

Devyani International

Refer to important disclosures at the end of this report

Cautious near-term commentary but retains medium-term outlook

DIL's Q3 EBITDA at Rs1.74bn was at the mid-point of street/our expectations of Rs1.7-1.8bn. Among brands, KFC delivered better SSG at 3%, while PH saw a 6% decline. DIL attributed the growth variance to better demand trends and under-penetration of the chicken category vis-à-vis pizza. The near-term commentary was cautious for PH, but DIL retained its outlook of 7-8% SSG for PH, underpinned by a strong pipeline of new launches and entry into the value pizza segment. Store additions remained robust with net additions of 81/197 stores in Q3/9M and annual guidance of 250-300 additions was retained. Retention of store targets and peaking of consumer-level inflation suggest anticipation of demand recovery sooner than later. Factoring in of higher marketing and elevated cheese prices leads to 6-8% cut to our FY24/25 EBITDA estimates. DIL offers better risk-reward with a presence in the fast-growing chicken category and offers a multi-category play. We expect DIL to deliver a strong EBITDA CAGR of ~29% over FY22-25E, led by a 20% store count CAGR, 5% SSG, and gradual margin gains. We maintain our Buy rating with a TP of Rs215 (34x Mar-25E EBITDA Pre-Ind AS 116).

Result summary: KFC's revenue grew by 27%, led by 36% growth in store count and 3% SSG, while PH's revenue saw 18% growth, led by 28% growth in store count and -6% SSG. Growth was broad-based for both on-premise and off-premise channels. With new menu launches, marketing initiatives, and deeper penetration, DIL continues to expect a higher normalized SSG at 8% for PH vs. 4-5% for KFC formats. Store additions at 81 stores remained robust with 38/17 store additions for KFC/PH and 15 stores for Costa Coffee. Inflationary pressures impacted gross margins by ~200bps and low SSG impacted margins by another 160bps, leading to a ~360bps decline in brand contribution margins. However, 200bps savings in HO costs restricted the EBITDA margin decline to 160bps in Q3.

Earnings call KTAs: 1) Price of key inputs like cheese continues to be elevated, which has led to a slight impact on margins. KFC's inflation has peaked out, and DIL expects stable gross margins going ahead. Elevated cheese prices can continue to impact PH's gross margins going ahead. 2) DIL will continue to target non-metro markets as well as new trade areas in metro cities. Store mix of non-metro cities stood at 52% at Q3-end. 3) DIL launched new category of Fun-Flavored Pizza in Pizza Hut and brought back chizza in KFC due to strong consumer reception. DIL indicated the pipeline for new launches remains strong across both PH and KFC brands. 5) DIL is looking to expand 250-300 stores for FY24, despite the inflationary environment. 6) DIL expects to open 10% of new KFC flagship stores, offering a better dine-in experience (digitalization). DIL opened five flagship stores in Q3, with 8-9% higher capex. 7) For Costa Coffee, focus will be on expanding with smaller stores and increase the mix of food in the overall ADS.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	11,348	20,840	30,478	40,016	48,997
EBITDA	2,269	4,760	6,826	8,730	11,151
EBITDA Margin (%)	20.0	22.8	22.4	21.8	22.8
APAT	(1,304)	1,734	2,755	2,923	3,976
EPS (Rs)	(1.1)	1.4	2.3	2.4	3.3
EPS (% chg)	0.0	0.0	58.8	6.1	36.0
ROE (%)	346.3	43.4	33.8	26.9	27.7
P/E (x)	(141.0)	110.8	69.7	65.7	48.3
EV/EBITDA (x)	86.8	42.9	29.8	23.2	17.9
P/BV (x)	161.7	28.0	20.4	15.6	11.8

Source: Company, Emkay Research

CMP	Target Price
Rs 159 as of (2/10/2023)	Rs 215 (▼) 12 months
Rating	Upside
BUY (■)	34.8 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	7/(13)
Target Price change (%)	(6.5)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	2.3	2.4
Consensus	2.2	2.9
Mean Consensus TP (12M)	Rs 205	

Stock Details

Bloomberg Code	DEVYANI IN
Face Value (Rs)	1
Shares outstanding (mn)	1,205
52 Week H/L	215 / 141
M Cap (Rs bn/USD bn)	192 / 2.33
Daily Avg Volume (nos.)	20,21,990
Daily Avg Turnover (US\$ mn)	4.4

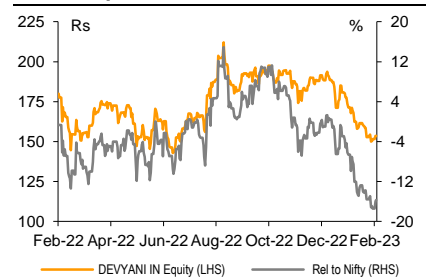
Shareholding Pattern Dec '22

Promoters	62.8%
FIIIs	8.8%
DIIIs	7.9%
Public and Others	20.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	(14)	(15)	(11)
Rel. to Nifty	(4)	(12)	(17)	(13)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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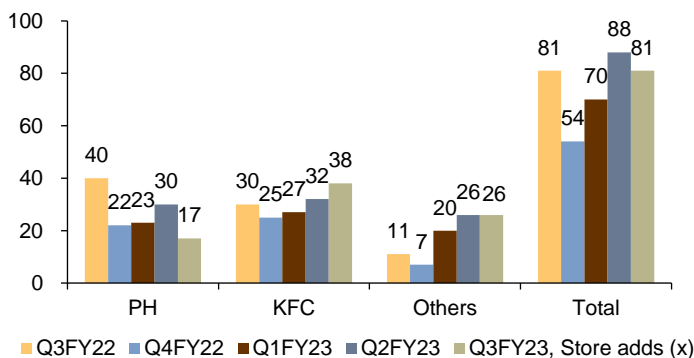
Story in Charts

Exhibit 1: Performance across key metrics over the past few quarters

Key Metrics (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
KFC India						
Number of stores (x)	309	339	364	391	423	461
ADS ('000)	1,16,380	1,24,000	1,13,000	1,27,000	1,21,000	1,16,000
Revenue	3,014	3,621	3,526	4,250	4,430	4,595
Gross margin (%)	69.1	69.3	69.3	69.0	67.9	67.6
Brand contribution margin (%)	22.4	23.0	21.8	22.4	21.5	19.7
PH India						
Number of stores (x)	351	391	413	436	466	483
ADS ('000)	45,090	47,000	41,000	44,000	45,000	43,000
Revenue	1,333	1,556	1,464	1,651	1,812	1,836
Gross margin (%)	75.5	75.6	75.5	76.2	74.5	74.0
Brand contribution margin (%)	15.8	16.8	17.6	17.5	17.0	14.1
Costa Coffee						
Number of stores (x)	45	50	55	69	88	103
ADS ('000)	27,390	37,000	30,000	36,000	31,000	37,000
Revenue	94	143	137	176	220	291
Gross margin (%)	79.8	79.7	81.8	81.8	79.5	77.7
Brand contribution margin (%)	33.0	32.2	29.9	30.7	19.5	26.5
India - others						
Revenue	220	365	303	444	464	573
Brand contribution margin (%)	21.4	27.7	20.8	11.5	10.6	8.9
International [Nepal, Nigeria]						
Revenue	500	559	477	526	548	611
Brand contribution margin (%)	20.4	22.4	26.0	18.6	21.2	25.9
DIL - Consolidated						
Number of stores (x)	803	884	938	1,008	1,096	1,177
Store additions (x)	68	81	54	70	88	81
Revenue	5,161	6,244	5,907	7,047	7,474	7,906
Gross margin (%)	71.0	71.4	71.3	71.1	70.2	69.3
Brand contribution margin (%)	20.7	21.9	21.2	20.5	19.6	18.3
Overhead opex/revenue (%)	5.3	5.4	4.7	4.3	4.6	3.5
Consol. EBITDA	791	1,026	978	1,137	1,125	1,172
EBITDA margin (%)	15.3	16.4	16.6	16.1	15.1	14.8

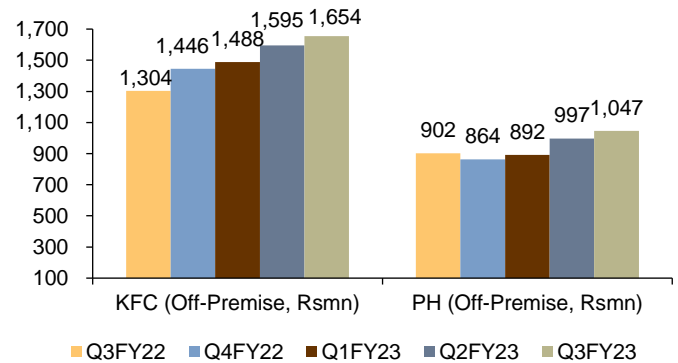
Source: Company, Emkay Research, *EBITDA/margins are Pre-Ind AS 116

Exhibit 2: DIL added 81 stores in Q3FY23, with 17/38 stores in PH/KFC and 26 in other formats

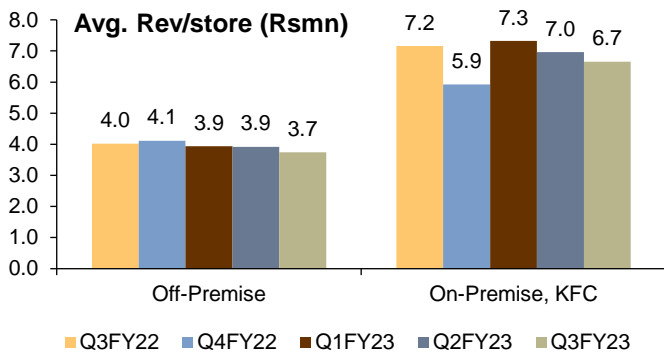


Source: Company, Emkay Research

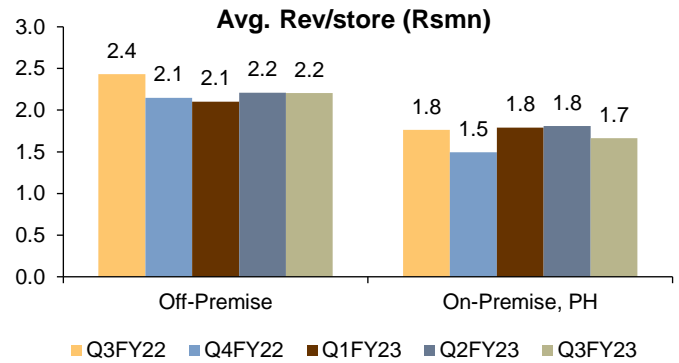
Exhibit 3: Channel wise, off-premise sales grew 27% for KFC and 16% for Pizza Hut brands



Source: Company, Emkay Research

Exhibit 4: KFC's off-premise sales per store and on-premise sales per store declined slightly

Source: Company, Emkay Research

Exhibit 5: PH's off-premise sales per store sustained sequentially, while on-premise sales per store declined slightly

Source: Company, Emkay Research

Exhibit 6: Actual vs. Estimates (Q3FY23)

Rs mn	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	7,906	7,845	8,183	0.8%	-3.4%	Revenue was largely in line with expectations
EBITDA*	1,739	1,666	1,822	4.4%	-4.5%	Better gross margins and cost control led to better margins
EBITDA Margin* (%)	22.0%	21.2%	22.3%	77	-26	
PAT	717	491	650	46.0%	10.2%	Deferred tax and higher other income led to PAT beat

Source: Company, Emkay Research, *EBITDA/Margins are Post-Ind AS 116

Exhibit 7: Quarterly performance (Consolidated)

Y/E, March (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	FY22TD	FY23TD	Gr (%)
Revenue	6,244	5,907	7,047	7,474	7,906	26.6	5.8	14,933	22,427	50.2
Expenditure	4,766	4,511	5,400	5,810	6,167	29.4	6.1	11,605	17,377	49.7
Consumption of RM	1,787	1,698	2,037	2,229	2,424	35.6	8.8	4,300	6,690	55.6
as % of sales	28.6%	28.7%	28.9%	29.8%	30.7%			28.8%	29.8%	
Employee Cost-Store	728	623	766	881	860	18.1	-2.4	1,859	2,507	34.8
as % of sales	11.7%	10.5%	10.9%	11.8%	10.9%			12.4%	11.2%	
Other expenditure	2,251	2,190	2,597	2,701	2,883	28.1	6.7	5,445	8,181	50.2
as % of sales	36.0%	37.1%	36.8%	36.1%	36.5%			36.5%	36.5%	
EBITDA	1,478	1,397	1,647	1,664	1,739	17.7	4.5	3,328	5,050	51.7
Depreciation	558	648	637	660	706	26.7	6.9	1,566	2,004	28.0
EBIT	920	749	1,010	1,003	1,033	12.2	3.0	1,762	3,046	72.8
Other Income	39	24	90	45	81	106.9	78.5	137	216	57.0
Interest	296	322	328	348	378	27.6	8.6	948	1,054	11.2
PBT	663	451	771	700	736	10.9	5.0	951	2,207	132.0
Total Tax	9	-335	24	19	-62			15	-19	
Adjusted PAT	654	786	748	681	798	22.1	17.1	937	2,227	137.8
Extra ordinary items	6	-27	0	-113	-88			-144	-200	
Reported PAT before MI	660	759	748	568	710	7.7	25.0	792	2,026	155.8
Minority Interest	29	-5	9	-19	-6			-8	-16	
Reported PAT	631	764	738	588	717	13.6	22.0	800	2,043	155.4
Reported EPS (Rs)	0.5	0.6	0.6	0.5	0.6	13.4	22.0	0.7	1.7	159.1

Margins (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	(bps)	(bps)	FY22TD	FY23TD	(bps)
EBIDTA	23.7	23.6	23.4	22.3	22.0	-170	-30	22.3	22.5	20
EBIT	14.7	12.7	14.3	13.4	13.1	-170	-40	11.8	13.6	180
EBT	10.6	7.6	10.9	9.4	9.3	-130	-10	6.4	9.8	350
PAT	10.1	12.9	10.5	7.9	9.1	-100	120	5.4	9.1	380
Effective Tax rate	1.4	-74.1	3.1	2.7	-8.5	-990	-1,120	1.6	-0.9	-240

Source: Company, Emkay Research, *EBITDA/Margins are post-Ind AS 116

Exhibit 8: Peer Comparison

Company	Price (Rs)	M-Cap (Rs bn)	Rating	TP (Rs)	P/E (x)			EV/EBITDA (x) Pre-IND AS 116			EBITDA CAGR (%)	EV/E-G (x)*
					FY23E	FY24E	FY25E	FY23E	FY24E	FY25E		
Jubilant Foodworks	443	293	Hold	480	66.8	52.4	41.9	35.2	27.9	22.7	24.5	1.4
Devyani International	159	191	Buy	215	69.5	65.5	48.2	41.3	32.6	24.8	29.1	1.4
Westlife Development	693	108	Hold	810	87.9	67.2	53.5	35.2	29.2	24.4	20.2	1.7
Sapphire Foods	1,258	80	Buy	1,620	63.4	39.6	33.4	27.7	19.7	14.8	36.5	0.8

Source: Company, Emkay Research, *EV/E-G is the ratio of FY23E EV/EBITDA to FY23E-25E EBITDA CAGR expectations

Exhibit 9: Changes in estimates

Y/E, March (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	30,737	30,478	-0.8	39,778	40,016	0.6	48,738	48,997	0.5
EBITDA*	4,609	4,615	0.1	6,389	5,850	-8.4	8,145	7,687	-5.6
EBITDA Margin* (%)	15.0	15.1	10 bps	16.1	14.6	-140 bps	16.7	15.7	-100 bps
PAT	2,383	2,555	7.2	3,359	2,923	-13.0	4,433	3,976	-10.3
EPS (Rs)	2.0	2.1	7.2	2.8	2.4	-13.0	3.7	3.3	-10.3

Source: Company, Emkay Research, *EBITDA/Margins are Pre-Ind AS 116

Exhibit 10: DIL: Growth construct of the business from supply-side

Particulars	FY20	FY22	FY25E	FY35E	CAGR (%)	
					FY25-35E	FY35+
KFC Stores (DIL)	172	364	676	1,696	9.6	2.5
PH Stores (DIL)	269	413	683	1,575	8.7	2.5
Others (DIL)	169	87	332	582	5.8	2.5
Total DIL stores (No.)	610	938	1,691	3,853	8.6	2.5
SSG, %					6.3	5.0
DIL – Revenue (Rs bn)	15	21	49	206	15.4	7.6
EBITDA margins, %	3.8	14.4	15.7	19.9		
DIL – EBITDA	0.6	3.0	7.7	41	18.2	
Depreciation (% of EBITDA)	160.6		29.6	7.5		
DIL – EBIT	-0		5.4	38	21.5	7.6
EBIT margins, %	(2.3)		11.0	18.4		

Source: Emkay Research, *EBITDA/Margins are Pre-Ind AS 116

Exhibit 11: DIL: Target EV/EBITDA multiple derived from a two-stage dividend growth model

Particulars (Rs bn)	
Revenue CAGR [FY22E-25E] (%)	33
EBITDA CAGR [FY22E-25E] (%)	37
Net debt-to-EV (%)	-0
Stage-1: FY25E-35E	
EBITDA in Yr-0 [FY25E] (Rs)	7.7
EBITDA in Yr-1 (Rs bn)	9.2
EBITDA CAGR (%)	20.0
Years of growth [n]	10.0
Incremental RoIC (%)	100.0
WACC (%)	12.25
Tax rate (%)	25.2
Sustainable D&A-to-EBITDA (%)	10.0
Net debt to EV (%)	-0
Implied FCFF ratio (%)	80
Revenue in FY35E	303
Terminal stage	
Terminal EBITDA growth (%)	7.5
Incremental RoIC (%)	100.0
Implied FCFF ratio (%)	92.5
Fair value EV/EBITDA in Mar-25E (x)	29.5
EV in Mar-25E	272
Mar-24 NPV of FCFFs	3.7
Mar-24E EV	246
Adj. net debt	(1.0)
Fair value of equity in Mar-24E (x)	247
Mar-25E EBITDA	7.7
Implied fair value EV/EBITDA in Mar-24E (x)	32.0
Premium applied to FV (%) [a]	5.0
Target EV/EBITDA in Mar-24E (x)	34
Target market-cap in Mar-24E	259
Shares o/s (mn)	1,205
Target price in Mar-24E (Rs/share)	215

Source: Emkay Research; [a] Revenue growth and margin expansion will likely be front-loaded than assumed.

Key Financials (Consolidated)**Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	11,348	20,840	30,478	40,016	48,997
Expenditure	9,079	16,080	23,652	31,287	37,847
EBITDA	2,269	4,760	6,826	8,730	11,151
Depreciation	2,775	2,249	2,758	3,466	4,229
EBIT	(505)	2,511	4,068	5,264	6,922
Other Income	641	161	270	350	493
Interest expenses	1,528	1,270	1,453	1,706	2,099
PBT	(1,393)	1,402	2,885	3,908	5,316
Tax	(11)	(320)	130	985	1,340
Extraordinary Items	752	(171)	(200)	0	0
Minority Int./Income from Assoc.	(78)	(12)	0	0	0
Reported Net Income	(552)	1,563	2,555	2,923	3,976
Adjusted PAT	(1,304)	1,734	2,755	2,923	3,976

Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	1,154	1,205	1,205	1,205	1,205
Reserves & surplus	(16)	5,658	8,213	11,136	15,112
Net worth	1,138	6,863	9,418	12,341	16,317
Minority Interest	(419)	(47)	(47)	(47)	(47)
Loan Funds	13,358	12,542	12,394	13,220	13,855
Net deferred tax liability	228	229	428	545	656
Total Liabilities	14,304	19,586	22,192	26,059	30,781
Net block	13,467	17,204	20,997	23,226	25,027
Investment	0	0	0	0	0
Current Assets	3,075	5,352	6,137	9,343	13,740
Cash & bank balance	405	659	960	2,874	5,820
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	2,380	3,039	5,010	6,578	8,054
Net current assets	695	2,314	1,127	2,765	5,686
Misc. exp	0	0	0	0	0
Total Assets	14,304	19,586	22,192	26,059	30,781

Cash Flow

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	(1,281)	1,070	2,415	3,558	4,823
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(251)	(1,358)	1,687	394	135
Operating Cashflow	2,781	3,551	8,183	8,139	9,946
Capital expenditure	(2,281)	(2,585)	(4,550)	(3,695)	(4,030)
Free Cash Flow	500	966	3,633	4,444	5,916
Investments	0	0	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(1,640)	(2,424)	(4,280)	(3,345)	(3,537)
Equity Capital Raised	3,586	4,375	0	0	0
Loans Taken / (Repaid)	(812)	(3,316)	(1,325)	0	0
Dividend paid (incl. tax)	0	0	0	0	0
Other Financing Cash Flow	(3,170)	(1,755)	(2,211)	(2,879)	(3,464)
Financing Cashflow	(896)	(874)	(3,602)	(2,879)	(3,464)
Net chg. in cash	245	253	301	1,915	2,945
Opening cash position	160	405	659	960	2,874
Closing cash position	405	659	960	2,874	5,820

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	20.0	22.8	22.4	21.8	22.8
EBIT Margin	(4.5)	12.0	13.3	13.2	14.1
Effective Tax Rate	0.8	(22.8)	4.5	25.2	25.2
Net Margin	(12.2)	8.3	9.0	7.3	8.1
ROCE	0.9	15.8	20.8	23.3	26.1
ROE	346.3	43.4	33.8	26.9	27.7
RoIC	(3.4)	18.9	19.4	17.8	21.6

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	(1.1)	1.4	2.3	2.4	3.3
CEPS	1.3	3.3	4.6	5.3	6.8
BVPS	1.0	5.7	7.8	10.2	13.5
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	(141.0)	110.8	69.7	65.7	48.3
P/CEPS	143.9	55.5	40.1	34.6	26.9
P/BV	161.7	28.0	20.4	15.6	11.8
EV / Sales	17.4	9.8	6.7	5.1	4.1
EV / EBITDA	86.8	42.9	29.8	23.2	17.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	11.4	1.7	1.2	0.8	0.5
Net Debt/EBIDTA	5.7	2.5	1.7	1.2	0.7
Working Cap Cycle (days)	9.3	29.0	2.0	(1.0)	(1.0)

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(25.2)	83.6	46.2	31.3	22.4
EBITDA	(11.2)	109.7	43.4	27.9	27.7
EBIT	(278.6)	0.0	62.0	29.4	31.5
PAT	0.0	0.0	63.4	14.4	36.0

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue	6,244	5,907	7,047	7,474	7,906
EBITDA	1,478	1,433	1,643	1,655	1,739
EBITDA Margin (%)	23.7	24.3	23.3	22.1	22.0
PAT	631	764	738	588	716
EPS (Rs)	0.5	0.6	0.6	0.5	0.6

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	62.9	62.8	62.8	62.8	62.8
FIs	7.8	6.9	6.9	8.3	8.8
DIs	4.9	5.8	6.3	7.5	7.9
Public and Others	24.4	24.6	24.1	21.4	20.5

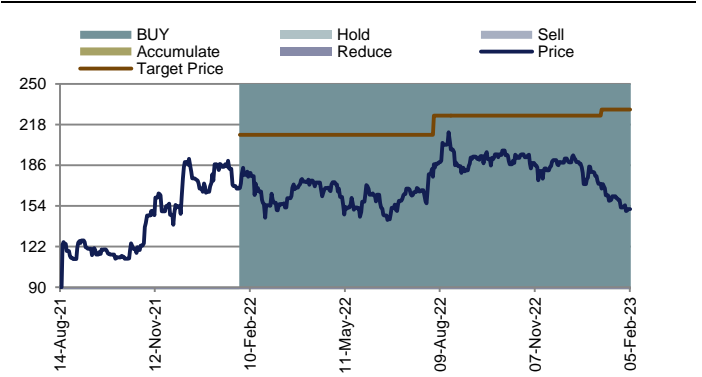
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
09-Jan-23	168	230	12m	Buy	Devanshu Bansal
04-Nov-22	188	225	12m	Buy	Devanshu Bansal
03-Aug-22	187	225	12m	Buy	Devanshu Bansal
03-May-22	171	210	12m	Buy	Devanshu Bansal
08-Apr-22	174	210	12m	Buy	Ashit Desai
05-Feb-22	179	210	12m	Buy	Ashit Desai
31-Jan-22	168	210	12m	Buy	Ashit Desai

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 10 Feb 2023 03:54:43 (SGT)
Dissemination Date: 10 Feb 2023 03:55:43 (SGT)

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