

Devyani International Ltd.

SSIS IPO GRADE 3.5/5 (Average)

2nd August, 2021

Rating Overview

Devyani International Ltd (DIL) is the largest franchisee of Yum Brands in India and is among the largest chain operators of quick service restaurants (“QSR”) in India on a non-exclusive basis, and operates 696 stores across 166 cities in India, as of June 30, 2021.

DIL is the largest franchisee of KFC in India, contributing ~57% to its overall topline. The segment has recorded strong revenue CAGR of ~18% in FY19- 21 to 644 crore, despite pandemic led disruption. The segment’s gross profit also increased at a CAGR of 19% and recorded one of its best gross profit margin (of ~68%) in FY21. On the cost front, while all marketing expenditure of KFC is managed by Yum Inc, DIL pays 6% of its gross revenue as fixed royalty. While the company has future plans to expand more stores under the KFC and Pizza Hut brands, the company is focused on increasing innovative product offerings under the same head.

In addition, Devyani International is a franchisee for the Costa Coffee brand and stores in India. DIL operated 284 KFC stores and 317 Pizza Hut stores and 44 Costa Coffee stores in India as of June 30, 2021. In their Core Brands Business, they had an extensive presence in 26 states and 3 union territories in India as of June 30, 2021.

The company has a portfolio of well recognized global brands across spectrum and its presence across key consumption markets is noted with a cluster-based approach. Devyani has an experienced board and senior management team. The biggest worry for DIL is making continuous losses on bottom-line front. The covid induced slowdown in the economy could also impact the overall revenue of the company.

In terms of valuations, the post-issue FY2021 EV/Sales works out -9.9x to (at the upper end of the issue price band), which is low compared to peers (Jubilant Foodworks-15.4x, Burger King India -14.8x, Westlife Development – 10x). Further, Devyani International has a better operating margin compared to Westlife Development & Burger king. We believe this valuation is at reasonable levels. Thus, we recommend a subscribe rating on the issue.

Our overall rating of Devyani International is fundamentally sound given its market position, asset quality and growth prospects. The ask price is fair and it’s a great long term opportunity in the QSR segment.

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.



Business Overview

Devyani International Ltd. (DIL) is the largest franchisee of Yum Brands in India and also among the largest operators of chain quick-service restaurants ('QSR') in India (Source: Global Data Report), on a non-exclusive basis, and operate 655 stores across 155 cities in India, as of March 31, 2021, and 696 stores across 166 cities in India, as of June 30, 2021.

Yum! Brands Inc. operates brands such as KFC, Pizza Hut and Taco Bell brands and has a presence globally with more than 50,000 restaurants in over 150 countries, as of December 31, 2020. In addition, DIL is a franchisee for the Costa Coffee brand and stores in India. Its business is broadly classified into three verticals that include stores of KFC, Pizza Hut and Costa Coffee operated in India (KFC, Pizza Hut and Costa Coffee referred to as 'Core Brands', and such business in India referred to as the 'Core Brands Business'); stores operated outside India primarily comprising KFC and Pizza Hut stores operated in Nepal and Nigeria ('International Business'); and certain other operations in the F&B industry, including stores of own brands such as Vaango and Food Street ('Other Business'). Revenue from Core Brands Business, together with International Business, represented 83.01%, 82.94% and 94.19% of its revenue from operations in Fiscals 2019, 2020 and 2021, respectively.

Following the onset of COVID-19, it has increased focus on safety by the introduction of contactless delivery and takeaway, ensuring greater cleanliness of stores, additional safety measures such as frequent sanitization and temperature checks. Among measures, it adopted to counter the effects of COVID-19 include re-developing menus to focus on delivery and takeaway options. DIL also introduced measures to reduce fixed and variable costs and sought rental waivers from store landlords and lessors. It also rationalized certain loss-making stores to ensure that the company continues to maintain a profitability position and strong financial performance. DIL serves a wide range of customers across various price points as a multi-dimensional comprehensive QSR player. It will continue to invest in technology to maintain its competitive advantage.

Financial Performance

On the financial performance front, on a consolidated basis, DIL has posted turnover/net profits (loss) of Rs. 1323.68 cr. / Rs. - (59.29) cr. (FY19), Rs. 1535.04 cr. / Rs. - (78.75) cr. (FY20) and Rs. 1198.90 cr. / Rs. - (81.32) cr. (FY21). While it has marked a setback in the top line for FY21, it has reported higher losses for all these years.

For the last three fiscals, DIL has (on a consolidated basis) posted an average EPS of Rs. - (0.76) and an average RoNW of - (24.26%). The issue is priced at a P/BV of 87.38 based on its NAV of Rs. 1.03 as of March 31, 2021, and at a P/BV of 19.52 based on its post-issue NAV of Rs. 4.61 (at the upper cap). As the company has been incurring losses for the last three fiscals, its P/E is negative. (NOT ASCERTAINABLE)

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As per offer documents, DIL has shown Jubilant Foodworks, Westlife Development and Burger King as its listed

peers. They are currently trading at a P/E of around 133.56, 00 and 00 (as of July 30, 2021). However, they are not truly comparable on an apple to apple basis.

Summary of financial Information (Restated Consolidated)			
Particulars	For the year/period ended (₹ in millions)		
	31-Mar-21	31-Mar-20	31-Mar-19
Total Assets	16,684.07	18,835.76	18,074.90
Total Revenue	11,988.95	15,350.41	13,236.83
Profit After Tax	(629.87)	(1,214.18)	(941.44)

Issue Details

To part finance its plans for repayment/prepayment of certain borrowings (Rs. 324 cr.) and general corpus funding, DIL is coming out with a maiden IPO via book building route to mobilize Rs. 1838 cr. at the upper price band of the issue. The issue comprises a fresh equity issue worth Rs. 440 cr. (approx. 48888840 shares) and an offer for sale of 155333330 equity shares of Re. 1 each (worth Rs. 1398 cr.). The company has fixed a price band of Rs. 86 - Rs. 90 per share. The issue opens for subscription on August 04, 2021, and will close on August 06, 2021. The minimum application to be made is for 165 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE. The issue constitutes 16.98% of the post issue paid-up capital of the company.

Book Running Lead Managers (BRLMs) to this issue are Kotak Mahindra Capital Co. Ltd., CLSA India Pvt. Ltd., Edelweiss Financial Services Ltd. and Motilal Oswal Investment Advisors Ltd. Link Intime India Pvt. Ltd. is the registrar to the issue.

Having issued initial equity at par, DIL raised further equity in the price range of Rs. 15 to Rs. 43.33 per share (based on FV of Re. 1 per share) between July 2000 and March 2021. It has also issued bonus shares in the ratio of 2 for 1 in February 2002, 3.3 for 1 in May 2011 and 1 for 1 in January 2012. The average cost of acquisition of shares by the promoters/selling stakeholders is Rs. Rs. N.A., Rs. 0.66, Rs. 3.24 / Rs. 3.24 and Rs. 30.61 per share.

Post issue, DIL's current paid-up equity capital of Rs. 115.36 cr. will stand enhanced to Rs. 120.25 cr. At the upper price band of the issue, DIL is looking for a market cap of Rs. 10822.71 cr.

Application Dates	Aug 4, 2021 – Aug 6, 2021
Issue Type	Book Built Issue IPO
Face Value	₹1 per equity share
IPO Price	₹86 to ₹90 per equity share
Market Lot	165 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹1 (Up to ₹1,838.00Cr)

Issue Timeline

Basis of Allotment Date	Aug 11, 2021
Initiation of Refunds	Aug 12, 2021
Credit of Shares to Demat Account	Aug 13, 2021
IPO Listing Date	Aug 16, 2021

Investment Strategy

India's stock markets are getting matured to match the global market's behaviour. The recent saga of Zomato may see a re-run of history for this food segment loss-making enterprise that has been on its footprint expansion mode. Though the financial parameters and negative P/E is not on the radar for this issue, it will play just on the sentimental count for a while. Hence cash surplus/risk seekers may consider investing in this fancy foods outlet most preferred by today's generation.