

Burger King India Ltd.

SSIS IPO GRADE 3.25/5 (Average)

1st December, 2020

Rating Overview

Burger King India is one of the fastest growing international QSR chains in India during the first five years of their operations based on the number of restaurants. As the national master franchisee of the BURGER KING® brand in India, the company has exclusive rights to develop, establish, operate and franchise Burger King branded restaurants in India.

The brand is an exclusive national master franchise rights in India with favorable royalty fees (capped at 5% of sales). The brand positioned for large and growing population in India - The Millennials. The Vertically managed and scalable supply chain has added to the growth of the QSR. The menu in the Indian restaurants is tailored with focus on value leadership.

The outbreak of Covid-19 had a substantial impact on the restaurant operations. This could have a serious impact on the company's profitability. Another serious impact on the business could be the termination of the master franchise and development agreement that could have a material adverse effect on the business. Another risk to your investment in the company could be a lack of demand for the products, since the food habits can change over time and the company's inability to adapt to that may affect the business adversely.

In the last 6 years of operations in India, the company has opened 268 stores. Looking at the run rate, we believe management will be able to achieve the target of 700 stores by Dec'26. As the store count will increase, operating leverage will kick in and the company will be able to report profit. We believe there is ample scope available for the company to increase its business in India. On FY20 basis, company peers such as Jubilant FoodWorks (Domino's Pizza) and Westlife Development (McDonald) are trading at 8.6x and 5.0x respectively on EV/sales multiple. At the upper end of the price band, the company will trade at an EV/sales multiple of 2.2x on FY20 basis, which we believe is quite reasonable. We believe that there is a good possibility of listing gains given lower valuations as compared to other listed peers. We are also positive on the long term growth prospects of the Industry and the company, and hence our overall rating of Burger King is average fundamentals and we recommend investors to apply for listing gains.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

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Business Overview

Burger King India Ltd. (BKIL) is one of the fastest-growing international QSR chains in India during the first five years of operations based on the number of restaurants. (Source: Technopak) As the national master franchisee of the BURGER KING® brand in India, it has exclusive rights to develop, establish, operate and franchise Burger King branded restaurants in India. Company's master franchisee arrangement provides with the ability to use Burger King's globally recognised brand name to grow its business in India while leveraging the technical, marketing and operational expertise associated with the global Burger King brand.

The globally recognised Burger King brand, also known as the 'HOME OF THE WHOPPER®', was founded in 1954 in the United States and is owned by Burger King Corporation, a subsidiary of Restaurant Brands International Inc., which holds a portfolio of fast-food brands that are recognized around the world that include the BURGER KING®, POPEYES® and TIM HORTONS® brands. The Burger King brand is the second-largest fast-food burger brand globally as measured by the total number of restaurants, with a global network of 18,675 restaurants in more than 100 countries and U.S. territories as at September 30, 2020.

BKIL's customer proposition focuses on value leadership, offering customers variety through innovative new food offerings at different dayparts, catering to the local Indian palate, offering a wide range of vegetarian meal options, and its taste advantage and flame grilling expertise.

Following fancy for ready to eat and lavish lifestyle, BKIL was able to reach a milestone of 200 outlets in India in the first five years of operations. All was going well till FY20, but then COVID-19 pandemic played a spoil sport and the company faced the music with a severe setback in the first half of the current fiscal. With the sudden change in lifestyle and awareness of healthy food habits to survive in the pandemic is a big concern for this chain of stores.

BKIL plans to continue to build its restaurant network using a cluster approach and penetration strategy with the objective to provide greater convenience and accessibility for customers across relevant geographies. BKIL owns around 97% of the total outlets in India. Management is confident of achieving the target of opening 700 outlets PAN India by extended timeframe up to December 2026 despite current slowdown witnessed following a pandemic.

Financial Performance

2 On the financial performance front, for the last three fiscals, BKIL has posted turnover/net profit (loss) of Rs. 388.74 cr. / Rs. - (82.23) cr. (FY18), Rs. 644.13 cr. / Rs. - (38.28) cr. (FY19) and Rs. 846.83 cr. / Rs. - (76.57) cr. (FY20). Thus while the top line has shown rising trends, bottom line expressed negative earnings with inconsistency.

For the first half of the current FY21, it has posted a loss of Rs. - (118.95) cr. on a turnover of Rs. 151.65 cr. versus loss of Rs. - (17.43) cr. on a turnover of Rs. 425.37 cr. for the corresponding previous period. The company suffered a severe setback for the first half of the current fiscal on account of COVID-19 pandemic. Management clarified that the company is generating cash surplus, but due to accounting provisioning, it posted losses for all these years.

For the last three fiscals, BKIL has posted an average EPS of Rs. - (2.43) and an average RoNW of - (23.78%). Thus the issue is expressing negative P/E. The issue is priced at a P/BV of 7.87 based on its NAV of Rs. 7.62 (against FV of Rs. 10) as on September 30, 2020. The issue is priced at a P/BV of 3.01 on the basis of post-issue NAV of Rs. 19.93 (at the upper cap)

Summary of financial Information (Restated Consolidated)				
Particulars	For the year/period ended (₹ in millions)			
	30-Sep-20	31-Mar-20	31-Mar-19	31-Mar-18
Total Assets	11,771.18	11,977.07	9,204.72	7,303.55
Total Revenue	1,516.54	8,468.29	6,441.30	3,887.37
Profit After Tax	(1,189.46)	(765.70)	(382.79)	(822.32)

Issue Details

To part finance its plans for repayment/prepayment of outstanding borrowings (Rs.164.98 cr.), capital expenditure for own outlets (Rs. 177.00 cr.) and general corpus fund needs, BKIL is coming out with a maiden combo offer of fresh equity issue worth Rs. 450 cr. and offer for sale of 60000000 equity shares of Rs. 10 each to mobilize Rs. 810.00 cr. (at the upper price band). BKIL has fixed a price band of Rs. 59 - Rs. 60 for this book built IPO. The company will issue approx. 75000000 fresh equity shares at the upper price band of the issue. Minimum application is to be made for 250 shares and in multiples thereon, thereafter. The issue opens for subscription on December 02, 2020, and will close on December 04, 2020. Post allotment shares will be listed on BSE and NSE. The issue constitutes 35.37% of the post issue paid-up capital of the company.

The company has reserved 75% of the issue for QIBs, 15% for HNIs and 10% for Retail investors.

Having raised initial equity at par, BKIL issued further equity in the price range of Rs. 20 to Rs. 90 per share from November 2014 to November 2020 including pre-IPO placement of 13200000 shares at Rs. 44 per share by way of a rights issue to promoters in May 2020 and 15712820 shares at Rs. 58.50 each to Amansa Investment on November 18, 2020. With this issue, BKIL is looking for a market cap of approx. Rs. 2290 cr. post this issue.

The average cost of acquisition of shares by the promoters is Rs. 23.11 per share. Post issue, BKIL's current paid-up equity capital of Rs. 306.65 cr. will stand enhanced to Rs. 381.65 cr.

The issue is jointly lead managed by Kotak Mahindra Capital Co. Ltd., CLSA India Pvt. Ltd., Edelweiss Financial Services Ltd. and J M Financial Ltd. While Link Intime India Pvt. Ltd. is the registrar to the issue.

Application Dates	Dec 2, 2020 – Dec 4,2020
Issue Type	Book Built Issue IPO
Face Value	₹10 per equity share
IPO Price	₹59 to ₹60 per equity share
Market Lot	250 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹10 (Up to ₹810.00Cr)

Issue Timeline

Basis of Allotment Date	Dec 9,2020
Initiation of Refunds	Dec 10, 2020
Credit of Shares to Demat Account	Dec 11, 2020
IPO Listing Date	Dec 14, 2020

Investment Strategy

Burger King met with fancy among younger generation that helped the company for speedy expansion of its footprint. But in the current situation of COVID-19 pandemic and changing lifestyle habits and shifting preference with rising awareness of immunity diet, Burger King will find it difficult to maintain the progress made in the last five fiscals. Company has huge carried forward losses that are represented in its NAV of Rs. 7.62 (against face value of Rs. 10) as on September 30, 2020. Thus issue appears aggressively priced. Due to its carried forward losses, BKIL has reserved 75% quota for QIBs and they may support the issue for smooth sailing. Extended gestation period may take long to wipe out accumulated losses. The segment is crowded with many organized/unorganized players and posing tough competition. Once normalcy restores, BKIL may achieve the targeted plans. Considering all these, cash surplus, risk savvy investors may consider investing in this issue with a long term perspective.