

# Devyani International

BSE SENSEX	S&P CNX
71,315	21,419
Bloomberg	DEVYANI IN
Equity Shares (m)	1205
M.Cap.(INRb)/(USDb)	220.7 / 2.7
52-Week Range (INR)	228 / 134
1, 6, 12 Rel. Per (%)	-10/-19/-20
12M Avg Val (INR M)	404

## Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	30.0	34.9	42.7
Sales Gr. (%)	43.8	16.3	22.4
EBITDA	6.6	7.1	9.5
Margins (%)	21.9	20.3	22.2
Adj. PAT	2.8	1.7	2.6
Adj. EPS (INR)	2.3	1.4	2.2
EPS Gr. (%)	18.9	-39.5	54.6
BV/Sh.(INR)	8.1	9.1	11.3
<b>Ratios</b>			
RoE (%)	34.0	16.5	21.4
RoCE (%)	19.8	11.1	12.9
<b>Valuations</b>			
P/E (x)	78.4	129.6	83.8
P/BV (x)	22.8	20.1	16.2
EV/Sales (x)	7.9	6.8	5.6
EV/EBITDA (x)	36.0	33.7	25.4

**CMP: INR183**
**TP: INR 220 (+20%)**
**Buy**

## Thailand acquisition gives new growth engine

**Devyani forays into KFC Thailand market; acquired at 0.9x EV/sales**

### Acquisition of Restaurants Development and deal contours

- Devyani International Ltd. (DIL) has entered the Thailand KFC market through the acquisition of an equity stake in Restaurants Development Co. Ltd. Thailand (RD) for INR3.4b in cash. The deal value represents 0.9x FY23 EV/sales and 8x FY23 EV/EBITDA. RD has earlier explored to sell the KFC business at around USD 300m but the process was shelved due to covid. DIL has acquired the company at much reasonable valuation of USD 130m. In the combined entity, RD would account for ~30% of total revenue and ~26% of Restaurant EBITDA. This acquisition will position DIL as a key player in the Thailand QSR market and will pave the way for additional growth and expansion. In international markets, DIL is already present in Nigeria and Nepal. The acquisition is expected to be completed by 31st Mar'24.

### Competitive Landscape in Thailand

- RD operates 274 KFC restaurants (as of Sep'23) across Thailand, with FY23 revenue of THB5.2b (INR12.3b) and ROM at 14-15%. KFC is the largest QSR chain in Thailand with more than 1,000 restaurants and is 4x larger than the next competitor in QSR (1,009 stores vs. 245 McD stores in FY22). Other KFC players in Indonesia are QSR of Asia, a subsidiary of ThaiBev, is the largest KFC player in Thailand with around 406 restaurants, followed by Central Restaurants Group (CRG) with 329 restaurants and Restaurants Development (RD) operating 274 restaurants. In terms of revenue productivity, RD's ADS and revenue per store are almost similar to CRG.

### Multi-pronged growth strategy

- RD has almost doubled its KFC stores in the last 6-7 years, implying a 13% CAGR in store adds. It is looking for an opportunity to double the existing KFC store count in the next 10 years, implying a 7% CAGR in store adds (lower due to base factor). Given lower-single-digit SSSG, RD can grow its revenue by low-teens. Its focus on drive-through stores and gas-station stores will drive superior unit economics.

### About Thailand

- Poultry is the largest contributor to the country's meat consumption basket. It is a high middle-income country with almost 70m population and per capita income of USD21,150, attractive consumption levels, and resilient economy with stable currency. The median age is 40 years with family orientation and 45% of Thailand's population lives within 5km of an existing KFC stores.

### Valuation and view

- We remain bullish on DIL's prospects, considering: a) KFC's strong brand equity and its growth opportunity; b) gradual turnaround in PH, driven by the management's focus on delivery and improved store metrics; c) network expansion across the portfolio; and d) healthy mid-teens EBITDA (on a pre-Ind AS basis).
- We model a revenue/EBITDA CAGR of 19%/20% over FY23-FY25E. We have not factored in the Thailand KFC acquisition.
- We reiterate our BUY rating with an SoTP-based TP of INR220 (based on 50x/30x for KFC/Pizza Hut on a pre-Ind AS basis on Mar'25 estimates).

### Consideration and Funding

Net consideration	INR b	THB b	USD m
<b>Equity</b>			
-- DIL	3.41	1.47	41.3
-- Temasek Holdings	3.28	1.41	39.7
- Local Thai Partner	0.12	0.05	1.4
<b>Total Equity (a)</b>	<b>6.81</b>	<b>2.93</b>	<b>82.4</b>
Local bank debt (b)	3.85	1.65	46.5
<b>Net consideration (c = a+b)</b>	<b>10.66</b>	<b>4.58</b>	<b>128.9</b>

Source: MOFSL, Company

### Restaurants Development Co., Ltd. Thailand Financial performance

In (THBm)	FY20	FY21	FY22	FY23	Sep'23
<b>Revenue (INR b)</b>	<b>10.5</b>	<b>9.1</b>	<b>9.7</b>	<b>12.3</b>	<b>6.7</b>
<b>Revenue</b>	<b>4447</b>	<b>3859</b>	<b>4078</b>	<b>5176</b>	<b>2837</b>
YoY		-13%	6%	27%	
<b>SSSG</b>	<b>-5.1%</b>	<b>-21.8%</b>	<b>-6.2%</b>	<b>15.9%</b>	<b>2.6%</b>
Store count	202	220	236	265	274
YoY		9%	7%	12%	
revenue/store (INRm)	52.2	43.3	42.4	49.0	24.9
YoY		-17%	-2%	16%	
ADS	65	50	49	57	58
ADS (INR)	154	119	116	135	137
Gross profit	2796	2437	2628	3297	1787
margins	62.9%	63.2%	64.4%	63.7%	63.0%
Rest EBITDA (pre Ind-AS 116)	623	441	616	837	410
<b>Margins</b>	<b>14.0%</b>	<b>11.4%</b>	<b>15.1%</b>	<b>16.2%</b>	<b>14.5%</b>
YoY		-29%	40%	36%	

Source: MOFSL, Company

### Restaurants Development contribution in combined entity

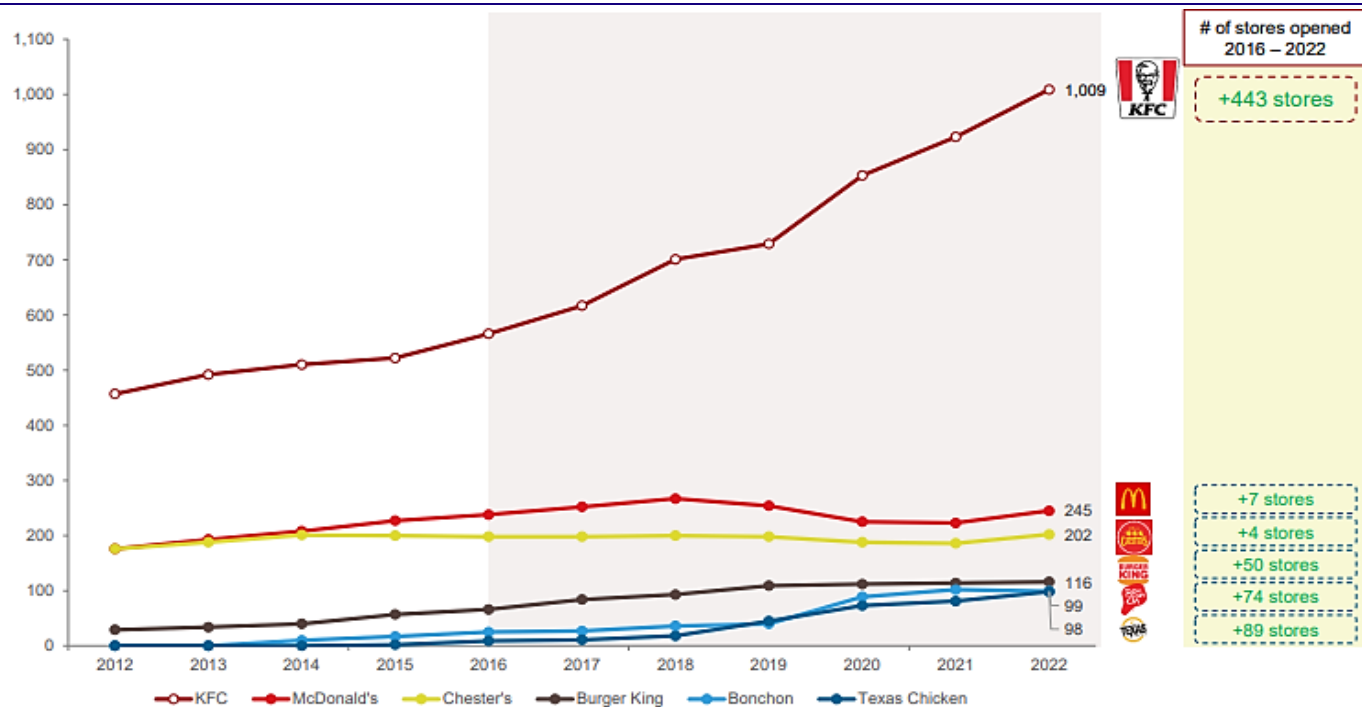
INRb	FY20	FY21	FY22	FY23	Sep'23
Devayani Revenue	15.2	11.3	20.8	30.0	16.7
RD Thailand Revenue	10.5	9.1	9.7	12.3	6.7
Total	25.7	20.5	30.5	42.2	23.4
<i>RD Thailand mix</i>	<i>41%</i>	<i>45%</i>	<i>32%</i>	<i>29%</i>	<i>29%</i>
Devayani Store EBITDA (pre)	1.7	1.6	4.0	5.6	2.8
RD Store EBITDA (pre)	1.5	1.0	1.5	2.0	1.0
Total	3.2	2.6	5.5	7.6	3.8
<i>RD Thailand mix</i>	<i>47%</i>	<i>40%</i>	<i>27%</i>	<i>26%</i>	<i>26%</i>

Source: MOFSL, Company

#### Exhibit 4: List of customers of MPPL

Comparison between Thailand KFC player	Restaurants Development	Centara Hotel & Resorts	Delta
Sales (ann. FY23 in THBm)	5674	12448	
Sales (ann FY23 in INRm)	13447	29502	
KFC share	100%	57%	
No of stores	274	329	
Sales per store (INRm)	49	51	-4%
ADS (INR'000)	134	140	-4%

#### Exhibit 5: KFC Positioning vs competition



Source: Euromonitor, RDCL

Source: MOFSL, Company

#### Exhibit 6: Thailand Position in South East Asia Region and Globally

##### Thai economy well positioned among SEA countries

Country	Population 2022 (million) *	GDP <sup>1</sup> 2022 (US\$bn) **	GDP <sup>1</sup> 2022/ Capita (US\$) *	GDP <sup>1</sup> 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: MOFSL, Company