

## Company Overview

Devyani International Ltd. (DIL) is the largest franchisee of Yum Brands in India and also among the largest operators of chain quick-service restaurants ("QSR") in India on a non-exclusive basis. As of June 30, 2021, It operates 696 stores across 166 cities in India. Yum! Brands Inc. operates brands such as KFC, Pizza Hut and Taco Bell brands and has a presence globally with more than 50,000 restaurants in over 150 countries, as of December 31, 2020. In addition, DIL is a franchisee for the Costa Coffee brand and stores in India. Its business is broadly classified into three verticals that include stores of KFC, Pizza Hut and Costa Coffee operated in India (KFC, Pizza Hut and Costa Coffee referred to as "Core Brands"; stores operated outside India primarily comprising KFC and Pizza Hut stores operated in Nepal and Nigeria ("International Business"); and certain other operations in the F&B industry, including stores of own brands such as Vaango and Food Street ("Other Business"). Revenue from Core Brands Business, together with International Business 94.19% of its revenue from operations in Fiscal 2021. DIL has consistently expanded their store network over the years. Stores in their Core Brands Business grew at a CAGR of 13.58% from 469 stores as of March 31, 2019 to 645 stores as of June 30, 2021. Despite the on-going COVID-19 pandemic, they have continued to expand their store network and in the 6 months ended March 31, 2021, they opened 109 stores in their Core Brands Business.

## Objects of the issue

The IPO proceed will be used towards the following purposes;

- ⇒ Repayment/prepayment of all or certain of the borrowings
- ⇒ General corporate purposes.

## Investment Rationale

### A multi-dimensional QSR players with a diversified portfolio of large globally recognized brands

DIL is highly diversified with brands such as KFC, Pizza Hut and Costa Coffee in the portfolio. Their brands not only provide them with a diversification in cuisine. (such as burgers, pizza, South-Indian food and street food) but also in terms of the formats (such as dine-in, cafés, delivery, take-away and drive thru). They serve a wide range of customers across various price points. DIL is also a multi-dimensional QSR player focusing on quality and safety, customer experience, digital adoption, delivery and their people and culture. The longevity and global recognition of the Core Brands and related quality and value offerings resonate with customers.

### Wide presence across key consumption markets in India with a cluster-based approach

The company has strong presence across India operating 696 stores across brands as of June 30, 2021. It is present in 166 cities in India across 26 states and 3 union territories with a strong presence in cities like Bengaluru, Kolkata, Mumbai, Hyderabad and Delhi NCR. DIL follows a cluster-based expansion approach supported by streamlined store network planning, a robust supply chain network and an efficient staff recruitment and development program. The other factors they consider as part of their cluster based approach includes retail presence at a particular location, the brand recognition and recall value of their Core Brands. In assessing the expansion of their store network, they target an optimal mix across different formats, including dine-in, delivery, take-away and drive-thrus.

## Valuation and Outlook

Incorporated in 1991, Devyani International Limited (DIL) is the largest franchisee of Yum Brands in India and is among the largest chain operators of quick service restaurants ("QSR") in India on a non-exclusive basis. Its strong portfolio of globally recognized brands, business and geographical diversification, strong presence across key consumption areas and increasing digital adoption provides a strong growth runway for the company. While the QSR industry was hit by Covid-19 driven nationwide lockdowns, it has boosted digital orders & delivery and has shifted preference towards quality & safety, thus providing tailwinds for stronger brands. Although the company has been loss making, but it is on a footprint expansion mode with strong industry triggers. On the valuation front, based on upper price band and diluted equity shares the company is valued at 9.54x Price/Sales which is reasonably priced when compared to its listed industry peers (i.e, Jubilant Foodworks- 12.9x, Burger King- 14.4x and Westlife Development- 8.81x). Considering the expected improvement in financial performance and future growth drivers, we give a "SUBSCRIBE" rating for the long term.

Issue Details	
Offer Period	4 <sup>th</sup> Aug - 6 <sup>th</sup> Aug, 2021
Price Band	INR.86 to INR.90
Bid Lot	165
Listing	BSE&NSE
Issue Size (no. of shares in mn)	204
Issue Size (INR. in bn)	18.38
Face Value	1

Issue Structure	
QIB	75%
NIB	15%
Retail	10%
BRLM	Kotak Mahindra Capital, CLSA India, Edelweiss Financial and Motilal Oswal.
Registrar	Link Intime India Pvt. Ltd.

Particulars	Pre Issue %	Post Issue %
Promoter	75.79%	67.99%
Public	24.21%	32.01%
<b>Total</b>	<b>100%</b>	<b>100%</b>

(Assuming issue subscribed at higher band)

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## Income Statement (In mn)

Particulars	FY19	FY20	FY21
<b>Revenue</b>			
Revenue From Operations	13,106	15,164	11,348
<b>Total Revenue</b>	<b>13,106</b>	<b>15,164</b>	<b>11,348</b>
<b>Expenses</b>			
Cost of Raw Materials Consumed	3,773	4,487	3,387
Purchase of Stock in Trade	116	117	60
Employee Benefit Expense	1,916	2,255	1,543
Other Expenses	4,760	5,789	4,569
<b>Total Operating Expenses</b>	<b>10,564</b>	<b>12,648</b>	<b>9,559</b>
<b>EBITDA</b>	<b>2,542</b>	<b>2,516</b>	<b>1,789</b>
Depreciation and Amortisation Expense	2,028	2,233	2,295
Other Income	131	187	641
<b>EBIT</b>	<b>645</b>	<b>469</b>	<b>135</b>
Finance Costs	1,356	1,584	1,528
<b>Profit Before Exceptional Items and Tax</b>	<b>(711)</b>	<b>(1,115)</b>	<b>(1,393)</b>
Exceptional Items	(131)	(346)	(569)
<b>Profit Before Tax</b>	<b>(580)</b>	<b>(769)</b>	<b>(824)</b>
Current Tax	9	13	10
Deferred Tax	4	5	(20)
<b>Total Tax</b>	<b>13</b>	<b>18</b>	<b>(11)</b>
<b>Profit After Tax</b>	<b>(593)</b>	<b>(788)</b>	<b>(813)</b>
Profit/(loss) for the Year from Discontinued Operations	(349)	(427)	183
Loss for the Year	(941)	(1214)	(630)
<b>Diluted EPS</b>	<b>(0)</b>	<b>(1)</b>	<b>(1)</b>

Source: RHP, BP Equities Research

## Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21
Cash Flow from operating activities	2,778	3,007	2,396
Cash flow from investing activities	(1,677)	(974)	(3,586)
Cash flow from financing activities	(1,305)	(2,226)	1,420
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(204)</b>	<b>(193)</b>	<b>229</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>443</b>	<b>266</b>	<b>132</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>266</b>	<b>132</b>	<b>400</b>

Source: RHP, BP Equities Research

## Balance Sheet (In mn)

Particulars	FY19	FY20	FY21
<b>Equity</b>			
Share Capital	1,062	1,062	1,154
Other Equity	(1,764)	(2,953)	(16)
Equity Attributable Owners of the Company	(702)	(1,891)	1,138
Non Controlling Interest	(510)	(391)	(419)
<b>Net worth</b>	<b>(1,212)</b>	<b>(2,282)</b>	<b>719</b>
Borrowings	3,325	3,402	3,594
Lease Liabilities	11,241	11,759	7,937
Other Financial Liabilities	34	53	49
Provisions	138	116	169
Other Non-Current Liabilities	7	10	10
<b>Total Non-Current Liabilities</b>	<b>14,744</b>	<b>15,340</b>	<b>11,759</b>
Borrowings	677	905	211
Lease Liabilities	1,106	1,123	787
Trade Payables	1,368	1,632	1,619
Other Financial Liabilities	1,179	1,897	1,306
Provisions	32	44	83
Other Current Liabilities	180	177	200
<b>Total Current Liabilities</b>	<b>4,542</b>	<b>5,778</b>	<b>4,207</b>
<b>Total Equity &amp; Liabilities</b>	<b>18,075</b>	<b>18,836</b>	<b>16,684</b>
<b>Assets</b>			
Property, Plant & Equipment	4,840	4,787	4,307
Right of Use Assets	9,947	10,351	6,660
Capital Work in Progress	115	135	143
Investment Properties	471	414	456
Goodwill	161	224	644
Other Intangible Assets	364	577	1,855
Financial Assets	571	674	603
<b>Other Non-Current Assets</b>	<b>216</b>	<b>242</b>	<b>371</b>
<b>Total Non-Current Assets</b>	<b>16,685</b>	<b>17,404</b>	<b>15,039</b>
Inventories	549	721	622
Trade Receivables	230	173	169
Cash and Cash Equivalents	266	132	400
Other Bank Balances	5	28	6
Loans	96	128	142
Other Financial Assets	1	36	106
Other Current Assets	243	213	202
<b>Total Current Assets</b>	<b>1,390</b>	<b>1,432</b>	<b>1,645</b>
<b>Net Current Assets</b>	<b>(3,153)</b>	<b>(4,346)</b>	<b>(2,561)</b>
<b>Total Assets</b>	<b>18,075</b>	<b>18,836</b>	<b>16,684</b>

## Key Risks

- ⇒ The company has incurred losses in Fiscals 2019, 2020 and 2021, resulting in erosion of their net worth. In the event net loss continues to increase, it may adversely affect their business and financial condition.
- ⇒ The impact of the pandemic on the company's operations in the future, including its effect on the ability or desire of customers to dine in stores, is uncertain and may be significant.
- ⇒ The company relies on the Costa IDA with Costa for their Costa Coffee stores and a termination of or material modification to the existing terms of the Costa IDA will materially and adversely affect their ability to continue their Costa business.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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