

Ronak Kotecha
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Issue Details

Issue Details	
Issue Size (Value in Rs. Million, Upper Band)	18,380
Fresh Issue (No. of Shares in Million)	48.89
Offer for Sale (No. of Shares in Million)	155.33
Bid/Issue opens on	4-Aug-21
Bid/Issue closes on	6-Aug-21
Face Value	Rs. 1
Price Band	Rs. 86-90
Minimum Lot	165

Objects of the Issue

Fresh Issue: ₹ 4,400 Million

The company proposes to utilize the Net Proceeds towards funding the following objects:

- Repayment/prepayment of all or certain of their borrowings; and
- General corporate purposes.

Offer for Sale: ₹ 13,980 Million

The company will not receive any proceeds from the Offer for Sale.

Book Running Lead Managers
Kotak Mahindra Capital Company Limited
CLSA India Private Limited
Edelweiss Financial Services Limited
Motilal Oswal Investment Advisors Limited
Registrar to the Offer
Link Intime India Pvt. Ltd.

Capital Structure (₹ Million)	Aggregate Value
Authorized share capital	5000.00
Subscribed paid up capital (Pre-Offer)	1153.63
Paid up capital (Post - Offer)	1202.52

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	75.8	59.8
Public	24.2	40.2
Total	100	100

Financials

Particulars (Rs. In Million)	FY21	FY20	FY19
Revenue	11,348	15,164	13,106
Other Income	641	187	131
Total Income	11,989	15,351	13,237
Expenses	9,559	12,648	10,564
Finance Cost	1,528	1,584	1,356
Depreciation	2,295	2,233	2,028
Total Expenses	13,382	16,465	13,948
Exceptional Item	(569)	(346)	(131)
Profit/(loss) before Tax	(824)	(769)	(580)
Tax	(11)	18	13
Profit/(loss) after Tax	(813)	(788)	(593)
EPS (₹)	(0.67)	(0.74)	(0.42)

Company Description

Devyani international Limited are the largest franchisee of Yum Brands in India and are among the largest operators of chain quick service restaurants ("QSR") in India, on a non-exclusive basis, and operate 655 stores across 155 cities in India, as of March 31, 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, they are a franchisee for the Costa Coffee brand and stores in India.

Their business is broadly classified into three verticals that includes (i) 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");(ii) stores operated outside India primarily comprising KFC and Pizza Hut stores operated in Nepal and Nigeria ("International Business"); (iii) and certain other operations in the F&B industry, including stores of their own brands such as Vaango and Food Street ("Other Business"). Revenue from their Core Brands Business, together with their International Business, represented 83.01%, 82.94% and 94.19% of their revenue from operations in Fiscals 2019, 2020 and 2021, respectively

They began their relationship with Yum in 1997, when they commenced operations of their first Pizza Hut store in Jaipur. Devyani International Ltd. have subsequently continued to expand their operations with both KFC and Pizza Hut franchises, and as of March 31, 2021, operated 264 KFC stores and 297 Pizza Hut stores across India. In their Core Brands Business, they had an extensive presence in 26 states and three union territories in India as of March 31, 2021. In addition, they are a franchisee of the Costa Coffee brand in India, which is owned by Costa, and operated 44 Costa Coffee stores as of March 31, 2021. They have been consistently expanding 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. Despite the ongoing COVID-19 pandemic, they have continued to expand their store network and in the six 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 their new stores are consistent in terms of look and feel across various formats that include dine-in, takeaway and delivery.

Increasing internet and mobile penetration within India and the advent of food delivery apps are key factors to lead consumers away from traditional dine-in experiences and towards convenience-driven options. Devyani International Ltd. are among the single largest QSR companies in India that is listed on the Swiggy platform, and were among the largest QSR companies in India listed on the Zomato platform in the calendar years 2019 and 2020. The prevalence of home delivery in the Indian QSR industry is expected to continue to grow due to changing lifestyles and changing consumer eating patterns in the post-COVID atmosphere. Operators will need to modernize and digitize their operations and have an online presence to meet customer demand. They intend to grow their store network to be focused on delivery and takeaway formats while ensuring safety and convenience for customers who prefer to dine-in *(Continued on page 2)*.

Valuation

At the upper end of the IPO price band, Devyani International Ltd. is offered at 9.5x market capitalization / sales as per FY21 financial statement, compared to peers like Jubilant Foodworks Ltd. (15x), Westlife Development Ltd. (8.8x), Burger King India Ltd. (14x).

We believe the company remains well placed for long term growth considering the company's portfolio of recognized global brands catering to a range of customer preferences, cross brand synergies, expansion of store network and EBITDA positive earnings; we give this IPO a "Subscribe" rating.

- Core Brands Business

- i. KFC India

Their first KFC store in India opened in 2005 at Kolkata. As of March 31, 2021, they operated 264 KFC stores located in 21 states and two union territories, across 97 cities in India. They mainly operate two formats of their KFC stores, namely, a larger format with full service dining in capacities, and small-store formats to cater to delivery/ take-away orders with limited seating for customers/ riders waiting to pick-up orders. In the cities in India that they currently operate KFC stores, they are the only franchisee of Yum to operate KFC stores, with the exception of captive markets (i.e. airports, railway stations) within the cities. Their KFC stores in India are generally located in neighborhood markets in urban areas, such as high-street locations, shopping malls and food courts, business hubs, drive-thrus, and transit locations such as airports. They operate their KFC stores pursuant to technology license agreements entered into with Yum ("KFC TLA"), and trademark license agreements entered into with KFC International ("KFC TMA") that are typically valid for a period of ten years with a one-time option to renew for a subsequent period of ten years. They enter into a KFC TLA and a KFC TMA for each store they open.

In the fiscal year 2021, 50 KFC Stores were opened in India. In addition, they acquired 13, 9, and 51 KFC stores from Yum, in Fiscal 2019, 2020 and 2021, respectively.

Marketing for KFC is carried out by Yum. Devyani International Limited are required to spend (in accordance with Yum's directions) 6.00% of their gross revenues for the relevant store (excluding applicable taxes) in connection with the advertisement, promotion and marketing activities as contemplated in the KFC TLA. Out of the 6.00%, they are required to contribute 5.00% to Yum, and spend 1.00% of their gross revenues per store, for localized/ store-based promotion and marketing activities.

- ii. Pizza Hut India

Their first Pizza Hut store in India opened in 1997 at Jaipur. As of March 31, 2021, they operated 297 Pizza Hut stores located in 20 states and three union territories, across 100 cities in India, including in all the major states other than Tamil Nadu. They operate their Pizza Hut stores pursuant to technology license agreements entered into with Yum ("PH TLA"), and trademark license agreements entered into with Pizza Hut International LLC ("PH TMA"), that are typically valid for a period of ten years with a one-time option to renew for a subsequent period of ten years. They enter into a PH TLA and a PH TMA for each store they open. Under the PH TLAs, they are permitted to use the Pizza Hut restaurant formats, operating system and various standards, specifications, to operate their Pizza Hut stores, and under their PH TMAs, they are permitted to use the trademarks, copyrights, patents and other intellectual property under the Pizza Hut brand, that are required to operate their Pizza Hut stores. These agreements govern all customer-facing operations of their stores including product innovation and development, menu architecture, product and services pricing, marketing initiatives, and supplier selection. They also execute commercial letters between their Company and Yum that require them to develop new Pizza Hut stores in India. 57 Pizza hut stores were opened in the fiscal year 2021. Marketing activities involve innovation with the aim to periodically introduce new products, and capitalize on seasonal demand and festivals/ occasions. Brand promotion is also carried out by launching brand-driven occasions, such as 'Unlimited Pizza Fridays'. To increase relevance of the Pizza Hut brand, initiatives are focused on expanding the target-group profile of consumers of Pizza Hut., including through digital media and carrying out campaigns and communication for different regions in India in vernacular languages, and maximizing transactions on festivals/ other occasions.

- iii. Costa Coffee

The first Costa Coffee store in India opened in 2005 at Delhi. As of March 31, 2021, they operated 44 Costa Coffee stores located in eight states and one union territory, across 17 cities in India. They operate their Costa Coffee stores pursuant to an international development agreement entered into with Costa International Limited ("Costa") dated September 28, 2004 (the "Development Agreement"), amended subsequently by a deed of variation dated January 28, 2010 (the "Deed of Variation") together with side letters and variation letters issued by Costa from time to time (together with the Development Agreement, the "Costa IDA"). The Costa IDA was initially valid until December 31, 2014, and has been periodically renewed for two successive terms of five years each. In accordance with the Costa IDA, each store they open is subject to the grant of a trading certificate/ operational agreement by Costa. The Costa IDA grants them the right to operate and maintain Costa Coffee stores developed by them using the Costa trade names and marks, and know-how, in certain territories in India. In addition, they are in the process of revising the terms of the Costa IDA and such revised terms are under negotiation. To this effect, they have entered into a non-binding heads of terms with Costa that is subject to execution of a definitive agreement. Revenue from operations for the year ended 31st March, 2021 was Rs. 213.95 million, 73.9% lower than that of the year ended 31st March, 2020. Under the Costa IDA, they are obligated to spend at least 2.00% of the gross sales (excluding GST) of their Costa Coffee stores on local marketing activities, based on a marketing plan approved by Costa and as may be required by Costa from time to time.

- International Business

As of March 31, 2021, they had 35 stores of their Core Brands outside India, comprising 32 KFC stores and 3 Pizza Hut stores. In addition, they operated two stores of another brand outside India as of March 31, 2021. They operate KFC and Pizza Hut stores in Nepal, and KFC stores in Nigeria, on a non-exclusive sole franchisee basis. Nigeria accounts for 80.82% of total revenue from operations from International Business whereas Nepal accounts for 19.18%.

- Other Business

In addition to their Core Brands Business and International Business, they operate stores of other brands such as Vaango, The Food Street, Ile Bar, AMRELI, Ckrussh Juice Bar, among others. They typically operate these in the form of outlets within larger food courts in malls and airports. They launched their own brand 'Vaango', a south Indian QSR chain in 2011. Their first Vaango outlet in India opened in 2011, at Noida. As of March 31, 2021, they operated 26 Vaango outlets located in eight states and one union territory, across 15 cities in India. In Fiscal 2019, 2020 and 2021, they opened 12, 11 and 2 new Vaango outlets in India. They place emphasis on ensuring that they procure high-quality raw materials and equipment, enabling them to provide quality products in an attractive environment in a timely fashion to their customers. Their Vaango stores have an extensive menu featuring staple South Indian snacks such as dosas, idlis and vadas.

Promoters and Management: Their operations are conducted by a well-qualified and experienced management team that has significant experience in all aspects of the business. Each brand, whether owned or otherwise, that are operated have a dedicated team responsible for developing and delivering a superior brand experience. The management team is led by their Whole-time Director (President & CEO), Virag Joshi, who has been a key strategist in expansion of Pizza Hut, KFC, Costa Coffee stores from a small base of five restaurants in 2002 to over 600 stores in the last 19 years. Their management team also comprises Manish Dawar, Wholetime Director and Chief Financial Officer.

Rajat Luthra, CEO – KFC and Amitabh Negi, CEO – Pizza Hut, who have extensive experience in various sectors including FMCG, F&B and hospitality. The strength and quality of the management team and their understanding of the F&B industry enables them to identify and take advantage of strategic market opportunities. The promoters of the company are Ravi Kant Jaipuria, Varun Jaipuria and RJ Corp.

Board of Directors: The Board comprises individuals from various fields of finance and business with varied and diverse experience. Ravi Kant Jaipuria, one of the Promoters and Non-Executive Director on the Board, has over three decades of experience in conceptualizing, executing, developing and expanding food, beverages and dairy business in South Asia and Africa. He also has an established reputation as an entrepreneur and business leader and was awarded with the ‘Distinguished Entrepreneurship Award’ at the PHD Chamber Annual Awards for Excellence 2018. The experience of the Independent Directors helps ensure transparency and accountability in their operations across diverse functional aspects and their inputs enhance quality of the company’s operations.

Strengths:

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

They 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 (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. (iii) Costa Coffee, a global coffee shop chain with over 3,400 coffee shops in 31 countries. They are the non-exclusive sole franchisee for KFC and Pizza Hut in Nepal, and for KFC in Nigeria. They are also a franchisee for Costa Coffee in India. In addition, they own and operate stores of certain other brands that include Vaango, Food Street, Masala Twist, Ile Bar, Amreli, and Ckrussh Juice Bar. Their Core Brands Business as well as their 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. The KFC brand is associated with its vibrant, contemporary store designs, and signature menu items. This has enabled it to grow into an aspirational brand in India with new store and product launches garnering significant attention and interest. Pizza Hut’s constant menu innovations and affordable pizza offerings make it a strong competitor in the Indian QSR industry, driving consumption of pizza as a regular meal rather than an occasional/ celebratory meal opportunity. They serve a wide range of customers across various price points. For example, for KFC they have worked with Yum to introduce innovative product offerings as well as a distinct value proposition, including ‘KFC Happy New Wednesdays’, ‘4 Value Burgers starting at ₹ 69’, ‘Chicken Buckets starting at ₹ 199’, ‘Zinger Tandoori Burger’, ‘Chicken Lollipops’ and ‘KFC Chizza’. Their Pizza Hut customers span all age groups and include children, young adults and families. For Costa Coffee, they offer various service formats including stores and kiosks. They believe that the longevity and global recognition of these Core Brands and related quality and value offerings resonate with customers. For KFC and Pizza Hut, they work closely with Yum to recognize and implement measures addressing customer feedback across various parameters including food taste, service and hospitality standards and overall satisfaction. For Costa, they consistently measure delivery of brand standards in stores to facilitate continuous improvement in store performance. They continue to invest in marketing the Core Brands. For KFC and Pizza Hut, they are required to spend 6.00% of their gross revenues per store (excluding applicable taxes), as agreed between Yum and Devyani International Ltd., for advertising, promotion and marketing activities.

➤ ***Multi-dimensional comprehensive QSR player***

They are a multi-dimensional comprehensive QSR player. Their close association with Yum together with their technical, marketing and operational expertise has enabled them to establish themselves as a comprehensive player in the QSR industry in India with expertise and control in all areas of operations. The QSR channel has been rapidly growing in popularity in India, owing to factors such as rise in literacy, exposure to media, increase in disposable incomes, easier and greater availability and proliferation of internet. The sales value of the QSR channel is forecast to grow at a CAGR of 12.4% between 2020 – 2025. The parameters on which they focus include quality and safety, customer experience, digital adoption, delivery and their people and culture.

Quality and Safety

They are firmly committed to providing the highest level of food safety, hygienic food handling and quality product to their customers. All of their supplies and raw materials for KFC and Pizza Hut stores are procured from reputed and pre-approved suppliers who adhere to international safety norms. For instance, for their KFC stores they buy traceable chicken from certain FSSAI certified vendors only. Their Costa Coffee stores follow stringent food safety protocols including implementation of quality cards to check food quality while receiving from suppliers and procuring certain supplies.

Customer Experience

Their communication practices are aligned with consumer needs and preferences and are targeted at boosting overall customer experience across all their stores. For customers that prefer to order or adopt an ‘on-the-go’ approach, they ensure that their ordering and delivery experience is seamless and efficient. They continuously focus on brand recall and customer-connect through the extensive marketing campaigns of their Core Brands, including through social media, messaging and packaging of products.

Digital Adoption.

They have actively adopted tech-enabled enhancements to provide their customers with a personalized and enriched dining experience and to increase their operational efficiency. The digital ordering and payment technologies they have adopted for the brands they operate has allowed them to optimize staffing at their stores and reduce associated costs for ordering and cash management. For example, during the COVID-19 pandemic at KFC stores consumers began accessing menus using QR codes, along with making payments digitally. They are also focused on applying latest technologies to supply chain management and operations. They have an automated and integrated system where they are connected with various third parties including suppliers, food aggregators, third party riders, payment gateway service providers and messaging service providers. They work with Yum to leverage their technology platform to introduce global best practices as part of their operations.

Delivery.

They have the nonexclusive right to open and operate delivery-focused Pizza Hut stores in all of India (excluding Tamil Nadu). In response to the COVID-19 pandemic, KFC and Pizza Hut were among the earliest brands in India to roll out contactless delivery in May 2020 and June 2020, respectively. In May 2020, KFC introduced contactless takeaways from its restaurants. Consumers have been able to place an order that is prepaid on the KFC application, mSite, and website and collect the order. In June 2020, Pizza Hut adopted contactless dine-ins in its stores. They continue to optimize their delivery services by creating synergies between their stores and delivery services, leveraging their extensive store network to improve operating efficiencies and increase margins. In order to reduce risk of disease transmission while ensuring increase in delivery sales, they have introduced 'kerb-side delivery' where they deliver customers' orders directly to where they are parked within designated regions near their stores. They have deployed an integrated model working with third-party delivery aggregators to increase traffic and have dedicated riders for KFC or Pizza Hut orders originated from their own platform.

Culture and People.

All store level employees are trained as per modules provided by the Core Brands or otherwise and undergo various certification processes to improve efficiency and quality of customer service. They ensure diversity and inclusion in their operations and operate stores that are managed only by women and specially abled persons and their riders and delivery personnel include women riders. Their diversity driven measures have led them to be awarded as one of "India's 100 Best Workplaces for Women 2020" and as a "Great Workplace" in 2018, by the Great Place to Work Institute, India.

➤ **Presence across key consumption markets with a cluster-based approach**

They operated 655 stores across all brands and were present in 26 states and three union territories across 155 cities in India, as of March 31, 2021. They have a strong presence in key metro regions of Delhi NCR (comprising Faridabad, Ghaziabad, Gurgaon, Delhi and Noida), Bengaluru, Kolkata, Mumbai and Hyderabad. As of March 31, 2021, they had 304 stores of their Core Brands located in these five major metros in India. In 2020, the quick-service restaurant channel led the industry in terms of the number of transactions and number of outlets. QSRs are expected to lead the foodservice industry in terms of growth in the number of outlets, at a CAGR of 6.5% between 2020 and 2025. Over the years, they have been consistently increasing the number of their stores both organically and inorganically. Stores in their Core Brands Business increased from 469 stores as of March 31, 2019 to 605 stores as of March 31, 2021. Their expansion is driven by their ability to keep their costs low and implement economies of scale through operational leverage. With their cluster-based expansion approach, they have been able to address demand in high-potential domestic markets. As of March 31, 2021, 76.69% of the stores in their Core Brands Business, i.e. 464 stores were located across 40 key cities in India while 50.25% of the stores in their Core Brands Business, i.e. 304 stores were present across five regions in India, i.e. Bengaluru, Kolkata, Hyderabad, Mumbai and Delhi NCR (comprising Faridabad, Ghaziabad, Gurgaon, Delhi and Noida). Their 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. They assess the location of each store on the basis of a number of factors including demographics, footfalls, accessibility, parking, delivery potential, consumption patterns and population density of the local community and availability of other restaurants within the area. Their portfolio of brands in their Other Business also helps them scale up their store network. In assessing the expansion of their store network, they target an optimal mix across different formats, including dine-in, delivery, take-away and drive-thrus. Their cluster-based approach allows them to optimize and manage their supply chain and associated costs. For example, they 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. More stores in a particular area allows them to capitalize on economies of scale and results in lower operating costs per store and thereby ensuring higher unit-level profitability. In the cities in India that they currently operate KFC stores, they are the only franchisee of Yum to operate KFC stores, with the exception of captive markets (i.e. airports, railway stations) within the cities.

➤ **Cross brand synergies with operating leverage**

They have expanded their operations in the last few years and have opened 72, 50 and 111 stores under their Core Brands Business in Fiscals 2019, 2020 and 2021, respectively. In addition, they acquired 13, 9 and 51 KFC stores from Yum in Fiscals 2019, 2020 and 2021, respectively. They have been able to leverage substantial operating synergies across the brands they operate. They have streamlined business processes from conceptualization of their stores to execution of daily operations. Sourcing, warehousing and distribution of their raw materials is centralized for particular regions and across their Core Brands Business. This reduces the storage space required at their stores, thereby enabling them to minimize their store operating costs, without incurring significant additional expenses at the commissary level. The vehicles they deploy for the delivery of raw materials to their stores are common across the Core Brands Business and also for stores of brands that form part of their Other Business. These vehicles are refrigerated to ensure that the ingredients are supplied in a temperature-controlled environment, which is monitored during transit to ensure quality and minimize wastage. They procure bread and bakery products for stores of their Core Brands from commissaries. Their policy of centralized sourcing from an optimal number of vendors further facilitates cost efficiencies enabling them to reduce their costs. They believe that with their multiple brands taking space in specific locations, this allows them to negotiate competitive lease rentals for their stores. They have an internal review committee comprising members of their senior management that meets frequently to review all new store proposals including aspects such as store location, population in the proposed location, presence of competition, expected sales, expected brand contribution-store level and payback period. With their wide portfolio of brands and offerings, they are able to launch and operate smaller brands such as Vaango as they benefit from operating leverages derived from operating a wider brand portfolio. They believe they are able to negotiate competitive commercial terms for the locations of stores, leverage the supply chain and warehousing network of their Core Brands.

➤ **Disciplined financial approach with focus on cash flows and returns**

Their revenue from operations was ₹ 13,105.98 million in Fiscal 2019 and increased by 15.70% to ₹ 15,163.86 million in Fiscal 2020. Their revenue from operations was ₹ 11,348.38 million in Fiscal 2021. EBITDA for Fiscal 2019, 2020 and 2021 was ₹ 2,789.62 million, ₹ 2,554.84 million and ₹ 2,269.28 million, respectively. Their EBITDA Margins were 21.29%, 16.85% and 20.00%, respectively, in such periods. While their SSSG has been impacted on account of COVID-19, they have focused on improving the trend. As part of their commitment to cost containment, they undertake a ROI analysis prior to opening a store to determine the financial feasibility of the store. Their margin profile

is supported by their strong Brand Contribution Margins of their Core Brands Business. Their Brand Contribution for their Core Brands Business was ₹ 1,690.87 million, ₹ 1,585.71 million and ₹ 1,587.35 million in Fiscals 2019, 2020 and 2021, respectively.

Key Strategies:

➤ ***Strategically expand store network of their Core Brands Business***

They intend to continue to seek additional franchise opportunities for their Core Brands Business. In 2021, QSRs are expected to witness a better recovery compared to other channels, owing to their better suitability for takeaways. Investments of operators in expansion and technology will also drive the growth. They intend to increase their store network by implementing new-store roll out process and their cluster approach and penetration strategy with respect to store location, while aiming to achieve an optimal mix across different types of restaurant formats in order to drive footfalls and compete effectively. As they expand their store network, they also intend to expand in new areas and markets where there is strong potential for growth.

KFC and Pizza Hut

Their 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 they intend to focus their efforts on increasing their geographic footprint in both existing and new cities to capitalize on the growing market opportunity in India for QSR restaurants. In Fiscals 2019, 2020 and 2021, they opened 60, 46 and 107 new stores of KFC and Pizza Hut. In addition, they acquired 13, 9, and 51 KFC stores from Yum across five states in India in Fiscals 2019, 2020 and 2021, respectively. Under the terms of arrangements entered into between the Company and Yum, the company is required to open certain additional number of KFC and Pizza Hut stores in India in the coming years. Their focus for Pizza Hut will be to move toward smaller store formats with a focus on delivery.

Costa Coffee

The coffee and tea channel is expected to grow at a CAGR of 15.0% between 2020 and 2025, primarily due to rising average transaction prices and transaction numbers. Future growth in this segment is attributed to rising demand from the young population, rapid urbanization, business culture, and western lifestyle. The company has recently entered into a non-binding Costa Term Sheet, pursuant to which they intend to amend the terms of the Costa IDA. Subject to entering into a definitive agreement with Costa International Limited, they intend to develop stores across multibusiness formats and explore new store formats including different store designs or service models aimed at addressing the needs of different customers and less capital-intensive models. They also intend to expand their stores in a manner that will ensure a better payback. These include developing smaller stores that are delivery and take-away focused.

➤ ***Continue to improve unit-level performance***

Their endeavor will be to manage unit economics and achieve economies of scale. They believe that with further cost efficiencies they will be able to expand their store level profitability and Brand Contribution Margins. The growth of their stores will allow them to apportion fixed overheads costs such as brand building and administrative expenses across their store network which will improve their Brand Contribution Margins. In parallel, they have been able to rationalize certain stores that were loss-making to improve their overall store level profitability. Store rationalization will also help improve their margins going forward. Their large store network coupled with their supply chain infrastructure will allow them to improve their gross margins. 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. They believe these advantages will improve their operational performance. Going forward, they intend to work with Yum to re-engineer their menus and introduce high margin offerings aligned to target groups for home consumption. They also intend to switch from frozen supplies to chilled supplies which will reduce transportation and storage costs. They will continue to focus on innovation and strengthen their value proposition of innovative product offerings. For instance, they have recently introduced a biryani offering and value burgers as part of their KFC offering. They also intend to launch targeted marketing campaigns for such value products. They intend to leverage their core menu items and work with Yum to introduce innovative menu items to meet evolving consumer preferences and local tastes, drive customer engagement and continue to broaden the brand appeal of their Core Brands. Their continued food innovation and value proposition will help enhance their unit level performance by driving order frequency and order ticket size.

➤ ***Focus on delivery channel for Core Brands***

Given the COVID-19 pandemic, they anticipate considerable growth in the delivery business. Revenue from their delivery channels (including takeaways) have grown over the last few years. Revenue generated from delivery sales represented 51.15% of their revenue from operations in their Core Brands Business in Fiscal 2020 and increased to 70.20% of their revenue from operations in their Core Brands Business in Fiscal 2021. They intend to continue to create synergies between stores of their Core Brands and the delivery services by taking advantage of their extensive store network to improve efficiency and increase margins. To facilitate this strategy, they intend to open additional stores for Pizza Hut and KFC that will be primarily focused on delivery. Their focus going forward will be to have limited dine-in capacity at their delivery focused stores. In addition to taking advantage of the growing online delivery market they also intend to engage further with delivery aggregators. They intend 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 their ability to make timely deliveries. They also have the non-exclusive right to open and operate delivery-focused Pizza Hut stores in all of India (excluding Tamil Nadu), and this will enable them to grow their delivery business further. They intend to collaborate further with Yum to provide data analytics on riders and route information to optimize business cycles and improve scheduling efficiency of riders.

➤ ***Invest in technology and focus on their digital capabilities***

They intend to continue investing in technology to maintain their competitive advantage. They will focus on improving their overall technology infrastructure including digital and delivery capabilities. They believe these efforts will further support their sustainable growth, improve their operational efficiency and ensure quality. Going forward, they will continue to leverage their digital ecosystem to drive sales, improve the guest experience and increase operational efficiency. They plan to increase their investment in end-to-end digitalization, automation, artificial intelligence and machine learning, to connect online traffic with their offline assets effectively. For

instance, they intend to work with Yum to introduce chat bots as part of the website and mobile application to enhance customer service. To improve their operational efficiency, they will focus on connecting their front-end, guest facing systems to back-end systems such as operations and supply chain. They are working with Yum to improve their technology platform and further integrate their systems with Yum's platform to ensure greater operational efficiency. Going forward, they will continue to optimize their delivery service by adopting innovative technologies and developing new delivery service concepts.

Industry Snapshot:

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. The number of transactions is expected to grow by an even higher rate of 6.9% in the period between 2020 and 2025. While both dine-in and take-away/ delivery transactions are expected to grow during this period, deliveries are projected to grow at a higher rate compared to dine-ins. For instance, in the ice-cream parlour channel, take-away is projected to grow by a robust CAGR of 40.6%, compared to 6.9% for dine-ins, from 2020 to 2025. Concurrently, food delivery applications, such as Zomato and Swiggy, are expected to play an even more prominent role during the forecast period, and the pandemic has amplified their role in the ecosystem. The number of outlets is expected to grow at a CAGR of 4.5% in the period between 2020 and 2025. Growth in the quick service restaurant ("QSR") channel, supported by urbanization and increasing exposure of the youth to these food types, is expected to play a key role in the overall growth of the foodservice industry. The total foodservice revenue is expected to grow to ₹17,220.3 billion (US\$219.4 billion) in 2025, registering a strong CAGR of 15.5% from 2020 to 2025.

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.

Adapting to Evolving Consumer Preference

An overview of some of the key players are as follows:

- **Yum's Contactless Ordering**
KFC, in May 2020, introduced contactless takeaways from its restaurants. Consumers have been able to place an order that is prepaid on the KFC application, mSite, and website and walk in. In June 2020, Pizza Hut adopted contactless dine-ins in its stores. Consumers began accessing menus using QR codes, along with making payments digitally.
- **Domino's Vegan Launch**
In December 2020, Domino's introduced 'The Unthinkable Pizza', a plant-protein based Pizza. According to the company, the pizza is 100% vegetarian but mimics the sensory properties of chicken. This launch is in line with the company's attempt to cater to evolving trends across the world. Though veganism is still niche, with just 6% of Indian respondents following this diet, 59% of respondents stated that they find plant-based alternatives for poultry to be very/ somewhat appealing. Moreover, as many as 60% of survey respondents specified that they would be encouraged to follow a plant-based alternatives for 'health' factors.
- **Barbeque Nation's Meal-in-box**
In 2020, adapting to the new normal, Barbeque nation launched "Barbeque in a Box", by partnering with Swiggy and Zomato to deliver a specially curated meal box at doorstep or take away from any outlet.
- **Chai Point's Vending Machines**
Chai Point announced the launch of its contactless vending machine business as the need for hygiene and social distancing takes center stage amid the pandemic. Chai Point intends to cover both beverages and packaged snacks through its vending business.
- **Social's DIY Meal Kits**
Restaurants are aiming to provide consumers at home an experience that is closer to dining at a restaurant. By offering DIY kits, which contain food ingredients and cooking instructions, restaurants are enabling consumers to recreate their signature dishes at home. These offerings are aimed at attracting consumers who seek a change from eating food from home-delivered plastic/ cardboard packages. Several operators, such as, Rebel Food, Smoke House Deli, ITC Hotels, O Pedro, 1441 Pizzeria, The Sassy Spoon, SOCIAL, Sequel, Le15, Impresario Handmade Restaurants, in India have adopted this strategy.
- **Cloud Kitchen**
With the growing demand of online orders for food, India has been witnessing a rise in kitchens that are designed for processing deliveries only, without any separate dine-in space. Amid the pandemic, when people are refraining from dining in and are increasingly preferring home delivery of food, cloud kitchens' demand has been accelerating.

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 industry.

Key Risk:

- The impact of the pandemic on their operations in the future, including its effect on the ability or desire of customers to dine in stores, is uncertain and may be significant and continue to have an adverse effect on their business prospects, strategies, business, operations, their future financial performance, and the price of their Equity Shares.

- They rely on their arrangements with Yum for their KFC and Pizza Hut stores that comprise a significant majority of their business, and a termination of or inability to renew these arrangements, will have a material adverse effect on the business, results of operations and financial condition.
- They rely on the Costa IDA with Costa for their Costa Coffee stores and a termination of or material modification to the existing terms of the Costa IDA will materially and adversely affect their ability to continue their Costa business and operations and their future financial performance.
- The business depends on the continued success and reputation of the Core Brands globally, and any negative impact on these brands, or a failure by the company or owners of the Core Brands to protect these brands, as well as other intellectual property rights and proprietary information, may adversely affect the business, results of operations and financial condition.
- Any adverse development in relation to the relationship with as well as performance of third-party food delivery aggregators, may adversely affect the business, results of operations and financial condition.
- Real and perceived health concerns arising from food-borne illnesses, epidemics, quality or other negative foodrelated incidents could have a material adverse effect on the business, results of operations and financial condition.

Comparison with Listed Industry Peers

Name of Company	Face Value (Rs. / Share)	P/E	EPS	RoNW (%)	NAV (Rs. Per Share)
Devyani International Limited	1.0	*	(0.50)	(48.52)	1.03
Peer Group					
Jubilant FoodWorks Limited	10.0	132.93	21.22	24.95	85.02
Westlife Development Limited	2.0	(6.38)	(6.38)	(20.66)	30.89
Burger King India Limited	10.0	(2.87)	(2.87)	(27.80)	10.31

Valuation:

At the upper end of the IPO price band, Devyani International Ltd. is offered at 9.5x market capitalization / sales as per FY21 financial statement, compared to peers like Jubilant Foodworks Ltd. (15x), Westlife Development Ltd. (8.8x), Burger King India Ltd. (14x).

We believe the company remains well placed for long term growth considering the company's portfolio of recognized global brands catering to a range of customer preferences, cross brand synergies, expansion of store network and EBITDA positive earnings; we give this IPO a "**Subscribe**" rating.

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Ratings Guide (12 months)	Buy	Hold	Sell
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Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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