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INSTITUTIONAL RESEARCH

Devyani International

Operationally weak

Mirroring its sister franchisee, Devyani reported an operationally weak Q4FY23 performance on moderating SSSG. Revenue growth of 28% YoY was led by 33% store addition. SSSG was weak for both KFC/PH at +2/-3% (Sapphire: +2/-4%) due to a tough demand environment. Negative oplev due to weak SSSG led to margin pressure across the business. Devyani's KFC/PH ROM fell 220/490bps QoQ to 17.5/9.3% (Sapphire 110/530bps to 19/8.6%; JUBI 230bps to c.18%). Management has maintained its medium-term guidance of mid-single-digit SSSG growth and 300 stores addition. In the near term, we expect decelerating trend to continue with sustained pressure on operating margin. We maintain our EPS estimates and value Devyani at 50x P/E on Jun'25 EPS to arrive at a TP of INR 115. Maintain REDUCE.

- **Store expansion led revenue growth; weak SSSG continues:** Consolidated revenue grew by 28% YoY (21% HSIE) to INR 7.6bn. India revenue grew by 29%, which was supported by 33% store addition as SSSG was weak. KFC/PH revenue grew by 26/16% YoY (Sapphire: 24/18%) while SSSG weakened to 2/-3% (Sapphire: 2/-4%) due to demand softness. ADS declined by 6/5% YoY (down 9/9% QoQ) for KFC/PH (Sapphire: 4/9% YoY; 7/14% QoQ). Dine-in continued to do well for KFC, whereas PH saw a similar trend across both channels. Costa Coffee revenue grew 2.4x (store growth 2x; SSSG +43%) on a low base. Notwithstanding near-term pressure, management remains optimistic of mid-single digit SSSG (5-6% for KFC/ 7-8% PH) in the medium to long term. However, given the deceleration seen in discretionary demand, we bake in SSSG of 2/8/5% for KFC and 1/7/5% for PH over FY24-26. We estimate that consolidated revenue will grow at 20% CAGR over FY23-26E.
- **Store addition of +300 stores in FY24:** Devyani opened 29/126 KFC & 23/93 PH stores in Q4/FY23 (Sapphire: 16/78 KFC; 12/67 PH stores). Management aims to open 300 stores in FY24, led by KFC (>100), PH (<100) & Costa Coffee (60-70). We are building 345/225/120 KFC/PH/Costa addition over FY24-26.
- **Sharp margin contraction:** GM saw QoQ improvement on a consolidated level on softening RM basket. However, with weak SSSG, the consolidated ROM/EBITDA margin contracted by 480/190bps YoY (Sapphire: 230/260bps YoY). While KFC ROM fell by 430/220bps YoY/QoQ (Sapphire: +10/-100bps), the contraction was steep for the weaker PH brand, which saw a decline of 830/490bps YoY/QoQ (Sapphire: 290/530bps; Dominos: 490/230bps). We note that margins also had an impact of 100bps due to employee bonuses.
- **Call and BS/CF takeaways:** (1) With initial signs of stable inflation, the company hopes for a consumer demand rebound in H2FY24. (2) Store mix moving towards non-metro. Strongly believe upcoming towns will be growth drivers in the next decade. (3) In KFC, a 3.5% price was hiked in April'23 after a gap of 12 months. (4) KFC GM to revert back to 69-69.5% over the next few quarters. (5) In PH, the company conducted a menu refresh and launched 10 new pizzas and sides. No pricing action is in the offing. (6) In FY23, FCF stood at INR 2.1bn vs INR 1.4bn YoY.

Quarterly/annual financial summary

(INR mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	7,550	5,907	27.8	7,906	(4.5)	20,840	29,977	36,210	43,854	51,592
EBITDA	1,513	1,433	5.6	1,739	(13.0)	4,760	6,551	7,320	9,234	11,077
APAT	606	796	(23.9)	710	(14.7)	1,715	2,770	2,036	2,513	3,244
EPS (INR)	0.50	0.66	(23.9)	0.59	(14.7)	1.4	2.3	1.7	2.1	2.7
P/E (x)						122.3	75.7	103.0	83.4	64.6
EV / EBITDA						70.2	48.2	44.5	33.6	27.1
RoCE (%)						19.4	19.3	13.4	14.1	16.3

Source: Company, HSIE Research

REDUCE

CMP *(as on 17 May 23)*	INR 174
Target Price	INR 115
NIFTY	18,182

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 115	INR 115
	FY24E	FY25E
EPS %	0%	0%

KEY STOCK DATA	
Bloomberg code	DEVYANI IN
No. of Shares (mn)	1,205
MCap (INR bn) / ($ mn)	210/2,569
6m avg traded value (INR mn)	358
52 Week high / low	INR 215/134

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	13.6	(5.1)	8.7
Relative (%)	12.7	(4.8)	(4.6)

SHAREHOLDING PATTERN (%)	Dec-22	Mar-23
Promoters	62.80	62.80
FIs & Local MFs	7.88	9.67
FPIs	14.70	18.46
Public & Others	14.62	9.07
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Disclosure:
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