



Devyani International

'Turned profitable'

BUY

Nov 24, 2021

Devyani International Limited (DIL), incorporated in 1991, operates a chain of franchised quick service restaurants in India, Nepal, and Nigeria. The company's core brands business include KFC, Pizza Hut, and Costa Coffee stores operated in India; International Business comprise KFC and Pizza Hut stores operated in Nepal and Nigeria. Other Business consists of its own brands, such as Vaango, and Food Street. As of Sept 30, 2021, its core brands business operated 705 stores, including 309 KFC stores, 351 Pizza Hut stores, and 45 Costa Coffee stores. Its international business operated 44 stores and Other Business operated 54 stores.

Investment Rationale

Rapid expansion to spur revenue growth

DIL has opened 111 new stores including 45 KFC stores, 54 Pizza Hut stores and 1 Costa store in H1 FY22 and is likely to open 100 more stores in H2 FY22. The company has targeted to open 200 new stores every year. We expect DIL to operate 470 KFC stores, 585 Pizza Stores, 75 Costa stores by FY24E. Average daily sales for new stores are likely to remain 10-20% lower than the old stores, while in 15-18 months period performance of the new stores improves to in-line with the new stores. With increased opening of new stores, the average revenue per store revenue is expected to decrease slightly over FY22-23 and improve gradually from FY24 onwards.

Margins expect to improve with successful transition to smaller store formats

DIL's average store size for KFC is 1500-1800 Sq Ft and Pizza Hut is 600-1000 Sq Ft. It has managed transition from large stores to smaller store formats without losing the average daily sales. It is expected to continue to expand with smaller stores at strategic locations and improve the rent to revenue ratio, thereby improving the margins.

DIL demonstrates strong performance in Q2FY22

The company has changed its employment model from fixed to variable model which has given a boost to the brand contribution margin. Along with this, post IPO the company's debt situation is improving which has let to a decline in interest cost. Thus, in Q2 FY22 DIL turned profitable with a PAT margin of 9%. Going forward, we expect EBITDA margin to be in the range of 20-22% and PAT margin to be in the range of 1-5% over FY22-24.

Favorable economic & industry scenario

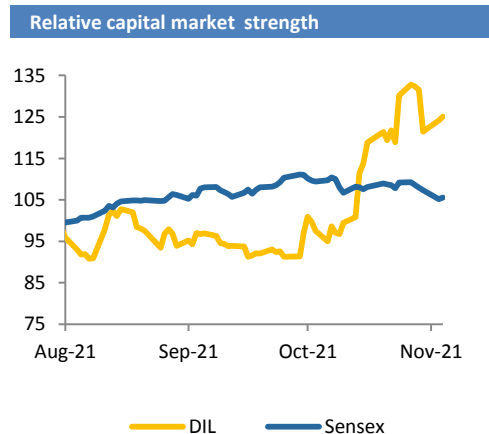
Post pandemic, the food industry has seen a shift of consumer preference moving towards organized players following higher hygiene standards. India has a large consumption market with underpenetrated quick service restaurants (QSR). The total value sales of quick-service restaurants in India stood at Rs.2,854.8 bn and is expected to grow by 12.4% CAGR over FY20-25. DIL being a key player in the QSR business is well placed to benefit from the favorable macro economic factors.

Outlook & Valuation

With increased focus towards core brands, opening of new stores in high street areas and incubation in new geographies, we expect the revenue from core brands to grow by 38.4% CAGR, international brands by 28.4% CAGR and other brands by 19.7% CAGR over FY22-24E. With improved contribution margin and lower interest cost, we expect the company to continue making profits in the coming fiscals. We assign 'Buy' rating on stock with target price of Rs.195 valuing the business at EV/EBIDTA 37x FY24E.

Rating matrix	
CMP	Rs. 153
Rating	BUY
Target Price	Rs. 195
Upside Potential	27.5%
52 week H/L	Rs. 171/ 107
Face value	Rs. 1
Mar. Cap.	Rs. 18,387cr
Category	Mid- Cap
Sector	Quick Services Restaurants

Shareholding Pattern	
Particulars	Sep'21
Promoters	62.9%
FPIs	7.9%
DIIIs	4.8%
Non. Inst.	24.4%

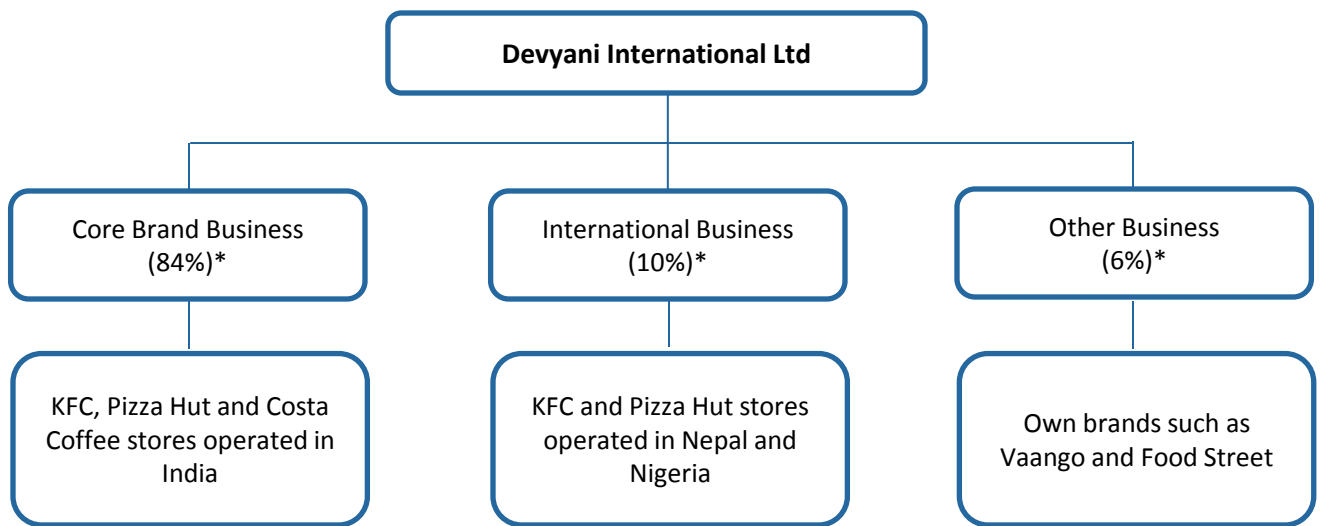


Particulars	FY21	FY22E	FY23E	FY24E
Revenue	1134.8	1902.0	2382.2	2957.8
EBIDTA	178.9	426.0	497.9	662.5
EBITDA Margin	15.8%	22.4%	20.9%	22.4%
PAT	-81.3	100.6	134.2	207.2
PAT Margin	-7.2%	5.3%	5.6%	7.0%
EPS		0.8	1.1	1.7
EV/EBITDA		43.3	36.9	27.7
P/S		9.7	7.7	6.2
ROE		16%	18%	21%
P/E		182.81	137.05	88.73

Source: Choice Broking Research

Business Overview:

Devyani International Ltd, incorporated in 1991, is the largest franchisee of Yum Brands in India and is amongst the largest operators of chain quick service restaurants (QSR) in India. The company started operation in 1997 with the opening of first Pizza Hut store in Jaipur. With continued expansion of KFC and Pizza Hut franchise, DIL operated 309 KFC stores and 351 Pizza Hut stores in India as of 30th Sept 2021. The company also operated 45 Costa Coffee brands stores in India. Its business is broadly classified into three verticals : core brand business, international business and other business. Its core brand business includes stores of KFC, Pizza Hut and Costa Coffee operated in India; International Business includes KFC and Pizza Hut stores operated in Nepal and Nigeria; and Other Business includes certain other operations in the F&B industry, including stores of their own brands such as Vaango and Food Street.

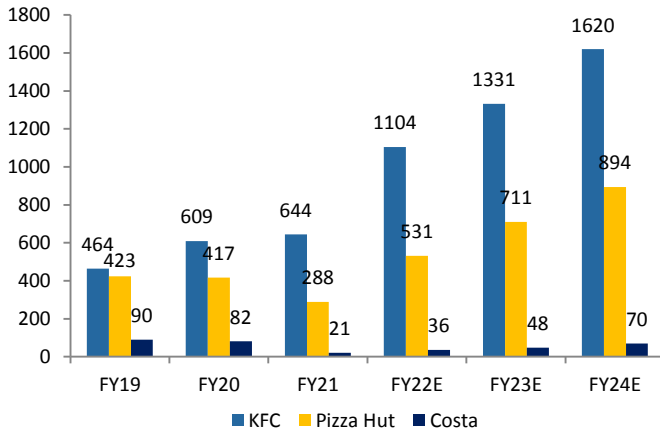


* Approx. % of total revenue as of FY21

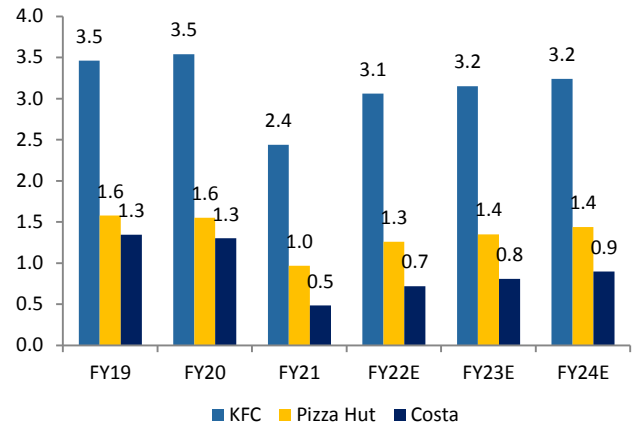
Source: Choice Equity Broking

Total number of stores in core brands increased from 469 as of 31st March 2019 to 705 as of 30th Sept 2021. Revenue from core brands rose from 83% of total operating revenue in FY19 to 94.2% in FY21. KFC is major contributor to revenue representing 58% of total sales in H1 FY22 as compared to Pizza Hut at 26% and 2% for Costa Coffee. The company focuses on high potential locations across towns and cities, airports, high street locations, malls, food courts, hospitals, business hubs and transit areas for opening the store. DIL collaborates with Yum across various aspects of operations for KFC and Pizza Hut for the franchisor's brand protection, management, advertising, promotion and marketing activities. It is the sole franchisee for KFC and Pizza Hut in Nepal and KFC in Nigeria.

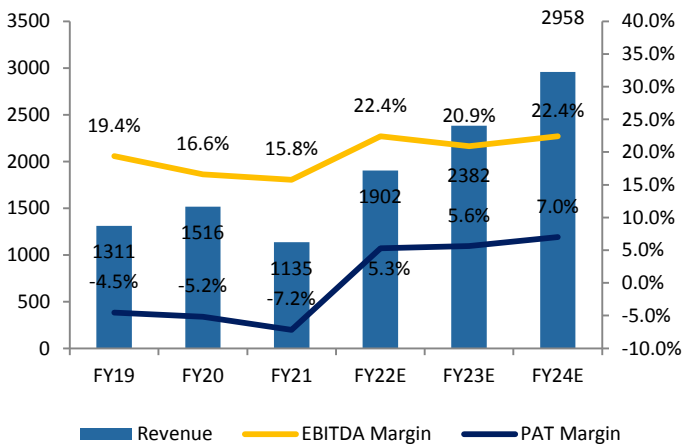
Revenue break-up of Core Brands (Rs.cr)



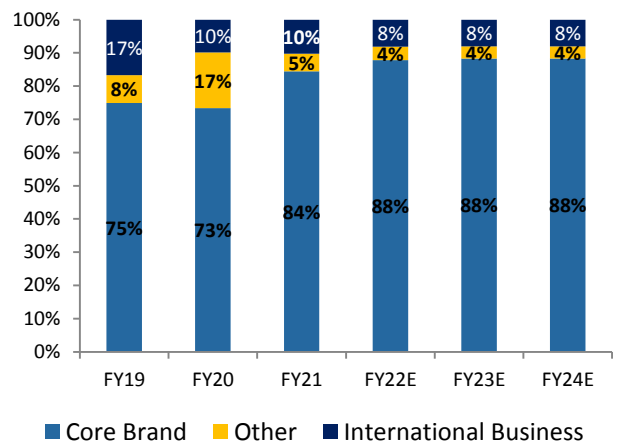
Average revenue per store for Core Brands (Rs.cr)



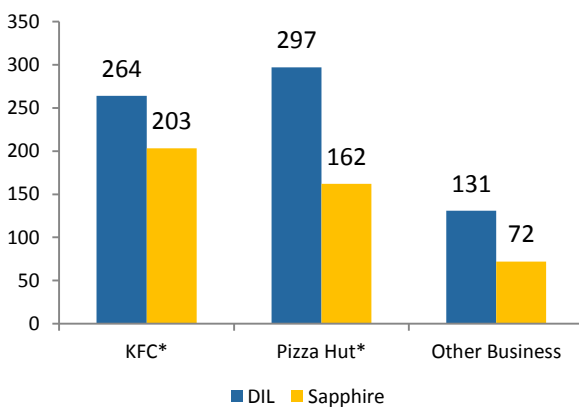
Revenue (Rs.cr), EBITDA & PAT margin



Segmental revenue mix



Number of stores DIL v/s Sapphire (FY21)



*KFC and Pizza Hut stores in India

Quarterly Analysis:

Particulars (Rs. Cr)	Q2FY22	Q2FY21	Change (YoY)	Q1FY22	Change (QoQ)
Operating Income	516.1	229.9	124%	352.8	46%
EBITDA	128.1	23.9	435%	56.8	125%
EBITDA Margin (%)	25%	10%	1442bps	16%	871bps
PAT	46.6	-65.5	171%	-33.4	239%
PAT Margin (%)	9%	-28%	3751bps	-9%	1,850bps

Source: Choice Equity Broking

- Total revenue increased by 124% YoY and 46% QoQ in Q2 FY22 and stood at Rs.516.1cr. Revenue growth in the current quarter was mainly due to new store openings, recovery in demand and higher consumption because of easing in lockdown restriction and increase in vaccine coverage.
- EBITDA for the current quarter stood at Rs. 128.1cr as compared to Rs. 56.8cr in Q1 FY22, registering growth of 125% QoQ. Gross margin was highest for Costa at 79.8% followed by Pizza Hut 75.7% and 69.2% in Q2 FY22.
- The company turned into profitability in Q2 FY22 with PAT margin at 9%.
- DIL opened 68 new stores in the current quarter, including 25 KFC stores, 34 Pizza Hut stores and 5 international stores in Nepal and Nigeria.

Peer Comparison TTM*:

Companies	CMP	ROE	M. Cap (Rs. Cr)	EPS	BVPS	EBIDTA Margin (%)	NPM (%)
Devyani International Ltd.	153	-15.2%	18,387	-0.7	4.4	15.8%	-7.1%
Jubilant FoodWorks Ltd.	3757	24.5%	49,581	31.8	129.7	25.0%	10.2%
Westlife Development Ltd.	579	-38.8%	9,024	-2.8	7.3	20.4%	-6.5%
Burger King India Ltd.	157	-19.4%	6,018	-3.1	16.0	8.9%	-15.8%
Sapphire Foods	1160	-21.2%	7371	-15.7	74.3	12.2%	-9.8%
Average		-14.0%				18.1%	-4.8%

Companies	P/E (x)	P/Bv (x)	P/Sales (x)	EV/Sales (x)	EV/EBIDTA (x)	D/E (x)	PAT (Rs. Cr)	EBIDTA (Rs. Cr)	Sales (Rs. Cr)
Devyani International Ltd.	-	34.5	16.2	16.2	103.0	1.9	-81	179	1135
Jubilant FoodWorks Ltd.	118.2	29.0	12.0	11.9	47.7	0.0	419	1030	4117
Westlife Development Ltd.	-	79.3	13.4	13.9	68.1	3.3	-44	137	675
Burger King India Ltd.	-	9.8	8.0	7.7	87.2	0.0	-120	67	754
Sapphire Foods	-	15.6	7.2	7.8	64.3	1.4	-100	124	1020
Average	-	33.6	11.4	11.5	74.1	1.0			

*PnL data for DIL and Sapphire Foods is as of FY21, DIL debts include lease liabilities.
B/s data DIL is as of Sept' 2021

Consolidated financial statements:

Particulars	FY19	FY20	FY21	H1 FY22
Operating Revenue (OR)	1310.6	1516.4	1134.8	868.8
Cost of materials consumed	-377.3	-448.7	-338.7	-247.0
Purchase of stock-in-trade	-11.6	-11.7	-6.0	-4.3
Employee Benefit Expenses	-191.6	-225.5	-154.3	-113.1
Other Expenses	-476.0	-578.9	-456.9	-319.5
EBITDA	254.2	251.6	178.9	185.0
Depreciation and Amortization Expenses	-202.8	-223.3	-229.5	-100.8
EBIT	51.4	28.3	-50.5	84.1
Finance Costs	-135.6	-158.4	-152.8	-65.2
Other Income	13.1	18.7	64.1	9.8
Exceptional Items	13.1	34.6	56.9	-15.1
PBT	-58.0	-76.9	-82.4	13.7
Tax Expenses	-1.3	-1.8	1.1	-0.5
PAT	-59.3	-78.8	-81.3	13.2
Balance Sheet	FY19	FY20	FY21	H1 FY22
Share Capital	106.2	106.2	115.4	120.3
Reserves and Surplus	-176.4	-295.3	-1.6	412.8
Non controlling interest	-51.0	-39.1	-41.9	-7.2
Long Term Borrowings	332.5	340.2	359.4	130.6
Long Term Provisions	13.8	11.6	16.9	18.5
Lease Liabilities	1124.1	1175.9	793.7	896.1
Other non-current liabilities	4.1	6.3	5.9	5.1
Short Term Borrowings	67.7	90.5	21.1	14.0
Trades Payables	136.8	163.2	161.9	177.2
Other short term liabilities	135.7	206.7	149.9	85.0
Short term Provisions	3.2	4.4	8.3	8.4
Deferred tax liabilities (Net)	0.3	0.7	0.7	0.9
Short Term Lease Liabilities	110.6	112.3	78.7	81.7
Total Liabilities	1807.5	1883.6	1668.4	1943.6
Tangible Assets	1525.8	1555.1	1142.3	1268.5
Intangible Assets	52.5	80.2	250.0	211.4
Capital Work In Progress	11.5	13.5	14.3	17.2
Long Term Loans and Advances	45.8	49.2	43.5	43.6
Non-current financial assets	11.3	18.2	16.7	103.5
Other Non Current Assets	21.6	24.2	37.1	52.9
Inventories	54.9	72.1	62.2	70.9
Trade Receivables	23.0	17.3	16.9	18.3
Cash and Bank Balances	26.6	13.2	40.0	98.9
Short term loans	9.6	12.8	14.2	0.0
Other Current Assets	24.9	27.8	31.3	58.3
Total Assets	1807.5	1883.6	1668.4	1943.6
Cash Flow Statement	FY19	FY20	FY21	H1 FY22
Cash Flow from Operating Activities	277.8	300.7	239.6	192.3
Cash Flow from Investing Activities	-167.7	-97.4	-358.6	-234.4
Purchase of fixed assets and properties	-142.3	-99.9	-137.3	-157.1
Cash Flow from Financing Activities	-130.5	-222.6	142.0	35.3
Net Cash Flow	-17.7	-13.4	26.7	-7.85
Opening Balance of Cash and Bank Balances	44.3	26.6	13.2	40.0
Closing Balance of Cash and Bank Balances	26.6	13.2	40.0	32.1

Ratios:

Particulars	FY19	FY20	FY21
Growth & Margin ratios			
Revenue Growth Rate (%)		15.7%	-25.2%
EBITDA Growth Rate (%)		-1.0%	-28.9%
EBITDA Margin (%)	19.4%	16.6%	15.8%
EBIT Growth Rate (%)		-44.9%	-278.6%
EBIT Margin (%)	3.9%	1.9%	-4.5%
Adjusted PAT Growth Rate (%)		32.8%	3.3%
Reported PAT Margin (%)	-4.5%	-5.2%	-7.2%
Turnover ratios			
Inventories Turnover Ratio (x)	23.9	21.0	18.2
Trade Receivable Turnover Ratio (x)	57.0	87.7	67.2
Accounts Payable Turnover Ratio (x)	9.6	9.3	7.0
Fixed Asset Turnover Ratio (x)	0.9	1.0	1.0
Total Asset Turnover Ratio (x)	0.7	0.8	0.7
Working Capital Turnover Ratio (x)	0.0	-5.0	-6.1
Operational ratios			
Current Ratio (x)	0.4	0.3	0.5
Debt to Equity (x)	-5.7	-2.3	3.3
Total Debt (Rs.)	400.2	430.7	380.5
Net Debt (Rs.)	364.0	404.6	326.4
Net Debt to EBITDA (x)	1.4	1.6	1.8
Net Debt to Equity (x)	-3.0	-1.8	2.9
Return ratios			
RoE (%)		PAT and Net Worth in negative	-71.5%
RoA (%)	-3.3%	-4.2%	-4.9%
RoCE (%)	49.5%	-27.0%	-9.7%
RoIC (%)	3.7%	1.9%	-4.4%
EV	11,196.3	11,240.2	11,163.2
EV/Sales (x)	8.5	7.4	9.8
EV/EBIDTA (x)	44.0	44.7	62.4
Per share ratios			
EPS	-0.5	-0.7	-0.7
BVPS	-1.0	-1.9	0.6
OCF/sh	2.3	2.5	2.0
FCF/sh	5.9	3.9	1.1
Valuation ratios			
P/E (x)	-182.5	-137.4	-133.1
P/BVPS (x)	-89.3	-47.4	150.6
P/S (x)	8.3	7.1	9.5
EV/EBITDA (x)	44.0	44.7	62.4

Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12-18 months. For a stock to be classified as Outperform (Buy), the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform (Reduce, Sell), the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral (Hold).

BUY	Absolute Return >15%
Hold	Absolute Return Between 0-15%
Reduce	Absolute Return 0 To Negative 10%
Sell	Absolute Return > Negative 10%

Disclaimer

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

CONNECT US

Any kind of queries on RESEARCH,
You can contact us on: 022 - 6707 9999



Choice Equity Broking Pvt. Ltd.

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

+91-022-6707 9999

+91-022-6707 9959

www.choiceindia.com

Consolidated Scrip Overview

trade with
JIFFY

GET IT ON
Google play

Download on the
App Store