

# Devyani International Ltd.



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**Focus remained on accelerated store expansion**

CMP <b>INR 178.5</b>	Target <b>INR 230</b>	Potential Upside 28.9%	Market Cap (INR Mn) <b>INR 2,14,650</b>	Recommendation <b>BUY</b>	Sector <b>QSR</b>
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## Result highlights

- Devyani International (DIL) reported revenue growth of 65% YoY/21% QoQ to INR 6,244 Mn in Q3FY22. KFC and Pizza Hut India revenues grew by 64% each.
- EBITDA registered growth of 68% YoY/20% QoQ to INR 1,478 Mn and EBITDA margin improved by 39 bps YoY to 23.7%. Gross margin improved to 71.4%. DIL reported Net Profit of INR 660 Mn (+40% YoY/41.6% QoQ).
- During Q3FY22, DIL opened 81 new stores taking total count to 884 stores.

## MARKET DATA

Shares O/S (Cr)	1,154
Mkt Cap (INR Mn)	2,14,650
52 Wk H/L (INR)	198.85/107.7
Volume Avg (3m K)	3810
Face Value (INR)	1
Bloomberg Code	DEVYANI IN

## KEY FINANCIALS

Particulars (INR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Sales</b>	13106	15,164	11,348	21,083	29,073	38,417
<b>EBITDA</b>	2790	2,555	2,269	4,765	6,658	8,990
<b>PAT</b>	-593	-788	-813	1,337	2,118	4,139
<b>EPS</b>	-0.75	-1.1	-0.5	1.1	1.8	3.4
<b>EBITDA Margin (%)</b>	21.3%	16.8%	20.0%	22.6%	22.9%	23.4%

Source: Company, KRChoksey Research

## Robust growth driven by improved demand and faster stores addition

DIL reported revenue growth of 65% YoY/21% QoQ to INR 6,244 Mn in Q3FY22. KFC and Pizza Hut India revenues grew by 64% each. International business registered revenue growth of 64% YoY to reach INR 570 Mn. During Q3FY22, DIL opened 81 new stores taking total count to 884 stores. As on December 31, 2021, DIL operated 339 KFC stores, 391 Pizza Hut stores and 50 Costa Coffee stores in India. Including own brands' stores, DIL's total system stores stand at 884. Average daily sales (ADS) per store for Pizza Hut reached to INR 47,000 and it saw health SSSG of 24.7% during Q3FY22. For KFC, ADS for Q3FY22 came at INR 1,24,000 and SSSG stood at 23.8%. During the quarter, DIL took price increase for KFC, however, it is yet to take price increase for Pizza Hut. For Costa Coffee, ADS stood at INR 37,000 and SSSG came at 101%. During the quarter, DIL added 5 stores for KFC (1 flagship store in Gurgaon) and indicated that it will open 5-6 more flagship stores in coming quarters.

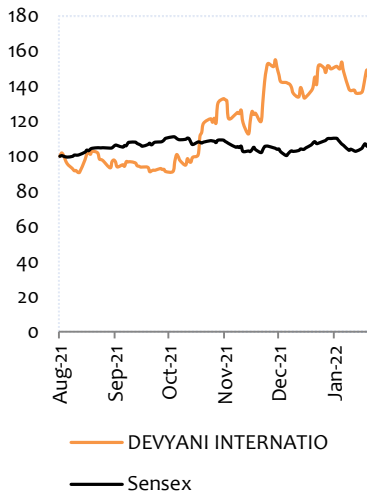
## Strong operational performance resulted improved profitability

In Q3FY22, EBITDA registered growth of 68% YoY/20% QoQ to INR 1,478 Mn and EBITDA margin improved by 39 bps YoY to 23.7%. DIL reported gross profit of INR 4,457 Mn while gross margin improved to 71.4%. DIL reported Net Profit of INR 660 Mn (+40% YoY/41.6% QoQ). For 9MFY22, DIL reported EBITDA at INR 3,327 Mn, up by healthy 189% YoY. In 9MFY22, PAT came at INR 792 Mn as against a loss of INR 1,048 Mn in 9MFY21. Brand contribution margin for KFC improved to 23% as against 19.1% YoY/22.4% QoQ, for Pizza hut it has improved to 16.8% as against 16.1% YoY/15.8% QoQ and for Costa Coffee it is 32.1% as against 35.6% YoY/33.1% QoQ.

## Accelerated store expansion to provide growth visibility

DIL has added 192 stores in 9MFY22 taking total count to 884 stores. During 9MFY22, the company opened 94 Pizza Hut stores and 75 KFC stores and expanded its presence from 155 cities at the end of March 21 to 196 cities at the end of 9MFY22. Devyani continues to deepen its presence in North and South India which is strong market for it. At the end of 9MFY22 DIL had 301 stores in North India (39% of total stores) and 267 stores in South India (34% of total stores).

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	58,645
NIFTY	17,516

## SHARE HOLDING PATTERN (%)

Particulars	Dec-21	Sep-21	Jun-21
Promoters	62.91	62.91	-
FIIs	7.82	7.86	-
DIIIs	4.92	4.82	-
Others	24.35	24.41	-
Total	100	100	100



Revenue CAGR between FY21 and FY24E



EBITDA CAGR between FY21 and FY24E

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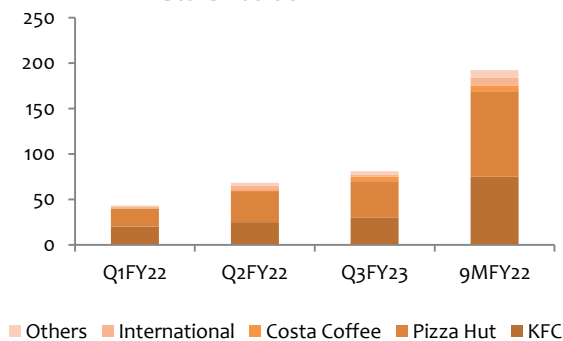
## Key Concall Highlights:

- **Favorable trend for QSR:** The foodservice industry is expected to grow at a CAGR of 12% to 15% and QSR, being the largest constituent will be a key beneficiary and will lead this growth. Covid-19 has accelerated the consolidation in the foodservices industry in favor of larger, organized players and well-established brands.
- **Acceleration in store expansion:** In Q3FY22, DIL opened 81 net new stores by adding 40 new stores for Pizza Hut, 30 stores for KFC and 5 new stores for Costa Coffee including one flagship store in Gurgaon. DIL continues to expand to new cities and have opened stores in 19 new cities in the last quarter. With that, DIL now present in close to 200 cities in India across brand portfolio.
- **Dine-in sales improved during the quarter:** Dine-in sales made a great comeback in Q3FY22 with On-premise sales improving further to 64% for KFC from 56% in Q2FY22, and 42% for Pizza Hut from 38% in Q2FY22.
- **Improvement in Average daily sales:** ADS for KFC stores came in at approximately INR 124,000 for the quarter, higher than INR 112,000 a year ago, and INR 116,000 a quarter ago. SSSG for KFC stood at 24% during the quarter. Pizza Hut ADS maintains its growth momentum and is now at INR 47,000 as against INR 40,000 a year ago. SSSG was higher at 25% during the quarter.
- **Strong traction in core brands:** Core brands registered health growth during Q3FY22 driven by new store openings, coupled with solid recovery in demand and consumption. Dine-in is witnessing strong traction despite in-home consumption continues to remain strong. Core brands have seen strong traction in ADS as well as the SSSG growth rates.
- **Capex guidance:** In 9MFY22, DIL incurred a capex of INR ~220 Mn and added 192 stores. The capex has been financed from internal accruals.

## Valuation and view

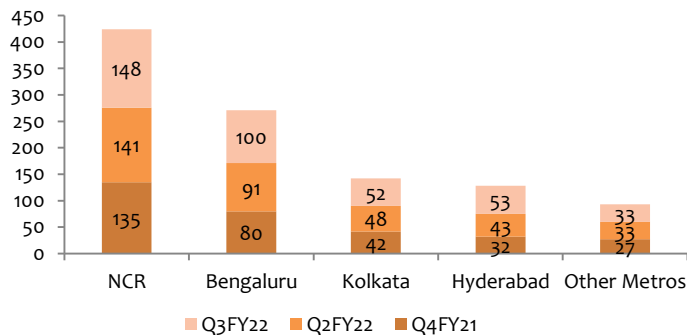
DIL is benefiting from favorable macro environment and accelerated store addition is helping the company grow at faster rate. DIL's margin has scope for further improvement as Pizza Hut's brand contribution margin will improve with scale. We like company's aggressive store addition plans in coming years. DIL increased its store addition guidance to close to 250 stores in FY22 and for next two years. We expect Devyani International to continue expanding its presence and penetrate more in existing cities. We continue with "BUY" rating on the stock with target price of INR 230 per share valuing at 30x FY24E EBIDTA, giving 28.9% upside from current levels.

Store Addition



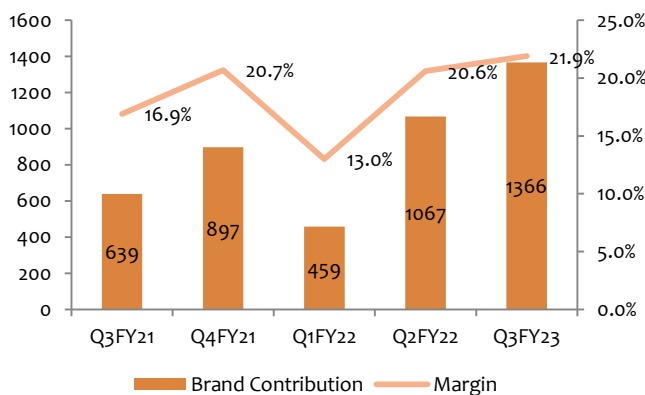
Source: Company, KRChoksey Research

Core brand store; India – regional split



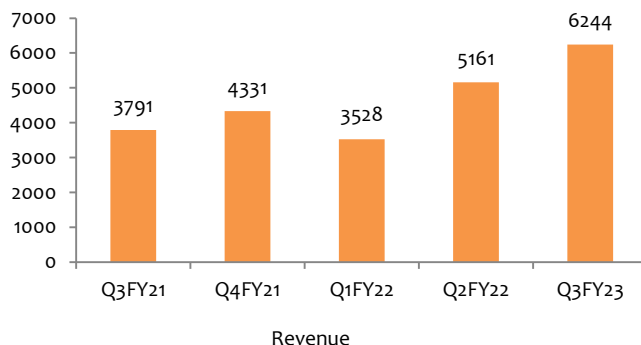
Source: Company, KRChoksey Research

DIL Brand Contribution and Margin



Source: Company, KRChoksey Research

Revenue trend



Source: Company, KRChoksey Research

## Devyani International Ltd.

Particulars (INR Mn)	Q3FY22	Q2FY22	Q3FY21	QoQ	YoY	9MFY22	9MFY21	YoY
<b>Revenue from Operations</b>	6,244	5,161	3,791	21.0%	64.7%	14,933	7,017	112.8%
<b>Total Expenditure</b>	4,766	3,928	2,908	21.3%	63.9%	11,606	5,866	97.9%
<b>Cost of Raw Materials</b>	1,749	1,467	1,163	19.3%	50.3%	4,219	2,160	95.3%
<b>Purchase of Stock</b>	38	30	25	28.3%	55.9%	81	46	75.6%
<b>Employee Cost</b>	728	594	424	22.5%	71.6%	1,859	1,051	76.9%
<b>Other Expenses</b>	2,251	1,837	1,296	22.5%	73.7%	5,446	2,608	108.8%
<b>EBITDA</b>	1,478	1,233	883	19.9%	67.5%	3,327	1,152	188.9%
<b>EBITDA Margin (%)</b>	23.7%	23.9%	23.3%	-22 bps	39 bps	22.3%	16.4%	587 bps
<b>Depreciation</b>	558	478	483	16.6%	15.4%	1,565	2,204	-29.0%
<b>EBIT</b>	921	755	400	22.0%	130.4%	1,762	-1,052	-267.4%
<b>Other Income</b>	39	52	53	-24.7%	-27.1%	137	785	-82.5%
<b>Interest Expense</b>	296	328	493	-9.6%	-39.8%	948	1,227	-22.7%
<b>Exceptional items</b>	-6	7	-514	-190.1%	-98.8%	144	-436	
<b>Share of Associates</b>	0	0	0			0	0	
<b>PBT</b>	669	472	474	41.9%	41.1%	807	-1,058	-176.2%
<b>Tax</b>	9	6	2	62.4%	295.4%	15	-11	-240.4%
<b>Minority Interest</b>	0	0	0					
<b>PAT</b>	660	466	472	41.6%	39.8%	792	-1,048	-175.6%
<b>PAT Margin</b>	10.6%	9.0%	12.5%	154 bps	-188 bps	5.3%	-14.9%	2,023 bps
<b>Adj PAT</b>	660	466	472	41.6%	39.8%	792	-1,048	-175.6%
<b>Adj PAT Margin</b>	10.6%	9.0%	12.5%			5.3%	-14.9%	
<b>EPS</b>	0.5	0.4	0.5	33.3%	10.6%	0.7	-0.9	-175.3%

Income Statement (INR Mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenues</b>	15,164	11,348	21,083	29,073	38,417
<b>COGS</b>	4,604	3,447	6,072	8,402	11,141
<b>Gross profit</b>	10,560	7,902	15,011	20,671	27,276
<b>Employee cost</b>	2,255	1,543	2,614	3,605	4,764
<b>Other expenses</b>	5,750	4,089	7,632	10,408	13,523
<b>EBITDA</b>	2,555	2,269	4,765	6,658	8,990
<b>EBITDA Margin</b>	17%	20%	23%	23%	23%
<b>Depreciation &amp; amortization</b>	2,233	2,295	2,180	3,489	3,842
<b>EBIT</b>	283	-505	2,584	3,169	5,148
<b>Interest expense</b>	1,584	1,528	1,276	1,287	1,287
<b>Other income</b>	187	641	198	291	384
<b>PBT</b>	-769	-824	1,361	2,173	4,245
<b>Tax</b>	18	-11	24	54	106
<b>Share of Profit/(Loss) of Associates/Minority</b>	0	0	0	0	0
<b>Net profit</b>	-788	-813	1,337	2,118	4,139
<b>EPS (INR)</b>	-1.14	-0.50	1.11	1.76	3.44
<b>No. of Shares (Mn) - Diluted</b>	1,062	1,154	1,203	1,203	1,203

Cash Flow Statement (INR Mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Cash Generated From Operations</b>	3,015	2,391	4,146	5,225	7,375
<b>Net Cash Flow from/(used in) Investing Activities</b>	-974	-3,586	-2,344	-2,500	-2,500
<b>Net Cash Flow from Financing Activities</b>	-2,226	1,420	352	-718	-1,199
<b>Net Inc/Dec in cash equivalents</b>	-133	267	2,115	2,061	3,783
<b>Opening Balance</b>	266	132	400	2,515	4,576
<b>Closing Balance Cash and Cash Equivalents</b>	132	400	2,515	4,576	8,359

Source: Company, KRChoksey Research

## Devyani International Ltd.

Balance Sheet (INR Mn)	FY20	FY21	FY22E	FY23E	FY24E
Share capital	1,062	1,154	1,203	1,203	1,203
Reserves and surplus	-1,891	1,138	5,672	7,791	11,930
<b>Shareholders' funds</b>	<b>-2,282</b>	<b>719</b>	<b>6,826</b>	<b>8,944</b>	<b>13,083</b>
Long-term borrowings	3,402	3,594	1,306	1,306	1,306
Short term borrowings	905	211	140	140	140
<b>Total debt</b>	<b>4,307</b>	<b>3,805</b>	<b>1,446</b>	<b>1,446</b>	<b>1,446</b>
Other Financial liabilities	11,812	7,986	9,000	9,000	9,000
Long-term provisions/ Other Liabilities	126	179	197	197	197
<b>SOURCES OF FUNDS</b>	<b>13,963</b>	<b>12,688</b>	<b>17,469</b>	<b>19,587</b>	<b>23,726</b>
PPE	4,787	4,307	5,744	6,844	7,623
Other Intangible Assets	577	1,855	1,470	1,470	1,470
Capital WIP	135	143	172	172	172
Non-current investments	11,498	7,922	9,000	9,000	9,000
Goodwill	224	644	644	644	644
Other financial assets	182	167	167	167	167
<b>Non-current assets</b>	<b>17,404</b>	<b>15,039</b>	<b>17,197</b>	<b>18,297</b>	<b>19,076</b>
Inventories	721	622	915	1,266	1,679
Trade receivables	173	169	231	319	421
Cash and Bank Balance	160	405	2,515	4,576	8,359
Other current & financial assets	378	449	450	451	452
<b>Current assets</b>	<b>1,432</b>	<b>1,645</b>	<b>4,111</b>	<b>6,612</b>	<b>10,911</b>
<b>less: current liabilities and provisions</b>	<b>4,873</b>	<b>3,996</b>	<b>3,839</b>	<b>5,322</b>	<b>6,261</b>
Trade payables	1,632	1,619	2,079	2,877	3,815
Other current liabilities	170	193	230	230	230
Other financial & current tax liabilities	3,027	2,100	1,446	2,130	2,130
Short-term provisions	44	83	84	85	86
<b>Net current assets</b>	<b>-3,441</b>	<b>-2,350</b>	<b>271</b>	<b>1,290</b>	<b>4,650</b>
<b>APPLICATION OF FUNDS</b>	<b>13,963</b>	<b>12,688</b>	<b>17,469</b>	<b>19,587</b>	<b>23,726</b>

Key Ratio	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin (%)	17%	20%	23%	23%	23%
RoE (%)	-	-113%	20%	24%	32%
RoCE (%)	14%	-11%	31%	30%	35%
EV/EBITDA	75.8	92.2	44.8	31.8	23.1
EV/Sales	12.8	18.4	10.1	7.3	5.4
EPS (INR)	-1.14	-0.50	1.11	1.76	3.44

Source: Company, KRChoksey Research

# Devyani International Ltd.

Devyani International Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
05-Feb-22	178.5	230	BUY	Buy	More than 15%
03-Nov-21	140	163	BUY		
15-Sept-21	115.1	151	BUY	Accumulate	5% – 15%
				Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

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