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Issue Details

Price Band (Rs)	Rs.86 - 90
Face Value (Rs)	1
Issue Size (Rs)	1,838Cr
Issue Type	Book Building
Minimum lot	165
Issue Opens	August 4, 2021
Issue Closes	August 6, 2021
Listing on	BSE, NSE

Indicative Timeline

On or before	
Finalization of Basis of Allotment	August 11, 2021
Unblocking of Funds	August 12, 2021
Credit of shares to Demat Account	August 13, 2021
Listing on exchange	August 16, 2021

Other Detail

Book Running Lead Managers	Kotak Mahindra Capital Company Limited, CLSA India Private Limited, Edelweiss Financial Services Limited, Motilal Oswal Investment Advisors Limited
Registrar	Link Intime India Private Limited

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Devyani International Limited

Company Background

Devyani International Limited ("DIL") was incorporated on December 13, 1991. 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. Yum! Brands Inc. operates brands such as KFC, Pizza Hut and Taco Bell and has 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. 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.

Issue Details

The offer comprises Fresh Issue of Equity shares aggregating upto Rs.440Cr and Offer for sale of Equity Shares aggregating upto Rs.1,398Cr.

Issue Objectives

1. Repayment/prepayment of all or certain of the borrowings: Rs.324 Crore
2. Meet general corporate purposes: Rs.116 Crore

IPO share allotment pattern

Category	Allocation	Number of Shares at Rs.86	Number of Shares at Rs.90	Issue Size^ (Rs.Cr)
QIB	75%	15,44,59,591	15,27,54,164	1,374.79
Non-Institutional	15%	3,08,91,918	3,05,50,833	274.96
Retail	10%	2,05,94,612	2,03,67,222	183.30
Employee		5,50,000	5,50,000	4.95
Total		20,64,96,121	20,42,22,219	1,838.00

^ Issue Size at Upper price band

Outlook and Valuations

Devyani is the single largest quick-service restaurant company in India to be listed on Swiggy and was among the largest QSR companies in India to be listed on the Zomato platform in 2019 and 2020. It is expected that the sale value of the QSR industry will grow at a CAGR of 12.4 per cent over 2020-2025. This growth will definitely benefit DIL despite the competition. Though the company is loss-making at this moment, lower debt and improving Same Store Sales Growth can turn that around. At the upper price band of Rs.90/-, stock is valued at 10x of FY21Sales. **We recommend to subscribe the issue from a listing gains prospective.**

Business Overview

Company's business is broadly classified into 3 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
- Other operations in the F&B industry, including stores of their own brands such as Vaango and Food Street ("**Other Business**").

Revenue from the Core Brands Business, together with their International Business, represented 83.01%, 82.94% and 94.19% of their revenue from operations in Fiscals 2019, 2020 and 2021, respectively.

Core Brands Business

With over 20 years of operations, DIL has developed extensive operational experience in the Indian market. As of June 30, 2021, they operated 645 stores of their Core Brands Business across 166 cities in India.

The total number of stores in the Core Brands Business in the periods indicated:

	FY19	FY20	FY21
Core Brands Business Total	469	504	605
- KFC	134	172	264
- Pizza Hut	268	269	297
- Costa Coffee	67	63	44
Source: Company RHP, ACMIIL Research			

KFC India

Company's first KFC store in India opened in 2005 at Kolkata. As of June 30, 2021, 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.

The illustrative representation of the presence of their KFC stores across states in India as of March 31, 2021:



In the cities in India that DIL currently operate KFC stores, they are the only franchisee of Yum to operate KFC stores, with the exception of captive markets (i.e. airports, railway stations) within the cities.

They operate their KFC stores pursuant to technology license agreements entered into with Yum ("KFC TLA"), and trademark license agreements entered into with KFC International ("KFC TMA"). As the largest franchise partner for Yum in India, they are actively involved in various decision-making processes on key branding aspects such as marketing campaigns, brand placement and customer acquisition and retention strategies.

Pizza Hut India

Company's first Pizza Hut store in India opened in 1997 at Jaipur. As of June 30, 2021, they operated 317 Pizza Hut stores located in 20 states and 3 union territories, across 106 cities in India. 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.

The presence of the Pizza Hut stores across states in India as of March 31, 2021:



Costa Coffee

Company's first Costa Coffee store in India opened in 2005 at Delhi. As of June 30, 2021, DIL operated 44 Costa Coffee stores located in 8 states and 1 union territory, across 17 cities in India. 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.

The key financial and operational information:

Brand	KFC India			Pizza Hut India			Costa Coffee		
Period	FY2019	FY2020	FY2021	FY2019	FY2020	FY2021	FY2019	FY2020	FY2021
Stores	134	172	264	268	269	297	67	63	44
Cities	57	76	97	83	82	100	16	18	17
Same Store Sales Growth	4.65%	3.15%	(33.69)%	4.67%	(3.68)%	(30.25)%	2.72%	(4.38)%	(61.64)%
Revenue from Operations (Rs.Cr)	464.11	609.13	644.25	423.29	417.43	287.91	90.20	81.96	21.40
Average Daily Sales per store (Rs.)	1,13,851	1,16,740	1,00,270	44,679	43,918	34,900	37,458	37,414	18,510
Average Daily Transactions per store	284	286	197	94	94	66	123	117	58
Average Transaction Size (Rs.)	401	409	508	476	467	530	304	319	320
Brand Contribution-Store Level (Rs.Cr)	85.37	97.27	118.17	65.55	43.90	37.24	18.17	17.41	3.32
"Brand Contribution -Store Level Margin (%)"	18.39%	15.97%	18.34%	15.49%	10.52%	12.94%	20.15%	21.24%	15.52%

Source: Company RHP, ACMIIL Research

Other Business

In addition to their Core Brands Business and International Business, DIL operates stores of other brands such as Vaango, The Food Street, Ile Bar, AMRELI, Ckrussh Juice Bar, among others. They typically operate these in the form of outlets within larger food courts in malls and airports.

COMPETITIVE STRENGTHS

Portfolio of highly recognized global brands catering to a range of customer preferences

DIL operates franchises of several highly recognized global QSR brands and is the largest franchise partner for Yum in India. Their Core Brands include:

- KFC, a global chicken restaurant brand with over 25,000 restaurants in over 140 countries, as of December 31, 2020;
- Pizza Hut, the largest restaurant chain in the world specializing in the sale of ready-to-eat pizza products. Pizza Hut operates in the delivery, carryout and casual dining segments around the world with 17,639 restaurants, as of December 31, 2020;
- Costa Coffee, a global coffee shop chain with over 3,400 coffee shops in 31 countries.

Their Core Brands Business as well as their Other Business offers a range of full and limited-service dining experiences not only in terms of cuisine, that includes a variety of offerings such as burgers, pizza, south-Indian food and street food, but also in terms of the format of offerings including dine-in, cafés, take-away, delivery, and drive-thrus. They serve a wide range of customers across various price points.

Presence across key consumption markets with a cluster-based approach

The company operates 696 stores across all brands and were present in 26 states and 3 union territories across 166 cities in India, as of June 30, 2021. They have a strong presence in key metro regions of Delhi NCR, Bengaluru, Kolkata, Mumbai and Hyderabad. DIL has established a standardized and scalable development model for their stores based on their know-how and experience that has led to faster and more cost-effective roll outs. Their expansion model is supported by streamlined store network planning, a robust supply chain network and an efficient staff recruitment and development program.

Cross brand synergies with operating leverage

DIL has expanded their operations in the last few years and has opened 72, 50 and 111 stores under their Core Brands Business in Fiscals 2019, 2020 and 2021, respectively. In addition, they acquired 13, 9 and 51 KFC stores from Yum in Fiscals 2019, 2020 and 2021, respectively. They have been able to leverage substantial operating synergies across the brands they operate. They have streamlined business processes from conceptualization of their stores to execution of daily operations.

Disciplined financial approach with focus on cash flows and returns

Company's SSSG has been impacted on account of COVID-19; they have focused on improving the trend. As part of their commitment to cost containment, they undertake a ROI analysis prior to opening a store to determine the financial feasibility of the store. Their margin profile is supported by the strong Brand Contribution Margins of the Core Brands Business. The net cash generated from operating activities was Rs.239.56 crore in FY2021, indicating support for their continued growth.

Focus on delivery channel for Core Brands

Given the COVID-19 pandemic, DIL anticipates considerable growth in the delivery business. Revenue generated from delivery sales represented 51.15% of the revenue from operations in their Core Brands Business in Fiscal 2020 and increased to 70.20% of the revenue from operations in their Core Brands Business in Fiscal 2021. DIL intends to continue to create synergies between stores of their Core Brands and the delivery services by taking advantage of their extensive store network to improve efficiency and increase margins.

Financial Snapshot

Particulars (Rs.Cr)	FY19	FY20	FY21
Equity share capital	106	106	115
Reserve	(176)	(295)	(1,59)
Net worth	(70)	(189)	114
Net asset value per share	(0.66)	(1.78)	1.03
Revenue from Operations	1,311	1,516	1,134
EBITDA	279	256	227
EBITDA %	21.29%	16.85%	20.00%
Net Loss	(94)	(121)	(63)

Source: Company RHP, ACMIIL Research

Comparison with Listed Peers:

Company	Standalone/ Consolidated	Total Income (Rs.Cr)	EPS	NAV	Price/Sales	ROE(%)
Devyani International Ltd	Consolidated	1,199	(0.50)	1.03	10	(48.52)
Jubilant FoodWorks Ltd	Consolidated	3,385	17.55	108.12	12.9	16.16
Westlife Development Ltd	Consolidated	1,030	(6.38)	30.89	8.84	(20.66)
Burger King India Ltd	Consolidated	523	(5.47)	17.59	14.4	(25.82)

*Financial information for aforementioned listed peers are sourced from the consolidated financial statements for the fiscal year ended March 31, 2021 submitted to stock exchanges by such companies. Price/sales Ratio has been computed based on the closing market price of equity shares on NSE on August 02, 2021.

Risks and concerns

- The company had incurred losses in FY2019, 2020 and 2021, these sustained losses have resulted from high corporate level overhead costs and towards funding certain loss-making businesses, such as operations at airports in India. These losses can continue in the foreseeable future.
- Localised lockdown restrictions to impact operations in medium term. These restrictions resulted in big decline in Pizza Hut & Costa coffee segments which are driven mainly by in store dining.
- The company relies on arrangements with Yum for KFC and Pizza Hut stores and Costa for Costa Coffee stores, that comprise a significant majority of its business, and a termination of or inability to renew these arrangements, will have a material adverse effect on the company's prospects.

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