



Devyani International

KFC: SSSG disappoints

KFC: Same store sales decelerate to 4.6% YoY in FY24

Devyani International's (DEVYANI IN) SSSG for KFC declined 4.6% YoY in FY24, which is an underperformance versus the 1.0% YoY drop posted by Sapphire's KFC. Execution for Sapphire KFC seemed better as DEVYANI KFC's ADS declined 10% YoY in FY24 compared with Sapphire KFC's 7% YoY drop. With regards to Pizza Hut (PH), SSSG of both Devyani & Sapphire declined significantly – DEVYANI PH's SSSG declined 10.9% YoY in FY24 versus Sapphire PH's 16.0% YoY. Pizza category continues to see pressure because of higher competitive intensity due to the presence of regional players (La Pinos, Mojo Pizza, Papa John's etc). We believe DEVYANI KFC may add 190 stores in the next two years, leading to a CAGR of 15% in FY24-26E.

KFC: Gross margin stable

On the profitability front, DEVYANI KFC's gross margin grew 120bps YoY in FY24, as expected but brand contribution margin declined 60bps YoY compared with a growth of 30bps for Sapphire KFC. However, brand contribution margin of DEVYANI KFC and Sapphire KFC in FY24 were similar. We believe DEVYANI may not aggressively resort to discounts/promotional offers, which may protect brand contribution margin for KFC. We expect brand contribution margin for DEVYANI KFC to remain in a narrow band of 19.6-20.7% in FY24-26E. This is aligned with our view that fried chicken as a category may perform better on the profitability front versus other categories where there is severe pressure, and companies are resorting to higher promotions and marketing expenses.

Valuation: Maintain Buy with a lower TP of INR 190

We up FY25E/26E revenue estimates 21.4%/17.2% due to the acquisition of Thailand business, which offset the negative impact in revenue from lower SSSG estimates in DEVYANI KFC. We maintain EBITDA estimates as the cut in KFC's margin has been offset by the acquisition of Thailand business. Drop in the Nigerian currency may also be a headwind for overall margin. DEVYANI KFC is trading at 33x one-year forward EV/EBITDA (pre-IndAS). This could be at a premium versus other categories, which could lead to a target EV EBITDA of 39x (unchanged). The stock has corrected 14% in the past six months. Maintain Buy with June 2025E SoTP-TP pared to INR 190 (from INR 210), as we cut pre-IndAS EBITDA margin for KFC. We maintain our preference for the fried chicken category because of stable profitability in an uncertain demand environment. We foresee the category to have strong growth Q2FY25 onwards, led by better offtake and a low base, last year.

(INR mn)	Q4FY24	Elara E	Diff (%)	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Revenue	10,471	8,293	26.3	8,431	24.2	7,550	38.7
EBITDA	1,723	1,420	21.4	1,463	17.8	1,513	13.9
Net Profit	(489)	40	NA	51	(1,065.5)	599	(181.8)
EPS (INR)	(0.41)	0.03	NA	0.04	(1,065.5)	0.50	(181.8)
EBITDA Margin	16.5	17.1		17.4		20.0	
Net Margin	(4.7)	0.5		0.6		7.9	

Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
March											
FY24	35,563	18.6	6,465	18.2	1,977	(103.7)	(0.1)	(0.8)	8.1	(1,961.5)	30.4
FY25E	49,190	38.3	9,210	18.7	2,207	(2,386.8)	1.8	15.1	10.8	85.8	21.3
FY26E	54,462	10.7	10,982	20.2	2,938	33.1	2.4	17.1	12.1	64.4	17.6
FY27E	60,308	10.7	12,773	21.2	3,697	25.8	3.1	18.1	12.6	51.2	14.7

Note: pricing as on 14 May 2024; Source: Company, Elara Securities Estimate

Rating: Buy

Target Price: INR 190

Upside: 21%

CMP: INR 157 (as on 14 May 2024)

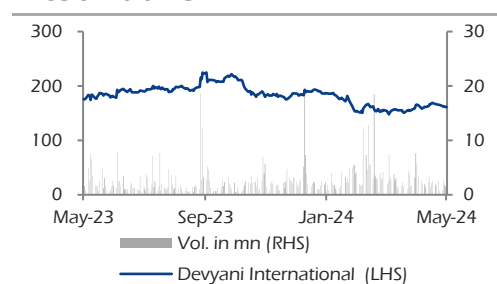
Key data

	DEVYANI IN/DEVY.BO
Bloomberg /Reuters Code	DEVYANI IN/DEVY.BO
Current /Dil. Shares O/S (mn)	1206/1209
Mkt Cap (INR bn/USD mn)	189/2,267
Daily Vol (3M NSE Avg)	3,226,797
Face Value (INR)	1

1 USD = INR 83.5

Note: *as on 14 May 2024; Source: Bloomberg

Price & Volume



Source: Bloomberg

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Promoter	62.8	62.7	62.7	62.7
Institutional Investors	20.8	21.6	21.0	24.6
Other Investors	11.8	11.3	11.2	6.8
General Public	4.6	4.3	5.1	5.9

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	1.7	14.3	21.3
Devyani International	1.9	(14.1)	(11.1)
Sapphire Foods	1.9	4.8	8.4
Restaurant Brands Asia	(1.0)	(10.0)	(0.8)

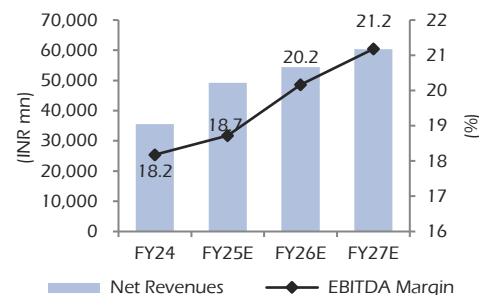
Source: Bloomberg

Financials (YE March)

Income Statement (INR mn)	FY24	FY25E	FY26E	FY27E
Net Revenues	35,563	49,190	54,462	60,308
EBITDA	6,465	9,210	10,982	12,773
Add:- Non operating Income	326	542	736	943
OPBITDA	6,791	9,752	11,718	13,716
Less :- Depreciation & Amortization	3,848	4,601	5,202	5,987
EBIT	2,943	5,151	6,516	7,729
Less:- Interest Expenses	1,869	2,208	2,599	2,799
PBT	1,074	2,943	3,917	4,929
Less :- Taxes	133	736	979	1,232
Adjusted PAT	940	2,207	2,938	3,697
Add/(Less): - Extra ordinary exp/(Inc)	(1,037)	-	-	-
Reported PAT	1,977	2,207	2,938	3,697
Balance Sheet (INR mn)	FY24	FY25E	FY26E	FY27E
Share Capital	1,206	1,206	1,206	1,206
Reserves	12,280	14,487	17,425	21,122
Total borrowings	9,102	9,102	9,102	9,102
Trade Payables	3,756	6,193	6,763	7,406
Other liabilities	22,981	26,409	28,915	31,694
Total Equity & Liabilities	49,324	57,397	63,410	70,530
Fixed Assets	20,704	21,103	21,401	20,414
Inventories	1,310	1,812	2,007	2,222
Trade Receivables	527	729	807	894
Cash & other bank balances	1,808	2,300	5,237	10,263
Other assets	24,975	31,453	33,959	36,738
Total Assets	49,324	57,397	63,410	70,530
Cash Flow Statement (INR mn)	FY24	FY25E	FY26E	FY27E
Operating Cash Flow	5,925	7,157	10,300	11,882
Less:- Capex	(4,785)	(5,000)	(5,500)	(5,000)
Free Cash Flow	1,140	2,157	4,800	6,882
Investing Cash Flow	(15,509)	(4,458)	(4,764)	(4,057)
Financing Cash Flow	8,893	(2,208)	(2,599)	(2,799)
Net change in Cash	(688)	492	2,938	5,026
Opening Cash	626	1,676	2,168	5,105
Closing Cash	(63)	2,168	5,105	10,131
Ratio Analysis	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)				
Revenue Growth	18.6	38.3	10.7	10.7
EBITDA Growth	(1.4)	42.5	19.2	16.3
PAT Growth	(103.7)	(2,386.8)	33.1	25.8
EBITDA Margin	18.2	18.7	20.2	21.2
PAT Margin	(0.3)	4.5	5.4	6.1
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.5	0.4	0.2	(0.1)
ROE (%)	(0.8)	15.1	17.1	18.1
ROCE (%)	8.1	10.8	12.1	12.6
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	(0.1)	1.8	2.4	3.1
EPS Growth (%)	(103.7)	(2,386.8)	33.1	25.8
DPS (INR/Share)	0.0	0.0	0.0	1.0
P/E Ratio (x)	(1,961.5)	85.8	64.4	51.2
EV/EBITDA (x)	30.4	21.3	17.6	14.7
EV/EBITDA (pre-IndAS, x)	51.6	36.2	28.5	23.1
EV/Sales (x)	5.5	4.0	3.5	3.1
BVPS (INR)	11.2	13.0	15.5	18.5
Price/Book (x)	14.0	12.1	10.2	8.5
Dividend Yield (%)	0.0	0.0	0.0	0.6

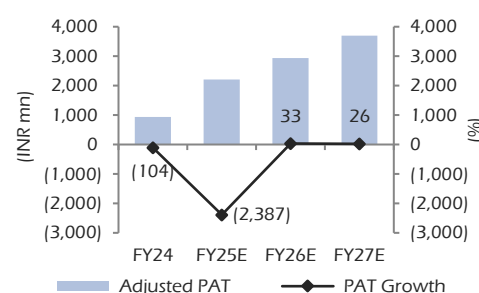
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Revenue & EBITDA margin trend



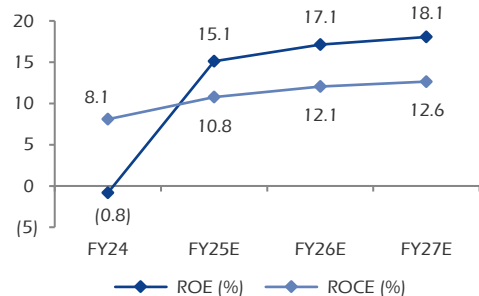
Source: Company, Elara Securities Estimate

Adjusted profit growth trend



Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

PH expansion: DEVYANI to stay cautious

For PH, DEVYANI may stay cautious, with store expansion in FY25, which may translate to a store addition of ~35-40 in FY25E, although significantly higher than store addition of Sapphire PH. On the profitability front, DEVYANI PH's brand contribution margin stood at 7.2% (decline of 730bps YoY) in FY24, ~230bps higher than Sapphire PH, as the decline in ADS was 12% YoY for DEVYANI PH compared with a drop of 20% YoY for Sapphire PH, leading to superior margins for the former. We believe the PH portfolio of DEVYANI may see better store additions and SSSG versus Sapphire PH. We expect brand contribution margin of DEVYANI PH to remain in 7.2-11.0% range in FY24-26E.

Q4 revenue up 38.7% YoY, gross margin at 69.2%

Devyani reported revenue of INR 10,471mn in Q4FY24 (26.3% higher than our estimate of INR 8,293mn), up 24.2% QoQ and 38.7% YoY. FY24 revenue stood at INR 35,563 mn, up 18.6% YoY.

Gross profit in Q4FY24 stood at INR 7,244mn, up 21.7% QoQ and 37.9% YoY and gross margin at 69.2%, down 140bps QoQ and 40bps YoY. Gross margin in FY24 stood at 70.3%, up 30bps YoY.

Post IndAS EBITDA in Q4 stood at INR 1,723mn, up 17.8% QoQ and 13.9% YoY. Post IndAS EBITDA margin in Q4FY24 stood at 16.5% (down 90bps QoQ and 360bps YoY), whereas pre-IndAS EBITDA margin was 9.2%, down 20bps QoQ and 290bps YoY. In FY24, post IndAS EBITDA margin stood at 18.2% (down 370bps YoY), whereas pre-IndAS EBITDA margin was 10.7%, down 380bps YoY.

The post Ind-AS net loss in Q4FY24 stood at INR 489mn as against a net profit of INR 599mn in Q4FY23. In FY24, DEVYANI reported a net loss of INR 97mn as against a net profit of INR 2,625mn in FY23.

KFC's Q4 revenue up 11.3% YoY; SSS down 7.1% YoY

Segment-wise, revenue of KFC business stood at INR 4,941mn in Q4FY24, down 5.8% QoQ but up 11.3% YoY with an SSS decline of 7.1% YoY and net store addition of six in Q4 (21.6% YoY store growth). Q4FY24 gross margin stood at 69.9% (up 130bps YoY) and brand contribution margin (pre-IndAS) 19% (up 150bps YoY). In FY24, KFC's revenue stood at INR 20,437mn with an SSS decline of 4.6% YoY and net store addition of 106 (21.6% store growth YoY). Gross margin stood at 69.5% (up 120bps YoY) and brand contribution margin (pre-IndAS) was 19.6%, down 60bps YoY. Channel-wise, the contribution of off-premise/on-premise stood at 39%/61% in Q4FY24. Total stores, as at end-Q4FY24, stood at 596.

Pizza Hut – Revenue down 4.5% YoY in Q4

Revenue of Pizza Hut business stood at INR 1,621mn in Q4FY24, down 9.7% QoQ and 4.5% YoY with an SSS

decline of 14% YoY and net store addition of two in Q4. Q4FY24 gross margin stood at 77.3% (up 400bps YoY) and brand contribution margin (pre-IndAS) was 4.4% (down 480bps YoY). FY24 revenue stood at INR 7,092mn with an SSS decline of 10.9% YoY and net store addition of 61 (12.1% store growth YoY). Gross margin stood at 75.9% (up 150bps YoY) and brand contribution margin (pre-IndAS) was 7.2%, down 730bps YoY. As regards channel-wise sales, the contribution of off-premise/on-premise stood at 56%/44% in Q4FY24. Total stores, as at end-Q4FY24, stood at 567.

Costa Coffee – Revenue up 36.3% YoY in Q4

Revenue from the Costa Coffee business stood at INR 451mn in Q4FY24, up 13.6% QoQ and 36.3% YoY with an SSSG of 7.3% YoY and a net store addition of 25 in Q4. Q4FY24 gross margin stood at 76.7% (down 140bps YoY) and brand contribution margin (pre-IndAS) at 18% (down 220bps YoY). FY24 revenue stood at INR 1,518mn with an SSSG of 8.7% YoY and net store addition of 67 (59.8% store growth YoY). Gross margin stood at 76.8% (up 220bps YoY) and brand contribution margin (pre-IndAS) was 17%, down 660bps YoY. Total stores, as at end-Q4FY24, were 179.

Vaango – Revenue up 16.5% YoY in Q4

Revenue from the Vaango business stood at INR 155mn in Q4FY24, up 6.9% QoQ and 16.5% YoY with an SSSG of 2.1% YoY and a net store addition of nine in Q4. Q4FY24 gross margin stood at 80% (up 30bps YoY) and brand contribution margin (pre-IndAS) at 21.3% (up 310bps YoY). FY24 revenue stood at INR 593mn with an SSSG of 4.9% YoY and net store addition of 11 (21.2% store growth YoY). Gross margin stood at 79.6% (down 60bps YoY) and brand contribution margin (pre-IndAS) was 22.8%, down 70bps YoY. Total stores, as at end-Q4FY24, were 63.

International business – Revenue up 5x YoY in Q4

Revenue from the international business stood at INR 2,961mn in Q4FY24, up 6x QoQ and 5x YoY due to acquisition of the Thailand business. Depreciation of Nigerian currency was a headwind for the revenue and margins. FY24 revenue from international business stood at INR 4,436mn, up 2x YoY.

Q4FY24 conference call highlights

- Consumer sentiment was weak throughout the year due to lower disposable income and geopolitical situation.
- Operating and performance of DEVYANI India remained stable and the company may continue to invest for long-term growth.
- The focus is on improving cost control and operating efficiency.
- Total debt at the consolidated level is INR 9,100mn as of FY24.
- Q1 is a better quarter seasonally compared with Q4, hence performance may be better in Q1FY25. DEVYANI is bullish on the overall opportunity in QSR in India.
- The payback periods for the food courts are very attractive.
- There will be some scope to improve margins in Thailand business, but the volumes are much higher when compared with India. Even the rentals are much lower. Thailand is more of a mass market for the brand; hence, the focus is on the number of transactions.
- The cost coffee tie-up with PVR is inside the movie premises, while the food court will be outside the movie premises.
- DEVYANI has optimized menu and promotional activities. The company wants to make sure that the margins are protected.
- Pizza Hut has always been a premium brand in the mind of consumers. Experimenting with fun flavour pizza impacted the price point (also, it did not resonate well with consumer psyche). DEVYANI is focussing on menu innovation and promotional activities to revive numbers. PH store addition has slowed down and DEVYANI is cautious on expanding PH.
- Coffee is an inspirational category and has a unique niche which is here to stay. DEVYANI is serious about Costa Coffee.
- DEVYANI is considering store expansion (to 275-300). KFC stores are at ~100-120. There will be a slowdown in PH store expansion.
- In suburban areas of metros and smaller towns, real estate is not a big challenge. Landlords are willing to negotiate rents.
- KFC, PH and CC have been positioned as premium brands. However, when consumer wallet gets impacted, the focus shifts to introduce a value layer to bring more consumers into the fold.
- Given the way India is growing, DEVYANI is in the position to appeal to 40-50% of the population. Hence, the company wants to keep a balance between premium and value layers.
- KFC, at the unit economics level, has a payback period of 2-3 years. Payback period for Costa Coffee is two years whereas for Vaango is <two years. For PH, it is 5-6 years.

Exhibit 1: Operating metrics

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
KFC								
Revenue (INR mn)	4,250	4,430	4,595	4,439	5,164	5,090	5,243	4,941
Gross margin (%)	69.0	67.9	67.6	68.6	69.7	69.0	69.4	69.9
Brand contribution margin (%) (pre-IndAS)	22.4	21.5	19.7	17.5	21.1	19.4	19.0	19.0
Average daily sales (INR '000)	127	121	116	106	117	109	104	93
No. of stores added (net) (nos)	27	32	38	29	20	30	50	6
Total stores at the end of the quarter (nos)	391	423	461	490	510	540	590	596
SSSG YoY (%)	63.6	13.0	3.0	1.9	(0.9)	(3.9)	(4.7)	(7.1)
Off-premise revenue contribution (%)	35	36	36	38	37	39	40	39
On-premise revenue contribution (%)	65	64	64	62	63	61	60	61
Pizza Hut								
Revenue (INR mn)	1,651	1,812	1,836	1,697	1,835	1,840	1,796	1,621
Gross margin (%)	76.2	74.5	73.6	73.3	74.9	75.7	75.8	77
Brand contribution margin (%) (pre-IndAS)	17.5	17	14.1	9.2	10.1	7.7	6.1	4.4
Average daily sales (INR'000)	44	45	43	39	40	39	37	32
No. of stores added (net) (nos)	23	30	17	23	15	14	30	2
Total stores at the end of the quarter (nos)	436	466	483	506	521	535	565	567
SSSG YoY (%)	31.5	2.9	(6.1)	(3.2)	(5.3)	(10.4)	(12.6)	(14.0)
Off-premise revenue contribution (%)	54	55	57	58	57	55	56	56
On-premise revenue contribution (%)	46	45	43	42	43	45	44	44
Costa Coffee								
Revenue (INR mn)	176	220	291	331	324	346	397	451
Gross margin (%)	81.6	79.6	77.8	78.1	77.3	76.3	77.2	76.7
Brand contribution margin (%) (pre-IndAS)	30.5	19.6	26.4	20.2	20.9	14.6	14.9	18.0
Average daily sales (INR'000)	3,600	3,100	3,700	3,600	3,300	3,100	3,500	3,300
No. of stores added (net) (nos)	14	19	15	9	11	23	8	25
Total stores at the end of the quarter (nos)	69	88	103	112	123	146	154	179
SSSG YoY (%)	206.8	50.7	20.1	42.6	9.4	8.5	5.9	7.3
Vaango								
Revenue (INR mn)	114	129	144	133	152	141	145	155
Gross margin (%)	80.9	81.5	79.1	79.7	79.3	79.3	79.3	80.0
Brand contribution margin (%) (pre-IndAS)	26.4	23.4	26.5	18.2	24.6	24.6	22.8	21.3
No. of stores added (net) (nos)	41	4	3	4	0	1	1	9
Total stores at the end of the quarter (nos)	41	45	48	52	52	53	54	63

Source: Company, Elara Securities Research

Exhibit 2: Valuation summary

(INR mn)	June-2026E
KFC India	
One year forward EBITDA (pre IndAS)	4,416
Multiple (x)	39
EV	174,390
EV per share (INR)	145
Pizza Hut India	
One year forward EBITDA (pre IndAS)	515
Multiple (x)	27
EV	14,163
EV per share (INR)	12
Costa Coffee	
One year forward EBITDA (pre IndAS)	501
Multiple (x)	18
EV	9,259
EV per share (INR)	8
Vaango	
One year forward EBITDA (pre IndAS)	166
Multiple (x)	12
EV	2,077
EV per share (INR)	2
International & Others	
One year forward EBITDA (pre IndAS)	1,526
Multiple (x)	18
EV	28,209
EV per share (INR)	23
Total EV	228,098
Cash (INR mn)	6,494
Debt (INR mn)	9,102
Equity Value (INR mn)	225,490
Total no. of shares (mn)	1,205.9
TP (June-2025, INR)	190
CMP (INR)	157
Upside (%)	21

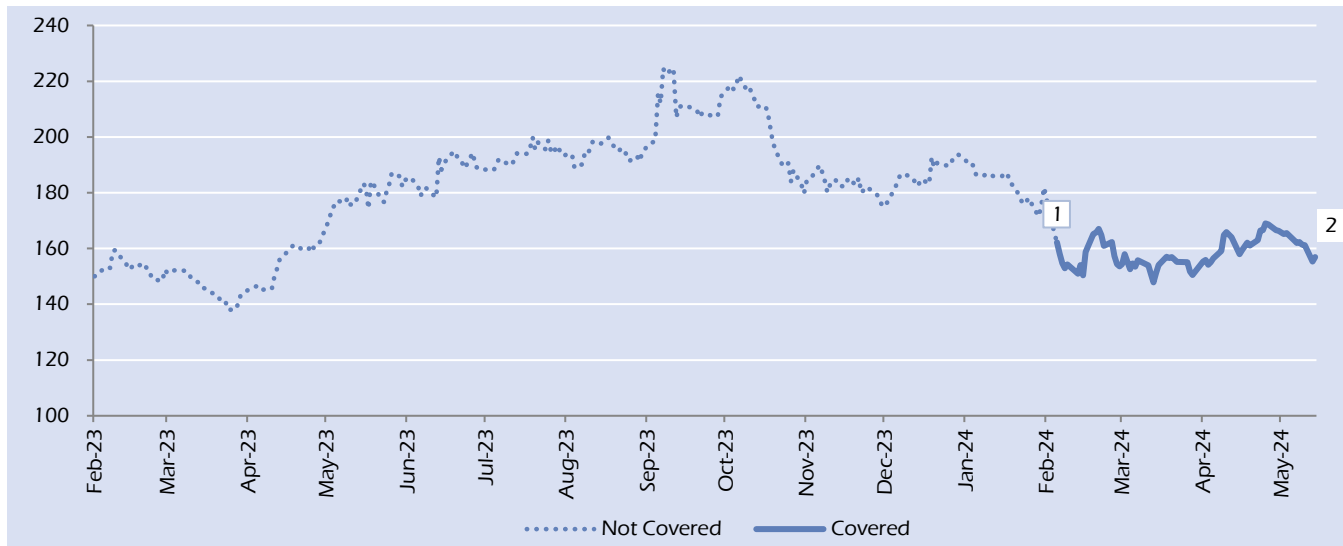
Source: Elara Securities Estimate

Exhibit 3: Change in estimates

(INR mn)	Earlier		Revised		Change (%)		New
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY27E
Revenue	40,535	46,452	49,190	54,462	21.4	17.2	60,308
EBITDA	9,192	10,882	9,210	10,982	0.2	0.9	12,773
PAT	2,360	3,442	2,207	2,938	(6.5)	(14.6)	3,697
EPS (INR)	2.0	2.9	1.8	2.4	(6.5)	(14.6)	3.1
Target price (INR)		210		190		(9.5)	

Source: Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
1	5-Feb-2024	Buy	INR 210	INR 162
2	14-May-2024	Buy	INR 190	INR 157

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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