

# Devyani International Limited



# Devyani International Limited

**Issue Opens On**  
August 4, 2021

**Issue Closes On**  
August 6, 2021

**Price Band (INR)**  
86-90

**Issue Size (INR Cr)**  
1838

**Rating**  
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**Devyani International Limited or "DIL"** is the largest franchisee of Yum Brands in India and is amongst the largest operators of chain quick service restaurants in India and are among the largest operators of chain quick service restaurants ("QSR") in India on a non-exclusive basis, and operate 696 stores across 166 cities in India, as of June 30, 2021. In addition, DIL is a 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 other operations in the F&B industry, including stores of their own brands such as Vaango and Food Street.

## OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	20,42,22,219
Net offer (# shares)	20,42,22,219
Price band (INR)	86-90
Post issue MCAP (INR Cr.)	10,823

Source: IPO Prospectus

Issue	# Shares	INR in Cr	%
QIB	15,27,54,164	1374.8	75%
HNI	3,05,50,333	274.95	15%
Retail	2,03,67,222	183.3	10%
Employee	5,50,000	4.95	-
<b>Net Offer</b>	<b>20,42,22,219</b>	<b>1838</b>	<b>100%</b>

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	August 6, 2021
Finalization of Basis of Allotment with Stock Exchange	On or about 11 <sup>th</sup> Aug 2021
Initiation of Refunds	On or about 12 <sup>th</sup> Aug 2021
Credit of Equity Shares to Demat accounts	On or about 13 <sup>th</sup> Aug 2021
Commencement of Trading of Equity shares on NSE	On or about 16 <sup>th</sup> Aug 2021

Source: IPO Prospectus

Objects of the Offer: Fresh Issue (INR 440 Cr.) and Offer for Sale (INR 1398 Cr.)
Repayment/prepayment of all or certain borrowings (INR 324 Cr.)
General corporate purposes [●]
6,53,33,330 Equity shares by Dunearn Investments (INR 588 Cr.)
9,00,00,000 Equity shares by RJ Corp. (INR 810 Cr.)

Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	75.79%	67.99%
Others	24.21%	32.01%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Source: IPO Prospectus

Particulars (In INR Cr)	FY19	FY20	FY21
Revenue	1310.6	1516.4	1134.8
EBITDA	254.2	251.6	178.9
EBITDA Margin (%)	19.4%	16.6%	15.8%
PAT	-94.1	-121.4	-63
PAT Margin (%)	-7.8%	-8%	-5.6%
Net Worth	-70.2	-189.1	113.8
NAV (Rs)	-0.66	-1.78	1.03

Source: IPO Prospectus

# Devyani International Limited

## Company Overview

**Devyani International Limited** or “DIL” began its relationship with Yum in 1997, when DIL commenced operations of its first Pizza Hut store in Jaipur. DIL has subsequently continued to expand its 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. DIL operated 284 KFC stores and 317 Pizza Hut stores in India as of June 30, 2021. In the Core Brands Business, DIL has extensive presence in 26 states and three union territories 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, DIL is a 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 other operations in the F&B industry, including stores of their own brands such as Vaango and Food Street.

DIL’s business is broadly classified into three 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 certain other operations in the F&B industry, including stores of our own brands such as Vaango and Food Street (“Other Business”).

Revenue from the Core Brands Business, together with the International Business, represented 83.01%, 82.94% and 94.19% of DIL’s revenue from operations in Fiscals 2019, 2020 and 2021, respectively. DIL has been consistently expanding its store network over the years. Stores in its 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 ongoing COVID-19 pandemic, DIL has continued to expand its store network and in the six months ended March 31, 2021, DIL opened 109 stores in the Core Brands Business.

### Network of stores across verticals

Business Verticals		FY 21	FY20	FY19
<b>Core Brands Business</b>	<b>Total</b>	<b>605</b>	<b>504</b>	<b>469</b>
	KFC	264	172	134
	Pizza Hut	297	269	268
	Costa Coffee	44	63	67
<b>International Business</b>		37	35	33
<b>Other Business</b>		50	71	64

Source: IPO Prospectus

## Industry Overview

The Indian food services profit sector generated a total revenue of INR 8,366.6 billion (US\$117.5 billion) in 2020, growing at a CAGR of 1.9% from INR 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.

The number of transactions is expected to grow by an even higher rate of 6.9% in the period between 2020 and 2025. 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. DIL is among the single largest QSR companies in India that is listed on the Swiggy platform, and is among the largest QSR companies in India listed on the Zomato platform in CY 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.

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.

The quick-service restaurant channel has been rapidly growing in popularity in India, owing to factors such as rise in literacy, exposure to media, increase in disposable incomes, and easier and greater availability. Affordability has also been a key factor.

# Devyani International Limited

## INVESTMENT RATIONALE

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

DIL operates 696 stores across all brands and are present in 26 states and three union territories across 166 cities in India, as of June 30, 2021. DIL has strong presence in key metro regions of Delhi NCR (comprising Faridabad, Ghaziabad, Gurgaon, Delhi and Noida), Bengaluru, Kolkata, Mumbai and Hyderabad. Over the years, DIL been consistently increasing the number of our stores both organically and inorganically. With its cluster-based expansion approach, DIL has been able to address demand in high-potential domestic markets.

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

DIL operates franchises of several highly recognized global QSR brands and are the largest franchise partner for Yum in India. DIL is the non-exclusive sole franchisee for KFC and Pizza Hut in Nepal, and for KFC in Nigeria and is also a franchisee for Costa Coffee in India. DIL serves a wide range of customers across various price points. DIL is able to consolidate its leadership position in the QSR segment in India by leveraging its Core Brands, increasing brand recognition for Other Business, innovative product offerings, digital offerings, delivery capabilities and robust supply chain management system.

### Improving Same Store Sales Growth (SSSG)

The SSSG has been impacted on account of COVID-19 but DIL has focused on improving the trend which is reflected in the performance of Core Brands Business in Q4FY21.

## SSSG and Brand Contribution for Core Brands Business

Particulars	SSSG(%)			SSSG(%)
	2018-19	2019-20	2020-21	Q4 2020-21
<b>SSSG</b>				
KFC	4.65%	3.15%	(33.69%)	19.62%
Pizza Hut	4.67%	(3.68%)	(30.25%)	13.4%
Costa Coffee	2.72%	(4.38%)	(61.64%)	(24.89%)
<b>Brand Contribution (INR in Cr)</b>				
KFC	85.4	97.3	118.2	57.5
Pizza Hut	65.5	43.9	37.2	15.7
Costa Coffee	18.2	17.4	3.3	2.6
<b>Brand Contribution - Core Brands Business</b>	<b>169.1</b>	<b>158.6</b>	<b>158.7</b>	<b>75.8</b>

Source: IPO Prospectus

### Experienced Promoters and management team with strong domain expertise

DIL benefits from an experienced and hands on promoter responsible for putting best-in-class processes, suitably supported by professional management team & specialized employees. 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.

DIL's operations are conducted by a well-qualified and experienced management team that has significant experience in all aspects of its business. Each brand DIL operates has a dedicated team responsible for developing and delivering a superior brand experience. The management team is led by 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.

### Multi-dimensional comprehensive QSR player

DIL is a multi-dimensional comprehensive QSR player. DIL's close association with Yum together with its technical, marketing and operational expertise has enabled it to establish itself as a comprehensive player in the QSR industry in India with expertise and control in all areas of operations. DIL focuses on key parameters including quality and safety, customer experience, digital adoption, delivery and its people and culture.

# Devyani International Limited

## Forward Strategy

- **Strategically expand store network of the Core Brands Business**

DIL intends to continue to seek additional franchise opportunities for its Core Brands Business. In 2021, QSRs are expected to witness a better recovery compared to other channels, owing to their better suitability for takeaways. DIL intends to increase the store network by implementing its defined new-store roll out process and its 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 DIL expands its store network, the company also intends to expand in new areas and markets where there is strong potential for growth.

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

The management believes that with further cost efficiencies DIL will be able to expand its store level profitability and Brand Contribution Margins. The growth of its stores will allow DIL to apportion fixed overheads costs such as brand building and administrative expenses across its store network which will improve the Brand Contribution Margins. DIL has been able to rationalize certain stores that were loss-making to improve its overall store level profitability. Store rationalization will also help improve the margins going forward. The continued food innovation and value proposition will help enhance its unit level performance by driving order frequency and order ticket size. Going forward, DIL intends to work with Yum to re-engineer its menus and introduce high margin offerings aligned to target groups for home consumption.

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

Given the COVID-19 pandemic, DIL anticipates considerable growth in the delivery business. Revenues from its delivery channels (including takeaways) have grown over the last few years. Revenue generated from delivery sales represented 51.15% of revenue from operations in its Core Brands Business in Fiscal 2020 and increased to 70.20% of revenue from operations in its Core Brands Business in Fiscal 2021. DIL intends to continue to create synergies between stores of its Core Brands and its delivery services by taking advantage of its extensive store network to improve efficiency and increase margins.

- **Invest in technology and focus on our digital capabilities**

DIL will continue to invest in technology to maintain its competitive advantage. The company will focus on improving its overall technology infrastructure including digital and delivery capabilities. DIL plans to increase its investment in end-to-end digitalization, automation, artificial intelligence and machine learning, to connect online traffic with its offline assets effectively. DIL is working with Yum to improve its technology platform and further integrate its systems with Yum's platform to ensure greater operational efficiency.

## Management

### Ravi Kant Jaipuria, Chairman and Non-Executive Director

Ravi Kant is a promoter of the Company and has over three decades of experience in conceptualizing, executing, developing and expanding food, beverages and dairy business in South Asia and Africa. He has an established reputation as an entrepreneur and a business leader and has received PepsiCo's award for International Bottler of the Year, awarded in 1997.

### Varun Jaipuria, Non-Executive Director

Varun attended Millfield School, Somerset, England and attended a degree course in international business from the Regent's University, London. He has 12 years of experience in the soft drinks industry and has also completed a program for leadership development at the Harvard Business School. He has been a Director on the Board since November 13, 2009.

### Raj Pal Gandhi, Non-Executive Director

Raj Pal has over 28 years of experience with one of the group companies (Varun Beverages Limited) and has been instrumental in strategizing the company's diversification, expansion, mergers and acquisitions, capex funding and institutional relationship.

### Virag Joshi, Whole-time Director (President & CEO)

Virag has been a key strategist in expansion of Pizza Hut, KFC, Costa Coffee outlets from a small base of five restaurants in 2002 to 600 plus outlets in last 19 years. He has been earlier associated with Indian Hotels Company Limited, Domino's Pizza India Limited, Milkfood Limited, and Priya Village Roadshow Limited.

### Manish Dawar, Whole-time Director and Chief Financial Officer

Manish is a Chartered Accountant and a member of the Institute of Company Secretaries of India. He has wide experience in various industry domains and across various geographies in the world. He has worked in various corporate setups including Reebok India, Reckitt Benckiser, Vedanta, DEN Networks Limited, and Vodafone India Limited.

# Devyani International Limited

## Outlook and Valuation:

DIL's topline in FY21 has been impacted largely due to Covid as QSRs are either closed entirely or operating on a limited basis, offering only takeout, pickup, delivery, drive-through, or some combination of those options. Revenues from operations for FY 21 have come in at INR 1135 Cr, compared to INR 1516 Cr and INR 1310 Cr for FY20 and FY19 respectively. EBITDA margin were also lower at 15.8% in FY21 compared to 16.6% and 19.4% respectively for the corresponding periods. DIL, however, managed to reduce losses last year by taking cost rationalization initiatives. DIL is taking various initiatives to improve company's performance including rightsizing stores, paying off debt from IPO proceedings, focusing on delivery which is a structural change in the industry, negotiating lease rental costs and store expansion.

We expect favourable economic scenario for businesses and economy after the pandemic recedes. Factors such as Rising per capita income, increasing internet penetration, urbanization, changing consumer preference and food habits, young population, business culture and western lifestyle are expected to play key role in growth of the industry. Digital and delivery penetration was already gaining momentum before the pandemic. Now, a transformation that was projected to take years is happening in just months.

In last one year the stock price of Jubilant Foodworks has given return of more than 100%, Westlife Development has given return of more than 50% and Burger King India has given more than 300% return from its IPO price. If we compare these companies on price to sales (on FY21 sales) Devyani International (price to sales 9.5x) is available at a discount to Jubilant Foodworks (price to sales 15x) and Burger King India (price to sales 14x) and almost at par with Westlife Development (price to sales 8.85x).

DIL is available at a discount to industry average and considering the performance of competition in a pandemic year investors should look to invest in Devyani International's IPO for listing gains as well as for long term opportunity it presents. Recent initiatives taken by DIL will help in increasing revenue however the economic recovery post Covid-19 is key for the QSR industry. Reports suggest organised restaurant business will take at least a year after the lockdown is lifted to recover from the Covid-19 pandemic as recovery would be gradual. Hence, we should remain watchful for the company's performance in next couple of years.

## Peer Comparison:

Company Name	CMP (INR)	Sales (INR Cr)	Mkt Cap * (INR Cr)	EPS (INR)^	P/E (x)	RoNW (%)
<b>Devyani International</b>	<b>(●)</b>	<b>1135</b>	<b>10823</b>	<b>(0.50)</b>	<b>(●)</b>	<b>(48.52)</b>
Jubilant FoodWorks Limited	3734	3312	49277	17.55	179.21	16.16
Westlife Development Limited	559	986	8714	(6.38)	NA	(20.66)
Burger King India Limited	186	494	7128	(5.47)	NA	(25.82)

Source: IPO Prospectus, KRChoksey Research ^ FY21 EPS \* Estimated at the upper band price of INR 90

## Risks and Concerns:

- The outbreak of the COVID-19 pandemic and its continuing impact on the business and operations has been significant. The impact of the pandemic on company's 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 company's business prospects, strategies, business, operations, company's future financial performance, and the price of their Equity Shares.
- The company relies on arrangements with Yum for its KFC and Pizza Hut stores that comprise a significant majority of company's business, and a termination of or inability to renew these arrangements, will have a material adverse effect on company's business, results of operations and financial condition.
- The company has incurred losses in Fiscals 2019, 2020 and 2021, resulting in erosion of our net worth. In the event company's net loss continues to increase, it may adversely affect company's business and financial condition.
- The company's Statutory Auditors have included certain adverse remarks/ qualifications/ matters of emphasis in the Audited Consolidated Financial Statements.
- There are outstanding litigation proceedings against the Company, Subsidiaries, Directors, and Promoters. Any adverse outcome in such proceedings may have an adverse impact on company's reputation, business, financial condition, results of operations and cash flows.
- Changes in consumer preferences and food habits as well as negative perception of the QSR industry could decrease the demand for company's products and have a material adverse effect on company's business, results of operations and financial condition.

# Devyani International Limited

## Financials:

Income Statement (INR Cr)	FY19	FY20	FY21
<b>Total Revenue from Operations</b>	<b>1310.6</b>	<b>1516.4</b>	<b>1134.8</b>
<b>EBITDA</b>	<b>254.2</b>	<b>251.6</b>	<b>178.9</b>
<b>EBITDA Margin (%)</b>	<b>19.4%</b>	<b>16.6%</b>	<b>15.8%</b>
Other Income	13.1	18.7	64.1
Depreciation	202.8	223.3	229.5
<b>EBIT</b>	<b>51.4</b>	<b>28.3</b>	<b>-50.5</b>
Interest expense	135.6	158.4	152.8
Exceptional Item	-13.1	-34.6	-56.9
<b>PBT</b>	<b>-92.8</b>	<b>-119.6</b>	<b>-64.1</b>
Tax	1.3	1.8	-1.1
Share of Profit / MI	0	0	0
<b>PAT</b>	<b>-94.1</b>	<b>-121.4</b>	<b>-63</b>
<b>EPS (INR)</b>	<b>-0.8</b>	<b>-1.1</b>	<b>-0.5</b>

Cash flow Statement (INR Cr)	FY19	FY20	FY21
Net cash flow from operating activities	277.8	300.7	239.6
Net cash flow used in investing activities	-167.7	-97.4	-358.6
Net cash flow generated from / (used in ) in financing activities	-127.8	-216.6	145.8
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>-17.7</b>	<b>-13.3</b>	<b>26.7</b>
Opening Cash and cash equivalents	44.3	26.6	13.2
<b>Closing Cash and cash equivalents</b>	<b>26.6</b>	<b>13.2</b>	<b>40.0</b>

# Devyani International Limited

Balance Sheet (INR Cr)	FY19	FY20	FY21
<b>ASSETS</b>			
Property Plant and Equipment	484.0	478.7	430.7
Capital work-in-progress	11.5	13.5	14.3
Other Intangible Assets	36.4	57.7	185.5
Goodwill	16.1	22.4	64.4
Loans & other financial assets - Non Current	57.1	67.4	60.3
Investment Properties	47.1	41.4	45.6
Right-of-use Assets	994.7	1035.1	666.0
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 & Cash Equivalents	26.6	13.2	40.0
Bank Balances	0.5	2.8	0.6
Other Current Financial Assets	9.6	16.5	24.8
Other current assets	24.3	21.3	20.2
<b>Total Assets</b>	<b>1807.5</b>	<b>1883.6</b>	<b>1668.4</b>
<b>LIABILITIES</b>			
Equity Share Capital	106.2	106.2	115.4
Reserves	-176.4	-295.3	-1.6
Net Worth	-70.2	-189.1	113.8
Non-controlling interest	-51.0	-39.1	-41.9
Borrowings - Non Current	332.5	340.2	359.4
Lease Liabilities	1124.1	1175.9	793.7
Provisions	13.8	11.6	16.9
Other non current liabilities	4.1	6.3	5.9
Borrowings - Current	67.7	90.5	21.1
Lease Liabilities	110.6	112.3	78.7
Trade Payables	136.8	163.2	161.9
Other current liabilities – financial	117.9	189.7	130.6
Other current liabilities	17.7	17.0	19.3
Provisions	3.2	4.4	8.3
Current Tax Liabilities	0.3	0.7	0.7
<b>Total Current Liabilities</b>	<b>454.2</b>	<b>577.8</b>	<b>420.7</b>
<b>Total Equity and Liabilities</b>	<b>1807.5</b>	<b>1883.6</b>	<b>1668.4</b>



# Devyani International Limited

## ANALYST CERTIFICATION:

I, Vikrant Kashyap (PGDBM-Finance & IT), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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