

Lacks near-term triggers; maintain REDUCE

Retail ▶ Result Update ▶ February 3, 2024

TARGET PRICE (Rs): 160

DIL's Q3 print was weak, albeit in line with peers' and our expectations, after adjusting for the Nigerian FX devaluation (2.5% margin hit). Demand trends remain frail, with 5%/13% SSG decline in KFC/PH. Negative leverage drove a 300bps drop in store EBITDA to 15.4% in Q3. DIL sees this as a blip, as network expansion is expected to endure, basis the long-term potential for QSRs. As per DIL, the recent Thailand acquisition provides healthy prospects, with potential to double the number of KFC stores over 8-10 years, healthy SSG profile with market premiumization, potential margin gains, and introduction of own brands. We maintain REDUCE, as current valuations exceed growth prospects, in our view. Our FY24 EBITDA gets a 6% cut on Q3 FX loss, but there are no major changes to FY25/26 estimates, post our recent earnings-prune for the entire QSR space. Better traction in Thailand vs. our estimate of a low-teens EBITDA CAGR is an upside, while further devaluation in Nigeria is a downside.

Devyani International: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	20,840	29,977	33,496	40,157	49,944
EBITDA	4,760	6,551	6,374	8,290	10,649
Adj. PAT	1,734	2,850	1,454	1,828	2,799
Adj. EPS (Rs)	1.4	2.4	1.2	1.5	2.3
EBITDA margin (%)	22.8	21.9	19.0	20.6	21.3
EBITDA growth (%)	109.7	37.6	(2.7)	30.1	28.5
Adj. EPS growth (%)	0.0	64.3	(49.0)	25.7	53.1
RoE (%)	43.4	34.4	14.5	16.3	20.9
RoIC (%)	48.7	47.0	25.4	26.4	33.3
P/E (x)	120.2	73.1	143.3	114.0	74.5
EV/EBITDA (x)	43.9	31.8	32.8	25.1	19.4
P/B (x)	30.4	21.5	20.2	17.3	14.1
FCFF yield (%)	0.5	1.3	0.9	1.6	2.6

Source: Company, Emkay Research

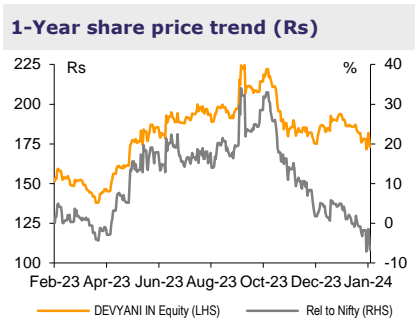
Weak trend persists across formats; PH/Nigeria pain to sustain for longer: KFC's revenue grew 15%, led by 28% growth in store-count and 5% decline in SSG, while PH saw a 3% revenue decline, owing to 17% growth in store-count and 13% drop in SSG. Overall, revenue growth was sluggish at 7%, due to weak macros, negative sentiment for US brands in select pockets, and high competition in the pizza space. Pizza category is witnessing weaker trends due to high competition, down trading, and revival of local players post the pandemic. For Costa, revenue grew 36% on account of 6% growth in SSG and the rest via network growth; margins declined by 1,160bps due to aggressive store additions. Store additions picked up and stood at 94/209 for Q3/9M across formats. DIL expects to reach a store-count of 2,000 by CY24 end, suggesting 265 store openings, with the mix inclining more towards KFC vs. PH. While gross margin grew by 130bps, the negative leverage and growth investments drove a 300bps decline in brand contribution. Translation losses through Nigeria FX devaluation led to higher HO costs (6% vs. 3.5% YoY), resulting in a 550bps decline in EBITDA margin to 9.3%.

Earnings call KTAs: 1) DIL remains confident about a pick-up in PH, given initiatives around visibility improvement, focus on improving in-store experience, and menu correction; PH may see curtailed expansion if weak trends persist. 2) Thailand provides good growth prospects as it is a developing country with high eating-out frequency, at 8-9 times a week vs. once in 35-40 days in India. A large part of Thailand's IEO market is still unorganized, and DIL expects to benefit from the organized shift with rise in income levels. 3) Capital for the Thailand acquisition has been raised through ~Rs3.5bn debt in India; DIL has also been able to reduce interest rate for existing debt, with the Thailand entity. The acquisition has been completed and Q4 will see 2&1/2 months of consolidation. 4) FX losses pertaining to Nigeria have been recognized as part of G&A. Further devaluation of currency can cause more losses, and vice-versa. 5) Nigeria is a highly food dependent economy and high inflation is leading to all-round impact on both, topline and margin. DIL will support the Nigeria business financially, till the situation improves. 6) Closure of stores remains at comfortable levels of 6-7% of new stores opened. 7) DIL has entered into a JV with RKAHPL to open/run food courts at railway stations. RKAHPL has expertise in handling railway tenders/processes, while DIL will contribute towards the efficient management of food courts. 8) Costa saw relatively better ADS trends compared with PH/KFC, due to its higher store salience in high-footfall areas like airports.

Target Price – 12M	Dec-24
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(7.5)
CMP (02-Feb-24) (Rs)	173.0

Stock Data	Ticker
52-week High (Rs)	228
52-week Low (Rs)	134
Shares outstanding (mn)	1,205.9
Market-cap (Rs bn)	209
Market-cap (USD mn)	2,516
Net-debt, FY24E (Rs mn)	400
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	480.5
ADTV-3M (USD mn)	5.8
Free float (%)	29.0
Nifty-50	21,854
INR/USD	82.9
Shareholding, Dec-23	
Promoters (%)	62.7
FPIs/MFs (%)	12.5/8.5

Price Performance			
(%)	1M	3M	12M
Absolute	(9.0)	(6.2)	15.1
Rel. to Nifty	(9.8)	(17.8)	(7.2)



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Story in Charts

Exhibit 1: Performance across key metrics over the past few quarters

Key Metrics	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
KFC India						
Number of stores	423	461	490	510	540	590
SSG (%)	13	3	2	-1	-4	-5
ADS ('000)	121,000	116,000	106,000	117,000	109,000	104,000
Revenue (Rs mn)	4,430	4,595	4,439	5,164	5,090	5,243
Gross margin (%)	67.9	67.6	68.6	69.7	69.0	69.4
Brand contribution margin (%)	21.5	19.7	17.5	21.1	19.4	19.0
PH India						
Number of stores	466	483	506	521	535	565
SSG (%)	3	-6	-3	-5	-10	-13
ADS ('000)	45,000	43,000	39,000	40,000	39,000	37,000
Revenue (Rs mn)	1,812	1,836	1,697	1,835	1,840	1,796
Gross margin (%)	74.5	73.6	73.2	74.9	75.7	75.8
Brand contribution margin (%)	17.0	14.1	9.3	10.1	7.7	6.1
Costa Coffee						
Number of stores	88	103	112	123	146	154
SSG (%)	51	20	43	9	9	6
ADS ('000)	31,000	37,000	36,000	33,000	30,000	35,000
Revenue (Rs mn)	220	291	331	324	346	397
Gross margin (%)	79.5	77.7	78.2	77.2	76.3	77.1
Brand contribution margin (%)	19.5	26.5	20.2	21.0	14.7	14.9
India – Others						
Revenue (Rs mn)	464	573	534	573	511	528
Brand contribution margin (%)	10.6	8.9	16.7	8.2	1.2	10.6
International [Nepal, Nigeria]						
Revenue (Rs mn)	548	611	549	570	408	467
Brand contribution margin (%)	21.2	25.9	26.6	27.2	17.9	16.5
Sapphire – Consolidated						
Number of stores	1,096	1,177	1,243	1,290	1,358	1,452
Store additions (no. of)	88	81	66	47	68	94
Revenue (Rs mn)	7,474	7,906	7,550	8,466	8,195	8,431
Gross margin (%)	70.2	69.3	69.6	70.8	70.8	70.6
Brand contribution margin (%)	19.6	18.3	16.4	18.2	15.4	15.4
Overhead opex/revenue (%)	4.6	3.5	4.3	5.1	3.8	6.0
Consol. EBITDA (Rs mn)	1,125	1,172	913	1,115	946	787
EBITDA margin (%)	15.1	14.8	12.1	13.2	11.5	9.3

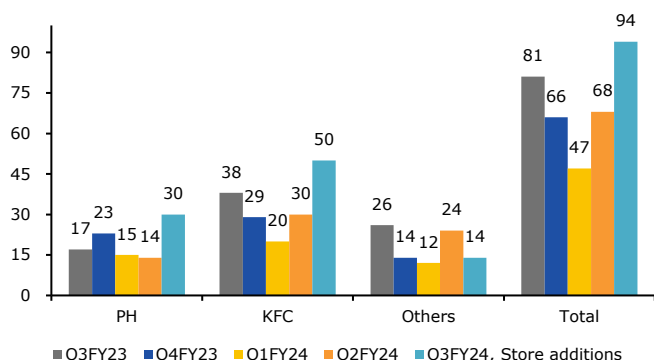
Source: Company, Emkay Research; *EBITDA/margins are pre IndAS-116

Exhibit 2: Actual vs. Estimates (Q2FY24)

(Rs mn)	Actual	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net Sales	8,431	8,615	8,900	-2.1%	-5.3%	Revenue was largely in-line with our estimate
EBITDA*	1,463	1,682	1,793	-13.0%	-18.4%	FX loss of 2.5% led to EBITDA miss
EBITDA margin*	17.4%	19.5%	20.1%	-217	-280	
PAT	96	289	448	-66.7%	-78.5%	EBITDA miss flowed into PAT

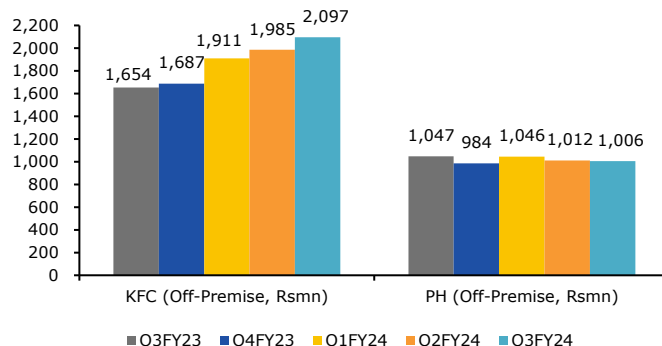
Source: Company, Emkay Research; *Post IndAS-116 EBITDA

Exhibit 3: DIL added 94 stores in Q3FY24, with 30/50 stores in PH/KFC



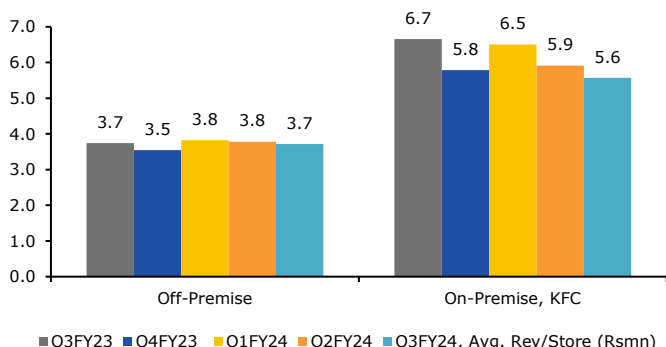
Source: Company, Emkay Research

Exhibit 4: Channel-wise, off-premise sales grew faster at 28% for KFC, while PH saw a 4% decline in off-premise sales



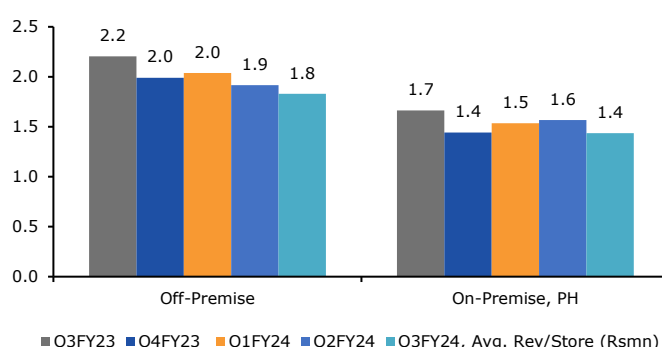
Source: Company, Emkay Research

Exhibit 5: For KFC, on-premise sales per store declined while off-premise consumption per store remained stable



Source: Company, Emkay Research

Exhibit 6: For PH, both, on-premise/off-premise, sales per store witnessed a decline



Source: Company, Emkay Research

Exhibit 7: Summary of quarterly results

Y/E, March (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)	FY23TD	FY24TD	Gr (%)
Revenue	7,906	7,550	8,466	8,195	8,431	6.6	2.9	22,427	25,092	11.9
Expenditure	6,167	6,044	6,732	6,650	6,968	13.0	4.8	17,377	20,351	17.1
Consumption of RM	2,424	2,296	2,468	2,393	2,478	2.2	3.5	6,690	7,339	9.7
as a % of sales	30.7%	30.4%	29.2%	29.2%	29.4%			29.8%	29.2%	
Employee Cost	860	945	1,118	1,109	1,176	36.8	6.0	2,507	3,404	35.8
as a % of sales	10.9%	12.5%	13.2%	13.5%	14.0%			11.2%	13.6%	
Other expenditure	2,883	2,802	3,146	3,148	3,314	15.0	5.3	8,181	9,608	17.4
as a % of sales	36.5%	37.1%	37.2%	38.4%	39.3%			36.5%	38.3%	
EBITDA	1,739	1,506	1,734	1,544	1,463	-15.9	-5.3	5,050	4,742	-6.1
Depreciation	706	784	796	863	930	31.6	7.7	2,004	2,589	29.2
EBIT	1,033	722	938	681	533	-48.4	-21.7	3,046	2,152	-29.3
Other Income	81	110	68	66	46	-42.8	-29.9	216	180	-16.5
Interest	378	420	404	417	482	27.6	15.8	1,054	1,303	23.6
PBT	736	412	603	330	97	-86.8	-70.7	2,207	1,030	-53.3
Total Tax	-62	-186	146	-168	46			-19	24	
Adjusted PAT	798	599	457	498	51	-93.6	-89.8	2,227	1,006	-54.8
Extra ordinary items	-88	0	-473	-140	0			-200	-613	
PAT before minority interests	710	599	-16	358	51	-92.9	-85.8	2,026	393	-80.6
Minority Interests	-6	-8	-134	25	-45			-16	-154	
PAT after MI	717	607	118	334	96	-86.6	-71.2	2,043	547	-73.2
EPS (Rs)	0.6	0.5	0.1	0.3	0.1	-86.6	-71.2	1.7	0.5	-73.2
(%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	(bps)	(bps)	FY23TD	FY24TD	(bps)
EBITDAM	22.0	19.9	20.5	18.8	17.4	-470	-150	22.5	18.9	-360
EBITM	13.1	9.6	11.1	8.3	6.3	-670	-200	13.6	8.6	-500
EBTM	9.3	5.5	7.1	4.0	1.1	-820	-290	9.8	4.1	-570
PATM	9.1	8.0	1.4	4.1	1.1	-790	-290	9.1	2.2	-690
Effective Tax rate	-8.5	-45.2	24.1	-50.9	47.6	5,610	9,860	-0.9	2.3	320

Source: Company, Emkay Research; *Post-Ind AS-116 EBITDA

Exhibit 8: Changes in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	33,688	33,496	-0.6	40,107	40,157	0.1	49,311	49,944	1.3
EBITDA*	3,939	3,720	-5.6	5,135	5,135	0.0	6,811	6,811	0.0
EBITDA margin (%)*	11.7	11.1	-60 bps	12.8	12.8	0 bps	13.8	13.6	-20 bps
PAT	995	798	-19.9	1,824	1,828	0.2	2,792	2,799	0.3
EPS (Rs)	0.8	0.7	-19.9	1.5	1.5	0.2	2.3	2.3	0.3

Source: Company, Emkay Research, *Pre-Ind AS-116 EBITDA

Exhibit 9: Peer Comparison

Companies	Mcap (Rs bn)	Reco	CMP (Rs/sh)	Target Price (Rs/sh)	Pre Ind AS-116 EV/EBITDA (x)			P/E (x)		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Jubilant FoodWorks	326	Sell	495	400	45.3	38.6	32.1	114.0	93.4	73.6
Devyani International	208	Reduce	173	160	52.9	38.3	28.9	261.2	114.0	74.5
Westlife Foodworld	130	Buy	838	900	46.9	37.2	28.7	168.1	112.9	74.9
Sapphire Foods	90	Buy	1,412	1,650	36.8	26.7	19.9	132.6	73.6	48.6

Source: Company, Emkay Research

Exhibit 10: DCF Valuation – Devyani International

Particulars	KFC	Pizza Hut	Costa	Others	Thailand
Cash Flow at FY45-end (Rs mn)	30,659	3,342	3,921	2,429	8,311
Terminal Growth Rate	5.5%	5.0%	5.0%	5.5%	4.0%
WACC	11.00%	11.00%	11.00%	12.00%	11.00%
Terminal Value (Rs mn)	5,88,091	58,482	68,614	39,422	1,23,475
Discounted Terminal Value (Rs mn)	70,989	7,059	8,282	4,759	14,905
PV of Firm till Terminal Year (Rs mn)	76,134	5,753	2,434	6,310	22,634
Total Discounted Value of Firm (Rs mn)	147,123	12,813	10,717	11,069	16,892
Format-wise EV contribution (%)	74	6	5	6	9
Total Discounted Value of Firm (Rs mn)	198,614				
Add: FY25 Cash Balance (Rs mn)	774				
Less: FY25 Debt* (Rs mn)	5,274				
Present Value of Equity - Dec-24E TP (Rs mn)	194,115				
Fair Value - Dec-24E TP (Rs/sh)	160				

Source: Company, Emkay Research; Note: * Factored in debt to finance the Thailand KFC acquisition

Devyani International: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	20,840	29,977	33,496	40,157	49,944
Revenue growth (%)	83.6	43.8	11.7	19.9	24.4
EBITDA	4,760	6,551	6,374	8,290	10,649
EBITDA growth (%)	109.7	37.6	(2.7)	30.1	28.5
Depreciation & Amortization	2,249	2,782	3,525	4,245	5,023
EBIT	2,511	3,769	2,848	4,045	5,626
EBIT growth (%)	0.0	50.1	(24.4)	42.0	39.1
Other operating income	0	0	0	0	0
Other income	161	326	280	300	350
Financial expense	1,270	1,475	1,722	2,035	2,387
PBT	1,402	2,620	1,406	2,310	3,588
Extraordinary items	(171)	(200)	(656)	0	0
Taxes	(320)	(206)	127	582	904
Minority interest	12	25	175	100	115
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,563	2,650	798	1,828	2,799
PAT growth (%)	0.0	69.5	(69.9)	129.1	53.1
Adjusted PAT	1,734	2,850	1,454	1,828	2,799
Diluted EPS (Rs)	1.4	2.4	1.2	1.5	2.3
Diluted EPS growth (%)	0.0	64.3	(49.0)	25.7	53.1
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	22.8	21.9	19.0	20.6	21.3
EBIT margin (%)	12.0	12.6	8.5	10.1	11.3
Effective tax rate (%)	(22.8)	(7.9)	9.0	25.2	25.2
NOPLAT (pre-IndAS)	3,084	4,065	2,592	3,026	4,208
Shares outstanding (mn)	1,204.7	1,204.7	1,204.7	1,204.7	1,204.7

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	1,402	2,620	1,406	2,310	3,588
Others (non-cash items)	2,249	2,782	3,525	4,245	5,023
Taxes paid	320	206	(127)	(582)	(904)
Change in NWC	(1,358)	1,037	898	91	134
Operating cash flow	3,551	7,593	6,489	7,799	9,878
Capital expenditure	(2,585)	(4,838)	(4,526)	(4,478)	(4,510)
Acquisition of business	0	0	0	0	0
Interest & dividend income	161	326	280	300	350
Investing cash flow	(2,424)	(4,512)	(4,246)	(4,178)	(4,160)
Equity raised/(repaid)	4,375	10	0	0	0
Debt raised/(repaid)	(3,316)	(534)	10	12	14
Payment of lease liabilities	(1,767)	(2,203)	(2,654)	(3,155)	(3,838)
Interest paid	(178)	(75)	(77)	(77)	(77)
Dividend paid (incl tax)	0	0	0	0	0
Others	12	(87)	0	0	0
Financing cash flow	(874)	(2,889)	(2,720)	(3,220)	(3,902)
Net chg in Cash	253	193	(478)	400	1,817
OCF	3,551	7,593	6,489	7,799	9,878
Adj. OCF (w/o NWC chg.)	4,908	6,556	5,591	7,708	9,745
FCFF	966	2,755	1,963	3,321	5,368
FCFE	(143)	1,607	520	1,586	3,331
OCF/EBITDA (%)	74.6	115.9	101.8	94.1	92.8
FCFE/PAT (%)	(8.2)	56.4	35.8	86.7	119.0
FCFF/NOPLAT (%)	31.3	67.8	75.7	109.7	127.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,205	1,205	1,205	1,205	1,205
Reserves & Surplus	5,658	8,499	9,122	10,850	13,534
Net worth	6,863	9,703	10,326	12,054	14,738
Minority interests	(47)	(62)	(62)	(62)	(61)
Deferred tax liability (net)	229	248	263	312	379
Total debt	1,325	774	774	774	774
Total liabilities & equity	8,369	10,664	11,302	13,078	15,830
Net tangible fixed assets	6,115	9,470	12,060	14,207	15,976
Net intangible assets	1,535	1,542	1,622	1,670	1,683
Net ROU assets	8,911	12,258	12,588	12,626	12,331
Capital WIP	68	153	153	153	153
Goodwill	644	644	644	644	644
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	659	851	374	774	2,591
Current assets (ex-cash)	4,694	4,967	4,911	5,888	7,323
Current Liab. & Prov.	3,039	4,347	5,185	6,216	7,731
NWC (ex-cash)	1,655	620	(274)	(328)	(408)
Total assets	8,369	10,664	11,302	13,078	15,830
Net debt	666	(78)	400	(1)	(1,817)
Capital employed	8,369	10,664	11,302	13,078	15,830
Invested capital	7,642	9,659	10,775	12,151	13,086
BVPS (Rs)	5.7	8.1	8.6	10.0	12.2
Net Debt/Equity (x)	0.1	0.0	0.0	0.0	(0.1)
Net Debt/EBITDA (x)	0.1	0.0	0.1	0.0	(0.2)
Interest coverage (x)	0.5	0.4	0.6	0.5	0.4
RoCE (%)	38.3	43.0	28.5	35.6	41.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	120.2	73.1	143.3	114.0	74.5
P/CE(x)	52.3	37.0	41.9	34.3	26.6
P/B (x)	30.4	21.5	20.2	17.3	14.1
EV/Sales (x)	10.0	7.0	6.2	5.2	4.1
EV/EBITDA (x)	43.9	31.8	32.8	25.1	19.4
EV/EBIT(x)	83.3	55.3	73.3	51.5	36.7
EV/IC (x)	27.4	21.6	19.4	17.2	15.8
FCFF yield (%)	0.5	1.3	0.9	1.6	2.6
FCFE yield (%)	(0.1)	0.8	0.2	0.8	1.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	8.3	9.5	4.3	4.6	5.6
Total asset turnover (x)	3.0	3.2	3.0	3.3	3.5
Assets/Equity (x)	1.7	1.1	1.1	1.1	1.1
RoE (%)	43.4	34.4	14.5	16.3	20.9
DuPont-RoIC					
NOPLAT margin (%)	14.8	13.6	7.7	7.5	8.4
IC turnover (x)	3.3	3.5	3.3	3.5	4.0
RoIC (%)	48.7	47.0	25.4	26.4	33.3
Operating metrics					
Core NWC days	(23.2)	(18.6)	(21.7)	(23.6)	(23.2)
Total NWC days	29.0	7.5	(3.0)	(3.0)	(3.0)
Fixed asset turnover	2.5	2.6	2.2	2.1	2.2
Opex-to-revenue (%)	48.4	48.2	51.8	50.0	49.4

Source: Company, Emkay Research

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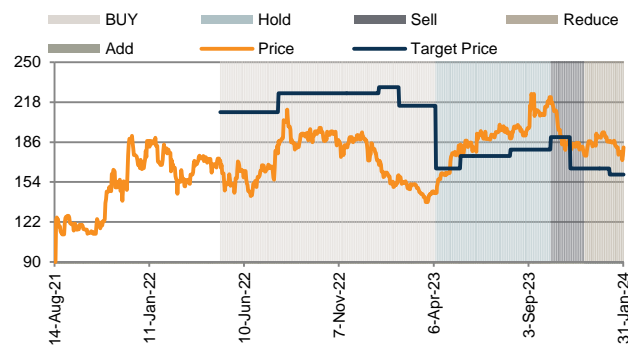
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Jan-24	187	160	Reduce	Devanshu Bansal
18-Dec-23	183	165	Reduce	Devanshu Bansal
30-Nov-23	175	165	Reduce	Devanshu Bansal
08-Nov-23	184	165	Sell	Devanshu Bansal
08-Oct-23	222	190	Sell	Devanshu Bansal
05-Aug-23	189	180	Hold	Devanshu Bansal
10-Jul-23	190	175	Hold	Devanshu Bansal
21-May-23	183	175	Hold	Devanshu Bansal
18-May-23	184	175	Hold	Devanshu Bansal
20-Apr-23	161	165	Hold	Devanshu Bansal
09-Apr-23	145	165	Hold	Devanshu Bansal
10-Feb-23	158	215	Buy	Devanshu Bansal
09-Jan-23	168	230	Buy	Devanshu Bansal
04-Nov-22	188	225	Buy	Devanshu Bansal
03-Aug-22	187	225	Buy	Devanshu Bansal
03-May-22	171	210	Buy	Devanshu Bansal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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