

August 2, 2021

IPO Note

IPO Fact Sheet

Opening Date:	August 04, 2021
Closing Date:	August 06, 2021
BRLMs:	Kotak Mahindra Cap, CLSA India, Edelweiss Financial Services, Motilal oswal Investment advisors
Issue Size:	Rs 18.38bn
Numbers of Shares:	1,204,797,781-1,202,523,879
Face value:	Rs 1
Bid lot:	165 Shares

Indicative Timetable

Activity	Date
Finalisation of Basis of Allotment:	11/8/2021
Refunds/Unblocking ASBA Fund	12/8/2021
Credit of equity shares to DP A/c	13/8/2021
Trading commences	16/8/2021

Issue Structure

QIB	75%
NIB	15%
Retail	10%

Issue Details

Pre-issue equity shares	1,153,634,990
Post-issue equity shares*	1,204,797,781
Post-issue Market Cap (Rs Crs)*	Rs 10,843
Post-issue Market Cap (Rs Crs)#	Rs 10,341

* Upper Band / # Lower Band

Object of the Issue

Repayment / prepayment of borrowings and General corporate expenses

Shareholding Pattern

(%)	Pre-Issue	Post-Issue
Promoters	75.79	67.15
Public	24.21	32.85

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Execution key for LT, listing gains likely

We recommend subscribe to IPO of DIL. We believe DIL is on the verge of a new growth phase for the company led by 1) KFC's leadership in Chicken segment 2) strong brand recall and growth prospects of Pizza hut with just 297 stores (1300+ by Dominos) 3) Acquisition of 73 KFC stores of Yum over past 3 years 4) Aggressive expansion with addition of 90 stores in the last 6 months and likely hood of sustaining trend 5) move towards smaller delivery formats for KFC & Pizza Hut (share of delivery up from 50-70% between FY20/21) to achieve faster growth and higher margins and lower payback periods per store 6) Innovations in menus straddling across various price points, cuisines and consumer preference suited to the Indian palate 7) scale down in concession based stores in Airports and 61 loss making stores thus reducing drag on profitability.

In Q4FY21, DIL achieved Rs 4.3bn in revenue with 20% contribution margin and 15% EBITDA margin. DIL will repay Rs3.4bn debt from IPO and will fund its expansion through internal accruals. We believe the company will fund its expansion plans through internal accruals. We expect sustained growth momentum and success of delivery format in PH can enable a turnaround by FY23. DIL is being offered at FY24 EV/sales of 3.6x v/s 7.3x for JUBI and 3.6x Burger King. Subscribe

- Non-exclusive largest franchise partner of YUM Brands:** DIL is the largest nonexclusive franchisee of Yum Brands in India (other being Sapphire Foods) which has rights to high potential markets for KFC and Pizza Hut dine in in select states and delivery throughout India (ex. TN and a few NE estates).
- Business Restructuring:** DIL is moving towards a leaner business model with a shift toward delivery model and smaller store formats for KFC and Pizza Hut. In line with its leaner business model strategy the company has shut down airport concession stores and non performing stores 61 to improve efficiencies in the business
- Rapid Expansion and KFC acquisition:** DIL has adopted an aggressive store expansion strategy with addition of ~100+ stores in FY21, 40 stores in Q1FY22 and believes this will continue for the next 2-3 years. DIL also acquired 73 equity KFC stores in south India from its parent Yum group during the period which strengthened its position.
- Leadership in Chicken segment –** KFC's leadership in chicken segment has been strengthened with acquisition of 73 stores from Yum. We believe entry of Poppeys will expand the market which will benefit market leader
- Pizza Hut moving towards delivery model-** Although Pizza hut has strong following in dine in format, it has been weaker in the faster growth delivery format. It is now reducing the store size and moving towards delivery stores, which if successful will mark a new growth phase for the brand.
- Cluster based approach and economies of scale-** DIL follows cluster based approach and has common warehousing, logistics and sourcing for various brands which provides scale and operating leverage to the company.

Devyani International

Devyani International (DIL) is the largest franchisee of Yum brand in India. Yum! Brands Inc. operates KFC, Pizza Hut and Taco Bell QSR's globally with more than 50,000 restaurants in over 150 countries. Along with KFC & Pizza Hut, Devyani has the franchisee of Costa Coffee. DIL has rights of KFC and Pizza Hut in Nepal and KFC in Nigeria. It also runs south India QSR chain Vango and Food Court Restaurants and Bars vertical at Airports, Hospitals, Malls and Highways with brands like KFC, Pizza Hut, Vango, Food street, Masala Twist, Amreli, Chrussh, Juice bar, Ile bar etc.

DIL does not have exclusive rights for KFC and Pizza Hut in India. DIL acquired 20 Pizza Hut Delivery and 74 KFC stores operated by Yum in past few years. DIL collaborates with Yum for store selection, product innovation and development, brand strategy and technology initiatives etc. DIL pays royalty of 6.3% to YUM for KFC and Pizza Hut while it has a 6% spend obligation on advertising, brand building and marketing. The royalty and adpro for Cota coffee is 5% and 2% respectively.

DIL has been expanding its store network steadily and has increased the number of stores from 469 in FY19 to 605 in FY21 with 264 KFC, 297 Pizza Hut and 44 Costa Coffee across 26 states and 3 UT.

Offer Details

Exhibit 1: Offer Details

Offer Period	Opens On: 4 th August,2021 Closes On: 6 th August,2021
Issue Details	Fresh Issue of Rs4.4bn and Offer for Sale of 155,333,330 Equity Shares
Issue Size	Rs~18.38bn
Price Band	Rs86- 90
Bid Lot	165 Shares
QIB	75% of the Net Issue (Rs.1374.79 crs)
NIB	15% of the Net Issue (Rs.274.96 crs)
Retail	10% of the Net Issue (Rs.183.30 crs)
BRLM	Kotak Mahindra Capital, CLSA India, Edelweiss Financial Services and Motilal Oswal Investment Advisors
Registrar	Link Intime Pvt Ltd
Listings	BSE & NSE

Source: Company, PL

Exhibit 2: Details of Equity Shareholding of the Major Shareholders

Offer of Sale by:	Pre Offer			Post Offer	
	No. of Shares	Shareholding %	Offer for sale	No. of Shares	Shareholding%
RJ Corp/Varun Jaipuria/Ravi Kant Jaipuria	874,339,464	75.79	65,333,330	809,006,134	67.15%
Dunearn	163,333,330	14.16	90,000,000	73,333,330	6.09%
Yum Brands	53,083,330	4.57	NIL	53,083,330	4.41%
Total			153,333,330		
Total shares outstanding	1,153,634,990			1,204,797,781	

Source: Company, PL

DIL has bouquet of brands under one umbrella

DIL is a unique QSR proposition with its wide variety of brands and offerings spanning across multiple cuisines, age groups, price points, and service formats

- KFC offers fried chicken products across various price points and offerings
- Pizza Hut has primarily and other food offerings with strong franchisee in the dine- in segment
- KFC and PH have both vegetarian & non veg offerings. 70% of Pizza Hut customers are vegetarians while >70% of KFC customers are non-vegetarians
- Costa Coffee is about making people meet and socialize over coffee
- Other brands like Vaango (South Indian cuisine), Food Street, Ile Bar, AMRELI, Ckrussh Juice Bar, typically operate in large food courts in malls and airports

Exhibit 3: xxxxx



Source: Company, PL

Exhibit 4: xxxxxx



Source: Company, PL

- **KFC has little competition and first mover advantage:** The KFC brand not only enjoys first mover advantage but also has little competition in the organized segment in India. It's offerings of fried chicken products with select herbs and spices are unique in the Indian QSR industry, as there is no other recognized international chain of restaurants that has successfully been able

to introduce fried chicken products in India. We believe this gives KFC stores a competitive advantage within the niche space. Along with constant product innovation to offer products that suit the Indian taste and preferences like biryani the company delivers superior value proposition by offering affordably priced items such as value burger at Rs.69 etc.

- **Pizza Hut to move toward delivery model:** From a dine in model towards a delivery model, PH is indicating a drastic shift in strategy. The company started the process 2 years back resulting in reduction in existing store size and incrementally 90% stores in smaller delivery formats and 90% of sales through delivery channel. The current stores range between 500sqft-1000sqft as compared to 2000sq ft-3000 sq.ft format earlier. The new formats have a seating capacity of 30-40 people.
- **Costa Coffee has weak prospects:** With stiff competition from goliaths like Starbucks and other café's such as Barista, Chai point and CCD we believe survival for the brand and growth outlook remains uncertain. From 67 Costa Coffee stores in FY19 the company now runs 44 Stores as of FY21
- **Other brands have limited scalability:** Other brands of DIL include Vaango (South Indian Cuisine), Food Street, Ile Bar, AMRELI, Ckrussh Juice Bar, among others. The company has 51 stores as of June,30th FY21 as against 64 in FY19. From 38 Vaango stores in FY19 the company currently operates 27 stores. Company has aggressively rationalized other stores in the last 3yr period toward achieving a leaner and profitable business. DIL has also moved out of most concession agreements at Airports.

Exhibit 5: DIL has brands like KFC, Pizza Hut and Costa Coffee under its belt

Stores	KFC	Pizza Hut	Costa Coffee	International Business	Other Brands
Format	Delivery + Dine in	Delivery + Dine in	Cafes		Malls, Food Courts
Size of store*	1500-1800sqft	500-1000sqft			
Seating Capacity*	50-60	30-40			
Store network*	297	317	44	39	51
Cities*	107	106	17		15
Locations	J&K, Ladhakh, Rajasthan, NCR, Entire South & East of India except TN	Pan India presence for delivery North & East India for Dine in	Rajasthan, Punjab, Haryana, Delhi, UP, Maharashtra, Telangana, Kerala, West Bengal	Nepal & Nigeria	
FY21Sales (Rs mn)	6443	2879	214	1154	598
Contribution margin	21%	13%	16%	24%**	

Source: Company, PL

DIL has gained from Yum's consolidation

- Adds stores in new territories by acquisitions:** As Yum decided to consolidate its India operations for better efficiencies DIL gained through higher no of store acquisitions as compared to Sapphire foods. DIL acquired 73 KFC equity stores from Yum during FY19-21 period across various geographies such as Bangalore, AP, Telangana, Goa territories. These acquisitions have helped bring cost down for DIL and hence improved profitability and margins
- Aggressive expansion despite pandemic:** The company has 735 stores as on June 30th, 2021 compared to 692 stores as on 31th March 2021. It effectively opened 43 stores in Q1F22 across brands despite the pandemic. The company is geared toward adding 200-250 stores per year with 100 each for KFC and Pizza Hut and rest 50 between Costa Coffee and Vaango. This shows huge growth potential the company envisages for itself and its preparedness to capture the same.
- Focus shifts to delivery and smaller formats:** DIL has pivoted to delivery model with capex in smaller formats of KFC and Pizza Hut driving down capex per store, lowering opex per store through lower employee costs, overheads and rentals. This new format is bound to drive higher contribution/EBIDTA margins and lower payback period for new stores in the coming times.

Operational synergies and scale to benefit Devyani

- Cluster Based Approach:** DIL has 304 (~50%) core brand stores in the top 5 cities of Bengaluru, New Delhi NCR, Kolkata, Hyderabad and Mumbai as of March 31, 2021. With cluster-based expansion approach it has been able to target high-potential pockets in domestic markets. Factors such as significant footfalls, distance from existing store, presence of any other brand such as proximity between Pizza Hut & KFC are considered to control costs by saving on logistics cost. More stores in particular area allows the company to capitalize on economies of scale and results in lower operating costs per store and thereby ensuring higher unit-level profitability.

Exhibit 6: DIL's core brands have strong presence in top cities

No. of Top 10 cities	FY19	FY20	FY21
Bangalore	23	30	80
New Delhi	67	70	54
Kolkata	39	39	42
Gurgaon	35	34	34
Noida	30	29	28
Hyderabad	16	25	32
Lucknow	18	18	19
Mumbai	20	16	15
Ghaziabad	13	12	12
Jaipur	9	9	9
Total	270	282	325

Source: Company, PL

Exhibit 7: North and South are 74% of stores for Core Brands

Location	As of march, 31st 2021		As of June, 30th 2021	
	No of stores	% of total	No of stores	% of total
North Region	254	42%	262	41%
South Region	188	31%	211	33%
East Region	116	19%	123	19%
West Region	47	8%	49	8%
Total	605	100%	645	100%

Source: Company, PL

- **Cross Brand Synergies offers Operating Leverage:** Backend across all 3 formats is common for the group. Sourcing, warehousing and distribution of raw materials is centralized for particular regions and across Core Brands Business. This reduces the storage space required at stores, thereby minimizing store operating costs, without incurring significant additional expenses at the commissary level. It has one warehouse in corporate office and 7 other warehouses. In addition, it has its own in-house as well as third party logistics which reduces operating costs. Company policy of centralized sourcing from an optimal number of vendors further facilitates cost efficiencies and reduction in costs. Multiple brands taking space in specific locations allows the company to negotiate competitive lease rentals for their stores.
- The company is able to launch and operate smaller brands like Vaango and benefit from operating leverages derived from operating a wider brand portfolio. Better rentals, competitive rates for raw materials given that they tap a common pool of suppliers etc. are some of the synergistic benefits the company enjoys across its portfolio of brands
- **Well defined restaurant development process:** The company has a well-defined new-restaurant roll out process that enables it to identify locations and build out restaurants quickly, consistently and efficiently.

 - Stores are situated in locations that have significant footfalls such as high street locations, shopping malls, food courts, airports, hospitals business hubs and transit areas.
 - Location of each store is assessed on the basis of a number of factors including demographics, footfalls, accessibility, parking, delivery potential, consumption patterns and population density of the local community and availability of other restaurants within the area.
 - Guest traffic and distance from existing stores under the same brand is considered to minimize sales cannibalisation.
 - DIL targets an optimal mix across different formats, including dine-in, delivery, take-away and drive-thrus.
 - The stores opening process is not only cleared by the internal review committee but also Yum INDIA for core brands which makes the process robust to reduce store closures and improve scalability.

- Strong Emergence post Covid-19:** With divestment of TWG tea business, rationalization of non-performing airport/stores, variable rental agreements based on revenue share instead of fix rentals, smaller format stores leading to quick turnaround, digital adoption leading to 70% revenues from delivery channels in FY21 against 51% in FY20 the company has emerged stronger post covid with higher contribution margins across brands.
- Strong presence in South & East of KFC:** 90% of the population in South & East India are non- vegetarian vs 50% population in North & West. Amongst non -vegetarian's chicken is consumed the most followed by very small portions of sea food/ pork/ beef etc. Majority of KFC stores are present in South & East to capture the large consumer base present there
- 4Q shows promise, but too early to extrapolate:** In Q4FY21 the KFC's SSSG improved to 19.62% from (33.69%), Pizza Hut's to 13.4% from (30.25%) and, Costa Coffee's to (24.89%) from (61.64%) in FY21. The ADS for KFC increased to Rs. 118,498 from 100270, and for pizza hut it increased to Rs. 41788 from Rs34900.

Exhibit 8: SSG and other growth parameters across core brands

	KFC				Pizza Hut				Costa Coffee			
	FY19	FY20	FY21	4Q21	FY19	FY20	FY21	4Q21	FY19	FY20	FY21	4Q21
No of stores	134	172	264	264	268	269	297	297	67	63	44	44
SSSG %	4.7%	3.2%	-33.7%	19.6%	4.7%	-3.7%	-30.3%	13.4%	2.7%	-4.4%	-61.6%	-24.9%
Sales Rs mn	4,641	6,091	6,443	2,540	4,233	4,174	2,879	1,036	902.04	819.62	213.95	85.25
Avg Sales per store Rs mn		40	30			16	10			13	4	
Avg Daily sales per store	1,13,852	1,16,740	1,00,270	1,18,498	44,679	43,918	34,900	41,788	37,458	37,414	18,510	24,592
Avg Daily transaction per store	284	286	197	238	94	94	66	80	123	117	58	69
Avg Transaction size	401	409	508	497	476	467	530	520	304	319	320	358

Source: Company, PL

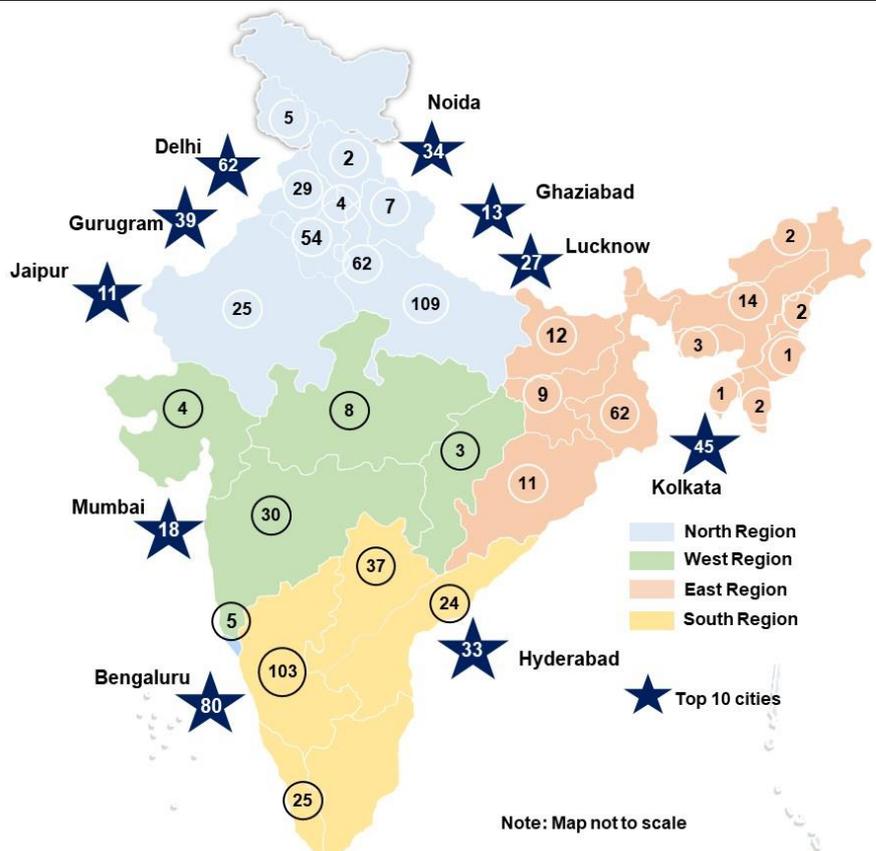
Snapshot of Major Business Verticals

Exhibit 9: Quick overview of core brands

	KFC	Pizza Hut	Costa Coffee
Inception year	2005	1997	2005
Franchisee ownership	Non-Exclusive	Non-Exclusive	Exclusive
License period (yrs.)	10	10	5
Renewal period (yrs.)	10	10	5
Store Footprint	284	317	44
No of cities	107	106	17
Royalty (% of sales)	6.3	6.3	6.0
Ad Spend (% of sales)	6.0	6.0	2.0
Revenue (Rs mn)			
FY21	6443	2879	214
Q4FY21	2540	1036	85
Sales Contribution (%)	57	26	2
Margins			
Gross margin (%)	68	74	79
Contribution margin (%)	21	13	16
Views	<ul style="list-style-type: none"> • Unique proposition with its fried chicken products • Faces little competition for the same in the organized QSR segment, Popeye's entry a key factor to watch out for 	<ul style="list-style-type: none"> • PH has strong leader like Dominoes to compete against • Dine in to delivery shift should accelerate growth, however Sustaining traction in the Delivery format remains key determinant 	<ul style="list-style-type: none"> • Costa Coffee faces competition from Starbucks, CCD, Barista etc. • Pandemic has made matters worse • Turnaround if at all looks unlikely in near to medium term

Source: Company, PL

Exhibit 10: DIL has presence in major markets and regions



Source: Company, PL



KFC – Strong Leadership

KFC (Kentucky Fried Chicken) is the global leader in the chicken based QSR's. DIL has franchisee rights for KFC in South (ex TN), East, North East, Rajasthan, JK and select high density pockets like NCR, Lucknow, Agra, Mumbai and Goa in other regions. DIL has acquired 73 stores of KFC from Yum in past 3 years which has resulted in significantly scale up the business. DIL has presence in major non veg markets, which gives it an advantage despite being not a pan India player.

Exhibit 11: DIL has KFC franchisee in high potential areas



Source: Company, PL

- **Store Count:** KFC store count has nearly doubled from 134 in FY19 to 264 in FY21. With the company adding around 46 stores in the 6months period from Dec 2020 to June 2022 the company is on an aggressive expansion plan to increase footprint of the brand across the country.
- **Marketing for KFC:** Marketing for KFC is carried out by Yum. DIL has to spend 6.00% of gross revenues in connection with the advertisement, promotion and marketing activities as per their agreement with Yum. Out of the 6.00%, 5.00% is contributed to Yum, and 1.00% is spent toward localized/ store-based promotion and marketing activities

- **KFC offers consumer Value in core products**

- KFC stores have an extensive menu featuring fried chicken buckets and allied chicken products, grilled chicken, burgers, rice bowls, and beverages.
- KFC core offerings of fried chicken products with select herbs and spices are a unique offering in the Indian QSR industry, as there is no other recognized international chain of restaurants that has successfully been able to introduce fried chicken products in India. We believe this gives KFC stores a competitive advantage within the niche space.
- Vibrant, contemporary store designs, and signature menu items has enabled it to grow into an aspirational brand in India with new store and product launches garnering significant attention and interest.

Exhibit 12: KFC reports 22.6% contribution margin in 4Q21

Year of Inception in India	2005			
No of stores as of 2021	264			
No of cities	97			
No of states	21			
Royalty	6.30%			
Ad spend as part of agreement with YUM	6%			
	FY19	FY20	FY21	4Q21
No of stores	134	172	264	264
SSSG%	4.7%	3.2%	-33.7%	19.6%
Avg Daily sales per store	1,13,852	1,16,740	1,00,270	1,18,498
No of operational days	304	303	243	81
Avg Daily transactions per store	284	286	197	238
Avg Transaction size	401	409	508	497
(Rs mn)				
Revenue from operations	4,641	6,091	6,443	2,540
<i>% growth</i>		31.2%	5.8%	
Gross profit	3,064	3,950	4,360	1,769
<i>Gross margin %</i>	66.0%	64.8%	67.7%	69.6%
*Brand Contribution	854	973	1,182	575
<i>Contribution margin %</i>	18.4%	16.0%	18.3%	22.6%

Source: Company, PL



Pizza Hut – Delivery shift success holds key

Pizza Hut has created a strong niche over the years in dine in format with products like Pizza, pasta and Beverages. However, the shift of market towards delivery led by Dominos and lack of focus and product suitability has hurt Pizza Hut in the past. It has now embarked on a major drive to restructure operations by closure of marginal stores, new delivery focused smaller stores and menu renovations. Success of new format is key to revival given aggressive plans of Dominos.

Exhibit 13: Pizza Hut franchisee in most parts for Delivery



Source: Company, PL

Store Count: Pizza Hut store count has increased from 268 in FY19 to 297 in FY21. With the company adding around 44 stores in the last 6months period from Dec 2020 to June 2021 the company is on an aggressive expansion plan to increase footprint of the brand across the country.

Marketing for KFC: Marketing for Pizza Hut is carried out by Yum. DIL has to spend 6.00% of gross revenues in connection with the advertisement, promotion and marketing activities as per their agreement with Yum. Out of the 6.00%, 5.00% is contributed to Yum, and 1.00% is spent toward localized/ store-based promotion and marketing activities

Value Proposition:

- From originally being a dine in restaurant format the company is now pivoting Pizza Hut to delivery model

- In addition to the original pan pizza offering, Pizza Hut offers extensive menu featuring pizzas, pasta, beverages and desserts.
- The brand is associated with good quality pizza and enjoys great recall value which the company intends to leverage with the delivery model going forward

Exhibit 14: Pizza Hut – 4Q contribution margins at ~FY19 levels

Year of Inception in India	1997			
No of stores as of 2021	297			
No of cities	100			
No of states	20			
Royalty	6.30%			
Ad spend as part of agreement with YUM	6%			
	FY19	FY20	FY21	4Q21
No of stores	134	172	264	264
SSSG%	4.7%	-3.7%	-30.3%	13.4%
Avg Daily sales per store	44,679	43,918	34,900	41,788
No of operational days	354	353	278	83
Avg Daily transaction per store	94	94	66	80
Avg Transaction size (Rs mn)	476	467	530	520
Revenue from operations	4,233	4,174	2,879	1,036
<i>% growth</i>		-1.4%	-31.0%	
Gross profit	3,131	3,126	2,135	789
<i>Gross margin %</i>	74.0%	74.9%	74.1%	76.2%
*Brand Contribution	655	439	372	157
<i>Contribution margin %</i>	15.5%	10.5%	12.9%	15.1%

Source: Company, PL

Costa Coffee – a weak player

Costa coffee operates in organized café market which has presence of players like Starbucks, CCD, Barista etc. and emerging players like McCafe. Indian organized café market has been tough with hardly any player being able to make money.



- Store Count:** Costa Coffee store count has reduced from 67 in FY19 to 44 in FY21. The pandemic has severely impacted the store economics as the very proposition of Costa Coffee is customers coming to the café for socializing over coffee.
- Marketing for KFC:** DIL is obligated to spend 2% of its gross revenues toward advertising and promotions as per its agreement with the parent company
- Value Proposition:** Costa Coffee stores have an extensive menu featuring coffee, sandwiches, wraps, Indian snacks, desserts, and other beverages.

Exhibit 15: Costa Coffee Financials

Year of Inception in India	2005			
No of stores as of 2021	44			
No of cities	17			
No of states	8			
Royalty	6.00%			
Ad spend as part of agreement with YUM	2%			
	FY19	FY20	FY21	4Q21
No of stores	67	63	44	44
SSSG%	2.7%	-4.4%	-61.6%	-24.9%
Avg Daily sales per store	37,458	37,414	18,510	24,592
No of operational days	359	348	263	79
Avg Daily transaction per store	123	117	58	69
Avg Transaction size	304	319	320	358
(Rs mn)				
Revenue from operations	902	820	214	85
<i>% growth</i>		-9.1%	-73.9%	
Gross profit	694	634	168	68
<i>Gross margin %</i>	76.9%	77.3%	78.5%	79.5%
*Brand Contribution	182	174	33	26
<i>Contribution margin %</i>	20.1%	21.2%	15.5%	30.3%

Source: Company, PL

Exhibit 16: FY21 a wash out due to covid 19

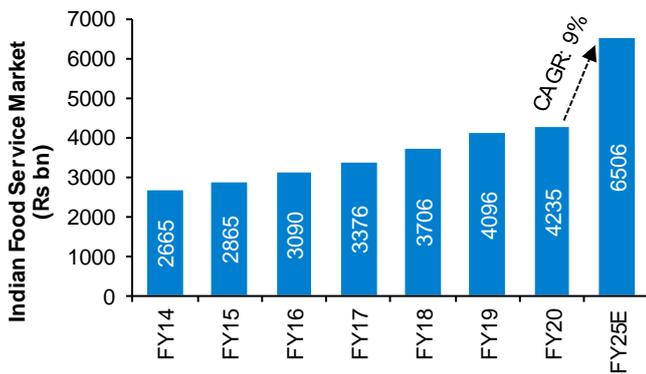
	2019	2020	2021	Q4FY21
Sales				
KFC	4,641	6,091	6,443	2,540
Pizza Hut	4,233	4,174	2,879	1,036
Costa	902	820	214	85
Core Brands	9,776	11,085	9,536	3661
Others	2,178	2,535	599	
IBD	1,104	1,491	1,154	
Total	13,057	15,112	11,288	
Other Operating Revenue	49	52	60	
<i>% of sales</i>	<i>0.4%</i>	<i>0.3%</i>	<i>0.5%</i>	
Total Revenues	13,106	15,164	11,349	
<i>Growth</i>		<i>15.7%</i>	<i>-25.2%</i>	
Gross Profit	9,169	10,508	7,841	
KFC	3,064	3,950	4,360	1,769
Pizza Hut	3,131	3,126	2,135	789
Costa	694	634	168	68
Core Brands	6,889	7,709	6,663	2,626
Others	1,557	1,830	432	
IBD	723	969	746	
Gross Margin	70.0%	69.3%	69.1%	
KFC	66.0%	64.8%	67.7%	
Pizza Hut	74.0%	74.9%	74.1%	
Costa	76.9%	77.3%	78.5%	
Core Brands				
Others	71.5%	72.2%	72.2%	
IBD	65.5%	65.0%	64.7%	
Brand Contribution	1,856	1,922	1,664	
KFC	854	973	1,182	575
Pizza Hut	655	439	372	157
Costa	182	174	33	26
Core Brands	1,691	1,586	1,587	
Others	(45)	(114)	(179)	
IBD	210	450	255	
Contribution Margin (Pre IND AS)	14.2%	12.7%	14.7%	
KFC	18.4%	16.0%	18.3%	22.6%
Pizza Hut	15.5%	10.5%	12.9%	15.1%
Costa	20.1%	21.2%	15.5%	30.3%
Core Brands	17.3%	14.3%	16.6%	20.7%
Others	-2.1%	-4.5%	-29.8%	
IBD	19.0%	30.2%	22.1%	
Brand Contribution	1,856	1,922	1,664	
Other Operating Revenue	49	52	60	
Corporate Overheads	877	1,173	791	
	6.7%	7.8%	7.0%	
Company Adjusted EBIDTA	1,027	802	933	

Source: Company, PL

Industry Snapshot

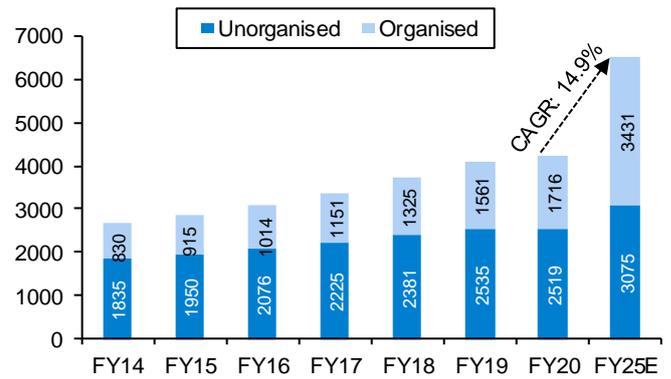
- Indian food services market has gained momentum** in the last decade due to changing consumption patterns that have seen an increase in a tendency to eat out that had not traditionally been a feature of Indians' lifestyle. Indian food service industry was estimated at Rs4236bn in FY20 is expected to grow at CAGR of 9% to Rs6,506bn by FY25. Organized market is expected to outpace industry with growth of 14.9% due to shift in consumer preference mainly on account of increased focus towards Hygienic brands.

Exhibit 17: Indian Food service market to grow at 9%



Source: Company,

Exhibit 18: Organized Markets to outpace industry growth



Source: Company, PL

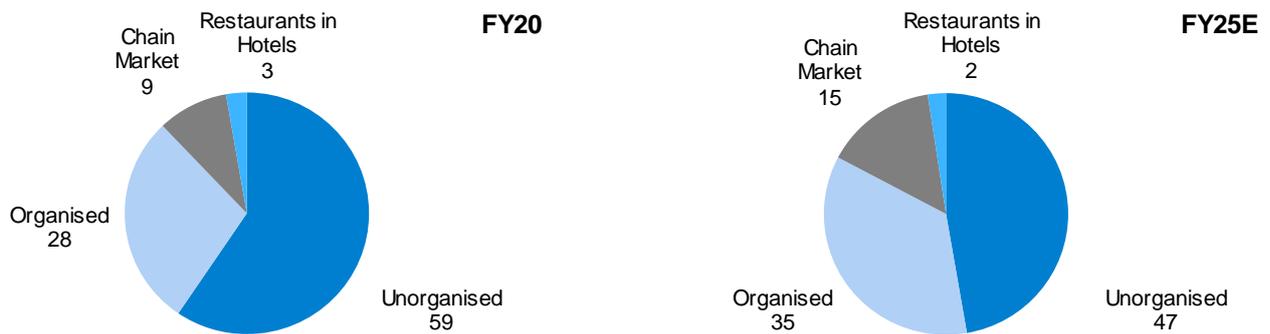
Exhibit 19: Components of Indian Food Service Market



Source: Company, PL

- Emergence of Organised chain markets:** Indian food service market comprises of several segments like Unorganized, organized standalone, Chain market and Restaurants in Hotels. Unorganised segment has been losing market share over the years to chain markets and organized standalone segments with expected decline in market share from 59% in FY20 to 47% in FY25. Market Share for both organised standalone and chain markets segment is expected to rise significantly from 28%/9% in FY20 to 35%/15% in FY25.

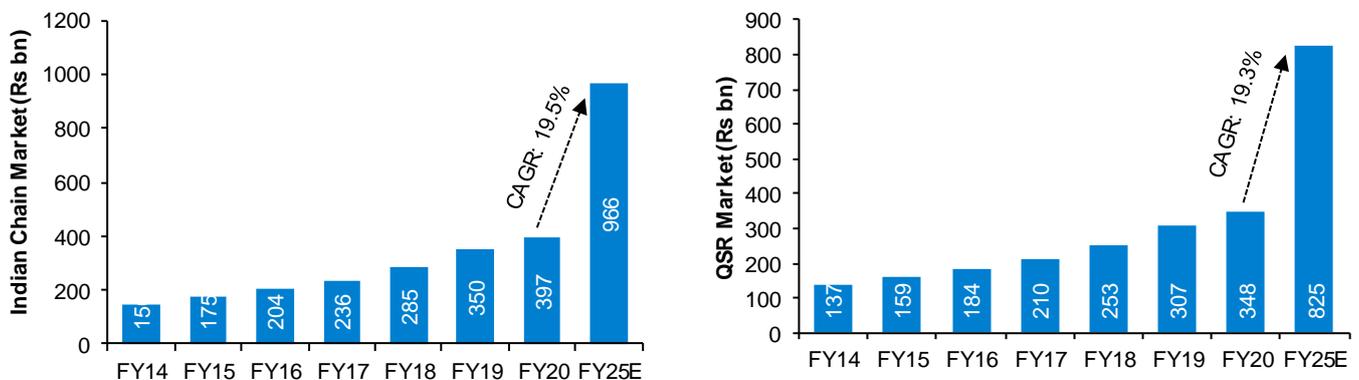
Exhibit 20: Chain Market segment share to grow significantly in FY25



Source: Company, PL

- Chain Markets to grow at 19.5%:** Chain market is expected to grow at CAGR of 19.5% to Rs966bn by FY25 led by increase in presence of international brands, strengthening of back end infrastructure, acceptance of new cuisines, changing lifestyles, rising aspirations and the emergence of new brands in these segments. QSR sub-segment is expected to grow at 19.3% driven by economic growth, demographic, cultural and lifestyle changes and increased penetration in Tier II and Tier III cities which have been growing faster than Metros, facilitated by improved supply chains, innovation and customization in operating models and store sizes.

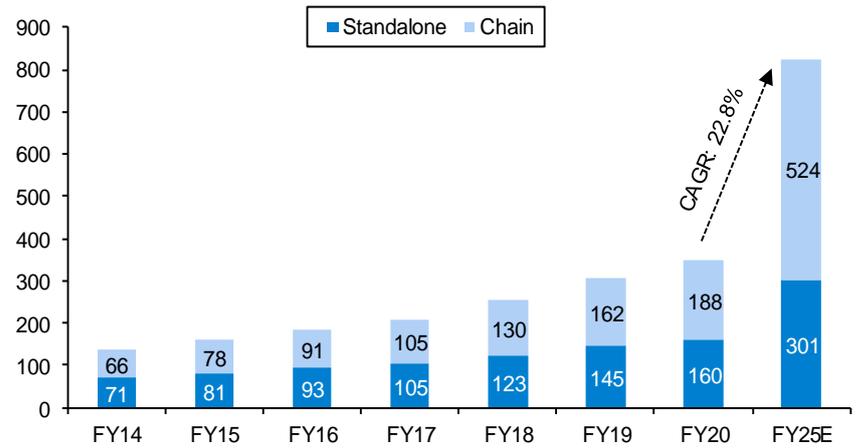
Exhibit 21: Indian Chain and QSR markets to grow 2x industry growth



Source: Company, PL

- Chain QSR segment expected to drive growth in QSR segment:** Growth in the QSR sub-segment is expected to be driven by the chain QSR market, which was approximately 54% of the total QSR sub-segment in FY20 and is estimated to be approximately 64% in FY25. Due to COVID-19, consumers have become more cautious towards hygiene and safety issues, and the chain QSR's position themselves to meet all the heightened requirements in relation to food quality, service standards, processes and delivery capabilities to capture the opportunities that arise due to the consumers more cautious dining habits.

Exhibit 22: Chain QSR segment to record strong growth of 22.8%



Source: Company, PL

- QSR channel more resilient compared to other channels in 2021:** Consumers are increasingly relied on meal delivery as a substitute for eating out, and hygiene has become a primary purchase consideration for consumers as a result of the pandemic.

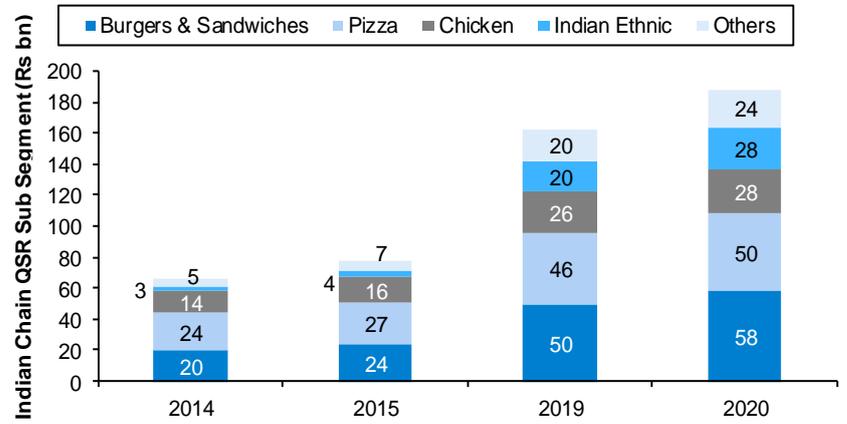
Covid-19 Impact on Major Foodservice Channels

Quick service restaurants were more resilient compared to other channels in 2021.

	Quick Service Restaurant	Full Service Restaurant	Coffee & Tea Shop	Pubs, Clubs, and Bars	
Initial impact (Until H1)	<p>The initial lockdown restrictions on outlets and spread of COVID-19 among delivery personnel hampered QSR revenues significantly during the first half.</p>	<p>FSRs were hit significantly by initial strict lockdown measures and consumers' reluctance to dine-out. Decline in disposable incomes also played a key role, owing to FSR's high average transaction value.</p>	<p>Lockdown restrictions hampered these outlets' revenues like other channels. However, as consumers visit these outlets not just their products, but also for ambience, home deliveries were not of much help.</p>	<p>Strict restrictions on these outlets hampered their businesses. Furthermore, deliveries and take-aways weren't of much help in the pub, club, and bar channel, as in other channels.</p>	
Subsequent impact (Until H2)	<p>Relatively higher dependence on takeaway transactions, compared to other channels, helped QSRs recover during H2. Contactless dine-ins introduced by key players also were instrumental.</p>	<p>FSRs recovered to some extent as typical dine-in restaurants as well adopted food deliveries. Even fine-dining venues, such as Taj, started offering their dishes at consumers' doorstep.</p>	<p>Owing to WFH policies of offices and reluctance of people to socialize, these outlets were slow to recover. Socializing is a key driver of transactions in these channels.</p>	<p>These outlets remained shut for a significant part of H2. Even when they opened there were restrictions, such as prohibition of new year parties, which were aimed at preventing large social gatherings.</p>	
Outlook 2021	<p>Quick service restaurants will see a better recovery compared to other channels, owing to their better suitability for take-aways. Investments of operators in expansion and technology will also drive the growth.</p>	<p>Home dining will play a crucial role in recovery. FSR operators will invest significantly in hygiene, safety, and packaging. Paucity of manpower and tighter budgets for rentals will push operators to trim their dine-in operations.</p>	<p>Recovery of income levels of consumers, which is expected to drive their impulse spending, will help the channel. Also, rise in work from anywhere culture is also likely to bring more income to these outlets.</p>	<p>Demand from urban consumers, especially young professionals willing to party and socialize, will drive the recovery in 2021. Craft spirits will grow in demand from young, high income individuals.</p>	
	Significant negative impact	Moderate negative impact	No impact	Moderate positive impact	Significant positive impact

- Pizza & chicken rank 2nd & 3rd in the QSR segment:** Within the chain QSR sub-segment, the pizza segment grew at a CAGR of 13% between FY14-20, and chicken grew at 12.2%

Exhibit 23: Pizza & Chicken share just behind burgers & sandwiches



Source: Company, PL

Financials

Exhibit 24: Income Statement (Rs mn)

Y/E March	2017	2018	2019	2020	2021
Net Sales	10,475	11,106	13,106	15,164	11,348
<i>Change (%)</i>		6.0	18.0	15.7	(25.2)
Material Consumed	3,214	3,374	3,889	4,604	3,447
Gross Profit	7,261	7,732	9,217	10,560	7,902
<i>Gross Margin %</i>	69.3	69.6	70.3	69.6	69.6
Operating expenses	6,890	6,802	6,428	8,005	5,633
EBITDA	370	930	2,790	2,555	2,269
<i>Change (%)</i>		151.0	200.0	(8.4)	(11.2)
<i>Margin (%)</i>	3.5	8.4	21.3	16.8	20.0
Depreciation	850	670	2,028	2,233	2,295
Impairment losses	522	(119)	248	39	480
Int. and Fin. Ch.	858	309	1,356	1,584	1,528
Other Non-recurring Inc.	86	251	131	187	641
PBT	(1,774)	320	(711)	(1,115)	(1,393)
<i>Change (%)</i>		(118.1)	(322.1)	56.7	24.9
<i>Margin (%)</i>	(16.9)	2.9	(5.4)	(7.4)	(12.3)
Tax	14	(8)	13	18	(11)
<i>Tax Rate (%)</i>	(0.8)	(2.6)	(1.8)	(1.7)	0.8
Adjusted PAT	(1,788)	329	(724)	(1,133)	(1,382)
<i>Change (%)</i>		(118.4)	(320.4)	56.4	22.0
<i>Margin (%)</i>	(17.1)	3.0	(5.5)	(7.5)	(12.2)
Non-rec. (Exp)/Inc.	11	18	(131)	(346)	(569)
Reported PAT	(1,777)	346	(856)	(1,479)	(1,951)

Source: Company, PL

Exhibit 25: Balance Sheet (Rs mn)

Y/E March	2017	2018	2019	2020	2021
Property, Plant and Equipment	3,575	3,965	4,840	4,787	4,307
Right of Use Asset	-	-	9,947	10,351	6,660
Investment property	-	-	471	414	456
Intangible Assets	241	282	364	577	1,855
Capital work in progress	151	564	115	135	143
Goodwill	206	206	161	224	644
Financial Assets					
Loans	284	399	458	492	435
Other	20	43	113	182	167
Other Non Current Assets	234	249	39	71	195
Deferred tax assets	-	31	81	75	96
Assets for Current Tax	88	102	96	95	80
Current Assets					
Inventories	339	446	549	721	622
Financial Assets					
Trade receivables	178	184	230	173	169
Cash and cash equivalents	371	443	266	132	400
Other Bank Balances	4	5	5	28	6
Loans	79	59	96	128	142
Other Financial Assets	2	1	1	36	106
Other Current Assets	145	300	243	213	202
Total Assets	5,959	7,280	18,075	18,836	16,684
Equity					
Equity share Capital	1,062	1,062	1,062	1,062	1,154
Other Equity	(190)	329	(1,765)	(2,953)	(16)
Total Network	871	1,391	(703)	(1,891)	1,138
Minority Interest	(203)	(336)	(510)	(391)	(419)
Non Current Liabilities	3,409	3,848	15,625	16,474	12,587
Financial Liabilities	2,985	3,301	15,446	16,295	12,359
Borrowings	2,985	3,301	4,205	4,536	4,422
Lease liabilities	-	-	11,241	11,759	7,937
Other Financial Liabilities	7	28	34	53	49
Provision	102	99	138	116	169
Other non-current liabilities	316	420	7	10	10
Current Liabilities	1,881	2,377	3,662	4,643	3,378
Financial Liabilities	1,446	1,920	3,450	4,422	3,095
Borrowings	78	407	677	905	211
Trade and other Payables	1,139	1,282	1,368	1,632	1,619
Lease liabilities	-	-	1,106	1,123	787
Other Financial liabilities	228	230	299	763	477
Short term Provisions	19	37	32	44	83
Other Current liabilities	417	417	177	170	193
Current tax liabilities	-	3	3	7	7
Total Equity and Liabilities	5,959	7,280	18,074	18,836	16,684

Source: Company, PL

Exhibit 26: Cash Flow (Rs mn)

Y/E March	2018	2019	2020	2021
OP/(loss) before Tax	320	-711	-1,115	-1,393
Profit from discontinued operations	0	-349	-427	183
Int./Div. Received				
Depreciation and Amort.	670	2,028	2,233	2,295
impairment losses	-119	248	39	480
Interest Paid	309	1,356	1,584	1,528
Others	101	-173	-105	-25
Other comprehensive Items & Exceptional items	-18	131	346	569
Direct Taxes Paid	8	-13	-18	11
Incr in WC	-101	925	634	-527
CF from Operations	1,171	3,442	3,170	3,121
Extraordinary Items				
Incr in FA	-1,351	-3,211	-2,458	-4,042
Change in Right of use of assets	0	-9,947	-404	3,691
Pur of Investments	43	0	0	0
Others	-96	-95	-66	43
CF from Invest.	-1,405	-13,253	-2,928	-308
Issue of Shares	73	-5	92	3,586
Change in lease liabilities	0	11,241	518	-3,822
Borrowings/(Repayments)	645	1,174	559	-808
Interest paid	-309	-1,356	-1,584	-1,528
Dividend paid	148	149	-3	78
Others	-251	-1,570	65	-75
CF from Fin. Activity	307	9,633	-353	-2,568
Incr/Decr of Cash	73	-177	-110	245
Add: Opening Balance	375	448	271	160
Closing Balance	448	271	160	405

Source: Company, PL

Exhibit 27: Key Ratios

Y/E March	2019	2020	2021
Basic (INR)			
Adj.EPS	-1.1	-4	-9
BV/Share	-6.6	-17.8	9.9
Valuation (x)			
P/E	-0.9	-1.5	-1.0
EV/Sales	6.9	5.9	8.7
EV/EBITDA (Pre IND AS)	94.2	155.8	117.2
P/BV	-13.6	-5.1	9.1
Dividend Yield (%)	0.0	0.0	0.0
Working Capital Ratios			
Debtor (Days)	7	5	7
Inventory (Days)	53	59	67
Creditor (Days)	132	133	174
Asset Turnover (x)	0.7	0.8	0.7

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,511	3,159
2	Avenue Supermarts	BUY	3,744	3,397
3	Bajaj Electricals	Hold	1,084	1,050
4	Britannia Industries	Accumulate	3,755	3,545
5	Burger King India	BUY	250	158
6	Colgate Palmolive	Accumulate	1,846	1,710
7	Crompton Greaves Consumer Electricals	BUY	518	468
8	Dabur India	UR	-	590
9	Emami	BUY	579	564
10	Havells India	Accumulate	1,226	1,151
11	Hindustan Unilever	Accumulate	2,535	2,378
12	ITC	BUY	258	212
13	Jubilant FoodWorks	Accumulate	3,404	3,065
14	Kansai Nerolac Paints	Accumulate	620	587
15	Marico	Hold	525	547
16	Mold-tek Packaging	BUY	598	510
17	Nestle India	Accumulate	19,290	18,023
18	Pidilite Industries	UR	-	2,179
19	Titan Company	Accumulate	1,869	1,763
20	Voltas	Hold	955	1,015
21	Westlife Development	BUY	572	496

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Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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