

Devyani International

Estimate changes



TP change



Rating change



Bloomberg	DEVYANI IN
Equity Shares (m)	1,203
M.Cap.(INRb)/(USD\$b)	205.9 / 2.7
52-Week Range (INR)	199 / 108
12M Avg Val (INR M)	1059

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	20.8	31.3	41.2
Sales Gr. (%)	83.6	50.1	31.6
EBITDA	4.8	7.3	9.9
EBITDA Margin (%)	22.8	23.4	24.1
Adj. PAT	1.8	3.0	3.8
Adj. EPS (INR)	1.5	2.5	3.2
EPS Gr. (%)	L/P	72.2	25.6
BV/Sh.(INR)	5.7	8.3	11.5
Ratios			
RoE (%)	43.9	36.0	32.0
RoCE (%)	20.3	20.0	18.8
Valuation			
P/E (x)	117.2	68.1	54.2
P/BV (x)	30.0	20.7	14.9
EV/Sales (x)	9.9	6.6	4.9
EV/EBITDA (x)	43.3	28.1	20.5

Shareholding pattern (%)

As On	Mar-22	Dec-21
Promoter	62.8	62.9
DII	5.8	4.9
FII	6.9	7.8
Others	24.6	24.4

FII Includes depository receipts

CMP: INR171

TP: INR210 (+23%)

Buy

Growth momentum intact

- Omicron-led disruptions impacted operations for four-to-six weeks in 4QFY22, leading to ~8% miss on our sales and EBITDA forecasts, even as YoY growth was healthy on both fronts.
- Average daily sales (ADS) in Mar'22 returned to pre-COVID levels. Despite the RM inflation, the management expects to maintain KFC's brand contribution margin near 22% in FY23. It raised prices by 8-9% in KFC in Apr'22 and may take further hikes depending on the movement of input cost.
- We believe QSRs are a great play on the opening up theme, with healthy sales momentum and higher pricing power. [Our channel checks](#) indicated continued demand for QSRs in Apr'22, despite the price hikes. We maintain our **Buy** rating.

Result below our expectations, but revenue momentum strong

- **Consolidated sales grew 36.4% YoY to INR5.9b (est. INR6.4b).**
- **SSSG: KFC +3% (est. 15%), Pizza Hut (PH) +2.3% (est. 20%), Costa Coffee (CC) +24%.**
- Net new units (NNUs) added: 25/22/five/two for KFC/PH/CC/others (India). It added no NNUs in Nigeria and Nepal. In 4QFY22, it added a total of 54 NNUs.
- Number of stores as of 4QFY22 stood at 364/413/55/60/28/18 for KFC/PH/CC/others (India)/Nigeria/Nepal. Total store count stood at 938 in 4QFY22.
- Gross margin fell 10bp YoY to 71.3%.
- **EBITDA (pre-Ind AS) grew 46.4% YoY to INR978m, with an EBITDA margin of 16.6%.** EBITDA (post-Ind AS) grew 19.7% YoY to INR1.4b (est. INR1.5b). EBITDA margin contracted by 330bp YoY to 23.6% (in line).
- Adjusted PAT grew 271.2% YoY to INR786m (est. INR640m) on account of a lower effective tax rate.

Highlights from the management commentary

- **KFC:** The management has taken a significant part of the required price hike already (8-9% in Apr'22) and will raise prices further, if required. Gross margin may be affected in the near-term. However, the management expects a stable gross margin and brand contribution margin in FY23.
- Price hikes taken in **PH** in Apr'22 were relatively smaller, but are enough to maintain margin. Input cost inflation for Pizzas was much lower than Fried Chicken.
- The opening of 250 stores in FY22 aided better fixed cost absorption and similar gains will continue going forward as the management maintained its store opening guidance at 200-250 stores in FY23.
- Even at the upper end of 250 stores, capex is likely to be ~INR3b. Internal accruals are likely to suffice for this expansion.
- DEVYANI has not yet recognized all deferred tax assets yet. The tax rate is expected to remain low in FY23 as well.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- While there was a miss on our 4QFY22 estimates, sales momentum and ADS were back to pre-COVID levels in Mar'22. [Our channel checks](#) indicated continued demand momentum for QSRs in Apr'22, despite the price hikes. While there is an impact of ~5% on FY23 EBITDA, there is no material change to our FY24 EBITDA or earnings estimates.
- We remain bullish on DEVYANI's prospects on account of: a) KFC's strong brand equity; b) turnaround in PH, driven by focus on delivery; c) sharp network expansion across the portfolio; and d) healthy operating profitability in the mid-teens.
- We maintain our Buy rating with a SoTP-based TP of INR210 per share (FY24E EV/EBITDA of 45x/35x for KFC/PH on a pre-Ind AS basis).

Quarterly performance**(INR m)**

Y/E March	FY21				FY22				FY21	FY22	FY22 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
KFC - No. of stores	NA	214	240	264	284	309	339	364	264	364	364	
PH - No. of stores	NA	258	273	297	317	351	391	413	297	413	417	
KFC - SSSG (%)	NA	-51.6	-13.0	19.6	158	72.0	23.8	3.0	-33.7	49.4	15	
PH - SSSG (%)	NA	-37.3	-11.0	13.4	216.1	73.5	24.7	2.3	-30.3	45.4	20	
Net sales	927	2,299	3,791	4,331	3,528	5,161	6,244	5,907	11,348	20,840	6,399	-7.7
YoY change (%)	-	-	-	-	280.6	124.4	64.7	36.4	-25.2	83.6	47.7	
Gross Profit	649	1,559	2,603	3,091	2,511	3,664	4,457	4,209	7,902	14,842	4,512	
Margin (%)	70.0	67.8	68.7	71.4	71.2	71.0	71.4	71.3	69.6	71.2	70.5	
EBITDA	-179	448	883	1,167	616	1,233	1,478	1,397	2,269	4,760	1,518	-8.0
EBITDA growth (%)	-	-	-	-	-444.6	175.5	67.5	19.7	-11.2	109.7	35.8	
Margin (%)	-19.3	19.5	23.3	26.9	17.4	23.9	23.7	23.6	20.0	22.8	23.7	
Depreciation	580	658	514	543	482	526	558	648	2,295	2,213	598	
Interest	312	422	493	268	324	328	296	322	1,528	1,270	318	
Other Income	471	260	53	-144	47	52	39	24	641	161	49	
PBT	-599	-372	-71	212	-144	431	663	451	-913	1,438	651	-30.7
Tax	-4	-9	2	0	0	6	9	-335	-11	-320	11	
Rate (%)	0.7	2.4	-3.4	-0.1	0.2	1.3	1.4	-74.1	1.2	-22.2	1.7	
Adjusted PAT	-595	-363	-73	212	-143	425	654	786	-902	1,757	640	22.8
YoY change (%)	-	-	-	-	N/M	L/P	L/P	271.2	-	L/P	338.2	

E: MOFSL estimates

Quarterly brands' performance in 4QFY22

	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
KFC							
No. of stores	214	240	264	284	309	339	364
Net store addition	-	26	24	20	25	30	25
SSSG (%)	-51.6	-13.0	19.6	158.0	72.0	23.8	3.0
Net sales (INR m)	1,251	2,211	2,540	2,029	3,014	3,621	3,526
YoY growth (%)	-	-	-	-	140.9	63.8	38.8
ADS (INR'000)	68.5	112.2	118.5	92.1	116.4	124.0	113.0
Gross Margin (%)	65.9	67.1	69.6	69.4	69.1	69.3	69.3
Brand Contribution Margin (%)	12.9	19.1	22.6	16.0	22.4	23.0	21.8
Channel mix (%)							
Off-Premise	44	33	32	65	44	36	41
On-Premise	56	67	68	35	56	64	59
Pizza Hut							
No. of stores	258	273	297	317	351	391	413
Net store addition	-	15	24	20	34	40	22
SSSG (%)	-37.3	-11.0	13.4	216.1	73.5	24.7	2.3
Net sales (INR m)	630	951	1,036	965	1,333	1,556	1,464
YoY growth (%)	-	-	-	-	111.6	63.6	41.3
ADS (INR'000)	26.5	40.5	41.8	38.4	45.1	47.0	41.0
Gross Margin (%)	71.6	74.0	76.2	75.9	75.5	75.6	75.5
Brand Contribution Margin (%)	10.3	16.2	15.2	14.1	15.8	16.8	17.6
Channel mix (%)							
Off-Premise	61	54	52	80	62	58	59
On-Premise	39	46	48	20	38	42	41
Costa Coffee							
No. of stores	55	45	44	44	45	50	55
Net store addition	-	-10	-1	0	1	5	5
SSSG (%)	-78.7	704.0	789.0	732.0	1,007.0	1,176.0	1,106.0
Net sales (INR m)	40	76	85	37	94	143	137
YoY growth (%)	-	-	-	-	135.0	88.2	61.2
ADS (INR'000)	12.3	20.7	24.6	16.1	27.4	37.0	30.0
Gross Margin (%)	75.0	76.3	80.0	78.4	79.8	79.7	81.8
Brand Contribution Margin (%)	-30.0	35.5	30.6	16.2	33.0	32.2	29.9

Source: MOFSL, Company



Highlights from the management commentary

Performance and outlook

- DEVYANI was able to deliver a good performance, despite a challenging environment.
- Omicron-led disruptions impacted operations for four-to-six weeks in 4QFY22.
- As compared to the trend seen in previous COVID waves, malls recovered faster post the Omicron wave v/s standalone stores.
- Demand in Mar'22 and ADS returned back to levels prior to the Omicron COVID wave.
- The external macro environment remains challenging. The management remains cautiously optimistic despite these challenges.

Costs and margin

- The use of well-timed forward contracts for key raw materials led to a stable gross margin on a sequential basis in 4QFY22.
- Raw material cost inflation is expected to sustain for some time, with the management prepared to meet this challenge through judicious price hikes, if necessary.

- In KFC, the management has taken a significant part of the required price hike already (8-9% in Apr'22) and will raise prices further, if required.
- Gross margin for KFC may be affected in the near-term. However, the management expects a stable gross margin and contribution margin in FY23.
- Price hikes taken in PH in Apr'22 were relatively smaller, but are enough to maintain margin. Input cost inflation for Pizzas was much lower than Fried Chicken.
- The international business did better on the margin front than the domestic business in 4QFY22.
- PH's brand contribution margin continued to improve sequentially, despite a lower ADS, due to a shift in strategy, with a focus on smaller format delivery-based stores. Going forward, the management does not expect an expansion in the brand contribution margin due to this change in business strategy, with contribution dependent on sales growth.
- The opening of 250 stores in FY22 aided better fixed cost absorption and similar gains will continue going forward as the management maintained its store opening guidance at 200-250 stores in FY23.
- Rental costs were effectively ~11% of sales in FY22. With newer stores clocking a better rent-to-revenue ratio, there may be marginal benefits going forward.

Delivery proportion

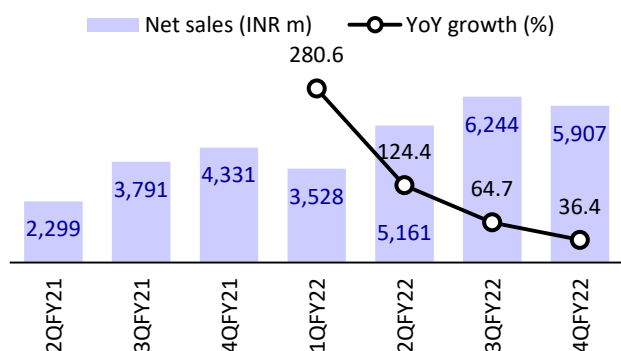
- On a steady-state basis, the proportion of off-premise in KFC's sales will be 35-38% going forward v/s 41% in 4QFY22. The Omicron COVID wave impacted dine-in sales in 4QFY22.
- Contribution from PH's off-premise sales will remain at 58% levels, similar to the last two quarters.

Capex and other financials

- The management maintained its store expansion target at 200-250 for the next two-to-three years.
- Even at the upper end of 250 stores, capex is likely to be ~INR3b. Internal accruals are likely to suffice for this expansion.
- DEVYANI has not yet recognized all deferred tax assets yet.
- Steady-state SSSG targets for PH/KFC stood at 7-8%/4-5%.
- The management is targeting an ADS of INR40k for CC (from INR30k at present) within the next two years. Food will lead to an incremental growth more than Beverages.

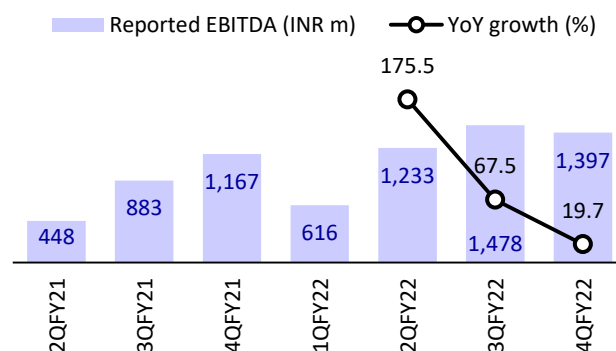
Key exhibits

Exhibit 1: Net sales grew 36.4% YoY to INR5.9b in 4QFY22



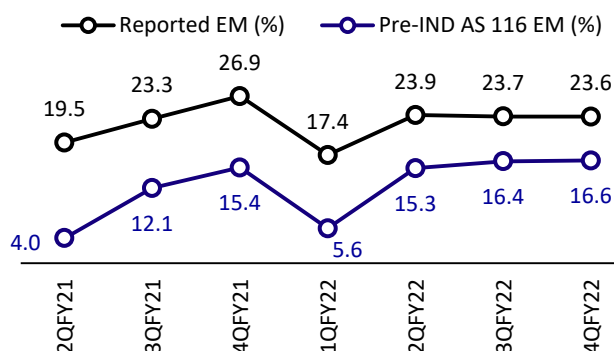
Source: Company, MOFSL

Exhibit 2: EBITDA grew 19.7% YoY to INR1.4b



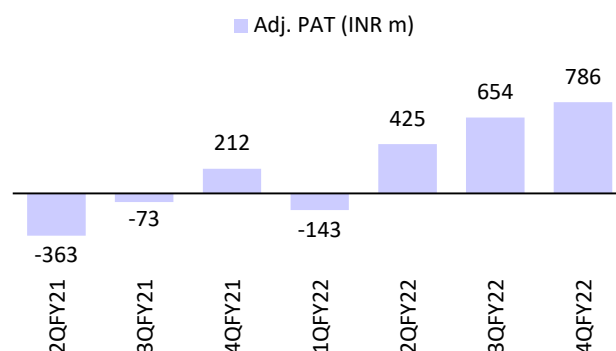
Source: Company, MOFSL

Exhibit 3: Reported/pre-Ind AS EBITDA margin contracts 10bp/330bp YoY to 23.6%/16.6% in 4QFY22



Source: MOFSL, Company

Exhibit 4: Adjusted PAT grew 271% YoY to INR786m



Source: MOFSL, Company

Valuation and view

- While there was a miss on our 4QFY22 estimates, sales momentum and ADS were back to pre-COVID levels in Mar'22. [Our channel checks](#) indicated continued demand momentum for QSRs in Apr'22, despite the price hikes. While there is an impact of ~5% on FY23 EBITDA, there is no material change to our FY24 EBITDA or earnings estimates.
- We remain bullish on DEVYANI's prospects on account of: a) KFC's strong brand equity; b) turnaround in PH, driven by focus on delivery; c) sharp network expansion across the portfolio; and d) healthy operating profitability in the mid-teens.
- We maintain our Buy rating with a SoTP-based TP of INR210 per share (FY24E EV/EBITDA of 45x/35x for KFC/PH on a pre-Ind AS basis).

Exhibit 5: SoTP valuation for DEVYANI based on pre-Ind AS EV/EBITDA

	FY24E EBITDA*	Multiple	EV
KFC	4.3	45x	191.7
Pizza Hut	1.1	35x	40.0
Costa Coffee	0.2	20x	4.9
Other brands	0.1	15x	1.8
International	0.6	25x	13.8
Total	6.3	40x	252.2
Net debt	FY24E		-1.9
Equity value			254.1
TP (INR)			210
Upside (%)			23%

*Pre-Ind AS 116

Source: Company, MOFSL

Exhibit 6: No material change to our FY23/FY24 EBITDA estimate

INR m	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	31,276	41,162	32,848	42,059	-4.8	-2.1
EBITDA	7,313	9,940	7,679	10,030	-4.8	-0.9
PAT	3,026	3,801	3,442	3,926	-12.1	-3.2

Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement						(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	13,106	15,164	11,348	20,840	31,276	41,162
Change (%)		15.7	-25.2	83.6	50.1	31.6
Raw Materials	3,889	4,604	3,447	5,998	9,132	11,981
Gross Profit	9,217	10,560	7,902	14,842	22,144	29,182
Margin (%)	70.3	69.6	69.6	71.2	70.8	70.9
Operating Expenses	6,428	8,005	5,633	10,082	14,832	19,242
EBITDA	2,790	2,555	2,269	4,760	7,313	9,940
Change (%)		-8.4	-11.2	109.7	53.6	35.9
Margin (%)	21.3	16.8	20.0	22.8	23.4	24.1
Depreciation	2,028	2,233	2,295	2,213	2,809	3,576
Int. and Fin. Charges	1,356	1,584	1,528	1,270	1,397	1,607
Other Income	131	187	641	161	255	325
Profit before Taxes	-464	-1,076	-913	1,438	3,362	5,082
Change (%)		132.0	-15.2	-257.5	133.9	51.1
Margin (%)	-3.5	-7.1	-8.0	6.9	10.8	12.3
Total tax	13	18	-11	-320	336	1,281
Tax Rate (%)	-2.8	-1.7	1.2	-22.2	10.0	25.2
PAT before Minority and Exceptionals	-477	-1,095	-902	1,757	3,026	3,801
Gain/(Loss) from Discontinued Operations	-349	-427	183	0	0	0
Adjusted PAT	-825	-1,521	-719	1,757	3,026	3,801
Change (%)		N/M	N/M	L/P	72.2	25.6
Margin (%)	-6.3	-10.0	-6.3	8.4	9.7	9.2
Minority Interest	-149	3	-78	-12	-56	-65
Exceptional items	116	-307	-89	206	0	0
Reported PAT	-792	-1,217	-552	1,563	3,082	3,866
Balance Sheet						(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	1,062	1,062	1,154	1,205	1,205	1,205
Reserves	-1,764	-2,953	-16	5,658	8,741	12,607
Net Worth	-702	-1,891	1,138	6,863	9,945	13,811
Loans	4,002	4,307	3,805	1,325	1,325	1,325
Other Liability	12,347	12,882	8,724	11,217	12,319	14,791
Minority Interest	-510	-391	-419	-47	-104	-168
Capital Employed	15,136	14,906	13,248	19,358	23,485	29,759
Gross Block	7,233	9,625	12,718	16,419	19,581	23,415
Less: Accum. Depn.	2,028	4,261	6,556	8,769	11,578	15,154
Net Fixed Assets	5,204	5,364	6,162	7,649	8,002	8,261
Capital WIP	115	135	143	68	68	68
Goodwill	161	224	644	644	644	644
Right to Use Assets	9,947	10,351	6,660	8,911	11,685	15,908
Investments	471	414	456	351	351	351
Current	0	0	0	0	0	0
Non-current	471	414	456	351	351	351
Curr. Assets, L&A	2,177	2,347	2,619	5,001	7,094	9,937
Inventory	549	721	622	855	1,283	1,688
Account Receivables	230	173	169	211	316	416
Cash and Bank Balance	271	160	405	659	1,628	3,269
Others	1,127	1,293	1,423	3,277	3,867	4,563
Curr. Liab. and Prov.	2,938	3,929	3,436	3,267	4,360	5,411
Account Payables	1,368	1,632	1,619	1,964	2,947	3,879
Other Liabilities	1,400	2,138	1,565	1,043	1,126	1,217
Provisions	170	160	252	261	287	315
Net Current Assets	-762	-1,582	-818	1,734	2,734	4,526
Application of Funds	15,136	14,906	13,248	19,358	23,485	29,759

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)						
EPS	-0.8	-1.4	-0.6	1.5	2.5	3.2
Cash EPS	1.1	0.7	1.4	3.3	4.8	6.1
BV/Share	-0.7	-1.8	1.0	5.7	8.3	11.5
Valuation (x)						
P/E	N/M	N/M	N/M	117.2	68.1	54.2
Cash P/E	150.9	254.9	125.1	51.9	35.3	27.9
EV/Sales	14.1	12.2	17.6	9.9	6.6	4.9
EV/EBITDA	66.2	72.5	88.2	43.3	28.1	20.5
P/BV	N/M	N/M	173.3	30.0	20.7	14.9
Return Ratios (%)						
RoE		N/M	N/M	43.9	36.0	32.0
RoCE		3.4	4.3	20.3	20.0	18.8
RoIC		2.2	-0.2	19.9	20.1	19.7
Working Capital Ratios						
Debtor (Days)	6	4	5	4	4	4
Asset Turnover (x)	0.9	1.0	0.9	1.1	1.3	1.4
Leverage Ratio						
Debt/Equity ratio (x)	-5.7	-2.3	3.3	0.2	0.1	0.1

Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR m)						
OP/(loss) before Tax	-928	-1,196	-641	1,231	3,362	5,082
Depreciation	2,257	2,467	2,357	2,213	2,809	3,576
Net interest	1,348	1,594	1,518	1,180	1,142	1,282
Others	86	-74	-1,240	-177	0	0
Direct Taxes Paid	-3	-8	5	-103	-336	-1,281
(Incr.)/Decr. in WC	17	223	397	162	-31	-151
CF from Operations	2,778	3,007	2,396	4,506	6,946	8,508
Incr. in FA	-1,407	-988	-1,329	-2,930	-3,162	-3,834
Free Cash Flow	1,371	2,019	1,066	1,576	3,784	4,674
Pur. of Investments	3	-2	22	-912	0	0
Others	-273	98	-2,263	173	-1,617	-1,686
CF from Invest.	-1,677	-892	-3,570	-3,669	-4,779	-5,520
Issue of Shares	0	0	3,476	4,486	0	0
Incr. in Debt	-967	-1,791	-1,564	-4,776	0	0
Dividend Paid	0	0	0	0	0	0
Net interest Paid	-338	-435	-492	-147	-1,142	-1,282
Others	0	0	0	-146	-56	-65
CF from Fin. Activity	-1,305	-2,226	1,420	-584	-1,198	-1,347
Incr./Decr. in Cash	-204	-111	245	253	970	1,641
Add: Opening Balance	475	271	160	405	659	1,628
Closing Balance	271	160	405	659	1,628	3,269

E: MOFSL estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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