

Devyani International | BUY

Margin delivery surprises negatively

Devyani's 2QFY24 performance was below expectations, with operating environment remaining challenging as seen in case of other QSR players too. On the topline front, sales growth was largely driven by store additions, as same store sales for KFC/PH declined by 4%/10%. KFC performance on sales & profitability appears weaker vs Sapphire Foods. PH performance saw further deterioration, as the category is seeing impact of downtrading to lower price point QSR categories and high competitive intensity. This, along with disruption in International business (Nigeria) & margin compression in Costa Coffee, drove earnings miss vs our expectation. While management remains confident of recovery in KFC profitability, PH margin recovery could take more time in current context. On the positive side, store additions remained robust and RM scenario in key brands is benign; however, SSSG recovery will be key in the near term for uptick in profitability. From long term perspective, we believe that opportunity size, execution capabilities, strong promoter backing of RJ Corp and optionality in other brands (Costa Coffee) provide assurance on the growth runway.

- Below estimates - store expansion remains strong; however, SSSG continues to disappoint:** Consolidated sales of INR 8.2bn, up 9.6% yoy (store count +24%) and down 3% qoq, was c.4% below our estimate. India sales grew 12% yoy (store count +24%) while International business sales declined 26% yoy (store count +22%), impacted by inflation & currency devaluation in Nigerian business. SSSG saw moderation across brands - PH & KFC saw a decline of 10%/4% while Costa SSSG's at 8.5% was relatively resilient. GMs improved 61bps yoy (easing of input costs) to 70.8%, but expansion was lower vs Sapphire, due to lower expansion in KFC & compression in Costa/International margins. Scale deleverage resulted in 428bps decline in brand contribution margins to 15.4%. Corporate overheads as a % to sales at 3.8% was lower than trend seen in recent past; hence, Pre-IND AS EBITDA margin compression was lower at 351 bps to 11.5% (JMFe:12.4%).
- Scale deleverage impacts contribution margins across brands:**
 - 1) KFC India** revenues were up 14.9% yoy (SSSG: -3.9%, weaker than flat SSSG for Sapphire), led by store additions (+28% yoy). ADS was down 9.9% yoy/6.8% qoq, due to higher incidence of vegetarian days, especially in core market of South which sees higher impact in this period. GMs were up 105bps yoy as input costs remained favorable. Scale deleverage resulted in brand contribution margin compression of 210bps yoy to 19.4% (vs Sapphire at 19.2%). Profitability performance was weaker compared to Sapphire, likely due to adverse mix and higher scale deleverage impact.
 - 2) PH India** sales grew by 1.5% yoy (SSSG: -10.4%, vs Sapphire's -20%) impacted by downtrading to lower price point QSR categories and increased regional competition. GM up 120bps yoy to 75.7% due to benign RM; scale deleverage & higher marketing spends, however, resulted in EBITDA margin compression of 928bps yoy to 7.7% (vs Sapphire at 7.6%).
 - 3) Costa Coffee** sales were up 57.3% yoy (SSSG of 8.5%, ADS -3.2%). GMs were down 324bps yoy & 86bps qoq owing to RM inflation & adverse mix; contribution margins declined by 481bps yoy to 14.7%, impacted by higher store additions.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	210
Upside/(Downside)	11.7%
Previous Price Target	210
Change	0.0%

Key Data – DEVYANI IN

Current Market Price	INR188
Market cap (bn)	INR226.0/US\$2.7
Free Float	32%
Shares in issue (mn)	1,153.6
Diluted share (mn)	1,205.0
3-mon avg daily val (mn)	INR444.8/US\$5.3
52-week range	228/134
Sensex/Nifty	64,942/19,407
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	-15.6	5.7	0.8
Relative*	-14.2	-0.6	-5.0

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	20,641	29,728	35,131	44,555	54,529
Sales Growth (%)	84.4%	44.0%	18.2%	26.8%	22.4%
EBITDA	4,760	6,551	7,211	9,691	12,236
EBITDA Margin (%)	23.1%	22.0%	20.5%	21.8%	22.4%
Adjusted Net Profit	1,779	2,867	1,906	2,765	3,800
Diluted EPS (INR)	1.5	2.4	1.6	2.3	3.2
Diluted EPS Growth (%)	-269.5%	61.2%	-33.5%	45.1%	37.4%
ROIC (%)	21.5%	25.6%	14.2%	23.1%	27.3%
ROE (%)	44.5%	34.6%	18.3%	22.1%	24.1%
P/E (x)	NA	78.8	NA	81.7	59.5
P/B (x)	32.9	23.3	20.3	16.3	12.8
EV/EBITDA (x)	47.6	34.5	31.3	23.1	18.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, JM Financial. Note: Valuations as of 07/Nov/2023

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.

Exhibit 1. 2QFY24 result snapshot: Muted SSSG & resultant scale deleverage drove miss on operating performance (INR mn)

	2QFY24	2QFY23	YoY chg	2QFY24E	% var	1HFY24	1HFY23	YoY chg
Net Sales	8,195	7,474	9.6%	8,506	-3.7%	16,661	14,521	14.7%
Gross Profit	5,802	5,246	10.6%	6,028	-3.8%	11,800	10,256	15.1%
Gross Profit Margin %	70.8%	70.2%	61 bps	70.9%	-7 bps	70.8%	70.6%	20 bps
Staff Cost	1,109	881	26.0%	1,200	-7.6%	2,227	1,647	35.2%
Other Expenses	3,105	2,710	14.6%	3,147	-1.3%	6,250	5,310	17.7%
EBITDA	1,588	1,655	-4.1%	1,681	-5.5%	3,322	3,298	0.7%
EBITDA margin %	19.4%	22.1%	-277 bps	19.8%	-39 bps	19.9%	22.7%	-277 bps
Comparable EBITDA (Pre Ind-AS 116)	946	1,125	-15.9%	1,059	-10.7%	2,060	2,262	-8.9%
Comparable EBITDA margin %	11.5%	15.1%	-351 bps	12.4%	-90 bps	12.4%	15.6%	-313 bps
Depreciation	907	652	39.1%	820	10.6%	1,703	1,285	32.5%
EBIT	681	1,003	-32.1%	861	-20.9%	1,619	2,013	-19.6%
Net Financial Income	-351	-303	15.8%	-365	-3.9%	-686	-541	26.8%
PBT Before Exceptional Items	330	700	-52.9%	496	-33.4%	933	1,472	-36.6%
PBT After Exceptional Items	190	588	-67.6%	496	-61.6%	320	1,359	-76.5%
Reported Net Profit	334	588	-43.2%	371	-10.0%	451	1,326	-66.0%
Adjusted Net Profit	543	678	-19.8%	371	46.6%	903	1,435	-37.1%

Source: Company, JM Financial

Exhibit 2. Costs Breakdown

% of sales	2QFY24	2QFY23	2QFY24E	1HFY24	1HFY23
Cost of Goods Sold	29.2%	29.8%	29.1%	29.2%	29.4%
Staff Cost	13.5%	11.8%	14.1%	13.4%	11.3%
Other Expenses	37.9%	36.3%	37.0%	37.5%	36.6%
Depreciation	11.1%	8.7%	9.6%	10.2%	8.9%

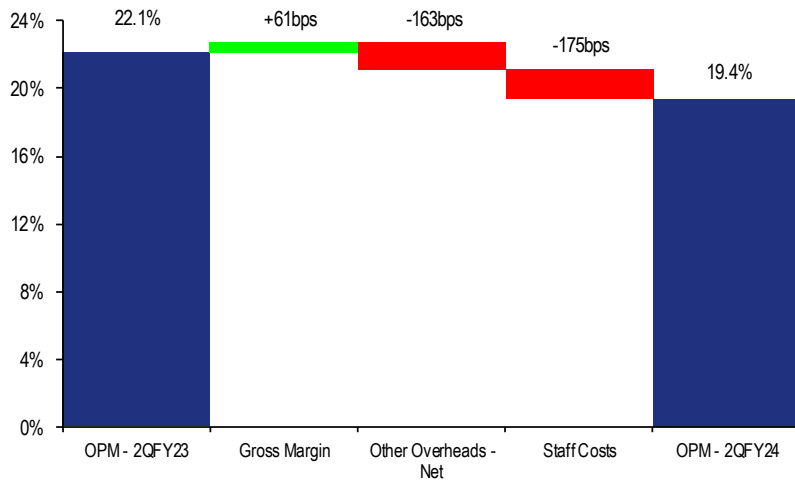
Source: Company, JM Financial

Exhibit 3. Per store economics

Per store basis (INR mn)	2Q24	1Q24	2Q23	% chg. YoY	% chg. QoQ
Average revenue / store	6.2	6.7	7.1	-12.9%	-7.4%
Staff cost / store	0.8	0.9	0.8	0.1%	-5.1%
Other expenses / store	2.3	2.5	2.6	-9.0%	-5.6%
EBITDA	0.7	0.9	1.1	-33.2%	-18.8%

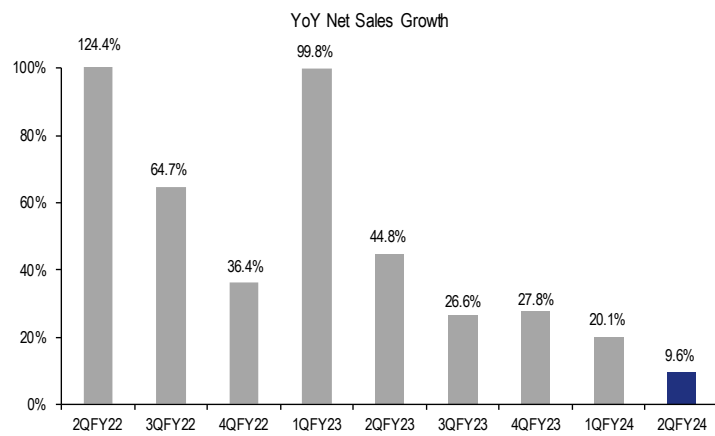
Source: Company, JM Financial

Exhibit 4. Operating margins compressed by 277bps due to higher staff and other expenses, only partially offset by GPM expansion



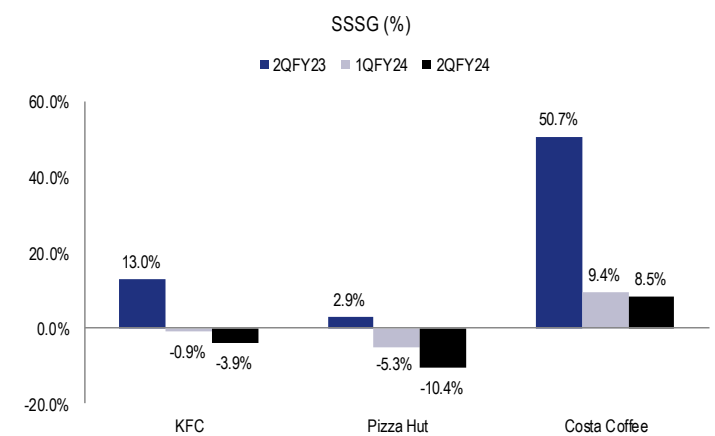
Source: Company, JM Financial

Exhibit 5. Net Sales grew by 9.6% during Sep-Q



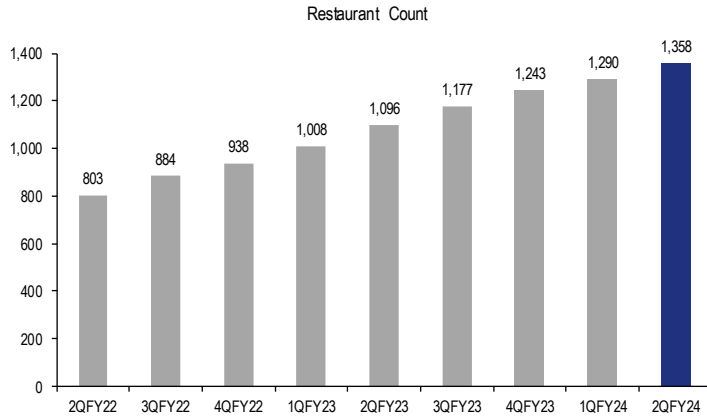
Source: Company, JM Financial

Exhibit 6. KFC and PH disappointed; Cost Coffee relatively resilient



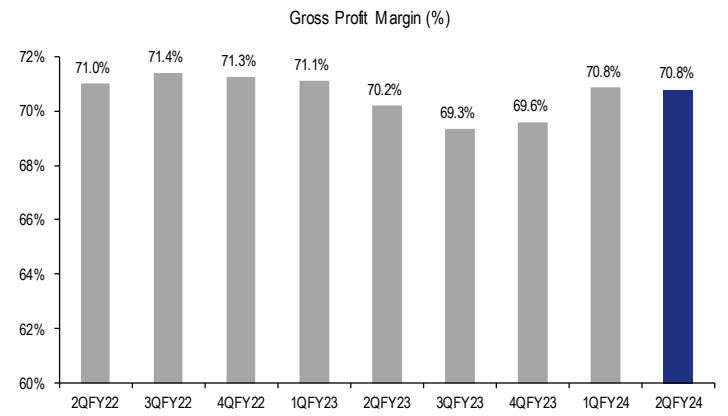
Source: Company, JM Financial

Exhibit 7. 68 net new restaurants were added during the quarter, taking the total tally to 1,358



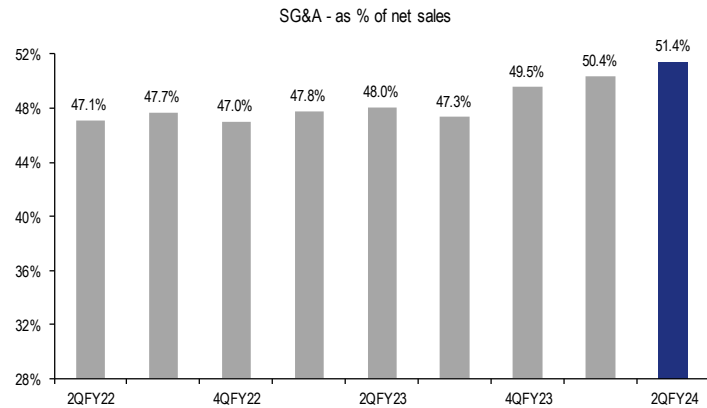
Source: Company, JM Financial

Exhibit 8. Gross margin expanded 61bps yoy



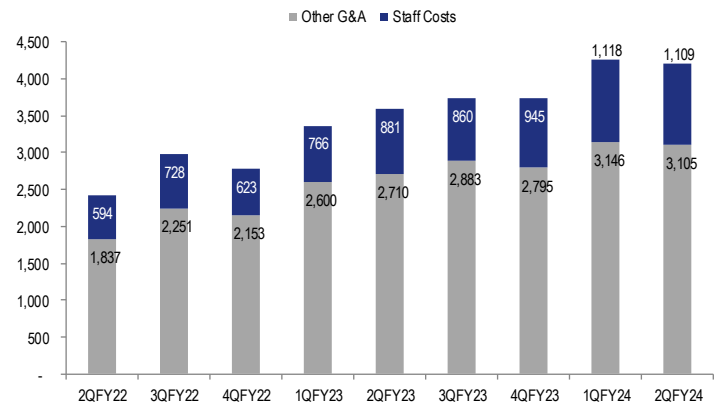
Source: Company, JM Financial

Exhibit 9. SG&A grew 17.4% yoy but declined 1.2% qoq



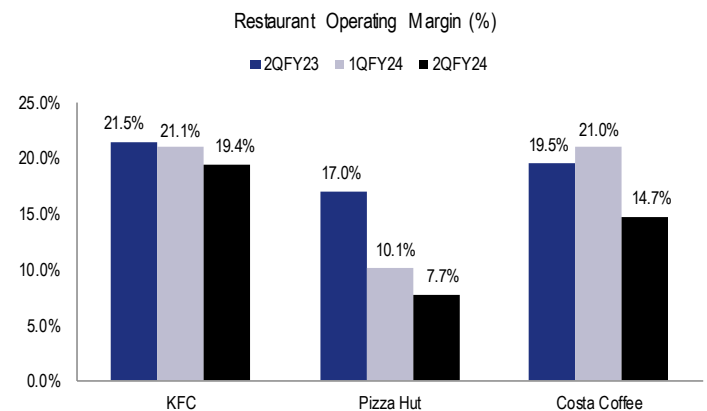
Source: Company, JM Financial

Exhibit 10. Other expenses grew 14.6% yoy



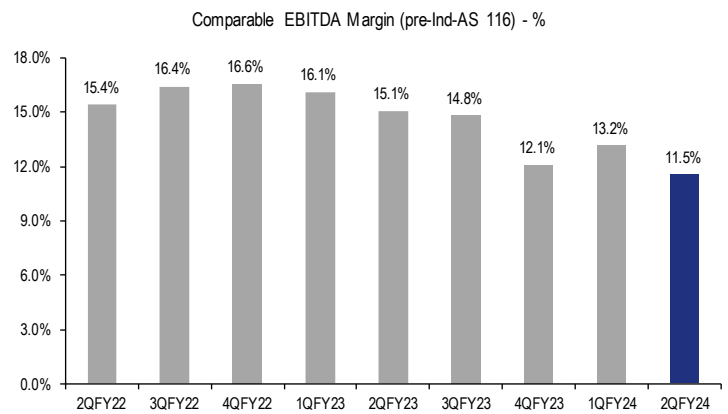
Source: Company, JM Financial

Exhibit 11. Restaurant operating margins declined yoy as well as qoq across businesses on account of scale deleverage



Source: Company, JM Financial

Exhibit 12. Comparable EBITDA margins at 11.5%, down 351bps yoy



Source: Company, JM Financial

Exhibit 13. Our 12-month DCF based price target works out to INR210/share

(INR mn)

(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	35,469	44,984	55,055	65,627	76,489	87,371	98,770	110,335	122,325	134,703	147,929	162,055
yoy growth		15.7%	-25.2%	83.6%	43.8%	18.3%	26.8%	22.4%	19.2%	16.6%	14.2%	13.0%	11.7%	10.9%	10.1%	9.8%	9.5%
Comparable EBITDA (Pre Ind As 116)	961	576	919	2,995	4,348	4,498	6,431	8,263	10,081	12,008	14,007	16,175	18,280	20,499	22,799	25,294	27,996
EBITDA margin %	7.3%	3.8%	8.1%	14.4%	14.5%	12.7%	14.3%	15.0%	15.4%	15.7%	16.0%	16.4%	16.6%	16.8%	16.9%	17.1%	17.3%
Comparable EBIT	-74	-305	-519	1,853	2,979	2,737	4,323	5,789	7,244	8,834	10,537	12,426	14,261	16,231	18,295	20,556	23,028
EBIT margin %	-0.6%	-2.0%	-4.6%	8.9%	9.9%	7.7%	9.6%	10.5%	11.0%	11.5%	12.1%	12.6%	12.9%	13.3%	13.6%	13.9%	14.2%
Tax Rate	-2.2%	-2.4%	1.3%	-26.0%	-8.5%	18.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
NOPAT	-75	-312	-512	2,334	3,233	2,230	3,221	4,313	5,396	6,581	7,850	9,257	10,624	12,092	13,630	15,314	17,156
Depreciation	1,035	880	1,438	1,142	1,369	1,761	2,108	2,473	2,837	3,175	3,470	3,750	4,019	4,269	4,504	4,738	4,968
Capex	-8,426	-701	-1,037	-2,180	-4,477	-3,742	-4,274	-4,402	-4,534	-4,097	-3,882	-3,999	-3,940	-3,781	-3,894	-4,011	-4,132
Net working capital investment	230	447	-193	-1,133	1,517	332	163	217	243	239	228	223	238	240	243	252	262
Free Cash Flow	-7,237	314	-304	163	1,642	582	1,218	2,601	3,943	5,897	7,666	9,231	10,942	12,819	14,482	16,293	18,255
YoY Growth - %			-196.9%	-153.6%	906.6%	-64.6%	109.2%	113.7%	51.6%	49.6%	30.0%	20.4%	18.5%	17.2%	13.0%	12.5%	12.0%
Discounting Factor							0.95	0.86	0.78	0.71	0.64	0.58	0.52	0.47	0.43	0.39	0.35
Present Value of FCF							1,158	2,240	3,072	4,158	4,891	5,330	5,718	6,062	6,198	6,310	6,398
Fade period forecast	FY36E	FY37E	FY38E	FY39E	FY40E	FY41E	FY42E	FY43E	FY44E	FY45E	FY35-45 CAGR						
FCF	20,360	22,606	24,986	27,490	30,107	32,822	35,615	38,467	41,354	44,249	9%						
Discounting Factor	0.32	0.29	0.26	0.24	0.21	0.19	0.17	0.16	0.14	0.13							
Present Value of FCF	6,458	6,489	6,491	6,463	6,406	6,320	6,206	6,066	5,901	5,714							
12M Forward Equity Valuation																	
PV of Cash Flow - Explicit Period	51,537																
PV of Cash Flow - Fade Period	62,514																
PV of Terminal Value	134,607																
Enterprise Value	248,658																
Debt - Mar'24	774																
Cash - Mar'24	2,864																
Net Debt	-2,091																
Equity value	250,749																
Mn no of shares	1,205																
12M Target (DCF value) - Rs per share	208																

Source: Company, JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	20,641	29,728	35,131	44,555	54,529
Sales Growth	84.4%	44.0%	18.2%	26.8%	22.4%
Other Operating Income	199	249	339	429	526
Total Revenue	20,840	29,977	35,469	44,984	55,055
Cost of Goods Sold/Op. Exp.	5,998	8,986	10,318	13,049	15,932
Personnel cost	2,482	3,452	4,563	5,421	6,400
Other expenses	7,599	10,988	13,378	16,822	20,486
EBITDA	4,760	6,551	7,211	9,691	12,236
EBITDA (%)	23.1%	22.0%	20.5%	21.8%	22.4%
EBITDA Growth (%)	102.9%	37.6%	10.1%	34.4%	26.3%
Comparable EBITDA	2,995	4,348	4,498	6,431	8,263
Comparable EBITDA (%)	14.5%	14.6%	12.8%	14.4%	15.2%
Depn & Amort	2,249	2,782	3,587	4,262	5,073
EBIT	2,511	3,769	3,624	5,430	7,163
Other Income	161	326	336	323	403
Finance Cost	1,270	1,475	1,731	2,060	2,492
PBT before Excep & Forex	1,402	2,620	2,228	3,693	5,075
Excep & forex Inc/Loss(-)	-171	-200	-613	0	0
PBT	1,231	2,419	1,615	3,693	5,075
Taxes	-320	-206	299	942	1,294
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	12	25	90	14	19
Reported Net profit	1,563	2,650	1,406	2,765	3,800
Adjusted Net Profit	1,779	2,867	1,906	2,765	3,800
Net Margin (%)	8.6%	9.6%	5.4%	6.2%	7.0%
Diluted share capital (mn)	1,204.7	1,205.0	1,205.0	1,205.0	1,205.0
Diluted EPS (Rs)	1.5	2.4	1.6	2.3	3.2
Diluted EPS Growth	-269.5%	61.2%	-33.5%	45.1%	37.4%
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

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	6,863	9,703	11,110	13,875	17,674
Share capital	1,205	1,205	1,205	1,205	1,205
Reserves & Surplus	5,658	8,499	9,905	12,670	16,469
Preference Share Capital					
Minority Interest	-47	-62	-152	-165	-184
Total Loans	1,325	774	774	774	851
Def. Tax Liab / Assets (-)	-482	-963	-963	-963	-963
Total - Equity & Liab	7,658	9,452	10,768	13,520	17,378
Net Fixed Assets	6,406	9,545	10,744	12,018	12,894
Gross Fixed Assets	12,920	17,312	21,054	25,328	29,731
Intangible Assets					
Less: Depn. & Amort.	4,275	5,303	7,064	9,173	11,646
Capital WIP & Net lease asset:	-2,238	-2,464	-3,246	-4,138	-5,190
Investments	0	0	0	0	0
Current Assets	4,519	4,502	5,491	8,274	12,685
Inventories	855	1,290	1,540	1,953	2,390
Sundry Debtors	211	289	337	427	523
Cash & Bank Balances	659	851	1,225	2,864	6,063
Loans & Advances	2,172	1,439	1,686	2,139	2,617
Other Current Assets	623	632	703	891	1,091
Current Liab. & Prov.	3,267	4,595	5,466	6,773	8,201
Current Liabilities	2,950	4,242	5,032	6,285	7,625
Provisions & Others	317	354	433	488	576
Net Current Assets	1,252	-93	25	1,501	4,483
Application of Funds	7,658	9,452	10,768	13,520	17,378

Source: Company, JM Financial

Cash Flow statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	1,231	2,419	1,615	3,693	5,075
Depn. & Amort.	2,249	2,782	3,587	4,262	5,073
Net Interest Exp. / Inc. (-)	1,109	1,149	1,396	1,736	2,088
Inc (-) / Dec in WCcap.	162	246	332	163	217
Others	-142	252	916	0	0
Taxes Paid	-103	-478	-678	-942	-1,294
Operating Cash Flow	4,506	6,370	7,167	8,912	11,159
Capex	-2,930	-4,240	-3,742	-4,274	-4,402
Free Cash Flow	1,576	2,130	3,425	4,638	6,757
-Inc/dec in investments	-912	693	0	0	0
Other current assets	90	50	336	323	403
Investing Cash Flow	-3,752	-3,497	-3,406	-3,951	-3,999
Inc(dec) in capital	4,340	21	0	0	0
Dividend+Tax Thereon	0	0	0	0	0
Inc/dec in loans	-3,327	-607	0	0	77
Other assets	-1,597	-2,242	-2,774	-3,322	-4,038
Financing Cash Flow	-584	-2,827	-2,774	-3,322	-3,961
Inc / Dec (-) in Cash	170	46	987	1,639	3,199
Opening cash balance	489	806	851	1,225	2,864
Closing cash balance	660	851	1,838	2,864	6,063

Source: Company, JM Financial

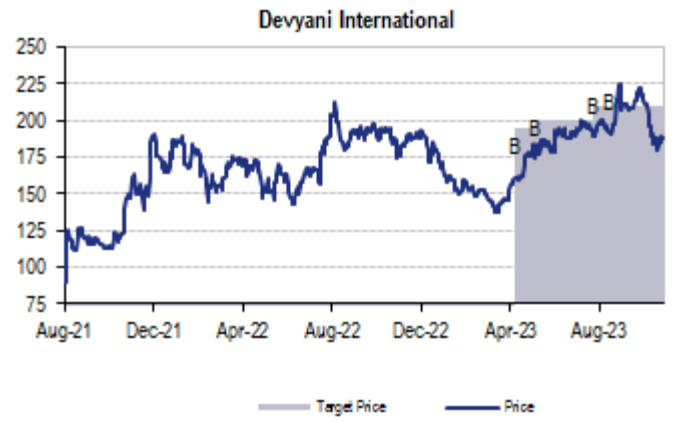
Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	8.6%	9.6%	5.4%	6.2%	7.0%
Asset Turnover (x)	3.2	3.5	3.5	3.7	3.5
Leverage Factor (x)	1.6	1.0	1.0	1.0	1.0
RoE	44.5%	34.6%	18.3%	22.1%	24.1%
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (Rs)	5.7	8.1	9.2	11.5	14.7
ROIC (%)	21.5%	25.6%	14.2%	23.1%	27.3%
ROE (%)	44.5%	34.6%	18.3%	22.1%	24.1%
Net Debt-equity ratio (x)	0.1	0.0	0.0	-0.2	-0.3
PER	NA	78.8	NA	81.7	59.5
PBV	32.9	23.3	20.3	16.3	12.8
EV/EBITDA	47.6	34.5	31.3	23.1	18.0
EV/Net Sales	11.0	7.6	6.4	5.0	4.0
Debtor days	4	4	4	4	4
Inventory days	15	16	16	16	16
Creditor days	67	66	65	65	65

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

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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