

1st February 2022

Devyani international Ltd

CMP : Rs.171
Target Price : Rs.217
Upside : 27%
Stop Loss : Rs. 145 (Closing basis)

Investment Thesis

DIL's core brands, which account for 85% of its revenue, witnessed a growth of 64.7% YoY/21% QoQ in Q3FY22 to INR 624 cr, driven by new store openings coupled with solid momentum in demand. The core brand portfolio reported an encouraging all-round performance in Q3 FY22. KFC and Pizza Hut reported robust growth of 64% YoY each to INR 362 cr and INR 156 cr, respectively, primarily led by store additions (+30 in KFC and +40 in Pizza Hut) and higher demand. SSSG across both brands remained robust with KFC at 24% and Pizza Hut at 25%. Pizza Hut continued to demonstrate strong operational growth in Q3 FY22. Revenue from Costa Coffee grew 88% YoY to INR 14 cr. The EBITDA margin improved by 40 bps YoY but fell by 20 bps QoQ to 23.7%. Brand contribution for the quarter stands at INR 136.6 cr (+113.7% YoY/+28.0% QoQ) with the brand contribution margin improving to 21.9% (+500 bps YoY/+130 bps QoQ). The brand contribution margin for KFC improved to 23% (+390 bps YoY/+60bps QoQ), for Pizza Hut it has improved to 16.8% (+70 bps YoY/+100bps QoQ), and for Costa Coffee it is 32.1% as against 35.6% in Q3FY21 and 33.1% in Q2FY22. PAT for the quarter came Q3FY22 in at INR 66 cr which is marked by a growth of 39.8% YoY and 41.6% QoQ. This was aided by lower interest expenses of INR 30 cr (-39.8% YoY/ -9.6% QoQ). As part of its strategy, Company is opening smaller, delivery focussed KFC (1,500-1,700sqft) and Pizza Hut (800-1,000sqft) outlets. Despite this, ADS for both formats surpassed 3QFY21 levels, driven by robust delivery-channel performance and rebound in on premise channel. Company opened 81 stores in the quarter, with 79 outlets in India, including 30 KFC (75 YTD), 40 Pizza Hut (94 YTD), 5 Costa Coffee (6 YTD) stores. FY22 net-store additions are expected to be around 250 stores. DIL is turning this around by number of factors such as shifting to delivery: more than 75% of its network is delivery focused stores versus 50% they were earlier doing.

Revenue from business Verticals

85% of revenue comes from core brand business including KFC, Pizza hut and Costa Coffee, 10% from international business Nigeria and Nepal (KFC, Pizza hut) and remaining 5% from vaango and another brand.

Particulars	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	1516	1135	2124	2975	3857
EBITDA	278	233	465	699	945
Growth %		-16%	100%	50%	35%
PAT	-79	-81	105	257	328
EPS	-7	-1	1	2	3
P/E	-	-	214	78	61
ROE(%)	-	-	28	34	30

Stock Data

Market Cap (Rs. Mn)	196430
Market Cap (\$ Mn)	2642.09
Shares O/S (in Mn)	1203
Avg. Volume (3 month in \$)	18mn
52-Week Range (Rs.)	199 / 108

Shareholding Pattern

Promoters	62.91%
FII's	7.86%
Institutions	4.82%
Others (incl. body corporate)	24.40%

Key Ratios

Div Yield	0%
TTM PE	.
ROE	5.12%
TTM EPS (Rs.)	-0.48/-

Key Business Highlights

- Devyani International Limited is the primary franchisee of Yum! Brands in India and one of the largest chains of quick-service restaurants in this country. As on June 31 2021, Devyani International operates 696 stores across 166 cities in India. On a non-exclusive basis, Devyani International also has operations outside India, in Nigeria and Nepal. Business is broadly clarified into 3 Verticals such as KFC, Pizza Hut Costa Coffee stores. 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. Their growth across the Core Brands has been facilitated by a well-defined new-store roll out process that enables them to identify locations and build their stores quickly, consistently and efficiently.
- KFC is the largest contributing in top line 65% of the total revenue and they have doubled their KFC stores from 134 in FY19 stores to 284 in FY21 stores within two years. They operated 284 KFC stores located in 21 states and 2 union territories, across 107 cities in India. They mainly operate 2 formats of their KFC stores, namely, a larger format with full-service dining in capacities, and small-store formats to cater to delivery/ take-away orders with limited seating for customers/ riders waiting to pick-up orders is very unique position. Recently all expansion happened in smaller store formats as advantages of these smaller store formats are less capex requirement and less operating expense these stores will take lower payback period and DIL mainly operates 2 formats of their Pizza Hut stores, namely, a larger format with full-service dining-in capacities, and small store formats to cater to delivery/ take-away orders with limited seating for customers/ riders waiting to pick-up orders. They currently operate 2 formats of Costa Coffee stores, namely, the full retail stores at high-street locations and malls, and branded kiosks at airports, hospitals and food courts at highways with total store count 44.

Valuation

- Looking at the longer term and its valuations, it may not be a bad idea to hold the shares for long term. On TTM basis DIL has priced its offer at EV by EBITDA of 46 times which is lower than 49 for Westlife Development, 66 for burger king and 52 for Jubilant Food Works. Similarly, EV by sales metric shows DIL is priced attractively at a discount to its listed peers. DIL has operating leverage business model, the company has negative working capital. The net cash generated from operating activities was ₹ 239.56 crore in Fiscal 2021, indicating support for their continued growth. Investing in technology and focus on the digital capabilities, diversify its revenue streams, positive operating cash flow with negative working capital, focus on delivery channel for Core Brands, and strong store expansion plans would help in improving growth prospects in the coming years. recommendation to buy rating for a target price of INR 217 per share valuing at 29x FY24E EV/EBIDTA giving 27% upside from current levels.

Risk & Concern

- Termination of the agreement may hurt future plan and losses may repeat in future.
- Sales may get less due to pandemic, as people are resorting to healthier food.

Graphs & Charts

Figure 1: Net Sales Trend Cosol basis

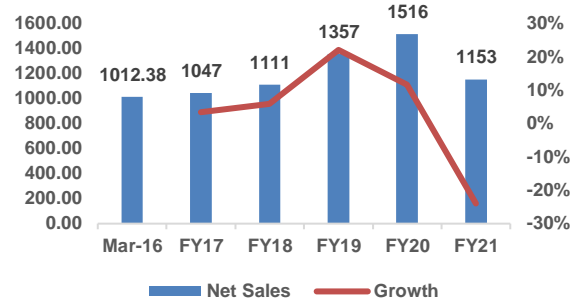


Figure 2: EBITDA & EBITDA Margin Trend

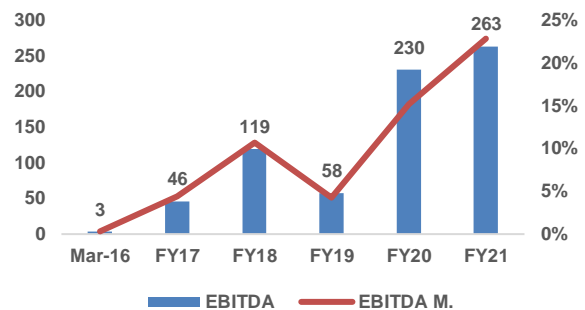


Figure 3: Market Cluster (Core Brand Stores)

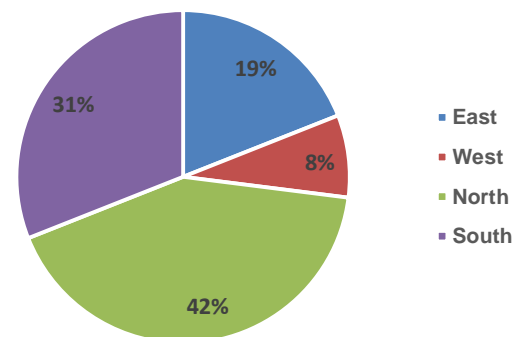
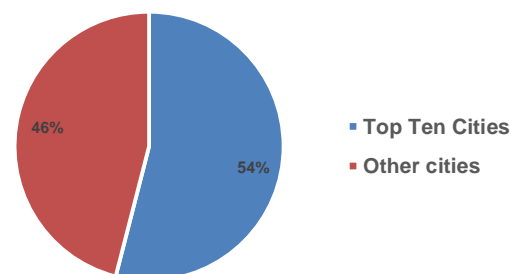


Figure 4: Cluster base spread



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