

09 November 2023

India | Equity Research | Q2FY24 results review

## Restaurant Brands Asia

Consumer Staples &amp; Discretionary

### Improvement across parameters with focus on traffic growth

Restaurant Brands Asia (RBA) India revenue growth performance of 23% YoY was relatively healthy with 4% SSSG. SSSG was led by good execution on value proposition (Tasty meals starting at INR 99) driving dine-in traffic. Retail expansion has been decent (added 8 stores) with plans of significant acceleration in H2FY24. Operating margins have improved meaningfully (driven by operating leverage) leading to breakeven at PBT level in India and restaurant level in Indonesia. Continued focus in value for money meals (at INR 99 price point) shall help in SSSG momentum. Revenue performance in Indonesia impacted due to rationalisation in underperforming BK stores (will reduce operating losses) while Popeyes maintains its momentum. Maintain **ADD**.

### Healthy SSSG while ADS is slightly underwhelming in India

India business reported revenues of INR 4.5bn in Q2FY24, up 23% YoY, led by consistent store expansion at 21% YoY (EoP: 404 restaurants) and 3.5% SSSG (driven by traffic with increased focus on value proposition). Overall ADS remains under pressure at INR 126k (-1% YoY and +5% QoQ) due to ongoing slowdown in QSR segment. BK Café is now present in ~74% of the stores with ADS of ~16k.

Revenue from Indonesia business grew 9% YoY to INR 1.7bn (~27% revenue share) led by a) BK revenue growth of ~6% YoY driven by 6.5% SSSG (+17% dine-in SSTG), while store rationalisation continues (closed 17 underperforming stores). Traffic in BK has been driven by 50% YoY volume growth in chicken (was a gap in portfolio). BK ADS was up 13% YoY to IDR 19.1mn. b) Popeyes continues its healthy trajectory of ADS at IDR 26.3mn.

### Significant improvement in margins

India gross margins expanded 40bps YoY to 66.8% driven by input cost correction while mix would have been impacted with continued focus on INR 99 meals strategy. Company has maintained its gross margin guidance of 67% for FY24 and ~69% by FY27. RoP and EBITDA margins (Pre IND AS 116) witnessed meaningful improvement of 270bps QoQ and 290bps QoQ largely driven by lower ad-spends and staff cost. India business has achieved breakeven at PBT (Pre IND AS 116) level. Indonesia business has also achieved breakeven at RoP level. Management has guided for Indonesia business to achieve cash breakeven (on run rate basis) by FY24.

### Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	14,903	20,543	25,538	31,720
EBITDA	965	1,115	2,858	4,183
EBITDA Margin (%)	6.5	5.4	11.2	13.2
Net Profit	(1,707)	(2,212)	(1,412)	(677)
EPS (Rs)	(3.5)	(4.5)	(2.9)	(1.4)
EPS % Chg YoY	0.6	(0.3)	(0.3)	(0.7)
P/E (x)	(26.8)	(23.3)	(36.2)	(69.4)
EV/EBITDA (x)	(95.0)	(65.6)	141.4	37.1
RoCE (%)	(17.5)	(15.5)	(3.8)	5.5
RoE (%)	(29.0)	(23.1)	(18.4)	(10.4)

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#### Market Data

Market Cap (INR)	56bn
Market Cap (USD)	678mn
Bloomberg Code	RBA IN
Reuters Code	RESR BO
52-week Range (INR)	138 /84
Free Float (%)	48.0
ADTV-3M (mn) (USD)	4.7

Price Performance (%)	3m	6m	12m
Absolute	(2.8)	7.4	(6.2)
Relative to Sensex	(1.8)	1.0	(13.8)

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(2.2)	(21.)
EBITDA	10.8	13.3
EPS	(14.9)	8.4

#### Previous Reports

08-08-2023: [Q1FY24 results review](#)

18-05-2023: [Q4FY23 results review](#)

## Store expansion in India is healthy while rationalisation in Indonesia is positive

Retail expansion continues to be on track. It has added 10 stores (net 8 stores during the quarter); it will have to add 46 stores in H2FY24 (it had opened 57 stores in 2HFY23) to reach the annual guidance of 450 stores in FY24. The company maintains its previous guidance of reaching 700 stores in India and 325 stores in Indonesia by FY27.

In Indonesia, RBA has been rationalising its store network by closing 17 underperforming stores in BK (24 stores in 1H; EoP: 162) while it added 2 stores in Popeyes (EoP: 12 stores) and plans to reach 25 stores by Q3FY24.

### Other highlights

Key priorities for FY24: (1) Rolled out “King’s Journey” digital experience stores with self-ordering kiosks, app ordering and table service and is expected to reach all the stores by FY25. (2) Added INR 149 for chicken meals to further strengthen competitive positioning in VFM meal segment starting at INR 99; it will help gain price leadership in West and South markets (price parity in North).

### Valuation and risks

We increase our EBITDA estimates by 11% / 13% for FY24E / FY25E; modelling revenue / EBITDA CAGR of 24 / 94 (%) over FY23-25E. Maintain ADD with an SoTP-based unchanged target price of INR 130. Improved execution engine and accelerated share-gain potential (preference for hygiene) keep us positive. Key downside risks are delays in store expansion plans and increased competitive intensity in north and east markets.

#### Exhibit 1: Q2FY24 results review (Standalone)

INR mn	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	YTD FY24	YTD FY23	YoY (%)
<b>Same store sales growth (%)</b>	<b>3.5</b>	<b>27.0</b>	<b>-2350 bps</b>	<b>3.6</b>	<b>-10 bps</b>	<b>3.6</b>	<b>46.5</b>	<b>-4295 bps</b>
Number of stores	404	334	70	396	8	404	334	70
<b>Net Revenue</b>	<b>4,535</b>	<b>3,680</b>	<b>23</b>	<b>4,221</b>	<b>7</b>	<b>8,756</b>	<b>7,050</b>	<b>24</b>
COGS	(1,504)	(1,237)	22	(1,415)	6	(2,919)	(2,370)	23
<b>Gross profit</b>	<b>3,031</b>	<b>2,443</b>	<b>24</b>	<b>2,806</b>	<b>8</b>	<b>5,837</b>	<b>4,679</b>	<b>25</b>
Staff cost	(671)	(598)	12	(622)	8	(1,292)	(1,111)	16
Other Expenses	(1,726)	(1,424)	21	(1,700)	2	(3,426)	(2,815)	22
<b>EBITDA</b>	<b>634</b>	<b>421</b>	<b>51</b>	<b>485</b>	<b>31</b>	<b>1,119</b>	<b>753</b>	<b>49</b>
Other income	40	79	(49)	65	(39)	105	176	(40)
Finance Cost	(273)	(206)	33	(264)	3	(537)	(402)	34
D&A	(494)	(426)	16	(507)	(3)	(1,002)	(887)	13
<b>PBT</b>	<b>(93)</b>	<b>(133)</b>	<b>(30)</b>	<b>(222)</b>	<b>(58)</b>	<b>(315)</b>	<b>(360)</b>	<b>(13)</b>
Tax	-	-	-	-	-	-	-	-
<b>Recurring PAT</b>	<b>(93)</b>	<b>(133)</b>	<b>(30)</b>	<b>(222)</b>	<b>(58)</b>	<b>(315)</b>	<b>(360)</b>	<b>(13)</b>
Extraordinary items	-	-	-	-	-	-	-	-
<b>Net profit (reported)</b>	<b>(93)</b>	<b>(133)</b>	<b>(30)</b>	<b>(222)</b>	<b>(58)</b>	<b>(315)</b>	<b>(360)</b>	<b>(13)</b>
<b>EPS</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(30)</b>	<b>(0.4)</b>	<b>(58)</b>	<b>(0.6)</b>	<b>(0.7)</b>	<b>(13)</b>
<b>Costs as a % of sales</b>								
COGS	33.2	33.6	-45 bps	33.5	-36 bps	33.3	33.6	-29 bps
<b>Gross margin (%)</b>	<b>66.8</b>	<b>66.4</b>	<b>44 bps</b>	<b>66.5</b>	<b>35 bps</b>	<b>66.7</b>	<b>66.4</b>	<b>28 bps</b>
Staff cost	14.8	16.3	-147 bps	14.7	5 bps	14.8	15.8	-101 bps
Occupancy and other exp.	38.1	38.7	-64 bps	40.3	-222 bps	39.1	39.9	-81 bps
<b>EBITDA margin (%)</b>	<b>14.0</b>	<b>11.4</b>	<b>255 bps</b>	<b>11.5</b>	<b>250 bps</b>	<b>12.8</b>	<b>10.7</b>	<b>209 bps</b>
Income tax rate (%)	0.0	0.0	0 bps	0.0	0 bps	0.0	0.0	0 bps

Source: Company data, I-Sec research

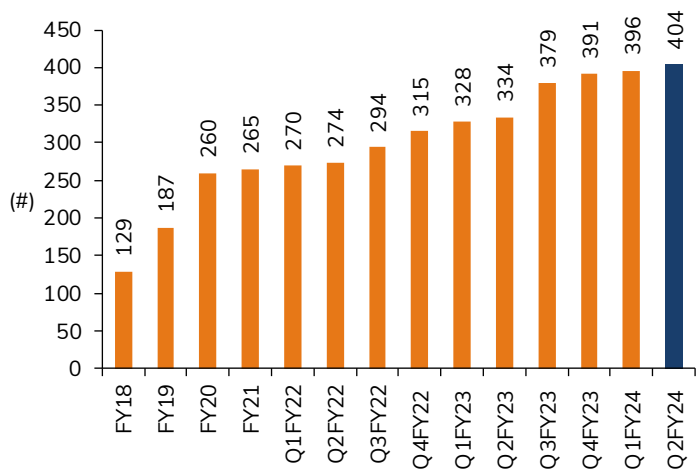
**Exhibit 2: Q2FY24 results review (Consolidated)**

INR mn	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	YTD FY24	YTD FY23	YoY (%)
<b>Net Revenue</b>	<b>6,249</b>	<b>5,248</b>	<b>19</b>	<b>6,108</b>	<b>2</b>	<b>12,357</b>	<b>10,140</b>	<b>22</b>
COGS	(2,236)	(1,857)	20	(2,196)	2	(4,432)	(3,601)	23
<b>Gross profit</b>	<b>4,013</b>	<b>3,391</b>	<b>18</b>	<b>3,912</b>	<b>3</b>	<b>7,925</b>	<b>6,539</b>	<b>21</b>
Staff cost	(1,039)	(955)	9	(969)	7	(2,008)	(1,774)	13
Other Expenses	(2,411)	(2,184)	10	(2,460)	(2)	(4,872)	(4,221)	15
<b>EBITDA</b>	<b>562</b>	<b>251</b>	<b>124</b>	<b>483</b>	<b>16</b>	<b>1,046</b>	<b>544</b>	<b>92</b>
Other income	33	107	(69)	71	(54)	104	237	(56)
Finance Cost	(315)	(241)	31	(307)	3	(623)	(472)	32
D&A	(786)	(668)	18	(787)	(0)	(1,574)	(1,368)	15
<b>PBT</b>	<b>(507)</b>	<b>(551)</b>	<b>(8)</b>	<b>(541)</b>	<b>(6)</b>	<b>(1,047)</b>	<b>(1,060)</b>	<b>(1)</b>
Tax	-	-	-	-	-	-	-	-
<b>Recurring PAT</b>	<b>(507)</b>	<b>(551)</b>	<b>(8)</b>	<b>(541)</b>	<b>(6)</b>	<b>(1,047)</b>	<b>(1,060)</b>	<b>(1)</b>
Minority Interest	46	51	36	82	85			
<b>Recurring PAT after MI</b>	<b>(460)</b>	<b>(499)</b>	<b>(8)</b>	<b>(505)</b>	<b>(9)</b>	<b>(965)</b>	<b>(974)</b>	<b>(1)</b>
Extraordinary items	-	-	-	-	-	-	-	-
<b>Net profit (reported)</b>	<b>(460)</b>	<b>(499)</b>	<b>(8)</b>	<b>(505)</b>	<b>(9)</b>	<b>(965)</b>	<b>(974)</b>	<b>(1)</b>
<b>EPS</b>	<b>(0.9)</b>	<b>(1.0)</b>	<b>(8)</b>	<b>(1.0)</b>	<b>(9)</b>	<b>(2.0)</b>	<b>(2.0)</b>	<b>(1)</b>

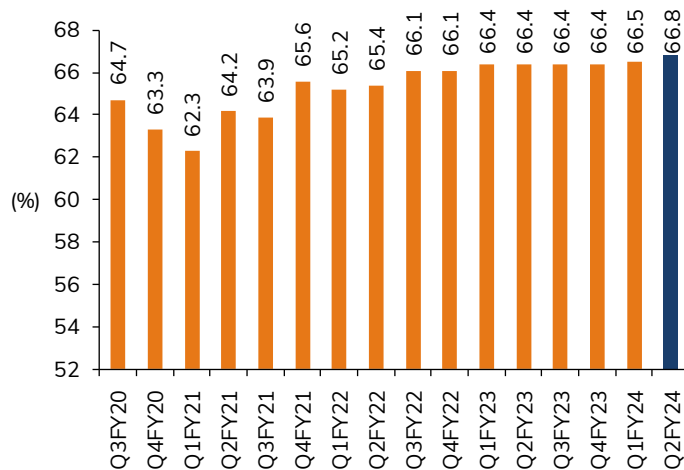
  

Costs as a % of sales								
COGS	35.8	35.4	40 bps	36.0	-17 bps	35.9	35.5	35 bps
<b>Gross margin (%)</b>	<b>64.2</b>	<b>64.6</b>	<b>-41 bps</b>	<b>64.0</b>	<b>16 bps</b>	<b>64.1</b>	<b>64.5</b>	<b>-36 bps</b>
Staff cost	16.6	18.2	-159 bps	15.9	76 bps	16.2	17.5	-125 bps
Occupancy and other exp.	38.6	41.6	-304 bps	40.3	-170 bps	39.4	41.6	-221 bps
<b>EBITDA margin (%)</b>	<b>9.0</b>	<b>4.8</b>	<b>420 bps</b>	<b>7.9</b>	<b>109 bps</b>	<b>8.5</b>	<b>5.4</b>	<b>309 bps</b>
Income tax rate (%)	0.0	0.0	0 bps	0.0	0 bps	0.0	0.0	0 bps

Source: Company data, I-Sec research

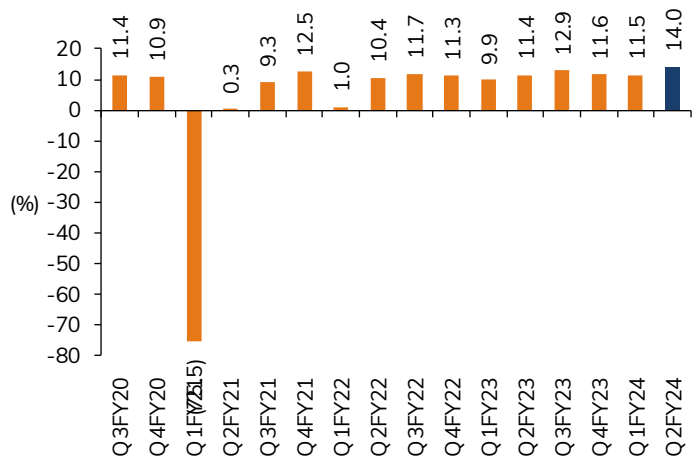
**Exhibit 3: Store Network (India)**


Source: Company data, I-Sec research

**Exhibit 4: Gross margins (India)**


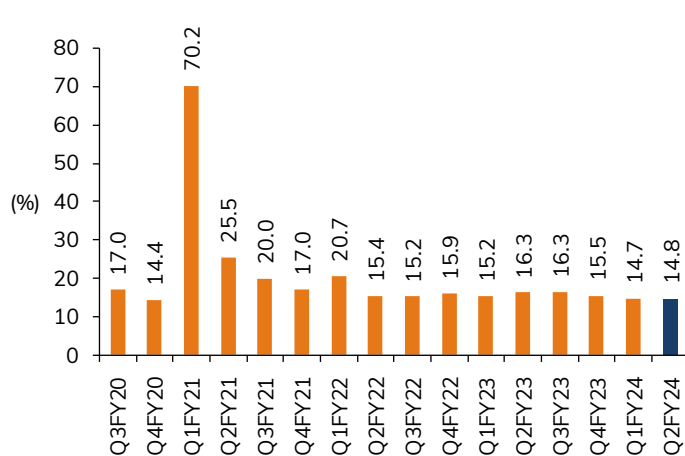
Source: Company data, I-Sec research

**Exhibit 5: EBITDA margin (India)**



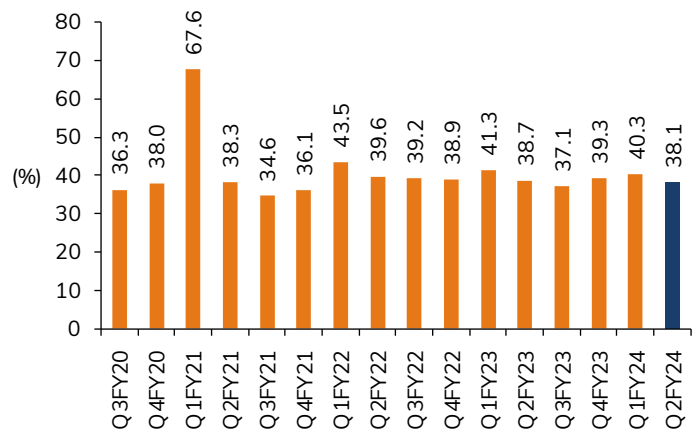
Source: Company data, I-Sec research

**Exhibit 6: Staff costs as % of sales (India)**



Source: Company data, I-Sec research

**Exhibit 7: Other expenses as % of sales (India)**



Source: Company data, I-Sec research

**Exhibit 8: Shareholding pattern**

%	Mar'23	Jun'23	Sep'23
Promoters	40.8	40.8	15.4
Institutional investors	37.4	37.2	52.1
MFs and others	7.1	7.3	12.9
FIs/Banks	0.0	0.0	0.0
Insurance	2.5	2.1	8.9
FIIIs	28.8	29.8	30.3
Others	21.8	22.0	32.5

Source: Bloomberg

**Exhibit 9: Price chart**



Source: Bloomberg

## Financial Summary

### Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	14,903	20,543	25,538	31,720
<b>Operating Expenses</b>	<b>13,937</b>	<b>19,428</b>	<b>22,680</b>	<b>27,537</b>
EBITDA	965	1,115	2,858	4,183
<b>EBITDA Margin (%)</b>	<b>6.5</b>	<b>5.4</b>	<b>11.2</b>	<b>13.2</b>
Depreciation & Amortization	2,336	2,840	3,249	3,622
EBIT	(1,370)	(1,726)	(391)	561
Interest expenditure	954	1,052	1,349	1,627
Other Non-operating Income	224	360	180	253
Recurring PBT	(2,100)	(2,418)	(1,561)	(813)
<b>Profit / (Loss) from Associates</b>	-	-	-	-
<b>Less: Taxes</b>	-	-	-	-
PAT	(2,100)	(2,418)	(1,561)	(813)
Less: Minority Interest	392	206	148	136
Extraordinaries (Net)	(252)	-	-	-
Net Income (Reported)	(2,352)	(2,418)	(1,561)	(813)
<b>Net Income (Adjusted)</b>	<b>(1,707)</b>	<b>(2,212)</b>	<b>(1,412)</b>	<b>(677)</b>

Source Company data, I-Sec research

### Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	7,423	3,909	4,411	3,674
of which cash & cash eqv.	2,772	1,552	3,303	2,243
Total Current Liabilities & Provisions	3,793	4,261	5,434	7,046
<b>Net Current Assets</b>	<b>3,630</b>	<b>(352)</b>	<b>(1,023)</b>	<b>(3,372)</b>
Investments	-	-	-	-
Net Fixed Assets	7,909	9,437	10,388	11,722
ROU Assets	6,751	9,397	9,837	10,425
Capital Work-in-Progress	181	322	322	322
Total Intangible Assets	476	727	727	727
Long Term Loans & Advances	445	528	702	933
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>19,989</b>	<b>20,671</b>	<b>21,766</b>	<b>21,837</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>1,419</b>	<b>1,648</b>	<b>3,648</b>	<b>3,648</b>
<b>Deferred Tax Liability</b>	<b>7,475</b>	<b>10,056</b>	<b>10,545</b>	<b>11,208</b>
Provisions	413	505	672	893
Other Liabilities	-	-	-	-
Equity Share Capital	4,927	4,946	4,946	4,946
Reserves & Surplus	5,478	3,309	1,897	1,219
<b>Total Net Worth</b>	<b>10,405</b>	<b>8,254</b>	<b>6,842</b>	<b>6,165</b>
Minority Interest	277	207	59	(78)
<b>Total Liabilities</b>	<b>19,989</b>	<b>20,671</b>	<b>21,766</b>	<b>21,837</b>

Source Company data, I-Sec research

### Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	5,263	5,139	6,108	6,249
% growth (YOY)	20.9	28.5	24.8	19.1
EBITDA	297	273	483	562
Margin %	5.6	5.3	7.9	9.0
Other Income	80	43	71	33
Extraordinaries	-	-	-	-
Adjusted Net Profit	(504)	(734)	(505)	(460)

Source Company data, I-Sec research

### Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>775</b>	<b>1,243</b>	<b>2,130</b>	<b>3,680</b>
Working Capital Changes	(73)	59	713	1,012
Capital Commitments	(1,388)	(3,313)	(2,758)	(3,441)
<b>Free Cashflow</b>	<b>(612)</b>	<b>(2,070)</b>	<b>(629)</b>	<b>239</b>
<b>Other investing cashflow</b>	<b>(7,759)</b>	<b>72</b>	<b>(260)</b>	<b>(335)</b>
Cashflow from Investing Activities	(10,951)	129	(1,518)	(3,776)
Issue of Share Capital	13,664	85	-	-
Interest Cost	(236)	(118)	(1,349)	(1,627)
Inc (Dec) in Borrowings	(2,305)	(1,668)	2,489	663
Dividend paid	-	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	11,123	(1,702)	1,140	(964)
<b>Chg. in Cash &amp; Bank balance</b>	<b>947</b>	<b>(330)</b>	<b>1,751</b>	<b>(1,060)</b>
Closing cash & balance	1,763	1,550	3,302	2,242

Source Company data, I-Sec research

### Exhibit 14: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	(4.3)	(4.9)	(3.2)	(1.6)
Adjusted EPS (Diluted)	(3.5)	(4.5)	(2.9)	(1.4)
Cash EPS	1.3	1.3	3.7	6.0
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	21.1	16.7	13.8	12.5
Dividend Payout (%)	-	-	-	-
<b>Growth (%)</b>				
Net Sales	0.8	1.0	0.7	0.5
EBITDA	(0.1)	3.5	2.0	2.8
EPS (INR)	0.6	(0.3)	(0.3)	(0.7)
<b>Valuation Ratios (x)</b>				
P/E	(26.8)	(23.3)	(36.2)	(69.4)
P/CEPS	89.5	89.8	30.7	19.2
P/BV	5.4	6.8	8.2	9.2
EV / EBITDA	(95.0)	(65.6)	141.4	37.1
P / Sales	3.8	2.7	2.2	1.8
Dividend Yield (%)	-	-	-	-
<b>Operating Ratios</b>				
Gross Profit Margins (%)	63.1	64.2	64.5	65.5
EBITDA Margins (%)	6.5	5.4	11.2	13.2
Effective Tax Rate (%)	-	-	-	-
Net Profit Margins (%)	(14.1)	(11.8)	(6.1)	(2.6)
Net Debt / Equity (x)	(0.5)	(0.2)	0.1	0.2
Net Debt / EBITDA (x)	(5.6)	(1.2)	0.1	0.3
Fixed Asset Turnover (x)	1.2	1.4	1.4	1.5
Working Capital Days	25	(39)	(69)	(72)
Inventory Turnover Days	7	6	6	6
Receivables Days	4	3	3	3
Payables Days	67	55	53	54
<b>Profitability Ratios</b>				
RoCE (%)	(17.5)	(15.5)	(3.8)	5.5
RoE (%)	(29.0)	(23.1)	(18.4)	(10.4)
RoIC (%)	(14.7)	(12.3)	(2.0)	8.0

Source Company data, I-Sec research

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**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

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