

Devyani International | BUY

SSSG weakness continues to drag profitability

Devyani's 3QFY24 earnings were below our forecast with underlying construct broadly similar to previous quarter. Same stores sales/ADS saw further moderation for KFC & PH – management cited sluggish demand, impact of geo-political crisis on US brands and higher competitive intensity (for PH). On the positive side, Costa Coffee performance was relatively resilient as airport stores did well due to favorable travel season. GM continue to track well - function of benign RM; however, scale-deleverage/currency devaluation (Nigeria) led to compression in operating margins. In terms of outlook, while operating scenario remains challenging, management expects weak consumer sentiment to be short lived and is hopeful of demand recovery in the next few quarters. While management remains positive about its Thailand acquisition (strong market position, better ADS, opportunity to expand store, premiumise & levers to expand margins), it is not indicative of change in aspirations or concerns on large India opportunity. Inline with sector, we expect the stock to remain under pressure due to lack of near term triggers. From long term perspective, we remain positive on QSR opportunity and RJ Corp's execution capabilities to tap the same. Maintain BUY.

- Below estimates – SSSG decline in KFC & PH and scale deleverage drove earnings miss:** Consolidated sales of INR 8.4bn, up 6.6% yoy (store count +23%) and down 2.9% qoq, was c.6% below our estimate. India sales grew 9% yoy (store count +24%) while International business sales declined 24% yoy (store count +14%), impacted by inflation & currency devaluation in Nigerian business. Same store sales declined for PH (-12.6%) & KFC (-4.7%) – function of sluggish demand, impact of geo-political crisis on US brands and higher competitive intensity in case of PH. Costa was relatively much resilient (SSSG +5.9%) due to higher salience of airport stores which did well. GM expanded by 127bps yoy (led by easing of input costs across KFC and PH) to 70.6%. However, scale deleverage resulted in c.290bps decline in brand contribution margins to 15.4% (flat qoq). Corporate OH as a % to sales were higher than trend seen in recent past, at 6% vs 3.5% in 3QFY23 and 3.8% in 2QFY24; includes INR 120mn impact of Nigeria devaluation. Net-net, Pre-IND AS EBITDA margin compression was higher at 549 bps to 9.3% (JMFe:12.1%).
- Store additions remained healthy, muted same store sales impacts contribution margins across brands:**
 - 1) KFC India** revenues were up 14.1% yoy led by store additions (+28% yoy). ADS was down 10.3% yoy/4.6% qoq. GM expanded 179bps yoy as input costs remained favorable. Scale deleverage resulted in brand contribution margin compression of 74bps yoy to 19%.
 - 2) PH India** sales declined by 2.2% yoy impacted by increased competitive intensity & downtrading. Corrective actions (brand spends, focus on premium range & scaling down of certain offerings in Flavor Fun) undertaken should help revive SSSG. GM expansion was strong at 214bps to 75.8% due to benign input costs. Scale-deleverage & higher marketing spends, however, resulted in EBITDA margin compression of c.800bps yoy to 6.1%.
 - 3) Costa Coffee** sales were up 36.4% yoy led by store additions even as ADS was down 5.4%. Gross margin was down 60bps yoy to 77.2%, while contribution margins at 14.9% (-1160 bps yoy and flattish qoq) surprised negatively.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	195
Upside/(Downside)	12.7%
Previous Price Target	210
Change	-7.1%

Key Data – DEVYANI IN

Current Market Price	INR173
Market cap (bn)	INR208.6/US\$2.5
Free Float	32%
Shares in issue (mn)	1,153.6
Diluted share (mn)	1,205.0
3-mon avg daily val (mn)	INR480.5/US\$5.8
52-week range	228/134
Sensex/Nifty	72,086/21,854
INR/US\$	82.9

Price Performance

%	1M	6M	12M
Absolute	-9.0	-10.8	15.1
Relative*	-9.2	-18.6	-4.3

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	20,641	29,728	33,617	43,309	52,832
Sales Growth (%)	84.4%	44.0%	13.1%	28.8%	22.0%
EBITDA	4,760	6,551	6,458	9,182	11,717
EBITDA Margin (%)	23.1%	22.0%	19.2%	21.2%	22.2%
Adjusted Net Profit	1,779	2,867	1,306	2,232	3,268
Diluted EPS (INR)	1.5	2.4	1.1	1.9	2.7
Diluted EPS Growth (%)	-269.5%	61.2%	-54.4%	70.9%	46.4%
ROIC (%)	21.5%	25.6%	8.2%	19.9%	24.7%
ROE (%)	44.5%	34.6%	13.0%	19.3%	22.8%
P/E (x)	NA	72.7	NA	93.4	63.8
P/B (x)	30.4	21.5	20.0	16.4	13.1
EV/EBITDA (x)	43.9	31.8	32.3	22.6	17.5
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, JM Financial. Note: Valuations as of 02/Feb/2024

JM Financial Institutional Securities Limited

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. 3QFY24 result snapshot: Disappointing performance driven by low SSSG and scale deleverage

(INR mn)

	3QFY24	3QFY23	YoY chg	3QFY24E	% var	9MFY24	9MFY23	YoY chg
Net Sales	8,431	7,906	6.6%	8,944	-5.7%	25,092	22,427	11.9%
Gross Profit	5,954	5,482	8.6%	6,324	-5.9%	17,753	15,737	12.8%
Gross Profit Margin %	70.6%	69.3%	127 bps	70.7%	-9 bps	70.8%	70.2%	58 bps
Staff Cost	1,176	860	36.8%	1,165	1.0%	3,404	2,507	35.8%
Other Expenses	3,314	2,883	15.0%	3,399	-2.5%	9,565	8,193	16.7%
EBITDA	1,463	1,739	-15.9%	1,760	-16.9%	4,785	5,038	-5.0%
EBITDA margin %	17.4%	22.0%	-465 bps	19.7%	-233 bps	19.1%	22.5%	-339 bps
Comparable EBITDA (Pre Ind-AS 116)	787	1,172	-32.8%	1,082	-27.3%	2,848	3,434	-17.1%
Comparable EBITDA margin %	9.3%	14.8%	-549 bps	12.1%	-276 bps	11.4%	15.3%	-321 bps
Depreciation	930	706	31.6%	950	-2.1%	2,632	1,992	32.2%
EBIT	533	1,033	-48.4%	810	-34.2%	2,152	3,046	-29.3%
Net Financial Income	-436	-298	46.6%	-350	24.6%	-1,123	-839	33.8%
PBT Before Exceptional Items	97	736	-86.8%	460	-79.0%	1,030	2,207	-53.3%
PBT After Exceptional Items	97	648	-85.1%	460	-79.0%	417	2,007	-79.2%
Reported Net Profit	96	717	-86.6%	334	-71.2%	547	2,043	-73.2%
Adjusted Net Profit	72	813	-91.2%	334	-78.5%	803	2,245	-64.3%

Source: Company, JM Financial

Exhibit 2. Costs Breakdown

% of sales	3QFY24	3QFY23	3QFY24E	9MFY24	9MFY23
Cost of Goods Sold	29.4%	30.7%	29.3%	29.2%	29.8%
Staff Cost	14.0%	10.9%	13.0%	13.6%	11.2%
Other Expenses	39.3%	36.5%	38.0%	38.1%	36.5%
Depreciation	11.0%	8.9%	10.6%	10.5%	8.9%

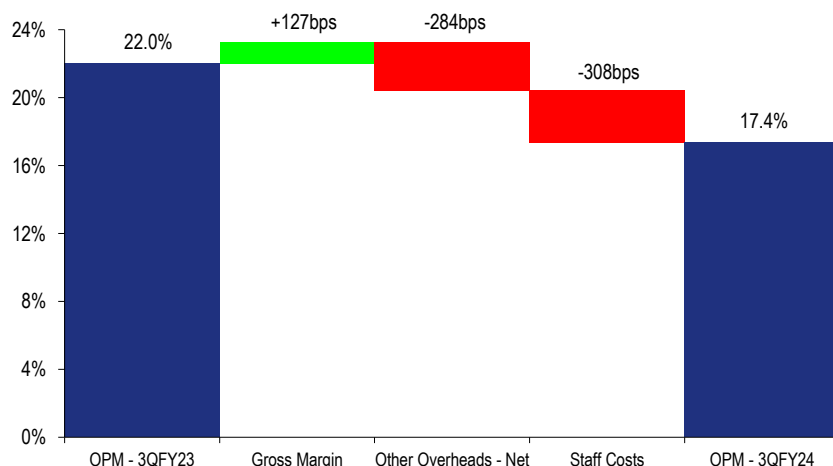
Source: Company, JM Financial

Exhibit 3. Per store economics

Per store basis (INR mn)	3Q24	2Q24	3Q23	% chg. YoY	% chg. QoQ
Average revenue / store	6.0	6.2	7.0	-13.7%	-3.0%
Staff cost / store	0.8	0.8	0.8	10.7%	-0.1%
Other expenses / store	2.4	2.3	2.5	-7.0%	0.6%
EBITDA	0.6	0.7	1.0	-45.7%	-21.6%

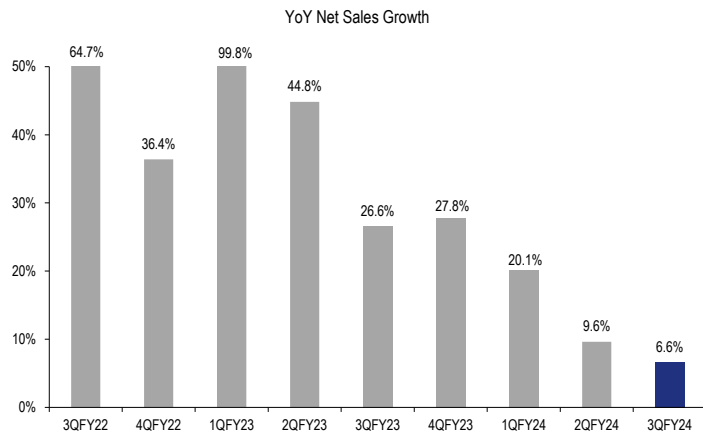
Source: Company, JM Financial

Exhibit 4. Operating margins compressed by 465bps due to scale deleverage, only partially offset by GPM expansion



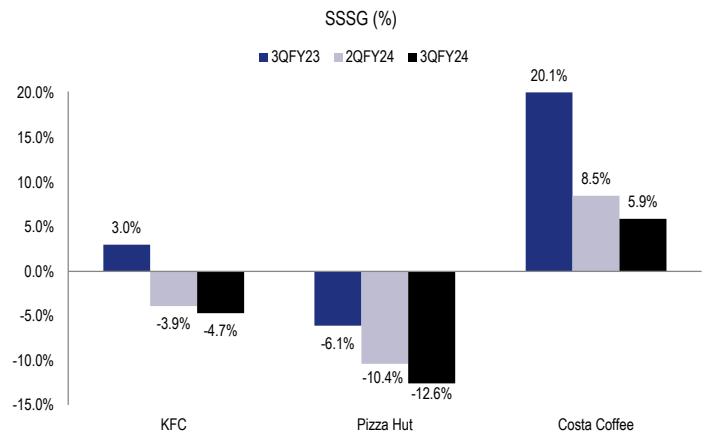
Source: Company, JM Financial

Exhibit 5. Net Sales grew by 6.6% during Dec-Q



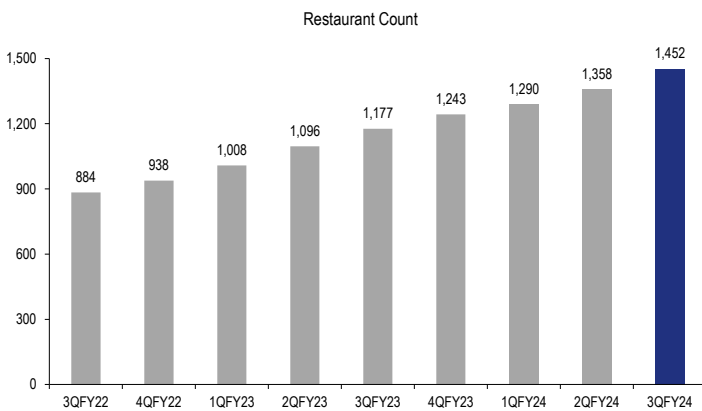
Source: Company, JM Financial

Exhibit 6. KFC and PH disappointed, Costa Coffee relatively resilient



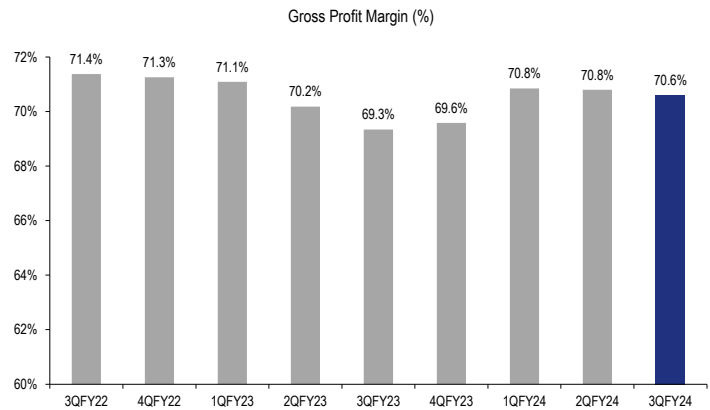
Source: Company, JM Financial

Exhibit 7. 94 net new restaurants were added during the quarter, taking the total tally to 1,452



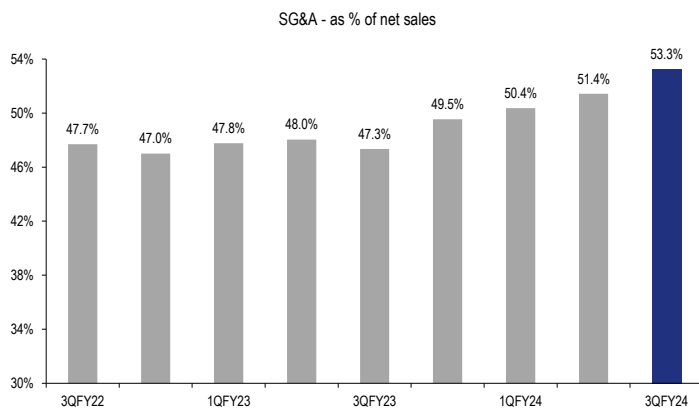
Source: Company, JM Financial

Exhibit 8. Gross margin expanded 127bps yoy



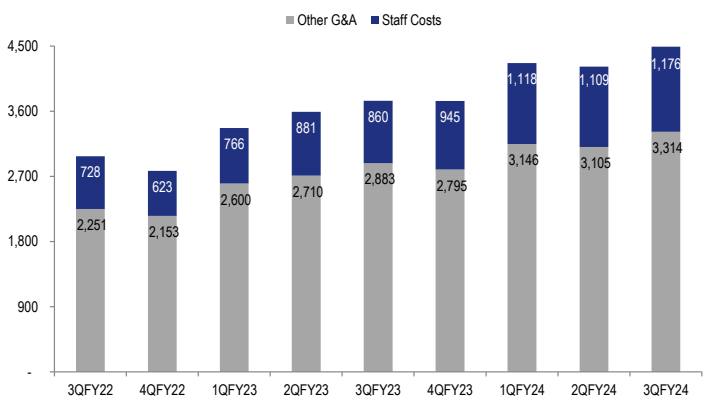
Source: Company, JM Financial

Exhibit 9. SG&A grew 20% yoy and 6.6% qoq



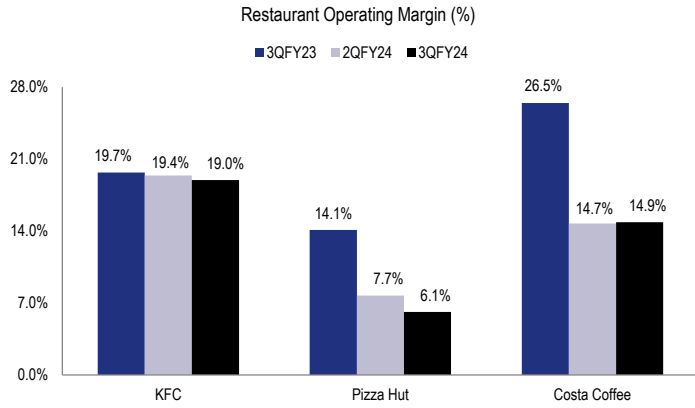
Source: Company, JM Financial

Exhibit 10. Other expenses grew 15% yoy



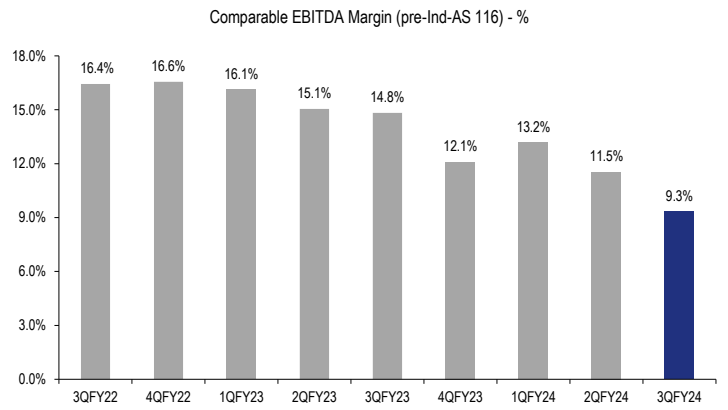
Source: Company, JM Financial

Exhibit 11. Restaurant operating margins declined yoy as well as qoq in KFC and PH on account of scale deleverage



Source: Company, JM Financial

Exhibit 12. Comparable EBITDA margins at 9.3%, down 549bps yoy



Source: Company, JM Financial

Exhibit 13. Our 12-month DCF based price target works out to INR195/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	33,941	43,726	53,342	63,443	73,929	84,477	95,459	106,593	118,142	130,062	142,800	156,403
yoy growth		15.7%	-25.2%	83.6%	43.8%	13.2%	28.8%	22.0%	18.9%	16.5%	14.3%	13.0%	11.7%	10.8%	10.1%	9.8%	9.5%
Comparable EBITDA (Pre Ind As 116)	961	576	919	2,995	4,348	3,811	5,862	7,695	9,442	11,209	13,039	14,895	16,781	18,787	20,861	23,109	25,542
EBITDA margin %	7.3%	3.8%	8.1%	14.4%	14.5%	11.2%	13.4%	14.4%	14.9%	15.2%	15.4%	15.6%	15.7%	15.9%	16.0%	16.2%	16.3%
Comparable EBIT	-74	-305	-519	1,853	2,979	2,033	3,735	5,213	6,602	8,025	9,550	11,124	12,739	14,494	16,331	18,343	20,543
EBIT margin %	-0.6%	-2.0%	-4.6%	8.9%	9.9%	6.0%	8.5%	9.8%	10.4%	10.9%	11.3%	11.7%	12.0%	12.3%	12.6%	12.8%	13.1%
Tax Rate	-2.2%	-2.4%	1.3%	-26.0%	-8.5%	7.4%	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	1,881	2,783	3,884	4,918	5,979	7,115	8,288	9,491	10,798	12,166	13,666	15,305
Depreciation	1,035	880	1,438	1,142	1,369	1,779	2,127	2,481	2,841	3,184	3,489	3,770	4,042	4,293	4,531	4,766	4,999
Capex	-8,426	-701	-1,037	-2,180	-4,477	-3,917	-4,079	-4,325	-4,455	-4,261	-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	366	136	187	223	238	230	250	248	250	254	266	278
Free Cash Flow	-7,237	314	-304	163	1,642	110	966	2,228	3,527	5,140	6,952	8,310	9,842	11,560	13,057	14,686	16,450
YoY Growth - %			-196.9%	-153.6%	906.6%	-93.3%	779.7%	130.5%	58.3%	45.7%	35.2%	19.5%	18.4%	17.5%	13.0%	12.5%	12.0%
Discounting Factor							1.00	0.90	0.82	0.74	0.67	0.61	0.55	0.50	0.45	0.41	0.37
Present Value of FCF							966	2,016	2,889	3,810	4,663	5,044	5,406	5,747	5,874	5,979	6,061
Fade period forecast	FY36E	FY37E	FY38E	FY39E	FY40E	FY41E	FY42E	FY43E	FY44E	FY45E	FY35-45 CAGR						
FCF	18,343	20,363	22,502	24,754	27,106	29,547	32,059	34,625	37,222	39,827	9%						
Discounting Factor	0.33	0.30	0.27	0.25	0.22	0.20	0.18	0.17	0.15	0.14							
Present Value of FCF	6,116	6,144	6,145	6,117	6,062	5,980	5,872	5,739	5,584	5,407							

12M Forward Equity Valuation

PV of Cash Flow - Explicit Period	48,455
PV of Cash Flow - Fade Period	59,167
PV of Terminal Value	127,359
Enterprise Value	234,981
Debt - Mar'24	774
Cash - Mar'24	1,963
Net Debt	-1,190
Equity value	236,171
Mn no of shares	1,205
12M Target (DCF value) - Rs per share	195

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	33,617	43,309	52,832
Sales Growth	84.4%	44.0%	13.1%	28.8%	22.0%
Other Operating Income	199	249	324	417	509
Total Revenue	20,840	29,977	33,941	43,726	53,342
Cost of Goods Sold/Op. Exp.	5,998	8,986	9,944	12,728	15,448
Personnel cost	2,482	3,452	4,438	5,298	6,220
Other expenses	7,599	10,988	13,101	16,519	19,957
EBITDA	4,760	6,551	6,458	9,182	11,717
EBITDA (%)	23.1%	22.0%	19.2%	21.2%	22.2%
EBITDA Growth (%)	102.9%	37.6%	-1.4%	42.2%	27.6%
Comparable EBITDA	2,995	4,348	3,811	5,862	7,695
Comparable EBITDA (%)	14.5%	14.6%	11.3%	13.5%	14.6%
Deprn & Amort	2,249	2,782	3,630	4,313	5,102
EBIT	2,511	3,769	2,828	4,869	6,615
Other Income	161	326	289	270	348
Finance Cost	1,270	1,475	1,802	2,157	2,599
PBT before Excep & Forex	1,402	2,620	1,314	2,981	4,364
Excep & forex Inc/Loss(-)	-171	-200	-613	0	0
PBT	1,231	2,419	701	2,981	4,364
Taxes	-320	-206	52	760	1,113
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	12	25	90	11	16
Reported Net profit	1,563	2,650	739	2,232	3,268
Adjusted Net Profit	1,779	2,867	1,306	2,232	3,268
Net Margin (%)	8.6%	9.6%	3.9%	5.2%	6.2%
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	1.1	1.9	2.7
Diluted EPS Growth	-269.5%	61.2%	-54.4%	70.9%	46.4%
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	10,442	12,674	15,942	
Share capital	1,205	1,205	1,205	1,205	1,205	
Reserves & Surplus	5,658	8,499	9,237	11,469	14,737	
Preference Share Capital						
Minority Interest	-47	-62	-152	-163	-179	
Total Loans	1,325	774	774	774	851	
Def. Tax Liab / Assets (-)	-482	-963	-963	-963	-963	
Total - Equity & Liab	7,658	9,452	10,101	12,322	15,650	
Net Fixed Assets	6,406	9,545	10,737	11,728	12,439	
Gross Fixed Assets	12,920	17,312	21,229	25,308	29,633	
Intangible Assets						
Less: Deprn. & Amort.	4,275	5,303	7,082	9,209	11,690	
Capital WIP & Net lease assets	-2,238	-2,464	-3,410	-4,371	-5,504	
Investments	0	0	0	0	0	
Current Assets	4,519	4,502	4,679	7,222	11,183	
Inventories	855	1,290	1,474	1,898	2,316	
Sundry Debtors	211	289	322	415	507	
Cash & Bank Balances	659	851	597	1,963	4,768	
Loans & Advances	2,172	1,439	1,614	2,079	2,536	
Other Current Assets	623	632	672	866	1,057	
Current Liab. & Prov.	3,267	4,595	5,316	6,629	7,972	
Current Liabilities	2,950	4,242	4,894	6,152	7,413	
Provisions & Others	317	354	422	477	560	
Net Current Assets	1,252	-93	-637	594	3,211	
Application of Funds	7,658	9,452	10,101	12,322	15,650	

Source: Company, JM Financial

Cash Flow statement						(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	1,231	2,419	701	2,981	4,364	
Deprn. & Amort.	2,249	2,782	3,630	4,313	5,102	
Net Interest Exp. / Inc. (-)	1,109	1,149	1,514	1,887	2,251	
Inc (-) / Dec in WCap.	162	246	366	136	187	
Others	-142	252	916	0	0	
Taxes Paid	-103	-478	-431	-760	-1,113	
Operating Cash Flow	4,506	6,370	6,695	8,557	10,791	
Capex	-2,930	-4,240	-3,917	-4,079	-4,325	
Free Cash Flow	1,576	2,130	2,779	4,478	6,466	
-Inc/dec in investments	-912	693	0	0	0	
Other current assets	90	50	289	270	348	
Investing Cash Flow	-3,752	-3,497	-3,628	-3,810	-3,977	
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	-2,709	-3,382	-4,087	
Financing Cash Flow	-584	-2,827	-2,709	-3,382	-4,010	
Inc / Dec (-) in Cash	170	46	359	1,366	2,805	
Opening cash balance	489	806	851	597	1,963	
Closing cash balance	660	851	1,210	1,963	4,768	

Source: Company, JM Financial

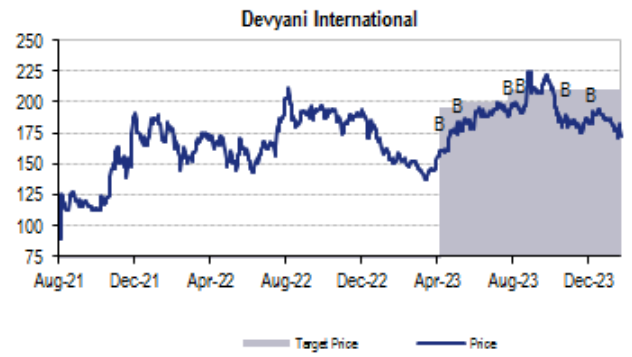
Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	8.6%	9.6%	3.9%	5.2%	6.2%
Asset Turnover (x)	3.2	3.5	3.4	3.9	3.8
Leverage Factor (x)	1.6	1.0	1.0	1.0	1.0
RoE	44.5%	34.6%	13.0%	19.3%	22.8%
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (Rs)	5.7	8.1	8.7	10.5	13.2
ROIC (%)	21.5%	25.6%	8.2%	19.9%	24.7%
ROE (%)	44.5%	34.6%	13.0%	19.3%	22.8%
Net Debt-equity ratio (x)	0.1	0.0	0.0	-0.1	-0.2
PER	NA	72.7	NA	93.4	63.8
PBV	30.4	21.5	20.0	16.4	13.1
EV/EBITDA	43.9	31.8	32.3	22.6	17.5
EV/Net Sales	10.1	7.0	6.2	4.8	3.9
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
7-Nov-23	Buy	210	0.0
18-Dec-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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