

May 21, 2018

**Rating: BUY**

Ticker: WDL  
Exchange: BSE  
CMP: Rs.390  
Target: Rs.515  
Upside: 32%

**Key Stock Data**

Sector	Restaurants
No. of shares	15.55 Crs
FV (Rs)	2
MCAP (Rs)	6109 Crs
MCAP (\$)	90 Crs

**Key Financials (Rs. in Crs)**

Y/E March	FY18 A	FY19 E	FY20 E
Revenue	1126	1407	1688
EBITDA	68	113	169
PAT	13	42	84
EPS /sh.	0.83	2.71	5.43
BV /sh.	35	38	43
P/BV (x)	11.33	10.51	9.18
PE (x)	475	145	72
ROE (%)	NA	7%	13%

**Shareholding Pattern**

Promoters	62.17%
FII's	13.16%
DII's	8.72%
Others	15.95%



Research Analyst

Foram Parekh

[Foram.parekh@indiabulls.com](mailto:Foram.parekh@indiabulls.com)**Westlife Development Ltd. - WDL****4QFY18 Result Update**

WDL reported stupendous set of 4QFY18 numbers on all counts on a yearly basis. The topline of the company grew by 34% Y-o-Y but de-grew by 2% Q-o-Q to Rs. 298 Crs in 4QFY18 as against Rs.233 Crs in 4QFY17 and Rs. 303 Crs in 3QFY18. EBITDA for the quarter grew by 74% Y-o-Y and de-grew by 38% Q-o-Q to Rs. 14 Crs in 4QFY18 as against Rs.8 Crs in 4QFY17 and Rs. 23 Crs in 3QFY18. PAT for the quarter 4QFY18 turned profitable to Rs. 7 Crs in 4QFY18 as compared to a loss of Rs. 4 Crs in 4QFY17 and a profit of Rs. 8 Crs in 3QFY18. EBITDA Margin decreased by 276 bps Q-o-Q and 34 bps Y-o-Y to 4.73% in 4QFY18 as against 7.49% in 3QFY18 and 3.64% in 4QFY18. PAT Margin turned positive on a yearly basis to 2.21% in 4QFY18 as against -1.85% in 4QFY18 and a decline of 34 bps on a sequential basis to 2.55%.

**Primary reason for growth in sales**

The primary reason for the growth in sales is due to positive shift in consumer sentiment and footfalls continue. SSG (Same Store Growth) continues to gain momentum which aided the total sales growth to hit to record high. SSG growth reported at 25.1% was chiefly due to menu innovation, value platforms & brand extensions.

**Outlook & Valuations**

WDL has restaurants with all-day menus of high value-for-money offerings. We believe the innovated café, breakfast and beverage offerings, along with a delivery platform, would be significant contributors ahead to Westlife's revenue. The management is expecting good footfalls out of its innovative launching of McCafe which will increase margins over the coming quarters. Due to all the above factor we have a BUY recommendation on the stock. We would like to value the company on a PEG ratio multiple of 4x to arrive at a target price of Rs. 515.

**Quarterly Financial Highlight Table (Rs. In Crs)**

Particulars	4QFY18	3QFY18	4QFY17	Q/Q	Y/Y	FY2018
Revenue	298	304	223	-2%	34%	1126
EBITDA	14	23	8	-38%	74%	68
PAT	6	7	-4	-15%	NA	13
EPS	0.83	1.64	2.23	453%	307%	11.28
EBITDA M	4.73%	7.49%	3.64%	(276 bps)	109 bps	6%
PAT M	2.21%	2.55%	-1.85%	(34 bps)	36 bps	1%

## Investment Rationale

### 1. Introduction of new products to aid growth

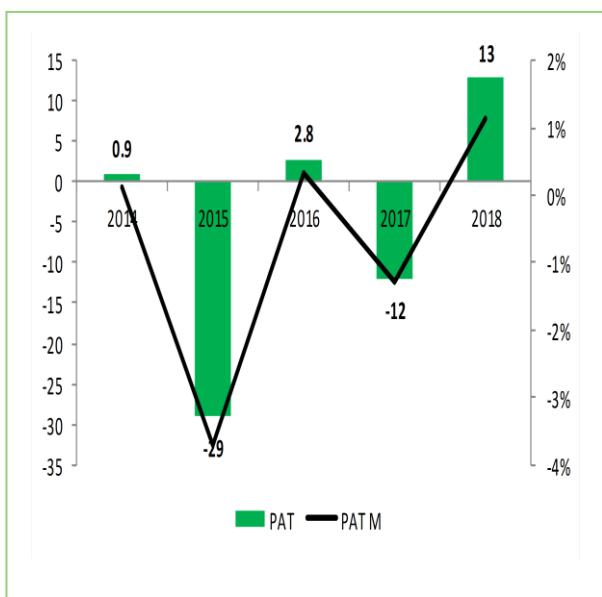
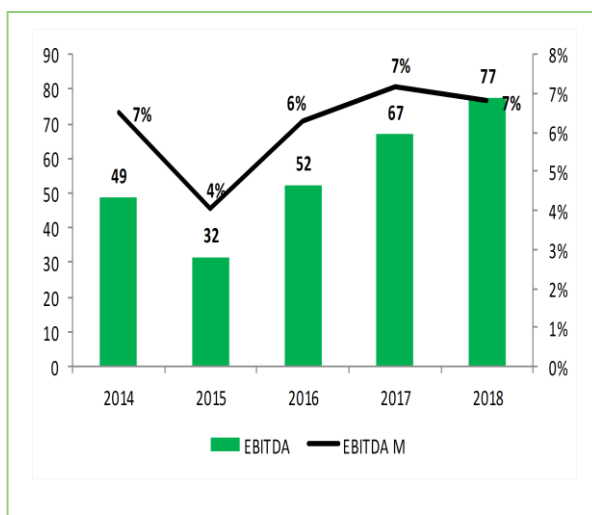
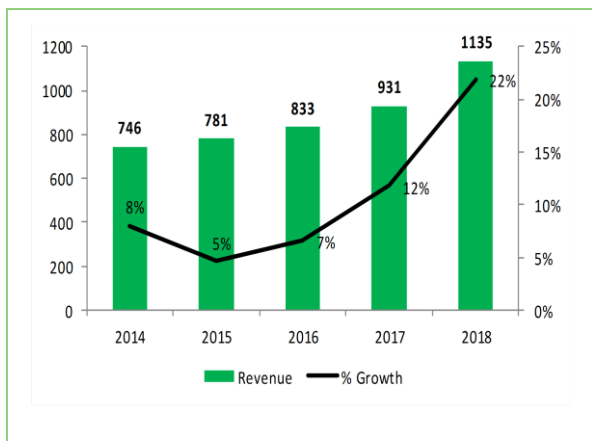
WDL's SSG reported a record high growth and continues to have high footfalls at the back of menu innovation, value platform and brand extensions. The company has introduced 30 new beverages in the McCafe restaurants. Introduction of new products aided the the restaurant to double its McCafe base in 2 years which includes addition of restaurants in FY18. The company currently has 149 McCafe base stores in FY18 post addition of 38 stored during the year and has 165 McDelivery centers. The company opened 25 new restaurants during the year taking the total count to 277 restaurants in FY18 and introduced additional 25 new restaurants in FY19.

### 2. Same Store Sales Growth at its peak

WDL, franchise of McDonalds in South and West India, reported 25.1% SSG given the healthy demand for its products, products innovation and brand extensions. The company has guided for a double digit growth rate from mid-high single digit growth rate. The management feels innovation is the main catalyst for higher tractions in its products. The SSG of Westlife Development is equivalent to jubilant foodworks which also has 25% SSG. The management is very confident of improvement in consumer demand with positive shifts in footfalls.

### 3. The Management confident of having margins increment.

The management is very confident of improving its operating leverage gains as well as cost efficiencies from new stores. The company highlighted that majority of the restaurants opened in FY18 have achieved cash-flow breakeven. The management also reported that the cash flow from new restaurants in FY18 has increased by 50% compared to new restaurants opened in FY17. Expansion of McCafe (currently in 149 outlets) to more stores would be a key lever to drive continued product mix improvement. This along with healthy growth in McDelivery gives management confidence on continued margin improvement going forward.



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Westlife Development Limited (WDL) focuses on putting up and operating Quick Service Restaurants (QSR) in India through its wholly owned subsidiary Hardcastle Restaurants Pvt. Ltd. (HRPL).

WDL through its subsidiary HRPL operates McDonald's through 265 restaurants (as of September 2017) across 36 cities

The management is expecting good footfalls out of its innovative launching of McCafe which will increase margins over the coming quarters

We would like to value the company on a PEG ratio multiple of 4x to arrive at a target price of Rs. 515 per share.

## Company Background

Westlife Development is one of the fastest growing players in India's quick service restaurant (QSR) sector, Westlife Development Limited (WDL) focuses on putting up and operating Quick Service Restaurants (QSR) in India through its wholly owned subsidiary Hardcastle Restaurants Pvt. Ltd. (HRPL). Westlife Development operates a chain of McDonald's restaurants in west and south India through its subsidiary Hardcastle Restaurants Pvt. Ltd. (HRPL). WDL through its subsidiary HRPL operates McDonald's through 265 restaurants (as of September 2017) across 36 cities in the states of Telangana, Gujarat, Karnataka, Maharashtra, Tamil Nadu, Kerala, Chhattisgarh, Andhra Pradesh, Goa and parts of Madhya Pradesh.

## Risk & Concerns

1. Economic fluctuations can affect the services sector, lowering consumer spending and causing a decline in sales.
2. Rise in inflation can have an adverse impact on pricing and lower margins.
3. Disruptions in the supply of raw materials and ingredients can affect quality and freshness of products.
4. Newer players in the QSR industry can adversely affect margins. Foreign investments and restaurant chains could lead to increased competition.

## Outlook & Valuations

WDL has restaurants with all-day menus of high value-for-money offerings. We believe the innovated café, breakfast and beverage offerings, along with a delivery platform, would be significant contributors ahead to Westlife's revenue. The management is expecting good footfalls out of its innovative launching of McCafe which will increase margins over the coming quarters. The management is also very confident of having a good same store growth and will continue growing at a higher pace. We would like to value the company on a PEG ratio multiple of 4x to arrive at a target price of Rs. 515 per share.

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Analyst Stock Rating	
<b>Ratings</b>	<b>Expected absolute returns over 12 months</b>
BUY	>15%
HOLD	10- 15%
REDUCE	<10%

**Research Analyst:**

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