

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

Naveen Trivedi

naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Varun Lohchab

varun.lohchab@hdfcsec.com
+91-22-6171-7334

Paarth Gala

paarth.gala@hdfcsec.com
+91-22-6171-7336

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Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com