

Devyani International Ltd

Recommendation	SUBSCRIBE		BACKGROUND																																				
Price Band	Rs 86-90		<h3>Company Overview</h3> <p>Devyani International Ltd. (DIL) is the largest franchisee of Yum Brands like KFC, Pizza Hut in India and are among the largest operators of chain quick service restaurants (QSR) in India. on a non-exclusive basis, and operate 696 stores across 166 cities in India, as of June 30, 2021. In addition, it has a franchisee for the Costa Coffee brand and stores in India. The company's business is broadly divided into the following three verticals: (i) KFC, Pizza Hut and Costa Coffee stores operated in India (KFC, Pizza Hut and Costa Coffee referred to as Core Brands Business); (ii) stores operated outside India, primarily comprising KFC stores and Pizza Hut stores (International Business); and (iii) other operations in the F&B industry, including stores of other brands such as Vaango and Food Street (Other Business).</p> <h3>Objects of the Issue</h3> <p>The issue of Rs 1838 cr consists of Rs 1398 cr offer for sale and Rs 440 cr fresh issue to repay the debt</p> <h3>Investment Rationale</h3> <ul style="list-style-type: none"> • Portfolio of highly recognized global brands • Presence across key consumption markets with a cluster-based approach • Strategically expand store network of the Core Brands Business • Focus on delivery channel for Core Brands • Disciplined Financial Approach <h3>Valuation and Recommendation</h3> <p>The company's revenues grew by 16% in FY20 however due to Covid related disruption, sales declined in FY21. Nonetheless, the company continued its store expansion spree during this phase. Also, it took many steps at operational level like – (a) rationalized loss-making stores (b) restructured Pizza hut stores and reduced the size. All the above steps resulted in improvement in EBITDA margins in FY21 to 20% from 16.8% in FY20, despite lower sales in FY21. Going forward, the management has guided to continue to store opening momentum. We believe the full benefits of operational changes have not yet been accounted in current profitability and would continue to improve EBITDA in coming years as well. The company is repaying debt with the IPO proceeds which would reduce the interest cost burden, hence aiding PAT growth. We recommend "Subscribe".</p> <table border="1"> <thead> <tr> <th>Financial Snapshot</th> <th>FY19</th> <th>FY20</th> <th>FY21</th> </tr> </thead> <tbody> <tr> <td>Revenues</td> <td>1311</td> <td>1516</td> <td>1135</td> </tr> <tr> <td><i>%growth</i></td> <td></td> <td><i>16%</i></td> <td><i>-25%</i></td> </tr> <tr> <td>EBIDTA</td> <td>279</td> <td>255</td> <td>227</td> </tr> <tr> <td><i>% Margins</i></td> <td><i>21.3%</i></td> <td><i>16.8%</i></td> <td><i>20.0%</i></td> </tr> <tr> <td>Adj. PAT</td> <td>(59)</td> <td>(79)</td> <td>(81)</td> </tr> <tr> <td>EV/EBIDTA @ Rs 90</td> <td></td> <td>43.8</td> <td>49.5</td> </tr> <tr> <td>P/E @ Rs 90</td> <td></td> <td>-137.4</td> <td>-133.1</td> </tr> <tr> <td>P/BV @ Rs 90</td> <td></td> <td>-89.3</td> <td>150.6</td> </tr> </tbody> </table>	Financial Snapshot	FY19	FY20	FY21	Revenues	1311	1516	1135	<i>%growth</i>		<i>16%</i>	<i>-25%</i>	EBIDTA	279	255	227	<i>% Margins</i>	<i>21.3%</i>	<i>16.8%</i>	<i>20.0%</i>	Adj. PAT	(59)	(79)	(81)	EV/EBIDTA @ Rs 90		43.8	49.5	P/E @ Rs 90		-137.4	-133.1	P/BV @ Rs 90		-89.3	150.6
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Bidding Date	4-6 August																																						
Book Running Lead Manager	Kotak, CLSA., Edel, Motilal																																						
Registrar	LinkTime																																						
Sector	Consumer - QSR																																						
Minimum Retail Application – Details at Cut off Price																																							
Number of Shares	166																																						
Application Money	14940																																						
Discount to retail	NIL																																						
Payment Mode	ASBA, UPI																																						
Consolidated Financials (Rs Cr)	FY20	FY21																																					
Total Income	1,516	1,135																																					
EBITDA	255	227																																					
PAT	(79)	(81)																																					
Valuations*	Lower Band	Upper Band																																					
Market Cap (Rs cr)	10342	10823																																					
EPS	-0.7	-0.7																																					
BV/share	1	1																																					
P/BV	143.9	150.6																																					
P/E	-127.2	-133.1																																					
<i>*FY21 numbers, diluted equity</i>																																							
Post Issue Shareholding Pattern																																							
Promoters	65.2%																																						
Public	34.8%																																						
Offer structure for different categories																																							
QIB (Including Mutual Fund)	75%																																						
Non-Institutional	15%																																						
Retail	10%																																						
Post Issue Equity Capital (Rs cr)	120.25																																						
Issue Size (Rs cr)	1756-1838																																						
Face Value (Rs)	1																																						
<p>Runjhun Jain Assistant Vice President (+91 22 6273 8177) runjhun.jain@nirmalbang.com</p>																																							



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Company Overview

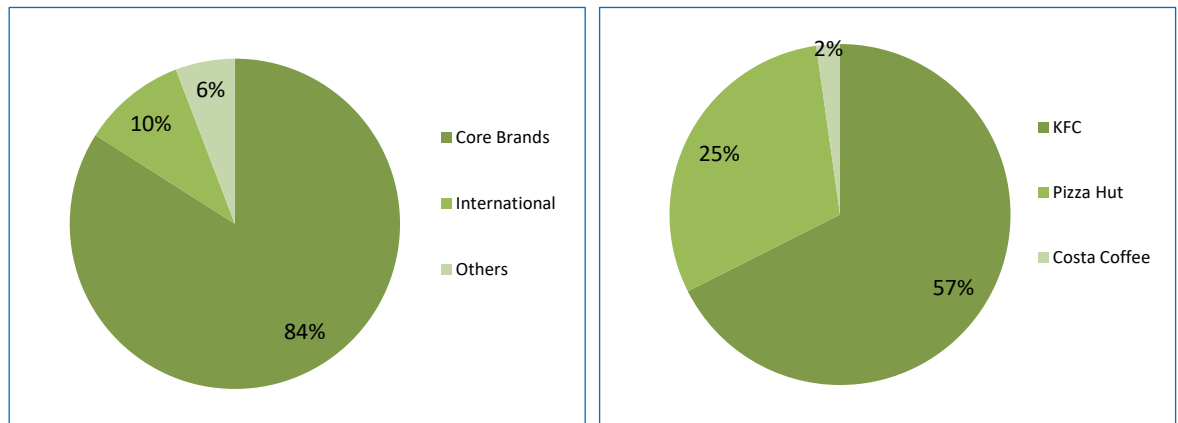
Devyani International Ltd. (DIL) is the largest franchisee of Yum Brands like KFC, Pizza Hut in India and are among the largest operators of chain quick service restaurants (QSR) in India. on a non-exclusive basis, and operate 696 stores across 166 cities in India, as of June 30, 2021. In addition, it has a franchisee for the Costa Coffee brand and stores in India.

Mr. Ravi Kant Jaipuria, Mr. Varun Jaipuria and RJ Corp Limited are the promoters of the company. Mr. Ravi Kant Jaipuria has over three decades of experience in conceptualizing, executing, developing and expanding food, beverages and dairy business in South Asia and Africa. He has an established reputation as an entrepreneur and business leader and has been instrumental in the growth of the Company. He also manages India’s biggest bottling capacity for Pepsi in the name of Varun Beverages Ltd.

The company’s business is broadly divided into the following three verticals: (i) KFC, Pizza Hut and Costa Coffee stores operated in India (KFC, Pizza Hut and Costa Coffee referred to as **Core Brands Business**); (ii) stores operated outside India, primarily comprising KFC stores and Pizza Hut stores (**International Business**); and (iii) other operations in the F&B industry, including stores of other brands such as Vaango and Food Street (**Other Business**).

Devyani International began its relationship with Yum in 1997, when it commenced operations of its first Pizza Hut store in Jaipur. It has subsequently continued to expand its operations with both KFC and Pizza Hut franchises. In the Core Brands Business, it has an extensive presence in 26 states and three union territories in India as of June 30, 2021.

FY21 Revenues – Rs 1135 cr



Investment Rationale

Portfolio of highly recognized global brands

Devyani International operates franchises of several highly recognized global QSR brands and are the largest franchise partner for Yum in India. The core Brands include: (i) KFC, a global chicken restaurant brand with over 25,000 restaurants in over 140 countries, as of December 31, 2020 (ii) Pizza Hut, the largest restaurant chain in the world specializing in the sale of ready-to-eat pizza products. Pizza Hut operates in the delivery, carryout and casual dining segments around the world with 17,639 restaurants, as of December 31, 2020 and (iii) Costa 128 Coffee, a global coffee shop chain with over 3,400 coffee shops in 31 countries.

Devyani International is the non-exclusive sole franchisee for KFC and Pizza Hut in Nepal, and for KFC in Nigeria. It is also a franchisee for Costa Coffee in India. In addition, it owns and operates stores of certain other brands that include Vaango, Food Street, Masala Twist, Ile Bar, Amreli, and Ckrussh Juice Bar. The Core Brands Business as well as the Other Business offers a range of full and limited-service dining experiences not only in terms of cuisine, that includes a variety of offerings such as burgers, pizza, south-Indian food and street food, but also in terms of the format of offerings including dine-in, cafés, take-away, delivery, and drive-thrus.

Presence across key consumption markets with a cluster-based approach

DIL operates 696 stores across all brands and were present in 26 states and three union territories across 166 cities in India, as of June 30, 2021. It has a strong presence in key metro regions of Delhi NCR (comprising Faridabad, Ghaziabad, Gurgaon, Delhi and Noida), Bengaluru, Kolkata, Mumbai and Hyderabad. As of June 30, 2021, it has 323 stores of its Core Brands located in these five major metros in India.

With its cluster-based expansion approach, the company is able to address demand in high-potential domestic markets. As of June 30, 2021, 75.35% of the stores in the Core Brands Business, i.e. 486 stores were located across 40 key cities in India while 50.08% of the stores in the Core Brands Business, i.e. 323 stores were present across five regions in India, i.e. Bengaluru, Kolkata, Hyderabad, Mumbai and Delhi NCR (comprising Faridabad, Ghaziabad, Gurgaon, Delhi and Noida).

The stores are situated in locations that have significant footfalls such as high street locations, shopping malls, food courts, airports, hospitals, business hubs and transit areas.

The cluster-based approach allows the company to optimize and manage its supply chain and associated costs. For example, it looks to open new stores for KFC and Pizza Hut in close proximity to one another that allows it to reduce capital costs incurred during construction of the stores and logistics costs towards supply of raw materials to both stores.

Strategically expand store network of the Core Brands Business

Over the years, DIL has been consistently increasing the number of its stores both organically and inorganically. It continues to seek additional franchise opportunities for its Core Brands Business. It is increasing the store network by implementing its defined new-store roll out process and the cluster approach and penetration strategy with respect to store location, while aiming to achieve an optimal mix across the different types of restaurant formats in order to drive footfalls and compete effectively. As it expands its store network, it intends to expand in new areas and markets where there is strong potential for growth.

The company is able to further consolidate its leadership position in the QSR segment in India by leveraging its Core Brands, increasing brand recognition for the Other Business, innovative product offerings, digital offerings, delivery capabilities and robust supply chain management system.

Devyani International Ltd

KFC and Pizza Hut

The focus will continue to remain on increasing sales across the KFC and Pizza Hut brands by opening additional stores. There are significant opportunities to expand within India, and it intends to focus its efforts on increasing its geographic footprint in both existing and new cities to capitalize on the growing market opportunity in India for QSR restaurants. Under the terms of arrangements entered into between the Company and Yum, it is required to open certain additional number of KFC and Pizza Hut stores in India in the coming years. The focus for Pizza Hut will be to move toward smaller store formats with a focus on delivery.

Particulars	FY19	FY20	FY21	Q3FY21	Q4FY21
Stores					
- KFC	134	172	264	240	264
- Pizza Hut	268	269	297		
SSSG					
- KFC	4.7%	3.2%	-33.7%	-13.0%	19.6%
- Pizza Hut	4.7%	-3.7%	-30.3%		
Revenues - Rs cr					
- KFC	464.1	609.1	644.3	221.1	254.0
% revenue growth		31.2%	5.8%		
- Pizza Hut	423.4	417.4	287.9	95.1	103.6
% revenue growth		-1.4%	-31.0%		
Avg Daily Sales per store - Rs					
- KFC	113852	116740	100270	112237	118498
- Pizza Hut	44679	43918	34900	40464	41788
Avg Daily Transactions per store					
- KFC	284	286	197	220	238
- Pizza Hut	94	94	66	76	80
Avg Transaction Size					
- KFC	401	409	508	510	497
- Pizza Hut	476	467	530	532	520
Brand Contri - Store Level					
- KFC	85	97	118	42	57
- Pizza Hut	655	439	372	154	157
Brand Contri - Store Level Margins					
- KFC	18.4%	16.0%	18.3%	19.1%	22.6%
- Pizza Hut	15.5%	10.5%	12.9%	16.1%	15.1%

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Focus on delivery channel for Core Brands

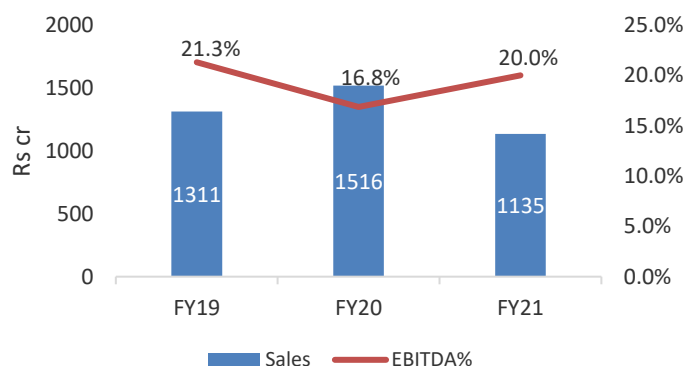
Given the COVID-19 pandemic, delivery space has grown at a high speed. DIL’s revenues from the delivery channels (including takeaways) have grown over the last few years. Revenue generated from delivery sales represented 51.15% of its revenue from operations in the Core Brands Business in FY20 and increased to 70.20% of its revenue in FY21. The company intends to continue to create synergies between stores of the Core Brands and the delivery services by taking advantage of its extensive store network to improve efficiency and increase margins. To facilitate this strategy, the company is looking to open additional stores for Pizza Hut and KFC that will be primarily focused on delivery. The focus, going forward, will be to have limited dine-in capacity at its delivery focused stores. *DIL also restructured few of its Pizza Hut stores to small format stores to focus mainly on delivery.*

In addition to taking advantage of the growing online delivery market, the company also engaging further with delivery aggregators. Company’s own delivery and the collaboration with delivery aggregators will represent a significant portion of its sales compared to pre-COVID-19 period. It intends to work with third-party delivery aggregators to increase the number of dedicated riders for KFC and Pizza Hut to allow for greater control over delivery quality and improve its ability to make timely deliveries.

Disciplined Financial Approach

The revenue from operations was Rs 13,10.6 cr in FY19 and increased by 15.7% to Rs 15,16.4 cr in FY20. However, due to covid related restrictions in 1H, revenues declined to Rs 11,34.8 cr in FY21. Similarly, SSSG has witnessed similar impact, the company has been focusing on improving the trend.

The company’s margin profile is supported by strong Brand Contribution Margins of the Core Brands Business.



Company’s endeavour is to manage unit economics and achieve economies of scale. Management believes that with further cost efficiencies it will be able to expand its store level profitability and Brand Contribution Margins. The growth of the stores will allow the company to apportion fixed overheads costs such as brand building and administrative expenses across the store network which will improve its Brand Contribution Margins. In parallel, the company has been able to rationalize certain stores that were loss-making to improve the overall store level profitability. Store rationalization will also help improve company level margins going forward. Higher number of stores in a particular area will reduce the costs associated with transporting raw materials to the stores, thereby improving store level unit contribution. We believe these advantages will improve DIL’s operational performance.

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Particulars	FY19	FY20	FY21	Q3FY21	Q4FY21
Same Store Sales Growth					
- KFC	4.7%	3.2%	-33.7%	-13.0%	19.6%
- Pizza Hut	4.7%	-3.7%	-30.3%	-11.0%	13.4%
- Costa Coffee	2.7%	-4.4%	-61.6%	-55.9%	-24.9%
Brand Contribution					
- KFC	85.4	97.3	118.2	42.3	57.5
- Pizza Hut	65.5	43.9	37.2	15.4	15.7
- Costa Coffee	18.2	17.4	3.3	2.7	2.6
Total Brand Contribution - Core Brands	169.1	158.6	158.7	60.4	75.7

Healthy Balance Sheet

Devyani International has Rs 1253 cr debt on books (core debt is Rs 380cr plus lease liabilities of Rs 872 cr) as on 31st March'21. It is paying ~12% of debt as interest which is putting a burden on bottomline. With the IPO proceeds, the company intends to repay majority of the debt, thereby strengthening balance sheet and saving interest cost (which was Rs 153 cr in FY21). Being in the QSR business, the company has negative working capital cycle which augurs well for the cash inflows.

Risks and Concerns

- Covid related restrictions:** In the first half of FY21, due to nationwide lockdown, the food industry in general faced huge loss of revenues. Though situation has improved since then, it is still not out of woods and threat of third wave of Covid remains, which might impact future growth plans of the company.
- Unable to renew agreement on favorable terms with brand owners can put the company in trouble:** DIL has to deal with global brand owners and work as per their requisite commitments. It has to pay royalty (which is ~6% of sales as of now for both Yum and Costa), store opening charges and spend minimum prescribed amount on advertising. Also, DIL doesn't have exclusive rights on these rights in India and there is another franchisee player. Any unjustified increase in revenue sharing terms or clash on division of territories can impact the financial performance of the company.
- Continuation of losses can put the operations of the company in danger:** Currently, DIL is making losses which had eroded the networth in the past. Continuation of losses in future can jeopardize the day-to-day working of the company.

Devyani International Ltd

Valuation and Recommendation

The quick-service restaurant channel has been rapidly growing in popularity in India, owing to factors such as rise in literacy, exposure to media, increase in disposable incomes, and easier and greater availability. Affordability has also been a key factor. Western fast-food chains are gaining Indian consumers by understanding consumer demands and customizing their menus to match Indian taste palates. As a result, value sales of quick-service restaurants grew by a CAGR of 5.5% and amounted to Rs 2,854.8 billion (US\$40.1 billion) in 2020 from Rs 2,189.2 billion (US\$34.1 billion) in 2015. The number of outlets increased by 2%, while the number of transactions increased by 3.8% over the same period. Over the forecast period between 2020 and 2025, the value sales of quick-service restaurants is expected to grow at an even higher pace of 12.4%, indicating a steep rebound in these outlets post the pandemic.

The company's revenues grew by 16% in FY20 however due to Covid related disruption, sales declined in FY21. Nonetheless, the company continued its store expansion spree during this phase. Also, it took many steps at operational level like – (a) rationalized loss-making stores (b) restructured Pizza hut stores and reduced the size – which would reduce the payback period due to lower capex and lower opex. All the above steps resulted in improvement in EBITDA margins in FY21 to 20% from 16.8% in FY20, despite lower sales in FY21. Going forward, the management has guided to continue to store opening momentum. We believe the full benefits of operational changes have not yet been accounted in current profitability and would continue to improve EBITDA in coming years as well. The company is repaying debt with the IPO proceeds which would reduce the interest cost burden, hence aiding PAT growth.

	Sales	Sales CAGR FY19-21	EBITDA CAGR FY19-21	D/E	Total Asset Turns	EBITDA Margins	ROE	PE	EV/Sales	EV/EBITDA
Barbeque Nation	507	-17%	-44%	-0.5	4.1	9.1%	-36.5%	-34.3	5.9	64.2
Jubilant Foodworks	3312	-4%	13%	-0.4	3.7	23.3%	16.1%	214.7	14.8	63.5
Westlife Development	986	-16%	-28%	0.4	1.4	6.2%	-20.7%	-85.1	8.8	142.1
Burger King	494	180%	38%	-0.3	1.1	3.0%	-25.8%	-40.5	13.8	455.8
Devyani	1135	-7%	-10%	4.7	2.8	20.0%	-113.2%	-133.1	9.8	49.5

Considering the globally known brand portfolio, growing stores, improving profitability and sound track record of promoters in managing franchisee business, we have a positive view on the company. At upper band of Rs 90, the EV/Sales comes to 9.8x FY21 Sales. We recommend **"Subscribe"**.

Devyani International Ltd

FINANCIALS

P&L (Rs. Cr)	FY19	FY20	FY21
Net Revenue	1,311	1,516	1,135
% Growth		16%	-25%
COGS	389	460	345
GM %	70.3%	69.6%	69.6%
Employee Cost	192	225	154
% of Revenues	14.6%	14.9%	13.6%
Other expenses	451	575	409
% of Revenues	34.4%	37.9%	36.0%
EBITDA	279	255	227
EBITDA Margin	21.3%	16.8%	20.0%
Depreciation	228	227	277
Other Income	13	19	64
Interest	136	158	153
Share of PAT (Invst)			
Exceptional gain	13	35	57
PBT	(58)	(77)	(82)
Tax	1	2	(1)
Tax rate	-2%	-2%	1%
PAT	(59)	(79)	(81)
% Growth			
EPS (Post Issue)	(0.5)	(0.7)	(0.7)
Performance Ratios	FY19	FY20	FY21
EBITDA Margin (%)	21.3%	16.8%	20.0%
PAT Margin (%)	-4.5%	-5.2%	-7.2%
ROE (%)	48.9%	34.5%	-113.2%
ROCE (%)	27.8%	40.3%	15.6%
Net D/E (x)	-3.1	-1.8	4.7
Turnover Ratios	FY17	FY20	FY21
Debtors Days	6	4	5
Inventory Days	15	17	20
Creditor Days	38	27	32
Asset Turnover (x)	4.7	7.5	2.5
Valuation Ratios	FY19	FY20	FY21
Price/Earnings (x)		-137.4	-133.1
EV/EBITDA (x)		43.8	49.5
Price/BV (x)		-89.3	150.6
Mkt cap/Sales (x)		7.1	9.5
EV/Sales (x)		7.4	9.9

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY19	FY20	FY21
Share Capital	106	106	115
Reserve & Surplus	(176)	(295)	(2)
Non Controlling Int	(51)	(39)	(42)
Networth	(121)	(228)	72
Total Loans	400	431	380
Lease Liabilities	1,235	1,266	872
Other non-curr liab.	4	6	6
Trade payable	137	114	100
Other Current Liab	136	278	213
Total provisions	17	16	25
Total Current Liab.	290	408	338
Total Equity & Liab.	1,807	1,884	1,668
Fixed Assets & CWIP	579	591	676
Goodwill	16	22	64
Right of use assets	995	1,035	666
Deferred Tax Assets	8	8	10
Other non Curr. assets	14	17	28
Cash	27	16	41
Inventories	55	72	62
Debtors	23	17	17
Other Current assets	91	105	105
Total Assets	1,807	1,884	1,668
Cash Flow (Rs. Cr)	FY19	FY20	FY21
EBITDA	279	255	227
Provisions & Others	(3)	24	(28)
Op. profit before WC	276	279	199
Change in WC	2	22	40
Less: Tax	(0)	(1)	0
CF from operations	278	301	240
Addition to assets	(170)	(99)	(363)
(Purchase)/Sale of invst.	0	(0)	4
Div/Int Received	2	2	1
CF from Investing	(168)	(97)	(359)
Loans	130	15	(5)
Dividend Paid	-	-	-
Interest paid	(138)	(156)	(132)
Equity	(123)	(82)	278
CF from Financing	(131)	(223)	142
Net Change in cash	(20)	(19)	23
Cash at beginning	44	27	13
Exchange difference	3	6	4
Cash at end	27	13	40

Disclosure:

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