

Devyani International

Estimate changes	
TP change	
Rating change	

Bloomberg	DEVYANI IN
Equity Shares (m)	1205
M.Cap.(INRb)/(USDb)	191.9 / 2.3
52-Week Range (INR)	215 / 141
1, 6, 12 Rel. Per (%)	-4/-18/-14
12M Avg Val (INR M)	550

Financials & Valuations (INR b)

Y/E Mar	2023E	2024E	2025E
Sales	30.6	40.2	49.5
Sales Gr. (%)	47.0	31.2	23.3
EBITDA	6.9	9.5	11.7
Margins (%)	22.4	23.5	23.6
Adj. PAT	2.7	3.3	4.2
Adj. EPS (INR)	2.2	2.8	3.5
EPS Gr. (%)	53.0	23.5	26.8
BV/Sh.(INR)	8.1	11.0	14.5
Ratios			
RoE (%)	32.2	28.9	27.5
RoCE (%)	19.2	17.4	17.3
Valuation			
P/E (x)	71.4	57.8	45.6
P/BV (x)	19.5	14.5	11.0
EV/Sales (x)	6.3	4.7	3.8
EV/Pre-IND AS	46.6	32.2	25.2
EBITDA (x)	28.1	20.2	16.0

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	62.8	62.8	62.9
DII	7.9	7.5	4.9
FII	8.8	8.3	7.8
Others	20.5	21.4	24.4
FII Includes depository receipts			

CMP: INR159

TP: INR190 (+19%)

Buy

Weak demand environment dents SSSG and earnings

- Weaker-than-expected SSSG in KFC (3% v/s our est. of 6%) and Pizza Hut (PH; -6% v/s our est. of -1%) businesses and lower-than-expected gross margin resulted in ~14% miss on EBITDA v/s our estimate.
- Demand environment has not been much better on a quarter to date basis, albeit, there is hope that moderating RM inflation – especially for KFC – and overall CPI inflation levels could lead to a demand revival.
- With an increasing focus on hygiene, convenience, and innovation, QSRs with their strong brands, present a great investment case given their low penetration levels in India. The company's strong pricing power helps combat input cost inflation. **Retain BUY with an SoTP-based TP of INR190 (based on 35x/25x for KFC/Pizza Hut on a pre-Ind AS EV/EBITDA basis on Mar'25 forecasts).**

Weaker-than-expected SSSG during the quarter

- DEVYANI reported 26.6% YoY sales growth to INR7,906m (est. INR8,575m).
- SSSG – KFC: +3% (est. 6%); PH: -6.1% (est. -1%); Costa Coffee (CC): +20.1%.
- DEVYANI added 38 net new units (NNUs) for KFC, 17 for PH, 15 for CC, and 3 for Others (India); 7 in Nigeria, and 1 in Nepal. **Total 81 NNUs were added in 3QFY23.**
- The total number of stores as of 3QFY23 stood at 1,177: KFC – 461, PH – 483, CC – 103, Others (India) – 73; Nigeria – 36, and Nepal – 21.
- Consolidated gross margin was down ~210bp YoY to 69.3%.
- EBITDA (post-IND AS) grew 17.7% YoY to INR1,739m (est. INR2,015m). EBITDA margin contracted ~170bp YoY to 22.0% (est. 23.5%).
- EBITDA (pre-IND AS) rose 14.2% YoY to INR1,172m with an EBITDA margin of 14.8%.
- Adjusted PAT came in at INR798m (est. INR752m) in 3QFY23 v/s INR654m in 3QFY22.
- In 9MFY23, sales/EBITDA grew 50.2%/51.5% to INR22.4b/5.0b, respectively.
- Adj. PAT in 9MFY23 came in at INR2,218m v/s INR935m in 9MFY22.

Highlights from the management commentary

- Demand environment: Inflation is having some adverse impact on discretionary demand in recent months. As inflation stabilizes, management expects demand conditions to improve.
- The company will add 250-300 stores in FY24 (maintained guidance) as well with KFC being expanded more due to relatively better performance.
- Around 10% of KFC stores will be the flagship stores in new cities, which will be larger than normal stores and with more local flavors available in menu.
- Flavour Fun Pizza has led to some downtrading in an inflationary environment, which affected PH's ADS and gross margin adversely.

Valuation and view

- Changes to our model have resulted in ~10% reduction in FY23 EBITDA forecasts whereas FY24/FY25 EBITDA forecasts have been reduced in the 4-5% range. EBITDA forecasts have been cut as a result of the miss on 3QFY23 estimates and prevailing uncertain demand environment.
- We, however, remain bullish on DEVYANI's prospects led by: a) KFC's strong brand equity and its growth opportunity; b) gradual turnaround in PH, driven by the management's focus on delivery and improved store metrics; c) network expansion across the portfolio; and d) healthy operating profitability in the mid-teens (on a pre-Ind AS basis).
- We reiterate our BUY rating with an SoTP-based TP of INR190 (based on 35x/25x for KFC/Pizza Hut on a pre-Ind AS EV/EBITDA basis on Mar'25 forecasts).**

Y/E March	Quarterly Performance								(INR m)		
	FY22				FY23				FY22	FY23E	FY23
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
KFC - No. of stores	284	309	339	364	391	423	461	484	364	484	448
PH - No. of stores	317	351	391	413	436	466	483	498	413	498	491
KFC - SSSG (%)	158.0	72.0	23.8	3.0	63.6	13.0	3.0	11.0	49.4	29.5	6.0
PH - SSSG (%)	216.1	73.5	24.7	2.3	31.5	2.9	-6.1	2.0	45.4	27.2	-1.0
Net Sales	3,528	5,161	6,244	5,907	7,047	7,474	7,906	8,210	20,840	30,638	8,575
YoY change (%)	280.6	124.4	64.7	36.4	99.8	44.8	26.6	39.0	83.6	47.0	37.3
Gross Profit	2,511	3,664	4,457	4,209	5,010	5,246	5,482	5,626	14,842	21,364	6,028
Margin (%)	71.2	71.0	71.4	71.3	71.1	70.2	69.3	68.5	71.2	69.7	70.3
EBITDA	616	1,233	1,478	1,397	1,647	1,655	1,739	1,810	4,760	6,851	2,015
EBITDA growth %	-444.6	175.5	67.5	19.7	167.5	34.2	17.7	29.6	109.7	43.9	36.3
Margin (%)	17.4	23.9	23.7	23.6	23.4	22.1	22.0	22.0	22.8	22.4	23.5
Depreciation	482	526	558	648	637	660	706	915	2,213	2,919	720
Interest	324	328	296	322	328	348	378	397	1,270	1,451	355
Other Income	47	52	39	24	90	45	81	51	161	267	65
PBT	-144	431	663	451	771	692	736	549	1,438	2,748	1,005
Tax	0	6	9	-335	24	19	-62	79	-320	59	253
Rate (%)	0.2	1.3	1.4	-74.1	3.1	2.8	-8.5	14.3	-22.2	2.2	25.2
Adjusted PAT	-143	425	654	786	748	672	798	471	1,757	2,689	752
YoY change (%)	N/M	L/P	L/P	271.2	L/P	58.3	22.0	-40.1	L/P	53.0	15.0

E: MOFSL Estimates

Quarterly performance of brands

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23E	3QFY23
KFC							
No. of stores	284	309	339	364	391	423	461
Net store additions	20	25	30	25	27	32	38
SSSG (%)	158.0	72.0	23.8	3.0	63.6	13.0	3.0
Net sales (INR m)	2,029	3,014	3,621	3,526	4,250	4,430	4,595
YoY growth (%)	-	140.9	63.8	38.8	109.5	47.0	26.9
ADS (INR '000)	92.1	116.4	124.0	113.0	127.0	121.0	116.0
Gross Margin (%)	69.4	69.1	69.3	69.3	69.0	67.9	67.6
Brand Contribution Margin (%)	16.0	22.4	23.0	21.8	22.4	21.5	19.7
Channel mix (%)							
Off-Premise	65	44	36	41	35	36	36
On-Premise	35	56	64	59	65	64	64
Pizza Hut							
No. of stores	317	351	391	413	436	466	483
Net store additions	20	34	40	22	23	30	17
SSSG (%)	216.1	73.5	24.7	2.3	31.5	2.9	-6.1
Net sales (INR m)	965	1,333	1,556	1,464	1,651	1,812	1,836
YoY growth (%)	-	111.6	63.6	41.3	71.1	35.9	18.0
ADS (INR '000)	38.4	45.1	47.0	41.0	44.0	45.0	43.0
Gross Margin (%)	75.9	75.5	75.6	75.5	76.2	74.5	73.6
Brand Contribution Margin (%)	14.1	15.8	16.8	17.6	17.5	17.0	14.1
Channel mix (%)							
Off-Premise	80	62	58	59	54	55	57
On-Premise	20	38	42	41	46	45	43
Costa							
No. of stores	44	45	50	55	69	88	103
Net store additions	0	1	5	5	14	19	15
SSSG (%)	344.9	225.9	101.2	24.0	206.8	50.7	20.1
Net sales (INR m)	37	94	143	137	176	220	291
YoY growth (%)	-	135.0	88.2	61.2	375.7	134.0	103.5
ADS (INR '000)	16.1	27.4	37.0	30.0	36.0	31.0	37.0
Gross Margin (%)	78.4	79.8	79.7	81.8	81.8	79.5	77.7
Brand Contribution Margin (%)	16.2	33.0	32.2	29.9	30.7	19.5	26.5

**Highlights from the management commentary****Environment and outlook**

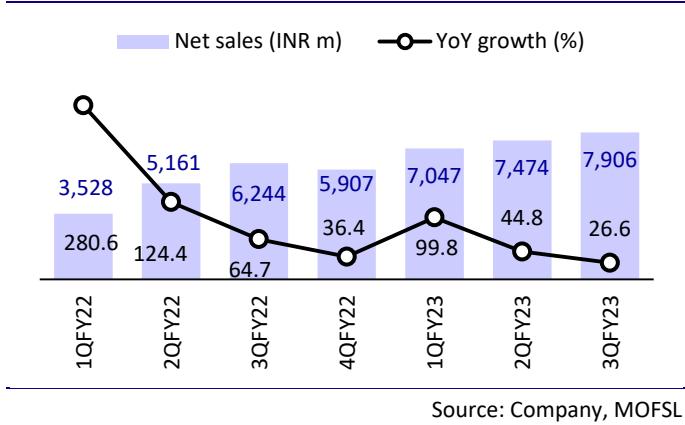
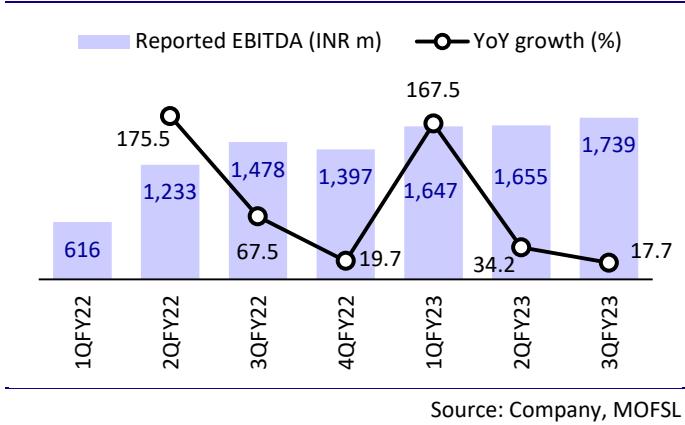
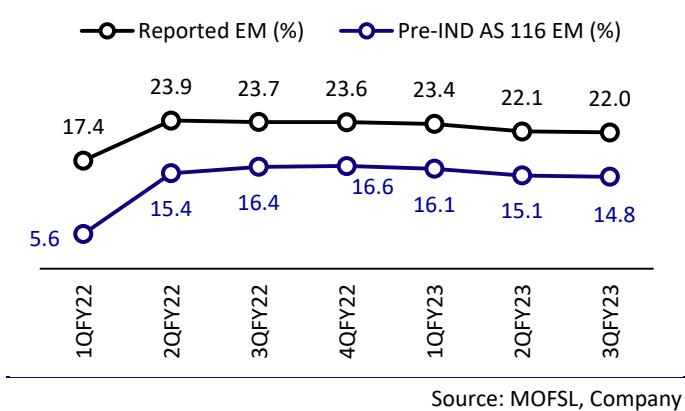
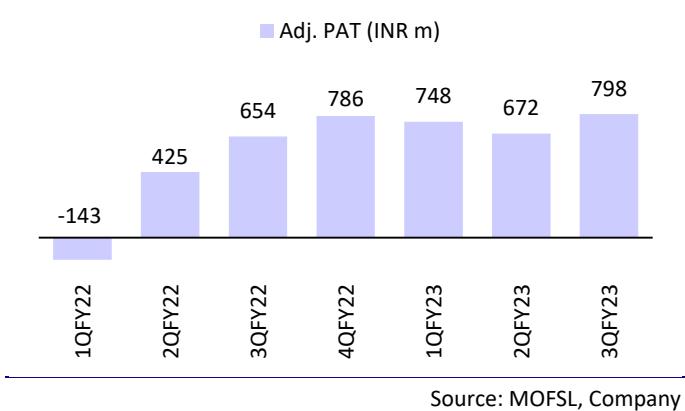
- Inflation is having some impact on discretionary demand in the recent months.
- As inflation stabilizes the management expects demand conditions to improve.
- Oct'22 and Dec'22 were good in demand terms whereas Nov'22 was hit.
- KFC's SSSG stood at only 3% due to an adverse impact on demand.

Segmental highlights, expansion

- Store count will be doubled at the end of FY23 from FY20 level.
- The company has added stores in 4-5 cities in every quarter.
- It will add 250-300 stores in FY24 (maintained guidance) with KFC being expanded more due to relatively better performance.
- Around 10% of KFC stores will be the flagship stores in new cities which will be larger than normal store and with more local flavors available in the menu.
- Flavour Fun Pizza has led to some downtrading in an inflationary environment which affected PH's ADS and gross margin adversely.
- CC is doing very well. Food is also doing well in these stores although a dominant proportion of sales comes from beverages. CC has better quality perception among customers than other brands. Mostly, the stores will be smaller format accessible stores. Its SSSG is driven largely by volume growth.

Costs and margins

- Milk and cheese costs witnessed inflation, thus impacting PH adversely but RM costs have stabilized for KFC.
- Margins will stabilize in the next few quarters.
- The company did not take any price hike in 3QFY23.
- Take rate from aggregators have been stable.

Key exhibits**Exhibit 1: Net sales rose 26.6% YoY to INR7.9b in 3QFY23****Exhibit 2: EBITDA grew 17.7% YoY to INR1.7b****Exhibit 3: Reported/pre-Ind AS EBITDA margin contracted 170bp and 160bp YoY, respectively, in 3QFY23****Exhibit 4: Adjusted PAT came in at INR798m****Valuation and view**

- Changes to our model have resulted in ~10% reduction in FY23 EBITDA forecasts whereas FY24/FY25 EBITDA forecasts have been reduced in the 4-5% range. EBITDA forecasts have been cut as a result of the miss on 3QFY23 estimates and prevailing uncertain demand environment.
- We, however, remain bullish on DEVYANI's prospects led by: a) KFC's strong brand equity and its growth opportunity; b) gradual turnaround in PH, driven by the management's focus on delivery and improved store metrics; c) network expansion across the portfolio; and d) healthy operating profitability in the mid-teens (on a pre-Ind AS basis).
- **We reiterate our BUY rating with an SoTP-based TP of INR190 (based on 35x/25x for KFC/Pizza Hut on a pre-Ind AS EV/EBITDA basis on Mar'25 forecasts).**

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

	FY25E EBITDA*	Multiple	EV
KFC	5.1	35x	178.7
Pizza Hut	1.2	25x	28.9
Costa Coffee	0.5	20x	10.9
Other brands	0.0	15x	0.0
International	0.6	12x	7.4
Total	7.4	38x	225.8
Net debt	FY25E		-4.9
Equity value			230.6
TP (INR)			190
Upside (%)			20%

*Pre-Ind AS 116

Source: Company, MOFSL

Exhibit 6: We cut our FY23/FY24/FY25 EBITDA estimates by 9.7%/3.8%/5.2%, respectively

INR m	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sales	30,638	40,195	49,548	31,868	41,835	52,362	-3.9	-3.9	-5.4
EBITDA	6,851	9,464	11,680	7,587	9,838	12,327	-9.7	-3.8	-5.2
PAT	2,689	3,320	4,209	3,069	3,770	4,602	-12.4	-11.9	-8.5

Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement		(INR m)						
Y/E March		FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales		13,106	15,164	11,348	20,840	30,638	40,195	49,548
Change (%)			15.7	-25.2	83.6	47.0	31.2	23.3
Raw Materials		3,889	4,604	3,447	5,998	9,274	11,766	14,480
Gross Profit		9,217	10,560	7,902	14,842	21,364	28,430	35,069
Margin (%)		70.3	69.6	69.6	71.2	69.7	70.7	70.8
Operating Expenses		6,428	8,005	5,633	10,082	14,513	18,966	23,389
EBITDA		2,790	2,555	2,269	4,760	6,851	9,464	11,680
Change (%)			-8.4	-11.2	109.7	43.9	38.1	23.4
Margin (%)		21.3	16.8	20.0	22.8	22.4	23.5	23.6
Depreciation		2,028	2,233	2,295	2,213	2,919	3,654	4,473
Int. and Fin. Charges		1,356	1,584	1,528	1,270	1,451	1,690	1,990
Other Income		131	187	641	161	267	319	410
Profit before Taxes		-464	-1,076	-913	1,438	2,748	4,439	5,627
Change (%)			132.0	-15.2	-257.5	91.1	61.5	26.8
Margin (%)		-3.5	-7.1	-8.0	6.9	9.0	11.0	11.4
Total tax		13	18	-11	-320	59	1,119	1,418
Tax Rate (%)		-2.8	-1.7	1.2	-22.2	2.2	25.2	25.2
PAT before Minority and Exceptionals		-477	-1,095	-902	1,757	2,689	3,320	4,209
Gain/ (Loss) from Discontinued Operations		-349	-427	183	0	0	0	0
Adjusted PAT		-825	-1,521	-719	1,757	2,689	3,320	4,209
Change (%)			N/M	N/M	L/P	53.0	23.5	26.8
Margin (%)		-6.3	-10.0	-6.3	8.4	8.8	8.3	8.5
Minority Interest		-149	3	-78	-12	-55	-60	-62
Exceptional items		116	-307	-89	206	-209	0	0
Reported PAT		-792	-1,217	-552	1,563	2,953	3,380	4,271

Balance Sheet		(INR m)						
Y/E March		FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share Capital		1,062	1,062	1,154	1,205	1,205	1,205	1,205
Reserves		-1,764	-2,953	-16	5,658	8,611	11,991	16,262
Net Worth		-702	-1,891	1,138	6,863	9,816	13,196	17,467
Loans		4,002	4,307	3,805	1,325	1,325	1,325	1,325
Other Liability		12,347	12,882	8,724	11,217	12,380	14,872	18,080
Minority Interest		-510	-391	-419	-47	-102	-162	-224
Capital Employed		15,136	14,906	13,248	19,358	23,418	29,231	36,648
Gross Block		7,233	9,625	12,718	16,419	20,016	23,735	27,141
Less: Accum. Depn.		2,028	4,261	6,556	8,769	11,688	15,342	19,815
Net Fixed Assets		5,204	5,364	6,162	7,649	8,328	8,393	7,326
Capital WIP		115	135	143	68	68	68	68
Goodwill		161	224	644	644	644	644	644
Right to Use Assets		9,947	10,351	6,660	8,911	12,423	16,370	20,493
Investments		471	414	456	351	351	351	2,851
Current		0	0	0	0	0	0	2,500
Non-current		471	414	456	351	351	351	351
Curr. Assets, L&A		2,177	2,347	2,619	5,001	5,903	8,724	11,595
Inventory		549	721	622	855	1,257	1,649	2,032
Account Receivables		230	173	169	211	310	406	501
Cash and Bank Balance		271	160	405	659	470	2,106	3,678
Others		1,127	1,293	1,423	3,277	3,867	4,563	5,385
Curr. Liab. and Prov.		2,938	3,929	3,436	3,267	4,300	5,320	6,330
Account Payables		1,368	1,632	1,619	1,964	2,887	3,788	4,669
Other Liabilities		1,400	2,138	1,565	1,043	1,126	1,217	1,314
Provisions		170	160	252	261	287	315	347
Net Current Assets		-762	-1,582	-818	1,734	1,603	3,405	5,266
Application of Funds		15,136	14,906	13,248	19,358	23,418	29,231	36,648

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)							
EPS	-0.8	-1.4	-0.6	1.5	2.2	2.8	3.5
Cash EPS	1.1	0.7	1.4	3.3	4.7	5.8	7.2
BV/Share	-0.7	-1.8	1.0	5.7	8.1	11.0	14.5
Valuation (x)							
P/E	N/M	N/M	N/M	109.2	71.4	57.8	45.6
Cash P/E	140.6	237.5	116.6	48.3	34.2	27.5	22.1
EV/Sales	13.1	11.4	16.4	9.2	6.3	4.7	3.8
EV/EBITDA	61.8	67.6	82.3	40.4	28.1	20.2	16.0
P/BV	N/M	N/M	161.5	28.0	19.5	14.5	11.0
Return Ratios (%)							
RoE		N/M	N/M	43.9	32.2	28.9	27.5
RoCE		3.4	4.3	20.3	19.2	17.4	17.3
RoIC		2.2	-0.2	19.9	18.5	17.4	18.0
Working Capital Ratios							
Debtor (Days)	6	4	5	4	4	4	4
Asset Turnover (x)	0.9	1.0	0.9	1.1	1.3	1.4	1.4
Leverage Ratio							
Debt/Equity (x)	-5.7	-2.3	3.3	0.2	0.1	0.1	0.1

Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	(INR m)
OP/(loss) before Tax	-928	-1,196	-641	1,231	2,957	4,439	5,627	
Depreciation	2,257	2,467	2,357	2,213	2,919	3,654	4,473	
Net interest	1,348	1,594	1,518	1,180	1,185	1,371	1,580	
Others	86	-74	-1,240	-177	0	0	0	
Direct Taxes Paid	-3	-8	5	-103	-59	-1,119	-1,418	
(Incr)/Decr in WC	17	223	397	162	-58	-165	-289	
CF from Operations	2,778	3,007	2,396	4,506	6,943	8,180	9,972	
Incr in FA	-1,407	-988	-1,329	-2,930	-3,597	-3,719	-3,406	
Free Cash Flow	1,371	2,019	1,066	1,576	3,346	4,461	6,566	
Pur of Investments	3	-2	22	-912	0	0	-2,500	
Others	-273	98	-2,263	173	-2,295	-1,395	-853	
CF from Invest.	-1,677	-892	-3,570	-3,669	-5,892	-5,114	-6,759	
Issue of Shares	0	0	3,476	4,486	0	0	0	
Incr in Debt	-967	-1,791	-1,564	-4,776	0	0	0	
Dividend Paid	0	0	0	0	0	0	0	
Net interest Paid	-338	-435	-492	-147	-1,185	-1,371	-1,580	
Min Int/ Dt								
Others	0	0	0	-146	-55	-60	-62	
CF from Fin. Activity	-1,305	-2,226	1,420	-584	-1,240	-1,431	-1,641	
Incr/Decr of Cash	-204	-111	245	253	-189	1,636	1,572	
Add: Opening Balance	475	271	160	405	659	470	2,106	
Closing Balance	271	160	405	659	470	2,106	3,678	

E: MOFSL Estimates

NOTES

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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