8TH APRIL 2022

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

BARBEQUE NATION

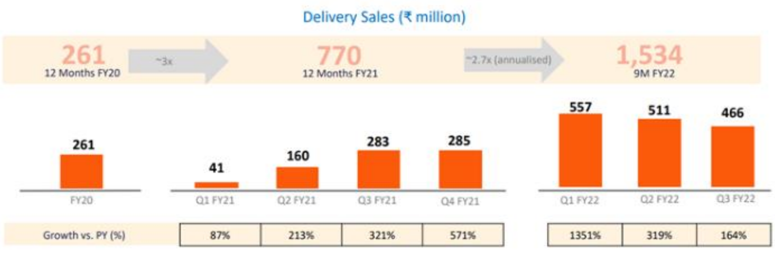
WHAT WE LIKE

TRANSFORMING INTO A FOOD SERVICE COMPANY

Started off as a unique Casual Dining Restaurant (CDR) in 2006 with a live on-the-grill experience for India for the first time, **Barbeque Nation in the last 3 years has transformed itself from a CDR chain into a holistic food services business, catapulted on the back of their delivery business and digital assets.**

STRENGTHENING DELIVERY BUSINESS

Product innovation like Barbeque-in-a-box, Grill-in-a-box and Meal-in-a-box, & making them accessible through its app, website & food aggregators has led to a huge growth in the delivery business.



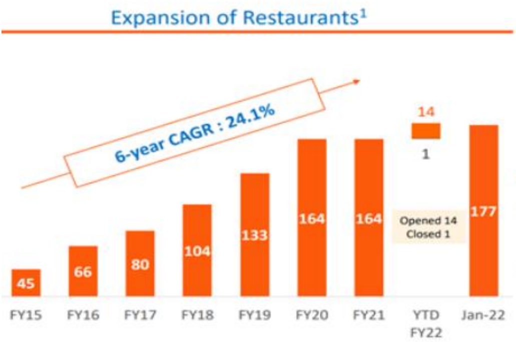
- Delivery segment grew 64% in Q3 FY22 along with strong recovery in dine-in
- Delivery segment was 16% of the total revenue from operations in Q3 FY22

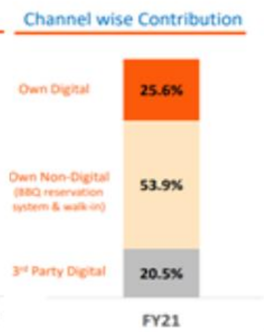
HIGH APC (AVERAGE PER COVER) VS PEERS

parameters, our delivery business is largely driven by box sales, which is BBQ in a box, a high APC product which is 1.8x to 2x of the industry and that helps us to give that superior edge on the delivery side. It is a business which work is in progress and we want to build it for long term with a view that with the acceptance of consumers for the product should be very high. The focus is more on product and sales and even though the short term profitability may be lower, the sales uptake will be focus right now.

Source: Q3FY22 Investor Concall

STRONG GROWTH IN NEW UNITS & HIGH DIGITAL CONTRIBUTIONS





WHAT WE DON'T LIKE

HIGH EBITDA AS LEASE RENTALS ARE NOW IN FIXED COSTS

Lease rental is an integral cost of a QSR. BBQ is following the accounting convention as per industry norms. **But we at SSS believe that we should deduct the lease rental from EBITDA to arrive at the true EBITDA of the business. BBQ mentions it separately in its presentation, which is a good practice.**

FAST RISING COMPETITION

The QSR & the CDR space is very hot and hence attract a lot of competition not only from foreign brands but also from regional ones. **In this scenario, maintaining growth and market share without sacrificing margins and return metrics will be a challenge for any player.**

COST PRESSURES IN AN INFLATIONARY ENVIRONMENT

If inflation is here to stay for long, there is no denying the fact that it will lead to high prices for almost all of their raw material inputs. **They have had a 5-6% price hike last quarter.**

The management guided that they would not need more hikes. **However, given how the raw material prices have shot up since then, it would be interesting to see how they protect their margins.**

INABILITY TO MAKE COST FO MANPOWER VARIABLE COST LIKE QSRS

Most QSRs are able to make their manpower costs variable by adding a bulk of manpower on an hourly pay basis rather than a monthly salary basis. **The management believes unlike other QSR counterparts, it is not easy for them to quickly shift to that model. They are still evaluating what would be the right mix for them to go ahead.**

STRETCHED VALUATION

At roughly 4700 Cr market cap, BBQ is trading at 6 times TTM Sales and 30 times EV/EBITDA. The foodservice industry leader, Jubilant Foodworks is available at 8.5 times Sales and 34 times EV/EBITDA. Unless one is very sure about a very high growth in the business going forward, the valuation today has a very small room for error. **However, at a discount to the current valuation, it is a business worth looking into.**