



Choice
Nurturing Financial Excellence

IPO REPORT

**“Subscribe” to
Devyani International**

‘Ample growth drivers’

Salient features of the IPO:

- **Devyani International Limited (DIL)** is the largest franchisee of Yum Brands in India and is amongst the largest operators of chain quick service restaurants in India.
- IPO comprises fresh issue of Rs440 cr and offer for sale (OFS) of 15.5 cr shares. The company will utilize Rs324 cr from fresh issue for repayment/payment of debt.

Competitive Strength

- Portfolio of highly recognized global brands catering to a range of customer preferences
- Multi-dimensional comprehensive QSR player
- Presence across key consumption markets with a cluster-based approach
- Cross brand synergies with operating leverage
- Disciplined financial approach with focus on cash flows and returns

Valuation: At the higher price band of Rs90, the issue is valued at EV/sales of 9.8x as compared to peer average of 11.7x.

Below are few key observations of the issue: (continued in next page)

- India's large market size presents a robust growth opportunity for food services sector. Younger population (median age of 28.7 years in 2020), increasing disposal income and rising urbanization bodes well for the food services players. Withing the sector, quick service restaurant (QSR) sales share is increasing at brisk pace (34% in 2020) compared to full services restaurants (15%) and pub, club and bar (27.1%). Furthermore, busier lifestyles, increasing youth exposure to western foods, short service time, higher number of stores and entry of food delivery channel like Zomato & Swiggy is driving strong growth for QSR.
- Food services sector revenue is expected to grow at a CAGR of 15.5% to Rs17,220 bn during 2020 to 2025. QSR channel is expected to lead the food services sector in terms of sales value and transactions. With the strong demand drivers for food services sector, there would remain ample growth opportunities for DIL to expand business.
- DIL, incorporated in 1991, is the largest franchisee of Yum Brands in India and is amongst the largest operators of chain quick service restaurants (QSR) in India. The company operates 696 stores on a 'non-exclusive basis' across 166 cities in India as of Jun 30' 2021.
- DIL's business is broadly classified into three verticals that includes stores of KFC, Pizza Hut and Costa Coffee (referred to as Core Brands Business). Total number of stores in Core brands increased from 469 as of Mar 31'2019 to 645 in India as of Jun 30' 2021.
- As of Jun 30' 2021, the company operates 284 stores of KFC, 317 stores of Pizza Hut and 44 of Costa Coffee.
- Core brands business in India accounted for 85% of total sales in FY21, while it reached to 95% including international business. The company also generated 5% of business from other brands such as Vaango, Food Street, Masala Twist among others.

Recommendation	Subscribe
Price Band	Rs86 - Rs90 per share
Face Value	Rs1 per share
Fresh Issue Size	Rs440 cr
Share for Fresh Issue (at higher price band)	4.9 cr
OFS Issue Size (at higher price band)	Rs1,398 cr
Total Issue Size	Rs1,838 cr
Bidding Date	Aug 04' 2021 - Aug 06' 2021
MCAP at Higher Price Band	Rs10,823 cr
Book Running Lead Manager	Kotak Mahindra Capital Company Limited, CLSA India Private Limited, Edelweiss Financial Services Limited, Motilal Oswal Investment Advisors Limited
Registrar	Link Intime India Private Limited
Industry	Food Services Sector

Retail application money at higher cut-off price per lot

Number of shares per lot	165
Application Money	Rs14,850 per lot

Allocation Detail

Qualified Institutional Buyers (QIB)	75%
Non-Institutional Investors (NII)	15%
Retail Individual Investors (RIIs)	10%

Shareholding Pattern

	Pre-Issue	Post Issue
Promoter & promoter group	75.8%	68.0%
Public	24.2%	32.0%
Total	100.0%	100.0%

Source: Choice Broking Research, RHP

Analyst

Satish Kumar	(022-67079999; Ext:913, Mob:9167120440)
Deskphone	
Email	satish.kumar@choiceindia.com

Continued.....

- In terms of brand contribution to business, KFC is major contributor to revenue representing 57% of total sales in FY21 as compared to Pizza Hut at 26% and 2% for Costa Coffee. KFC brand also generates strong EBIDTA margin. In FY21, DIL recorded 18% EBIDTA margin for KFC brand as compared to 13% for Pizza Hut and 16% for Costa Coffee.
- DIL reported operating revenue of Rs1,135 cr which was declined around -25% YoY as the business impacted severely by the breakout of pandemic. However, QSR recovered robustly compared to other channels due to high food deliveries amidst lockdown situations. The company is listed on Zomato and Swiggy platform which substantially is adding to increase in transactions through food home deliveries amidst pandemic fear.
- Sequentially, core brands business revenue increased to Rs366 cr in Q4FY21 from Rs324 cr in Q3FY21. Furthermore, margin also improved to 21% in Q4 (KFC at 22.6%, Pizza Hut at 15.1% and Costa coffee at 30.3% in Q4FY21) from 18.7% in Q3.
- Strategies have been implemented to boost margin and profitability. The company has divestment tea business & rationalizing non-performing airport stores, shifted to rental agreement to revenue sharing instead of fixed rental and menu re-engineering. Furthermore, to focus on delivery-oriented business, store size reduced which led to quick turnaround and faster store development at lower cost.**
- The company is loss making in the last three reported years despite generating EBIDTA margin at satisfactory level of average 17.3% over FY19-FY21. Bottom line is impacted by high finance cost. **DIL will utilize Rs324 cr from the fresh proceed to repayment of debt which in turn will aid the company to improve net profit margin. OCF margin also remained at healthy level at 20% during FY19-FY21. With the strong boost in revenue, cash flow generation is expected to remain healthy also driven by likely improvement in margin and favourable WC cycle.**
- DIL is expecting strong business expansion going ahead. To leverage growth opportunities, the company is expanding its store network. In H2FY21, DIL opened 109 stores of core business brands.**
- At the higher price band of Rs90, the issue is valued at EV/sales of 9.8x as compared to peer average of 11.7x. **Thus, considering the discounted valuation and likelihood of strong business growth going forward, we assign 'Subscribe' rating to the issue.**

Peer comparison

Companies	CMP (Rs/s)	6M (R%)	12M (R%)	M Cap (Rs cr)	EBIDTA Mar. (%)	NPM (%)	RoE (%)	RoA (%)	Sales CAGR FY19-FY21	EPS (Rs/sh)	BVPS (Rs/sh)	EV (Rs cr)
Devyani International	90	-	-	10,823	15.8%	-7.2%	-14.7%	-3.7%	-6.9%	-0.7	4.3	11,163
Jubilant Foodworks	3,004	42.5%	110.0%	39,653	25.1%	9.8%	26.3%	10.0%	-3.6%	539.0	108.1	40,734
Westlife Development	558	23.9%	59.0%	8,649	4.8%	-10.0%	-20.6%	-5.7%	-16.1%	11	31.0	9,606
Burger King India	179	31.4%	-	6,856	3.0%	-35.2%	-25.9%	-12.2%	-11.7%	216	17.6	7,237

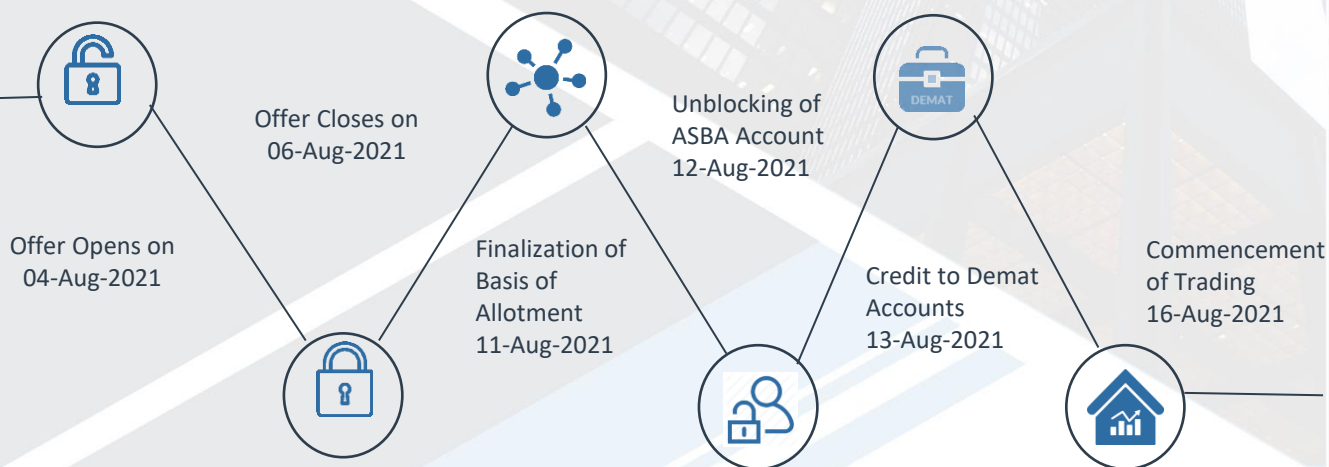
Companies (Rs cr)	P/E (x)	P/BV (x)	P/S (x)	EV/EBIDTA (x)	EV/Sales (x)	D/E (x)	Net Worth	Share Capital	Sales TTM	EBIDTA TTM	PAT TTM	Total Assets
Devyani International	-133.1	19.5	8.4	62.4	9.8	2.1	514	120	1,135	179	(81)	2,222
Jubilant Foodworks	105.7	27.8	10.4	42.5	10.7	1.1	1427	132	3,817	959	375	3,767
Westlife Development	-87.4	18.0	8.8	204.4	9.7	2.0	481	31	986	47	-99	1,724
Burger King India	-39.4	10.2	13.9	482.4	14.6	0.9	673	383	494	15	-174	1,428

*-Devyani Internation - net worth, assets are calculated on post issue basis. Debt includes financial liabilities

About the issue:

- Devyani International Limited (DIL) is coming out with initial public offering of Rs1,838 cr.
- IPO comprises fresh issue of Rs440 cr and offer for sale (OFS) of 15.5 cr shares
- At the higher price band of Rs90, fresh number of shares are stood at 4.9 cr. While OFS size comes at Rs1,398 cr.
- Promoter RJ Corp is selling 9 cr shares which is calculated at Rs810 cr at higher price band. Investor Dunearn Investments PTE. Ltd. is selling 6.54 cr shares of Rs589 cr.
- Post issue, promoters stake will reduced to 68.0% from 75.8% pre issue.
- Issue will open for subscription on Aug 04' 2021 and close on Aug 06' 2021
- Not less than 75% of the net offer shall be available for allocation on a proportional basis to a qualified institutional investors (QIIs).
- Further not more than 15% shall be available for allocation on a proportional to non-institutional investors (NIIs) and not more than 10% of net offer shall be available for allocation to Retail Institutional Investors (RIIs).
- Employee reservation portion is kept at 0.05 cr share which comes at Rs4.5 cr at higher price band.
- Average cost of acquisition of selling shareholder 1) RJ corp at Rs3.24 and 2) Dunearn Investments at Rs30.6.

Indicative IPO process time line:



Objective of Offer



Fresh Issue	Rs440 cr
Repayment/ pre-payment, in full or part, of certain borrowings availed by company	Rs324 cr
General corporate purposes	Rs116 cr

Source: Choice Broking Research, RHP

Corporate Introduction and Business Overview

Devyani International Limited (DIL) is the largest franchisee of Yum Brands in India and is amongst the largest operators of chain quick service restaurants in India. The company operates 696 stores across 166 cities in India across 26 states and 3 union territories in India as of Jun 30' 2021. In addition to Yum Brands, DIL also took franchisee for the Costa Coffee stores in India from Costa International. The company started operation in 1997 with the opening of first Pizza Hut store in Jaipur. Continued expansion with both KFC and Pizza Hut franchise, DIL operated 284 KFC stores and 317 Pizza Hut stores in India as of Jun 30' 2021. The company also operated 44 Costa Coffee brands stores in India.

DIL's business is broadly classified into three verticals that includes stores of KFC, Pizza Hut and Costa Coffee (referred to as Core Brands). Total number of stores in Core brands increased from 469 as of Mar 31'2019 to 645 as of Jun 30' 2021. Revenue from core brands rose from 83% of total operating revenue in FY19 to 94.2% in FY21. KFC is major contributor to revenue representing 57% of total sales in FY21 as compared to Pizza Hut at 26% and 2% for Costa Coffee. DIL's 10% of revenue came from the international operations as the company has store presence in Nepal and Nigeria. In addition, the company also own and operate stores of certain other brands that include Vaango, Food Street, Masala Twist, Ile Bar, Amreli, and Ckrush Juice Bar. The company focuses on high potential locations across towns and cities, airports, high street locations, malls, food courts, hospitals, business hubs and transit areas for opening the store. DIL collaborate with Yum across various aspects of operations for KFC and Pizza Hut for the franchisor's brand protection, management, advertising, promotion and marketing activities.

	Core Brands (3 International Chain QSR Brands)					Others (Own / 3 rd Par
	India			International (Nepal & Nigeria)		India
						
Type	QSR	QSR	Coffee	Nepal & Nigeria	Nepal	& Other Brands
# of stores⁽¹⁾	284 <i>(50 net new stores opened during H2'21)⁽⁴⁾</i>	317 <i>(39 net new stores opened during H2'21)⁽⁴⁾</i>	44	37 ⁽³⁾ <i>(34 KFC, 3 Pizza Hut)</i>		51
% of FY21 Revenue from Operations	57%	26%	2%	10%		5%
Core Brands – 95% of FY21 revenue						
Devyani International is among the largest operators of chain QSR in India⁽²⁾						

In FY21, operating revenue was recorded at Rs1,135 cr in FY21 compared to Rs1,516 cr in FY20 as the business was impacted severely by pandemic break-out. EBIDTA Margin was stood at 15.8% in FY21 v/s 16.6% in FY20. KFC brand EBIDTA margin stood at 18.3% in FY21 compared to 12.9% for Pizza Hut and 15.5% for Costa Coffee. Despite generating satisfactory EBIDTA margin, the company is loss making due to high finance and depreciation cost. DIL reported net loss of -Rs81 cr in FY21 compared to -Rs79 cr in FY20 and Rs59 cr in FY19.

Key Financials (Rs cr)	FY19	FY20	FY21
Operating Rev.	1,310.6	1,516.4	1,134.8
EBITDA	254.2	251.6	178.9
PAT	(59.3)	(78.8)	(81.3)
EBITDA Margin (%)	19.4%	16.6%	15.8%
PAT Margin (%)	-4.5%	-5.2%	-7.2%
RoE (%)			-71.5%
RoA (%)	-3.3%	-4.2%	-4.9%
RoIC (%)	3.7%	1.9%	-4.4%
EV	11,196.3	11,240.2	11,163.2
OCF	277.8	300.7	239.6



Competitive strengths:

- Portfolio of highly recognized global brands catering to a range of customer preferences
- Multi-dimensional comprehensive QSR player
- Presence across key consumption markets with a cluster-based approach
- Cross brand synergies with operating leverage
- Disciplined financial approach with focus on cash flows and returns

Business strategy:

- Strategically expand store network of core brand business
- Continue to improve unit level performance
- Focus on delivery channels for core brands
- Invest in technology and focus on digital capabilities



Risk and concerns:

- DIL operate stores on non-exclusive basis. Termination of licences, if happens, can impact business severely
- Uncertainty of the continuing impact of the ongoing COVID-19 pandemic on business
- Losses incurred over past three years. If such losses continue to occur in the future shall affect business

Financial statements:

Rs crore

Profit & Loss A/c

Particulars	FY19	FY20	FY21
Operating Revenue (OR)	1,310.6	1,516.4	1,134.8
Cost of materials consumed	(377.3)	(448.7)	(338.7)
Purchase of stock-in-trade	(11.6)	(11.7)	(6.0)
Employee Benefit Expenses	(191.6)	(225.5)	(154.3)
Other Expenses	(476.0)	(578.9)	(456.9)
EBITDA	254.2	251.6	178.9
Depreciation and Amortization Expenses	(202.8)	(223.3)	(229.5)
EBIT	51.4	28.3	(50.5)
Finance Costs	(135.6)	(158.4)	(152.8)
Other Income	13.1	18.7	64.1
Exceptional Items	13.1	34.6	56.9
PBT	(58.0)	(76.9)	(82.4)
Tax Expenses	(1.3)	(1.8)	1.1
PAT	(59.3)	(78.8)	(81.3)

Balance Sheet

Particulars	FY19	FY20	FY21
Share Capital	106.2	106.2	115.4
Reserves and Surplus	-176.4	-295.3	-1.6
Non controlling interest	-51.0	-39.1	-41.9
Long Term Borrowings	332.5	340.2	359.4
Long Term Provisions	13.8	11.6	16.9
Lease Liabilities	1,124.1	1,175.9	793.7
Other non-current liabilities	4.1	6.3	5.9
Short Term Borrowings	67.7	90.5	21.1
Trades Payables	136.8	163.2	161.9
Other short term liabilities	135.7	206.7	149.9
Short term Provisions	3.2	4.4	8.3
Deferred tax liabilities (Net)	0.3	0.7	0.7
Short Term Lease Liabilities	110.6	112.3	78.7
Total Liabilities	1,807.5	1,883.6	1,668.4
Tangible Assets	1,525.8	1,555.1	1,142.3
Intangible Assets	52.5	80.2	250.0
Capital Work In Progress	11.5	13.5	14.3
Long Term Loans and Advances	45.8	49.2	43.5
Non-current financial assets	11.3	18.2	16.7
Other Non Current Assets	21.6	24.2	37.1
Inventories	54.9	72.1	62.2
Trade Receivables	23.0	17.3	16.9
Cash and Bank Balances	26.6	13.2	40.0
Short term loans	9.6	12.8	14.2
Other Current Assets	24.9	27.8	31.3
Total Assets	1,807.5	1,883.6	1,668.4

Source: Choice Broking Research, RHP

IPO UPDATE

Cash Flow Statement

Particulars	FY19	FY20	FY21
Cash Flow from Operating Activities	277.8	300.7	239.6
Cash Flow from Investing Activities	(167.7)	(97.4)	(358.6)
Purchase of fixed assets and properties	(142.3)	(99.9)	(137.3)
Cash Flow from Financing Activities	(130.5)	(222.6)	142.0
Net Cash Flow	(17.7)	(13.4)	26.7
Opening Balance of Cash and Bank Balances	44.3	26.6	13.2
Closing Balance of Cash and Bank Balances	26.6	13.2	40.0

Financial Ratios

Particulars	FY19	FY20	FY21
Growth & Margin ratios			
Revenue Growth Rate (%)		15.7%	-25.2%
EBITDA Growth Rate (%)		-1.0%	-28.9%
EBITDA Margin (%)	19.4%	16.6%	15.8%
EBIT Growth Rate (%)		-44.9%	-278.6%
EBIT Margin (%)	3.9%	1.9%	-4.5%
Adjusted PAT Growth Rate (%)		32.8%	3.3%
Reported PAT Margin (%)	-4.5%	-5.2%	-7.2%

Turnover ratios

Inventories Turn. Ratio (x)	23.9	21.0	18.2
Trade Receiv. Turn. Ratio (x)	57.0	87.7	67.2
Accounts Pay. Turn Ratio (x)	9.6	9.3	7.0
Fixed Asset Turn. Ratio (x)	0.9	1.0	1.0
Total Asset Turn. Ratio (x)	0.7	0.8	0.7
Working Cap. Turn. Ratio (x)	0.0	-5.0	-6.1

Operational ratios

Current Ratio (x)	0.4	0.3	0.5
Debt to Equity (x)	-5.7	-2.3	3.3
Total Debt (Rs cr)	400.2	430.7	380.5
Net Debt (Rs cr)	364.0	404.6	326.4
Net Debt to EBITDA (x)	1.4	1.6	1.8
Net Debt to Equity (x)	-3.0	-1.8	2.9

Return ratios

RoE (%)			-71.5%
RoA (%)	-3.3%	-4.2%	-4.9%
RoCE (%)	49.5%	-27.0%	-9.7%
RoIC (%)	3.7%	1.9%	-4.4%
EV (Rs cr)	11,196.3	11,240.2	11,163.2
EV/Sales (x)	8.5	7.4	9.8
EV/EBITDA (x)	44.0	44.7	62.4

Per share ratios

EPS	-0.5	-0.7	-0.7
BVPS	-1.0	-1.9	0.6
OCF/sh	2.3	2.5	2.0
FCF/sh	5.9	3.9	1.1

Valuation ratios

P/E (x)	-182.5	-137.4	-133.1
P/BVPS (x)	-89.3	-47.4	150.6
P/S (x)	8.3	7.1	9.5
EV/EBITDA (x)	44.0	44.7	62.4

Equity Research Team

<u>Name</u>	<u>Designation</u>	<u>Email id</u>
Sundar Sanmukhanis	Head of Research - Fundamental	sanmukhanis@choiceindia.com
Satish Kumar	Research Analyst	satish.kumar@choiceindia.com
Rajnath Yadav	Research Analyst	rajnath.yadav@choiceindia.com
Ankit Pareek	Research Associate	ankit.pareek@choiceindia.com
Siddhi Acharya	Research Intern	siddhi.acharya@choiceindia.com
Yug Tibrewal	Research Intern	yug.tibrewal@choiceindia.com

Disclaimer

This is solely for information of clients of Choice Broking and does not construe to be an investment advice. It is also not intended as an offer or solicitation for the purchase and sale of any financial instruments. Any action taken by you on the basis of the information contained herein is your responsibility alone and Choice Broking its subsidiaries or its employees or associates will not be liable in any manner for the consequences of such action taken by you. We have exercised due diligence in checking the correctness and authenticity of the information contained in this recommendation, but Choice Broking or any of its subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this recommendation or any action taken on basis of this information. This report is based on the fundamental analysis with a view to forecast future price. The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Choice Broking has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; Choice Broking makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. The opinions contained within the report are based upon publicly available information at the time of publication and are subject to change without notice. The information and any disclosures provided herein are in summary form and have been prepared for informational purposes. The recommendations and suggested price levels are intended purely for stock market investment purposes. The recommendations are valid for the day of the report and will remain valid till the target period. The information and any disclosures provided herein may be considered confidential. Any use, distribution, modification, copying, forwarding or disclosure by any person is strictly prohibited. The information and any disclosures provided herein do not constitute a solicitation or offer to purchase or sell any security or other financial product or instrument. The current performance may be unaudited. Past performance does not guarantee future returns. There can be no assurance that investments will achieve any targeted rates of return, and there is no guarantee against the loss of your entire investment.

POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report) Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.

CONNECT US

Any kind of queries on RESEARCH,

You can contact us on: 022 - 6707 9999



Choice Equity Broking Pvt. Ltd.

Choice House, Shree Shakambhari Corporate Park, Plt No: -156-158,
J.B. Nagar, Andheri (East), Mumbai - 400 099.

+91-022-6707 9999

+91-022-6707 9959

www.choiceindia.com

Consolidated Scrip Overview

trade with
JIFFY

GET IT ON
Google play

Download on the
App Store