

Devyani (DIL) has entered Thailand QSR market (KFC), with its subsidiary acquiring 93% stake in Restaurant Development Co. (RD) and remaining 7% stake being allocated to a local partner, as per regulation norms. The subsidiary will be meeting the acquisition's funds (Rs6.7bn) with capital infusions from the India parent (Rs3.4bn) and Temasek (Rs3.3bn). Valuations are fair at 9-10x its trailing EBITDA, given the potential of low-to-mid teens EBITDA CAGR for Thailand business. DIL expects doubling of store count in 10 years, and we see scope of low-to-mid-single-digit SSG profile and potential margin gains of 200-300bps over this period. While further acquisition of territories, stronger recovery in the tourism space, and better margin delivery remain potential upsides, we would like to remain conservative as of now. Given muted demand trends in KFC India, challenges in the pizza category, and macroeconomic issues in Nigeria, we maintain our Reduce rating on DIL with a TP of Rs165.

Devyani International: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	20,840	29,977	34,944	43,023	53,491
EBITDA	4,760	6,551	7,141	9,111	11,813
Adj. PAT	1,734	2,850	2,081	2,520	3,712
Adj. EPS (Rs)	1.4	2.4	1.7	2.1	3.1
EBITDA margin (%)	22.8	21.9	20.4	21.2	22.1
EBITDA growth (%)	109.7	37.6	9.0	27.6	29.7
Adj. EPS growth (%)	0.0	64.3	(27.0)	21.1	47.3
RoE (%)	43.4	34.4	20.2	20.7	24.5
RoIC (%)	48.7	47.0	30.3	30.1	36.9
P/E (x)	127.1	77.4	105.9	87.5	59.4
EV/EBITDA (x)	46.5	33.7	30.9	24.1	18.4
P/B (x)	32.1	22.7	20.1	16.5	13.0
FCFF yield (%)	0.4	1.2	1.0	1.6	2.6

Source: Company, Emkay Research

KFC dominates the Thailand market with ~4x visibility compared with peers

The acquisition of RD, which operates 274 KFC franchised stores in Thailand, opens doors for DIL to venture into the Southeast Asian region. Being a strong upper middle economy and a tourism destination, Thailand has 1,009 KFC stores, which is more than 4x the next QSR peer, McDonald, having ~245 stores. The category remains ahead with natural tailwinds, as poultry remains the largest contributor in meat consumption. A strong management team has resulted in a proven development engine, with the addition of 147 stores across the Northeast, Greater Bangkok, West, and South regions since FY16.

Operating metrics to improve with synergies at play

The operating entity, RD's revenue posted a 5.2% CAGR over FY20-23 to reach TBH5.2bn (Rs12.1bn in rupee terms at a conversion rate of 1TBH=Rs2.33), led by a 7.2% store CAGR over the same period. ADS has remained lower at TBH57K compared with pre-pandemic TBH65K, indicating pending recovery in the market. Gross margin at ~63% remains lower than DIL's range of 68-69% in the KFC format, which provides room for improvement in margins. Brand contribution at 14-16% is also lower than DIL's range of 19-20%; improvement in GM, menu innovation, and premiumization should drive it upwards.

Outlook remains optimistic; strong execution remains key

DIL aims to deploy a multi-pronged strategy with increased focus to open restaurants near gas stations and drive-throughs (locations with better unit economics); management has guided to double the store count in the next 10 years. The company expects online/mobile ordering to drive new locations and assets. Menu innovation and geography opportunities provide new growth levers to improve sales as well as streamline margins.

Target Price – 12M	Sep-24
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(9.9)
CMP (18-Dec-23) (Rs)	183.1

Stock Data	Ticker
52-week High (Rs)	228
52-week Low (Rs)	134
Shares outstanding (mn)	1,205.9
Market-cap (Rs bn)	221
Market-cap (USD mn)	2,657
Net-debt, FY24E (Rs mn)	195
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	376.4
ADTV-3M (USD mn)	4.5
Free float (%)	29.0
Nifty-50	21,419
INR/USD	83.1
Shareholding, Sep-23	
Promoters (%)	62.7
FPIs/MFs (%)	13.3/8.3

Price Performance

(%)	1M	3M	12M
Absolute	(1.2)	(13.0)	(2.9)
Rel. to Nifty	(9.0)	(18.2)	(17.2)

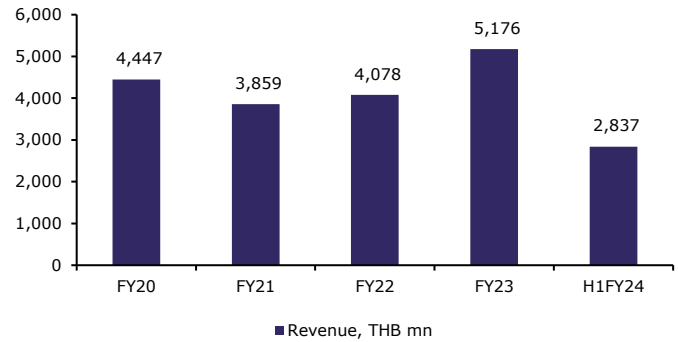
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Exhibit 1: RD added 59 stores over FY20-23, a 7.3% CAGR; DIL aims to double the store count in the next 10 years



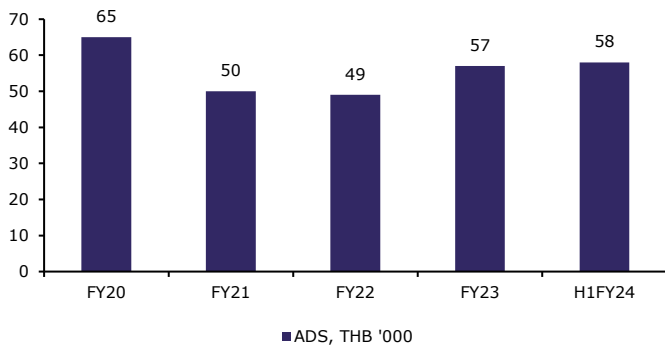
Source: Company, Emkay Research

Exhibit 2: Revenue reported a 5.2% CAGR over FY20-23; expansion into new regions and menu opportunities to drive growth ahead



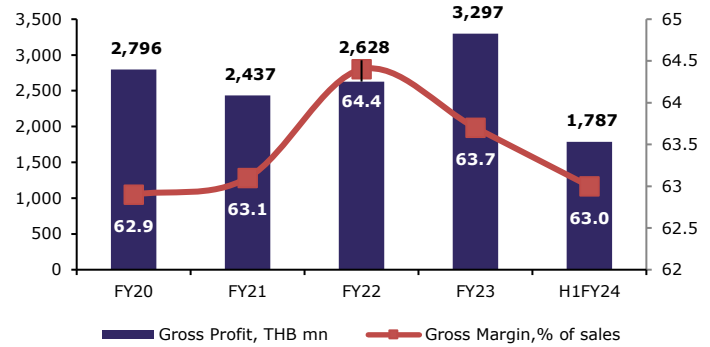
Source: Company, Emkay Research

Exhibit 3: ADS remains below pre-pandemic levels



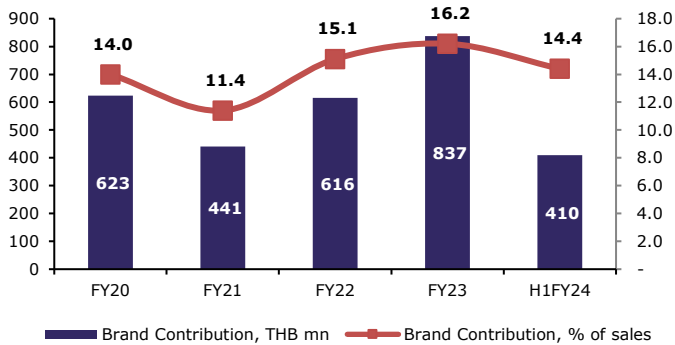
Source: Company, Emkay Research

Exhibit 4: Gross margin of ~63% is lower than DIL's (~69%); which provides room to improve margins



Source: Company, Emkay Research

Exhibit 5: Brand contribution in 14-16% range is lower than DIL's (~20%); better GM and menu innovation to aid in improvement



Source: Company, Emkay Research

Exhibit 6: Thailand is relatively better placed on per-capita consumption front, compared to India

Thai economy well positioned among SEA countries

Country	Population 2022 (million) *	GDP ¹ 2022 (US\$bn) **	GDP ¹ 2022/ Capita (US\$) *	GDP ¹ 2025F (US\$bn) **
Indonesia	275.5	1,319	4,788	1,671
Thailand	71.7	495	6,909	580
Singapore	5.6	467	82,808	547
Philippines	115.6	404	3,499	522
Malaysia	33.9	406	11,972	502
Vietnam	98.2	409	4,164	515
Myanmar	54.2	59	1,096	84
Cambodia	16.8	30	1,787	36

Source: Company, Emkay Research

Exhibit 7: Thailand economy is stable, from currency translation view point

Thai Baht to Indian Rupee



Source: Emkay Research, Company

Devayani International : Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	20,840	29,977	34,944	43,023	53,491
Revenue growth (%)	83.6	43.8	16.6	23.1	24.3
EBITDA	4,760	6,551	7,141	9,111	11,813
EBITDA growth (%)	109.7	37.6	9.0	27.6	29.7
Depreciation & Amortization	2,249	2,782	3,517	4,244	5,047
EBIT	2,511	3,769	3,625	4,867	6,766
EBIT growth (%)	0.0	50.1	(3.8)	34.3	39.0
Other operating income	0	0	0	0	0
Other income	161	326	284	420	450
Financial expense	1,270	1,475	1,722	2,052	2,407
PBT	1,402	2,620	2,186	3,236	4,809
Extraordinary items	(171)	(200)	(656)	0	0
Taxes	(320)	(206)	280	815	1,212
Minority interest	12	25	175	100	115
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,563	2,650	1,425	2,520	3,712
PAT growth (%)	0.0	69.5	(46.2)	76.9	47.3
Adjusted PAT	1,734	2,850	2,081	2,520	3,712
Diluted EPS (Rs)	1.4	2.4	1.7	2.1	3.1
Diluted EPS growth (%)	0.0	64.3	(27.0)	21.1	47.3
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	22.8	21.9	20.4	21.2	22.1
EBIT margin (%)	12.0	12.6	10.4	11.3	12.6
Effective tax rate (%)	(22.8)	(7.9)	12.8	25.2	25.2
NOPLAT (pre-IndAS)	3,084	4,065	3,161	3,641	5,061
Shares outstanding (mn)	1,204.7	1,204.7	1,204.7	1,204.7	1,204.7

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	1,402	2,620	2,186	3,236	4,809
Others (non-cash items)	2,249	2,782	3,517	4,244	5,047
Taxes paid	320	206	(280)	(815)	(1,212)
Change in NWC	(1,358)	1,037	297	(151)	(72)
Operating cash flow	3,551	7,593	6,503	8,144	10,530
Capital expenditure	(2,585)	(4,838)	(4,350)	(4,638)	(4,830)
Acquisition of business	0	0	0	0	0
Interest & dividend income	161	326	284	420	450
Investing cash flow	(2,424)	(4,512)	(4,066)	(4,218)	(4,380)
Equity raised/(repaid)	4,375	10	0	0	0
Debt raised/(repaid)	(3,316)	(534)	10	12	14
Payment of lease liabilities	(1,767)	(2,203)	(2,643)	(3,159)	(3,876)
Interest paid	(178)	(75)	(77)	(77)	(77)
Dividend paid (incl tax)	0	0	0	0	0
Others	12	(87)	0	0	0
Financing cash flow	(874)	(2,889)	(2,710)	(3,224)	(3,939)
Net chg in Cash	253	193	(273)	702	2,211
OCF	3,551	7,593	6,503	8,144	10,530
Adj. OCF (w/o NWC chg.)	4,908	6,556	6,205	8,296	10,601
FCFF	966	2,755	2,153	3,506	5,700
FCFE	(143)	1,607	714	1,875	3,743
OCF/EBITDA (%)	74.6	115.9	91.1	89.4	89.1
FCFE/PAT (%)	(8.2)	56.4	34.3	74.4	100.8
FCFF/NOPLAT (%)	31.3	67.8	68.1	96.3	112.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,205	1,205	1,205	1,205	1,205
Reserves & Surplus	5,658	8,499	9,749	12,169	15,767
Net worth	6,863	9,703	10,954	13,374	16,971
Minority interests	(47)	(62)	(62)	(61)	(61)
Deferred tax liability (net)	229	248	271	327	399
Total debt	1,325	774	774	774	774
Total liabilities & equity	8,369	10,664	11,937	14,414	18,082
Net tangible fixed assets	6,115	9,470	11,893	14,210	16,284
Net intangible assets	1,535	1,542	1,622	1,670	1,683
Net ROU assets	8,911	12,258	12,588	12,618	12,313
Capital WIP	68	153	153	153	153
Goodwill	644	644	644	644	644
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	659	851	578	1,280	3,491
Current assets (ex-cash)	4,694	4,967	5,266	6,601	8,207
Current Liab. & Prov.	3,039	4,347	4,930	6,070	7,547
NWC (ex-cash)	1,655	620	335	530	659
Total assets	8,369	10,664	11,937	14,414	18,082
Net debt	666	(78)	195	(507)	(2,717)
Capital employed	8,369	10,664	11,937	14,414	18,082
Invested capital	7,642	9,659	11,206	12,980	14,438
BVPS (Rs)	5.7	8.1	9.1	11.1	14.1
Net Debt/Equity (x)	0.1	0.0	0.0	0.0	(0.2)
Net Debt/EBITDA (x)	0.1	0.0	0.0	(0.1)	(0.2)
Interest coverage (x)	0.5	0.4	0.4	0.4	0.3
RoCE (%)	38.3	43.0	34.6	40.1	44.4

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	127.1	77.4	105.9	87.5	59.4
P/CE(x)	55.4	39.2	39.4	32.6	25.2
P/B (x)	32.1	22.7	20.1	16.5	13.0
EV/Sales (x)	10.6	7.4	6.3	5.1	4.1
EV/EBITDA (x)	46.5	33.7	30.9	24.1	18.4
EV/EBIT(x)	88.1	58.5	60.9	45.2	32.2
EV/IC (x)	28.9	22.8	19.7	17.0	15.1
FCFF yield (%)	0.4	1.2	1.0	1.6	2.6
FCFE yield (%)	(0.1)	0.7	0.3	0.9	1.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	8.3	9.5	6.0	5.9	6.9
Total asset turnover (x)	3.0	3.2	3.1	3.3	3.3
Assets/Equity (x)	1.7	1.1	1.1	1.1	1.1
RoE (%)	43.4	34.4	20.2	20.7	24.5
DuPont-RoIC					
NOPLAT margin (%)	14.8	13.6	9.0	8.5	9.5
IC turnover (x)	3.3	3.5	3.3	3.6	3.9
RoIC (%)	48.7	47.0	30.3	30.1	36.9
Operating metrics					
Core NWC days	(23.2)	(18.6)	(18.5)	(17.9)	(17.6)
Total NWC days	29.0	7.5	3.5	4.5	4.5
Fixed asset turnover	2.5	2.6	2.3	2.2	2.3
Opex-to-revenue (%)	48.4	48.2	50.4	49.8	49.1

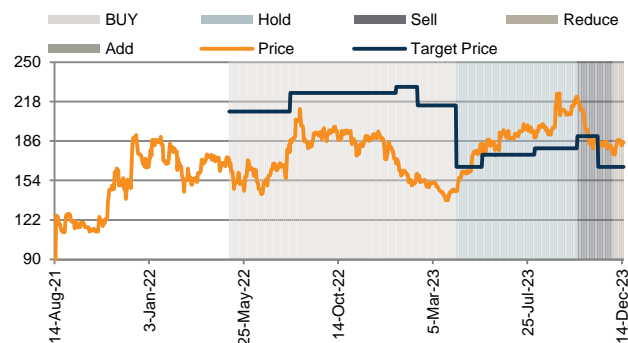
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	175	165	Reduce	Devanshu Bansal
08-Nov-23	184	165	Sell	Devanshu Bansal
08-Oct-23	222	190	Sell	Devanshu Bansal
05-Aug-23	189	180	Hold	Devanshu Bansal
10-Jul-23	190	175	Hold	Devanshu Bansal
21-May-23	183	175	Hold	Devanshu Bansal
18-May-23	184	175	Hold	Devanshu Bansal
20-Apr-23	161	165	Hold	Devanshu Bansal
09-Apr-23	145	165	Hold	Devanshu Bansal
10-Feb-23	158	215	Buy	Devanshu Bansal
09-Jan-23	168	230	Buy	Devanshu Bansal
04-Nov-22	188	225	Buy	Devanshu Bansal
03-Aug-22	187	225	Buy	Devanshu Bansal
03-May-22	171	210	Buy	Devanshu Bansal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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