

# Devyani International | BUY

## Weak same store sales continue to impact profitability

Devyani's 4QFY24 organic business performance was below estimate – revenues for KFC/PH were c.3% below estimate. Same stores sales/ADS saw further moderation for KFC & PH owing to sluggish demand, some impact of negative sentiment against US brands & high competitive intensity. While PH SSS trend was similar to Sapphire, KFC SSS decline of 7% was higher vs -4% for Sapphire. Costa Coffee performance was relatively resilient (SSSG +7.3%). India business GM delivery was better with better than envisaged margins in KFC/PH/Vaango due to benign RM scenario. Scale-deleverage/currency devaluation (Nigeria) led to compression in operating margins. Recently acquired Thailand business is broadly on track as per the management. In terms of outlook, 1Q is seasonally better quarter; management expects weak consumer sentiment to be short lived and is hopeful of demand recovery post elections. While store additions for FY24 (251 stores) were below expectations, management continues to maintain guidance of 275-300 stores for FY25E. In line with sector, we expect the stock to remain under pressure due to lack of near term triggers. Pace of recovery in SSSG for India business & execution on Thailand business will be key monitorables. From long term perspective, we remain positive on QSR opportunity and RJ Corp's execution capabilities to tap the same. BUY.

- Organic performance below estimate:** DIL's India business sales were c.2% below estimate while brand contribution was broadly inline; weaker International business led to overall organic performance being below forecasts. Consolidated sales (incl. Thailand acq) grew 38.7% to INR 10.5bn, driven by store additions (store count +43.4% yoy & 20.2% excl. Thailand). India sales grew 7.4% yoy (store count +20.7%) while International business sales were up >4x to INR3bn largely on account of Thailand acquisition. SSS remained tepid – PH:-14%, KFC: -7.1% (vs Sapphire's PH:-15%, KFC: -3%). Costa performed relatively better (SSSG +7.3%) due to higher salience of airport stores which continued to do well. GM was down 40bps yoy to 69.2% (India GMs were up 220bps yoy while International margins were lower due to Nigeria & Thailand KFC business). Further, scale leverages & Nigeria devaluation resulted in c.280bps decline in brand contribution margins to 13.6%. Corporate OH were controlled well at 4.4% of sales. Net-net, Pre-IND AS EBITDA margin was down c.290 bps to 9.2% (JMFE: 8.7%).
- SSSG trend remain weak for PH/KFC while Costa Coffee surprises positively:** 1) KFC India revenues were up 11.3% yoy led by store additions (+21.6% yoy). ADS was down 12.3% yoy. GM expanded 184bps yoy as input costs remained favourable, thereby aiding brand contribution margins (+148bps yoy to 19%). 2) PH India sales declined by 4.5% yoy (ADS down 18% yoy). Management has taken initiatives in terms of product innovations (especially on the premium side of pizzas) and brand investments to win back the customers. GM expansion was strong at 405bps to 77.3% due to benign input costs. Scale-deleverage & higher marketing spends, however, resulted in EBITDA margin compression of c.490bps yoy to 4.4%. 3) Costa Coffee sales were up 36.3% yoy led by store additions even as ADS was down 8.3%. GM was down 140bps yoy to 76.7%, while contribution margins at 17.9% (-234bps yoy/up 304bps qoq) surprised positively.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	185
Upside/(Downside)	17.8%
Previous Price Target	195
Change	-5.1%

### Key Data – DEVYANI IN

Current Market Price	INR157
Market cap (bn)	INR189.2/US\$2.3
Free Float	36%
Shares in issue (mn)	1,153.6
Diluted share (mn)	1,205.0
3-mon avg daily val (mn)	INR538.5/US\$6.4
52-week range	228/142
Sensex/Nifty	73,105/22,218
INR/US\$	83.5

### Price Performance

%	1M	6M	12M
Absolute	-4.4	-14.1	-11.1
Relative*	-4.0	-22.8	-24.2

\* To the BSE Sensex

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

### Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	20,641	29,728	35,224	53,514	63,831
Sales Growth (%)	84.4%	44.0%	18.5%	51.9%	19.3%
EBITDA	4,760	6,551	6,524	10,182	12,688
EBITDA Margin (%)	23.1%	22.0%	18.5%	19.0%	19.9%
Adjusted Net Profit	1,779	2,867	1,238	2,447	3,266
Diluted EPS (INR)	1.5	2.4	1.0	2.0	2.7
Diluted EPS Growth (%)	-269.5%	61.2%	-56.9%	97.7%	33.4%
ROIC (%)	21.5%	25.6%	-111.3%	10.3%	13.9%
ROE (%)	44.5%	34.6%	12.2%	20.8%	22.3%
P/E (x)	NA	66.0	NA	77.4	58.0
P/B (x)	27.6	19.5	17.9	14.6	11.6
EV/EBITDA (x)	39.9	28.9	30.1	19.3	15.3
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, JM Financial. Note: Valuations as of 14/May/2024

## Exhibit 1. 4QFY24 result snapshot: Low SSSG trends continue; operating margins on expected lines

(INR mn)

	4QFY24*	4QFY23	YoY chg	FY24	FY23	YoY chg
<b>Net Sales</b>	<b>10,471</b>	<b>7,550</b>	<b>38.7%</b>	<b>35,563</b>	<b>29,977</b>	<b>18.6%</b>
<b>Gross Profit</b>	<b>7,244</b>	<b>5,254</b>	<b>37.9%</b>	<b>24,997</b>	<b>20,991</b>	<b>19.1%</b>
Gross Profit Margin %	69.2%	69.6%	-40 bps	70.3%	70.0%	27 bps
Staff Cost	1,546	945	63.6%	4,950	3,452	43.4%
Other Expenses	3,959	2,795	41.6%	13,524	10,988	23.1%
<b>EBITDA</b>	<b>1,739</b>	<b>1,513</b>	<b>14.9%</b>	<b>6,524</b>	<b>6,551</b>	<b>-0.4%</b>
EBITDA margin %	16.6%	20.0%	-344 bps	18.3%	21.9%	-351 bps
<b>Comparable EBITDA (Pre Ind-AS 116)</b>	<b>959</b>	<b>913</b>	<b>5.0%</b>	<b>3,807</b>	<b>4,348</b>	<b>-12.4%</b>
Comparable EBITDA margin %	9.2%	12.1%	-293 bps	10.7%	14.5%	-578 bps
Depreciation	1,275	791	61.2%	3,907	2,782	40.4%
EBIT	464	722	-35.7%	2,617	3,769	-30.6%
Net Financial Income	-420	-310	35.5%	-1,543	-1,149	34.3%
<b>PBT Before Exceptional Items</b>	<b>44</b>	<b>412</b>	<b>-89.4%</b>	<b>1,074</b>	<b>2,620</b>	<b>-59.0%</b>
PBT After Exceptional Items	-380	412	-192.1%	37	2,419	-98.5%
<b>Reported Net Profit</b>	<b>-75</b>	<b>607</b>	<b>-112.3%</b>	<b>473</b>	<b>2,650</b>	<b>-82.2%</b>
<b>Adjusted Net Profit</b>	<b>469</b>	<b>607</b>	<b>-22.7%</b>	<b>-2,465</b>	<b>2,867</b>	<b>-186.0%</b>

Source: Company, JM Financial

\*Including Thailand acquisition

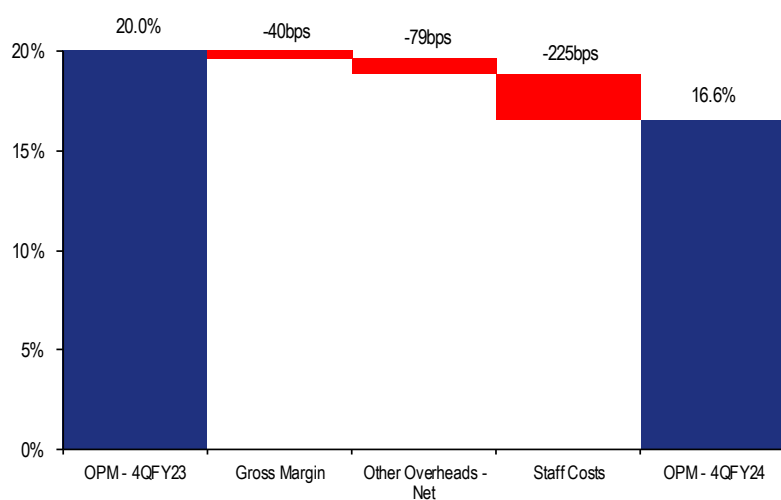
## Exhibit 2. Costs Breakdown

% of sales	4QFY24*	4QFY23	FY24	FY23
Cost of Goods Sold	30.8%	30.4%	29.7%	30.0%
Staff Cost	14.8%	12.5%	13.9%	11.5%
Other Expenses	37.8%	37.0%	38.0%	36.7%
Depreciation	12.2%	10.5%	11.0%	9.3%

Source: Company, JM Financial

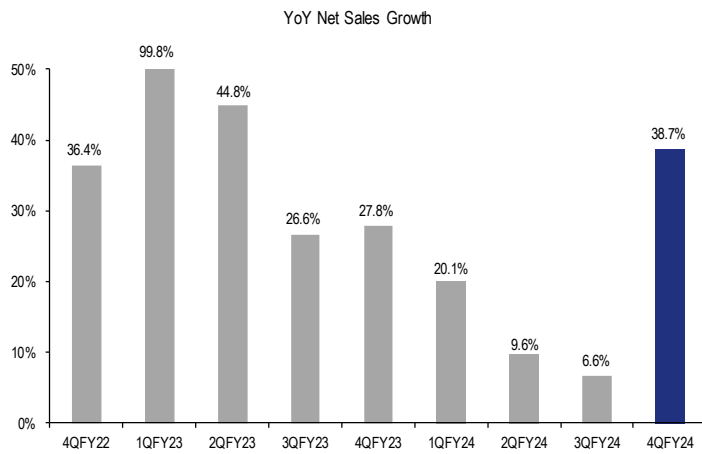
\*Including Thailand acquisition

## Exhibit 3. Operating margins remained compressed due to scale deleverage and GPM compression



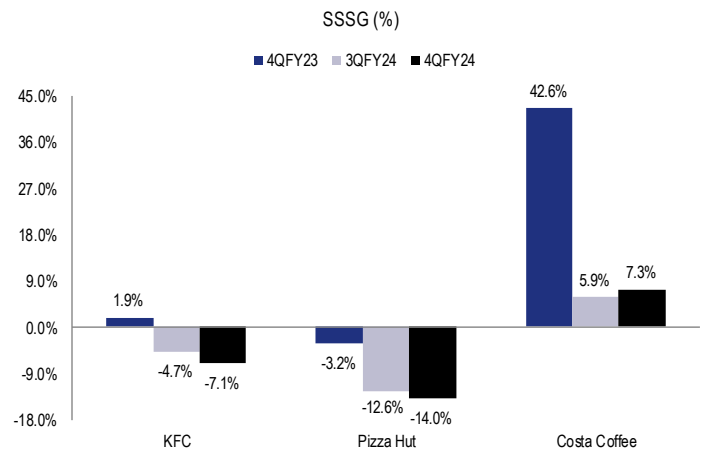
Source: Company, JM Financial

**Exhibit 4. Net Sales\* grew by 38.7% during Mar-Q**



Source: Company, JM Financial  
Including Thailand acquisition

**Exhibit 5. KFC and PH disappointed, Cost Coffee relatively resilient**



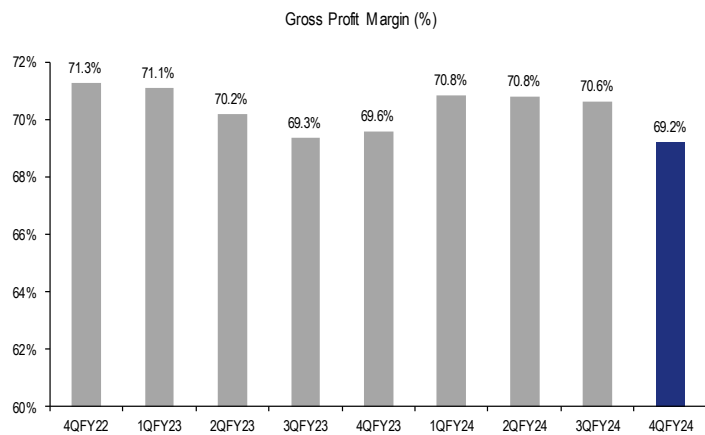
Source: Company, JM Financial

**Exhibit 6. 330 net new restaurants were added during the quarter, taking the total tally to 1,782 (incl. 288 Thailand stores)**



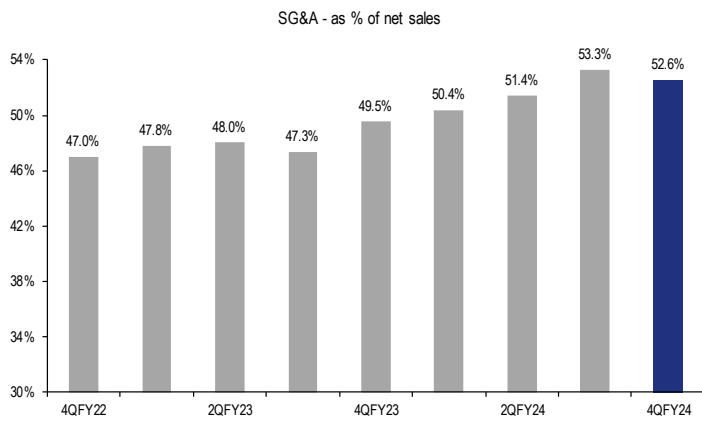
Source: Company, JM Financial

**Exhibit 7. Gross margin was down 40bps**



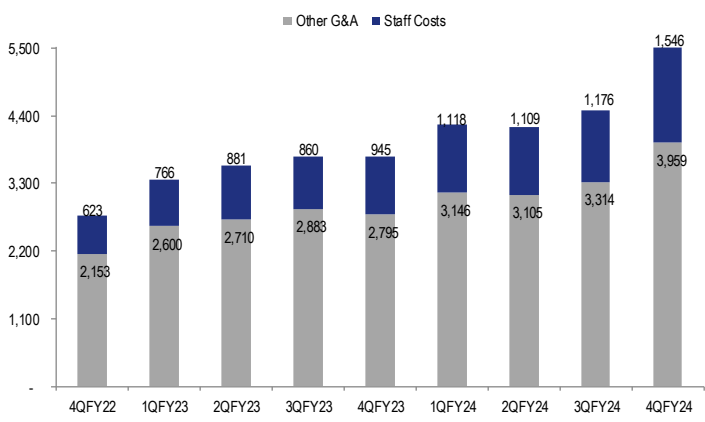
Source: Company, JM Financial

**Exhibit 8. SG&A grew 47.2% yoy and 22.6% qoq**



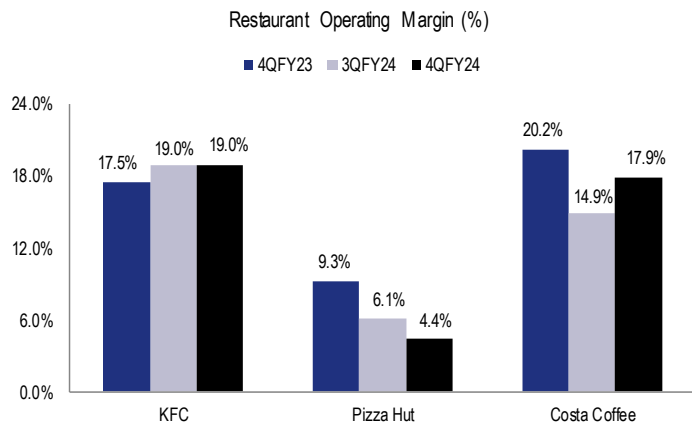
Source: Company, JM Financial

**Exhibit 9. Other expenses grew 42% yoy**



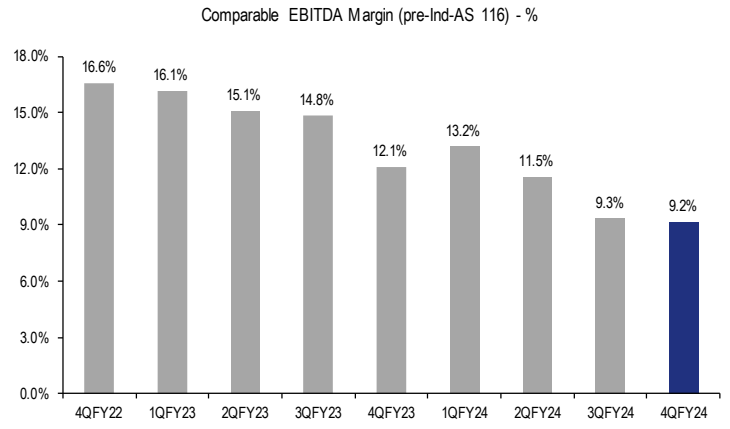
Source: Company, JM Financial

**Exhibit 10. Restaurant operating margins a mixed bag**



Source: Company, JM Financial

**Exhibit 11. Comparable EBITDA margins at 9.2%, down 293bps yoy**



Source: Company, JM Financial

**Exhibit 12. Our 12-month DCF based price target works out to INR185/share**

(INR mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E
Revenue	13,106	15,164	11,348	20,840	29,977	35,563	53,946	64,346	75,446	87,209	99,431	112,125	124,355	136,809	149,675	163,369	177,940
yoy growth		15.7%	-25.2%	83.6%	43.8%	18.6%	51.7%	19.3%	17.3%	15.6%	14.0%	12.8%	10.9%	10.0%	9.4%	9.1%	8.9%
Comparable EBITDA (Pre Ind As 116)	961	576	919	2,995	4,348	3,807	6,064	7,855	9,727	11,616	13,506	15,589	17,527	19,585	21,670	23,935	26,391
EBITDA margin %	7.3%	3.8%	8.1%	14.4%	14.5%	10.7%	11.2%	12.2%	12.9%	13.3%	13.6%	13.9%	14.1%	14.3%	14.5%	14.7%	14.8%
Comparable EBIT	-74	-305	-519	1,853	2,979	1,760	3,354	4,816	6,327	7,856	9,408	11,176	12,825	14,625	16,463	18,483	20,697
EBIT margin %	-0.6%	-2.0%	-4.6%	8.9%	9.9%	4.9%	6.2%	7.5%	8.4%	9.0%	9.5%	10.0%	10.3%	10.7%	11.0%	11.3%	11.6%
Tax Rate	-2.2%	-2.4%	1.3%	-26.0%	-8.5%	362.6%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
<b>NOPAT</b>	<b>-75</b>	<b>-312</b>	<b>-512</b>	<b>2,334</b>	<b>3,233</b>	<b>-4,620</b>	<b>2,498</b>	<b>3,588</b>	<b>4,714</b>	<b>5,853</b>	<b>7,009</b>	<b>8,326</b>	<b>9,555</b>	<b>10,895</b>	<b>12,265</b>	<b>13,770</b>	<b>15,419</b>
Depreciation	1,035	880	1,438	1,142	1,369	2,047	2,710	3,040	3,400	3,760	4,097	4,413	4,702	4,961	5,207	5,451	5,694
Capex	-8,426	-701	-1,037	-2,180	-4,477	-11,611	-3,918	-4,601	-4,924	-4,929	-4,755	-4,743	-4,446	-4,314	-4,465	-4,621	-4,783
Net working capital investment	230	447	-193	-1,133	1,517	1,138	-497	165	169	201	230	216	216	210	227	236	246
<b>Free Cash Flow</b>	<b>-7,237</b>	<b>314</b>	<b>-304</b>	<b>163</b>	<b>1,642</b>	<b>-13,046</b>	<b>793</b>	<b>2,191</b>	<b>3,360</b>	<b>4,885</b>	<b>6,581</b>	<b>8,212</b>	<b>10,027</b>	<b>11,752</b>	<b>13,234</b>	<b>14,836</b>	<b>16,576</b>
YoY Growth - %								176.3%	53.3%	45.4%	34.7%	24.8%	22.1%	17.2%	12.6%	12.1%	11.7%
Discounting Factor							1.00	0.90	0.82	0.74	0.67	0.61	0.55	0.50	0.45	0.41	0.37
<b>Present Value of FCF</b>							<b>793</b>	<b>1,983</b>	<b>2,751</b>	<b>3,620</b>	<b>4,414</b>	<b>4,985</b>	<b>5,508</b>	<b>5,842</b>	<b>5,954</b>	<b>6,040</b>	<b>6,107</b>
<b>12M Forward Equity Valuation</b>																	
PV of Cash Flow - Explicit Period																	
PV of Cash Flow - Fade Period																	
PV of Terminal Value																	
<b>Enterprise Value</b>																	<b>233,979</b>
Debt - Mar'24																	9,102
Cash - Mar'24																	2,384
Net Debt																	6,717
<b>Equity value</b>																	<b>227,262</b>
Mn no of shares																	1,206
<b>12M Target (DCF value) - Rs per share</b>																	<b>185</b>

**12M Forward Equity Valuation**

PV of Cash Flow - Explicit Period	47,999
PV of Cash Flow - Fade Period	59,124
PV of Terminal Value	126,856
<b>Enterprise Value</b>	<b>233,979</b>
Debt - Mar'24	9,102
Cash - Mar'24	2,384
Net Debt	6,717

<b>Equity value</b>	<b>227,262</b>
Mn no of shares	1,206
<b>12M Target (DCF value) - Rs per share</b>	<b>185</b>

Source: Company, JM Financial

## Financial Tables (Consolidated)

Profit & Loss Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Sales</b>	<b>20,641</b>	<b>29,728</b>	<b>35,224</b>	<b>53,514</b>	<b>63,831</b>
Sales Growth	84.4%	44.0%	18.5%	51.9%	19.3%
Other Operating Income	199	249	340	432	515
<b>Total Revenue</b>	<b>20,840</b>	<b>29,977</b>	<b>35,563</b>	<b>53,946</b>	<b>64,346</b>
Cost of Goods Sold/Op. Exp.	5,998	8,986	10,566	16,556	19,603
Personnel cost	2,482	3,452	4,950	7,434	8,649
Other expenses	7,599	10,988	13,524	19,773	23,406
<b>EBITDA</b>	<b>4,760</b>	<b>6,551</b>	<b>6,524</b>	<b>10,182</b>	<b>12,688</b>
EBITDA (%)	23.1%	22.0%	18.5%	19.0%	19.9%
EBITDA Growth (%)	102.9%	37.6%	-0.4%	56.1%	24.6%
<b>Comparable EBITDA</b>	<b>2,995</b>	<b>4,348</b>	<b>3,807</b>	<b>6,064</b>	<b>7,855</b>
Comparable EBITDA (%)	14.5%	14.6%	10.8%	11.3%	12.3%
Depn & Amort	2,249	2,782	3,907	5,097	6,119
EBIT	2,511	3,769	2,617	5,085	6,569
Other Income	161	326	326	347	328
Finance Cost	1,270	1,475	1,869	2,546	2,992
PBT before Excep & Forex	1,402	2,620	1,074	2,886	3,905
Excep & forex Inc/Loss(-)	-171	-200	-1,037	0	0
PBT	1,231	2,419	37	2,886	3,905
Taxes	-320	-206	133	736	996
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	12	25	569	298	357
Reported Net profit	1,563	2,650	473	2,447	3,266
<b>Adjusted Net Profit</b>	<b>1,779</b>	<b>2,867</b>	<b>1,238</b>	<b>2,447</b>	<b>3,266</b>
Net Margin (%)	8.6%	9.6%	3.5%	4.6%	5.1%
Diluted share capital (mn)	1,204.7	1,205.0	1,205.9	1,205.9	1,205.9
<b>Diluted EPS (Rs)</b>	<b>1.5</b>	<b>2.4</b>	<b>1.0</b>	<b>2.0</b>	<b>2.7</b>
Diluted EPS Growth	-269.5%	61.2%	-56.9%	97.7%	33.4%
Total Dividend + Tax	0	0	0	0	0
Dividend Per Share (Rs)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Cash Flow statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	1,231	2,419	37	2,886	3,905
Depn. & Amort.	2,249	2,782	3,907	5,097	6,119
Net Interest Exp. / Inc. (-)	1,109	1,149	1,543	2,200	2,664
Inc (-) / Dec in WCap.	162	246	375	-497	165
Others	-142	252	330	0	0
Taxes Paid	-103	-478	-267	-782	-996
<b>Operating Cash Flow</b>	<b>4,506</b>	<b>6,370</b>	<b>5,925</b>	<b>8,903</b>	<b>11,857</b>
Capex	-2,930	-4,240	-4,619	-3,918	-4,601
Free Cash Flow	1,576	2,130	1,306	4,985	7,256
-Inc/dec in investments	-912	693	2	0	0
Other current assets	90	50	21	347	328
<b>Investing Cash Flow</b>	<b>-3,752</b>	<b>-3,497</b>	<b>-4,595</b>	<b>-3,571</b>	<b>-4,273</b>
Inc(dec) in capital	4,340	21	21	0	0
Dividend+Tax Thereon	0	0	0	0	0
Inc/dec in loans	-3,327	-607	8,335	0	-1,820
Other assets	-1,597	-2,242	-2,875	-4,756	-5,406
<b>Financing Cash Flow</b>	<b>-584</b>	<b>-2,827</b>	<b>5,481</b>	<b>-4,756</b>	<b>-7,226</b>
<b>Inc / Dec (-) in Cash</b>	<b>170</b>	<b>46</b>	<b>6,810</b>	<b>576</b>	<b>358</b>
Opening cash balance	489	806	2,500	1,808	2,384
Closing cash balance	660	851	9,310	2,384	2,742

Source: Company, JM Financial

\*Thailand business included from FY24

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	6,863	9,703	10,558	13,005	16,271
Share capital	1,205	1,205	1,206	1,206	1,206
Reserves & Surplus	5,658	8,499	9,352	11,799	15,065
Preference Share Capital					
Minority Interest	-47	-62	2,928	2,630	2,274
Total Loans	1,325	774	9,102	9,102	7,281
Def. Tax Liab / Assets (-)	-482	-963	-512	-512	-512
<b>Total - Equity &amp; Liab</b>	<b>7,658</b>	<b>9,452</b>	<b>22,075</b>	<b>24,225</b>	<b>25,314</b>
Net Fixed Assets	6,406	9,545	22,319	23,349	24,245
Gross Fixed Assets	12,920	17,312	32,609	36,528	41,129
Intangible Assets					
Less: Depn. & Amort.	4,275	5,303	7,350	10,061	13,100
Capital W/P & Net lease asset	-2,238	-2,464	-2,940	-3,118	-3,783
Investments	0	0	0	0	0
Current Assets	4,519	4,502	6,538	10,012	11,840
Inventories	855	1,290	1,310	2,346	2,798
Sundry Debtors	211	289	527	733	874
Cash & Bank Balances	659	851	1,808	2,384	2,742
Loans & Advances	2,172	1,439	2,039	3,211	3,830
Other Current Assets	623	632	853	1,338	1,596
Current Liab. & Prov.	3,267	4,595	6,782	9,136	10,772
Current Liabilities	2,950	4,242	6,033	8,393	9,907
Provisions & Others	317	354	749	743	865
Net Current Assets	1,252	-93	-244	875	1,068
<b>Application of Funds</b>	<b>7,658</b>	<b>9,452</b>	<b>22,075</b>	<b>24,225</b>	<b>25,314</b>

Source: Company, JM Financial

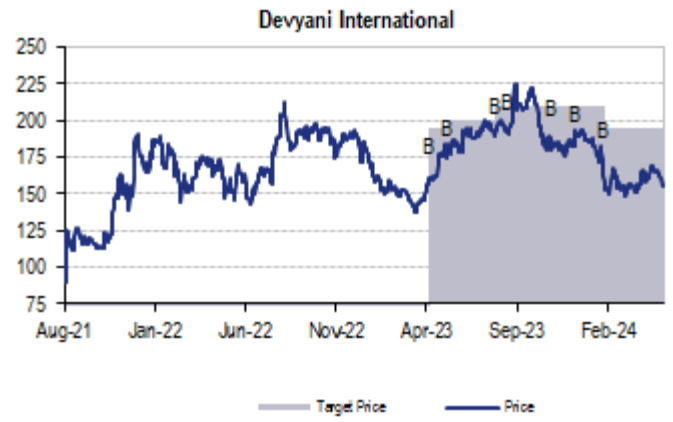
Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	8.6%	9.6%	3.5%	4.6%	5.1%
Asset Turnover (x)	3.2	3.5	2.2	2.3	2.6
Leverage Factor (x)	1.6	1.0	1.6	2.0	1.7
RoE	<b>44.5%</b>	<b>34.6%</b>	<b>12.2%</b>	<b>20.8%</b>	<b>22.3%</b>
<b>Key Ratios</b>					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (Rs)	5.7	8.1	8.8	10.8	13.5
ROIC (%)	21.5%	25.6%	-111.3%	10.3%	13.9%
ROE (%)	44.5%	34.6%	12.2%	20.8%	22.3%
Net Debt-equity ratio (x)	0.1	0.0	0.7	0.5	0.3
PER	NA	66.0	NA	77.4	58.0
PBV	27.6	19.5	17.9	14.6	11.6
EV/EBITDA	39.9	28.9	30.1	19.3	15.3
EV/Net Sales	9.2	6.4	5.6	3.7	3.0
Debtor days	4	4	5	5	5
Inventory days	15	16	14	16	16
Creditor days	67	66	76	70	70

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
18-Apr-23	Buy	195	
17-May-23	Buy	200	2.6
5-Aug-23	Buy	210	5.0
25-Aug-23	Buy	210	0.0
7-Nov-23	Buy	210	0.0
18-Dec-23	Buy	210	0.0
3-Feb-24	Buy	195	-7.1

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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\* REITs refers to Real Estate Investment Trusts.

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