

Westlife Development

24 August 2018

Reuters: WEST.BO; Bloomberg: WLDL IN

We Also Make Burgers!!

Westlife Development (WLDL) through its 100% subsidiary, Hardcastle Restaurants Pvt. Ltd, owns and operates a chain of McDonald's restaurants in west and south India, being a master franchisee of McDonald's Corporation, USA. The management's focus on value-for-money proposition, menu innovation and efforts in improving consumer experience has helped the brand to sail through a challenging environment in the past. 'Burger Plus' is the differentiating factor for WLDL and has really helped in recruiting new consumers and driving frequency of eating out. Our extensive ground research activity indicates that WLDL's robust platform strategy covering all day parts and encouraging consumption trends would help its same stores sales growth (SSG) to remain in double digits. WLDL has a competitive edge over other burger chains in terms of supply chain and brand penetration in key cities as well. Improved store selection and cost management has further upped the tempo over the last one year. We believe that Quick Service Restaurant (QSR) sector in India is at an inflection point and WLDL is set to grow well ahead of the market on account of company-led initiatives. We expect revenue/EBITDA/PAT to post a three-year CAGR of 22%/54%/99%, respectively, over FY18-FY21E. We re-initiate coverage on WLDL with a Buy rating and a target price of Rs485 based on EV/EBITDA multiple of 32x (Sept 2020E EBITDA), indicating an upside of 23% from the CMP.

Platform-led growth: WLDL's investments behind introduction of various menu platforms over the years covering all day parts suitable for on-the-go consumption have started paying dividends and we believe that diversifying menu options would help the brand cater to new set of consumers and also drive the frequency of eating out. Improved store selection from last one year will boost average revenue per store. WLDL's aim to expand its store base to 450-500 in the next three years would further help the brand penetrate deeper into the key cities and maintain market leadership.

Competitive and strategic advantage: On competitive standpoint, we find the product offerings of WLDL very promising compared to other chains who predominantly cater to one product category. In terms of presence in core cities in West and South, there is a huge gap between WLDL and other burger chains and that impacts their scope and efficiency as well. Apart from this, WLDL enjoys a competitive edge over supply chain and real estate wherein terms are much favourable than the industry.

Robust operating margin expansion: We believe that management's thrust on improving unit economics coupled with robust supply chain would translate into margin expansion. Results of Restaurant Operating Platform (ROP) 2.0 will be reflected meaningfully in the coming years when more and more stores are added under that platform. Growth of brand extensions would continue to improve the product mix and strong SSG will provide operating leverage benefits as well. Therefore, we expect operating margin expansion of 670bps over FY18-FY21E.

Outlook and valuation: We believe that the US\$1.8bn QSR industry is at an inflection point and expect the encouraging consumption trend to continue. WLDL's efforts on product portfolio, innovation and cost management will lead to above-average earnings growth and market share gains, in our opinion. We re-initiate coverage on WLDL with a Buy rating and a target price of Rs485 based on EV/EBITDA multiple of 32x (Sept 2019E EBITDA), indicating an upside of 23% from the CMP.

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net revenues	9,308	11,349	13,996	16,939	20,716
YoY growth (%)	11.7	21.9	23.3	21.0	22.3
SSG (%)	4.0	15.8	17.0	12.3	11.8
EBITDA	470	755	1,341	1,939	2,771
EBITDA margin (%)	5.0	6.7	9.6	11.4	13.4
PAT	(121)	167	462	763	1,304
EPS (Rs)	(0.8)	1.1	3.0	4.9	8.4
YoY growth (%)	-	-	177.1	65.3	70.9
RoCE (%)	(2.4)	1.1	7.7	13.3	19.9
RoE (%)	(2.3)	3.1	8.1	12.1	17.8
P/E (x)	(274.1)	368.9	133.1	80.5	47.1
P/BV (x)	6.3	11.3	10.4	9.2	7.7
EV/EBITDA (x)	72.3	83.0	46.6	32.1	22.2

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: QSR

CMP: Rs395

Target Price: Rs485

Upside: 23%

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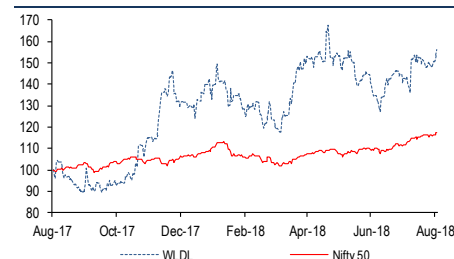
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Key Data

Current Shares O/S (mn)	155.6
Mkt Cap (Rsbn/US\$m)	61.4/876.7
52 Wk H / L (Rs)	464/219
Daily Vol. (3M NSE Avg.)	61,194

Shareholding (%)	3QFY18	4QFY18	1QFY19
Promoter	62.2	62.2	62.2
DII	21.8	21.9	21.7
Public	16.1	16.0	16.2

One -Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
WLDL	7.8	19.4	47.9
Nifty Index	5.1	11.5	18.5

Source: Bloomberg

Investment thesis

QSR – not an easy fort to conquer

About a decade ago, eating out was not a prominent part of the Indian consumer's life, but things started changing rapidly after the entry of new brands (both domestic and global), changing lifestyle and recent technological disruption in a meaningful manner. QSR has emerged as an exciting space, suitable for current needs of the consumers i.e. convenience, taste preference and craving for the brand. Many international brands have entered India to capture the market having a huge potential, but very few could survive because of various challenges like competition, overall macro environment, varied habits and tastes of the consumers and greater dominance of the unorganised segment. McDonald's entered India in 1996 through the franchisee model and is one of them who succeeded in a big way and still sees umpteen growth opportunities. McDonald's operates in India through two franchisees namely, Westlife Development (WLDL) in South and West India, and Connaught Plaza Restaurants in North and East India (which is under dispute).

As per industry reports, informal eating out (IEO) industry in India is worth US\$1.8bn as of 2017-end wherein the share of QSR is very low, at about 1%. The unorganised segment continues to dominate the overall market, although its share is fading gradually. Burger, in India, is estimated as US\$400mn opportunity and McDonald's enjoys about 90% market share in it. It is to be noted there has been an intense competition for burger market from other QSRs as well as hawkers and street food stalls because their products are also offered at similar price points. QSR in India has outgrown other formats like dine-in, Indian fast food etc, and we believe that accelerated growth will continue with the improvement in consumption environment, increase in urbanisation, higher income level and awareness about health and hygiene in the minds of consumers. There is also a growing trend among millennials seeking flexi and healthy meal options and the QSR format exactly fits into that criteria. It is to be noted that there is a great demographic advantage for a country where 33% of the population is 15 years or younger and 50% population 24 years or younger. As the companies have started taking cognisance of consumer preferences, habits, ordering patterns etc while designing their business model, brands with strong consumer stickiness, innovative menu and convenience in ordering are poised to grow rapidly in the market. We believe that WLDL stands out in the QSR space on account of its ongoing innovation, strong brand equity, enrichment of consumer experience and focus on efficiency throughout the value chain.

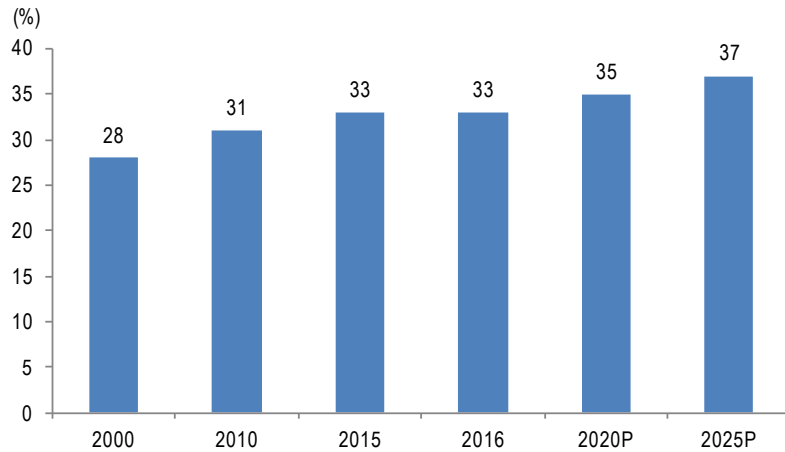
Exhibit 1: Indian QSR market outlook

Market size (US\$bn)	2014	2017	3-year CAGR	2022E	5-year CAGR
Western fast food (WFF)	1.3	1.8	11%	3.4	13.4%
Indian fast food (IFF)	16.7	19.8	6%	30.2	8.8%
QSR	18	21.6	6%	33.5	9.2%
Unorganised segment	76.0	87.8	5%	133.5	8.7%
IEO (Total)	112	131	5%	200.6	8.9%

Share (%)	2014	2017	% change	2022E	% change
WFF	1.2	1.4	0.2	1.7	0.3
IFF	14.9	15.1	0.2	15.0	(0.1)
QSR	16.1	16.5	0.4	16.7	0.2
Unorganised segment	67.9	67.0	(0.8)	66.6	(0.5)
IEO (Total)	100.0	100.0	-	100.0	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Rising urbanisation (% of urban population)



Source: Company, Census of India 2011, Nirmal Bang Institutional Equities Research

Exhibit 3: Spending pattern and format preferences among Indian consumers

Type	Avg. household size	Preferred format	Avg. monthly spending per household	Frequency of eating out p.m.
Metros	4.09	QSR 37% CDR 25%	6500-6750	7-8
Mini metros	4.12	QSR 48% CDR 21%	4500-4750	5-6
Tier I & II	4.8	QSR 31% CDR 40%	2750-3000	4-5

Source: Company, Nirmal Bang Institutional Equities Research

CDR – Casual Dining Restaurants. Metros include Delhi NCR and Mumbai. Mini Metros –Ahmadabad,Bengalore,Chennai, Hyderabad, Kolkata and Pune. Tier I is cities with population 1-5mn and Tier 2 are cities with population 0.3-1mn.

It is worth noting that 80% of WLDL's stores have been located in Metros and Mini Metros as per the definition in the above table which enjoy the highest frequency of eating out.

McDonald's brand – expanding its wings

Every brand is known for its iconic product e.g. Britannia GoodDay or Parle G etc. McDonald's became popular with McAloo Tikki, an affordable burger focusing on taste and value-for-money preference. The objective of the same was to penetrate the McDonald's brand deeper into the Indian market. Once that was done, natural progression of the brand is to expand the menu through ongoing innovations and try catering to different sets of consumers. We believe that WLDL understands the knack of the consumer and read ongoing consumption trends well. Introduction of various platforms like McCafe, McBreakfast, Naan, Rice Bowl reflects the vigour of the management to grow and leverage the potential of the McDonald's brand in the maximum possible way. In our opinion, its earlier focus on only 'value for money' was restricting some classes of consumers and the end-consumer base was largely stuck in the age group of 15-25 years. WLDL's attempt to offer a product portfolio in all day parts is commendable. Therefore, introduction of new platforms will help in further brand penetration, adding a new set of consumers and increase overall frequency and consumption. 'Good Food Story' launched by the company addresses the health and nutrition trend which is growing among the consumers, especially millennials. We believe that health and nutrition is a long-term trend in the food service industry and proactive measures by WLDL will give it an edge over other chains, and mainly the unorganised segment. The term QSR is usually used in conjunction with junk food, but the focus on health and nutrition in the product menu will eventually change the perception in the minds of consumers, leading to higher footfalls for the chain. Therefore, in our opinion, although the value-for-money proposition remains the core strength of the brand, adding different platforms covering all day parts at relatively premium pricing will attract a new set of consumers to the McDonald's family, leading to sustainable and profitable growth in the long run and also market share gains.

Exhibit 4: Menu innovation through introduction of various platforms

FY	Innovation/new launches - Burgers	Beverages and desserts
2013	Till FY13 <ul style="list-style-type: none"> Happy price menu (1997) McAloo Tikki (2000) Veg Pizza McPuff Chicken McGrill McVeggie Maharaja Mac (non-veg) Masala Grill (veg and non-veg) McDelivery (2004) Veg McMuffin McNuggets (2009) McBreakfast (2010) McSpicy (2011) McEgg, McValue (2012) 	<ul style="list-style-type: none"> McFlurry (2011)
2014	<ul style="list-style-type: none"> Crispy Veg Pops (Rs25 and Rs45) Piri Piri McNuggets Masala Grill Saucy Chipotle Wraps Hot cakes, McMuffin meals 	<ul style="list-style-type: none"> McCafe launch Frappe and iced coffee
2015	<ul style="list-style-type: none"> Premium Platform- Royale (veg and non-veg) Saucy wraps Piri Piri mix campaign in south McWings (Chicken) 	<ul style="list-style-type: none"> Brownie McFlurry
2016	<ul style="list-style-type: none"> Focaccia Bun at Rs.15 Masala Bun Indi-McSpicy Paneer and Chicken Maharaja MAC (veg and non-veg) 	<ul style="list-style-type: none"> Smoothies in new flavours Seasonal offers in McFlurry, Splash and softies Premium Dark Hot chocolate and Double Chocolate Frappe
2017	<ul style="list-style-type: none"> Limited time Chinese menu, chilli paneer pockets Lebanese and Chinese McAloo Tikki at Rs39 and Mexican cheesy fries Maharaja MAC Junior 	<ul style="list-style-type: none"> Flavoured waffle cones (limited time) Iced splash- musk melon, kokum and raw mango Share shakes – Oats and raisins cookie crunch, Strawberry Oreo Whirl, Espresso Brownie Overload
2018	<ul style="list-style-type: none"> Everyday value platform – Happy price combos starting at Rs60 Chicken kebab (burger and wrap) Chatpata naan and other products under flavours without borders 	<ul style="list-style-type: none"> Hazelnut craze (Hot and Cold coffee for limited period) Mud-pie shake, Mocha shake and Mango smoothie under Flavours without borders at Rs139
YTD2019	<ul style="list-style-type: none"> New value platform – McSaver Combos starting at Rs65 Rice bowl meal and combos 	<ul style="list-style-type: none"> Fruit splash in 2 local flavours (summer offerings)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Menu covering all day parts, unlike competitors

Breakfast									
McDonald's			Burger King			KFC			
Name	Price		Name	Price		Name	Price		
Egg and Cheese Muffins	68								
Veg Muffin	50								
Dosa Masala Brioche	47								
Masala Scrambled Eggs	90								
Belgian Waffles	90								
McSaver Breakfast	99								
Burgers - Veg									
McDonald's			Burger King			KFC			
Name	Price	Medium meal price	Name	Price	Medium meal price	Name	Price	Medium meal price	
Maharaja Mac	160	279	Smokin Crunch Whopper Veg	167	N.A.	Veg Zinger	137	-	
Big Spicy Paneer Wrap	159	279	Veg Whopper	131	226				
McSpicy Paneer	137	256	Paneer King	125	219				
American Cheese Supreme	99	215	Veg Chilli Cheese	100	194				
McVeggie	86	205	Veg Surprise	93	188				
Chatpata Naan	55	170	BK Veggie	72	167				
Mexican Aloo Tikki	45	160	Crispy Veg Supreme	51	NA				
McAloo Tikki	39	154	Crispy Veg	41	NA				
Burgers: Non-veg									
McDonald's			Burger King			KFC			
Name	Price	Medium meal price	Name	Price	Medium meal price	Name	Price	Medium meal price	
Maharaja Mac Chicken	168	289	Smokin Crunch Whopper Mutton	251	N.A.	Krunchy Burger	168	261	
Big Spicy Chicken Wrap	169	289	Mutton Whopper	209	N.A.	Chicken Zinger	158	251	
McSpicy Chicken	141	260	Smokin Crunch Whopper Chicken	177	303				
Filet o Fish	123	243	Fiery Chicken Burger	146	240				
American Cheese Supreme	114	230	Chicken Tandoor Grill	146	240				
McChicken	100	215	Chicken Whopper	135	230				
Chicken Kebab	71	186	Chicken Chilli Cheese	104	198				
Chatpata Naan Chicken Kebab	69	184	BK Grill Chicken	83	177				
			Crispy Chicken Supreme	72	N.A.				
			Crispy Chicken	62	N.A.				
Rice Bowl – veg and non-veg									
McDonald's			Burger King			KFC			
Name	Price	Medium meal price	Name	Price	Medium meal price	Name	Price	Medium meal price	
Rice Bowl Veg	129	169				Rice Bowl with veg strips & Pepsi	N.A.	173	
Rice Bowl Chicken	159	199				Rice Bowl popcorn chicken and Pepsi	N.A.	173	
						Rice Bowl smoky grilled & Pepsi	N.A.	210	
Supplements									
McDonald's			Burger King			KFC			
Name	Price		Name	Price		Name	Price		
Chicken McNuggets (6pc/9pc)	125/158		Cheesy Fries	30					
Mexican Fries	82		Cheesy Italian Fries	104					
Mexican Cheesy Fries	109		Potato Tots	114					
Masala Wedges (S/M/L)	38/79/96		Veggie Strips Z(3pc/6pc)	30/58					
Chicken Strips (2pc/3pc/5pc)	69/99/164		Fiery Rings (2pc/4pc)	30/58					
Chicken McNuggets (6pc/9pc)	125/158		Cheesy Fries	30					
Beverages									
McDonald's			Burger King			KFC			
Name	Price		Name	Price		Name	Price		
Strawberry Oreo Whirl	228		King shake – Cookie Crumble	146					
Smoothie (2 flavours)	224		King shake – Black current						
Frappe	188-222		Smoothie (2 flavours)	125					
McCafe Classic coffee	173		Basic shakes (3 flavours)	114					
American Mud pie	149		Floats	29					
McCafe Ice coffee	147								
McCafe Green tea and ice tea	135								
Shakes (2 flavours)	131								
Fruit splash (2 flavours)	100								
Fruit splash (2 flavours) small	83								
Soft drinks (L/S)	84/75								

Desserts					
McDonald's		Burger King		KFC	
Blueberry Cheese cake	202	BK Loaded Sundaes	39		
Chocolate Express cake	179	BK Sundaes	29		
Blackforest McFlurry (M/S)	119/95	Softies	15-25		
Choco Marble Slice cake	106				
Choco Chip Muffin	104				
McFlurry (2 Flavours) (M/S)	98/71				
Vanilla Choco Muffin	98				
Soft serve	75				
New oats and raisins cookie	64				

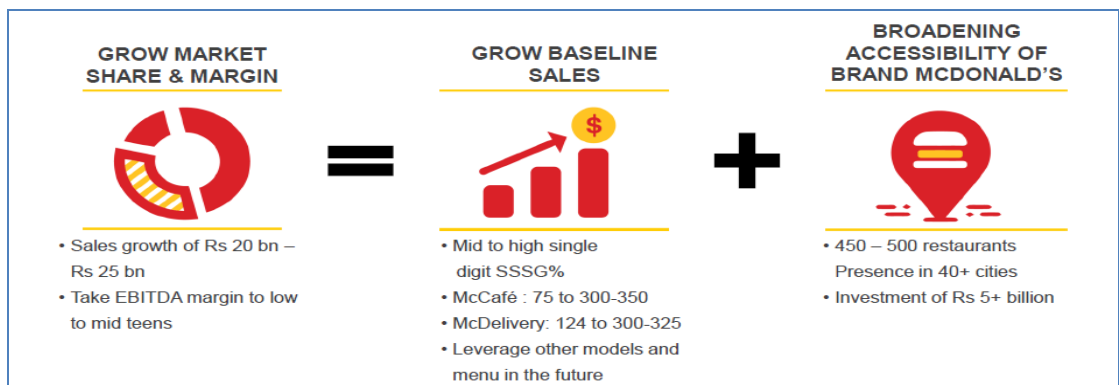
Source: Company websites, Nirmal Bang Institutional Equities Research

Note: Above prices are inclusive of GST

On track of achieving Vision 2022

WLDL unveiled a medium-term plan till CY22 as Vision 2022 in 2016 wherein it had targeted to grow its top-line to Rs20bn-Rs25bn (15% five-year CAGR over FY18) and EBITDA margin in the range of 13%-15% from the current level of 7% (FY18). This growth was considered taking into account mid-high single-digit SSG, increase in store count for McCafe and McDelivery, menu innovation and ongoing focus on improving consumer experience. On store expansion, the plan was to double the number of stores from FY16 - in the range of 450-500 - which required accelerated store openings every year than in the past (25-30 restaurants). Capex of Rs5bn has been planned for the same. We believe the management is extremely committed to its vision statement. Overall consumption trend is positive. Although many QSR chains are performing well since the past few quarters, WLDL clearly stands out with its consecutive 12 quarters of positive SSG, despite the challenging environment initially. This clearly reflects the positive consumer response for its product offerings and brand equity of McDonald's. We expect acceleration in store openings in the coming years, starting from FY20. Rising share of brand extensions like McCafe, McDelivery, Rice Bowl etc will drive the bill per order (BPO) of WLDL, leading to improvement in margins. Supply chain efficiency and store-level cost management will continue to support operating margin expansion.

Exhibit 6: WLDL's Vision 2022

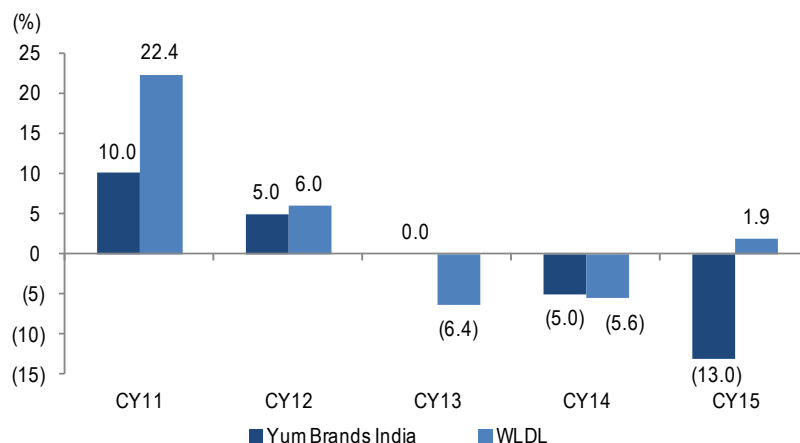


Source: Company, Nirmal Bang Institutional Equities Research

A lot of emphasis on store selection while achieving the expansion target

WLDL is planning to nearly double its store count by 2022 – i.e. 450-500 restaurants from the current level of 281. Currently, 93% of its stores are located in Maharashtra, Karnataka, Gujarat, Telangana and Tamil Nadu. Top seven cities account for 76% of the stores and more than 60% of store addition will be in the top seven cities going forward. This is a cluster approach wherein the company tries to gain market leader status region-wise rather than just widening its reach. Also, the ambitious target of brand extension is dependent on increasing the penetration in core markets. The management sees potential stores in the range of 800-850. Also, we believe that its store selection criteria have fairly improved in the last one year whereby new stores have been opened at marquee locations, thereby driving sales growth. It is to be noted that, store selection is linked to the SSG directly and WLDL's SSG compared to Yum Brands (KFC and Pizza Hut taken together) has been better despite the challenging environment.

Exhibit 7: Store selection helped in achieving better SSG



Source: Yum! Brands Inc Annual Reports, Company, Nirmal Bang Institutional Equities Research

Note: SSG data from FY17 onwards for Yum Brands India is not available as the India division has been merged under global business units.

We have carefully examined the presence of WLDL in its core markets vis-à-vis competitors namely, KFC and Burger King. After gathering the data and understanding the strategy of key peers, we have come to a conclusion that McDonald's is much ahead of its peers in these core cities. Although Burger King tried to open its stores next to McDonald's, its overall reach is very less as of now. Also, we believe that WLDL will accelerate its store opening rate to 40-45 stores a year from FY20 going forward, which is line with the strategy of KFC and Burger King in India. Hence, the penetration gap between McDonald's and other peers will remain. Higher penetration helps WLDL to driver higher and efficient delivery sales as well. Also, KFC has realigned its focus on chicken-based menu with three-fourth of its total offerings and, therefore, has little overlap with the majority vegetarian menu of McDonald's. Burger King is the real competitor for WLDL in burgers, but has not been able to diversify its menu like McDonald's.

Exhibit 8: Deeper penetration of McDonald's brand in key cities (west and south) vis-à-vis peers

No. of stores	McDonald's	Burger King	KFC
MMRDA	86	24	19
Pune	33	8	11
Bengaluru	47	18	43
Hyderabad	24	6	23
Ahmedabad	14	4	3
Chennai	17	3	25
Indore	6	0	3
Total stores in key cities	227	63	127

Source: Nirmal Bang Institutional Equities Research

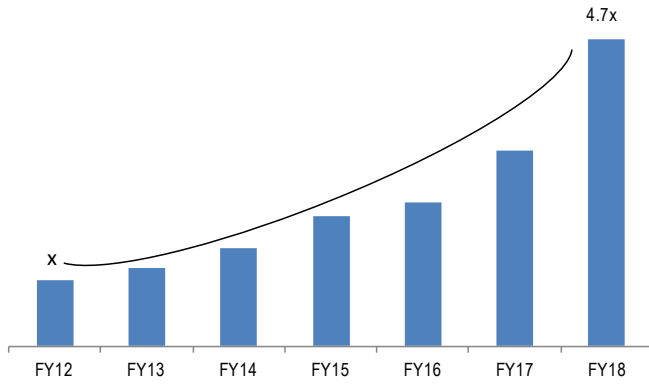
Success formula of 1+1+1=5

The management's vision of 1+1+1=5 really seems to be playing out well for WLDL. Consistent and equal focus on building brand extensions such as McDelivery, McCafe and McBreakfast along with ongoing reinvention in the core menu format, store décor and overall enrichment of consumer experience has really been the backbone of the growth it has witnessed in FY18. We believe that considering the buoyancy in consumer behaviour, all these formats are turning out to be in favour of the company and we therefore expect strong and profitable growth in the medium term, ahead of the market.

McDelivery : Competitive edge over other burger chains

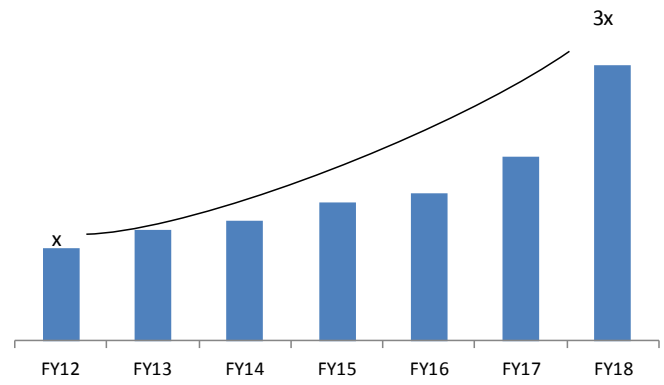
McDonald's in India has always been known as dine-in model, although it started McDelivery in 2004. However, over the past few years, food ordering pattern of the consumers has witnessed a dramatic change on the back of technological disruption, growth of digital initiatives and growing internet penetration. Delivery sector has been growing faster than ever before, especially after the entry of food aggregators like Swiggy, Zomato etc. Industry reports suggest that US\$700mn delivery market (2017) is expected to grow more than 3x to US\$2,500mn by 2021. Seven key cities, namely Mumbai, Pune, Delhi, Bengaluru, Hyderabad, Chennai and Kolkata will have 87% of the share mainly because of high internet penetration and income level. During the past seven years, delivery baseline sales of WLDL increased 5x as against the number of orders growth of 3x. This clearly indicates the rise in BPO under delivery sales. Technology has also been the biggest contributor to delivery sales revenue growth. The convenient new mobile app, presence on food aggregator platforms, new digital marketing and use of advanced analytics for sharper consumer targeting has boosted online delivery orders whereas offline orders have actually fallen since FY15. Higher share of online orders and declining offline orders shows less dependency on manpower and higher efficiency. WLDL has announced official tie-ups with Zomato and Swiggy in 1QFY18. Also, its membership loyalty programme 'McGold' was launched in April 2018. We believe that McDelivery has an edge over other burger chains like KFC and Burger King as the penetration of WLDL in its key markets is much deeper than the other two. Delivery sale is not the core strength of Burger King and KFC who are largely dependent on food aggregators.

Exhibit 9: Growth in McDelivery sales



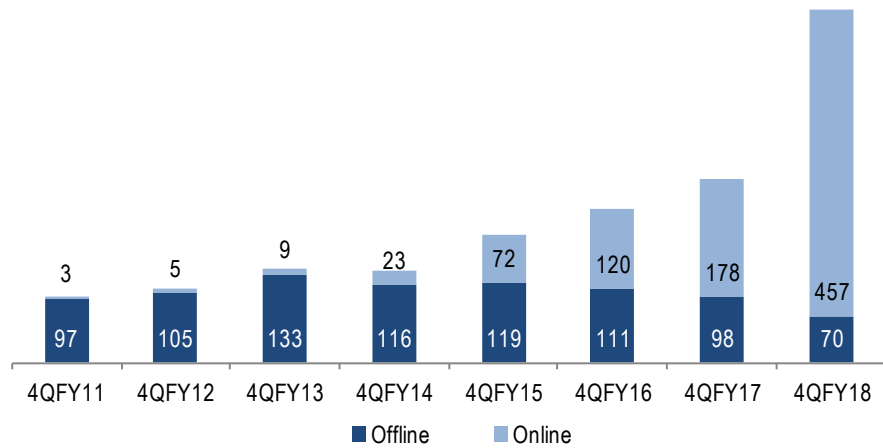
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Growth in McDelivery orders



Source: Company, Nirmal Bang Institutional Equities Research

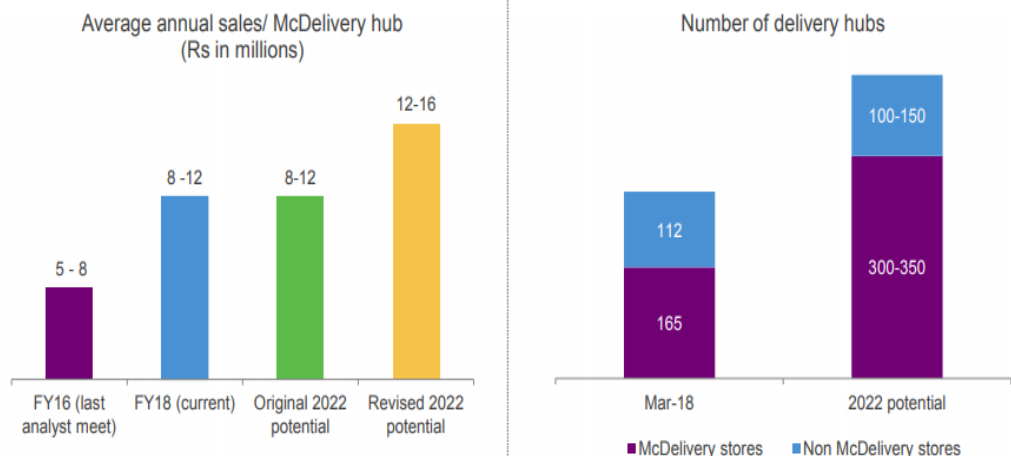
Exhibit 11: Delivery orders by source (indexed to a base of 100)



Source: Company, Nirmal Bang Institutional Equities Research

Performance of the McDelivery platform surprised internal expectations of WLDL as it achieved the revenues targeted for 2022 in FY18 itself. We believe the share of revenues from McDelivery in FY18 stood at 15% as against 10% in FY16. As of FY18-end, WLDL had 165 restaurants with McDelivery platforms i.e. 60% of the total store base. We believe the management's plan to increase the share to 70%-75% sounds reasonable considering the growth that the platform is witnessing and higher BPO there on. We expect McDelivery revenue share to touch 23% by FY21E.

Exhibit 12: WLDL's projected road map for McDelivery

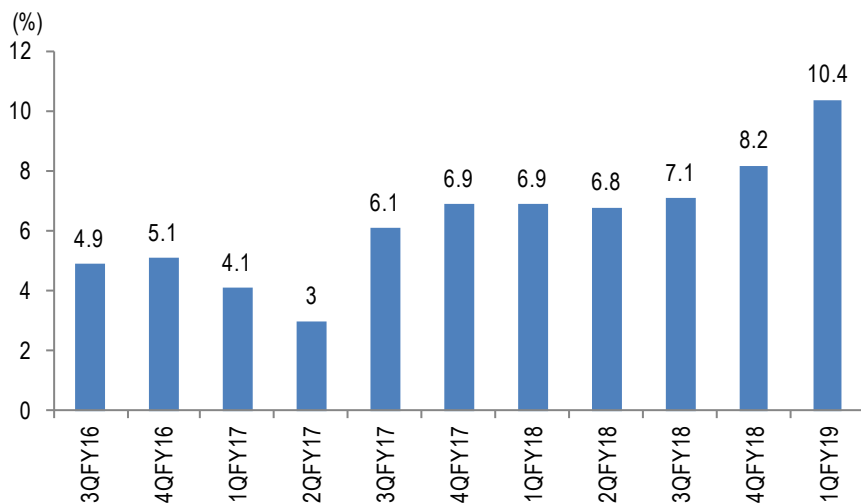


Source: Company, Nirmal Bang Institutional Equities Research

A lot can happen over McCafe

WLDL entered the beverage space through the launch of McCafe platform in FY14. We believe the company has rightfully tapped the retail coffee market (US\$1bn as of 2014-end) in India, which is still at a nascent stage because of low per capita coffee consumption. However, the cafe culture is growing rapidly and the industry is expected to post a CAGR of 20% in the medium term. Introduction of McCafe in existing stores saves a lot of costs as well. The consumer response has been very encouraging for its entire product range. Within four years, WLDL opened 149 McCafes and the share of McCafe sales where McCafe is present has increased 1.6x during the past couple of years. It is to be noted that BPO of McCafe products is higher than the company average BPO - in our opinion, nearly 2x. As per our estimate, the share of McCafe revenues has gone up from 6% in FY16 to 12% in FY18. WLDL uses 100% Arabica coffee beans sourced from Chikmagalur. WLDL's entry in the beverage space is not restricted to coffee, it has leveraged the McCafe brand fully by introducing a wide range of products such as smoothies, iced splash beverages and share shakes etc – to fulfill the requirements of all consumers. As a result, McCafe revenue per store more than doubled in the past three years. We expect the strong growth in McCafe to continue led by strong consumption trend, various marketing campaigns and relatively value-for-money portfolio compared to Starbucks, CCD etc. McCafe is margin-accretive being a beverage brand and as the same is constructed within an existing store with a capex of around Rs2.5mn and occupies minimum space for offering high-ticket price products. This has transformed McDonald's into a coffee destination as well. Our channel checks indicate that McCafe is very popular in select locations, depending upon the locality and income class of consumers. But gradually there has been an improvement after new launches and ongoing menu renovation under McCafe. Taking cognisance of the response for McCafe in the past one year, WLDL has revised upwards its target in terms of revenue potential. The revised target is as given below. Also, single digit SSG growth of coffee day (CCD) when all QSRs are growing in high double digits clearly suggest that McCafe has gained some market share. We believe there is a lot of scope for further innovation in McCafe. In the US, McDonald's recently launched McCafe in a bottle format which consumers can carry with themselves. To enjoy the McCafe experience at home, McCafe bags, K-cups and canisters were launched. We expect the revenue share of McCafe to grow from 12% in FY18 to 21% by FY21E. The same has grown from 6% in FY16 to 12% in FY18.

Exhibit 13: CCD's poor SSG on comparative basis - indicator of market share gains for McCafe



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: % of consumers buying McCafe products

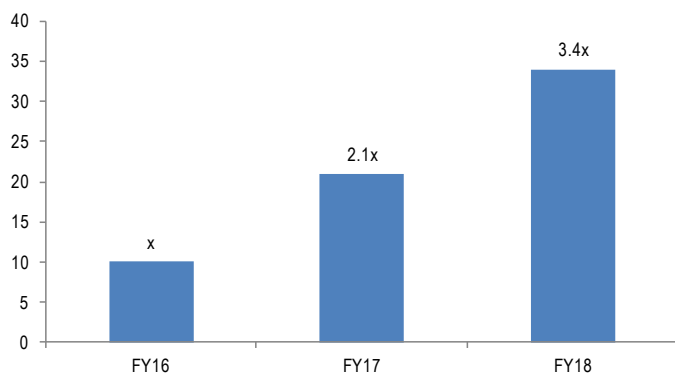
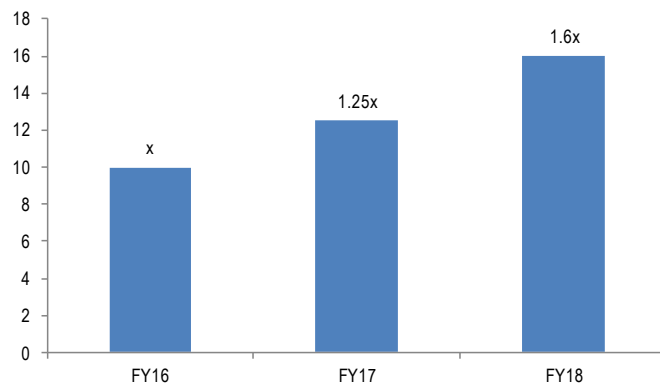


Exhibit 15: % of restaurants sales where McCafe is present



Source: Company, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: McCafe revenue per store

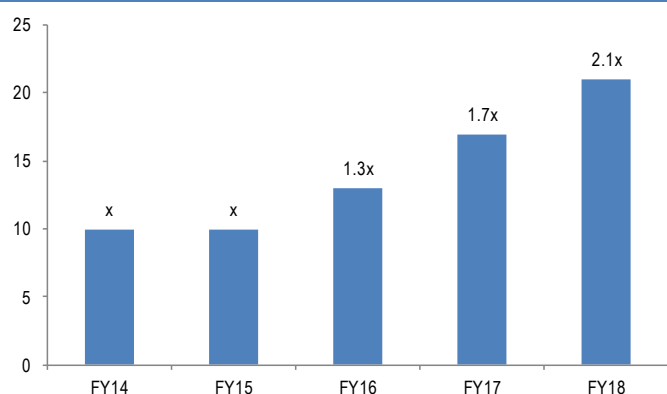
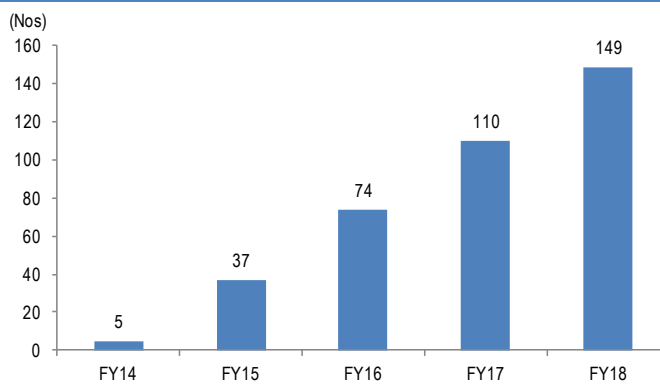


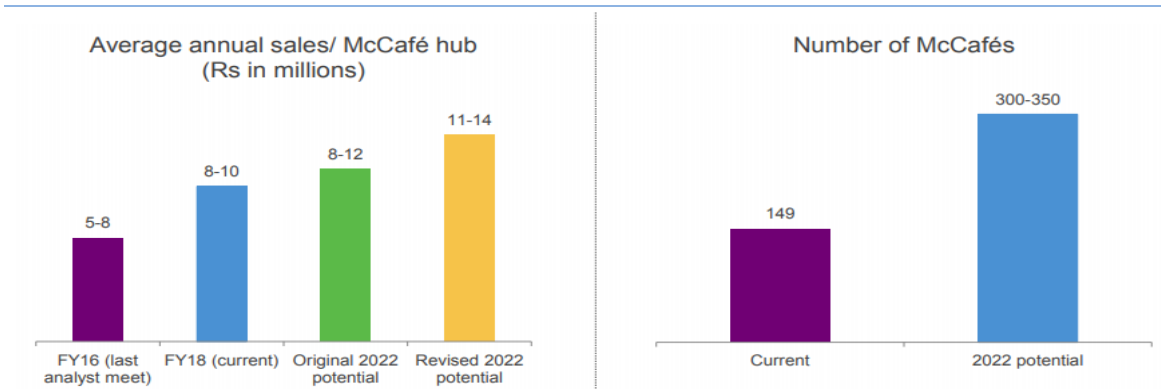
Exhibit 17: Number of McCafes



Source: Company, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Projected journey of McCafe in case of WLDL

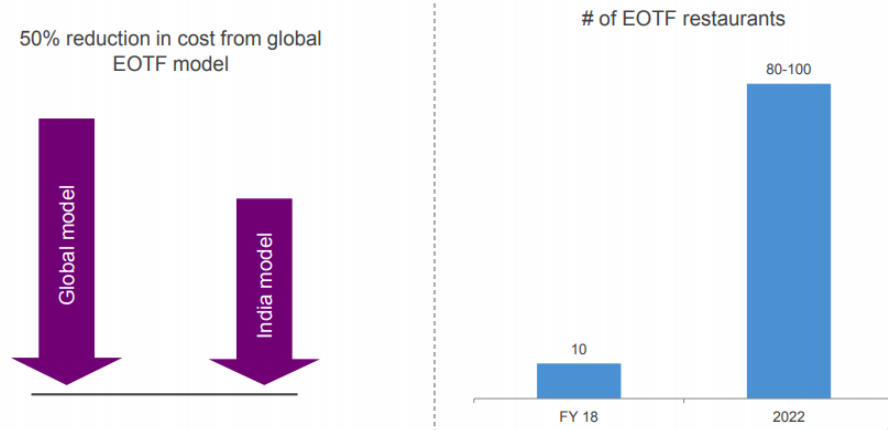


Source: Company, Nirmal Bang Institutional Equities Research

EOTF: Indeed an experience of the future

WLDL understands clearly what the consumer wants, although the product portfolio is extremely important and store décor, convenience and ambience are also what the consumers are looking for. As McDonald's is largely a dine-in model, the in-store experience is very crucial and hence one year ago WLDL started transforming select stores into 'Experience of The Future Stores' wherein there has been an entire change in store design, new menu (soups, salads, rice bowl etc), self-ordering kiosk etc. At the global level, McDonald's plans to convert one-third of its existing stores into EOTFs in the near to medium term. We believe that out of the QSR chains in India, EOTF stores clearly attract the attention of consumers. There were 10 stores as of FY18-end and WLDL expects to increase them to 80-100 stores by 2022. Our channel checks suggest that the initial response for EOTF stores has been fairly encouraging and this will further drive the eating-out frequency of consumers and the overall volume.

Exhibit 19: Rise in the share of EOTF stores is likely



Source: Company, Nirmal Bang Institutional Equities Research

Global + Local = Happy consumers

Indian consumers' palate has to be nurtured carefully because although consumer tastes have evolved over the years after having tried various international cuisines, the importance of Indian taste in food products is widely appreciated. WLDL has correctly identified this opportunity and started focusing on glocal menu – i.e. fusion of local and global right from McAloo Tikki. In the past couple of years, the innovation has gone to the next level wherein various platforms like wraps, naan etc have been introduced. Launch of dosa masala brioche and the recent launch of rice bowl opens up a far bigger opportunity as the menu can be tweaked as per consumer preferences using the same platforms. Such a varied menu innovation will add new consumers to its kitty and also existing consumers shifting their preferences.

Exhibit 20: Menu innovation in the recent past



Source: Company, Nirmal Bang Institutional Equities Research

Good Food Story

Modern consumer is very dynamic and aware of the health issues through internet, social media etc. Hence, although QSR fits in the convenience criteria of consumers, the product menu has to be evolved along with the consumers. As discussed above, normally the word QSR was used in conjunction with junk food. However, WLDL has recently launched a new platform 'Good Food Story' which we believe is sustainable as it ticks all the brackets like taste, health and nutrition. We believe that reinvention of healthy menu in the McDonald's ecosystem will grab new consumers as well as increase overall frequency of eating out.

What is the Good Food Story?

- ✓ Curated wholesome burgers
- ✓ Soft serve is 96% fat-free
- ✓ Complete elimination of trans fats from Pizza McPuff
- ✓ Healthy whole grain wraps
- ✓ Introduction of steamed menu options
- ✓ Reduction of sodium up to 20% in patties, fries, nuggets, sauces etc
- ✓ Increase in dietary fibre up to 25% in patties
- ✓ Elimination of artificial preservatives from most patties
- ✓ Reduction of oil by 40% in mayonnaise

Robust supply chain serves a competitive advantage

WLDL is able to serve fresh, hygienic and nutritious food because of the robust supply chain established by HRPL along with the global partners of McDonald's. The company directly sources as much as 95% of raw materials required from the farmers avoiding the middlemen and also engages with global suppliers to manage local production centres. This saves a lot on transport and logistics costs for WLDL. This 'farm to fork' model ensures no stock-outs and guaranteed supplies. Also, the cold chain infrastructure built by HRPL along with its local partners ensures zero wastage and farm freshness. Prior to the launch of its first restaurant in India in 1996, McDonald's along with suppliers invested six years to develop an internal cold chain network. Local sourcing has resulted in significant cost optimisation. Over the two-decade journey, suppliers have invested close to US\$200mn to increase capacity. We believe that having a robust supply chain is extremely critical to improve and maintain quality and consistency, and the partnership with suppliers following international quality standards will continue to improve the efficiency of the company. Also, terms with many of the suppliers (which are global suppliers as well) mentioned below are favourable compared to other competitors because of the long term relationship and magnitude of the volume which McDonald's provide in India as well as across the globe. It has to be noted that a large part of the 720bps gross margin expansion over the past seven years could be attributed to supply chain efficiency.

Exhibit 21: Key raw material suppliers

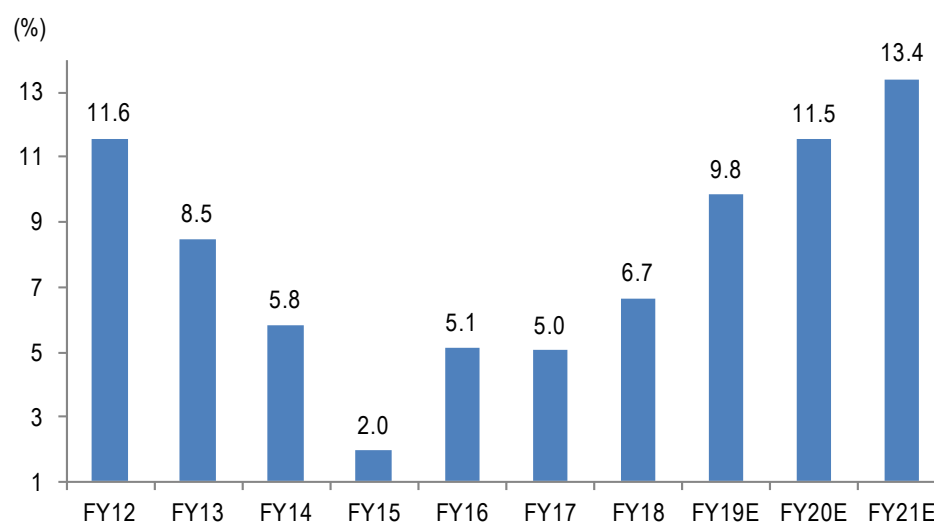
Product	Supplier	Location
Buns	Mrs. Bectors	Mumbai
Patties	Vista	Mumbai
Lettuce	Vista	Various locations
Cheese	Dynamix	Baramati
Special Sauces	Cremica	Ludhiana
Fries	McCain	Mehsana
Rice	Vista	Mumbai
Coke	Coca-Cola India	Various locations
Coffee beans	Coca-Cola India	Chikmagalur

Source: Company, Nirmal Bang Institutional Equities Research

Headroom for margin expansion

WLDL currently operates at 7% EBITDA margin, up from 2% in FY15. However, before FY15, WLDL clocked 11.6% EBITDA margin in FY12 when the consumption environment was favourable, resulting in higher SSG. As macro factors play a key role in the success of QSR chains in India, its profitability also swings either ways. We believe that encouraging consumption trend coupled with various company-level initiatives will boost operating margin profile of the company and it can achieve the previously reported higher margins.

Exhibit 22: Operating margin trend of WLDL

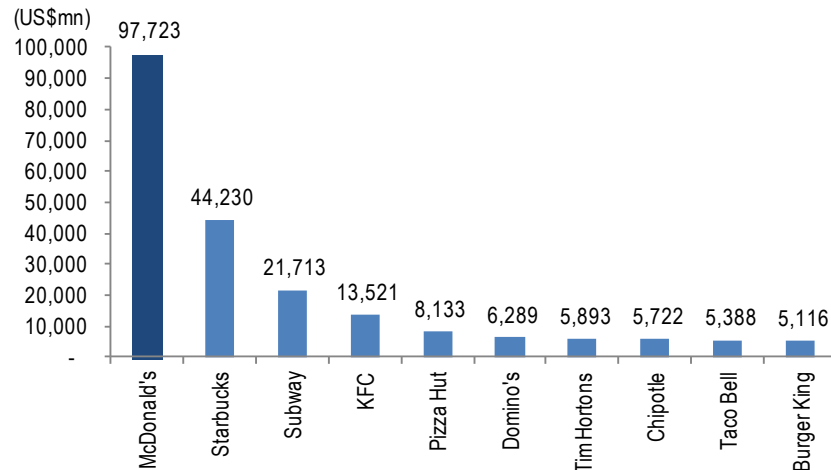


Source: Company, Nirmal Bang Institutional Equities Research

Strong parent focus

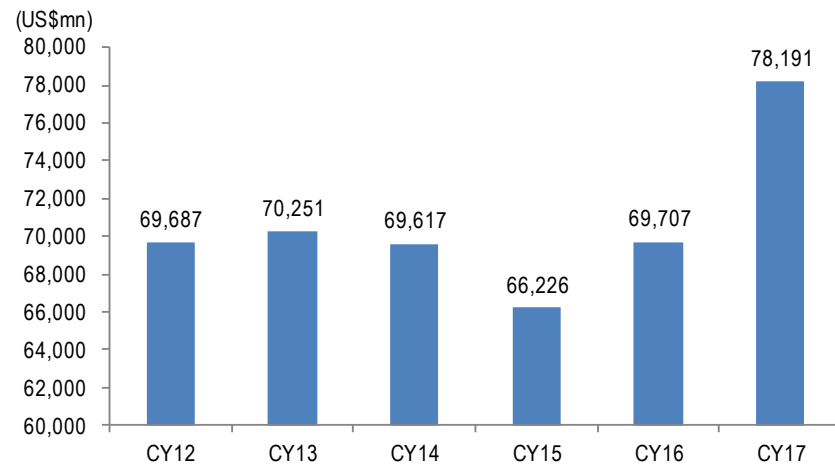
McDonald's is the world's second largest chain in QSR. Although Subway tops the list with 43,912 stores, its revenue growth has been falling since 2014 whereas other giants namely, McDonalds and Starbucks managed to grow its revenue. This is linked to the ongoing menu innovation and efforts to improve consumer experience. Overall, performance of QSR chains across the globe in last 5 years has been quite volatile however, McDonald's has made a major comeback in last 3 years, as reflected in its above average SSG.

Exhibit 23: Brand value of McDonalds – way ahead that other QSR chains put together



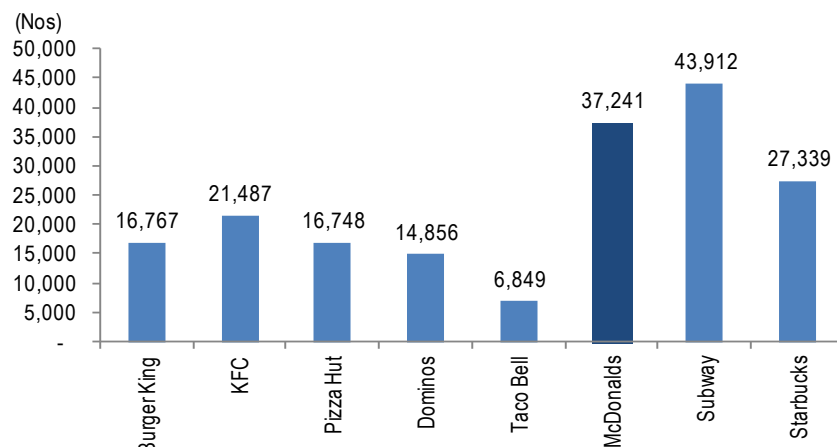
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Strong Franchise sales of McDonald's across the globe



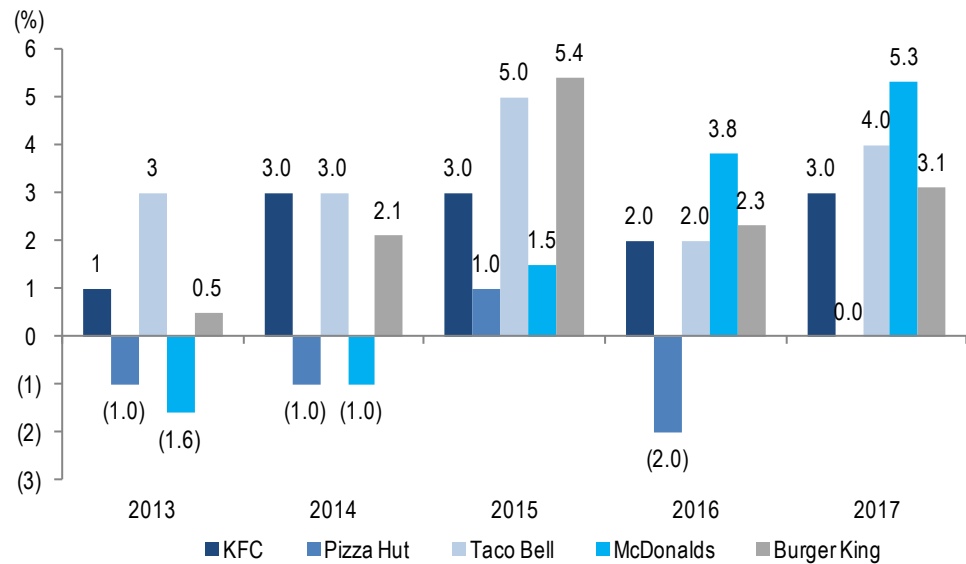
Source: McDonald's Corp Annual Report, Nirmal Bang Institutional Equities Research

Exhibit 25: Number of stores of different QSR chains across the globe



Source: Various websites, Annual filings, Nirmal Bang Institutional Equities Research

Exhibit 26: Number of stores of different QSR chains across the globe



Source: Annual Filings of respective companies, Nirmal Bang Institutional Equities Research

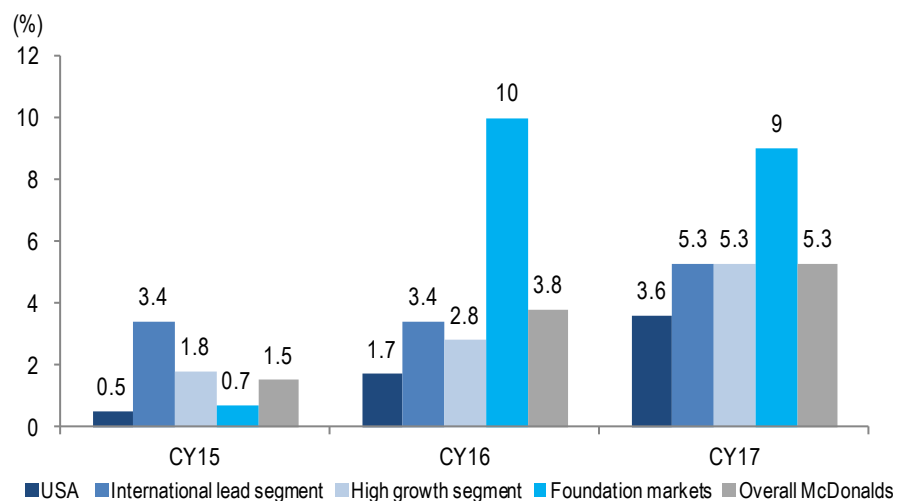
At the global level, India is classified as a foundation market for McDonald's which primarily focuses on the franchising model. Currently, the share of foundation market franchising revenues form 23% of the total franchised store revenues. However, the overall share of foundation market is very low. Over the past three years, foundation market has witnessed highest increase in revenue per store compared to other segments. Also, SSG has been far superior in the last couple of years in the foundation markets as shown below.

Exhibit 27: Segments under McDonald's Corp.

Segment	Countries
US	US
International lead markets	UK, Australia, Canada, France, Germany
High growth markets	China, HongKong, Italy, Poland, Korea, Russia, Spain, Switzerland etc
Foundation markets	India, Japan, Brazil etc

Source: McDonald's Corp. Annual Report, Nirmal Bang Institutional Equities Research

Exhibit 28: Strong SSG in foundation markets



Source: McDonald's Corp. Annual Report, Nirmal Bang Institutional Equities Research

Exhibit 29: Revenue per store of company-owned stores

Revenue per store (US\$)	2015	2016	2017	CAGR
US	2.94	3.31	3.87	15%
International lead markets	3.92	3.90	4.53	8%
High growth markets	1.91	1.86	4.11	47%
Foundation markets	2.01	3.06	3.78	37%

Source: McDonald's Corp Annual Report, Nirmal Bang Institutional Equities Research

Exhibit 30: Revenue per store of franchisee-owned stores

Rev per store (US\$)	2015	2016	2017	CAGR
US	2.47	2.51	2.61	3%
International lead markets	2.92	2.96	3.13	3%
High growth markets	1.87	1.82	1.45	(12%)
Foundation markets	1.50	1.56	1.78	9%

Source: McDonald's Corp Annual Report, Nirmal Bang Institutional Equities Research

Reviewing the operating margin of company-owned stores across regions, overall the margin trend is in mid-high teens. WLDL's margin is currently 0.5x of the global-level margin and, in our opinion, higher eating-out frequency, growth of delivery and McCafe platforms and improved focus on cost optimisation will help in bridging the gap between the same.

Exhibit 31: Operating margin trend of company-owned stores

Company-operated stores (%)	2015	2016	2017	change
US	15.1	16.5	16	90bps
International lead markets	20	20.7	21.1	110bps
High growth markets	12.1	14.8	17	490bps
Foundation markets	12.7	15.6	18.3	560bps
Overall	15.2	17	18.2	300bps

Source: McDonald's Corp. Annual Report, Nirmal Bang Institutional Equities Research

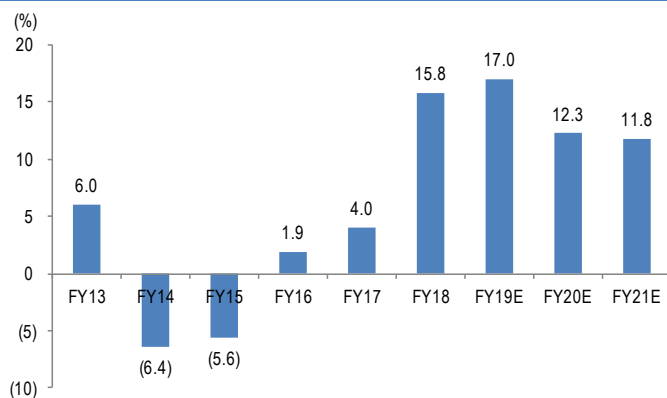
Financial performance

QSR industry in India, in the past few years, has seen both the cycles – the boom period before FY14 as well as the sluggish growth after that for the next three to four years. WLDL is not an exception to it. Growth of QSR industry could be linked to the overall macro environment and consumer sentiment which is primarily linked to future disposable income vis-à-vis inflation expectation. Subdued SSG was an indicator of the same. It is really commendable that WLDL during that period unveiled its Vision 2022, which shows the confidence of the management in the QSR space and its own brand. Rising market penetration through store expansion is a key factor in the QSR model and WLDL maintained its expansion rate during the slowdown period as well. As regards menu innovation, the company continuously strives to set up new platforms which could aid in sustainable growth rather than just sticking to burgers. Robust supply chain built along with local suppliers and partners of McDonald's gives a competitive edge over peers through cost efficiency and maintaining the commitment to provide fresh food. All these initiatives taken together translate into better and profitable revenue growth for the company. WLDL has grown its top-line and EBITDA during FY14-FY18 at a CAGR of 11%-15% and we expect the company to deliver three-year CAGR of 21% and 51% in revenues and EBITDA, respectively, going forward led by positive consumption environment, close to doubling of the store base (including McCafe and McDelivery), menu innovation and cost optimisation initiatives.

Growth led by store expansion and SSG

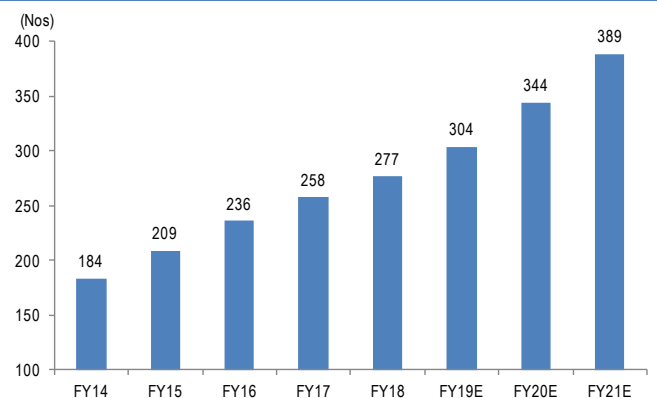
WLDL did not cut down its store openings during the slowdown period and hence with a positive consumption environment, the company managed to capitalise on the growth opportunity. We expect the buoyancy to continue in the medium term. Most of WLDL's offerings are in top 6 cities and around 60% of the new stores will be opened in these cities. We feel the frequency of eating out has started to move up gradually and there is a whole set of company-level initiatives like new menu platform, improved store décor etc. Its core competitors have not been able to penetrate this much and also lag on the product portfolio diversification front. WLDL will keep adding 12% of the store base every year, in our opinion. We have factored in 21% CAGR over FY18-FY21E.

Exhibit 32: Strong SSG to continue



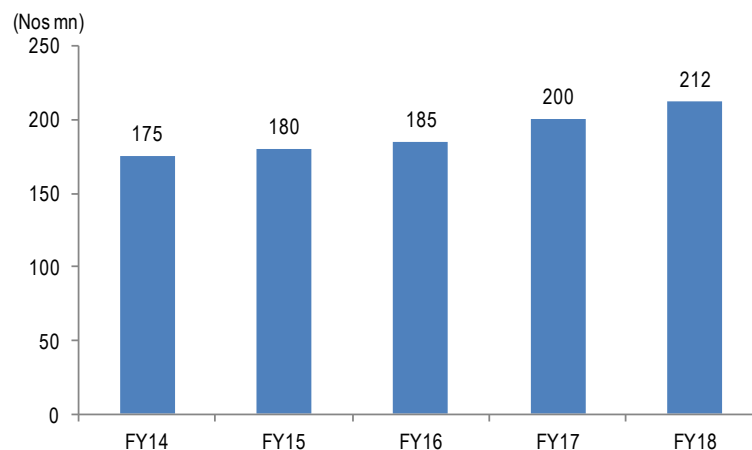
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 33 : Store expansion mode



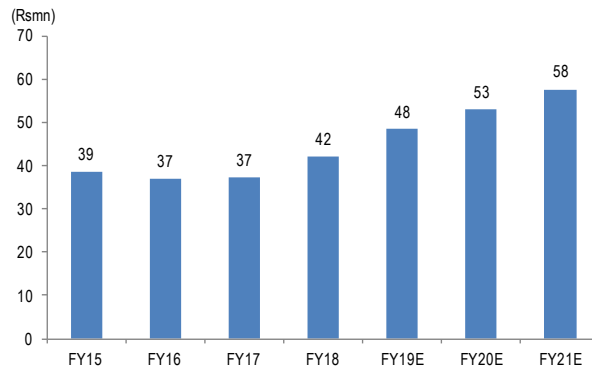
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 34: Rising footfalls

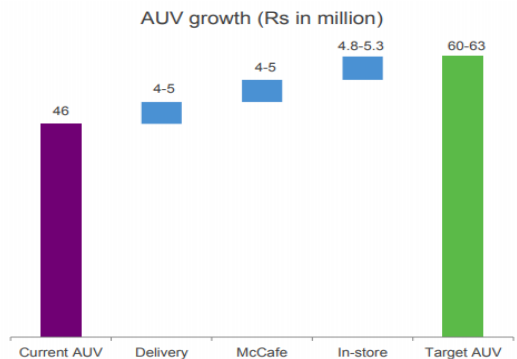


Source: Company, Nirmal Bang Institutional Equities Research

We believe that WLDL's efforts to sweat its existing assets are credible wherein the launch of various platforms, menu innovation and improving the store experience will increase the frequency of eating out as well as add new consumers. Employees are given revenue targets wherein they try to convert consumers buying Aloo Tikki to a McSaver combo etc. This increases the BPO per store. Considering the menu variety at different price points for different consumers, robust growth in McDelivery and McCafe platforms, strong marketing initiatives and positive consumption environment there will be an increase in revenue per store from Rs42.4mn in FY18 to Rs55.8mn in FY21E, a three-year CAGR of 10%. This sets a premise for our assumption of SSG above 10% for the next few years,

Exhibit 35: Growth in revenue per store (AUV)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 36: WLDL's target AUV in CY2022


Source: Company, Nirmal Bang Institutional Equities Research

Further headroom for gross margin expansion

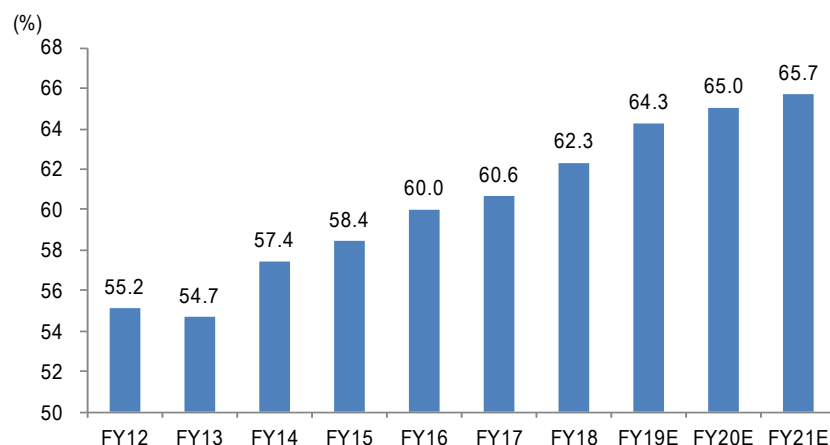
WLDL's gross margin in the past seven years has witnessed robust expansion of 720bps. Although the company's focus remained on value-for-money offerings, the launch of new brand extensions, namely McCafe, McDelivery and some of the other high-ticket price offerings have helped in improving the product mix along with scale. But we believe that a large part of this margin improvement could be attributed to supply chain efficiency. Going forward, we believe the product mix will also play a pivotal role in margin expansion.

We believe there is further scope for 340bps gross margin expansion till FY21E, mainly led by improvement in the product mix and higher SSG. We expect McDelivery and McCafe to post CAGR of 40% and 45%, respectively. As per our estimates, current revenue share of McDelivery and McCafe as of FY18-end was 15% and 12%, respectively, and with accelerated store openings in the coming years along with a strong consumer response we expect this to touch 23% and 21%, respectively, by FY21E. Also, the company considers 3%-5% price hikes every year to mitigate the impact of inflation.

Exhibit 37: Robust growth expectations in brand extensions

Revenue share (%)	FY18	FY19E	FY20E	FY21E
McCafe	12	14	17	21
McDelivery	15	17	20	23

Source: Nirmal Bang Institutional Equities Research

Exhibit 38: Headroom for further gross margin expansion


Source: Company, Nirmal Bang Institutional Equities Research

Cost management and operating leverage

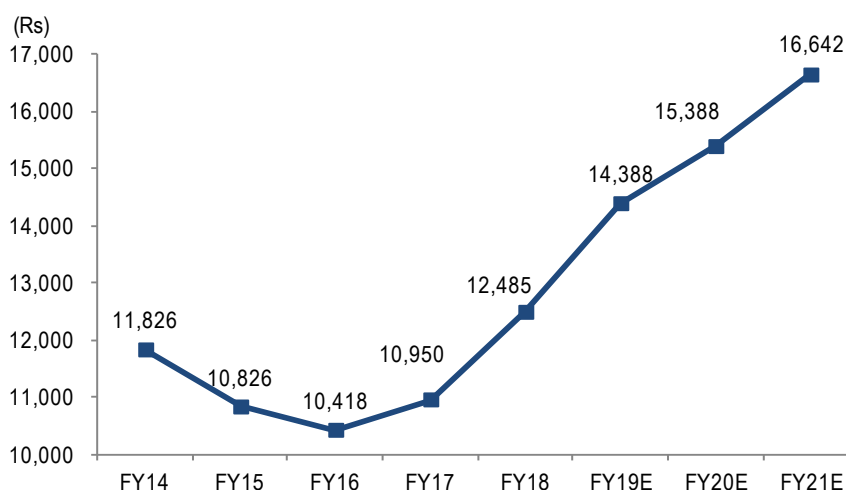
WLDL focuses a lot on cost optimisation initiatives. Robust supply chain continues to improve efficiency. However, we believe the launch of ROP 2.0 will be the game changer going forward. ROP 2.0 was launched in FY16 and all the new stores opened thereafter achieve break-even within 12-18 months as against 24 months earlier. New stores take into account factors like space optimisation, energy and manpower management etc and all this leads to effective management of stores. Although, currently relatively a small part of total stores come under the ROP 2.0 platform, the benefits of the same will be visible in the coming years with accelerated store openings on the part of the company. Apart from ROP 2.0, on a general basis, WLDL thrives to save on every cost line and has given internal cost targets store-wise to the managers. Power and fuel is one of the major costs for the company and in many stores it has appointed a dedicated person to optimise the use of power and electricity, whereas on a pilot basis there have been energy sensors installed in the stores. There has been a lot of focus on reducing power costs over the past few years and results of the same are visible in the common-size table shown below. WLDL enjoys a real estate advantage where in terms of rent agreement it has a superior status compared to the industry. WLDL pays royalty of 4% to its parent and as per the agreement, the same is to be increased to 8% from FY20, but the management has time and again indicated that the negotiations are on and there could be a win-win solution coming up before the end of this financial year. Also, there is greater emphasis on rationalisation of G&A expenses over time. Currently, corporate overheads form 5.7% of the revenues as against 6% in FY16. Also, sweating of existing assets will provide operating leverage benefits in addition to that. All these initiatives along with the strong top-line growth will play a pivotal role in margin expansion targeted internally. We expect the operating margin to witness a robust 670bps improvement over the next three years.

Exhibit 39: Common-size statement

(%)	FY17	FY18	FY19E	FY20E	FY21E
COGS	39.4	37.7	35.7	35.0	34.3
Staff costs	15.1	15.2	14.7	14.3	14.0
Other expenses					
Power & fuel costs	9.7	8.7	8.0	7.2	6.5
Rent	8.8	8.9	8.7	8.4	8.2
Advertisement & sales promotion	5.9	5.5	5.5	5.5	5.4
Repairs and maintenance	3.1	3.2	3.2	3.2	3.0
Royalty	3.9	4.2	4.6	5.9	7.1
Store supplies	1.5	1.5	1.5	1.4	1.0
Travelling and conveyance	0.7	0.6	0.5	0.4	0.2
Professional fees	0.8	0.8	0.7	0.7	0.5
Others	6.1	7.1	7.2	6.6	6.4
Total other expenses	40.5	40.5	39.9	39.3	38.3

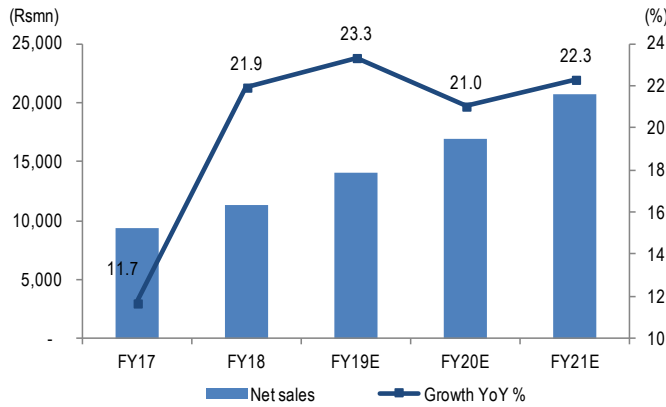
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 40: Revenue per sq ft will move up sharply



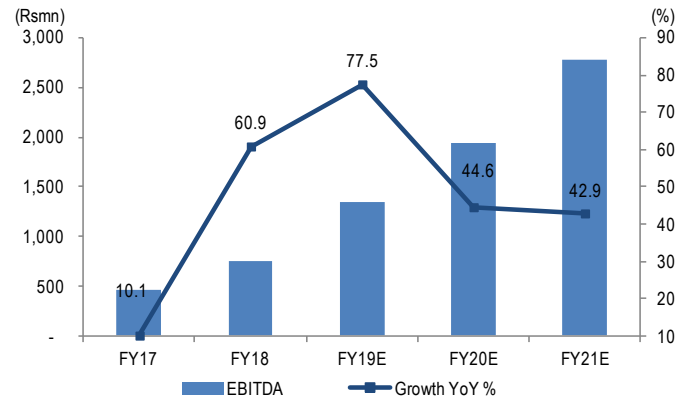
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 41: Strong top-line growth



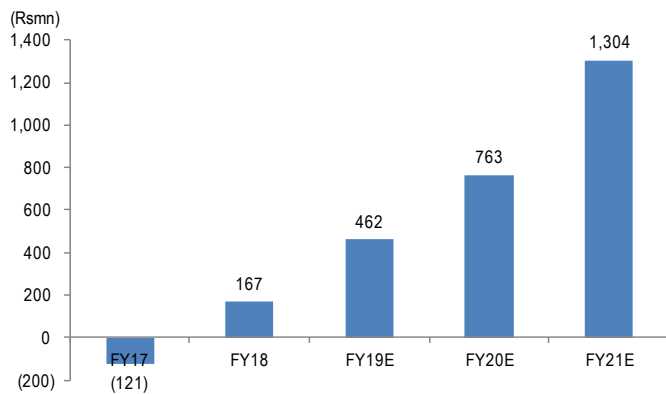
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 42: Healthy EBITDA growth trend



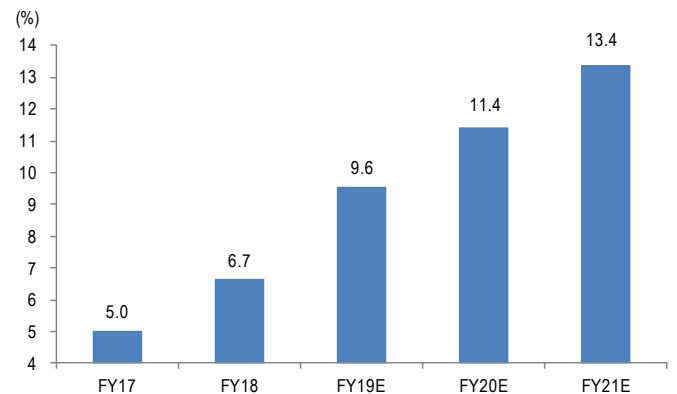
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 43: Robust Net profit growth



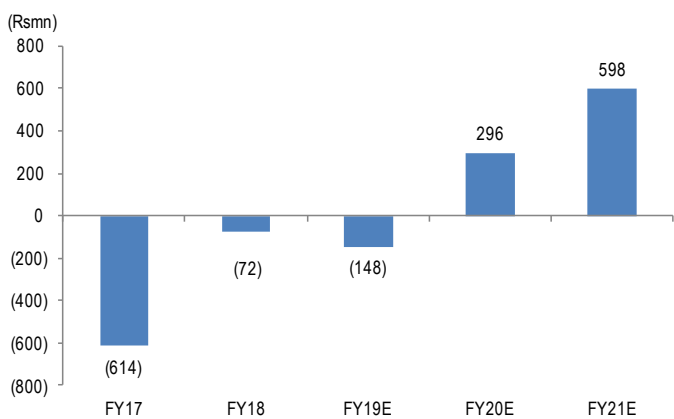
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 44: EBITDA margin expansion



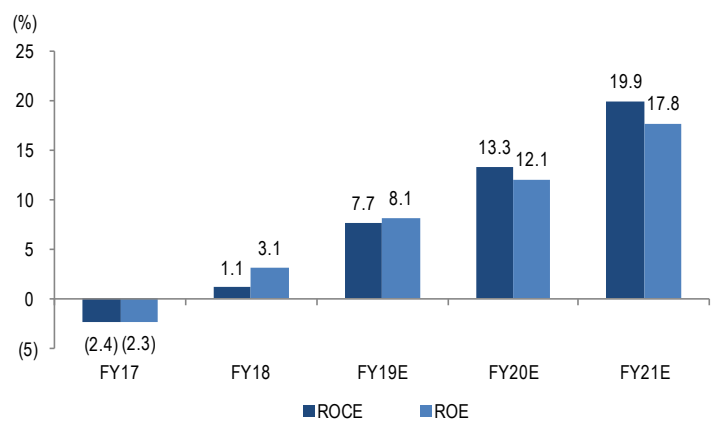
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 45: Positive FCF is likely



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 46: Improvement in return ratios

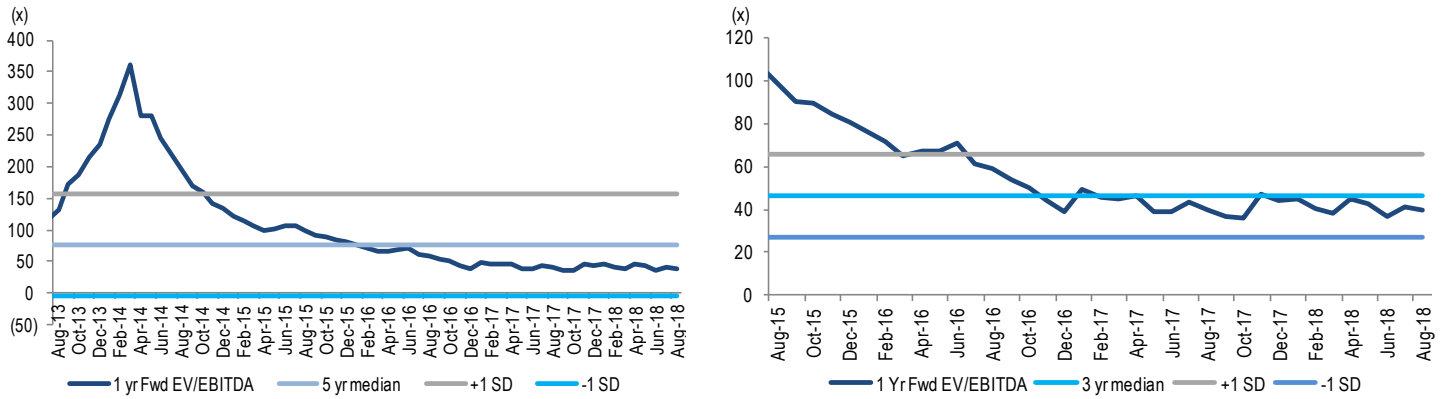


Source: Company, Nirmal Bang Institutional Equities Research

Valuation and recommendation

Our investment case on WLDL is based on the fact that the QSR industry itself is in a growth stage and WLDL's efforts to gain market leader status through menu innovation and robust store expansion with a focus on operating margin expansion are credible. Also, WLDL has a competitive edge over other burger chains in terms of market penetration and efficiency of delivery. We have compared the growth estimates of WLDL and valuation with Jubilant FoodWorks or JUBI where our three-year CAGR sales/EBITDA/PAT estimates are at 18%/27%/35%, respectively. Also, the valuation differential between WLDL and other global peers is justified by superior earnings growth. We believe that WLDL is at inflection point and we expect revenue, EBITDA and net income to post a three-year CAGR of 22%/54%/99%, respectively, clearly ahead of the market. Therefore, the stock will continue to trade at a higher earnings multiple.

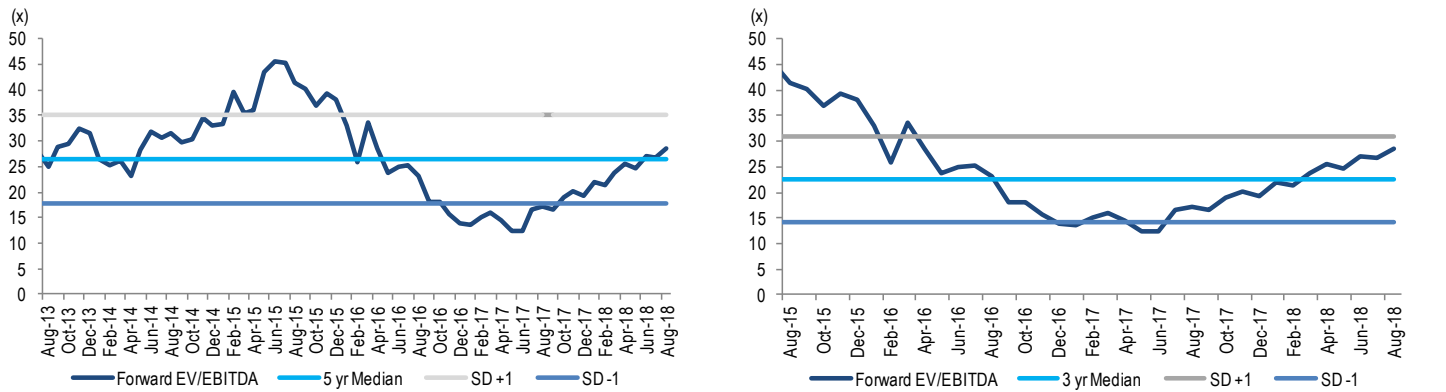
Exhibit 47: One-year forward EV/EBITDA



Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Jubilant FoodWorks valuation

Exhibit 48: One-year forward EV/EBITDA



Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 49: Valuation of domestic and global QSR players

Company	CMP (LC)	Mkt cap (USD mn)	P/E (x)				EV/EBITDA (x)				P/Sales (x)				3-yr CAGR FY18-FY21E			PEG (x)
			FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	Sales	EBITDA	EPS	
Indian QSR players																		
Jubilant FoodWorks	1519	2,870	97.0	60.3	47.0	39.1	43.9	27.0	24.8	20.1	6.7	5.7	4.9	4.1	17.9	27.7	35.4	2.7
Westlife Development	395	894	368.9	133.1	80.5	47.1	83.0	46.6	32.1	22.2	5.4	4.4	3.6	3.0	22.2	54.2	98.9	3.7
Global QSR players																		
Mcdonald's Corp	162	1,25,431	25.1	21.1	19.7	18.2	14.9	14.9	14.3	13.7	5.5	6.0	6.0	6.0	(2.7)	1.1	11.3	2.2
Starbucks Corp	54	72,743	27.1	22.3	20.3	17.8	14.0	14.0	13.0	11.9	3.2	2.9	2.8	2.6	8.2	7.9	15.0	1.8
Sysco Corp	75	39,168	27.4	21.4	19.4	17.9	13.2	13.2	12.3	11.7	0.7	0.6	0.6	0.6	4.0	9.2	15.2	1.8
Yum! Brands Inc	84	26,693	21.8	24.0	22.0	20.0	18.4	18.4	17.3	16.5	4.5	4.7	4.7	4.6	(0.1)	(10.3)	3.0	7.4
Chipotle Mexican Grill Inc	516	14,340	83.3	59.8	43.0	33.7	25.9	25.9	21.1	17.7	3.2	3.0	2.7	2.5	8.6	21.4	35.2	2.4
Domino's Pizza Inc	285	11,923	47.1	34.2	29.9	25.5	23.5	23.5	21.0	18.7	4.3	3.4	3.1	2.8	14.6	12.6	22.7	2.1
Jollibee Foods Corp	273	5,567	41.5	38.0	33.2	28.7	22.2	22.2	18.9	16.3	0.0	1.9	1.6	1.4	16.5	17.4	13.1	3.2
Wendy's Co.	18	4,368	23.3	33.1	26.8	21.9	16.5	16.5	15.1	13.9	3.6	2.7	2.6	2.5	12.0	13.6	2.1	10.9
Domino's Pizza Ent	55	3,472	39.6	30.9	26.5	22.9	17.6	17.6	15.4	13.6	3.0	3.6	3.2	2.9	12.0	18.2	20.2	2.0
Domino's Pizza Group PLC	289	1,751	21.8	17.7	15.9	14.4	13.6	13.6	12.3	11.3	3.7	2.4	2.2	2.1	11.7	17.4	13.4	1.6
Cafe de Coral Holdings	19	1,419	24.1	21.2	19.9	18.0	10.3	10.3	9.7	8.7	0.2	1.2	1.2	1.1	6.8	9.5	10.2	2.4

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

We initiate coverage on WLDL with a Buy rating and a target price of Rs485 by September 2019, implying an upside of 23% from the CMP. Our target price is based on EV/EBITDA multiple of 32x (September 2020E EBITDA) which is at a 20% discount to the current one-year forward EV/EBITDA and three-year median EV/EBITDA. We have assigned around 23% premium to the target multiple of Jubilant FoodWorks. We expect above average earnings growth on account of aggressive store expansion, robust performance of brand extensions, ongoing menu innovation and strong focus on cost optimisation. Therefore, WLDL stock will continue to trade at a higher multiple on account of higher-than-industry average growth.

Risks

- Our thesis is premised on the strong ongoing consumption environment in the medium term. Slowdown or below-expected GDP growth could change the consumer priorities significantly.
- Currently, WLDL pays a royalty of 4% to its parent and the agreement states that 8% royalty has to be paid from FY20 onwards. Considering the discussion with the management, and the overall McDonald's presence in India where northern and eastern regions are in trouble, we don't expect the royalty hike as indicated by the agreement. However, if that materialises, there could be a reasonable variance compared to our earnings estimates.
- We believe that currently WLDL has a strong foothold in key cities that it operates in. However, a big change in the expansion strategy of competitors could increase the pressure on the brand.

Company background

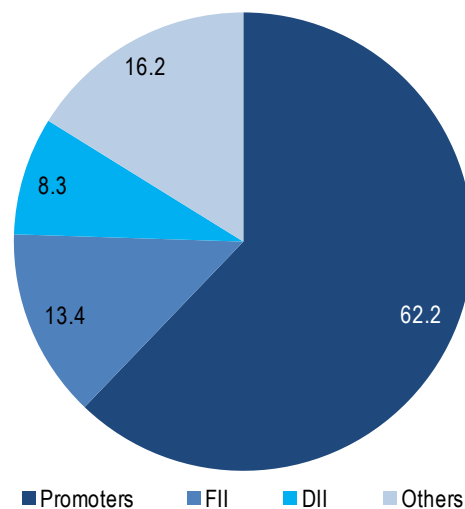
Westlife Development (WLDL), through its 100% subsidiary, Hardcastle Restaurants Pvt. Ltd or HRPL, owns and operates a chain of McDonald's restaurants in west and south India, being a master franchisee of the US-based McDonald's Corporation. McDonald's provides various formats and brand extensions that include standalone restaurants, drive-thrus, McCafés, McDelivery (online ordering services), order placement apps and kiosks at major transit points. A development licensee develops sites at its own cost and pays royalty to McDonald's Corporation. The parent, McDonald's Corporation, offers technical, operation and business support. HRPL has the right to own and operate McDonald's restaurants in western and southern regions of India until 2030, with an option to renew it for a further period of 10 years.

Exhibit 50: Management committee

Name	Designation
B.L. Jatia	Chairman
Amit Jatia	MD and Vice Chairman
Suresh Lakshminarayanan	CFO

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 51: Shareholding pattern (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 52: Top 5 public shareholders

Particulars	% holding
SBI Mutual Fund	8.34
Arisaig India Fund	7.90
Rajiv Himatsingka	7.24
Bay Capital Investments	2.63
Tree Line Asia Master Fund	2.01

Source: Company, Nirmal Bang Institutional Equities Research

Financials (consolidated)

Exhibit 53: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	9,308	11,349	13,996	16,939	20,716
% Growth	11.7	21.9	23.3	21.0	22.3
SSG %	4.0	15.8	17.0	12.3	11.8
COGS	3,663	4,275	5,002	5,920	7,111
Staff costs	1,407	1,721	2,064	2,423	2,895
Other expenses	3,768	4,597	5,589	6,657	7,940
Total expenses	8,838	10,593	12,656	15,001	17,946
EBITDA	470	755	1,341	1,939	2,771
% growth	10.1	60.9	77.5	44.6	42.9
EBITDA margin (%)	5.0	6.7	9.6	11.4	13.4
Other income	200	248	124	182	239
Interest costs	154	151	160	175	190
Depreciation	637	673	761	855	956
Profit before tax (before exceptional items)	(121)	180	543	1,090	1,863
Exceptional items	0	0	0	0	0
Tax	0	13	81	327	559
PAT (before exceptional items)	(121)	167	462	763	1,304
PAT	(121)	167	462	763	1,304
PAT margin (%)	(1.3)	1.4	3.3	4.5	6.2
% Growth	-	-	177.1	65.3	70.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 55: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	311	311	311	311	311
Reserves	4,964	5,111	5,619	6,382	7,686
Net worth	5,275	5,422	5,930	6,693	7,997
Total debt	1,904	1,891	1,900	1,800	1,700
Deferred tax liability	0	0	0	0	0
Total liabilities	8,803	9,291	9,907	10,932	12,233
Gross block	8,450	9,552	10,752	12,052	13,452
Depreciation	3,142	3,815	4,576	5,432	6,388
Net block	5,307	5,737	6,175	6,620	7,064
Capital work-in-progress	172	0	0	0	0
Investments	1,700	1,843	1,900	2,200	2,500
Inventories	302	337	403	505	664
Debtors	49	64	89	189	151
Cash	71	109	208	246	653
Loans & advances	1,094	1,161	1,100	1,120	1,120
Other current assets	100	39	30	50	80
Total current assets	1,780	1,238	1,530	1,860	2,668
Creditors	783	1,084	1,109	1,421	1,618
Other current liabilities & provisions	915	932	950	1,000	900
Total current liabilities	3,528	3,850	3,959	4,221	4,218
Net current assets	(1,748)	(2,613)	(2,429)	(2,361)	(1,550)
Total assets	8,803	9,291	9,907	10,932	12,233

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 54: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
PAT	(121)	167	462	763	1,304
Depreciation	637	673	761	855	956
Other income	(200)	(248)	(124)	(182)	(239)
(Inc./)dec. in working capital	(23)	267	(47)	160	(24)
Cash flow from operations	293	858	1,052	1,596	1,998
Capital expenditure (-)	(907)	(930)	(1,200)	(1,300)	(1,400)
Net cash after capex	(614)	(72)	(148)	296	598
Inc./dec. in investments & other assets	78	105	136	(158)	(91)
Cash from investing activities	(829)	(825)	(1,064)	(1,458)	(1,491)
Dividends paid (-)	-	-	-	-	-
Inc./dec. in total borrowings	409	(13)	9	(100)	(100)
Cash from financial activities	409	5	9	(100)	(100)
Others	128	-	102	-	-
Opening cash balance	70	71	109	208	246
Closing cash balance	71	109	208	246	653
Change in cash balance	1	39	99	38	407

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 56: Key ratios

Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Per share (Rs)					
EPS	(0.8)	1.1	3.0	4.9	8.4
Book value	33.9	34.9	38.1	43.0	51.4
Valuation (x)					
P/Sales	3.6	5.4	4.4	3.6	3.0
EV/sales	3.6	5.5	4.5	3.7	3.0
EV/EBITDA	72.3	83.0	46.6	32.1	22.2
P/E	(274.1)	368.9	133.1	80.5	47.1
P/BV	6.3	11.3	10.4	9.2	7.7
Return ratios (%)					
RoCE	(2.4)	1.1	7.7	13.3	19.9
RoE	(2.3)	3.1	8.1	12.1	17.8
Profitability ratios (%)					
Gross margin	60.6	62.3	64.3	65.0	65.7
EBITDA margin	5.0	6.7	9.6	11.4	13.4
EBIT margin	(1.8)	0.7	4.1	6.4	8.8
PAT margin	(1.3)	1.4	3.3	4.5	6.2
Liquidity ratios (%)					
Current ratio	0.5	0.3	0.4	0.4	0.6
Quick ratio	0.4	0.2	0.3	0.3	0.5
Solvency ratio (%)					
Debt to Equity ratio	0.4	0.3	0.3	0.3	0.2
Turnover ratios					
Total asset turnover ratio (x)	1.1	1.2	1.4	1.5	1.7
Fixed asset turnover ratio (x)	1.8	2.0	2.3	2.6	2.9
Inventory days	28.9	27.3	27.0	28.0	30.0
Debtors days	1.8	1.8	2.0	3.0	3.0
Creditor days	72.8	79.7	80.0	78.0	78.0

Source: Company, Nirmal Bang Institutional Equities Research

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

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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