WILLIAM O'NEIL INDIA

The Unlock Trade:
Eat, Drink, and Be Merry

04TH
JUNE
2021

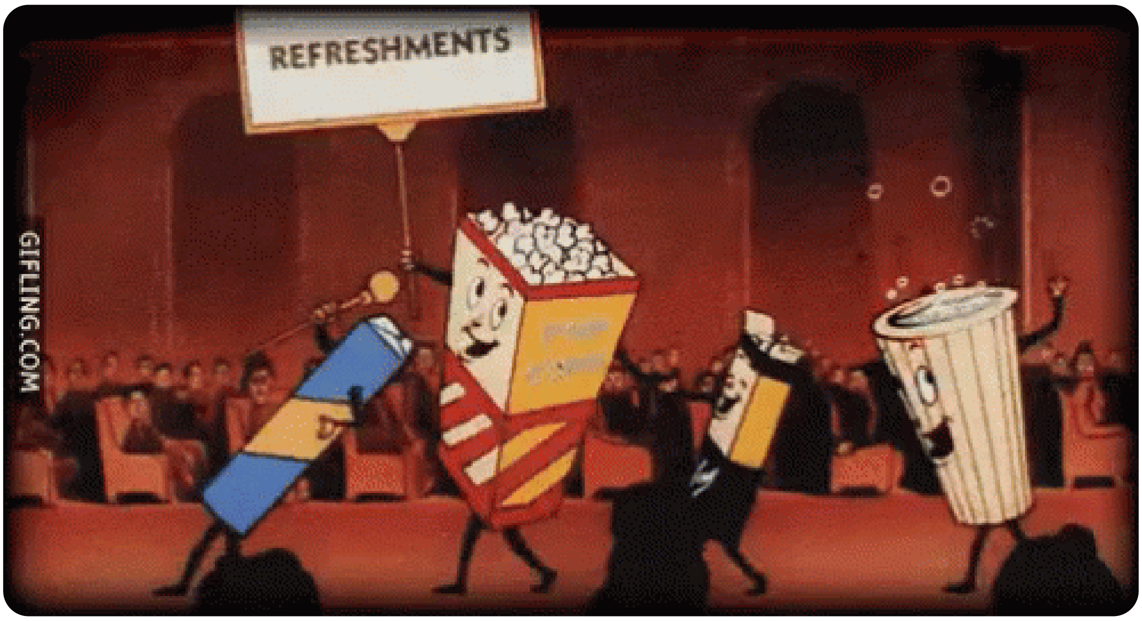
williamoneilindia.com
marketsmithindia.com
swingtraderindia.com

A4, Technomark Television,
1st Floor, NGEF Industrial Estate,
Graphite India Road, Mahadevapura,
Bengaluru, Karnataka 560048

The Unlock Trade: Eat, Drink, and Be Merry

Hey, let's go for a movie this weekend.
Would you like to join me for a coffee this evening?
Let's order pizza tonight.
I'll have a Happy Meal.

As COVID-19 rampaged worldwide, all plans for outdoor engagements had to be dropped. No one imagined there would be no ENTERTAINMENT, ENTERTAINMENT, and ENTERTAINMENT



Source: google image

From lip-smacking burgers to crispy fries to cheesy pizzas, young India hits fast-food joints to satiate their cravings. Most such joints are light on the pocket and high on taste. India's quick service restaurant (QSR) sector had a CAGR of 20% over the last five years (up to FY20). The spurt in food delivery aggregators such as Swiggy and Zomato helped QSRs hit a home run and added a new tailwind to the industry. Additionally, the increasing penetration of Internet and smartphone in India boosted growth in the food delivery segment.

Over the past year and a half, people have been required to stay at home and follow physical-distancing guidelines. In the aftermath of stringent restrictions, restaurants and cafés ran empty. Q1 FY21 was undoubtedly one of the toughest quarters QSR businesses have ever faced. Lockdowns due to the pandemic challenged the supply as well as the demand side. The nationwide lockdown closed all food outlets for dine-in, takeaway, and delivery. Per consensus, the Indian food service market plunged around 80% y/y in H1 FY21.

When food delivery was included in essential services, many QSR players started reopening for delivery since April 2021. Efforts by leading QSR players to ensure safe food deliveries helped boost consumer confidence. In addition, the WHO issued assurances in Q2 FY21 that the Coronavirus does not spread via food or packaging. Thus, by the end of Q2 FY21, organized QSR players reached a recovery rate of 80–85%..

Source: Westlife Q1 FY21 investor presentation

Source: Jubilant Food Q3 FY21 investor presentation

The pick-up in the trend of online food ordering has worked well for QSR players. Most were able to clock sales reaching their pre-pandemic levels by Q3 FY21. In the case of Jubilant Foodworks, the download of its mobile ordering app grew 75% from Q3 FY20 to Q3 FY21.

Period	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Average OLO contribution to delivery sales	87%	89%	99%	99%	98%
Mobile Ordering sales contribution to overall OLO	95%	96%	98%	98%	97%
Downloads of mobile ordering App (cum.)	29.4 mn	33.1 mn	37.5 mn	43.8 mn	51.2 mn

Source: Jubilant Food Q3 FY21 investor presentation

Alcoholic beverages have been considered an integral part of social gatherings, events, weekend parties, etc. The alcoholic beverage industry took a blow right at the onset of the pandemic owing to the nationwide lock-down and social-distancing norms, which heavily affected alcoholic beverage manufacturers and liquor shop owners. However, even as liquor shops were later granted permission to open for a limited time, the continued closure of bars/pubs hit sales.

The past year brought about tough times for these industries, but as the number of cases subsides and vaccination drives gain momentum, the nation, and the world at large, expects a resumption of normal life. People are eagerly awaiting opportunities to move out of their houses to attend parties, visit the movies, etc. As the economy reopens with the easing of lockdowns and restrictions, it will again be all about ENTERTAINMENT, ENTERTAINMENT, and ENTERTAINMENT.

Movie Exhibition Business in India against the Backdrop of COVID-19

FY21 brought about the biggest shutdown in the history of the Indian movie exhibition industry. The pandemic-induced lockdown triggered an indefinite lull in movie production since March 2020. As a result, the annual Bollywood box office figure for 2020 was just Rs 500–600 crore, compared with the regular annual earnings of a little more than Rs 3,000 crore. Although theaters were allowed to operate at 100% capacity in February 2021, the arrival of a second wave of the pandemic in March brought the movie exhibition industry to a standstill again since April 2021.

Due to the lockdown and the related closure of movie theaters, many scheduled releases were delayed. These included the eagerly awaited cop-universe movie “Sooryavansi” and the cricket biopic “83”, which depicts the story of India’s cricket World Cup victory in 1983. The release of both movies was postponed amid safety and hygiene concerns. The situation forced several movies to forego theatrical releases and choose the over-the-top (OTT) route to mitigate losses. Thus, big productions like “Radhe”, starring Salman Khan, deployed the hybrid model to release the movie (theater plus OTT).

Source: Google image

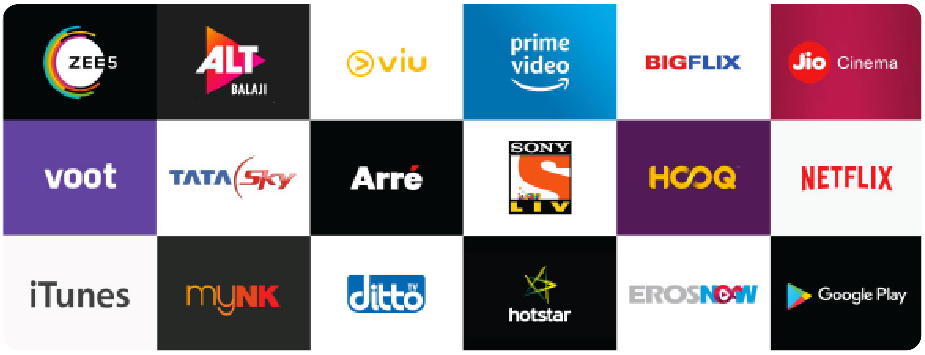
The occupancy rate at cinema halls was negligible in Q2 and Q3 FY21. However, it improved at the start of Q3 FY21, with audiences trickling back into exhibition halls for Vijay-starrer South Indian movie “Master”, which minted more than Rs 250 crore at the box office. Similarly, the Hindi movie “Roohi” clocked business of over Rs 18 crore in March.

Pandemic Alters Consumption Behavior

COVID-19 significantly changed the consumption patterns of the average Indian movie viewer. Consumer behavior changed rapidly in response to the pandemic, with work-from-home, social distancing, and virtual meetings becoming the new normal. Online consumption of entertainment in the OTT segments and the at-home segments of television increased sharply as most social lives moved to the digital space. The demand for at-home digital media is expected to continue to grow significantly driven by the ease of access and current viewing habits. On the flip side, movie theaters, theme parks, and museums would remain uninhabited due to lockdowns and physical-distancing norms. Also, there remains the possibility that when such places reopen after the pandemic fades out, the psychological overhang from the days of social distancing would inhibit consumers, making them avoid accepting outdoor meetings and events, especially at places that were the worst hit.

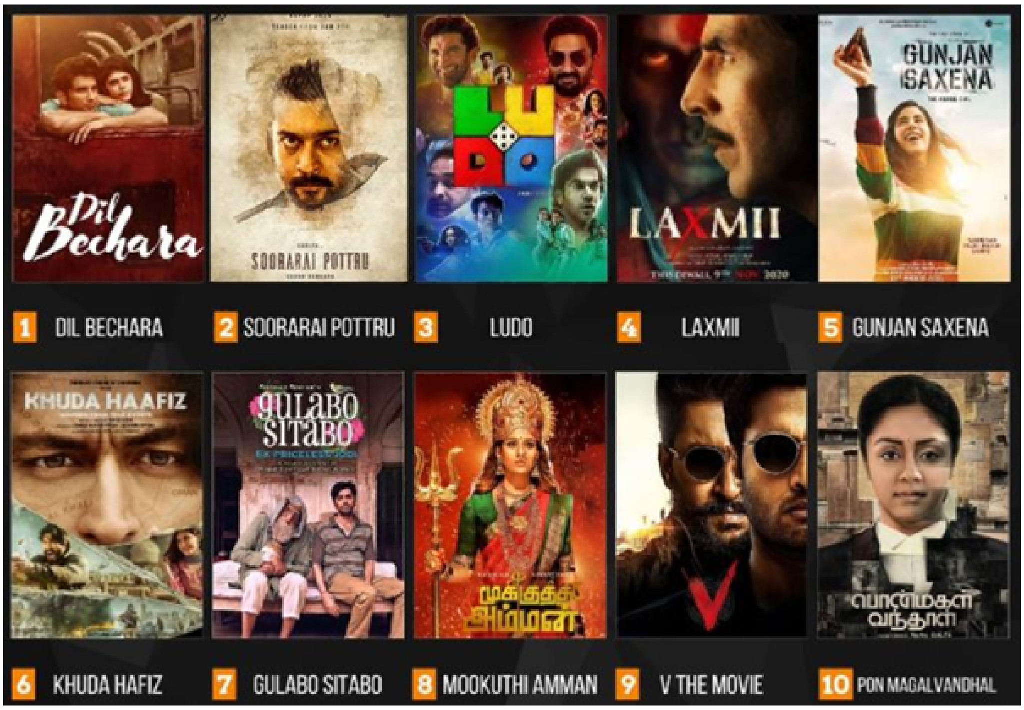
COVID-19 as Catalyst Pushing up OTT Demand

During the peak pandemic period, the OTT platform benefited from the rising demand for indoor entertainment. The lockdown restricted people's mobility, forcing them to stay at home. The restriction on social outings greatly cut down sources of recreation and entertainment. Thus, people turned to OTT platforms. Also, OTT offers several advantages, such as ease of access, choice of content, convenience of use, and choice of device/mediums (laptop, tablet, TV screen). Currently, Indian audiences are served by more than 40 OTT providers, including domestic and international players, such as Netflix, Amazon Prime, Disney+ Hotstar, Zee5, and Eros Now. Per an industry report by global marketing research firm The Boston Consulting Group (BCG), titled Entertainment Goes Online, India's OTT content market is estimated to surpass the $5B mark by 2023.



Source: Google image

Many movies directly released on OTT during the pandemic and became successful. The following image depicts the top 10 movies that attracted the most viewership on OTT platforms.



Source: Google image

Radhe's Hybrid Release: Setting a New Trend

Salman-Khan-starrer Radhe was the big release for Eid 2021 amid the second wave of COVID-19. The release was unlike the actor's earlier conventional theatrical releases. The production house opted for a hybrid model for release – cinemas, D2H, and OTT. Viewers would pay to watch the movie on digital and D2H platforms, with tickets per view at Rs 249. The movie premiered on ZeePlex in a pay-per-view mode. It also extended to the TV screen, premiering on the showcase sections of D2H players such as TataSky, Dish TV, and Airtel.

Source: Google image

Per an official statement from Zee Studios, Radhe attracted more than 4.2M views across various platforms on its first day of release. This reiterates that the hybrid model could be the future of entertainment and can set off a new trend that would grow multi-fold in the upcoming years. However, movie trade analysts believe the pandemic may have compelled producers to release movies digitally, but they would eventually revert to theatrical releases as their first choice for future big-ticket releases.

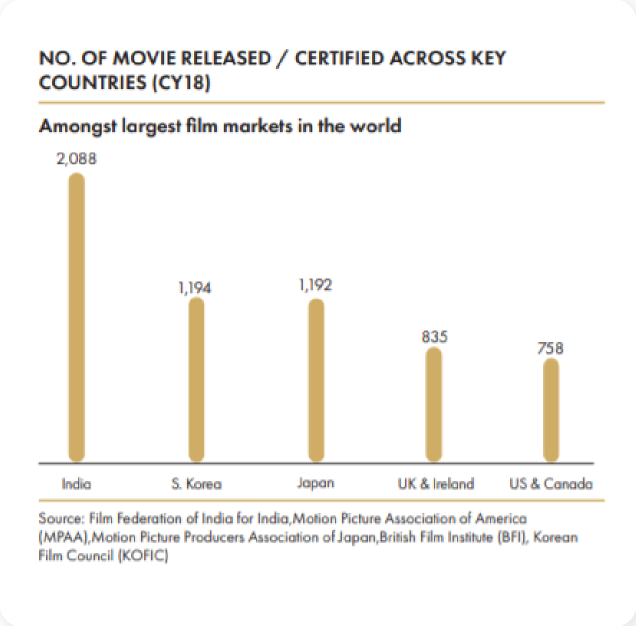
Long-Term Growth Driver to Remain Intact for Multiplexes

Despite the current grim scenario facing the movie exhibition business, the long-term picture remains bright for the business, especially for players like PVR and Inox, due to the following factors.

Dominance of Multiplexes Leads to Industry Consolidation: Multiplexes contribute to the majority of the revenue mix, although they form only a third of the industry in volume terms. Per PVR's FY19 report, multiplexes account for 31% of the screens in the country, but contribute to 55% of box office collections. India currently has four multiplex players – PVR, Inox, Carnival, and Cinepolis. Together, they account for around 70% of the nearly 3,200 multiplex screens in India. PVR and Inox are the two largest multiplexes players in India. Given their robust fundamentals, they are well positioned to benefit from the dominance of multiplexes in the market.

Favorable Demographic: India is predominantly a young country, with more than 60% of the population aged below 35. This segment of the population is a discerning consumer of entertainment. Furthermore, increasing disposable incomes, rising urbanization, rapidly expanding transport networks, and robust population growth are factors expected to support the increase in demand for entertainment in the long term.

Opportunity to Expand Screen Density to Bring Huge Tailwind: While India produces the highest number of movies worldwide, its screen density (number of screens per capita) is amongst the lowest globally.

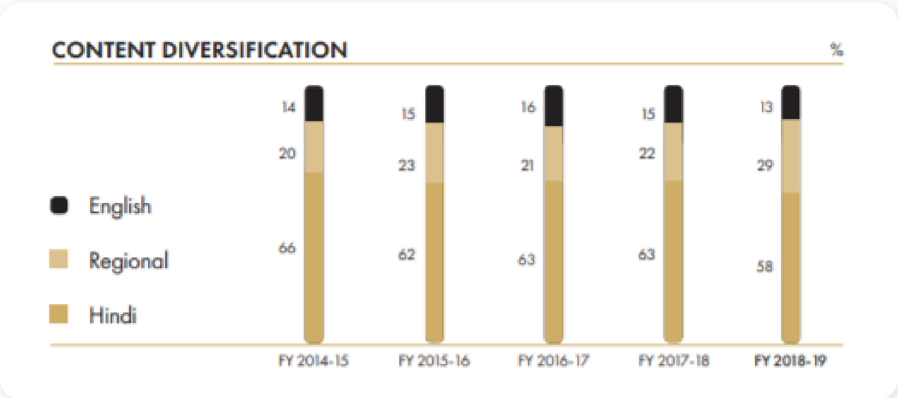


Source: Annual report PVR

Furthermore, India trails other countries in terms of screens per million people. India has a mere seven screens per million people, while the U.S. has the highest number of screens per million at 125, followed by the U.K. with 68.

Cinemas as an Attractive Medium for Advertising: Per a PVR annual report, media spending on cinemas continues to increase significantly, and is expected to grow at a rate of 20%, next only to the growth in digital platforms. Brands recognize the potential of a captive audience that views advertising at movie theaters and have thus partnered with multiplexes such as PVR and Inox to screen dedicated campaigns for products or new launches.

Content Diversification: Bollywood movies played a key role in generating the majority of exhibition revenue a few years ago by drawing the Indian viewer to watch a movie on the big screen. However, the scenario has now changed, with movies made in regional languages such as Tamil, Telugu, Malayalam, and Marathi, becoming increasingly popular due to their pan-India appeal. This trend will benefit the multiplex industry by diversifying box office revenue from just Bollywood releases.



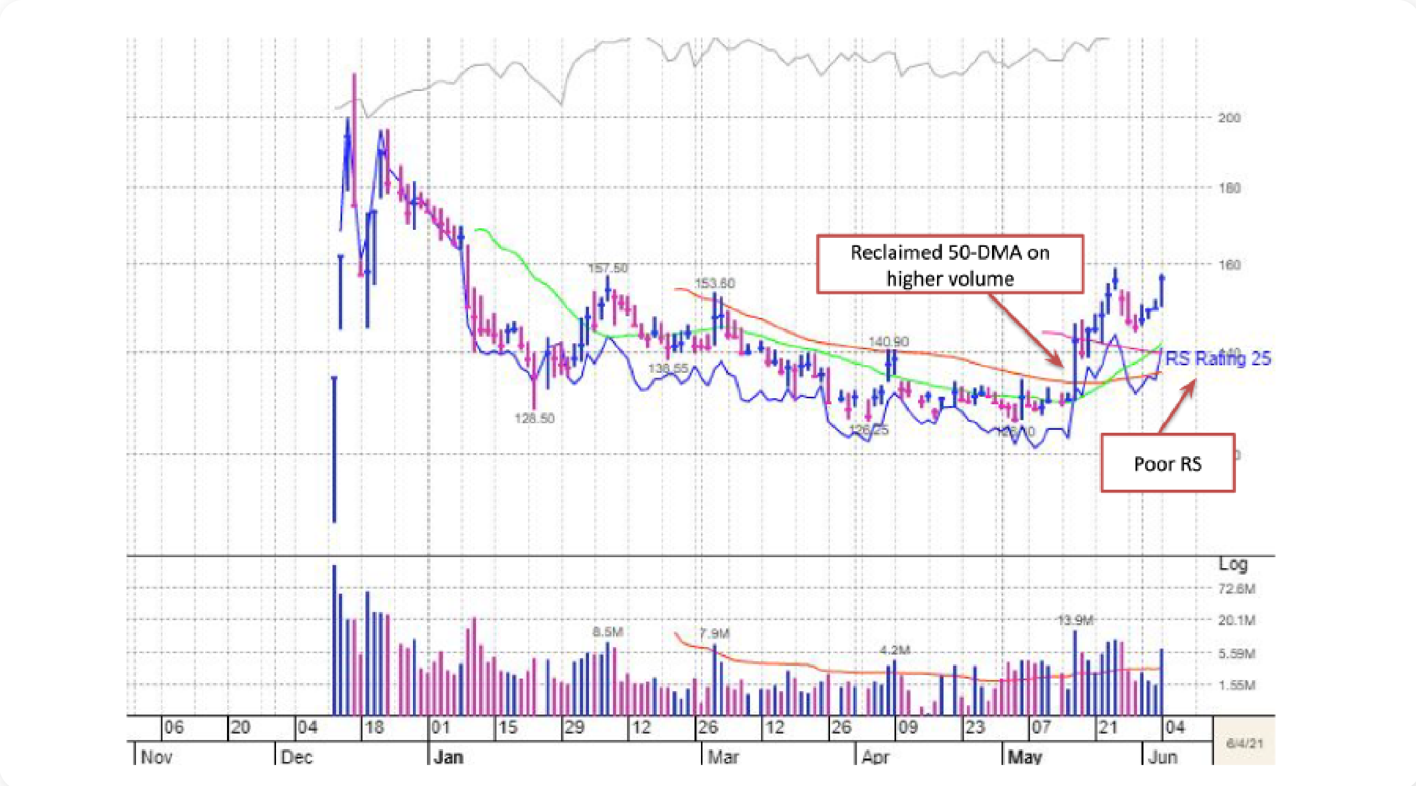
Source: Annual report PVR

Ease in Regulations to Spur Growth

The government reduced the GST rate from 18% to 12% on tickets costing up to Rs 100 and from 28% to 18% on tickets costing more than Rs 100, with effect from January 1, 2019. This has provided an impetus to the Indian movie exhibition industry. The move is expected to make movie-watching a more affordable form of entertainment and thus support growth in footfalls.

Stocks of Interest

Burger King



Burger King is the fastest-growing quick-service restaurant (QSR) chains in India. It offers a variety of fast-food burgers, fries and beverages. It operates in 270 restaurants including sub-franchisees across India as of December 2020. Globally it is the second-largest fast-food burger chain. The brand owned by Burger King Corporation, a subsidiary of Restaurant Brands International Inc., which has exclusive national master franchisee rights in India. It operates in a cluster approach and penetration strategy which operates in 6 clusters in India to provide better convenience and accessibility.

The company has robust growth plans of opening new stores despite the Covid-19 outbreak last year. Currently, under the National 'Master Franchise and Development Agreement.' the company planning to open about 50 restaurants in FY22, 70 restaurants in FY2023 and 80 restaurants in FY2024, and 700 restaurants by December of 2026. Strong retail network, customer loyalty, value proposition and higher disposable income of the millennial population will stimulate growth for the company.

Financial performance

The company reported revenue from operations for Q3 FY21 at INR 1,632M compared to INR 967M in Q2 FY21. The company has reported losses as it is still in the investment and expansion phase. Q3 margin came at 8.8% compared to 8.5% due to reduced rental costs.

Risk related to COVID-19

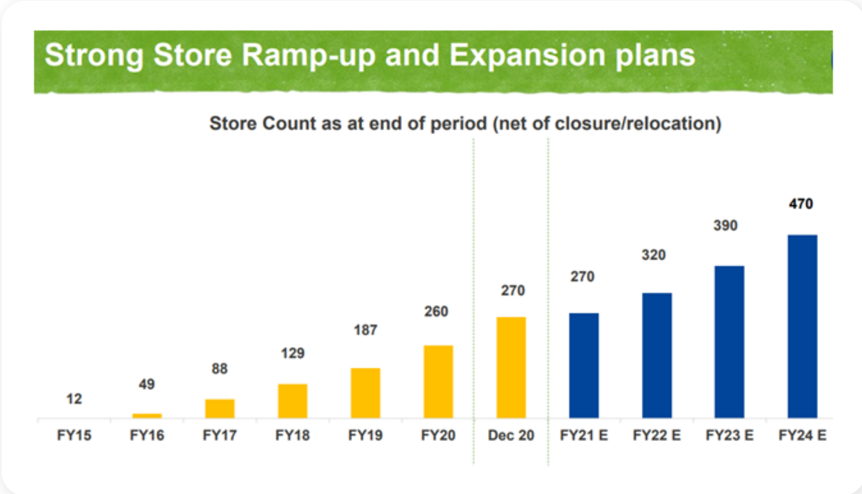
Burger King sales recovered to pre-covid levels in H2 FY21. SSG point of view, it recovered 85% y/y in terms of sales in January compared to the previous year. During Q3 it also faced some of the challenges related to farmer protests and closure of highways. Also improved recovery in delivery about 106% compared to last year. The company launched Burger King app exclusively only for Burger King products.

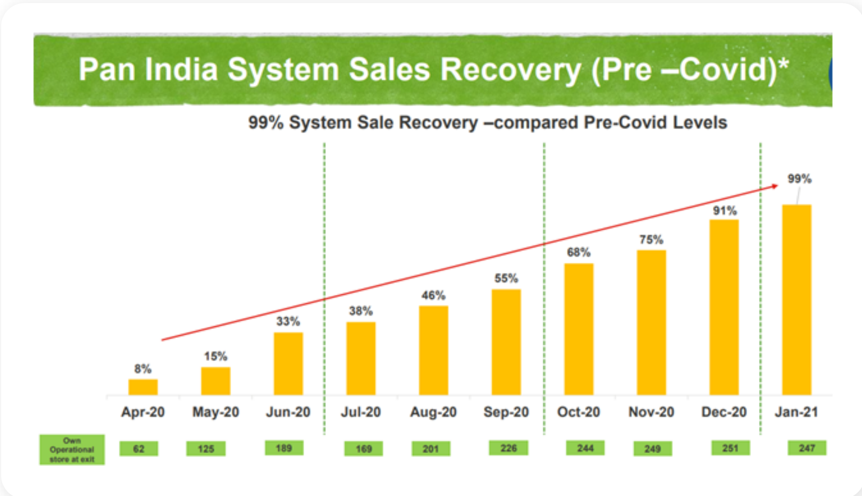
O'Neil Methodology and technical viewpoint:

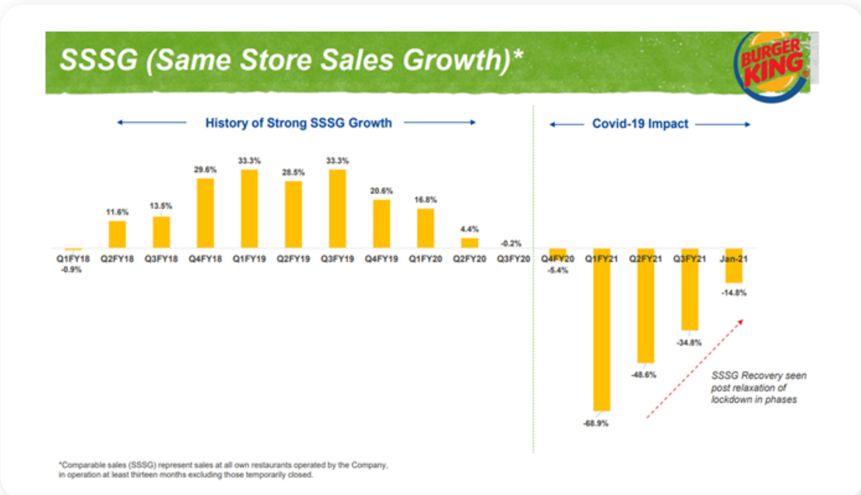
The stock got listed in the second week of December 2020 in steller listing it gained over 92.2% on the debut day. It gained over 40% in the next two trading sessions. Recently, the stock reclaimed its 21-and 50-DMA. Its RS Rating is poor at 25.

Institutional sponsorship for the stock decreased during the last quarter. Almost 11% decrease in the number of shares held by them. ROE of negative 28% indicates weak business.

Outlook Burger King expects for FY22 SSG will remain as FY20 and from FY23 expecting a growth of 5%-7%. Also it expects gross margin of 65.5% for FY22 and after two years expects an improvement of 150 basis points to 67%.

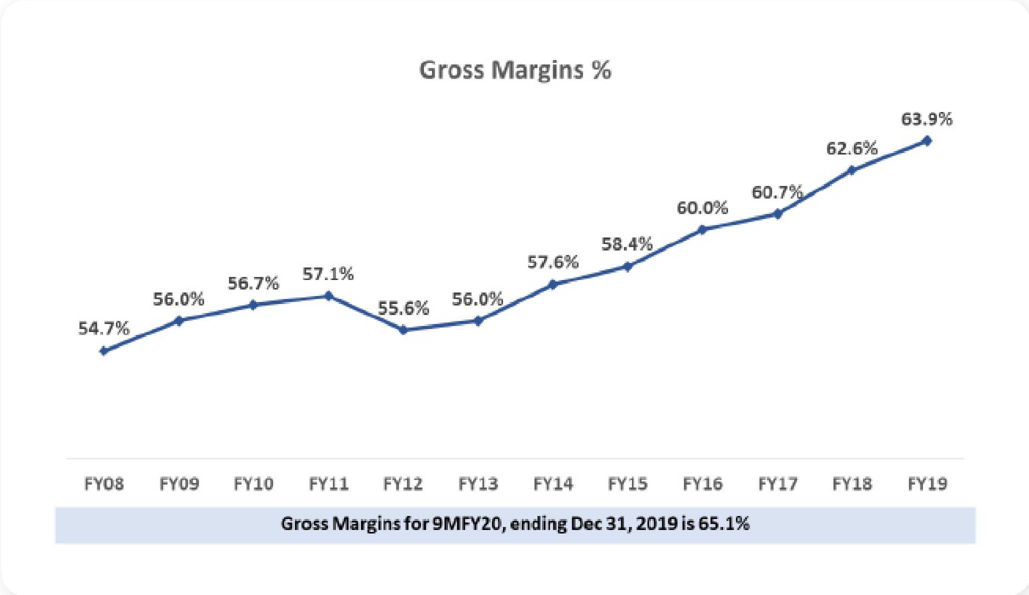


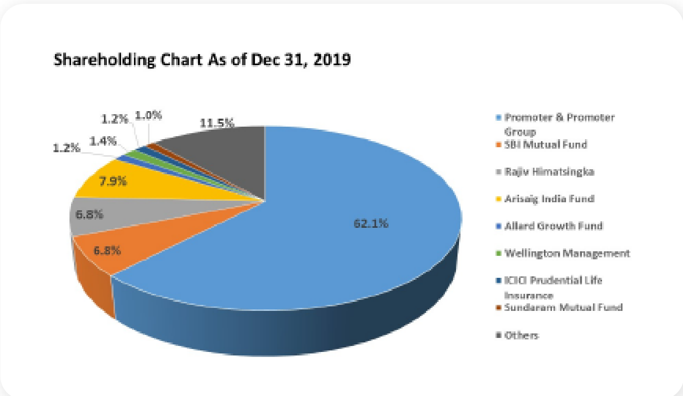


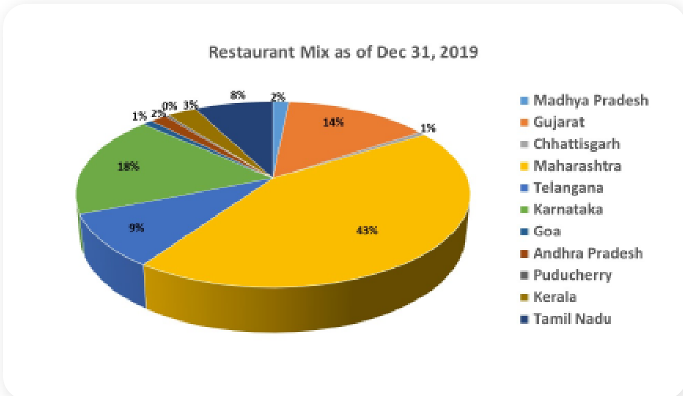


Westlife Development

Westlife Development Limited operates quick service restaurants. The company gives preferences in establishing and operating McDonald's restaurants across western and southern India, through its wholly owned subsidiary Hardcastle Restaurants Pvt. Ltd. (HRPL). As of December 2020, HRPL operates more than 304 McDonald's restaurants across 43 cities in the states of Maharashtra, Karnataka, Telangana, Gujarat, Tamil Nadu, Kerala, Chhattisgarh, Andhra Pradesh, Goa and parts of Madhya Pradesh. McDonald's operates through various divisions which includes standalone restaurants, drive-thrus, mall food courts, McDelivery and dessert kiosks. The company has three band extensions which are named as McDelivery, McCafe and McBreakfast. It also provides direct employment close to 10,000 employees.







Financial performance

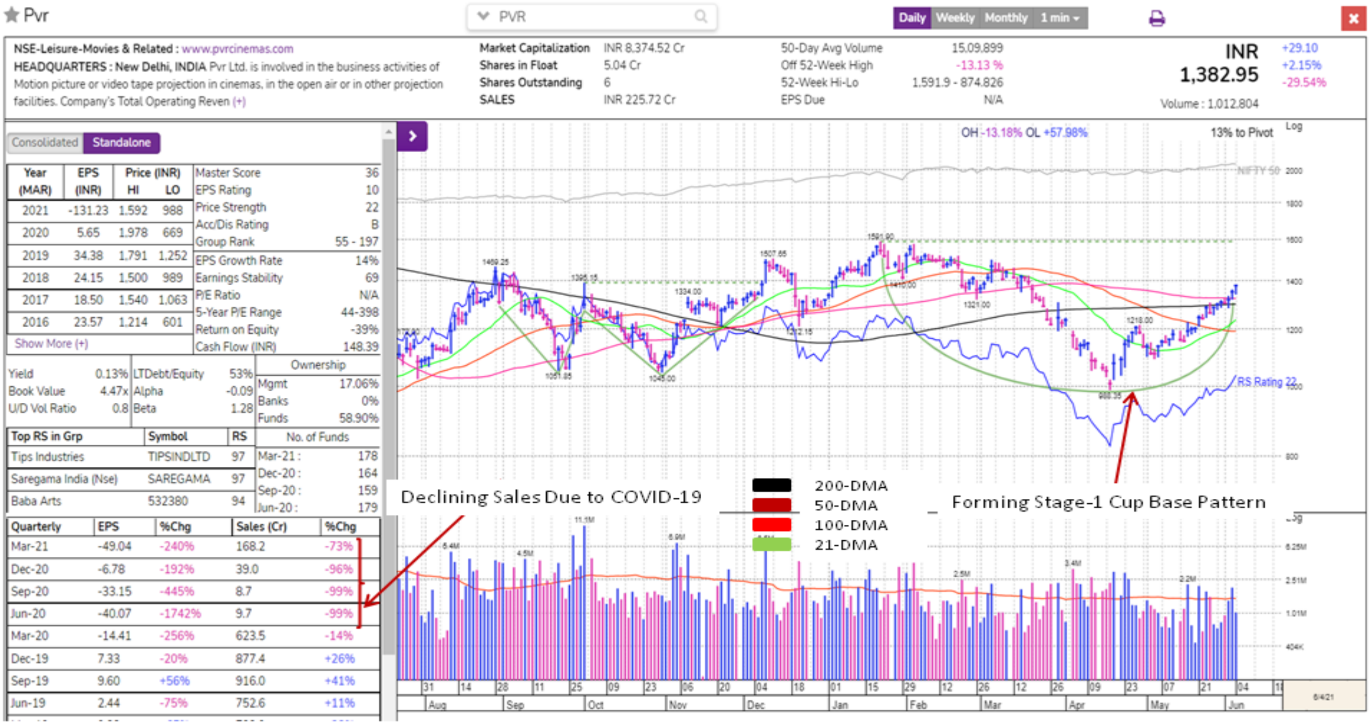
The company has posted a robust figure in Q3FY21 with revenue zoomed to 85-90% of pre COVID levels with December revenues almost back to pre-COVID levels. At the same time, the company improved its margins significantly on the back of cost efficiencies, and the operating EBITDA jumped to 10.2% from -4.9% in Q2 FY21. The company had a splendid recovery in its sales by 97% of pre Covid levels and 127% recovery in convenience channels compared to pre Covid levels.

The company started to recover in October Maharashtra finally opened up for dine-in. Its dine-in recovered 75-80%, even with night curfews and the 50% capacity constraint. The company has also launched a new packaging innovation called EatQual to foster inclusion across their restaurants. EatQual enables consumers with limited upper arm mobility, to enjoy McDonald's burgers as easily and have the same delightful experience at the restaurant.

Analyzing from O'Neil Lens

After hitting the intraday low at INR 271.25 on May 27, 2020 the stock has rallied up to 83 %. In the due process, the stock has done a formation of a cup with handle base and breakout on February 26, 2021 and after having a gain of around 4 to 5% it started moving lower. Currently the stock is forming a stage 2(b) cup-with-handle base. It has a poor EPS of 25. RS rating of 35 is weak. However, the number of funds and shares held by the fund has increased

PVR Cinemas



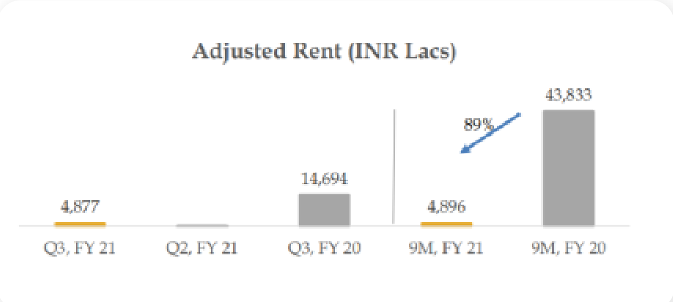
Company overview

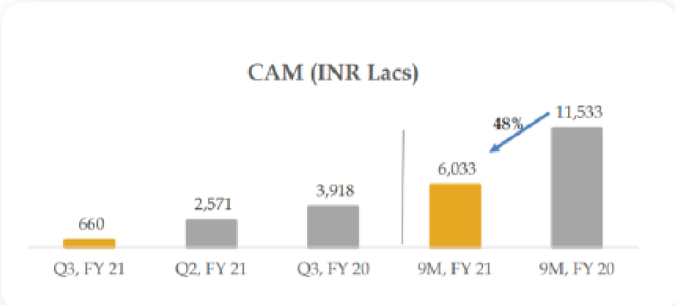
PVR Cinemas is the market leader in terms of screen count in India. It redefined cinema viewing in the country and the way viewers watch movies. The company has grown both organically and inorganically over the years. Some of its key strategic investments and acquisitions are Cinemax Cinemas (added 138 screens to PVR network) in November 2012, DT Cinemas (32 screens) in May 2016, and SPI Cinemas (76 screens) in August 2018. As of Q3 FY21 end, PVR operates 845 screens in 176 cinemas in 71 cities in India and Sri Lanka, with approximately 1.82 lakh seating capacity.

COVID-19-related impact on the company

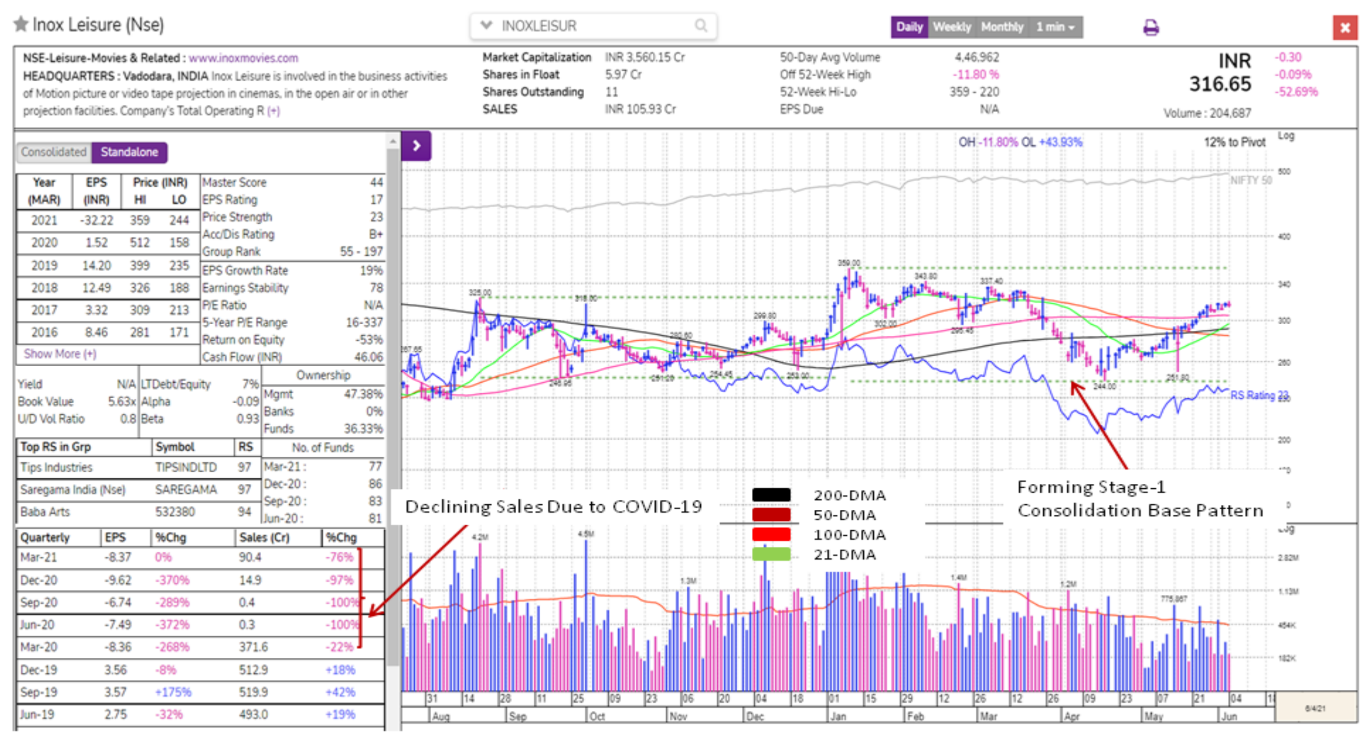
PVR's financials were hit in FY21 due to COVID-19-related lockdowns. In Q2 FY21, it reported operations revenue of just Rs 8.7 crore, which rose to Rs 39.0 crore in Q3, which were significantly less compared with operations revenue of Rs 877.3 crore in Q3 FY20.

As part of Unlock 5, the Government of India allowed cinemas to resume operations from October 2020, subject to their respective state's approval. Barring two states, all others allowed cinemas to open with 50% occupancy. Thus, as part of the resultant cost-cutting initiatives, PVR had to lay off some employees, slash salaries temporarily, and seek waivers on rent and maintenance charges for the lockdown period. Q4 FY21 loss widened to Rs 289 crore versus a loss of Rs 74.5 crore in Q4 FY20. Revenue was down 60% y/y to Rs 263.3 crore. Margin contracted 19.1% y/y to 9.5%.





Inox Leisure



Company overview

Inox Leisure is one of the largest multiplex chains in India with a diverse distribution of screens countrywide. At the end of Q4 FY21, it had 648 screens across 69 cities. Inox focuses on regional content more than its peers, most of which rely heavily on English and Hindi movie content.

Zone-wise screen strength: West, 40%; North, 24%; South, 22%; and East, 14%.

Screen outlook for FY22 and later

Inox firmly believes in India's economic growth story and also in a recovery from the current pandemic-impacted situation. It therefore has a strong pipeline for FY22. It expects to open 44 screens in FY22. Of these, 19 are at 90% of completion and require Rs 8–10 crore of additional capex. The opening of the remaining 25 screens would depend on the situation and an additional capex of about Rs 65 crore. If the situation normalizes soon, Inox expects rapid screen openings.

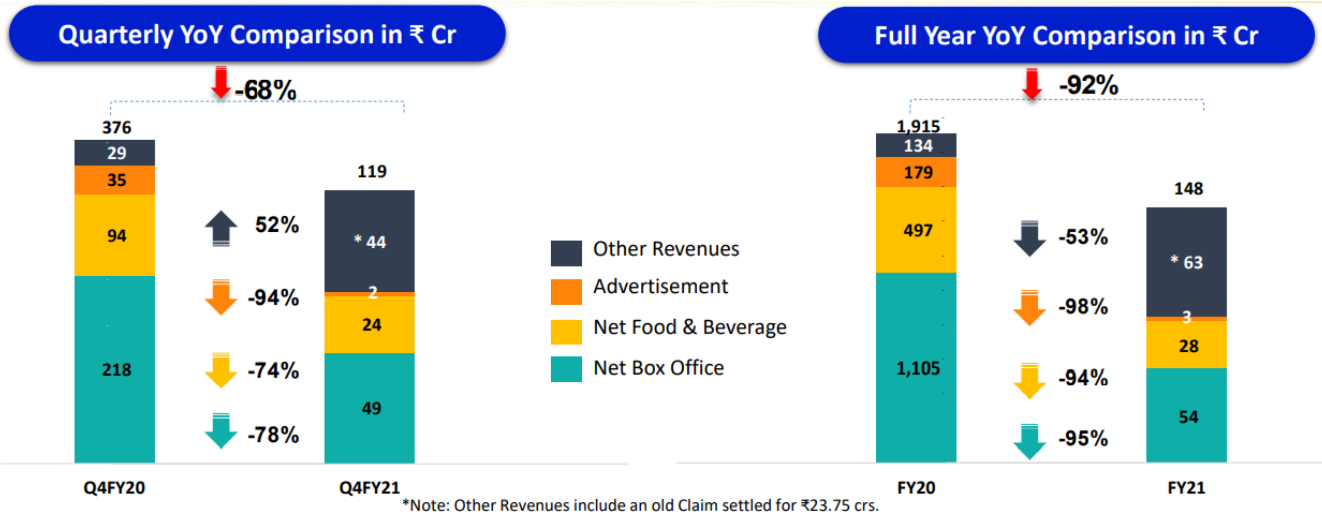
After FY22, the company plans to open another 958 screens, taking the count to 1,650 screens countrywide.

COVID-19-related impact on the company

The second wave of COVID-19 affected Inox's operations severely. It had to renegotiate terms with landlords on rent and CAM. Most movie producers and distributors deferred releases in the wake of screen closures in many parts of the country. A big-screen release is the most favorable financial option for producers as well as distributors. They would therefore postpone most big-budget releases until they could showcase it on the big screen.

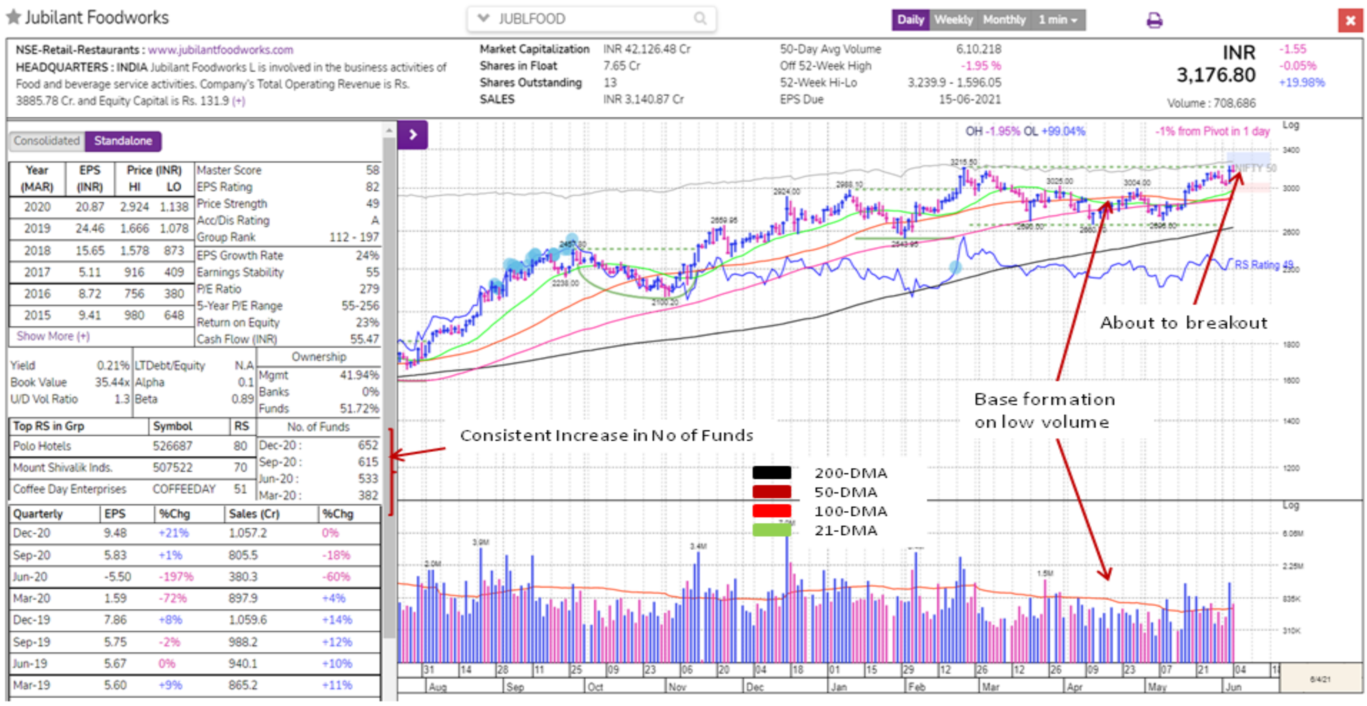
Even in the current situation, Inox has strong liquidity with more than Rs 130 crore, including undrawn limits of Rs 87 crore. It passed a resolution to raise up to Rs 300 crore. Additionally, in case of an emergency, it owns six properties and a head office, which, as per market valuation, can raise up to Rs 350 crore via a 'sale-lease back'.

Revenue hit due to COVID-19



*Note: Other Revenues include an old Claim settled for ₹23.75 crs.
For visibility of bars, above charts are prepared independently on different scales.

Jubilant Foodworks Limited



Company overview

Jubilant FoodWorks Limited (Jubilant) is one of India's largest food service companies. It owns master franchise rights of three major international brands: Domino's Pizza, Dunkin' Donuts, and Popeye's. The three brands address three different food segments. Jubilant is a market leader in the pizza segment. It also launched its first home-grown brand, Hong's Kitchen, catering to the Chinese cuisine segment. With the launch of "Ekdum!", Jubilant also entered India's favored Biryani segment. Ekdum! offers a range of biryanis along with Kebabs, Curries, Breads, Desserts and Beverages.

According to Jubilant's website, it currently operates more than 1,345 outlets for Domino's Pizza, Dunkin' Donuts, and Hong's Kitchen and has 30,000+ brand ambassadors committed to deliver value to customers.

COVID-19-related impact on the company

As with most food service companies, Jubilant also took a hit to revenue during the nationwide lockdown in 2020 and the recent partial lockdown. Sales nearly halved in Q1 FY21, after which it started its gradual climb to recovery. The takeaway and delivery segments recovered sharply as people chose to stay indoors, foregoing dining in opportunities at restaurants.

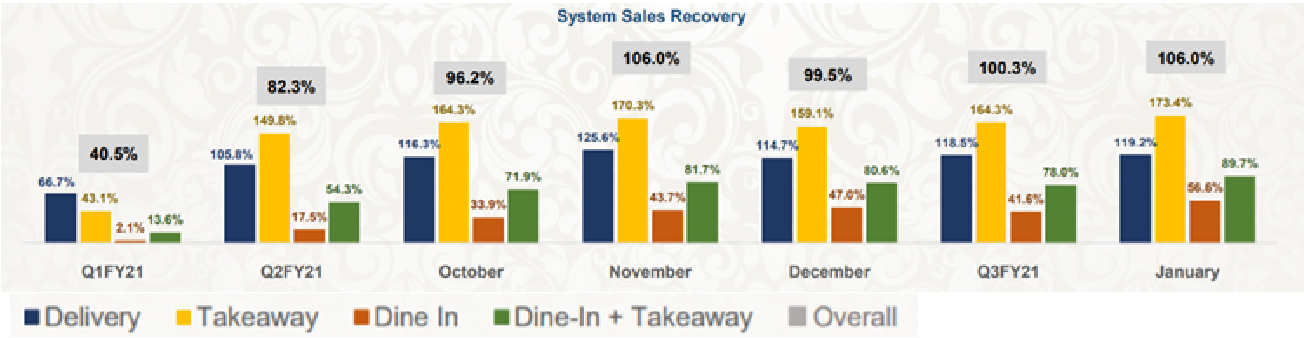
Domino's Pizza

People continued to order their preferred pizzas online. With respect to delivery sales, OLO contributed 87% in Q3 FY20 and increased to 98% in Q3 FY21. Within OLO sales, mobile app-based ordering is understood to be the preferred option, with 97% of OLO sales in Q3 FY21 gained from mobile apps.

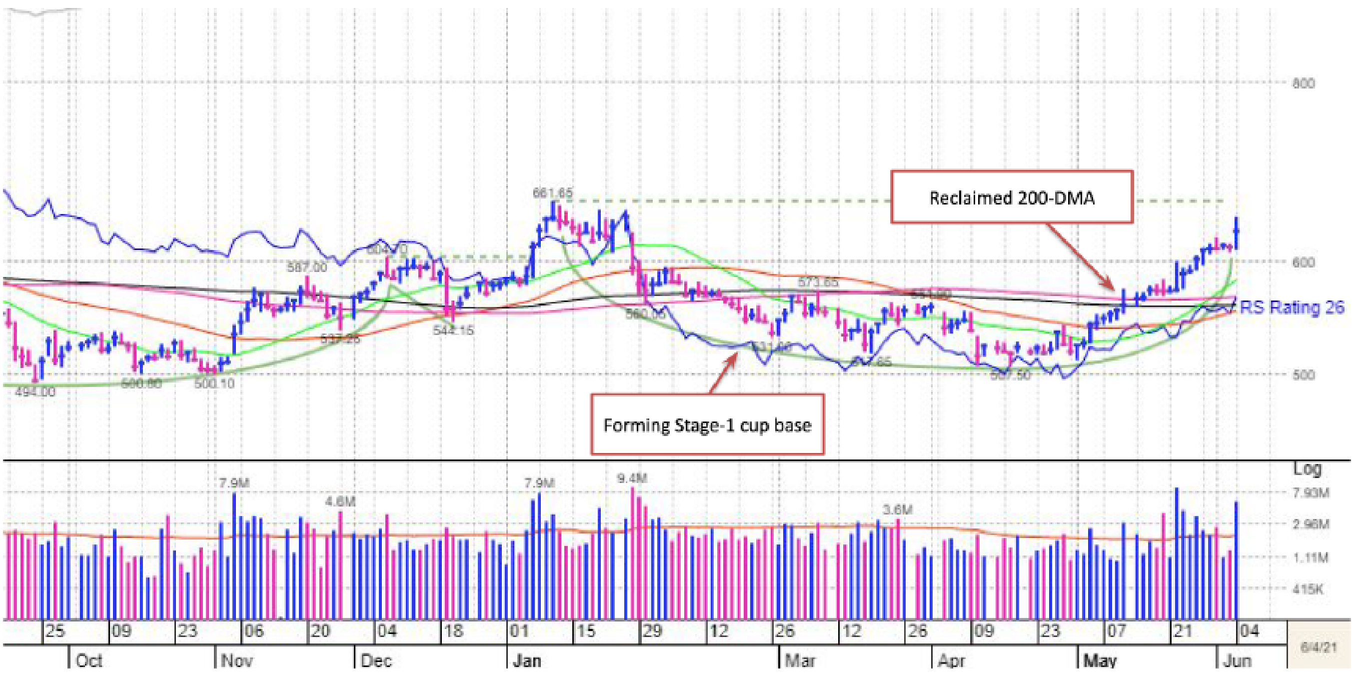
In terms of outlets, net 90 restaurants were closed in Q2 FY21. But there was a sharp recovery in Q3 as 50 new Domino's outlets were opened, in line with the target of opening 110+ stores in FY21.

Dunkin' Donuts

There has been a significant decrease in this network as the brand's outlets decreased by five to 27 in Q3 FY21 from 32 in Q3 FY20.



United Spirits



Company overview

United Spirits is the world's second largest spirits maker in terms of volume sales. It is a subsidiary of Diageo. Its major brands are Mc Dowell's No 1, Black Dog, Johnnie Walker, Antiquity, Signature, Royal Challenge, Smirnoff, and Vat 69.

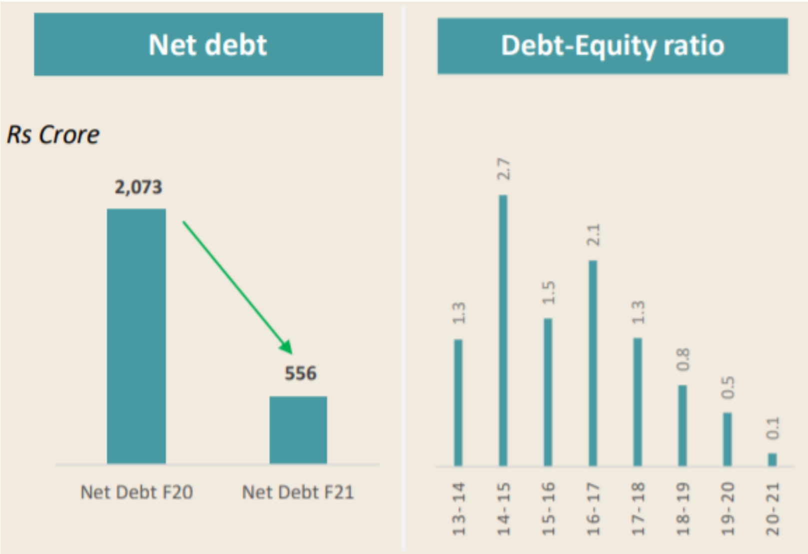
The company's strengths include its scale and geographical diversity. Its 50 manufacturing facilities are spread across the country. It has a strong distribution network and a state-of-the-art technical center to address grievances.

COVID-19-related impact on the company

FY21 has been an eventful year for most companies as the world reeled under a major pandemic. In India, a nation-wide lockdown was imposed in Q1 FY21 to decrease the spread of COVID-19. Thus, bars, pubs, and restaurants downed shutters. A few states allowed home delivery of alcoholic beverages. In Q2, the government started phase-wise unlocking of restrictions to revive economic activity, which helped United Spirits to ramp up production. In the recent second wave of the pandemic, some state governments have allowed wine shops to operate within stipulated timings. Sales have been good across the country as accelerated consumption was seen in homes.

Looking forward

The company believes in the long-term story even if the short term is full of uncertainty. It has various reasons to be optimistic. In India, around 17M people are expected to be added to the legal drinking age (LDA) category over the next three to five years. Along with long-term premiumization of brands and increasing household incomes, the spending behavior of this category also inclines toward premium brands. This trend contributes directly to the company's top line and helps it expand margins.



With the reduction in net debt, United Spirits was able to save Rs 25 crore in interest payments in FY21. Interest coverage ratio went down to 4.8 in FY21 from 6.9 in FY20.

Radico Khaitan

Company Overview

Radico Khaitan Limited (RKL), formerly known as Rampur Distillery, commenced operations in 1943. It is a major supplier of bulk spirits and is well known countrywide. It started its portfolio with 8PM Whisky; along with Magic Moments, Contessa XXX Rum, and Old Admiral Brandy, these are the company's four millionaire brands. Including these, RKL owns 15 brands.

The company currently has two distilleries: Rampur Distillery in Rampur (Uttar Pradesh) and Radico NV Distilleries Maharashtra Limited (Maharashtra). It has 28 bottling units across the country and capacity of over 157M liters.

The brand Magic Moments leads the vodka category in India with a market share of over 60%. A key ranking agency ranked Magic Moments as the eleventh largest vodka brand globally. There has a major shift in consumer preference when it comes to vodka consumption. Globally, vodka sales contribute about 35% to the total spirits industry versus just 5% in India. This represents a major growth opportunity for RKL's Magic Moments brand.

Company's Reaction to COVID-19

RKL reported EBITDA of Rs 408 crore for FY21, registering 11% y/y growth. This indicates the company's resilient business model. April 2020 brought about a nationwide lockdown, despite which RKL reported stable top-line growth. Its major brand, 8PM Premium Whiskey, registered sales volume of over 1M cases in the year, despite the challenges in FY21.

During difficult times, RKL has always prioritized employee health, safety, and well-being. Accordingly, it did not reduce head count during the pandemic or cut any salaries.

RKL plans to launch a few brands in the premium brown space category in FY22.

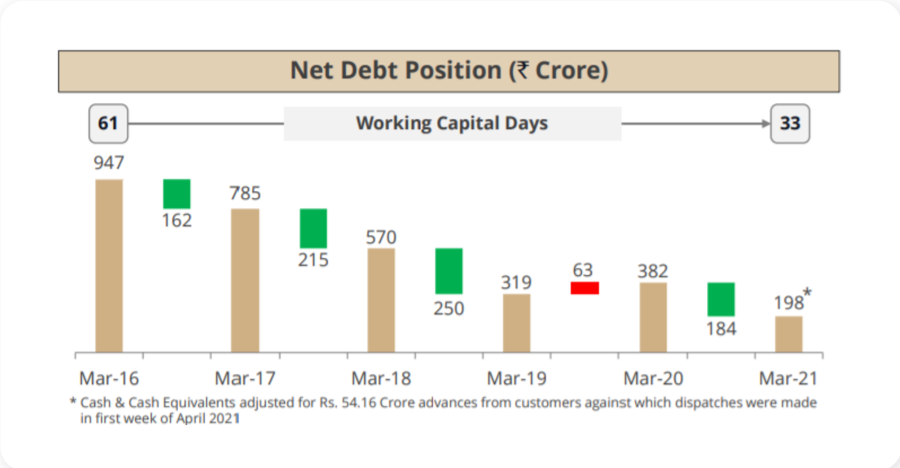
Key Highlights of Q4 FY21 and FY21

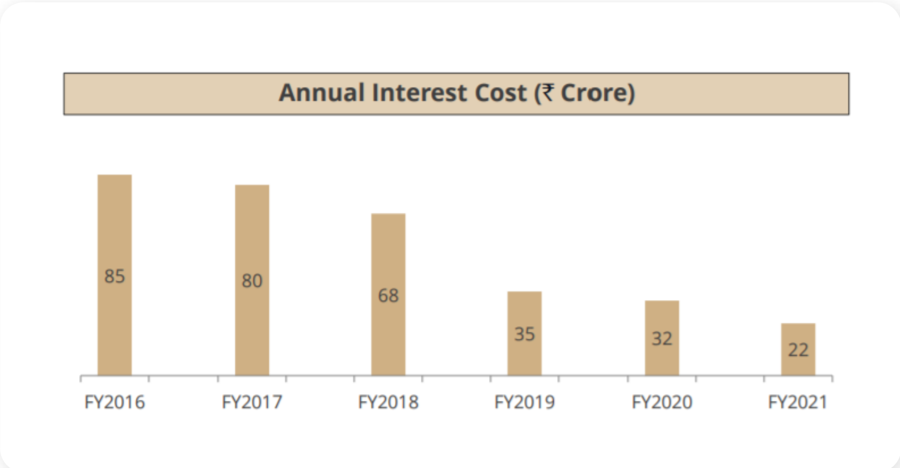
In Q4 FY21, net revenue from operations grew 18.7% y/y. The quarter saw a 7.8% volume growth in Indian-made foreign liquor (IMFL) segment, led by the Prestige & Above category, which increased 15.4%.

Gross margin for the quarter contracted 143bps y/y to 48.4%, but expanded 170bps to 50.3% for the full year FY21.

Finance cost decreased 45.3% y/y from Rs 8.5 crore to Rs 4.6 crore. Due to its strong capital structure and stable profitability, RKL's cost of borrowing is one of the lowest in the industry.

Net debt has been declining for the last six years. Hence, its finance costs were also on a downtrend.





Research Team:

Mayuresh Joshi, mayuresh.joshi@williamoneilindia.com
Kongari Rajashekar, kongari.rajashekar@williamoneilindia.com
Rushit Sejpal, rushit.sejpal@williamoneilindia.com
Satya Narayan Panda, satya.panda@williamoneilindia.com

Analyst Disclosures: No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Disclosure of Interest Statement	Companies where there is interest
Analyst ownership of the stock	No

Registered office address: Technomark Building, A-4, NGEF Ancillary Industrial Estate, Graphite India Road, Mahadevapura, Whitefield, Bangalore 560048, Phone: + 91 80 67453802, Fax: + 91 80 6745381, Website: http://www.williamoneil.com/india/, For investor queries: queries@marketsmithindia.com For grievances: grievances@marketsmithindia.com; For compliance officer:compliance@marketsmithindia.com, Corporate Identity Number: U74999KA2012FTC066881, Investment Adviser SEBI Regn. Nos: INA200005125 valid till 11 July 2021.

Our Products

MarketSmith INDIA

SWINGTraderIndia

AlgoSmith