

# Devyani International

## Operating print remains soft

Devyani reported yet another operationally soft print on weak SSSG — revenue growth of 20% YoY with 28% store growth. SSSG was weak for both KFC/PH at -0.9/-5% (Sapphire 0/-9%) due to a depressed consumer spending environment. The stabilizing RM basket, general QoQ improvement and price increases in April'23 (for KFC) enabled sequential improvement in margin. However, they remained under pressure YoY. KFC/PH ROM fell by 130/740bps YoY to 21.1/10.1% (Sapphire +50/-740bps). Management has lowered its PH store opening guidance to 70-75 (from 100) as it looks to cumulatively open 275-300 stores in FY24. We expect near-term pressure on both demand and margins to persist. We maintain our EPS estimates and value Devyani at 50x P/E on Sep'25 EPS to arrive at a TP of INR 115. Maintain REDUCE.

- **Revenue up 20% YoY, led by store expansion; SSSG remains weak:** Consolidated revenue grew by 20% YoY (21% HSIE) to INR 8.5bn. India revenue grew by 21% led by a 28% increase in store count as SSSG remained weak for the second consecutive quarter. KFC/PH revenue grew by 22/11% YoY (Sapphire: 21/12%) while SSSG weakened to -0.9/-5% (Sapphire: 0/-9%) on soft demand. ADS declined by 8/9% YoY for KFC/PH (Sapphire: -4/-15% YoY). Both dine-in and delivery continued to do well for KFC, whereas PH saw healthy delivery while dine-in was muted. Costa Coffee revenue grew by 84% YoY (store growth 1.8x; SSSG +9%) on a low base. We remain cautious about QSR demand and margin performance in FY24. 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 275-300 in FY24:** Devyani opened 20/15/11 KFC/PH/Costa stores in Q1FY24 (Sapphire: 1/16 KFC/PH stores). Management has recalibrated its store opening guidance from 300 to 275-300 and will look to open lesser PH stores (down from 100 to 70-75). We are building 345/225/120 KFC/PH/Costa addition over FY24-26.
- **Margins improve sequentially:** On stable RM basket and price increase, gross margin saw sequential improvement on a consolidated level as well as brand level. However, with weak SSSG growth, the consolidated ROM/EBITDA margin contracted by 230/280bps YoY to 18/20% (Sapphire: -130/-170bps). KFC ROM contracted by 130bps (up 360bps QoQ) to 21.1% (Sapphire: +50bps to 20.8% while the weaker PH brand saw a steeper contraction of 740bps to 10.1% (Sapphire: -580bps to 9%).
- **Con call takeaways:** (1) Demand environment remains challenging. Q2 is seasonally weak. Expect demand to pick up from Q3 onwards. (2) KFC margins were aided by a price hike taken in April'23 (3.5%), stable RM basket and cost efficiency. (3) Initiated small price hike in PH (1%). The worst margin is still not behind PH. (4) There is no fundamental change in the consumption of pizza and the category continues to grow. (5) Remain optimistic about the Vaango brand. To reach INR 1bn of sales in FY24. (6) Employee costs include staff increments and increase in minimum wages in certain states.

### Quarterly/annual financial summary

| (INR mn)        | Q1FY24 | Q1FY23 | YoY (%) | Q4FY23 | QoQ (%) | FY22   | FY23   | FY24E  | FY25E  | FY26E  |
|-----------------|--------|--------|---------|--------|---------|--------|--------|--------|--------|--------|
| Net Sales       | 8,466  | 7,047  | 20.1    | 7,550  | 12.1    | 20,840 | 29,977 | 36,074 | 43,693 | 51,407 |
| EBITDA          | 1,734  | 1,643  | 5.6     | 1,513  | 14.6    | 4,760  | 6,551  | 7,247  | 9,102  | 10,941 |
| APAT            | 457    | 744    | (38.5)  | 606    | (24.5)  | 1,715  | 2,770  | 1,975  | 2,418  | 3,145  |
| EPS (INR)       | 0.38   | 0.62   | (38.6)  | 0.50   | (24.5)  | 1.4    | 2.3    | 1.6    | 2.0    | 2.6    |
| P/E (x)         |        |        |         |        |         | 133.5  | 82.6   | 115.9  | 94.7   | 72.8   |
| EV / EBITDA (x) |        |        |         |        |         | 76.6   | 52.6   | 49.4   | 37.6   | 30.2   |
| RoCE (%)        |        |        |         |        |         | 19.4   | 19.3   | 13.1   | 13.6   | 15.8   |

Source: Company, HSIE Research

## REDUCE

|                        |         |
|------------------------|---------|
| CMP (as on 4 Aug 2023) | INR 190 |
| Target Price           | INR 115 |
| NIFTY                  | 19,517  |

| 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)      | 227/2,784   |
| 6m avg traded value (INR mn) | 393         |
| 52 Week high / low           | INR 215/134 |

### STOCK PERFORMANCE (%)

|              | 3M  | 6M   | 12M    |
|--------------|-----|------|--------|
| Absolute (%) | 7.7 | 24.6 | 2.4    |
| Relative (%) | 1.2 | 16.6 | (10.3) |

### SHAREHOLDING PATTERN (%)

|                 | Mar-23 | Jun-23 |
|-----------------|--------|--------|
| Promoters       | 62.79  | 62.76  |
| FIs & Local MFs | 9.67   | 8.77   |
| FPIs            | 9.77   | 12.05  |
| Public & Others | 17.77  | 16.42  |
| Pledged Shares  | 0.00   | 0.00   |

Source : BSE

Pledged shares as % of total shares

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