

# IPO Note: Devyani International Ltd.

Industry: Quick Service Restaurant (QSR)

Reco: Subscribe

Date: August 04, 2021

Issue Snapshot		Issue Break up		
Company Name	Devyani International Ltd.	QIB ex Anchor	30%	61,101,666
Issue Opens	August 04, 2021 to August 06, 2021	Anchor Investor	45%	91,652,499
Price Band	Rs. 86 to Rs. 90	HNI	15%	30,550,833
Bid Lot	165 Equity Shares and in multiples thereof.	RII	10%	20,367,222
The Offer	Public issue of 204,222,219 Equity shares of Face value Rs. 1 each, (Comprising of fresh issue of 48,888,889 Equity Shares* (Rs. 440 cr.) and Offer for Sale of 155,333,330 Equity Shares (Rs. 1398 cr.*) by Selling Shareholder).	<b>Total Public</b>	<b>100%</b>	<b>203,672,219</b>
Issue Size	Rs. 1775.9 – 1838.0 Crore	Employee Reservation		550,000
IPO Process	100% Book Building	<b>Total</b>		<b>204,222,219</b>
Face Value	Rs. 1.00	Equity Share Pre Issue (Nos. Cr.)		115.4
Exchanges	NSE & BSE	Fresh Share (Nos. Cr.)		4.9
BRLM	Kotak Mahindra Capital Company Limited, CLSA India Private Limited, Motilal Oswal Investment Advisors Limited and Edelweiss Financial Services Limited	OFS Share (Nos. Cr.)		15.5
Registrar	Link Intime India Pvt Ltd.	Equity Share Post Issue (Nos. Cr.)		120.3
		Market Cap (Rs. Cr.)		10,822.7
		Equity Dilution		4.1%
		Stake Sale by OFS		12.9%

## Objects of the Offer

### Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (up to 65,333,330 equity shares by Dunearn Investments (Mauritius) Pte. Ltd. and up to 90,000,000 equity shares by RJ Corp Limited)

### Fresh Issue

- Repayment/prepayment of all or certain borrowings (Rs. 324 cr.); and
- General corporate purposes.

## Company Highlights

- Devyani International Ltd. (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, and operates 696 stores across 166 cities in India, as of June 30, 2021. Yum! Brands Inc. operates brands such as KFC, Pizza Hut and Taco Bell and has 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.
- Company's business is broadly classified into 3 verticals that includes stores of KFC, Pizza Hut and Costa Coffee operated in India (KFC, Pizza Hut and Costa Coffee referred to as Core Brands, and such business in India referred to as the Core Brands Business); stores operated outside India primarily comprising KFC and Pizza Hut stores operated in Nepal and Nigeria (International Business); and Other operations in the F&B industry, including stores of own brands such as Vaango and Food Street (Other Business).
- DIL began the relationship with Yum in 1997, when the company commenced operations of the first Pizza Hut store in Jaipur. The company has subsequently continued to expand the operations with both KFC and Pizza Hut franchises and operated 284 KFC stores and 317 Pizza Hut stores in India as of June 30, 2021. In the Core Brands Business, the company had an extensive presence in 26 states and 3 union territories in India as of June 30, 2021. In addition, the company has franchisee of the Costa Coffee brand in India, which is owned by Costa, and operated 44 Costa Coffee stores as of June 30, 2021.
- DIL has consistently expand 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 605 stores as of March 31, 2021, and had 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. Their defined store expansion and development process is focused on high potential locations across towns and cities, airports, high street locations, malls, food courts, hospitals, business hubs and transit areas. They ensure that the new stores are consistent in terms of look and feel across various formats that include dine-in, takeaway and delivery.

- DIL collaborates with Yum across various aspects of the operations for KFC and Pizza Hut for the franchisor's brand protection and management, including product innovation and development, brand strategy and technology initiatives. The company also work closely with Yum on advertising, promotion and marketing activities. For Costa Coffee, the company retain flexibility over the operations with respect to similar parameters and are supported by Costa in determining the menu, ingredients, suppliers and distributors.
- DIL value proposition to customers is predicated on the quality of products the company offer, the brand recall of the Core Brands the company operate, the company sustained focus on customer satisfaction and implementation of digital measures to increase efficiency in operations. Raw materials for the company operations are sourced from vendors that are pre-approved and meet international safety and quality standards. Their stores are routinely audited and accredited to ensure compliance with global standards. For example, the KFC and Pizza Hut stores are certified by Yum as part of the restaurant operations compliance check. The service and diverse menu including various value offerings across the Core Brands has led to significant brand recall for these brands.

## View

- DIL operates franchises of several highly recognized global QSR brands and is the largest franchise partner for Yum in India. Their Core Brands includes KFC, a global chicken restaurant brand with over 25,000 restaurants in over 140 countries, as of December 31, 2020; 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; Costa Coffee, a global coffee shop chain with over 3,400 coffee shops in 31 countries.
- In 2021, QSRs are expected to witness a better recovery compared to other channels, owing to the better suitability for takeaways. Investments of operators in expansion and technology will also drive the growth. The company intend to increase the store network by implementing the 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.
- The growth of the stores will allow DIL to apportion fixed overheads costs such as brand building and administrative expenses across the store network which will improve the Brand Contribution Margins. In parallel, the company have been able to rationalize certain stores that were loss-making to improve the overall store level profitability. Store rationalization will also help improve the margins going forward. The large store network coupled with the supply chain infrastructure will allow them to improve the gross margins.
- Given the COVID-19 pandemic, DIL anticipates considerable growth in the delivery business. Revenue generated from delivery sales represented 51.15% of the revenue in the Core Brands Business in FY20 and increased to 70.20% in FY21. DIL intends to continue to create synergies between stores of the Core Brands and the delivery services by taking advantage of the extensive store network to improve efficiency and increase margins.
- DIL will continue to invest in technology to maintain the competitive advantage. The company will focus on improving the overall technology infrastructure including digital and delivery capabilities. Going forward, the company will continue to leverage the digital ecosystem to drive sales, improve the guest experience and increase operational efficiency. DIL plans to increase the investment in end-to-end digitalization, automation, artificial intelligence and machine learning, to connect online traffic with the offline assets effectively.
- The quick-service restaurant channel has been rapidly growing in popularity in India owing to factors such as a rise in literacy, exposure to media, increase in disposable incomes and easier and greater availability of QSRs. Going forward, the value sales of quick-service restaurants are expected to grow at an even higher pace of 12.4%. Economic recovery and greater investments from western fast-food chains are expected to drive the growth.
- In terms of the valuations, on the higher price band, DIL demands a MCap/Sales multiple of 9.54x based on FY21 post issue fully diluted equity and EV/Sales multiple of 9.55x, which is reasonably priced when compared to its listed industry peers.
- DIL 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. Although the company has been loss making, but it is on a expansion mode with strong industry triggers. Considering the expected improvement in financial performance and future growth drivers, it is recommended to "SUBSCRIBE" the issue.

## Key performance indicators for the Core Brands Business in India

Particulars	FY19	FY20	FY21
(Rs. crore except percentages and number of stores)			
Same Store Sales Growth ("SSSG")			
– KFC	4.65%	3.15%	-33.69%
– Pizza Hut	4.67%	-3.68%	-30.25%
– Costa Coffee	2.72%	-4.38%	-61.64%
Stores			
– KFC	134	172	264
– Pizza Hut	268	269	297
– Costa Coffee	67	63	44
Total Stores – Core Brands Business	469	504	605
Revenue from operations			
– KFC	464.11	609.13	644.26
– Pizza Hut	423.29	417.43	287.91
– Costa Coffee	90.20	81.96	21.40
Total Revenue from Operations – Core Brands Business	977.61	1,108.52	953.57
Gross Margin			
– KFC	306.43	394.97	436.02
– Pizza Hut	313.14	312.56	213.45
– Costa Coffee	69.36	63.40	16.80
Total Gross Margin – Core Brands Business	688.93	770.92	666.27
Gross Margin (%)			
– KFC	66.02%	64.84%	67.68%
– Pizza Hut	73.98%	74.88%	74.14%
– Costa Coffee	76.89%	77.35%	78.51%
Total Gross Margin (%) – Core Brands Business	70.47%	69.55%	69.87%
Brand Contribution			
– KFC	85.37	97.27	118.17
– Pizza Hut	65.55	43.90	37.24
– Costa Coffee	18.17	17.41	3.32
Total Brand Contribution – Core Brands Business	169.09	158.57	158.74
Brand Contribution –Margin (%)			
– KFC	18.39%	15.97%	18.34%
– Pizza Hut	15.49%	10.52%	12.94%
– Costa Coffee	20.15%	21.24%	15.52%
Total Brand Contribution Margin - Core Brands Business	17.30%	14.30%	16.65%

## Total number of stores in the Core Brands Business

Period	FY19	FY20	FY21
Core Brands Business Total	469	504	605
– KFC	134	172	264
– Pizza Hut	268	269	297
– Costa Coffee	67	63	44

## Key financial and operational information

Brand	KFC India			Pizza Hut India			Costa Coffee		
Period	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21
Stores	134	172	264	268	269	297	67	63	44
Cities	57	76	97	83	82	100	16	18	17
SSSG	4.65%	3.15%	-33.69%	4.67%	-3.68%	-30.25%	2.72%	-4.38%	-61.64%
Revenue from Operations (Rs. Cr)	464.11	609.13	644.26	423.29	417.43	287.91	90.2	81.96	21.4
Average Daily Sales per store (Rs.)	113,851	116,740	100,270	44,679	43,918	34,900	37,458	37,414	18,510
Average Daily Transactions per store	284	286	197	94	94	66	123	117	58
Average Transaction Size (Rs.)	401	409	508	476	467	530	304	319	320
Brand Contribution-Store Level (Rs. Cr)	85.37	97.27	118.17	37.24	43.9	65.55	18.17	17.41	3.32
Brand Contribution -Store Level Margin (%)	18.39%	15.97%	18.34%	15.49%	10.52%	12.94%	20.15%	21.24%	15.52%

## DIL broadly divide their business into the 3 verticals

Business Verticals	Business Details	No. of Stores as on	
		31-Mar-21	30-Jun-21
Core Brands Business	Stores operated in India comprising KFC, Pizza Hut and Costa Coffee	605	645
International Business	Stores operated outside India, primarily comprising KFC stores and Pizza Hut stores	37	39
Other Business	Other operations in the F&B industry, including stores of other brands such as Vaango and Food Street	50	51
<b>Total</b>		<b>692</b>	<b>735</b>

## Revenue from Operations

Particulars	FY19		FY20		FY21	
	Revenue (Rs. in Cr)	% to Total	Revenue (Rs. in Cr)	% to Total	Revenue (Rs. in Cr)	% to Total
<b>Core Brands Business</b>	<b>977.61</b>	<b>74.59%</b>	<b>1,108.52</b>	<b>73.10%</b>	<b>953.57</b>	<b>84.02%</b>
KFC	464.11	35.41%	609.13	40.17%	644.26	56.77%
Pizza Hut	423.29	32.30%	417.43	27.53%	287.91	25.37%
Costa Coffee	90.2	6.88%	81.96	5.41	21.4	1.88%
<b>International Business</b>	<b>110.37</b>	<b>8.42%</b>	<b>149.11</b>	<b>9.83%</b>	<b>115.36</b>	<b>10.17%</b>
Nigeria	76.36		113.15		93.23	
Nepal	34.01		35.95		22.13	
Other Business	217.76	16.62%	253.54	16.72%	59.87	5.28%
Other operating revenue	4.87	0.37%	5.21	0.34%	6.04	0.53%
<b>Total for Revenue from operations</b>	<b>1,310.60</b>	<b>100.00%</b>	<b>1,516.39</b>	<b>100.00%</b>	<b>1,134.84</b>	<b>100.00%</b>

## Financial Statement

(In Rs. Cr)	FY19	FY20	FY21
Share Capital	106.2	106.2	115.4
Net Worth	(121.2)	(228.2)	71.9
Long Term Borrowings	332.5	340.2	359.4
Other Long Term Liabilities	1142.0	1193.8	816.5
Short-term borrowings	67.7	90.5	21.1
Other Current Liabilities	386.6	487.3	399.6
Fixed Assets	1589.8	1648.8	1406.5
Non Current Assets	78.7	91.6	97.4
Current Assets	139.0	143.2	164.5
Total Assets	1807.5	1883.6	1668.4
Revenue from Operations	1310.6	1516.4	1134.8
Revenue Growth (%)		15.7	(25.2)
EBITDA	254.2	251.6	178.9
EBITDA Margin (%)	19.4	16.6	15.8
Net Profit	(94.1)	(121.4)	(63.0)
Net Profit Margin (%)	(7.2)	(8.0)	(5.6)
Earnings Per Share (Rs.)	(0.8)	(1.1)	(0.5)
Return on Networth (%)	--	--	(48.5)
Net Asset Value per Share (Rs.)	(0.7)	(1.8)	1.0

Source: RHP, Ashika Research

## Cash Flow Statement

(In Rs. Cr)	FY19	FY20	FY21
Cash flow from Operations Activities	277.8	300.7	239.6
Cash flow from Investing Activities	(167.7)	(97.4)	(358.6)
Cash flow from Financing Activities	2.7	6.0	3.8
Net increase/(decrease) in cash and cash equivalents	(17.7)	(13.3)	26.7
Cash and cash equivalents at the beginning of the year	44.3	26.6	13.2
Cash and cash equivalents at the end of the year	26.6	13.2	40.0

Source: RHP

## Comparison with listed industry peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	D/E (x)	ROCE (%)	RONW (%)	P/BV (x)	EV/EBIDTA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
Devyani International Ltd.	1134.8	15.8	0.1	13.1	-12.3	21.1	60.6	9.5	10822.7
Jubilant FoodWorks Ltd.	3927.3	24.1	0.0	47.7	23.5	33.5	47.9	13.1	49826.2
Westlife Development Ltd.	1547.8	14.7	0.3	9.1	-1.3	18.2	97.9	NA	8752.6
Burger King India Ltd.	841.2	13.0	0.8	-2.5	-29.6	10.3	163.8	14.0	6918.8

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