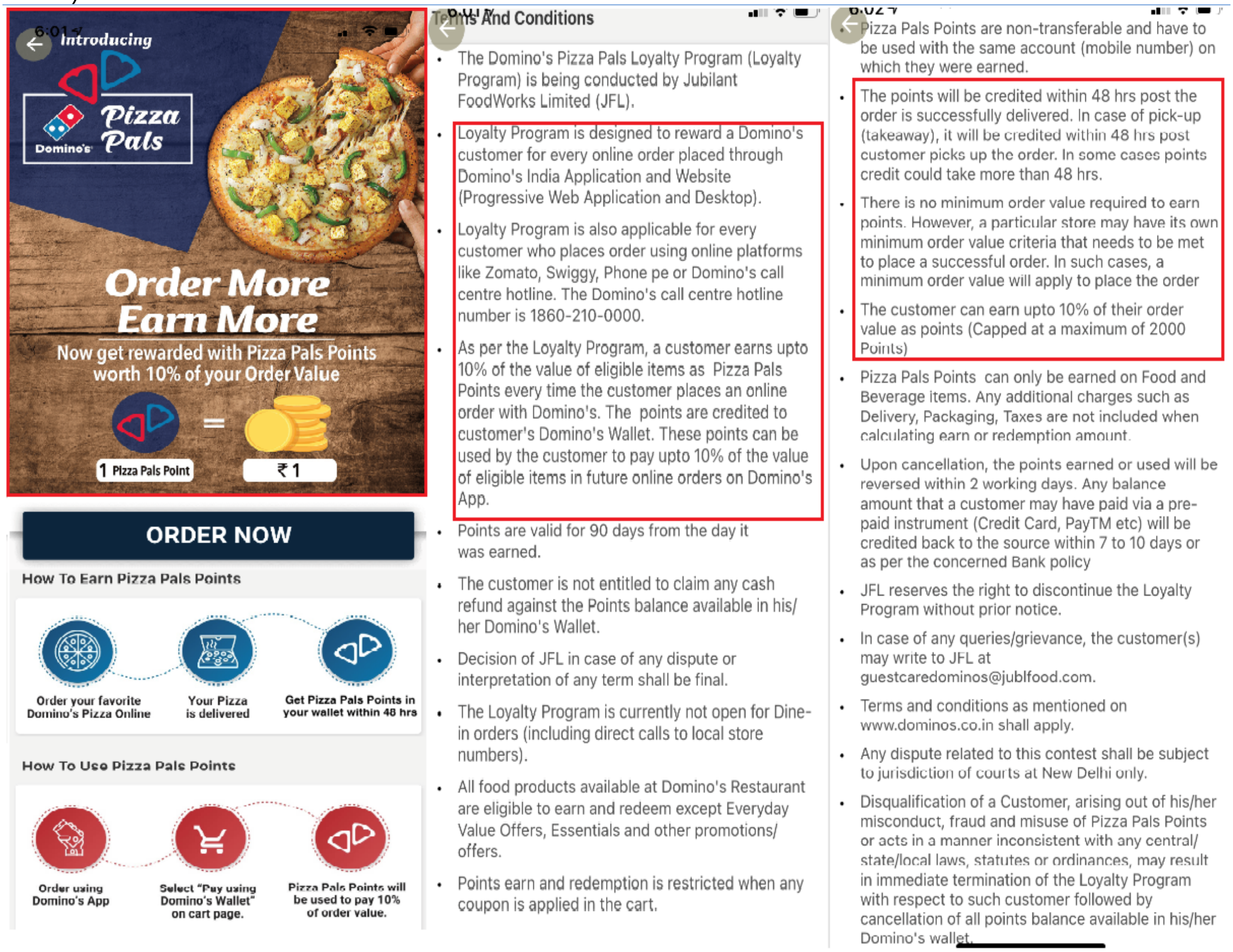
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: …exponential increase in number of mobile app downloads



Source: Company, Nirmal Bang Institutional Equities Research

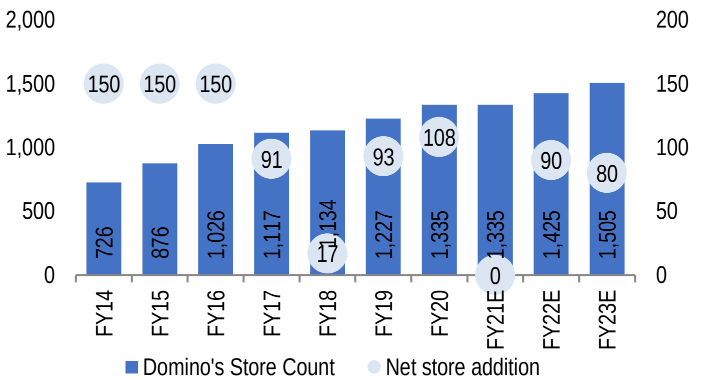
Exhibit 24: A loyalty program for Domino's Pizza is in the pilot stage in a couple of markets (below snapshot is for the Jaipur market)



Source: Company, Nirmal Bang Institutional Equities Research

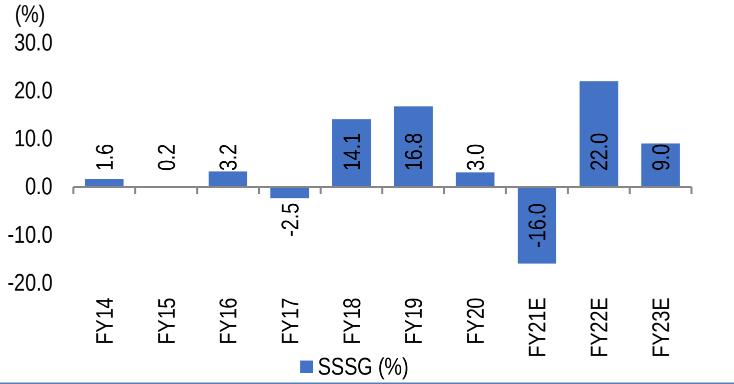
FINANCIAL STORY IN CHARTS

Exhibit 25: Domino's likely to see healthy store addition FY22E onwards



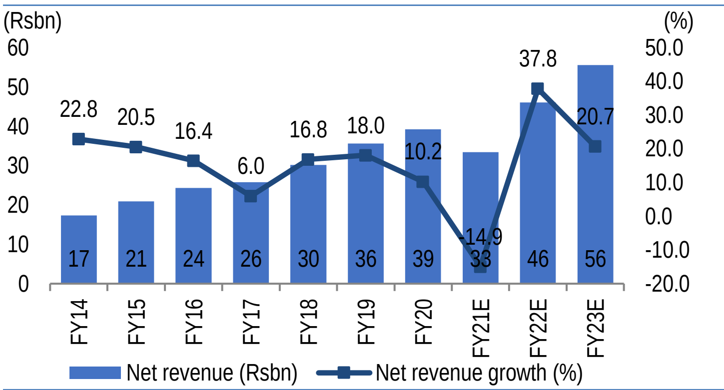
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: SSSG will see steep improvement in FY22 on account of a negative base



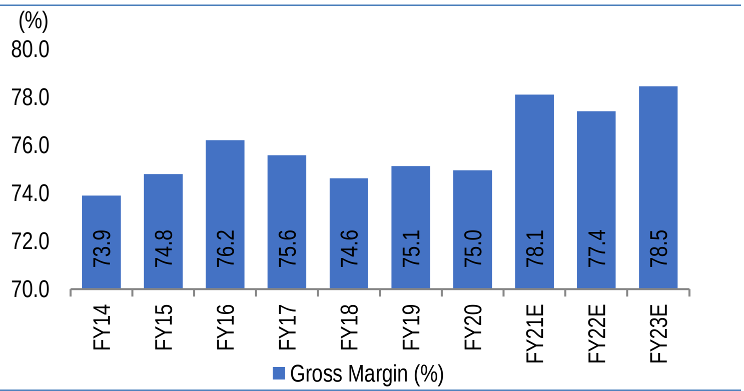
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 27: We build consolidated net revenue growth of 12.2% over FY20-FY23E



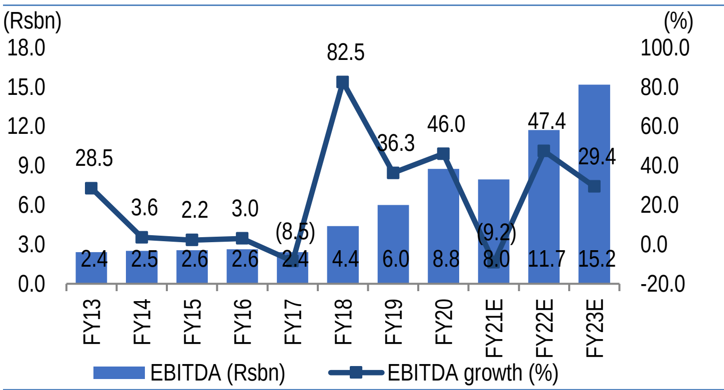
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 28: Gross margin likely to expand by ~350bps YoY over FY20-23E (already achieved 78.4% in 9MFY21)



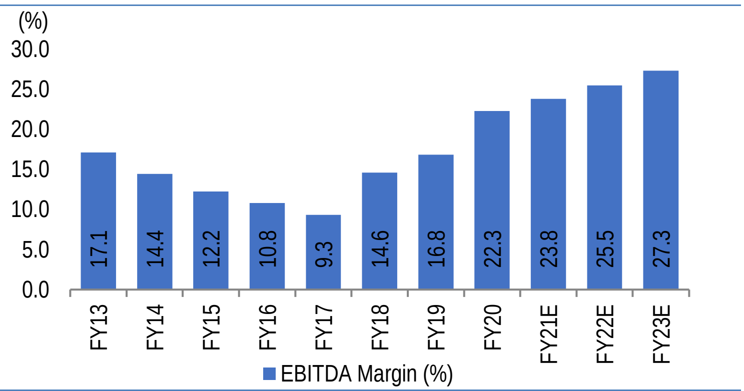
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 29: We build EBITDA growth of 20.1% over FY20-FY23E



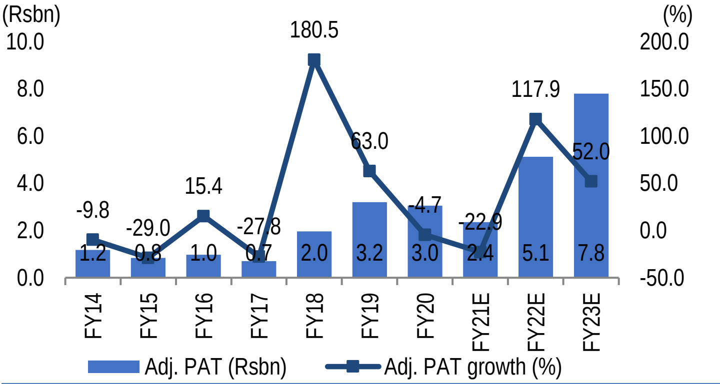
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 30: EBITDA margin likely to expand by ~500bps YoY over FY20-23E (achieved 23.1% in 9MFY21)



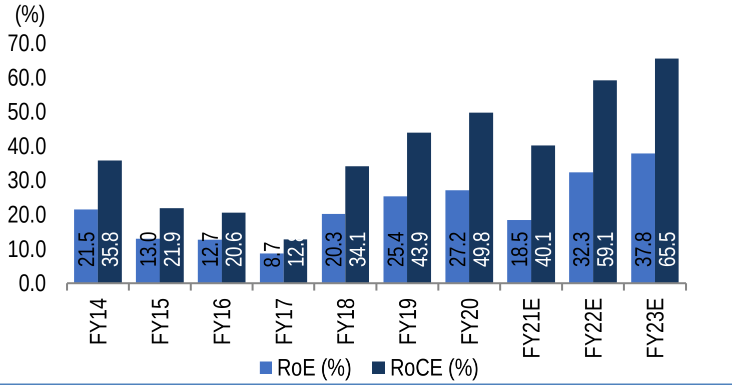
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 31: We build adj. PAT growth of 36.7% over FY20-FY23E



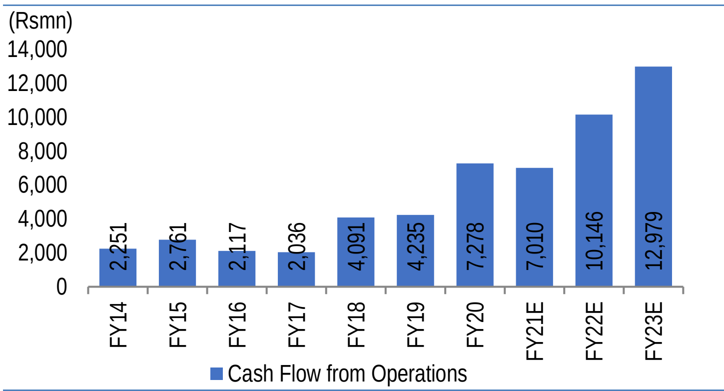
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 32: RoE/RoCE to improve by ~1060bps/~1570bps respectively



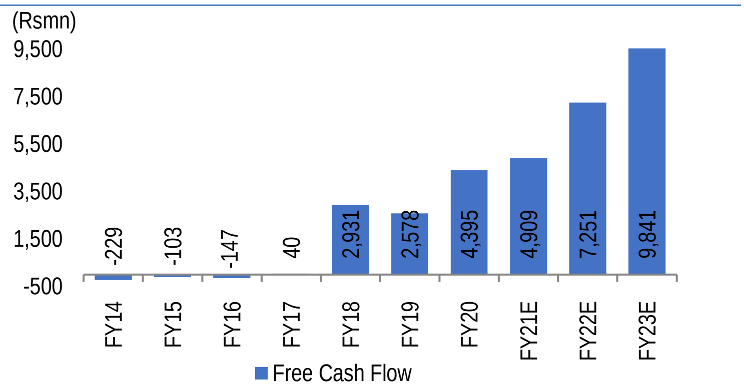
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 33: Cash flow from operations likely to grow 21.3% over FY20-FY23E aiding…



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 34: …30.8% growth in free cash flow



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 35: Change in our estimates

Y/E March	Earlier estimates			New estimates			*Change (%)*		
(Rsmn)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	*FY21E*	*FY22E*	*FY23E*
Net sales	33,405	46,764	53,555	33,405	46,016	55,529	*0.0*	*-1.6*	*3.7*
EBITDA	7,952	11,908	14,126	7,952	11,719	15,166	*0.0*	*-1.6*	*7.4*
EBITDA margin (%)	*23.8*	*25.5*	*26.4*	*23.8*	*25.5*	*27.3*	*0.0*	*0.0*	*0.9*
Adj. PAT	2,352	5,272	7,025	2,352	5,125	7,788	*0.0*	*-2.8*	*10.9*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 36: DCF valuation (includes IND-AS 116 impact)

Particulars (Rsmn)	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26	Mar-27	Mar-28	Mar-29	Mar-30	Mar-31	Mar-32
Profit/(loss) before Tax	3,152	6,876	10,447	14,336	18,434	22,512	26,945	31,677	36,887	42,245	47,979	53,631
Depreciation	3,969	4,506	4,830	5,208	5,780	6,526	7,326	8,201	9,161	10,211	11,363	12,625
Net interest	1,652	1,570	1,491	1,446	1,492	1,538	1,586	1,635	1,685	1,735	1,787	1,839
Others	-821	-1,232	-1,602	-2,058	-2,703	-3,399	-4,217	-5,137	-6,149	-7,234	-8,382	-9,156
Direct Taxes Paid	-793	-1,731	-2,630	-3,608	-4,640	-5,666	-6,782	-7,973	-9,284	-10,633	-12,076	-13,499
Change in WC	-148	157	442	439	399	594	561	524	524	519	560	621
Cash flow from Operations	7,010	10,146	12,979	15,763	18,761	22,104	25,419	28,927	32,823	36,843	41,231	46,061
Less: Capex	-2,102	-2,894	-3,138	-3,925	-6,672	-7,109	-7,708	-8,499	-9,303	-10,187	-11,229	-12,237
FCF	4,909	7,251	9,841	11,838	12,089	14,996	17,710	20,428	23,520	26,655	30,002	33,823
Discounting Period		0	1	2	3	4	5	6	7	8	9	10
Discounting Factor		1.00	0.90	0.82	0.74	0.67	0.60	0.55	0.49	0.45	0.40	0.37
PV of Free cash flow		7,251	8,900	9,683	8,942	10,031	10,714	11,176	11,638	11,928	12,142	12,379

DCF Valuation	Rsmn
PV of explicit cash flows	1,14,741
PV of terminal cash flows	2,86,877
Total Enterprise value	4,01,618
Net debt / (cash)	-9,126
Equity value	4,10,743
No. of o/s shares	132
Value per share (Rs)	3,110
CMP (Rs)	3,175
Upside (%)	-2.0

Cost of equity (%)	10.6
Cost of debt (%)	4.4
WACC (%)	10.6
Terminal growth rate (%)	6.0

Implied multiple (FY23E)	x
EV/EBITDA	26.5
EV/Sales	7.2
P/E	52.7

FV sensitivity to change in WACC and terminal growth rate

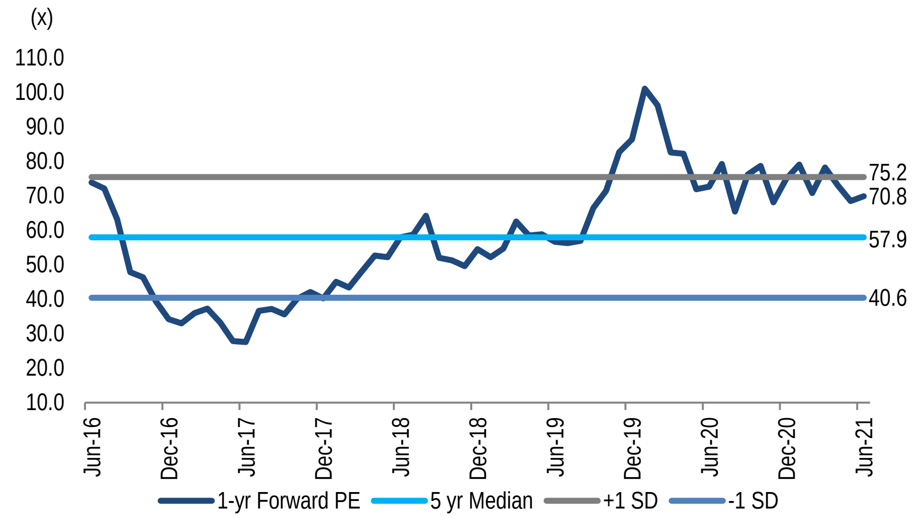
%		Terminal Growth Rate						
		5.7	5.8	5.9	6.0	6.1	6.2	6.3
WACC	10.0	3,421	3,480	3,542	3,607	3,675	3,747	3,823
	10.2	3,260	3,313	3,368	3,426	3,487	3,550	3,617
	10.4	3,113	3,161	3,210	3,262	3,316	3,373	3,432
	10.6	2,979	3,021	3,066	3,112	3,161	3,212	3,265
	10.8	2,855	2,893	2,934	2,976	3,019	3,065	3,113
	11.0	2,740	2,775	2,812	2,850	2,889	2,931	2,974
	11.2	2,634	2,666	2,699	2,734	2,770	2,807	2,846

Upside/downside

%		Terminal Growth Rate						
		5.7	5.8	5.9	6.0	6.1	6.2	6.3
WACC	10.0	7.8	9.6	11.6	13.6	15.8	18.0	20.4
	10.2	2.7	4.4	6.1	7.9	9.8	11.8	14.0
	10.4	-1.9	-0.4	1.1	2.8	4.5	6.3	8.1
	10.6	-6.2	-4.8	-3.4	-2.0	-0.4	1.2	2.9
	10.8	-10.1	-8.9	-7.6	-6.3	-4.9	-3.4	-1.9
	11.0	-13.7	-12.6	-11.4	-10.2	-9.0	-7.7	-6.3
	11.2	-17.0	-16.0	-15.0	-13.9	-12.7	-11.6	-10.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 37: 1-yr forward P/E



Source: Company, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 38: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	35,631	39,273	33,405	46,016	55,529
% Growth	*18.0*	*10.2*	*-14.9*	*37.8*	*20.7*
COGS	8,861	9,835	7,316	10,393	11,966
Staff costs	6,818	7,964	7,539	9,187	10,568
Other expenses	13,955	12,718	10,598	14,717	17,829
Total expenses	29,634	30,517	25,453	34,297	40,363
EBITDA	5,998	8,756	7,952	11,719	15,166
% growth	*36.3*	*46.0*	*-9.2*	*47.4*	*29.4*
EBITDA margin (%)	*16.8*	*22.3*	*23.8*	*25.5*	*27.3*
Other income	474	696	821	1,232	1,602
Interest costs	0	1,652	1,652	1,570	1,491
Depreciation	1,575	3,523	3,969	4,506	4,830
PBT (before excp. items)	4,897	4,277	3,152	6,876	10,447
Exceptional items	0	-249	0	0	0
Tax	1,717	1,240	793	1,731	2,630
Minority interest	-18	-12	7	20	30
Reported PAT	3,198	2,800	2,352	5,125	7,788
Adjusted PAT	3,198	3,049	2,352	5,125	7,788
PAT margin (%)	*8.9*	*7.6*	*6.9*	*10.8*	*13.6*
% Growth	*63.0*	*-4.7*	*-22.9*	*117.9*	*52.0*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 40: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Share capital	1,320	1,320	1,320	1,320	1,320
Reserves	11,277	9,901	11,395	14,530	19,272
Net worth	12,596	11,220	12,714	15,850	20,592
Minority interest	26	107	114	144	184
Financial liability	0	15,247	14,180	13,187	12,264
Total debt	0	0	0	0	0
Total liabilities	12,622	26,574	27,008	29,181	33,040
Gross block	13,107	37,512	39,552	42,376	45,434
Depreciation	5,007	15,619	19,588	24,094	28,924
Net block	8,100	21,892	19,964	18,282	16,510
Capital work-in-progress	152	407	468	538	618
Lease deposits	2,056	1,719	1,805	2,023	2,244
Investments	1808	512	626	1056	2100
Deferred tax liability	-500	751	751	751	751
Inventories	771	947	937	999	1,230
Debtors	274	166	165	262	289
Cash	4,943	6,559	8,512	11,806	16,534
Others	454	745	888	1,086	1,253
Total current assets	6,441	8,417	10,502	14,153	19,306
Creditors	4,209	4,470	4,469	4,642	5,193
Other current liabilities & provisions	1,227	2,654	2,639	2,980	3,296
Total current liabilities	5,435	7,124	7,108	7,622	8,489
Net current assets	1,006	1,293	3,394	6,531	10,817
Total assets	12,622	26,574	27,008	29,181	33,040

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 39: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
PAT	3,117	2,626	2,359	5,145	7,818
Depreciation	1,575	3,523	3,969	4,506	4,830
Other income	-165	13	-821	-1,232	-1,602
Interest paid	-256	1,198	1,652	1,570	1,491
(Inc.)/dec. in working capital	-36	-82	-148	157	442
Cash flow from operations	4,235	7,278	7,010	10,146	12,979
Capital expenditure (-)	-1,657	-2,883	-2,102	-2,894	-3,138
Net cash after capex	2,578	4,395	4,909	7,251	9,841
Inc./(dec.) in investments and other assets	1,241	1,836	-446	-407	-586
Cash from investing activities	-416	-1,047	-2,548	-3,301	-3,724
Dividends paid (-)	-397	-1,747	-858	-1,980	-3,035
Inc./(dec.) in total borrowings	0	-1,323	0	0	0
Others	230	-1,544	-1,652	-1,570	-1,491
Cash from financial activities	-167	-4,614	-2,510	-3,549	-4,527
Opening cash balance	1,290	4,943	6,559	8,512	11,806
Closing cash balance	4,943	6,559	8,512	11,806	16,534
Change in cash balance	3,652	1,616	1,953	3,295	4,728

Source: Company, Nirmal Bang Institutional Equities Research;

Exhibit 41: Key ratios

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
EPS	24.2	23.1	17.8	38.8	59.0
Book value	95.4	85.0	96.3	120.1	156.0
DPS	5.0	6.0	6.5	15.0	23.0
Valuation (x)					
EV/sales	11.6	10.5	12.3	8.8	7.2
EV/EBITDA	68.7	47.0	51.5	34.7	26.4
P/E	131.0	137.4	178.1	81.7	53.8
P/BV	33.3	37.3	33.0	26.4	20.3
Return ratios (%)					
RoCE*	43.9	49.8	40.1	59.1	65.5
RoE	25.4	27.2	18.5	32.3	37.8
RoIC*	77.7	42.2	21.8	43.5	69.9
Profitability ratios (%)					
Gross margin	75.1	75.0	78.1	77.4	78.5
EBITDA margin	16.8	22.3	23.8	25.5	27.3
EBIT margin	12.4	13.3	11.9	15.7	18.6
PAT margin	8.9	7.6	6.9	10.8	13.6
Liquidity ratios (%)					
Current ratio	1.2	1.2	1.5	1.9	2.3
Quick ratio	1.0	1.0	1.3	1.7	2.1
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Turnover ratios					
Total asset turnover ratio (x)	2.8	1.5	1.2	1.6	1.7
Fixed asset turnover ratio (x)	4.4	1.8	1.7	2.5	3.4
Debtor days	2	2	2	2	2
Inventory days	29	32	47	34	34
Creditor days	167	161	223	160	150

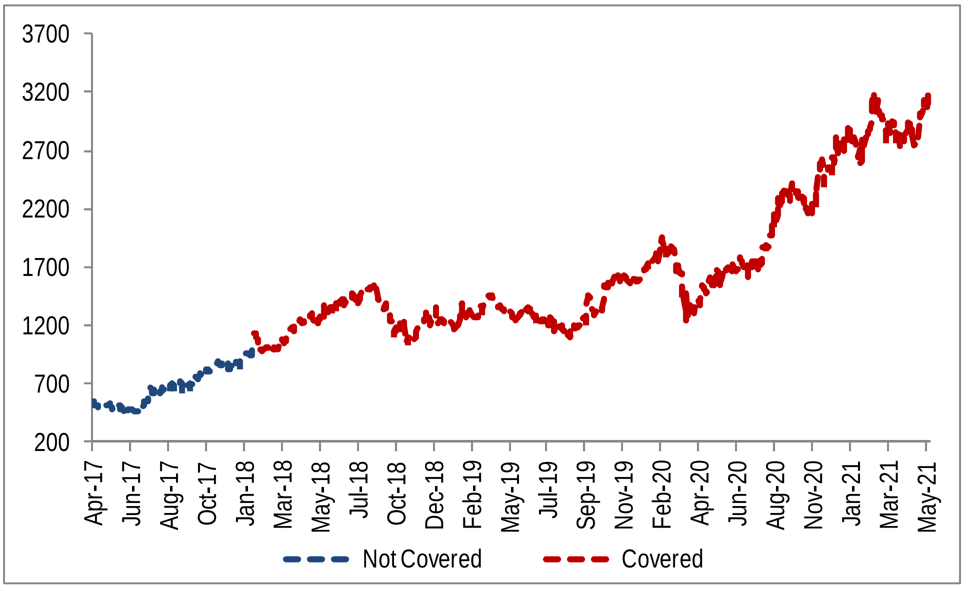
Source: Company, Nirmal Bang Institutional Equities Research
**ROCE & ROIC are on pre-tax basis*

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
10 December 2014	Buy	671	869
6 February 2015	Buy	716	869
23 February 2015	Buy	809	946
9 April 2015	Buy	803	946
15 May 2015	Buy	783	962
17 August 2015	Accumulate	916	930
8 September 2015	Buy	760	930
November 2015	Buy	691	814
0 November 2015	Accumulate	759	814
2 February 2016	Buy	531	759
1 May 2016	Buy	512	644
7 September 2016	Accumulate	534	508
22 January 2018	Buy	1,047	1,310
9 May 2018	Buy	1,280	1,485
26 July 2018	Buy	1,400	1,620
7 September 2018	Buy	1,417	1,630
25 October 2018	Buy	1,195	1,575
31 January 2019	Buy	1,200	1,550
9 April 2019	Buy	1,422	1,680
16 May 2019	Buy	1,242	1,620
25 July 2019	Buy	1,157	1,480
23 October 2019	Buy	1,429	1,685
30 January 2020	Accumulate	1,745	1,755
30 March 2020	Buy	1,422	1,705
21 May 2020	Accumulate	1,530	1,625
3 September 2020	Accumulate	2,251	2,250
23 September 2020	Accumulate	2,307	2,255
13 November 2020	Accumulate	2,339	2,260
8 January 2021	Accumulate	2,867	2,870
4 February 2021	Accumulate	2,646	2,930
9 April 2021	Accumulate	2,869	2,930
7 June 2021	Accumulate	3,175	3,110

**Coverage transferred to Vishal Punmiya w.e.f. 19th August 2019*

Rating track graph



Westlife Development

7 June 2021

Reuters: WEST.BO; Bloomberg: WLDL IN

Company Update

Transforming from 'Occasion' led to a 'Convenience' play

For Westlife Development (WDL), we stand by our conviction about the company's ability to bounce back faster than peers and eventually achieve a sustainable high single digit SSSG on the back of its focus on consistent growth in its sales per restaurant/average unit volume (AUV) through 'All Day' menu, value platform, brand extensions (*McCafé*, *McDelivery* & *McBreakfast*), continuous menu innovations and sharp focus on customer initiatives. Strong optimization of fixed costs supported margins in FY21. Going forward, in a normalized environment, improvement in gross margin (supported by a better product mix) coupled with operating leverage should lead to a sharp improvement in operating margins, signs of which are already visible in a leaner cost structure. WDL eventually aims to get back to the previously guided trajectory of operating margins for FY22. The company took a pause in store expansion in FY21 to conserve cash and has actually closed 14 restaurants on net basis. But it aims to go back to the original annual expansion target. At the current market price (CMP), the stock is trading at 28.1x/19.7x FY22E/FY23E EBITDA. To value the future potential of the industry in an optimum way, we are now moving our valuation methodology to DCF and hence we get a revised target price (TP) of Rs560 (Rs490 earlier) implying an EV/EBITDA multiple of 23.2x on FY23E EBITDA. Maintain Buy.

Focus on consistent growth in sales per restaurant/average unit volume (AUV): McDonald's is one of the world's most profitable brands, with global AUV standing at US$2.6mn versus US$1.2mn for its closest competitor. WDL is focusing on driving consistent AUV growth wherein it is targeting to take its overall AUV to Rs60-65mn from pre-covid level of Rs50-55mn through: (i) Servicing multiple segments and creation & eventual ramp-up of various platforms (ii) Combos & Customizations and (iii) Brand Extensions of McDelivery, McBreakfast and McCafé. Out of WDL's current store portfolio, ~100-150 restaurants already clock AUVs which are substantially higher than the company's overall number, and with a potential of reaching ~Rs80mn. Over the next 3-5 years, as scale increases, unit economics for WDL, which are already superior among peers, will also improve significantly. WDL's focus on 'Burger-plus' value offerings (focusing beyond core) and 'All Day' menu (various meal options over 7am-11pm) has helped substantially in recruiting new consumers and driving frequency of eating out over the last few years. Combos starting at Rs59 shows focus on driving value and product trials. Further, creating occasions has also helped drive additional footfalls. Even in terms of innovation, WDL has added at least one new product almost every year in its portfolio without compromising on the 'QSR quotient' of the business. On premiumization front, WDL seems to be test marketing premium range of burgers – *The Gourmet Collection* – in certain flagship stores of Mumbai and Bangaluru. If this goes through with other markets as well, it will further enhance AUV.

Performance of brand extensions to add delta: WDL has three strong brand extensions, which increase its addressable market and aid growth as well as improve margins (i) **McCafé:** WDL introduced McCafé as a store-in-store concept in 2013 since a pure beverage play was going to be difficult to work in India. This brand extension has worked out very well for the company, with ~227 McCafés as on FY21 (WDL aims to achieve 100% penetration for McCafé in the next 2-3 years), and has aided in expansion of the company's margin and return ratios. The out-of-home beverage market size in India is +US$2bn and WDL is aiming to capture 10-20% market share. (ii) **McDelivery**: Average sales per day has more than tripled in the last 4 years and the company has expanded its delivery network to 264 delivery hubs as on FY20. WDL was the first QSR company to focus on convenience beyond delivery. The company has tried increasing access points for the McDonald's brand through takeaways, drive-thru and on-the-go options. All these four sub-channels have helped the overall convenience channel to accelerate beyond pre-covid levels despite dine-in sales nearing normalcy. (iii) **McBreakfast:** While the breakfast category was launched in 2010, McBreakfast, the first ever branded breakfast category in India, was re-introduced in 2017. With both members of a family-of-two going out to work and domestic help becoming more expensive, out-of-home consumption will tend to increase and hence the breakfast segment is likely to grow big over time. WDL is likely to be a beneficiary with an early mover advantage and a blended menu, including classic Continental as well as Indian offerings.

Headroom for store expansion in place without compromising on real estate quality: WDL still has fairly long runway for store expansion with a visible opportunity of 500 stores in West and South India, from their current count of ~304 restaurants. As per Vision 2022, WDL had set a target of opening 400+ restaurants by FY22, with additions of 25-30 stores per year in a cluster based-approach. However, due to covid led uncertainties, WDL took a pause in store expansion to conserve cash and actually closed 14 restaurants (net) in FY21. With improving consumer sentiments, the company will resume the original annual expansion target FY22 onwards. Even in terms of its store portfolio, the company has always harped on the fact that it has a diversified store format, fairly distributed across high streets, standalone, drive-thrus and malls. Historically, WDL has expanded stores in a steady way irrespective of the industry cycle, as it believes in expanding sustainably to avoid closures due to low underlying store quality.

Sufficient margin levers in place: In the near term, WDL aims to eventually get back to the previously guided trajectory for EBITDA margin of low-mid teens (pre-IND AS 116). The margin profile will change dramatically once the AUV starts increasing to +Rs60mn, which is likely to happen in next few years. Robust growth in *McCafé*, introduction of high margin products, benign input prices and supply chain efficiencies provide enough levers to push consumer offers and support operating margin improvement. This coupled with improvement in restaurant operating margin (through better cost controls at restaurant level – ROP 2.0) and operating leverage will lead to continuous improvement in operating margins beyond 1HFY22.

BUY

Sector: Quick Service Restaurant

CMP: Rs485

Target Price: Rs560

Upside: 16%

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Key Data

Current Shares O/S (mn)	158.8
Mkt Cap (Rsbn/US$bn)	75.5/1.1
52 Wk H / L (Rs)	535/282
Daily Vol. (3M NSE Avg.)	262,258

Price Performance (%)

	1 M	6 M	1 Yr
Westlife Development	13.7	10.3	57.3
Nifty Index	5.7	17.3	54.5

Source: Bloomberg

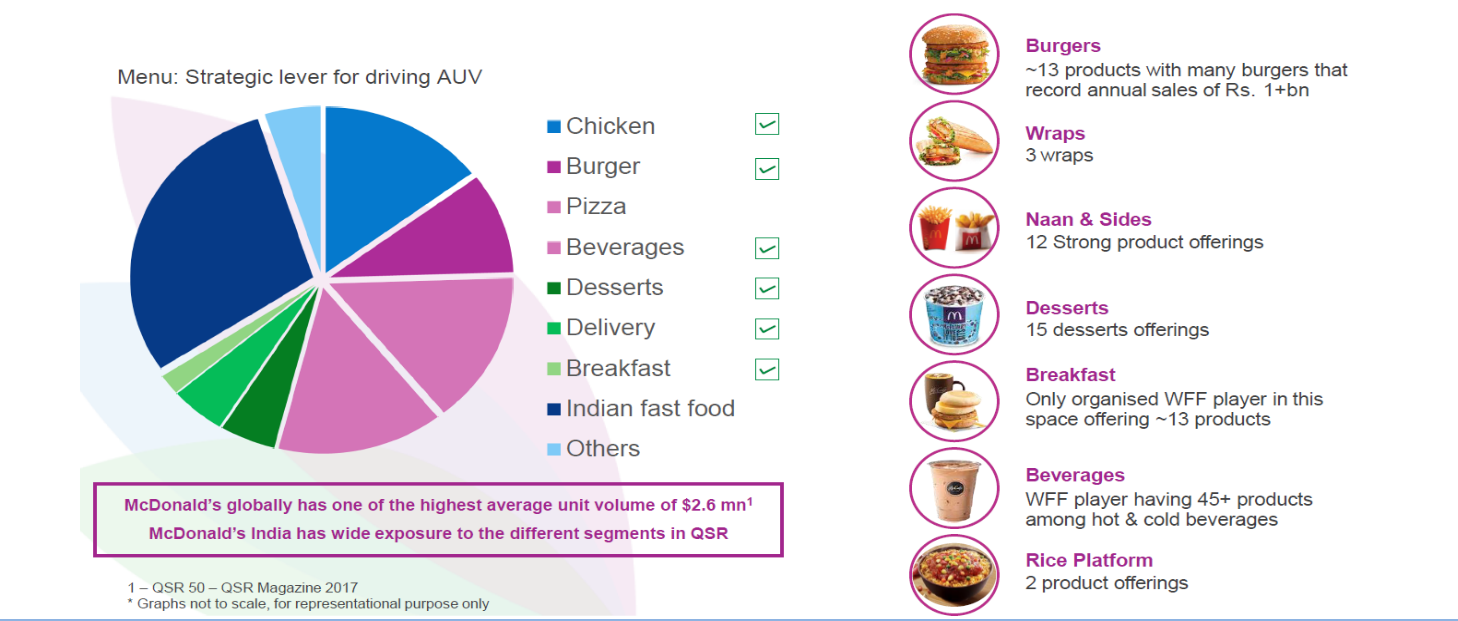
FY20 Annual Report
4QFY21 Investor Presentation

Exhibit 1: Financial summary (includes IND-AS 116 impact)

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Net revenues	14,020	15,478	9,860	14,359	18,919
YoY growth (%)	*23.5*	*10.4*	*-36.3*	*45.6*	*31.8*
SSG (%)	*17.0*	*4.0*	*-33.9*	*38.6*	*26.8*
EBITDA	1,243	1,450	-24	1,791	2,927
EBITDA margin (%)	*8.9*	*9.4*	*-0.2*	*12.5*	*15.5*
Recurring PAT	213	418	-788	620	1,377
EPS (Rs)	1.4	2.7	-5.1	4.0	8.8
YoY growth (%)	*27.8*	*96.3*	-	-	*122.1*
RoCE (%)	*4.1*	*6.2*	*-8.5*	*8.4*	*16.2*
RoE (%)	*3.8*	*7.2*	*-13.7*	*10.2*	*19.5*
RoIC (%)	*5.0*	*4.5*	*-5.2*	*4.3*	*9.4*
P/E (x)	354.3	180.6	-	121.7	54.8
P/BV (x)	12.9	13.1	13.1	11.8	9.7
EV/EBITDA (x)	61.6	52.2	-	42.2	25.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: The brand continues servicing multiple segments



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in our estimates (includes impact of INDAS-116)

Y/E March	Earlier Estimates		New Estimates		*Change (%)*	
(Rs mn)	FY22E	FY23E	FY22E	FY23E	*FY22E*	*FY23E*
Net Sales	14,359	18,919	14,359	18,919	*0.0*	*0.0*
EBITDA	2,666	3,757	2,666	3,757	*0.0*	*0.0*
EBITDA margin (%)	*18.6*	*19.9*	*18.6*	*19.9*	*0.0*	*0.0*
Net Income	424	1,273	423	1,259	*-0.2*	*-1.1*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Strengthening value platform through combos & customizations

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Occasion led offering enhance footfalls

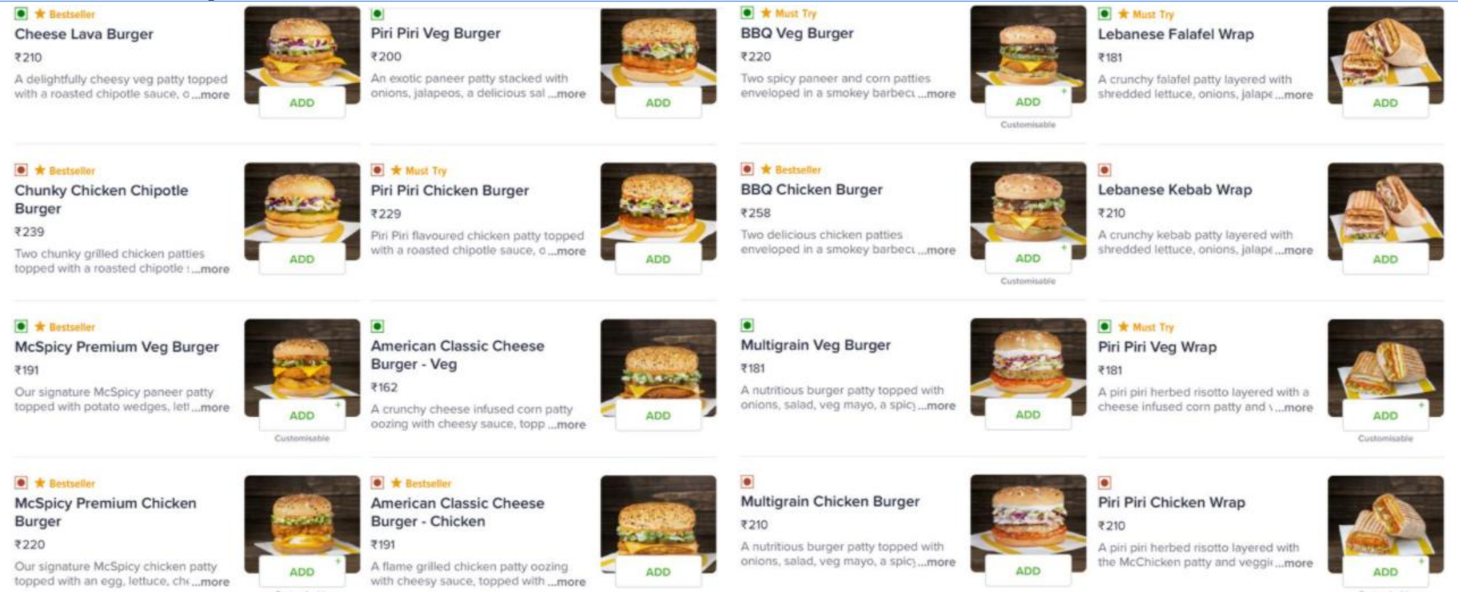
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: WDL has introduced innovations nearly every year for the past 10 years

2004	2010	2011	2012	2013	2014	2015	2016	2018	2020
McAloo Tikki	Breakfast/ Chicken McNuggets	McSpicy/ McFlurry	McEgg/ Spice Fest	Veg Pops/ Masala Grill	Royale/ Chicken Wings	Chicken Pops/ Indi McSpicy	Maharaja Mac	Good Food Journey/ Rice Bowls	McSpicy Fried Chicken/ Schezwan Burger

Source: Company, Nirmal Bang Institutional Equities Research

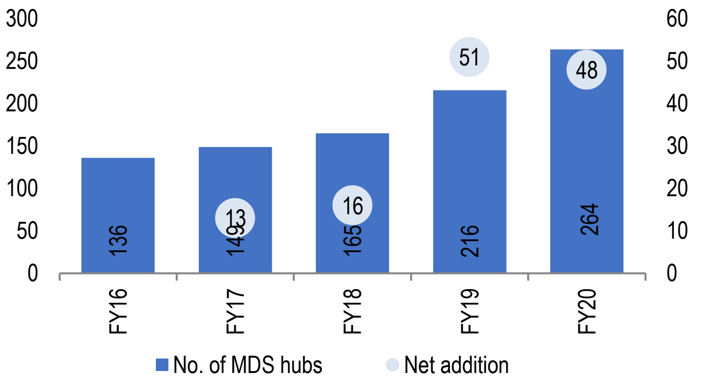
Exhibit 7: WDL seems to be test marketing a premium range of burgers – *The Gourmet Collection* – in certain flagship stores of Mumbai & Bangalore



Source: Industry, Media, Nirmal Bang Institutional Equities Research

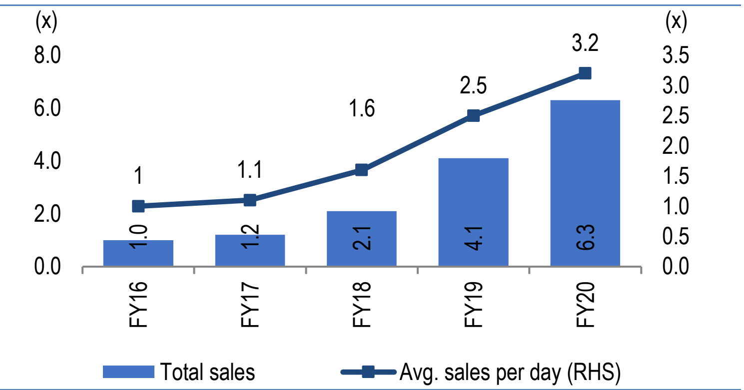
In terms of performance of brand extension in FY21, McDelivery aided growth of convenience channel in FY21.

Exhibit 8: McDelivery network has increased ~2x to 264 with…



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: … sales increasing ~6x over last 4 years till FY20



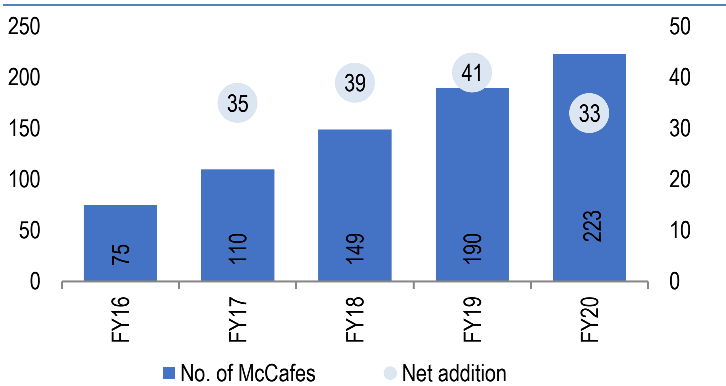
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Multiple sales channels help increase convenience and easy access of McDonald's brand to the customer

Source: Company, Nirmal Bang Institutional Equities Research

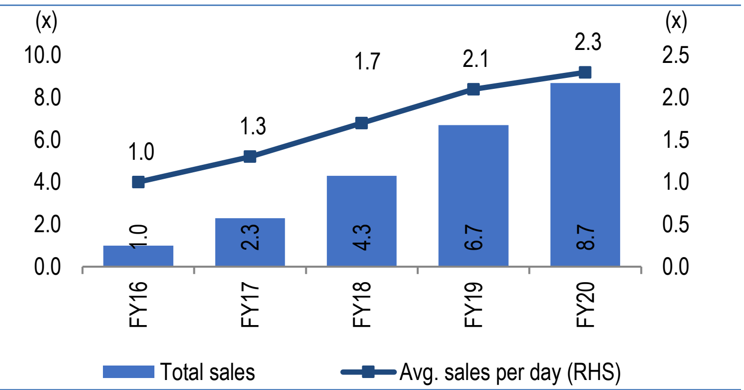
While McCafé was impacted in the initial part of FY21 due to its partial orientation towards instore consumption, it recovered quite well during the latter part of the year but has yet to reach pre-covid levels. WDL also listed McCafé separately in some aggregator platforms to gain traction from coffee-related searches.

Exhibit 11: McCafe restaurants base has increased ~3x to 223 with...



Source: Company, Nirmal Bang Institutional Equities Research

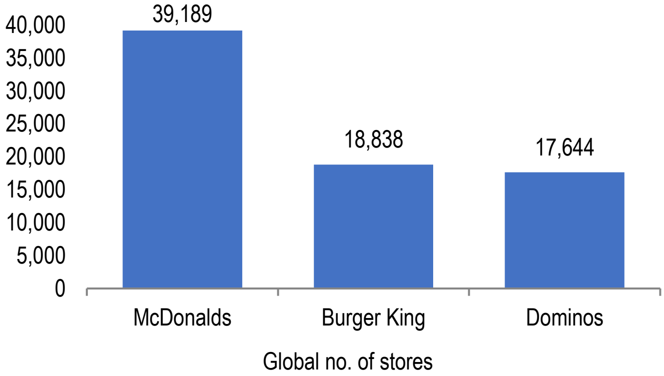
Exhibit 12: ... sales increasing ~8x over last 4 years till FY20



Source: Company, Nirmal Bang Institutional Equities Research

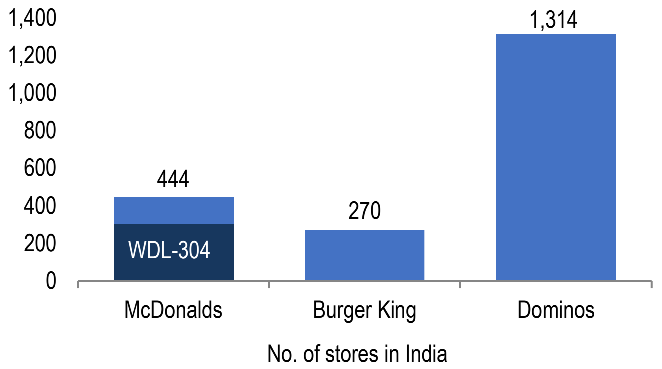
In terms of global presence of QSR brands, McDonald's has the highest number of stores. McDonald's entered in India during mid-1990s. However, in India the expansion has been relatively slow since initially, it took time for the Indian consumers to increase their frequency of eating out. Further, because of inefficiencies in North & East franchisee operations in these regions were highly impacted. While this may have impacted McDonald's brand in India, operations in WDL have remained steady. As per Vision 2022, WDL had set a target of opening 400+ restaurants by FY22, with additions of 25-30 stores per year in a cluster based-approach. However, due to covid led uncertainties, WDL had taken a pause in store expansion to conserve cash and had actually closed 14 restaurants on net basis in FY21. We expect that with improving consumer sentiment on normalcy of environment, the company will resume the original annual expansion. WDL still has a fairly long runway for store expansion with a visible opportunity of 500 stores in West and South India, from their current count of ~304 restaurants.

Exhibit 13: Globally, McDonalds has the highest no. of stores…



Source: Company, Nirmal Bang Institutional Equities Research

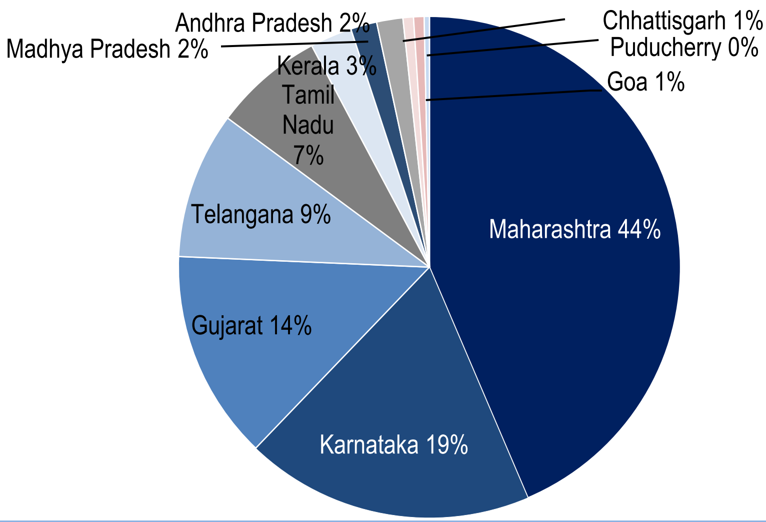
Exhibit 14: ….which is not the case in India



Source: Company, Media, Nirmal Bang Institutional Equities Research

Currently, Mumbai, Ahmedabad & Bengaluru comprise of +50% of the company's stores. Going ahead, 60-70% of store expansion is likely to come from six key cities of Mumbai, Pune, Ahmedabad, Bengaluru, Chennai & Hyderabad and the balance 30% from smaller towns.

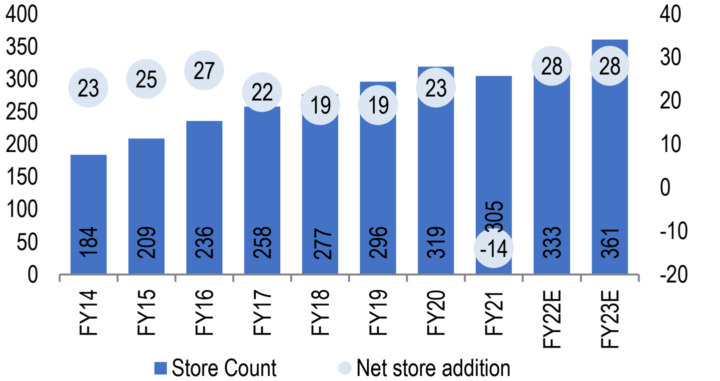
Exhibit 15: Maharashtra, Karnataka & Gujarat are top states for WDL with Mumbai, Bengaluru & Ahmedabad comprising of +50% of the ove rall no. of stores



Source: Company, Nirmal Bang Institutional Equities Research
Note: State-wise breakup as on FY19

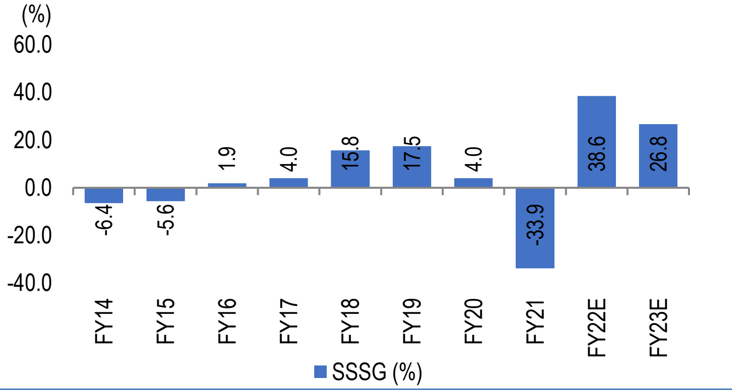
FINANCIAL STORY IN CHARTS

Exhibit 16: WDL to resume its store expansion strategy from FY22



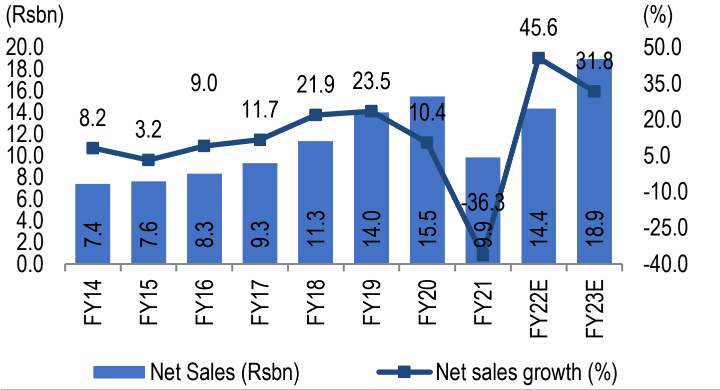
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: SSSG will see improvement in FY22 on account of a negative base



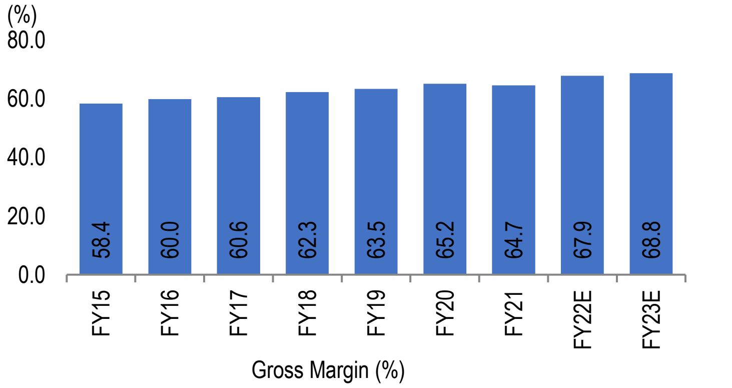
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: We build consolidated net revenue growth of 38.5% over FY21-FY23E



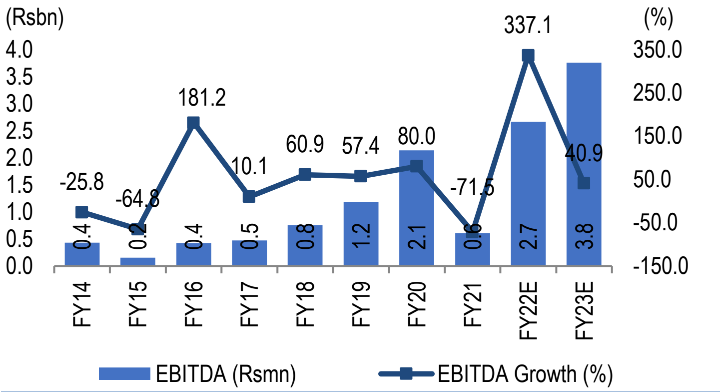
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Gross margin likely to expand by ~410bps YoY over FY21-23E



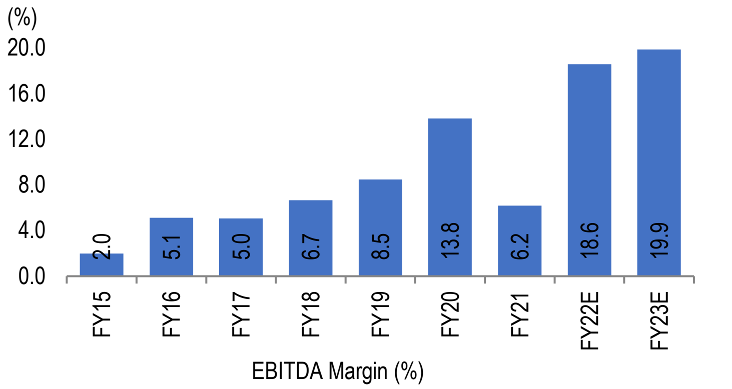
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: We build EBITDA growth of 148.2% over FY21-FY23E (20.6% over FY20-FY23E)



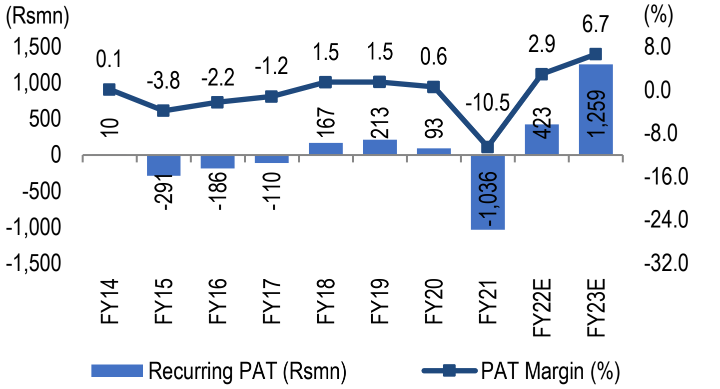
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: EBITDA margin likely to expand by ~1370bps YoY over FY21-23E (~600bps over FY20-23E)



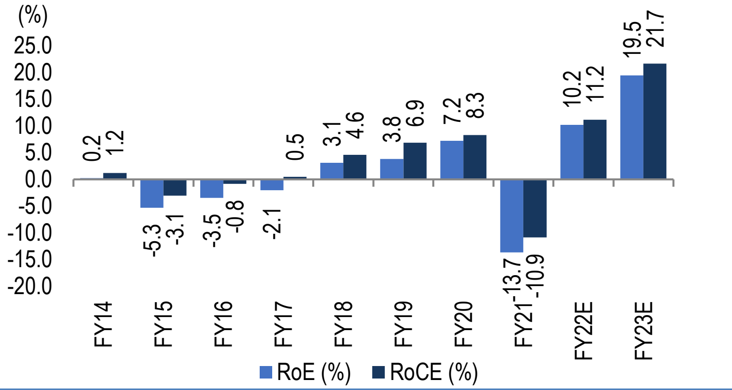
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: WDL likley to clock positive adj. PAT & margin FY22E onwards



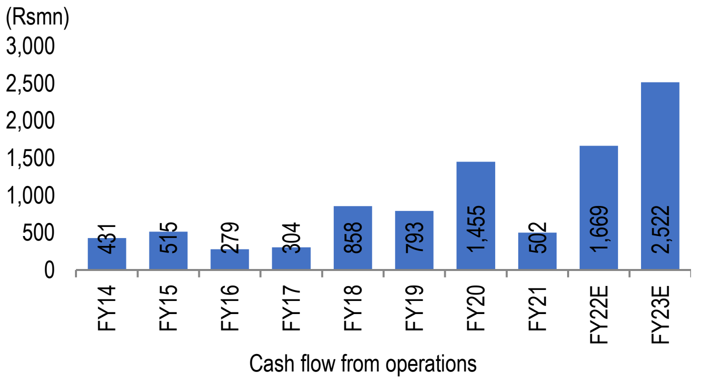
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Return ratios to substantially improve going ahead



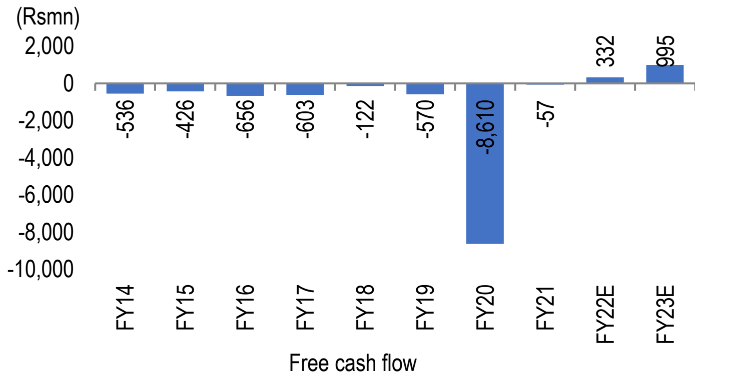
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Cash flow from operations like to improve as operations return to normalcy



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 25: WDL is expected generate positive free cash flow FY22E onwards



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: DCF valuation (includes IND-AS 116 impact)

Particulars (Rsmn)	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Profit/(loss) before Tax	-1,287	566	1,682	2,260	2,899	3,545	3,333	3,999	4,585	5,260	5,971	6,760
Depreciation	1,537	1,671	1,783	1,887	2,000	2,117	2,240	2,367	2,500	2,639	2,783	2,935
Net interest	845	890	840	836	838	841	843	846	849	851	854	857
Others	-443	-461	-549	-463	-530	-510	-620	-785	-847	-1,051	-1,285	-1,553
Direct Taxes Paid	293	-142	-423	-569	-730	-892	-839	-1,007	-1,154	-1,324	-1,503	-1,701
Change in WC	444	35	28	87	156	178	194	219	251	219	263	260
Cash flow from Operations	**1,389**	**2,559**	**3,362**	**4,038**	**4,633**	**5,279**	**5,151**	**5,639**	**6,183**	**6,594**	**7,084**	**7,557**
Less: Capex	-559	-1,337	-1,527	-1,626	-1,647	-1,716	-1,791	-1,869	-1,953	-2,042	-2,136	-2,235
Free cash flow	**830**	**1,222**	**1,835**	**2,412**	**2,987**	**3,563**	**3,360**	**3,770**	**4,230**	**4,552**	**4,949**	**5,323**
Discounting Period		0	1	2	3	4	5	6	7	8	9	10
Discounting Factor		1.00	0.92	0.84	0.77	0.70	0.65	0.59	0.54	0.50	0.45	0.42
PV of Free cash flow		**1,222**	**1,682**	**2,025**	**2,297**	**2,510**	**2,169**	**2,230**	**2,292**	**2,260**	**2,251**	**2,218**

DCF Valuation	Rsmn
PV of explicit cash flows	23,149
PV of terminal cash flows	64,180
Total Enterprise value	87,329
Net debt / (cash)	57
Equity value	87,272
No. of o/s shares	156
Value per share (Rs)	**560**
CMP (Rs)	485
Upside (%)	**15.6**

Cost of equity (%)	11.2
Cost of debt (%)	4.6
WACC (%)	**9.1**
Terminal growth rate (%)	**5.5**

Implied multiple (FY23E)	x
EV/EBITDA	23.2
EV/Sales	4.6
P/E	69.3

FV sensitivity to change in WACC and terminal growth rate

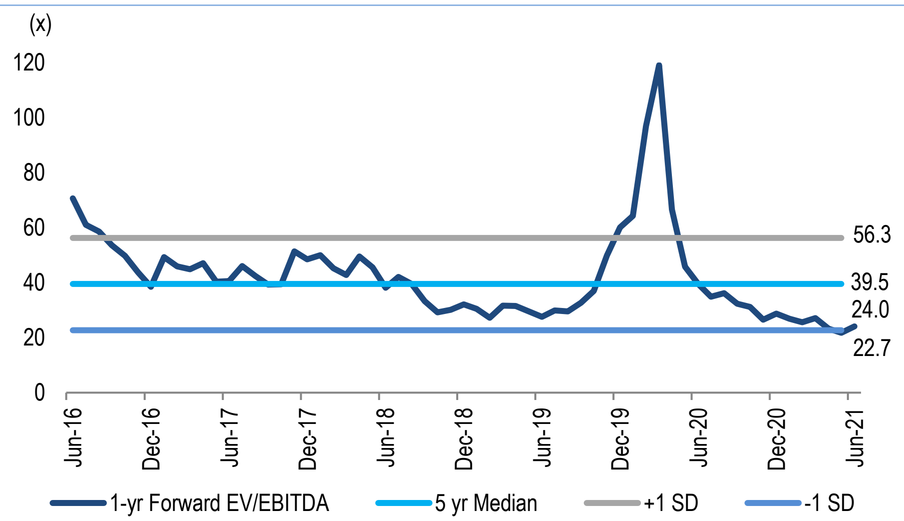
%		Terminal Growth Rate						
		5.2	**5.3**	**5.4**	**5.5**	**5.6**	**5.7**	**5.8**
WACC	**8.5**	627	642	657	674	691	710	731
	8.7	591	603	617	631	646	663	680
	8.9	558	569	581	594	607	621	636
	9.1	529	539	549	**560**	572	584	597
	9.3	502	511	520	530	540	551	563
	9.5	479	486	495	503	512	522	532
	9.7	457	464	471	479	487	495	504

Upside/downside

%		Terminal Growth Rate						
		5.2	**5.3**	**5.4**	**5.5**	**5.6**	**5.7**	**5.8**
WACC	**8.5**	29.4	32.4	35.6	39.0	42.7	46.6	50.8
	8.7	21.9	24.5	27.3	30.2	33.4	36.7	40.3
	8.9	15.2	17.5	19.9	22.5	25.2	28.1	31.2
	9.1	9.1	11.2	13.3	**15.6**	18.0	20.5	23.2
	9.3	3.7	5.5	7.4	9.4	11.5	13.7	16.1
	9.5	-1.3	0.4	2.1	3.8	5.7	7.7	9.8
	9.7	-5.8	-4.3	-2.8	-1.2	0.5	2.2	4.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 27: 1-yr forward EV/EBITDA



Source: Company, Nirmal Bang Institutional Equities Research

<u>Key risks & monitorable</u>: (i) Covid-19 remains a near term pain for QSR sector and hence, recovery of SSSG in the near term and its trend over the medium to long term would be a key trend to watch out for (ii) WDL's own store expansion trajectory over the medium to long term (iii) Growth of brand extensions (iv) Aggression on expansion by peers (v) Sharp movement in real estate and input prices.

Financials (Consolidated; Includes impact of IND-AS 116)

Exhibit 28: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	**14,019**	**15,478**	**9,860**	**14,359**	**18,919**
% Growth	***23.5***	***10.4***	***-36.3***	***45.6***	***31.8***
SSG %	***17.5***	***4.0***	***-33.9***	***38.6***	***26.8***
COGS	5,116	5,382	3,483	4,611	5,898
Staff costs	1,975	2,192	1,782	1,828	2,264
Other expenses	5,740	5,763	3,986	5,253	7,000
Total expenses	12,831	13,337	9,250	11,693	15,162
EBITDA	**1,189**	**2,140**	**610**	**2,666**	**3,757**
% growth	***57.4***	***80.0***	***-71.5***	***337.1***	***40.9***
EBITDA margin (%)	***8.5***	***13.8***	***6.2***	***18.6***	***19.9***
Other income	137	130	443	461	549
Interest costs	177	808	845	890	840
Depreciation	797	1,384	1,537	1,671	1,783
PBT (before exceptional items)	352	79	-1,329	566	1,682
Exceptional items	0	-166	42	0	0
Tax	139	-14	-293	142	423
PAT (before exceptional items)	**213**	**93**	**-1,036**	**423**	**1,259**
PAT	**213**	**-73**	**-994**	**423**	**1,259**
PAT margin (%)	***1.5***	***0.6***	***-10.5***	***2.9***	***6.7***
% Growth	***27.8***	***(56.4)***	***NA***	***NA***	***197.3***

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 29: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
PAT	213	93	-1,036	423	1,259
Depreciation	797	1,384	1,537	1,671	1,783
Other income	-137	-130	-443	-461	-549
(Inc.)/dec. in working capital	-79	108	444	35	28
Cash flow from operations	**793**	**1,455**	**502**	**1,669**	**2,522**
Capital expenditure (-)	-1,363	-10,064	-559	-1,337	-1,527
Net cash after capex	**-570**	**-8,610**	**-57**	**332**	**995**
Inc./(dec.) in invest. & other ass.	-226	915	101	184	124
Cash from invest. activities	**-1,589**	**-9,149**	**-458**	**-1,153**	**-1,402**
Dividends paid (-)	504	-502	315	-200	-200
Inc./(dec.) in total borrowings	13	7,677	-586	591	81
Cash from financial activities	**517**	**7,175**	**-271**	**391**	**-119**
Others	261	458	308	-706	-624
Opening cash balance	109	92	30	110	310
Closing cash balance	92	30	110	310	688
Change in cash balance	-17	-62	80	201	377

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 30: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Share capital	311	311	312	312	312
Reserves	5,519	5,459	4,501	4,924	6,183
Net worth	5,830	5,770	4,812	5,236	6,494
Total debt	2,339	1,837	2,152	1,952	1,752
Other long term liabiliies	31	7,922	7,632	7,713	7,794
Deferred tax liability	0	-214	-510	0	0
Total liabilities	**8,200**	**15,316**	**14,086**	**14,900**	**16,040**
Gross block	10,752	12,542	13,596	14,856	16,179
Depreciation	5,727	7,110	8,647	9,622	10,726
Net block	5,025	5,431	4,949	5,235	5,453
Right of use assets	0	7,714	7,008	7,085	7,186
CWIP & Intangibles	1,210	1,161	1,141	1,151	1,200
Investments	2,024	1,576	1,984	2,183	2,501
Inventories	410	411	465	495	539
Debtors	98	47	88	101	137
Cash	92	30	110	310	688
Loans & advances	1,278	865	904	975	1,072
Other current assets	105	181	75	83	91
Total current assets	1,982	1,535	1,643	1,964	2,528
Creditors	1,178	1,280	1,851	1,889	1,957
Other current liabilities & provisions	864	822	789	829	870
Total current liabilities	2,042	2,101	2,640	2,718	2,827
Total assets	**8,200**	**15,316**	**14,086**	**14,900**	**16,040**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 31: Key ratios

Y/E March	FY19	FY20	FY21	FY22E	FY23E
Per share (Rs)					
EPS	1.4	0.6	(6.7)	2.7	8.1
Book value	37.5	37.1	30.9	33.6	41.7
Valuation (x)					
P/Sales	5.4	4.9	7.7	5.3	4.0
EV/sales	5.5	4.9	7.7	5.2	3.9
EV/EBITDA	64.4	35.4	123.9	28.1	19.7
P/E	354.1	812.6	-	178.3	60.0
P/BV	12.9	13.1	15.7	14.4	11.6
Return ratios (%)					
RoCE*	5.1	9.6	(12.7)	14.1	25.6
RoE	3.8	1.6	(19.6)	8.4	21.5
RoIC*	7.2	7.8	(7.4)	8.3	16.0
Profitability ratios (%)					
Gross margin	63.5	65.2	64.7	67.9	68.8
EBITDA margin	8.5	13.8	6.2	18.6	19.9
EBIT margin	2.8	4.9	(9.4)	6.9	10.4
PAT margin	1.5	0.6	(10.5)	2.9	6.7
Liquidity ratios (%)					
Current ratio	0.4	0.6	0.7	0.8	0.9
Quick ratio	0.3	0.5	0.6	0.7	0.8
Solvency ratio (%)					
Debt-to-equity ratio	0.4	0.3	0.4	0.4	0.3
Turnover ratios					
Total asset turnover ratio (x)	1.7	2.1	1.5	2.0	2.3
Fixed asset turnover ratio (x)	2.8	2.8	2.0	2.7	3.5
Inventory days	26.6	27.8	45.9	38.0	32.0
Debtor days	2.1	1.7	2.5	2.4	2.3
Creditor days	80.7	83.3	164.0	148.0	119.0

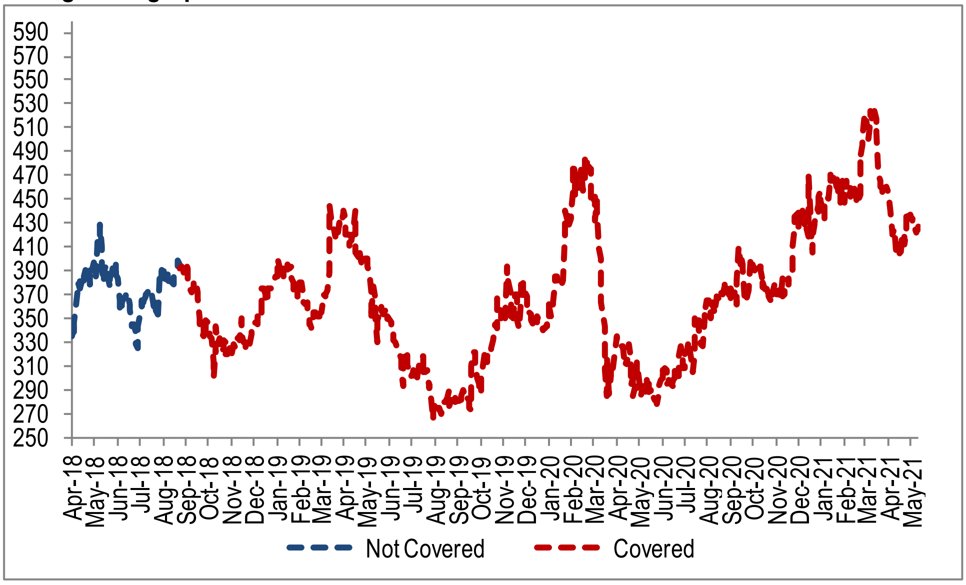
Source: Company, Nirmal Bang Institutional Equities Research
**ROCE & ROIC are on pre-tax basis*

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
6 May 2015	Buy	296	403
11 May 2015	Buy	293	403
5 June 2015	Buy	280	403
10 August 2015	Buy	295	356
9 November 2015	Buy	238	335
8 February 2016	Buy	222	280
9 May 2016	Buy	202	282
9 June 2016	Accumulate	237	246
8 August 2016	Accumulate	214	219
24 August 2018	Buy	395	485
29 October 2018	Buy	320	420
4 February 2019	Buy	380	440
4 April 2019	Buy	420	490
15 May 2019	Buy	349	450
26 July 2019	Buy	291	370
25 Oct 2019*	Buy	347	425
01 Nov 2019	Buy	350	425
24 Jan 2020	Buy	421	485
20 April 2020	Buy	326	375
13 June 2020	Buy	297	350
31 July 2020	Accumulate	354	360
23 September 2020	Accumulate	366	410
9 November 2020	Accumulate	372	410
8 January 2021	Accumulate	445	485
22 January 2021	Accumulate	452	495
9 April 2021	Accumulate	420	480
14 May 2021	Buy	420	490
7 June 2021	Buy	485	560

**Coverage transferred to Vishal Punmiya w.e.f. 19th August 2019*

Rating track graph



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