

**BACK IN BLACK** Initiatives such as the McCafe rollout, a new and higher-priced menu, and tie-ups with online food delivery cos are expected to boost profitability, which is likely to reflect in June quarter

# McD's Franchisee Westlife may Cap Turnaround with a Profit

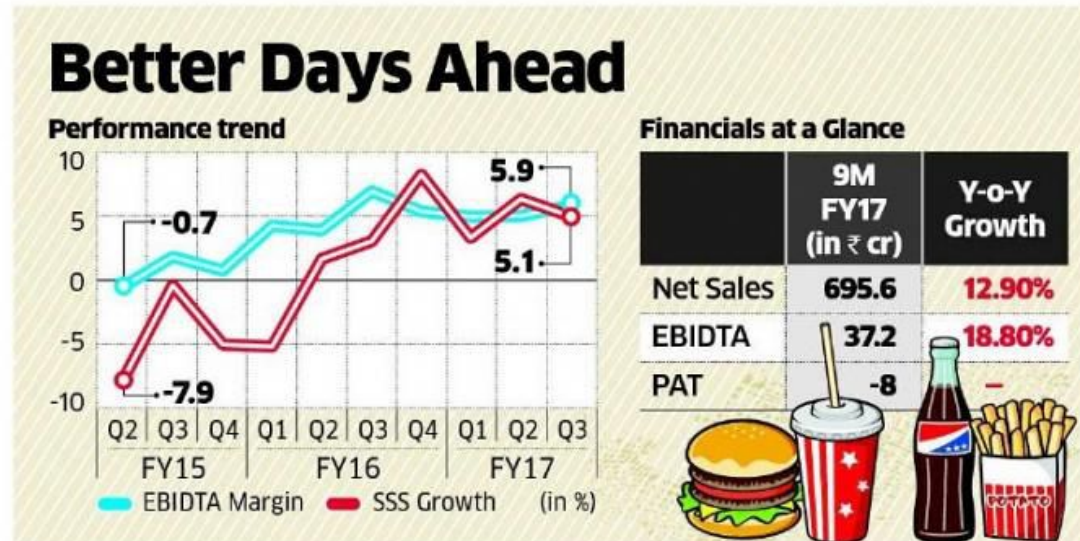
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**ET Intelligence Group:** After posting three consecutive years of losses, analysts expect Westlife Development, the company that runs McDonald's chain in the western and southern regions of the country, to turn profitable in the current fiscal.

The company has taken various strategic measures such as widening the menu, introducing higher priced products, automation and tie-up with online food delivery companies to boost its profitability. The efforts are expected to reflect in its financials from the June quarter.

In FY16, Westlife introduced McCafe within its existing stores, which helped in boosting same store sales growth (SSSG) and overall margin. The average product price in McCafe is much higher than its traditional products such as burgers and fries.

Its quarterly SSSG, which was consistently negative from June 2013 to



June 2015, has been positive for the last six quarters. Its EBITDA (earnings before interest, tax, depreciation and amortisation) margin has increased to 5.9% in the December 2016 from 0.7% in the March 2015 quarter.

After the successful launch of McCafe, the company has recently introduced a breakfast menu, which includes products other than its

usual burgers and fries — dosa, scrambled eggs and smoothies.

It has also embarked on an ambitious new restaurant format project, 'Experience of the Future', to offer a new dine-in experience. This concept has been tested by its peers overseas.

To expand delivery services, McDonald's has tied up with Zomato,

Swiggy and Foodpanda apart from its own delivery channel.

With these initiatives, analysts expect the company to deliver high single-digit to low-teen SSSG growth. Westlife has almost doubled its restaurant count in the last five years to around 250 stores and is expected to touch 500 in the next five years.

On the cost side, the company is slowly introducing self-order kiosks to contain staff costs and quicken services. It has further scope of cost reduction. Of its total costs, over 42% is spent on raw material, 42% for administrative expenses and remaining 16% accounts for staff costs.

At the current market price of ₹223, Westlife's stock is trading at 3.7 times its sales and 75 times its expected FY19 earnings. The steeper valuation seems to reflect the long term earnings growth trajectory. Investors willing to have exposure to quick service restaurant business may find Westlife's future growth potential attractive.