



Devyani International Limited is one among largest chain operators of quick service restaurants on non-exclusive basis with premium brands such as KFC and Pizza Hut. This provides huge opportunity to scale up their business through food delivery aggregators like Swiggy and Zomato. At upper price band, the company's Mcap/sales for FY21 stands at 9x which is attractive to the Industry Average of 11x. Thus, we recommend to subscribe for the listing gains.



### About the Company :

Devyani International Limited is the largest franchisee of Yum Brands in India and are among the largest operators of chain quick service restaurants ("QSR") in India (Source: Global Data Report), on a non-exclusive basis, and operate 655 stores across 155 cities in India, as of March 31, 2021, and 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 brands and has presence globally with more than 50,000 restaurants in over 150 countries, as of December 31, 2020. In addition, company is a franchisee for the Costa Coffee brand and stores in India.

### Issue details

Price Band (Rs in per share)	86-90
Issue size (Rs in Crore)	1776-1838
Offer for Sale (Shares in lakhs)	1553.33
Issue open date	04-08-2021
Issue close date	06-08-2021
Tentative date of Allotment	11-08-2021
Tentative date of Listing	16-08-2021
Total number of shares (lakhs)	2064.96-2042.22
No. of shares for QIBs (75%) (lakhs)	1544.60-1527.54
No. of shares for NII (15%) (lakhs)	308.92-305.51
No. of shares for retail investors (10%) (lakhs)	205.95-203.67
No. of shares for Eligible Employees (lakhs)	5.50
Minimum order quantity	165
Face value (in Rs)	1.00
Amount for retail investors (1 lot)	14190-14850
Maximum number of shares for Retail investors at lower Band	2145(13 Lots)
Maximum number of shares for Retail investors at upper band	2145(13 Lots)
Maximum amount for retail investors at lower Band- upper band (in Rs)	184470-193050
Exchanges to be listed on	BSE, NSE

### Promoters

- Ravi Kant Jaipuria
- Varun Jaipuria
- RJ Corp Limited

### Objective of the Offer

The objects of the Issue are:

- Repayment and/or prepayment of company's borrowings fully or partially.
- General corporate purposes.

**Brief Financials \***

Particulars (Rs. Cr)	FY21	FY20	FY19
Share Capital	115.36	106.17	106.17
Net Worth	113.77	(189.10)	(70.24)
Revenue from Operation	1134.84	1516.39	1310.60
Net Profit/(Loss)	(62.99)	(121.42)	(94.14)
Basic EPS/(LPS)(Rs)	(0.67)	(0.74)	(0.42)
Net Asset Value (Rs)	1.03	(1.78)	(0.66)
P/E #	NA	NA	NA
P/B #	87.38	NA	NA

Source: RHP, \*Restated consolidated numbers # Calculated at the upper price band

**Industry Review:**

The food service profit sector in India is expected to register a robust growth in coming years, on the back of growing delivery ecosystem. The Indian food services profit sector generated a total revenue of ₹8,366.6 billion (US\$117.5 billion) in 2020, growing at a CAGR of 1.9% from ₹7,601.4 billion (US\$118.5 billion) in 2015. Growth was mainly driven by the rise in the number of transactions, which grew at a CAGR of 2.4%, during the same period. Increased deliveries, a higher demand for eating out, urbanization, and an increased exposure to different food types have played a significant role in the growth of transactions, especially in 2020, due to COVID-19.

Measure	2015	2020	2025	CAGR 2015-2020	CAGR 2020-2025
Value INR (million) (US\$ million)	7,601,363 (118,490)	8,366,607 (117,458)	17,220,267 (219,391)	1.9% (-0.2%)	15.5% (13.3%)
Transactions (million)	96,908	109,125	152,340	2.4%	6.9%
Outlets	3,417,225	3,660,188	4,553,680	1.4%	4.5%

Source: CBSL, RHP

**India Food Services Profit Sector: Value and Share by Channel**

In 2020, the QSR channel made the largest contribution to the foodservice industry, with a sales share of 34.1%. This was followed by pub, club, and bar, and full-service restaurants, with market shares of 27.1% and 15.5% respectively. Rapid urbanization and the rising number of commercial spaces for consumers to have a quick bite amid their work or shopping schedules played an important role in the growth of quick-service restaurants. Busier lifestyles and less time for eating habits have made QSR channels more relevant.

Historically, the QSR channel recorded the fastest growth among all foodservice channels, at a CAGR of 5.5% from 2015 to 2020. Their ability to provide affordable meals, with a quick service time, helped them register significant growth during this period. Global chains, such as KFC, McDonald's, and Burger King, have invested in expanding their presence in the market. Dependence on take-away for a large part of its sales helped the channel during 2020, amid the pandemic. The channel is expected to continue to grow at a robust rate in the coming years as well.

The QSR channel leads the industry in terms of the number of outlets in 2020, at an outlet count of 1,995,104. The total number of outlets in the channel grew by a CAGR of 2% between 2015 and 2020; the rate is the highest among all food-service channels. The QSR channel is expected to lead the foodservice industry in terms of growth in the number of outlets between

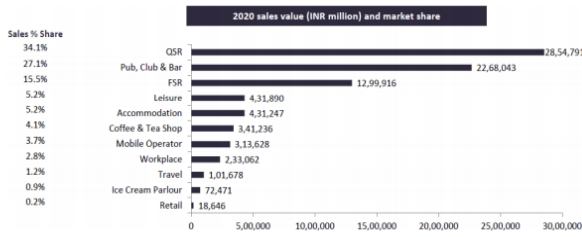
**COVID-19 has paved way for takeaway segment as most restaurant facilities were restricted during lockdown**

The pandemic accelerated the growth of online food ordering through food delivery apps, as consumers turned to online platforms to avoid spreading or being infected by the virus in public places.



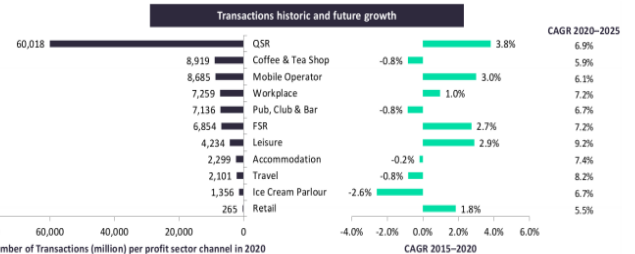
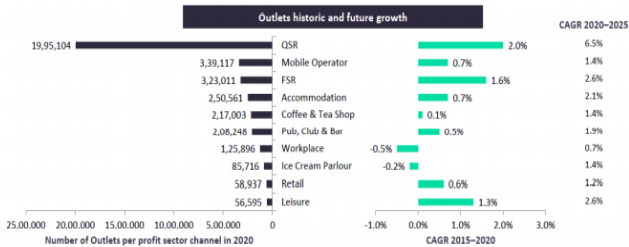
**QSR, pub, club and bar and FSR lead the India food service profit sector**

All channels are expected to grow at robust rates in coming years, owing to the post pandemic economic rebound



The quick service restaurant channel grew the highest among all foodservice channels.

Quick Service restaurants led the food service profit sector in terms of the number of transactions in 2020



Source: CBSL, RHP

**Quick service restaurants were more resilient compared to other channels in 2021.**

	Quick Service Restaurant	Full Service Restaurant	Coffee & Tea Shop	Pubs, Clubs, and Bars
<b>Initial impact (Until H1)</b>	The initial lockdown restrictions on outlets and spread of COVID-19 among delivery personnel hampered QSR revenues significantly during the first half.	FSRs were hit significantly by initial strict lockdown measures and consumers' reluctance to dine-out. Decline in disposable incomes also played a key role, owing to FSR's high average transaction value.	Lockdown restrictions hampered these outlets' revenues like other channels. However, as consumers visit these outlets not just their products, but also for ambience, home deliveries were not of much help.	Strict restrictions on these outlets hampered their businesses. Furthermore, deliveries and take-aways weren't of much help in the pub, club, and bar channel, as in other channels.
<b>Subsequent impact (Until H2)</b>	Relatively higher dependence on takeaway transactions, compared to other channels, helped QSRs recover during H2. Contactless dine-ins introduced by key players also were instrumental.	FSRs recovered to some extent as typical dine-in restaurants as well adopted food deliveries. Even fine-dining venues, such as Taj, started offering their dishes at consumers' doorstep.	Owing to WFH policies of offices and reluctance of people to socialize, these outlets were slow to recover. Socializing is a key driver of transactions in these channels.	These outlets remained shut for a significant part of H2. Even when they opened there were restrictions, such as prohibition of new year parties, which were aimed at preventing large social gatherings.
<b>Outlook 2021</b>	Quick service restaurants will see a better recovery compared to other channels, owing to their better suitability for take-aways. Investments of operators in expansion and technology will also drive the growth.	Home dining will play a crucial role in recovery. FSR operators will invest significantly in hygiene, safety, and packaging. Paucity of manpower and tighter budgets for rentals will push operators to trim their dine-in operations.	Recovery of income levels of consumers, which is expected to drive their impulse spending, will help the channel. Also, rise in work from anywhere culture is also likely to bring more income to these outlets.	Demand from urban consumers, especially young professionals willing to party and socialize, will drive the recovery in 2021. Craft spirits will grow in demand from young, high income individuals.

Source: CBSL, RHP

**QSR: Key Players**

Domino's Pizza Inc., Yum! Brands, Inc., McDonald's Corporation, Doctor's Associates Inc., Restaurant Brands International are the key players in the Indian QSR indus

**Future Outlook**

The channel is expected to witness a significant rebound in the coming years. Driven by the economic recovery of the country and improvement in the purchasing power of consumers.

Technological capabilities will be a key area of focus of these companies in the short-term. As the pandemic is still ongoing, contactless dining and deliveries will be priorities into 2021 as well. Similar to 2020, the year is likely to see more fast-food outlets adopting QR code-enabled menus. Menu innovation will be another key growth driver. Given the heightened sense of health awareness among consumers, the companies are expected to decrease calorie and sugar content in their offerings. Cloud kitchens will see a rapid proliferation in the post-COVID-19 period.

**Coffee and Tea shops**

The coffee tea shop channel was worth ₹ 341.2 billion in 2020 registering a negative CAGR of -1.7% between 2015 and 2020. The virus outbreak was one of the main reasons for the decline in the channel's value during the review period. The channel represents only 4.1% of the Indian foodservice profit sector value. Indian coffee and tea shop market is expected to grow at a CAGR of 15.0% to reach a valuation of ₹687.4 billion in 2025. Increasing the average transaction price will drive future value growth as key operators compete for quality and innovation rather than price.

**Key players**

Key players in this segment include Costa Coffee, Chai Point, Barista, Starbucks and Café Coffee Day.

**Future Outlook**

Despite its still small size, the channel is expected to have a noticeable impact on foodservice. Coffee chains, both local and foreign, are likely to grow their footprint significantly in coming years. The channel is forecast to experience strong value growth from 2020 to 2025 at a CAGR of 15.0%. Future value growth in the channel is expected to continue by rising average transaction prices and transaction numbers.



## Competitive Strengths

### Portfolio of highly recognized global brands catering to a range of customer preferences

Company operate franchises of several highly recognized global QSR brands and are the largest franchise partner for Yum in India. Their Core Brands include: (i) 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.ii) Pizza Hut operates in the delivery, carryout and casual dining segments around the world with 17,639 restaurants, as of December 31, 2020 iii) Costa coffee.

Company's close association with Yum and Costa and company's ongoing investment in training, operations and marketing efforts in conjunction with them, has resulted in company's Core Brands to further consolidate their leadership position in the QSR industry in India. For KFC and Pizza Hut, Company works closely with Yum to recognize and implement measures addressing customer feedback across various parameters including food taste, service and hospitality standards and overall satisfaction.

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

### Presence across key consumption markets with a cluster-based approach

Company operated 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. As of June 30, 2021, 75.35% of the stores in company's Core Brands Business, i.e. 486 stores were located across 40 key cities in India while 50.08% of the stores in company's 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).

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

### Cross brand synergies with operating leverage

Company have expanded its operations in the last few years and have opened 72, 50 and 111 stores under its Core Brands Business in Fiscals 2019, 2020 and 2021, respectively. In addition, Company acquired 13, 9 and 51 KFC stores from Yum in Fiscals 2019, 2020 and 2021, respectively. Company have been able to leverage substantial operating synergies across the brands operate. According to them, one of the most important aspects of its business that distinguishes them from its competitors is its focus on bringing cost efficiencies at each level.

Company procure bread and bakery products for stores of its Core Brands from commissaries. Its policy of centralized sourcing from an optimal number of vendors further facilitates cost efficiencies enabling them to reduce its costs. Company believe that with its multiple brands taking space in specific locations, this allows them to negotiate competitive lease rentals for its stores. Company is also able to obtain competitive rates for raw materials given that Company tap a common pool of suppliers and ensure consistency in service and delivery standards that Company have gained from operating stores of its Core Brands.



## Risk Factors

### **Current and continuing impact of the ongoing COVID-19 pandemic**

One of its key strategies and obligations under its development agreements which is the expansion of its store network, has become increasingly challenging as Company had to delay such expansion plans due to the impact of COVID-19 pandemic. While Company have been able to mutually agree on revised timelines for its development commitments for KFC and Pizza Hut stores with Yum, but there can be no assurance that Company will be able to meet these commitments in the event of subsequent waves of the pandemic in India that lead to additional restrictive measures or hamper overall economic recovery. In addition, if its Key Managerial Personnel or a significant percentage of its workforce is unable to work due to COVID-19 illness, quarantine, limitations on travel or other government restrictions in connection with the COVID-19 pandemic, its operations may be negatively impacted.

### **Dependence on its arrangements with Yum for KFC and Pizza Hut stores**

Revenue from operations from its KFC and Pizza Hut stores together amounted to ₹ 9,971.15 million, ₹ 11,750.36 million, and ₹ 10,472.26 million, and represented 76.08%, 77.49% and 92.28% of its total revenue from operations, in Fiscals 2019, 2020 and 2021, respectively. Company is therefore significantly dependent on its arrangements with Yum for its business and operations. These arrangements are set out in various development agreements, trademark license agreements and technology license agreements. An inability to meet its obligations under these arrangements, including to develop a certain number of stores within prescribed timelines, or to obtain suitable extensions, could result in a termination of its development rights and such arrangements with Yum, which could materially and adversely affect its results of operations, prospects, and financial condition.

### **Dependence on the Costa IDA with Costa for Costa Coffee stores**

Revenue from its Costa Coffee stores amounted to ₹ 902.04 million, ₹ 819.62 million, and ₹ 213.95 million in Fiscals 2019, 2020 and 2021, respectively, and represented 6.88%, 5.41%, and 1.88% of its revenue from operations in such periods, respectively. In the event that Costa exercises its right to terminate the Costa IDA, or Company fail to renew the Costa IDA, or enter into a definitive agreement pursuant to the Costa Term Sheet on terms less favourable to them than existing terms, it may materially and adversely affect its ability to carry on its business operations and may impact its future financial performance to the extent of the revenue derive from such business.

### **Incurred losses resulting in erosion of net-worth:**

Company reported losses for the year of ₹ 941.44 million, ₹ 1,214.18 million and ₹ 629.87 million in Fiscals 2019, 2020 and 2021, respectively that represented 7.18%, 8.01% and 5.55% of its revenue from operations in such periods, respectively. Its net losses have historically resulted primarily from increased finance cost and depreciation and amortization. Net losses have historically resulted primarily from high operating costs incurred towards expansion of store network, and inability to successfully recover these costs through operations at such stores. They have also incurred losses due to high corporate level overhead costs and towards funding certain loss making businesses, such as operations at airports in India and the TWG tea business that was carried out by erstwhile subsidiary DIUPL. They continue to grow their business by opening a number of new stores every year, and expect to report losses till such time as these new stores mature and they are able to apportion corporate level expenses across a larger base of store



## Peer Comparison

Company	FV (₹)	Revenue (₹ In Crores)	Basic EPS	NAV (₹)	P/E*	P/B*	RONW (%)
Devyani International Ltd	1	1198.90	(0.67)#	1.03	NA	87.38	(48.25)
Peer Group							
Jubilant Foodworks Ltd	10	3384.95	17.55	108.12	215.13	34.92	16.16
Westlife Development Ltd	2	1030.33	(6.38)	30.89	NA	18.18	(20.66)
Burger King India Ltd	10	522.93	(5.47)	17.59	NA	10.26	(25.82)
*P/E & P/B ratio based on closing market price as on July 30th, 2021, At the upper price band of IPO, financial details consolidated audited results as on FY21#Restated							

## Our Views

Devyani International Ltd is the largest franchisee of Yum Brands in India. The company has successfully moved towards asset-light expansion business model to reduce the capex/opex cost. Post IPO, the Company will be debt-free. This will reduce the finance cost burden (15% of the revenue) and turnaround the company to be profitable. Further, the company have plans to acquire the existing Yum brands KFC and pizza hut owned outlets in future.

The company is one among largest chain operators of quick service restaurants on non-exclusive basis with premium brands such as KFC and Pizza Hut. This provides huge opportunity to scale up their business through food delivery aggregators like Swiggy and Zomato. At upper price band, the company's Mcap/sales for FY21 stands at 9x which is attractive to the Industry Average of 11x. Thus, we recommend to subscribe for the listing gains.

Sources: Company Website and Red Herring Prospectus





### **Analyst Certification**

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