

## DIL-Sapphire merger: A healthy value creation opportunity

Retail ▶ Company Update ▶ July 05, 2025

CMP (Rs): 173 | TP (Rs): 190

Media reports suggest that Devyani and Sapphire are considering a merger, via a share swap deal. The combined entity has a scale of Rs80bn in FY25, with potential revenue CAGR of 15% over FY25-28 (similar to JUBI's). The current margin profile is depressed and should get a boost from a potential demand revival; we build in EBITDA CAGR of ~25% over FY25-28E. The merger also has definite potential synergies in the form of HO cost optimization, faster go-to-market, and store cost/capex efficiencies. The swap ratio is a crucial element toward concluding potential value creation opportunities in the two listed entities. In our view, a 2:1 ratio (Devyani:Sapphire) will help realize the synergy benefits equally. As there are potential synergies, we believe a swap ratio of less than 1.8x is negative for Sapphire shareholders, while a swap ratio of above 2.7x is negative for Devyani shareholders, assuming a 10% EBITDA benefit (synergy) for the combined entity (Exhibit 2).

## Combined entity has similar scale and growth prospects as JUBI

Per FY25 reported numbers, the combined entity has a scale of Rs80bn, with potential revenue CAGR of 15% over FY25-28 (similar to JUBI's). The overall combined network stands at 1,200 stores for KFC and ~1,000 stores for Pizza Hut in India. There are definite cost synergies, with optimization of HO costs being the lowest hanging fruit (4.5-5.0% of sales currently). Also, Sapphire operates at a lower gross-margin (50-70bps across the PH/KFC formats) than DIL. Further, the merger should resolve the tussle for PH expansion in common territories, where Devyani has PHD (Pizza Hut delivery) rights for India (ex Tamil Nadu) and Sapphire has PH rights for most of South and West India. Even the capex per store for Devyani is ~20% lower than that for Sapphire, and a merger should bring in efficiencies. On the revenue front, the merger should enable faster decision making in terms of go-to-market and new product innovations; such decision making was being delayed due to involvement of tripartite decision makers – Devyani, Sapphire, and Yum!.

## GoI's initiatives around consumption boost should drive growth revival

The overall QSR space should see marginal growth slowdown in Q1, due to unseasonal rains/geo-political events. Despite a prolonged slowdown, we remain constructive on Indian QSRs, as we expect the cut in tax/interest rate and the healthy monsoons to boost discretionary consumption in H2. Against a weak demand backdrop, we expect 7-9% growth for Devyani and Sapphire in Q1, largely led by store additions as SSGs are expected to be modest. Despite the under-performance, we maintain BUY on Devyani and Sapphire, due to price correction and potential SSG revival in H2.

Target Price – 12M	Jun-26
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	9.8

Stock Data	DEVYANI IN
52-week High (Rs)	223
52-week Low (Rs)	130
Shares outstanding (mn)	1,208.2
Market-cap (Rs bn)	209
Market-cap (USD mn)	2,447
Net-debt, FY26E (Rs mn)	8,106.4
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	360.8
ADTV-3M (USD mn)	4.2
Free float (%)	33.0
Nifty-50	25,461.0
INR/USD	85.4

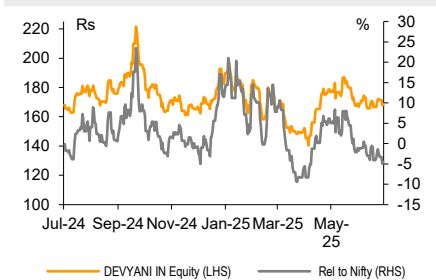
## Shareholding, Mar-25

Promoters (%)	62.7
FPIs/MFs (%)	10.5/16.9

## Price Performance

(%)	1M	3M	12M
Absolute	2.8	19.1	3.0
Rel. to Nifty	(0.6)	7.1	(1.7)

## 1-Year share price trend (Rs)



## Devyani International: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	35,563	49,510	55,131	64,767	74,751
EBITDA	6,524	8,332	9,217	11,736	14,247
Adj. PAT	1,509	94	18	964	1,804
Adj. EPS (Rs)	1.3	0.1	-	0.8	1.5
EBITDA margin (%)	18.3	16.8	16.7	18.1	19.1
EBITDA growth (%)	(0.4)	27.7	10.6	27.3	21.4
Adj. EPS growth (%)	(47.1)	(93.8)	(81.2)	5,346.0	87.1
RoE (%)	14.9	0.9	0.2	8.3	13.8
RoIC (%)	12.4	(4.8)	7.5	11.1	13.7
P/E (x)	441.4	2,294.7	11,783.1	216.4	115.7
EV/EBITDA (x)	33.1	25.9	23.4	18.4	15.2
P/B (x)	19.8	19.1	18.9	17.2	14.8
FCFF yield (%)	(3.4)	1.4	1.6	2.0	2.8

Source: Company, Emkay Research

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## Story in charts

**Exhibit 1: Per FY25 reported numbers, the combined entity has a scale of Rs80bn, with potential revenue CAGR of 15% over FY25-28 (similar to JUBI's)**

Particulars (Rs mn)	DIL-Sapphire merger					Jubilant FoodWorks				
	FY25	FY26E	FY27E	FY28E	FY25-28	FY25	FY26E	FY27E	FY28E	FY25-28
[A] Sapphire - Revenue	28,819	32,038	37,379	43,091	14.4					
[B] Devyani - Revenue	49,511	55,131	64,767	74,751	14.7					
<b>Combined Entity - Revenue [A+B]</b>	<b>78,329</b>	<b>87,169</b>	<b>102,146</b>	<b>117,842</b>	<b>14.6</b>	<b>81,417</b>	<b>93,992</b>	<b>107,558</b>	<b>122,832</b>	<b>14.7</b>
[1] Sapphire - EBITDA (Pre-IndAS)	2,459	2,649	3,850	4,974	26.5					
Sapphire - EBITDA margin (%)	8.5	8.3	10.3	11.5						
[2] Devyani - EBITDA (Pre-IndAS)	4,854	5,310	7,321	9,258	24.0					
Devyani - EBITDA margin (%)	9.8	9.6	11.3	12.4						
<b>Combined EBITDA [1+2; Pre-IndAS]</b>	<b>7,312</b>	<b>7,959</b>	<b>11,171</b>	<b>14,232</b>	<b>24.9</b>	<b>10,369</b>	<b>12,667</b>	<b>15,193</b>	<b>17,968</b>	<b>20.1</b>
<b>Combined EBITDA margin (%)</b>	<b>9.3</b>	<b>9.1</b>	<b>10.9</b>	<b>12.1</b>		<b>12.7</b>	<b>13.5</b>	<b>14.1</b>	<b>14.6</b>	

Source: Company, Emkay Research

**Exhibit 2: Swap ratio of <1.8x is negative for Sapphire shareholders and swap ratio of >2.7x is negative for Devyani shareholders, assuming 10% EBITDA benefit (synergy) for the combined entity**

(Rs mn)	Case-1		Case-2		Case-3	
<b>Synergy - EBITDA benefit</b>	<b>5%</b>		<b>10%</b>		<b>15%</b>	
Jun-27E EBITDA	11,936		11,936		11,936	
Jun-27E EBITDA, combined with synergy benefit	12,567		13,288		13,739	
TP multiple (same as DIL multiple)	30		30		30	
Jun-26E Enterprise value (combined entity)	377,016		398,645		412,162	
Net Debt (combined entity)	6,379		6,379		6,379	
Jun-26E Market Cap (combined entity)	370,637		392,265		405,783	
<b>Target value - Combined entity (discounted at 10%)</b>	<b>336,942</b>		<b>356,605</b>		<b>368,894</b>	
<b>Current M-Cap (combined entity)</b>	<b>327,100</b>		<b>327,100</b>		<b>327,100</b>	
Current shares - Sapphire (no of)	321	321	321	321	321	321
Current shares - Devyani (no of)	1,206	1,206	1,206	1,206	1,206	1,206
Potential merger ratio	1.9	2.3	1.8	2.7	1.7	2.9
<b>Shares (combined entity)</b>	<b>1,819</b>	<b>1,948</b>	<b>1,769</b>	<b>2,061</b>	<b>1,742</b>	<b>2,132</b>
Total shares - post merger (no of)	1,819	1,948	1,769	2,061	1,742	2,132
<b>Value per share - Combined entity (Rs)</b>	<b>185</b>	<b>173</b>	<b>202</b>	<b>173</b>	<b>212</b>	<b>173</b>
Potential synergy benefit	7%	0%	16%	0%	22%	0%
Sapphire - Number of DIL shares post merger	613	741	563	855	536	926
Sapphire - Current M-Cap	113,500	113,500	113,500	113,500	113,500	113,500
Potential synergy benefit	0%	13%	0%	30%	0%	41%
<b>Sapphire - Implied M-Cap</b>	<b>113,500</b>	<b>128,258</b>	<b>113,500</b>	<b>147,920</b>	<b>113,500</b>	<b>160,209</b>

Source: Company, Emkay Research

Exhibit 3: Neutral swap ratio for Sapphire/Devyani based on potential synergy benefits

Synergy benefit	Sapphire	Devyani
5%	1.9	2.3
10%	1.8	2.7
15%	1.7	2.9

Source: Company, Emkay Research

Exhibit 4: Valuation of our coverage companies (QSR players)

Company	Price	M-Cap	Rating	TP	P/E (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		(Rs)	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
JUBI	710	469	ADD	825	130.0	86.6	63.3	38.0	31.7	26.8
DEVYANI	173	209	BUY	190	11,783.1	216.4	115.7	40.8	29.6	23.4
WESTLIFE	756	118	ADD	775	332.5	100.4	60.7	46.7	32.0	24.1
SAPPHIRE	337	108	BUY	370	472.4	127.0	78.4	40.1	27.6	21.4

Source: Company, Emkay Research

Devyani International: Consolidated Financials and Valuations

Profit & Loss					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	35,563	49,510	55,131	64,767	74,751
Revenue growth (%)	18.6	39.2	11.4	17.5	15.4
EBITDA	6,524	8,332	9,217	11,736	14,247
EBITDA growth (%)	(0.4)	27.7	10.6	27.3	21.4
Depreciation & Amortization	3,907	5,923	6,510	7,401	8,405
EBIT	2,617	2,409	2,708	4,335	5,841
EBIT growth (%)	(30.6)	(7.9)	12.4	60.1	34.7
Other operating income	-	-	-	-	-
Other income	326	370	415	450	500
Financial expense	1,869	2,648	2,979	3,336	3,729
PBT	1,074	131	144	1,450	2,612
Extraordinary items	(1,037)	(3)	0	0	0
Taxes	133	197	36	365	658
Minority interest	569	160	(90)	(120)	(150)
Income from JV/Associates	-	-	-	-	-
Reported PAT	473	91	18	964	1,804
PAT growth (%)	(82.2)	(80.8)	(80.5)	5,346.0	87.1
Adjusted PAT	1,509	94	18	964	1,804
Diluted EPS (Rs)	1.3	0.1	-	0.8	1.5
Diluted EPS growth (%)	(47.1)	(93.8)	(81.2)	5,346.0	87.1
DPS (Rs)	0	0	0	0	0
Dividend payout (%)	0	0	0	0	0
EBITDA margin (%)	18.3	16.8	16.7	18.1	19.1
EBIT margin (%)	7.4	4.9	4.9	6.7	7.8
Effective tax rate (%)	12.4	150.8	25.2	25.2	25.2
NOPLAT (pre-IndAS)	2,292	(1,224)	2,025	3,243	4,369
Shares outstanding (mn)	1,206	1,206	1,206	1,206	1,206

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	1,206	1,206	1,206	1,206	1,206
Reserves & Surplus	9,352	9,738	9,845	10,930	12,884
Net worth	10,558	10,944	11,052	12,136	14,090
Minority interests	2,928	3,079	3,079	3,079	3,079
Non current liab. & prov.	20,877	23,305	29,513	36,080	42,949
Total debt	9,102	9,318	9,318	9,318	9,318
Total liabilities & equity	43,465	46,645	52,961	60,612	69,435
Net tangible fixed assets	19,036	20,853	22,891	25,334	28,071
Net intangible assets	1,668	1,732	1,763	1,765	1,738
Net ROU assets	16,906	18,799	23,780	28,934	34,219
Capital WIP	110	35	35	35	35
Goodwill	4,287	4,581	4,581	4,581	4,581
Investments [JV/Associates]	-	-	-	-	-
Cash & equivalents	1,808	1,814	1,211	1,123	2,130
Current assets (ex-cash)	5,510	5,573	6,206	7,659	8,839
Current Liab. & Prov.	5,860	6,740	7,506	8,817	10,177
NWC (ex-cash)	(350)	(1,167)	(1,300)	(1,159)	(1,338)
Total assets	43,465	46,645	52,961	60,612	69,435
Net debt	7,293	7,504	8,106	8,195	7,188
Capital employed	43,465	46,645	52,961	60,612	69,435
Invested capital	24,641	25,998	27,935	30,520	33,052
BVPS (Rs)	8.8	9.1	9.2	10.1	11.7
Net Debt/Equity (x)	0.7	0.7	0.7	0.7	0.5
Net Debt/EBITDA (x)	1.1	0.9	0.9	0.7	0.5
Interest coverage (x)	0.6	0.2	0.2	0.6	0.8
RoCE (%)	17.8	12.1	13.3	19.9	24.9

Source: Company, Emkay Research

Cash flows					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	747	(239)	(271)	1,000	2,112
Others (non-cash items)	0	0	0	0	0
Taxes paid	(133)	(197)	(36)	(365)	(658)
Change in NWC	1,644	642	237	6	332
Operating cash flow	8,034	8,777	9,418	11,377	13,921
Capital expenditure	(15,443)	(5,784)	(6,060)	(7,000)	(7,900)
Acquisition of business	0	0	0	0	0
Interest & dividend income	326	370	415	450	500
Investing cash flow	(15,116)	(5,414)	(5,645)	(6,550)	(7,400)
Equity raised/(repaid)	40	-	0	0	0
Debt raised/(repaid)	8,328	216	0	0	0
Payment of lease liabilities	828	(3,154)	(3,907)	(4,415)	(4,989)
Interest paid	(120)	(418)	(469)	(500)	(525)
Dividend paid (incl tax)	-	-	-	-	-
Others	0	0	0	0	0
Financing cash flow	9,076	(3,355)	(4,376)	(4,915)	(5,514)
Net chg in Cash	1,994	8	(602)	(88)	1,007
OCF	8,034	8,777	9,418	11,377	13,921
Adj. OCF (w/o NWC chg.)	6,390	8,135	9,181	11,371	13,589
FCFF	(7,409)	2,993	3,358	4,377	6,021
FCFE	(7,202)	2,945	3,304	4,327	5,996
OCF/EBITDA (%)	123.2	105.3	102.2	96.9	97.7
FCFE/PAT (%)	(1,524.1)	3,239.3	18,662.5	448.7	332.4
FCFF/NOPLAT (%)	(323.3)	(244.5)	165.8	135.0	137.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E March	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	441.4	2,294.7	11,783.1	216.4	115.7
P/CE(x)	57.0	55.2	52.0	37.8	29.8
P/B (x)	19.8	19.1	18.9	17.2	14.8
EV/Sales (x)	6.1	4.4	3.9	3.3	2.9
EV/EBITDA (x)	33.1	25.9	23.4	18.4	15.2
EV/EBIT(x)	82.5	89.6	79.7	49.8	37.0
EV/IC (x)	8.8	8.3	7.7	7.1	6.5
FCFF yield (%)	(3.4)	1.4	1.6	2.0	2.8
FCFE yield (%)	(3.4)	1.4	1.6	2.1	2.9
Dividend yield (%)	0	0	0	0	0
DuPont-RoE split					
Net profit margin (%)	4.2	0.2	-	1.5	2.4
Total asset turnover (x)	1.8	1.8	1.9	2.1	2.2
Assets/Equity (x)	2.0	2.5	2.6	2.6	2.6
RoE (%)	14.9	0.9	0.2	8.3	13.8
DuPont-RoIC					
NOPLAT margin (%)	6.4	(2.5)	3.7	5.0	5.8
IC turnover (x)	1.9	2.0	2.0	2.2	2.4
RoIC (%)	12.4	(4.8)	7.5	11.1	13.7
Operating metrics					
Core NWC days	(3.6)	(8.6)	(8.6)	(6.5)	(6.5)
Total NWC days	(3.6)	(8.6)	(8.6)	(6.5)	(6.5)
Fixed asset turnover	1.3	1.2	1.2	1.2	1.2
Opex-to-revenue (%)	51.9	52.1	52.0	50.8	50.1

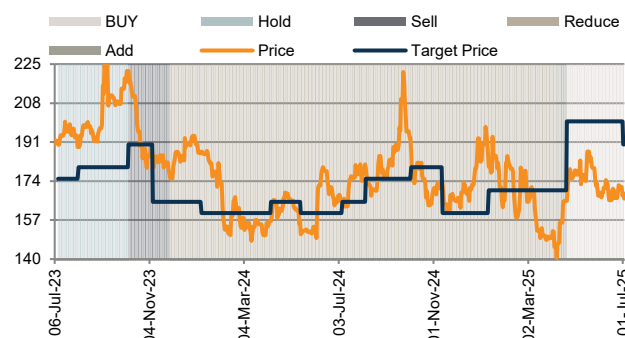
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jul-25	169	190	Buy	Devanshu Bansal
25-May-25	180	200	Buy	Devanshu Bansal
20-Apr-25	165	200	Buy	Devanshu Bansal
09-Apr-25	147	170	Add	Devanshu Bansal
07-Apr-25	141	170	Add	Devanshu Bansal
11-Feb-25	170	170	Reduce	Devanshu Bansal
10-Jan-25	180	170	Reduce	Devanshu Bansal
12-Nov-24	172	160	Reduce	Devanshu Bansal
03-Oct-24	187	180	Reduce	Devanshu Bansal
06-Aug-24	180	175	Reduce	Devanshu Bansal
23-Jul-24	176	165	Reduce	Devanshu Bansal
07-Jul-24	165	165	Reduce	Devanshu Bansal
28-May-24	151	160	Reduce	Devanshu Bansal
15-May-24	151	160	Reduce	Devanshu Bansal
07-Apr-24	157	165	Reduce	Devanshu Bansal
11-Feb-24	154	160	Reduce	Devanshu Bansal
03-Feb-24	173	160	Reduce	Devanshu Bansal
09-Jan-24	187	160	Reduce	Devanshu Bansal
18-Dec-23	183	165	Reduce	Devanshu Bansal
30-Nov-23	175	165	Reduce	Devanshu Bansal

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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