

# RETAIL EQUITY RESEARCH

## Burger King India Ltd.

Hotels, Restaurants & Leisure

Sensex: 44,150

Nifty: 12,969

**SUBSCRIBE**

**Price Range Rs. 59 - Rs. 60**

### A fast-growing brand in QSR category....

Burger King India Limited (BKIL), is one of the fastest growing international QSR (Quick Service Restaurant) chains in India, in first five years of the operation. Burger King India Private Ltd was incorporated on November 2013 and the first restaurant was opened in November 2014. BKIL has 261 restaurants, including eight Sub-Franchised Burger King Restaurants, across 17 states and union territories and 57 cities across India, as of September 30, 2020.

- Enjoys exclusive rights to develop, establish, operate & franchise Burger King branded restaurant as the national master franchisee.
- The “Burger King” brand is the second largest food burger brand globally with over 18,675 restaurants across more than 100 countries.
- BKIL raised ~Rs. 92cr as pre-IPO placement from Amansa Investments Ltd., at Rs. 58.5 per share, a reputed institutional investor, in November 2020.
- The brand is specifically targeted & positioned towards large millennial population in India through its innovative marketing & advertising campaigns.
- Revenue grew ~49% CAGR over FY18-FY20 led by significant store additions. (88 stores in FY17 to 260 stores in FY20).
- Gross margin has improved consistently from 62% in FY18 to 64% in FY20 and EBITDA grew from Rs8cr to Rs.104cr, during the same period.
- The company is repaying ~Rs165cr debt out of IPO proceeds which will support future profitability.
- BKIL plans to continue to build its restaurant network using cluster & penetration strategy. Targets to open ~300 restaurants by Dec, 2021 & 700 by Dec, 2026.
- At the upper price band of Rs. 60, BKIL is available at 29x FY20 EV/EBITDA & 3.6x FY20 EV/Sales which seems attractive considering its robust growth in store additions and future revenue, recommend “Subscribe” with a long-term perspective.

### Purpose of IPO

The proceeds from the offer for sale will go to the selling shareholders, while the amount received from the sale of fresh issue will be utilised for repayment of outstanding borrowings, Capex for setting up of new company owned restaurants and general corporate purposes.

### Key Risks

- Competition from other QRS players.
- Dependence on a single third-party distributor for purchase, supply and delivery of ingredients & packaging materials.
- Delay in development of new restaurants will lead to termination of master franchisee & development agreement. (obligated to open at least 700 restaurants by Dec 2026).

### Peer Valuation

Company	MCap (Rs cr)	Revenue (Rs cr)	EBITDA margin (%)	EPS	RoE (%)	P/E	EV/EBITDA	EV/SALES
Burger King India Ltd	2,290	841.2	12.4	-2	-15.7	NA	29	3.6
Jubilant Foodworks Ltd	33,098	3912	22.6	21	24	120	38	8.6
Westlife Development Ltd	6,736	1547	14.1	.16	-1	2,650	34	4.8

Source: Geojit Research, Bloomberg; Valuations BKIL are based on upper end of the price band, Financials as per FY20. P/E is not applicable due to loss in FY20.

Issue Details			
Date of Opening	02 <sup>nd</sup> December, 2020		
Date of Closing	04 <sup>th</sup> December, 2020		
Total no. of Shares offered(cr)	13.5		
Post Issue No. of shares (cr)	38.17		
Price Band	Rs. 59- 60		
Face Value	Rs. 10		
Bid Lot	250 shares		
Minimum application for retail (upper price band for 1 lot)	Rs. 15,000		
Maximum application for retail (upper price band for 13 lot)	Rs. 1,95,000		
Listing	BSE & NSE		
Lead Manager	Kotak Mahindra Capital Company Ltd, CLSA India Pvt Ltd, Edelweiss Financial Services Ltd & JM Financial Consultants Pvt Ltd		
Registrars	Link Intime India Pvt Ltd.		
Issue size (upper price)			
Fresh Issue	450		
OFS	360		
<b>Total Issue</b>	<b>810</b>		
Shareholding (%)			
	Pre-Issue	Post Issue	
Promoters	94	60	
Others	6	40	
Total	100	100	
Issue structure			
	Allocation %	Size Rs.cr	
Retail	10	81.0	
Non -Institutional	15	121.5	
QIB	75	607.5	
<b>Total</b>	<b>100</b>	<b>810</b>	
Y.E March (Rs cr)			
Sales	633	841	135
Growth (%)	67.3	33	-
EBITDA	79	104	-29
Margin%	12.5	12.4	-21.2
PAT Adj	-38	-77	-118.9
Growth (%)	53	-100	-
EPS	-1	-2	-
P/E (x)	NA	NA	NA
EV/EBITDA	36	29.4	NA
RoE (%)	-14.3	-15.7	-25

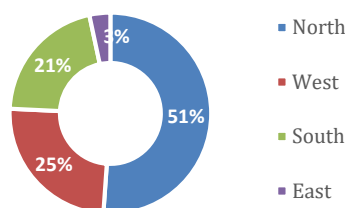
## Company Description

**Burger King India Limited (BKIL)**, is one of the fastest growing international QSR (Quick Service Restaurant) chains in India during first five years of operation based on number of restaurants (as per technopak). The globally recognised Burger King brand, also known as the “HOME OF THE WHOPPER®”, was originally founded in 1954 in the United States and is owned by Burger King Corporation, a subsidiary of Restaurant Brands International Inc., which holds a portfolio of fast food brands that are recognized around the world that include the BURGER KING®, POPEYES® and TIM HORTONS® brands. The “Burger King” brand is the second largest fast food burger brand globally as measured by the total number of restaurants, with a global network of 18,675 restaurants in more than 100 countries and U.S. territories as of September 30, 2020. BKIL was incorporated as Burger King India Private Ltd on November 11, 2013. Subsequently the company was converted into public ltd company with a fresh certificate of incorporation dated Sep 25, 2019 and named as Burger King India Ltd (BKIL). The first Burger King India restaurant was opened in November 2014. As of September 30, 2020, BKIL has 261 restaurants, including eight Sub-Franchised Burger King Restaurants, across 17 states and union territories and 57 cities across India.

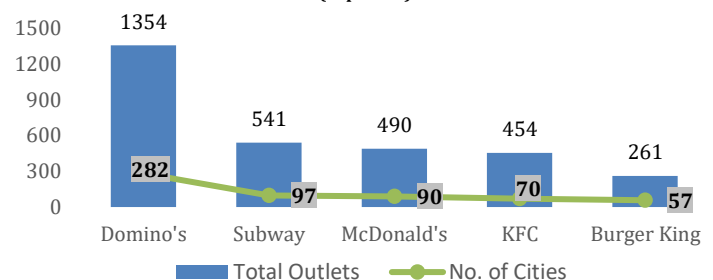
## Revenue Recognition

- ❖ **Revenue recognition from sale of goods:** BKIL recognize revenue from sale of food and beverages through company owned stores and when the items are delivered to or carried out by customers. Goods and service tax (GST) is excluded from revenue and is net of GST.
- ❖ **Revenue recognition from sub franchise operations:** Revenue from sub franchisee operations includes one-time initial fees and royalty income on sales. One-time initial fees are non-refundable and are recognised over the term of contract. Royalty income on sales is recognised on an accrual basis based on the terms of the relevant agreement.
- ❖ **Other operating income:** It primarily includes income from scrap sales, which comprises income from the sale of byproducts of restaurant operations such as used oil and cartons.

Restaurant Spread (Region wise) as on date of RHP



Presence of Key International brands by outlet count in India (Sep 2020)



Source: RHP, Geojit Research

## Exclusive national master franchise rights in India...

BKIL enjoys exclusive rights to develop, establish, operate and franchise Burger King branded restaurants in India as they are the national master franchisee of the Burger King brand in India. The master franchisee arrangement, which expires on December 31, 2039, provides the ability to use Burger King's globally recognised brand name to grow BKIL's business in India, while leveraging the technical, marketing and operational expertise associated with the global Burger King. The sub-franchise rights also provide additional flexibility to sub-franchise restaurants in locations where access to direct ownership of restaurants may be restricted due to the type of location, such as in airports and certain shopping malls where one party directly owns all the outlets. BKIL also enjoys Burger King's extensive global marketing and advertising concepts, product development capabilities and cooking techniques to drive sales and generate increased restaurant footfalls, while also being guided by Burger King Corporation restaurant development procedures and standards. Additionally, BKIL also enjoys favourable royalty rates that are capped at 5% under master franchisee arrangement, which together with the flexibility enjoyed under master franchise arrangement and leveraging of the globally recognised Burger King brand, has helped to grow business quickly and drive sales in BKIL's restaurants.

## Strong customer proposition...

The customer proposition focusses on value leadership, offering customers variety through innovative new food offerings at different day parts, catering to the local Indian palate, offering a wide range of vegetarian meal options, taste advantage and flame grilling expertise. BKIL aims not only to offer quality products that are tailored to Indian taste and preferences, but also to provide substantial value at attractive price points. BKIL has a wide variety of 18 different vegetarian and non-vegetarian burgers covering both value and premium offerings. Of the 18 burgers that have been developed specifically for the Indian market, seven are vegetarian burgers targeting customers who seek vegetarian food options. BKIL has separated the cooking and preparation of vegetarian, egg and non-vegetarian meals in kitchens to build trust with the customers. The strength of the Burger King brand has been built in part on its flame grilling expertise, and each of restaurants has this capability, for which BKIL has imported specially designed and patented broiler equipment. BKIL further intends to continue its focus on premium offerings, snacks and add-ons and accessible meal conversion options for customers, which provide customers with more menu options and enables it to upsell to higher price points and enhance average ticket price. Hence, this strategy will enable BKIL to precisely target different market segments, drive footfalls, increase same-store sales in the restaurants by catering to customers choice of flavours and price points.

### Business model of the key brands in India

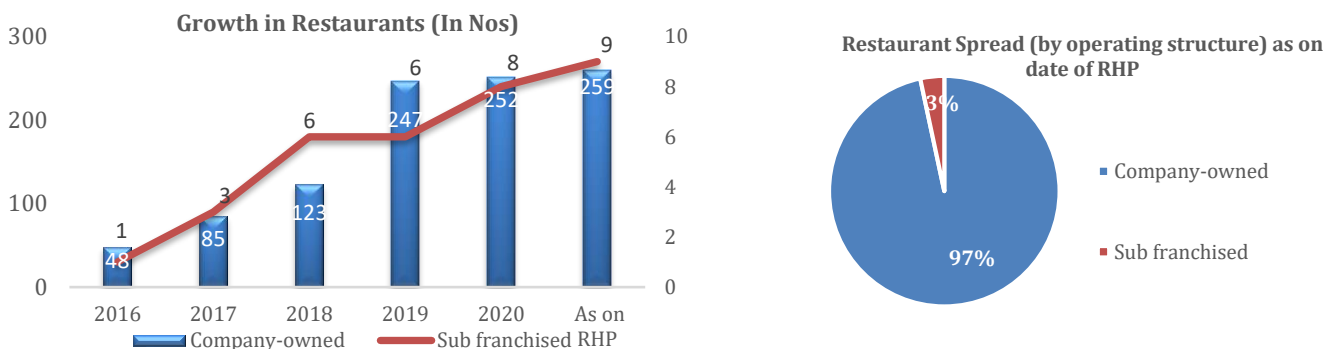
Particulars	Domino's	McDonald's	KFC	Subway	Burger King
Average ticket value	500-550	550-600	500-550	250-300	500-550
Gross Margins	77-78%	64-66%	64-66%	66-68%	64-65%
Royalty	3-4%	4-5%	7-8%	7-8%	4-5%
Store EBITDA margins	21-23%	13-15%	14-16%	20-22%	12-14%
Capex for Initial Build and Opening	Rs. 1.5-2.0 Cr	Rs3.5-4Cr	Rs3-3.5Cr	Rs0.4-0.5Cr	Rs. 2 -2.5 Cr
Average store size (in sq.ft.)	1400-1600	2600-3200	2500-3000	750-1000	1300-1400
Average sales /Day***	Rs. 0.7 lakh -0.8 lakh	Rs. 1.2 lakh -1.3 lakh	Rs. 1.2 lakh -1.3 lakh	Rs. 0.3 lakh-0.35 lakh	Rs1.1 lakh-1.2 lakh

\*\*\* Pre-COVID-19 estimates

Source: RHP, Geojit Research

### Well defined restaurant rollout process...

Since opening first restaurant in November 2014, BKIL has grown into a pan-India QSR chain with 261 restaurants, including eight Sub-Franchised Burger King Restaurants, across 17 states and union territories and 57 cities across India as at September 30, 2020. As at the RHP, BKIL had 259 Company-owned Burger King Restaurants and nine Sub Franchised Burger King Restaurants. The growth has been facilitated by a well-defined new-restaurant roll out process that enables to identify locations and build out restaurants quickly, consistently and efficiently. The restaurant network is built using a cluster approach and penetration strategy with the objective to provide greater convenience and accessibility for customers across the relevant geography. The restaurants operate primarily in four different formats, which include high street locations, which typically have high impact and high visibility locations for brand awareness; shopping malls and food courts, which are both ready catchments to drive footfalls; drive thrus, which have high affinity with customers due to convenience; and transit locations, which presents a significant opportunity given India's current promotion of infrastructure projects across the country. Although the COVID-19 crisis has adversely affected the ability to open new restaurants and expand restaurant network temporarily, BKIL continues to evaluate the pace and quantity of new restaurant openings and the expansion of restaurant network. It aims to increase the pace of growth when the COVID-19 crisis subsides and more restaurants become operational again. As per the agreement BKIL is obligated to develop and open at least 700 restaurants by Dec 31, 2026, provided that at all times Company-owned Burger King restaurants will represent 60% of the total number of Company-owned and Sub-Franchised Burger King Restaurants in India, as determined at the end of each development year. BKIL currently plan to have approximately 300 restaurants, including Sub-Franchised Burger King Restaurants, open by December 31, 2021.



Source: RHP, Geojit Research

### Leverage technologies across business...

BKIL utilizes 360-degree technology in interactions with customers and across operations, including the operations of restaurants, supply chain and in the management of business. The restaurants are equipped with technology such as centrally controlled digital menu board, which provides with flexibility to alter menu placement of products and match customer preferences, self-ordering kiosks, new version BK mobile app, handheld POS systems, the integration of customer platforms with delivery aggregators and the integration of systems with third party distributors. BKIL intends to invest in technology to further enhance customer experience through convenience by use of digital and social media platforms to draw customers to Burger King app and aims to create an end-to-end online Burger King experience for millennials. It also, intends to leverage and invest further in the integration of systems with third-party distributor to drive efficiencies in supply chain management.

### Brand positioned for Millennials...

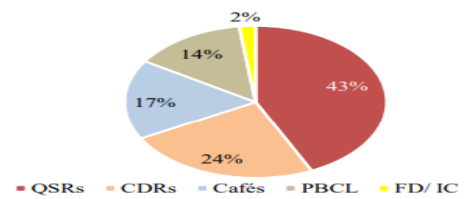
BKIL has positioned their brand to target the large and growing millennial population in India. In FY20, approximately 60% of Indians eating out were millennials, which represent the age group from 15 to 34 years old (as per Technopak). India has a large number of millennials, and the millennial population in India has grown from 418 mn in FY11 to 447 mn in FY20. BKIL connects with millennials, many of whom are just entering the workforce, through value leadership and strong entry menu at attractive price points. BKIL also connects with millennials through advertising and marketing campaigns, both on television and social media, in-restaurant design and messaging, and the packaging of products. Additionally, BKIL intend to continue promoting BK Crown loyalty program in order to engage with customers and drive customer loyalty.

**Average eating-out and Ordering-in frequency and expenditure in various age groups during FY 2020**

Age Group	Eating-out Frequency/ Month	Ordering-in Frequency/ Month	Average Spend per Outing (₹)	Average Spend per Order (₹)
15-24 yrs.	2.3	0.9	230	124
25-34 yrs.	1.9	0.7	225	118
> 35 yrs.	1.5	0.3	303	107

Source: Technopak Research &amp; Analysis

Source: RHP, Geojit Research

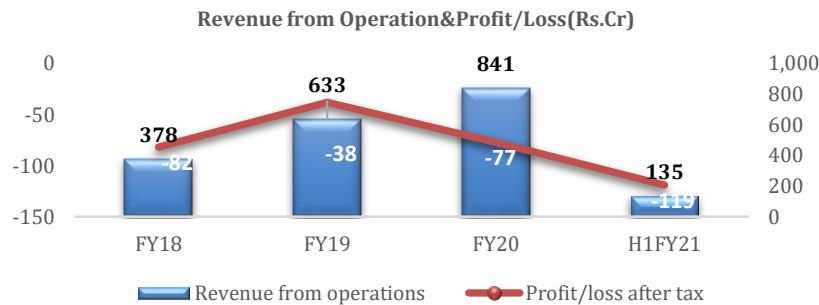
**Sub segment preference in the age group of 15 to 34 years during FY19**


### Vertically managed and scalable supply chain...

BKIL enjoys the benefit from a vertically managed and scalable supply chain model in which they individually negotiate with and actively manage suppliers of ingredients and packaging materials. The exclusive national rights and flexibility that master franchisee arrangement provides enables BKIL to have significant control over the purchasing of ingredients and packaging materials. BKIL also have multiple suppliers for most of key ingredients which helps them in procuring low cost and high-quality ingredients and packaging materials. BKIL also purchase ingredients and packaging materials through a single third-party distributor which in turn procures from approved suppliers. This arrangement gives access to third-party distributor's multiple warehousing space and extensive logistics network across the country, which provides BKIL with reach to support cluster approach and penetration strategy in a cost-effective manner. This also helps to lower costs and achieve further economies of scale through operational leverage. Hence, the arrangement with third-party distributor helps in reducing working capital requirements with respect to supply chain as third-party distributor purchases from suppliers and holds the ingredients and packaging materials required by the company as its own inventory until it delivers the product to BKIL's restaurants.

### Financial Performance...

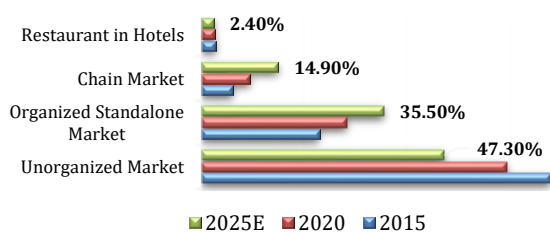
BKIL's revenue grew at a CAGR of ~49% over FY18-FY20 to Rs. 841cr mainly driven by significant store addition in the past two years (from 88 stores in FY2018 to 260 stores in FY20). Revenue from sale of food and beverages grew from Rs. 3,75.2cr in FY 2018 to Rs. 835.32 cr in FY20. However, the COVID-19 crisis has had a significant impact on results of operations at the end of FY20 and in the six months ended September 30, 2020, resulting in a decrease of revenue from sale of food and beverages to Rs. 134.69cr in the six months ended September 30, 2020, compared to Rs. 419.37cr in the six months ended September 30, 2019. In addition, although same-store sales grew at 29.21% in FY19 and 6.11% in the nine months ended December 31, 2019, same-store sales decreased by 0.30% in FY20 and by 56.9% in the six months ended September 30, 2020 primarily due to the impact of the COVID-19 crisis. Gross margin grew from Rs. 232.21cr in FY18 to Rs. 536.79cr in FY20 and decreased to Rs. 85.95cr in the six months ended September 30, 2020 compared to Rs. 269.94cr in the six months ended September 30, 2019.



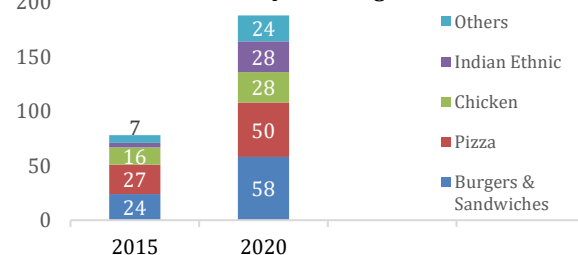
Source: RHP, Geojit Research

### Industry Outlook

The Indian food services markets has witnessed significant growth since the 1980s due to changing consumer consumption patterns and is projected to continue its growth at a CAGR of 9% over the next five years. It is expected to reach Rs.6,505 bn by FY 2025 from FY 2020 estimates of Rs. 4,236 bn. Although the market is very fragmented and Chain Market accounts for only 9.4% of market share, the QSR segment comprises of 47% of the Chain Market segment, creating lucrative for international fast food joints. The Indian market is dominated by burgers and sandwiches with a market share of 31% in FY 2020.

**Market share of each segment (FY25E values highlighted).**


Source: RHP, Geojit Research

**Indian Chain QSR Sub-segment in INR Billion**


## Organized Food services market in India...

The organized food services market in India currently accounts for 37.8% of total market share and is expected to increase to 50.3% by FY 2025. Out of this, the Chain market in India is expected to grow at a CAGR of 19% and arrive at Rs.965 bn by FY2025 from Rs.398 bn in FY 2020. Furthermore, the organized QSR sub-segment was estimated at Rs. 348 bn in FY 2020 and is projected to grow at a CAGR of 19% to Rs. 825 bn by FY 2025. The table below sets out the market share of each of the chain food services sub-segments in FY15, FY20 and the expected market share by FY2025:

FORMAT	MARKET SHARE FY 2015	MARKET SHARE FY 2020	MARKET SHARE FY 2025E
QSR	19%	22%	25%
CDR	55%	57%	58%
CAFÉ	8%	6%	4%
FROZEN DESSERTS	3%	3%	2%
PBCL	12%	11%	9%
FINE DINING	3%	2%	1%

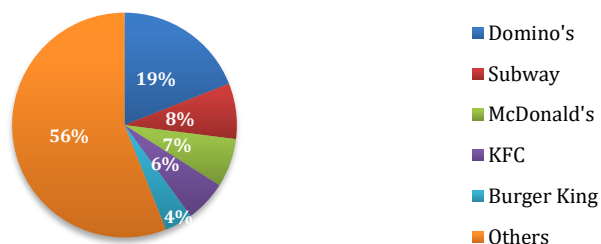
Source: RHP, Geojit Research

Consumers are likely to permanently shift to the organized sector as they are becoming more conscious about hygiene and safety due to covid-19. The number of outlets by established international brands has grown at a rate of 1.1 to 1.5 between Fiscal 2015 and 2020. It is estimated that as of September 2019, the chain QSR sub-segment has around 7000 outlets compared with approx. 3000 to 3500 in Fiscal 2016.

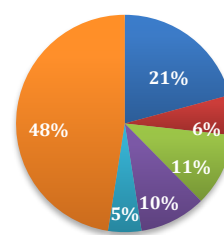
## Peer Comparison...

Domino's (19%) has the largest market share followed by Subway (8%), McDonald's (7%), KFC (6%) and Burger King (4%). In terms of revenue, Domino's accounts for the largest share (21%) followed by McDonald's (11%), KFC (10%), Subway (6%) and Burger King (5%).

Market Share of key players



Market share by Revenue



Source: RHP, Geojit Research

With the onset of the pandemic, the overall delivery market in India is expected to grow at a CAGR of 12.2%. Platform-to-consumer Delivery Segment has shown the strongest growth growing at a CAGR of 100% between Fiscal 2016 and 2020.

## Promoter and promoter group

QSR Asia Pte. Ltd is the Promoter of the company. The Promoter holds an aggregate of 289,311,110 Equity Shares representing 94.34% of the issued, subscribed and paid-up Equity Share capital of the company.

## Brief Biographies of Directors

The Board comprises of 8 Directors including one Executive Director, four Non-Executive Directors and three Independent Directors (including one-woman Director). The board of directors of BKI comprises of the following:

- **ShivaKumar Pullaya Dega**, is Chairman and Independent Director of the company. He joined Aditya Birla group in Jan 2018 and is currently serving as the group executive president for Corporate strategy and business development of Aditya Birla Management Corporation Pvt. Ltd.
- **Rajeev Varman**, is the Chief Executive Officer and whole-time director of the company. He is responsible for management and running business of the company both at strategic and operational level and overview innovation in the company across all areas including operations and production.
- **Ajay Kaul**, is a Non-Executive Director of the company. He is responsible for advising the leadership team of the company. Prior to joining the company, he was CEO and whole-time director of Jubilant FoodWorks Ltd.
- **Amit Manocha**, is a Non-Executive Director of the company. He is responsible for advising the leadership team of the company. He is presently a managing director at Everstone Capital Asia Pte Ltd.
- **Tara Subramaniam**, is an Independent Director of the company. Prior to Joining the company, she worked with Housing Development Finance Corporation Limited, JM Financial Group and SGE Advisors (India) Private Ltd.



## Financials

### Profit & Loss Account

Y.E March (Rscr)	FY19	FY20	H1FY21
<b>Sales</b>	633	841	135
% change	67.3	33	-
<b>EBITDA</b>	79	104	-29
% change	872	31.7	-
Depreciation	82.2	116.4	62.1
EBIT	-3	-12	-91
Interest	46.5	65	42.4
Other Income	11.4	5.6	16.4
Exceptional Items	-	4	2
<b>PBT</b>	-38	-77	-118.9
% change	53	-100	-
Tax	-	-	-
Tax Rate (%)	-	-	-
<b>Reported PAT</b>	-38	-77	-118.9
Adj	-	-	-
<b>Adj PAT</b>	-38	-77	-118.9
% change	53	-100	-
No. of shares (cr)	38.17	38.17	38.17
<b>Adj EPS (Rs)</b>	-1	-2	-3.1

### Balance Sheet

Y.E March (Rscr)	FY19	FY20	H1FY21
Cash	16	28	33.4
Accounts Receivable	5.9	3.2	6.7
Inventories	7	9.4	8.1
Other Cur. Assets	14	20.6	20.2
Investments	38	18.6	28
Net Fixed Assets	776.8	1012.2	980.8
CWIP	20.2	47.6	41.1
Intangible Assets	15.8	24.5	25.5
Other Assets	25.4	32.5	33
<b>Total Assets</b>	<b>921</b>	<b>1,198</b>	<b>1,177</b>
Current Liabilities	112	134	177
Provisions	8	23	24
Debt Funds	551	765	757
<b>Minority Interests</b>	0	0	0
<b>Def. Tax</b>	-	-	-
<b>Equity Capital</b>	265	278	291
<b>Reserves &amp; Surplus</b>	-15	-2	-72
<b>Shareholder's Fund</b>	250	725	219
<b>Total Liabilities</b>	<b>921</b>	<b>1,198</b>	<b>1,177</b>
<b>BVPS (Rs)</b>	7	19	6

### Cash Flow

Y.E March (Rscr)	FY19	FY20	H1FY21
PBT	-38	-77	-119
Non-cash adj.	118.7	180	83
Changes in W.C	6.4	10.6	46
<b>C.F.O</b>	<b>87</b>	<b>114</b>	<b>10</b>
Capital exp.	(331.4)	(300)	(95)
Change in inv.	-	-	-
Sale of investment	217.4	93	66.4
Other invest.CF	.02	(23.8)	.34
<b>C.F - investing</b>	<b>(114)</b>	<b>(230)</b>	<b>(27.8)</b>
Issue of equity	0	0	0
Issue/repay debt	-	-	-
Dividends paid	-	-	-
Other finance.CF	36.1	106	23.3
<b>C.F - Financing</b>	<b>36.1</b>	<b>106</b>	<b>23.3</b>
Chg. in cash	8.9	(10.8)	5.2
Closing cash	16.1	5.1	9.2

### Ratios

Y.E March	FY19	FY20	H1FY21
<b>Profitab. &amp; Return</b>			
EBITDA margin (%)	12.5	12.4	-21.2
EBIT margin (%)	-5	-1.5	-67.2
Net profit mgn.(%)	-6	-9.1	-88
ROE (%)	-14.3	-15.7	-25
ROCE (%)	1.1	-1	-6
<b>W.C &amp; Liquidity</b>			
Receivables (days)	2.4	2	13.4
Inventory (days)	9.6	9.9	64.9
Payables (days)	30.1	30.9	140.4
Current ratio (x)	.68	.51	.48
Quick ratio (x)	.2	.23	.23
<b>Turnover &amp; Levq.</b>			
Net asset T.O (x)	.9	.9	.1
Total asset T.O (x)	.8	.8	.1
Int. covge. ratio (x)	-1	-2	-2.1
Adj. debt/equity (x)	2.2	1.1	3.5
<b>Valuation ratios</b>			
EV/Sales (x)	4.5	3.6	5.6
EV/EBITDA (x)	36	29	NA
P/E (x)	NA	NA	NA
P/BV (x)	9.2	3.16	10.5

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I, SHEEN. G author(s) of this Report, hereby certify that all the views expressed in this research report reflect my personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

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