

## DEVYANI INTERNATIONAL LIMITED

....SUBSCRIBE

LKP

Devyani International Ltd (DIL) is the largest Franchisee of Yum Brand operating in more than 26 states and 3 union territories in India. The company is also amongst the largest operators of chain Quick Service Restaurants (QSR) on a non-exclusive basis in India. DIL operates brands such as KFC, Pizza Hut and Costa Coffee in India as well as in the International markets. DIL also owns and operates its own franchisees such as Vaango, Food Street, Masala Twist, Ile Bar, Amreli, and Ckrush Juice Bar in India.

DIL has over two decades of experience in this industry starting with only one store in 1997; it has now around 735 stores across India and international locations as on June'21. DIL was the single largest QSR company in India that listed on the Swiggy platform, and was among the largest QSR companies in India to be listed on the Zomato platform in the calendar years 2019 and 2020. Yum Brands Inc. operates brands such as KFC, Pizza Hut and Taco Bell globally with more than 50,000 restaurants in over 150 countries, as of December 31, 2020.

DIL classifies its business broadly into three verticals which are Core Brands Business, International Business and Other business. Brands like KFC, Pizza Hut and Costa Coffee is considered as core brands which come under the Core Brand Business operated only in India. The International Business hosts operations of KFC and Pizza Hut franchisee in certain international locations such as Nepal and Nigeria. The last vertical is the Other Business which have operations in F&B industry comprising of own brands such as Vaango and Food Street.

Following the onset of COVID-19, DIL has increased focus on safety by introduction of contactless delivery and takeaway, ensuring greater cleanliness of stores, additional safety measures such as frequent sanitization and temperature checks. Among measures, it adopted to counter the effects of COVID-19 include re-developing menus to focus on delivery and takeaway options. DIL also introduced measures to reduce fixed and variable costs and sought rental waivers from store landlords and lessors. The company has also rationalized certain loss-making stores to ensure that it continues to maintain a profitability position and strong financial performance. Amidst the pandemic, DIL has continued to expand their store network and in the 6 months ended March 31, 2021, they opened 109 stores in their Core Brands Business. The QSR companies have grown the fastest among the Food Service industry at 5.5% CAGR during FY2015-20 and it is expected to grow at a much faster rate of 12.4% over FY2020-25. DIL has posted revenue of ₹1,323.68 crs, ₹1,535.04 crs. and ₹1,198.90 crs. in FY19, FY20 and FY21 respectively.

## Objects of the Issue

Particulars	Amount (₹ Crs)
Repayment/prepayment of borrowings	324
General corporate purposes	[●]
Total	[●]

## Issue Details

Fresh issue of Equity Shares aggregating upto ₹440 Crores and Offer for sale of 155,333,330 Equity Shares

## Issue Highlights

Issue Size:	₹ 1,776 – 1,838 Cr
No. of Shares:	206,496,120 – 204,222,218
Face Value:	₹ 1/-
Price Band:	₹ 86 - 90
Bid Lot:	165 Shares and in multiple thereof
Post Issue Implied Market Cap :	₹ 10,361 – 10,823 Cr
Issue Opens On:	Wednesday, 4th Aug'2021
Issue Closes On:	Friday, 6th Aug'2021
GCBRLMs:	Kotak Mahindra Capital, CLSA India, Edelweiss Financial
BRLMs:	Motilal Oswal
Registrar:	Link Intime India Pvt. Ltd.
Listing :	BSE & NSE

## Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	11-08-2021
Refunds/Unblocking ASBA Fund	12-08-2021
Credit of equity shares to DP A/c	13-08-2021
Trading commences	16-08-2021

## Issue break-up

	No. of Shares (Approx)	₹ In Cr	% of Issue
QIB	154,459,590- 152,754,165	1,328-1,375	75%
NIB	30,891,918 – 30,550,832	266-275	15%
Retail	20,594,612 – 20,367,221	177-183	10%
Emp	550,000 – 550,000	4.73 -4.95	-
Total	206,496,120–204,222,218	1,776-1,838	100%

## Shareholding (No. of Shares)

Pre issue	Post issue *	Post issue #
1,153,634,990	1,204,797,780	1,202,523,878

\* Lower price Band # Upper Price Band

## Shareholding (%)

	Pre-Issue	Post- Issue
Promoters & Promoter Group	75.79%	67.99%
Public	24.21%	32.01%
Total	100.00%	100.00%

### Strong Global Brands Portfolio

DIL operates franchises of several highly recognized global QSR brands and is the largest franchise partner for Yum in India. The Core Brands business of the company includes

- **KFC**, a global chicken restaurant brand with over 25,000 restaurants in over 140 countries, as of December 31, 2020.
- **Pizza Hut**, the largest restaurant chain in the world specializing in the sale of ready-to-eat pizza products. Pizza Hut operates in the delivery, carryout and casual dining segments around the world with 17,639 restaurants, as of December 31, 2020.
- **Costa Coffee**, a global coffee shop chain with over 3,400 coffee shops in 31 countries.

The company also owns and operates stores of certain other brands that include Vaango, Food Street, Masala Twist, Ile Bar, Amreli, and Ckrussh Juice Bar.

The company offers its customers 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.

DIL has a varied customer base across multiple price points. The company constantly works on improving the quality, offerings and value for the customers. For instance, for KFC the company 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'. The Pizza Hut customers span all age groups and include children, young adults and families. For Costa Coffee, DIL offers various service formats including stores and kiosks. We believe that the longevity and global recognition of these Core Brands and related quality and value offerings resonate with customers.



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

DIL has over the years increased its store count across locations focusing on cluster based expansion model. The company operated 696 stores across all brands having presence in 26 states and three union territories across 166 cities in India, as of June 30, 2021. The company has 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 and June 30, 2021, DIL had 304 stores and 323 stores, respectively, of the Core Brands located in these five major metros in India.

**Total number of operational stores of the Core Brands Business in the top 10 cities**

Top 10 Cities	2019	2020	2021
Bengaluru	23	30	80
New Delhi	67	70	54
Kolkata	39	39	42
Gurgaon	35	34	34
Noida	30	29	28
Hyderabad	16	25	32
Lucknow	18	18	19
Mumbai	20	16	15
Ghaziabad	13	12	12
Jaipur	9	9	9
Total	270	282	325

Source: Company RHP, LKP Research

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, the company has been consistently increasing the number of stores both organically and inorganically. The stores in the Core Brands Business increased from 469 stores as of March 31, 2019 to 605 stores as of March 31, 2021, and were 645 stores as of June 30, 2021. The expansion is driven by the company's ability to keep costs low and implement economies of scale through operational leverage. With cluster-based expansion approach of the company, they have been able to address demand in high-potential domestic markets. DIL 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. The company assesses 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.

Other factors that the company considers as part of the cluster based approach include retail presence at a particular location and the brand recognition and recall value of the Core Brands. In assessing the expansion of the store network, DIL targets an optimal mix across different formats, including dine-in, delivery, take-away and drive-thrus. The cluster-based approach allows the company to optimize and manage the supply chain and associated costs. For example, DIL looks 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 DIL 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 DIL currently operates 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.

Total Business			
Store Count		Mar-21	Jun-21
Core Brands		605	645
International		37	39
Others		50	51
<b>Total</b>		<b>692</b>	<b>735</b>

Core Brands				
Stores across India	Mar-19	Mar-20	Mar-21	Jun-21
KFC	134	172	264	284
Pizza Hut	268	269	297	317
Costa Coffee	67	63	44	44
<b>Total</b>	<b>469</b>	<b>504</b>	<b>605</b>	<b>645</b>

International Business			
Store Count		Mar-21	Jun-21
KFC - Nepal & Nigeria		32	34
Pizza Hut - Nepal		3	3
Other brands		2	2
<b>Total</b>		<b>37</b>	<b>39</b>

Other Business			
Store Count		Mar-21	Jun-21
Vaango		26	27

Regionwise Store Count – Core Brands			
		Mar-21	Jun-21
North Region		254	262
East Region		116	123
West Region		47	49
South Region		188	211
<b>Total</b>		<b>605</b>	<b>645</b>

Source: Company RHP, LKP Research

Regional Presence of Stores in India

Store Concentration	Mar-21	Jun-21
Stores in 40 Key Cities	464	486
% of Total Stores	76.69%	75.35%
Stores in 5 regions *	304	323
% of Total Stores	50.25%	50.08%

\* Bengaluru, Kolkata, Hyderabad, Mumbai and Delhi NCR (comprising Faridabad, Ghaziabad, Gurgaon, Delhi and Noida).



Source: Company RHP, LKP Research

**Cross Brand Synergies With Operating Leverage**

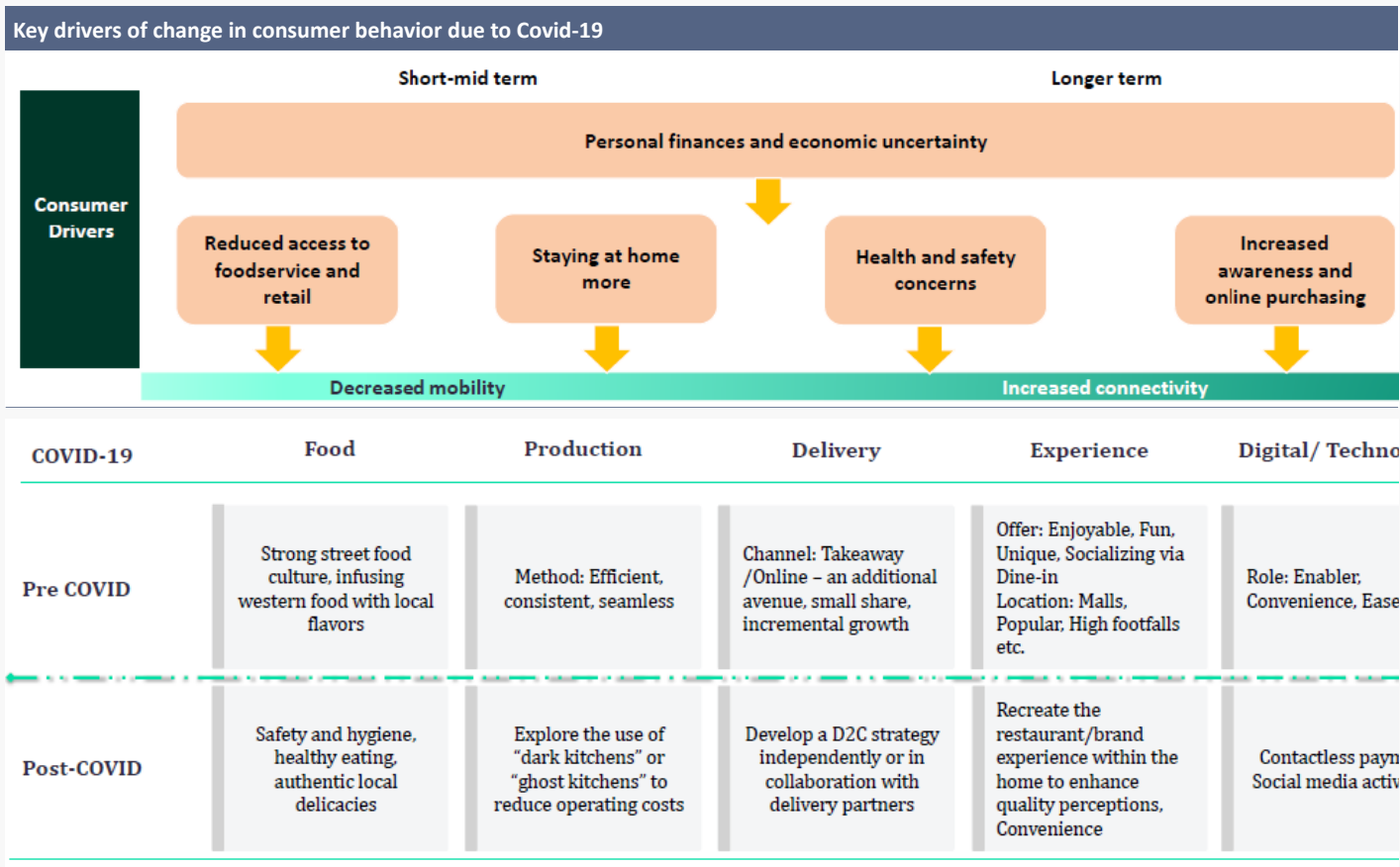
DIL has streamlined their business processes from conceptualization of the stores to execution of daily operations. The sourcing, warehousing and distribution of the raw materials is centralized for particular regions and across the Core Brands Business. This reduces the storage space required at stores, thereby enabling the company to minimize the store operating costs, without incurring significant additional expenses at the commissary level. The vehicles that the company deploys for the delivery of raw materials to the stores are common across the Core Brands Business and also for stores of brands that form part of the 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. DIL procures bread and bakery products for stores of the Core Brands from commissaries. The company policy of centralized sourcing from an optimal number of vendors further facilitates cost efficiencies enabling them to reduce the costs. We believe that with the multiple brands taking space in specific locations, DIL can negotiate competitive lease rentals for the stores.

DIL has an internal review committee comprising members of the 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 a wide portfolio of brands and offerings, the company is able to launch and operate smaller brands such as Vaango which benefits from operating leverages derived

from operating a wider brand portfolio. Also, the company is able to obtain competitive rates for raw materials given that they tap a common pool of suppliers and ensure consistency in service and delivery standards that the company has gained from operating stores of the Core Brands.

**Ability To Adapt Quickly To Changing Customer Needs**

Being in a consumer centric industry, DIL is required to stay abreast with the changing dynamics of the way the consumer requires food and the type of food. The onset of covid-19 has created a strong market for delivery based food services as compared to dine-in. The growing ease of ordering the food at the doorstep along with focus on quality, health and safety has forced the foods service companies to change their business models. DIL has been at the forefront to adopt these changes across its stores.



Source: Company RHP, LKP Research

DIL’s revenue from the delivery channels (including takeaways) have grown significantly over the last few years. The revenue generated from delivery sales represented 51.15% of the revenue from operations in the Core Brands Business in FY20 and increased to 70.20% in FY21. The company intends to continue to create synergies between stores of the Core Brands and their delivery services by taking advantage of an extensive store network. Going forward, to capitalize on this trend, the company intends to open additional stores for Pizza Hut and KFC that will be primarily focused on delivery. The company’s focus going forward will be to have limited dine-in capacity at delivery focused stores.

Apart from delivery, the company is also working towards creating a healthy and safe environment across its stores for the customer who prefers to dine-in at the stores during and post pandemic. DIL adopted contactless dining experiences and takeaways at the restaurants, with the help of technology. For instance, Pizza Hut, when it opened restaurants during the ‘unlock’ phase of the pandemic, enabled consumers to order using QR codes on their tables, through which they could order online. The channel is also focused on modifying their menus according to changing global trends and Indian eating habits.

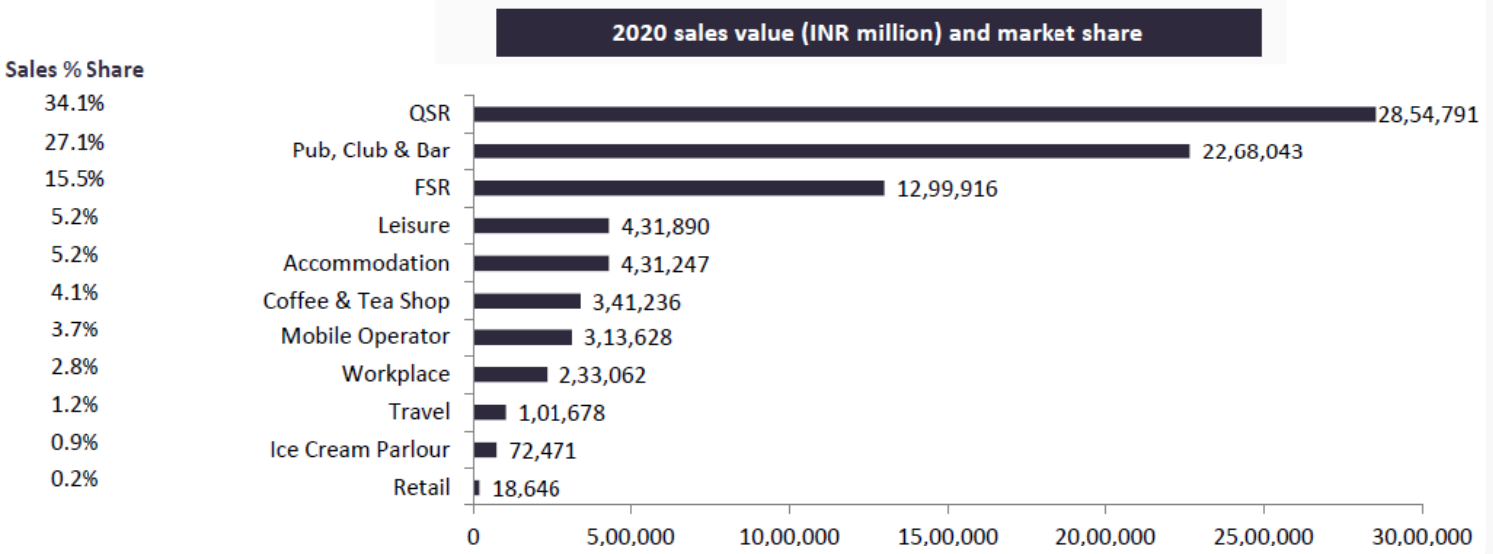
**Industry at a Glance**

The food service sector in India is expected to register a robust growth in coming years, on the back of a growing delivery ecosystem.

Measure	2015	2020	2025	CAGR	
				2015-20	2020-25
Value INR (crs)	2,18,924	2,85,479	5,13,062	5.50%	12.40%
Transactions crs)	4,979	6,002	8,378	3.80%	6.90%
Average transaction INR	43.97	47.57	61.24	1.60%	5.20%

Source: Company RHP, LKP Research

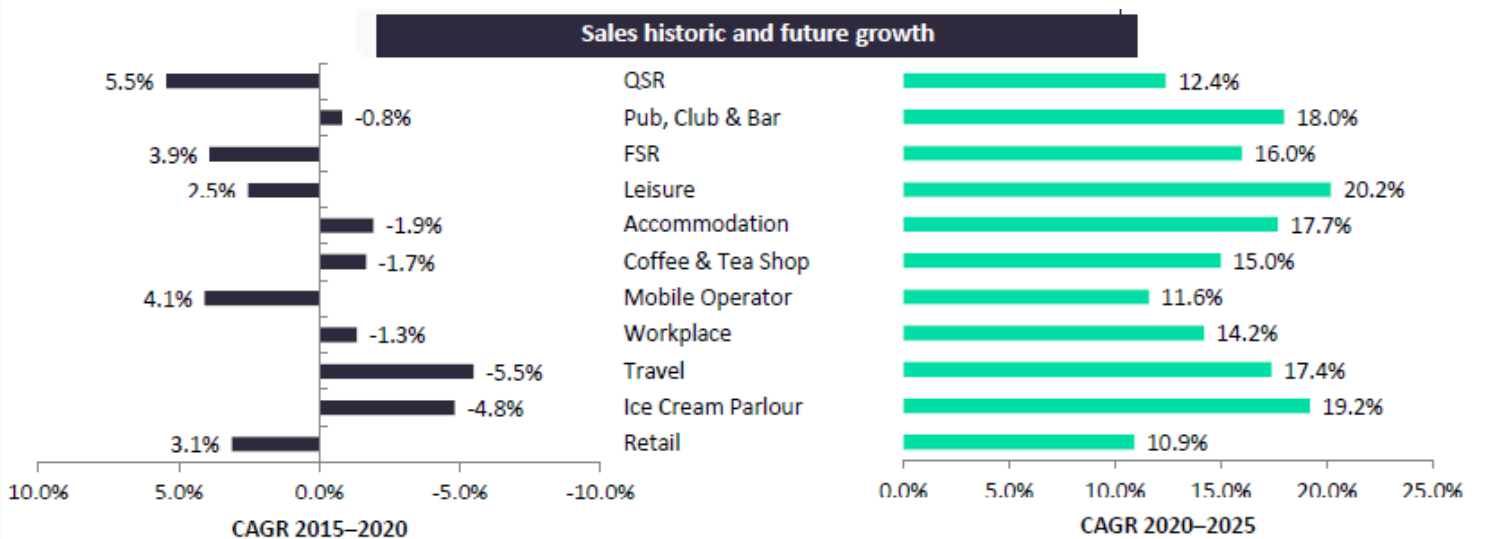
**QSR, pub, club and bar and FSR lead the India food service profit sector**



Source: Company RHP, LKP Research

In 2020, QSRs contributed more than half the number of transactions and the number of outlets among all foodservice channels.

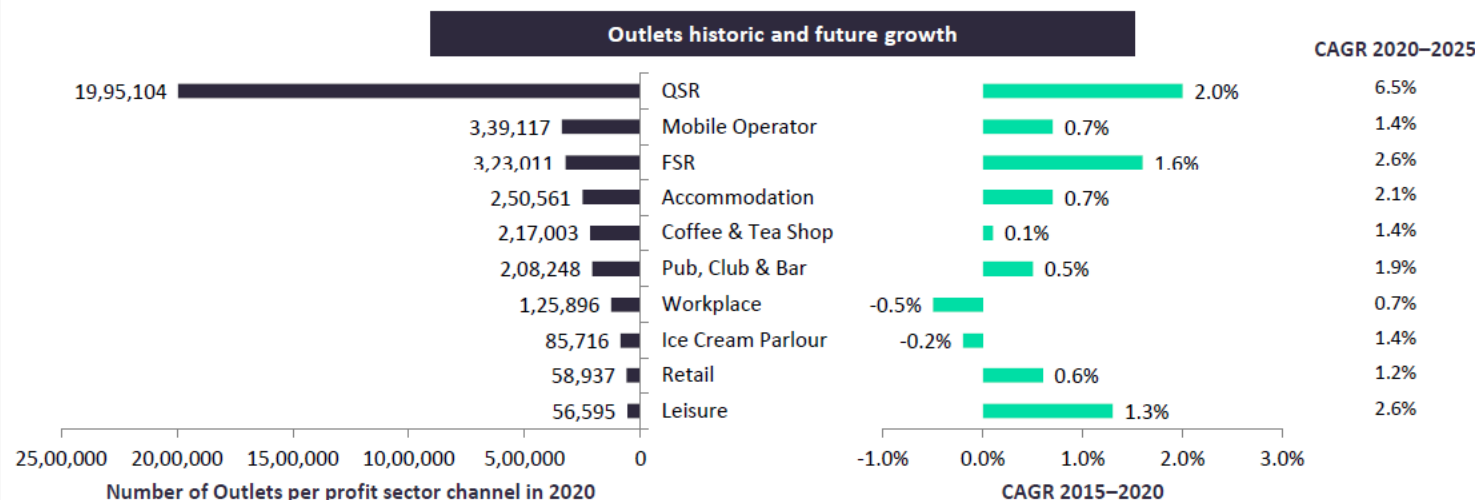
**All channels are expected to grow at robust rates in coming years, owing to the post pandemic economic rebound**



Source: Company RHP, LKP Research

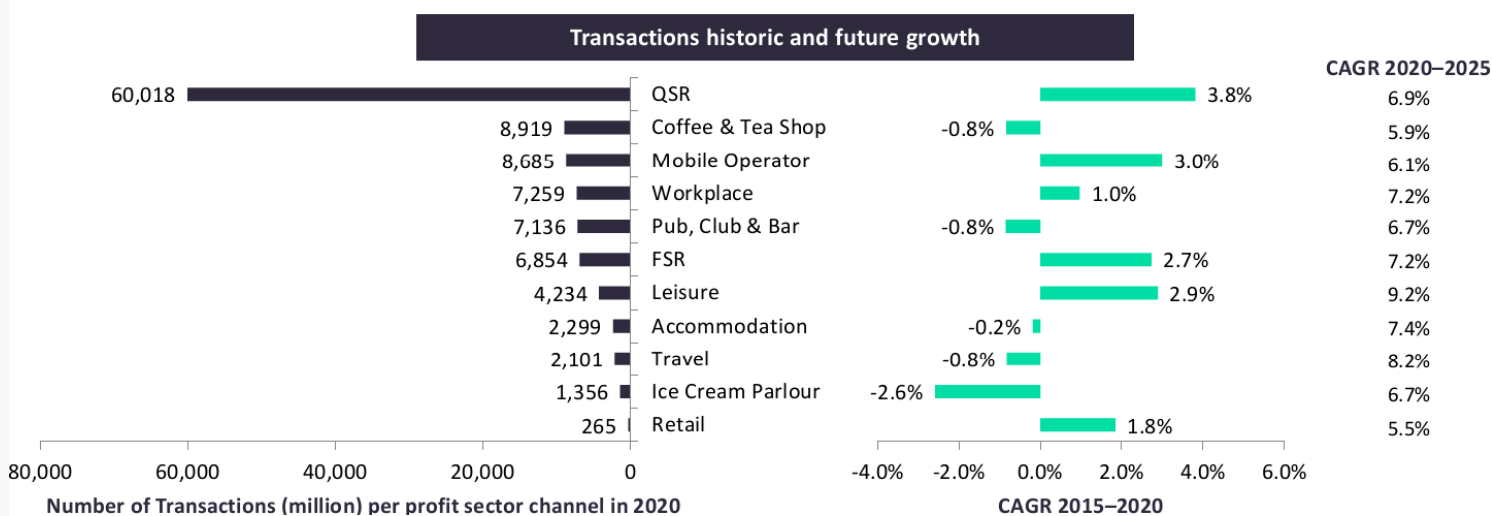


The quick service restaurant channel grew the highest among all foodservice channels



Source: Company RHP, LKP Research

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



Source: Company RHP, LKP Research

Key Players in the Industry

DIL has peers like Jubilant FoodWorks, Westlife Development and Burger King as its competitors.

Name of the company	Total Income (₹ in Crs)	FV (₹)	P/E	EPS(₹)	RONW(%)	NAV per equity share(₹)
<b>Devyani International</b>	<b>1,198.90</b>	<b>1</b>	<b>[●]</b>	<b>-0.5</b>	<b>-</b>	<b>1.03</b>
<b>Listed Peers</b>						
Jubilant FoodWorks	3,384.95	10	179.21	17.55	16.16	108.12
Westlife Development	1,030.33	2	NA^	-6.38	-	30.89
Burger King India	522.93	10	NA^	-5.47	-	17.59

Source: Company RHP, LKP Research



## Company Overview

Devyani International Ltd (DIL) is the largest franchisee of Yum Brand operating in more than 26 states and three union territories in India. The company is also amongst the largest operators of chain quick service restaurants on a non-exclusive basis in India. DIL operates brands such as KFC, Pizza Hut and Costa Coffee in India as well as in the International markets. DIL also owns and operates its own franchisees such as Vaango, Food Street, Masala Twist, Ile Bar, Amreli, and Ckrush Juice Bar in India. The company operates its business broadly under three verticals i.e. Core Brands, International Business and Other Business.

## Segmental Revenue

Particulars (₹ In Crs)	2019	2020	2021
<b>Core Brands</b>	<b>977.6</b>	<b>1,108.5</b>	<b>953.6</b>
Growth %		13.4%	-14.0%
% of Total	74.6%	73.1%	84.0%
<b>International</b>	<b>110.4</b>	<b>149.1</b>	<b>115.4</b>
Growth %		35.1%	-22.6%
% of Total	8.4%	9.8%	10.2%
<b>Other Business</b>	<b>217.8</b>	<b>253.5</b>	<b>59.9</b>
Growth %		16.4%	-76.4%
% of Total	16.6%	16.7%	5.3%
<b>Other operating revenue</b>	<b>4.9</b>	<b>5.2</b>	<b>6.0</b>
Growth %		7.2%	15.8%
% of Total	0.4%	0.3%	0.5%
<b>Total Revenue</b>	<b>1,310.6</b>	<b>1,516.4</b>	<b>1,134.8</b>
Growth %		15.7%	-25.2%

Source: Company RHP, LKP Research

## Core Brands Business

The Core Brands business is the largest vertical of the company with around 84% revenue share. The vertical comprise of core brands like KFC, Pizza Hut and Costa Coffee having operations in India. The company operated 645 stores of the Core Brands in India, comprising 284 KFC stores, 317 Pizza Hut stores and 44 Costa Coffee stores as on June'21 which increased from 605 stores, comprising 264 KFC stores, 297 Pizza Hut stores and 44 Costa Coffee stores as on March'21. DIL operates KFC and Pizza Hut stores based on various technology license agreements that Yum and the company entered into, and trademark license agreements between the company and Kentucky Fried Chicken International Holdings LLC and Pizza Hut International LLC. The company operates Costa Coffee stores based on the development agreement entered into with Costa. DIL has a strong 25 year long relationship with Yum, and Yum holds strategic equity in the company.

**Key Metrics – Core Brands**

Particulars (₹ In Crs)	2019	2020	2021
<b>Same Store Sales Growth (SSSG)</b>			
KFC	4.65%	3.15%	-33.69%
Pizza Hut	4.67%	-3.68%	-30.25%
Costa	2.72%	-4.38%	-61.64%
<b>Revenue from operations (₹ In Crs)</b>			
<b>KFC</b>	<b>464.11</b>	<b>609.13</b>	<b>644.26</b>
Contribution %	47.5%	55.0%	67.6%
<b>Pizza Hut</b>	<b>423.29</b>	<b>417.43</b>	<b>287.91</b>
Contribution %	43.3%	37.7%	30.2%
<b>Costa</b>	<b>90.20</b>	<b>81.96</b>	<b>21.40</b>
Contribution %	9.2%	7.4%	2.2%
<b>Total</b>	<b>977.61</b>	<b>1,108.52</b>	<b>953.57</b>
<b>Gross Margin (₹ In Crs)</b>			
<b>KFC</b>	<b>306.43</b>	<b>394.97</b>	<b>436.02</b>
Margin %	66.0%	64.8%	67.7%
<b>Pizza Hut</b>	<b>313.14</b>	<b>312.56</b>	<b>213.45</b>
Margin %	74.0%	74.9%	74.1%
<b>Costa</b>	<b>69.36</b>	<b>63.40</b>	<b>16.80</b>
Margin %	76.9%	77.3%	78.5%
<b>Total</b>	<b>688.93</b>	<b>770.92</b>	<b>666.27</b>
Margin %	70.5%	69.5%	69.9%

Source: Company RHP, LKP Research

**KFC India**

The KFC journey began in India with first store opened in 2005 at Kolkata. The company now operates around 284 KFC stores located in 21 states and two union territories, across 107 cities in India. The company operates two formats of 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 DIL currently operates 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. The 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. DIL operates the 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. The company enters into a KFC TLA and a KFC TMA for each store they open. Under the KFC TLAs, DIL is permitted to use the KFC restaurant formats, operating system and various standards, specifications, to operate their KFC stores, and under the KFC TMAs, the company is permitted to use the trademarks, copyrights, patents and other intellectual property under the KFC brand, that are required to operate the KFC stores.

KFC Presence in India



Source: Company RHP, LKP Research

Key financial and operational information on KFC Stores In India

Particulars	Annual			Quarter ended	
	2019	2020	2021	Dec-20	Mar-21
Stores	134	172	264	240	264
Cities	57	76	97	88	97
SSSG	4.65%	3.15%	-33.69%	-13.00%	19.62%
Revenue from Operations (₹ crs)	464.11	609.13	644.26	221.05	254.03
Average Daily Sales per store (₹)	1,13,852	1,16,740	1,00,270	1,12,237	1,18,498
Average Daily Transactions per store	284	286	197	220	238
Average Transaction Size (₹)	400.94	408.80	508.44	510.20	497.46
Brand Contribution* – Store Level	853.65	972.66	1,181.70	423.16	574.64
Brand Contribution – Store Level Margin	18.39%	15.97%	18.34%	19.14%	22.62%

\*Brand Contribution is calculated as revenue from operations at the store less (i) cost of materials consumed at the store; (ii) employee benefit expenses of employees at the store; and (iii) other expenses incurred at the store level.

Source: Company RHP, LKP Research

Being among the first international chains that entered the Indian QSR industry in 1996, the KFC brand is associated with its vibrant, contemporary store designs, and signature menu items. This has enabled KFC to grow into an aspirational brand in India with new store and product launches garnering significant attention and interest.

Marketing for KFC is carried out by Yum. DIL is required to spend (in accordance with Yum's directions) 6% of the 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%, DIL is required to contribute 5% to Yum, and spend 1% of the gross revenues per store, for localized/ store-based promotion and marketing activities.

### Pizza Hut India

Began in 1997 by opening first store in Jaipur, the company now operates 317 Pizza Hut stores located in 20 states and three union territories, across 106 cities in India. DIL mainly operates two formats of their Pizza Hut 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.

#### Pizza Hut Presence in India



Source: Company RHP, LKP Research

DIL operates the 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. The company enters into a PH TLA and a PH TMA for each store they open. Under the PH TLAs, DIL is permitted to use the Pizza Hut restaurant formats, operating system and various standards, specifications, to operate their Pizza Hut stores, and under the PH TMAs, the company is permitted to use the trademarks, copyrights, patents and other intellectual property under the Pizza Hut brand, that are required to operate the Pizza Hut stores.

Similar to KFC, DIL is also involved in various decision-making processes on key branding aspects of the company's Pizza Hut stores such as marketing campaigns, branding strategies, customer acquisition and retention strategies.

#### Key financial and operational information on Pizza Hut Stores In India

Particulars	Annual			Quarter ended	
	2019	2020	2021	Dec-20	Mar-21
Stores	268	269	297	273	297
Cities	83	82	100	89	100
SSSG	4.67%	-3.68%	-30.25%	-11.01%	13.40%
Revenue from Operations (₹ crs)	423.29	417.43	287.91	95.12	103.59
Average Daily Sales per store (₹ )	44,679	43,918	34,900	40,464	41,788
Average Daily Transactions per store	94	94	66	76	80
Average Transaction Size (₹)	476.25	466.96	530.22	532.19	519.54
Brand Contribution* – Store Level	655.48	438.96	372.44	153.57	156.69
Brand Contribution – Store Level Margin	15.49%	10.52%	12.94%	16.14%	15.13%

\*Brand Contribution is calculated as revenue from operations at the store less (i) cost of materials consumed at the store; (ii) employee benefit expenses of employees at the store; and (iii) other expenses incurred at the store level.

Source: Company RHP, LKP Research

Pizza Hut's constant menu innovations and affordable pizza offerings makes it a strong competitor in the Indian QSR industry, driving consumption of pizza as a regular meal rather than an occasional/celebratory meal opportunity.

Marketing for Pizza Hut is carried out by Yum. DIL is required to spend (in accordance with Yum's directions) 6% of the 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%, the company is required to contribute 5% to Yum, and spend 1% of the gross revenues per store, for localized/ store-based promotion and marketing activities.

#### Costa Coffee

The first Costa Coffee store in India opened in 2005 at Delhi and within span of fifteen years, the count has increased to 44 Costa Coffee stores located in eight states and one union territory, across 17 cities in India. DIL currently operate two formats of Costa Coffee stores, namely, our full retail stores at high-street locations and malls, and branded kiosks at airports, hospitals and food courts at highways.

DIL operates the Costa Coffee stores pursuant to an international development agreement entered into with Costa International Limited ("Costa") dated September 28, 2004, 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 the company opens is subject to the grant of a trading certificate/ operational agreement by Costa. The Costa IDA grants the company right to operate and maintain Costa Coffee stores developed by DIL using the Costa trade names and marks, and know-how, in certain territories in India. Under the Costa IDA, DIL is required to procure products for their Costa Coffee stores either from Costa or suppliers nominated/ approved by Costa. The Costa IDA provides the company with flexibility over the operations with respect to product innovation and development, menu architecture, product and services pricing, marketing initiatives, and management of the company's supply chain, subject to compliance with quality standards and specifications provided by Costa.

## Costa Coffee Presence in India



Source: Company RHP, LKP Research

## Key financial and operational information on Costa Coffee Stores In India

Particulars	Annual			Quarter ended	
	2019	2020	2021	Dec-20	Mar-21
Stores	67	63	44	45	44
Cities	16	18	17	17	17
SSSG	2.72%	-4.38%	-61.64%	-55.92%	-24.89%
Revenue from Operations (₹ crs)	90.20	81.96	21.40	7.61	8.53
Average Daily Sales per store (₹)	37,458	37,414	18,510	20,706	24,592
Average Daily Transactions per store	123	117	58	67	69
Average Transaction Size (₹)	304.35	319.10	320.23	306.82	357.76
Brand Contribution* – Store Level	181.73	174.09	33.21	27.11	25.81
Brand Contribution – Store Level Margin	20.15%	21.24%	15.52%	35.63%	30.27%

\*Brand Contribution is calculated as revenue from operations at the store less (i) cost of materials consumed at the store; (ii) employee benefit expenses of employees at the store; and (iii) other expenses incurred at the store level.

Source: Company RHP, LKP Research

The company is required to spend at least 2% of the gross sales of the 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

DIL has also forayed into the international markets by opening stores of KFC and Pizza Hut brands. The company has presence in Nepal and Nigeria with 39 stores of Core Brands outside India, comprising 34 KFC stores, three Pizza Hut stores and two stores another brand. DIL operates KFC and Pizza Hut stores in Nepal, and KFC stores in Nigeria, on a non-exclusive sole franchisee basis.

#### Breakdown of Revenue from operations and EBIDTA of the International Business

Particulars (₹ In Crs)	2019	2020	2021
<b>Revenue</b>			
Nepal	76.36	113.15	93.23
% of Total	69.2%	75.9%	80.8%
Nigeria	34.01	35.95	22.13
% of Total	30.8%	24.1%	19.2%
<b>Total</b>	<b>110.37</b>	<b>149.11</b>	<b>115.36</b>
Growth %		35.1%	-22.6%
<b>EBIDTA</b>			
Nepal	17.10	24.58	22.07
Margin %	22.4%	21.7%	23.7%
Nigeria	6.90	7.42	5.19
Margin %	20.3%	20.6%	23.4%
<b>Total</b>	<b>24.00</b>	<b>32.00</b>	<b>27.25</b>
Margin %	21.7%	21.5%	23.6%

Source: Company RHP, LKP Research

### Other Business

Apart from the core brands the company also owns and operates stores of other brands such as Vaango, The Food Street, Ile Bar, AMRELI, Ckrussh Juice Bar, among others. DIL operates these in the form of outlets within larger food courts in malls and airports.

### Store Opening Fees & Revenue Terms

For each store that DIL opens under the Core Brands Business, they are required to pay an initial fee. Under the KFC TLAs and Pizza Hut TLAs for stores opened in 2021, the company is required to pay US\$ 53,400 (subject to US CPI index) and US\$ 26,700 (subject to US CPI index) for each KFC store and Pizza Hut store opened, respectively. Under the Costa IDA, the company is required to pay a nominal fee for every Costa Coffee store opened. In addition:

- Under the KFC TLAs, the company is required to pay a continuing fee amounting to 6.30% of the revenues of each KFC store as consideration for the right to use the KFC restaurant formats and operating systems.
- Under the PH TLAs, the company is required to pay a continuing fee amounting to 6.30% of the revenues of each Pizza Hut store as consideration for the right to use the Pizza Hut restaurant formats and operating systems.
- Under the Costa IDA, the company is required to pay a franchisee fee amounting to 6.00% of the sales (excluding GST) of each Costa Coffee store as consideration for the right to sell coffee products and use the Costa brand.



## DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsc.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst 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.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.