

Devyani International

No light at the end of the tunnel

Devyani's (DIL) 4QFY24 results were below our estimates, as core brands (KFC and PH) disappointed on the SSSG front. Although the India gross margin expanded c200bps YoY, operating deleverage (KFC SSS declined 7%; whereas PH saw 14% SSS decline) dented domestic profitability (flat EBITDA growth vs revenue growth of 11% YoY). Further adding to woes, currency devaluation (Nigerian business) relating to international business dragged overall performance (consolidated EBITDA grew 5% YoY only). We continue to maintain our REDUCE rating with a TP of INR 150 (25x FY26 Pre IND-AS EV/EBITDA), as current valuations are fully factoring in a back-ended recovery (revenue/EBITDA CAGR of 27/33% over FY24-27).

- 4Q results—disappointing show:** 4QFY24 results were below consensus estimates owing to disappointing SSSG performance across key brands. KFC saw its 4th consecutive quarter of subdued performance and in our view, impacted to some extent by the boycott of American brands on account of the ongoing geopolitical issues and customers downgrading to value options. However, Sapphire Foods KFC business saw an SSS decline of only 3% during 4QFY24. Pizza Hut brand saw the third consecutive quarter of double-digit SSS decline, courtesy weak macro and intense competition.
- Con call takeaways:** (1) **New channel development**—management intends to develop a food court channel aggressively and for this, a) it has entered into a strategic partnership with PVR Inox for the development and operation of food courts within shopping malls in India. Management highlighted that its current partnership for setting up Costa Coffee kiosks within PVR Inox theatres has been running well, which has now prompted it to set JV for setting up food courts in shopping malls, as PVR Inox gets first-hand information if any new mall were to be constructed in any part of country and (b) management is planning to set up food courts in high footfall zones such as malls, railways, highway tourist spots and hospitals, as Indian government focusses on developing medical tourism. (2) Availability of quality real estate is not much of a challenge beyond Metro/T1 cities and even with top cities, one can easily good real estate in suburban areas. (3) Pizza Hut—management believes that it has been more impacted than KFC, as its brand imagery post-launch of Flavored Fun Pizza (economy range) got impacted. (4) Payback period for KFC/Vaango/PH is 2-3/<2/5-6 years and mgmt. stated that the payback period for the most profitable brands i.e. KFC has got elongated from 2 years to 2.5-3 years given the economic slowdown.

Quarterly/annual financial summary

| (INR mn) | Q4FY24 | Q4FY23 | YoY (%) | Q3FY24 | QoQ (%) | FY22 | FY23 | FY24 | FY25E | FY26E |
|-----------------|----------|--------|---------|----------|---------|--------|--------|--------|--------|--------|
| Net Sales | 10,470.8 | 7,550 | 38.7 | 8,431.34 | 24.2 | 20,641 | 29,728 | 35,263 | 53,304 | 62,467 |
| EBITDA | 1,723.3 | 1,513 | 13.9 | 8,431.34 | (79.6) | 2,995 | 4,348 | 3,807 | 5,517 | 7,191 |
| APAT | (480.6) | 607 | (179.2) | 96.18 | (599.7) | 2,165 | 3,439 | 1,760 | 1,849 | 2,993 |
| EPS (INR) | (0.04) | 0.50 | (108.0) | 0.08 | (150.8) | 1.8 | 2.9 | 1.5 | 1.5 | 2.5 |
| P/E (x) | | | | | | 88.5 | 55.7 | 108.9 | 103.6 | 64.0 |
| EV / EBITDA (x) | | | | | | 64.1 | 44.0 | 50.5 | 35.5 | 26.8 |
| RoCE (%) | | | | | | 27.0 | 35.3 | 16.6 | 17.1 | 19.7 |

Source: Company, HSIE Research

REDUCE

| | |
|-------------------------|---------|
| CMP (as on 14 May 2024) | INR 157 |
| Target Price | INR 150 |
| NIFTY | 22,218 |

| KEY CHANGES | OLD | NEW |
|--------------|---------|---------|
| Rating | REDUCE | REDUCE |
| Price Target | INR 125 | INR 150 |
| EPS % | FY25E | FY26E |
| | n.a | n.a |

KEY STOCK DATA

| | |
|------------------------------|-------------|
| Bloomberg code | DEVYANI IN |
| No. of Shares (mn) | 1,206 |
| MCap (INR bn) / (\$ mn) | 189/2,267 |
| 6m avg traded value (INR mn) | 518 |
| 52 Week high / low | INR 228/142 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|-----|--------|--------|
| Absolute (%) | 1.9 | (14.1) | (11.1) |
| Relative (%) | 0.1 | (26.7) | (28.9) |

SHAREHOLDING PATTERN (%)

| | Dec-23 | Mar-24 |
|-----------------|--------|--------|
| Promoters | 62.74 | 62.74 |
| FIs & Local MFs | 8.52 | 12.20 |
| FPIs | 12.47 | 12.44 |
| Public & Others | 16.27 | 12.62 |
| Pledged Shares | 0.00 | 0.00 |

Source : BSE

Pledged shares as % of total shares

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Sapphire v/s Devyani

| KFC | Sapphire | | | Devyani | | |
|---------------------|----------|--------|---------|---------|--------|---------|
| | 4QFY23 | 4QFY24 | YoY (%) | 4QFY23 | 4QFY24 | YoY (%) |
| Gross margin | 66.8 | 68.3 | 150bps | 68.62 | 69.90 | 128bps |
| Contribution margin | 19.1 | 18.7 | -40bps | 17.48 | 19.00 | 152bps |
| ADS (in '000) | 127 | 114 | (10.2) | 106 | 93 | (12.3) |
| SSSG (%) | 2 | -3 | | 1.9 | -7.1 | |
| Store count | 341 | 429 | 25.8 | 490 | 596 | 21.6 |

| PH | Sapphire | | | Devyani | | |
|---------------------|----------|--------|---------|---------|--------|---------|
| | 4QFY23 | 4QFY24 | YoY (%) | 4QFY23 | 4QFY24 | YoY (%) |
| Gross margin | 74.3 | 75.5 | 120bps | 73.25 | 77.30 | 405bps |
| Contribution margin | 8.6 | 2.7 | -590bps | 9.25 | 4.40 | -485bps |
| ADS (in '000) | 50 | 41 | (18.0) | 39 | 32 | (17.9) |
| SSSG (%) | -4 | -15 | | -3.2 | -14 | |
| Store count | 286 | 319 | 11.5 | 506 | 567 | 12.1 |

Consolidated Pre IND-AS P&L (INR mn)

| Year End | FY23 | FY24 | FY25E | FY26E | FY27E |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Revenues | 29,728 | 35,263 | 53,304 | 62,467 | 72,169 |
| Growth (%) | 44.0 | 18.6 | 51.2 | 17.2 | 15.5 |
| Material Expenses | 8,986 | 10,566 | 16,238 | 18,874 | 21,624 |
| Employee Expense | 3,452 | 4,950 | 7,549 | 8,681 | 9,983 |
| Rent Expense | 3,687 | 4,770 | 7,027 | 8,093 | 9,070 |
| Other expenses | 9,504 | 11,469 | 17,331 | 20,060 | 22,988 |
| EBITDA | 4,348 | 3,807 | 5,517 | 7,191 | 9,020 |
| EBITDA Growth (%) | 45.2 | (12.4) | 44.9 | 30.3 | 25.4 |
| EBITDA Margin (%) | 14.6 | 10.8 | 10.4 | 11.5 | 12.5 |
| Depreciation | 1,391 | 1,688 | 2,315 | 2,625 | 2,980 |
| EBIT | 3,283 | 2,445 | 3,577 | 5,240 | 7,255 |
| Other Income | 326 | 326 | 375 | 675 | 1,214 |
| Interest | 75 | 93 | 303 | 303 | 183 |
| PBT | 3,209 | 2,353 | 3,274 | 4,937 | 7,072 |
| Tax | (206) | 593 | 825 | 1,244 | 1,782 |
| PAT before MI | 3,414 | 1,760 | 2,449 | 3,693 | 5,290 |
| MI | 25 | - | (600) | (700) | (700) |
| Reported PAT | 3,640 | 1,760 | 1,849 | 2,993 | 4,590 |
| Adjustments | (200) | - | - | - | - |
| Adjusted PAT | 3,439 | 1,760 | 1,849 | 2,993 | 4,590 |
| APAT Growth (%) | 58.9 | (48.8) | 5.1 | 61.8 | 53.4 |
| Adjusted EPS | 2.9 | 1.5 | 1.5 | 2.5 | 3.8 |

Source: Company, HSIE Research

Consolidated Balance Sheet (INR mn)

| Year End | FY23 | FY24 | FY25E | FY26E | FY27E |
|--|----------------|----------------|----------------|----------------|---------------|
| SOURCES OF FUNDS | | | | | |
| Share Capital - Equity | 1,205 | 1,205 | 1,205 | 1,205 | 1,205 |
| Reserves | 8,499 | 10,056 | 13,438 | 18,361 | 25,147 |
| Total Shareholders' Funds | 9,703 | 11,261 | 14,643 | 19,566 | 26,352 |
| Minority Interest | (62) | (62) | (62) | (62) | (62) |
| Long Term Debt | 767 | 767 | 4,267 | 3,267 | 2,267 |
| Short Term Debt | 7 | 7 | 7 | 7 | 7 |
| Total Debt | 774 | 774 | 4,274 | 3,274 | 2,274 |
| Net Deferred Taxes | (963) | (963) | (963) | (963) | (963) |
| Long Term Provisions & Others | 14,122 | 17,313 | 19,419 | 21,047 | 22,198 |
| TOTAL SOURCES OF FUNDS | 23,574 | 28,323 | 37,311 | 42,862 | 49,800 |
| APPLICATION OF FUNDS | | | | | |
| Net Block | 23,622 | 29,297 | 38,849 | 42,282 | 44,884 |
| CWIP | 153 | 153 | 153 | 153 | 153 |
| Other Non-current Assets | 1,515 | 1,515 | 1,515 | 1,515 | 1,515 |
| Goodwill | 644 | 644 | 644 | 644 | 644 |
| Total Non-current Assets | 25,935 | 31,610 | 41,162 | 44,595 | 47,197 |
| Inventories | 1,290 | 1,531 | 2,314 | 2,712 | 3,133 |
| Debtors | 289 | 343 | 518 | 607 | 702 |
| Other Current Assets | 556 | 556 | 556 | 556 | 556 |
| Cash & Equivalents | 851 | 81 | 27 | 2,404 | 7,014 |
| Total Current Assets | 2,987 | 2,511 | 3,415 | 6,279 | 11,404 |
| Creditors | 2,419 | 2,869 | 4,337 | 5,083 | 5,872 |
| Other Current Liabilities & Provisions | 2,929 | 2,929 | 2,929 | 2,929 | 2,929 |
| Total Current Liabilities | 5,348 | 5,798 | 7,266 | 8,012 | 8,801 |
| Net Current Assets | (2,361) | (3,287) | (3,851) | (1,733) | 2,603 |
| TOTAL APPLICATION OF FUNDS | 23,574 | 28,323 | 37,311 | 42,862 | 49,800 |

Source: Company, HSIE Research

Consolidated Cash Flow (INR mn)

| Year End | FY23 | FY24 | FY25E | FY26E | FY27E |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Reported PBT | 2,419 | 2,076 | 4,530 | 6,589 | 9,080 |
| Non-operating & EO Items | 41 | - | - | - | - |
| Interest Expenses | 1,355 | - | - | - | - |
| Depreciation | 2,788 | 1,675 | 2,287 | 2,598 | 2,953 |
| Working Capital Change | 246 | 156 | 509 | 259 | 274 |
| Tax Paid | (478) | (523) | (1,142) | (1,660) | (2,288) |
| OPERATING CASH FLOW (a) | 6,370 | 3,384 | 6,185 | 7,785 | 10,019 |
| Capex | (4,373) | (3,884) | (9,711) | (4,430) | (4,430) |
| Free Cash Flow (FCF) | 1,997 | (500) | (3,526) | 3,355 | 5,589 |
| Investments & Acquisition | (236) | - | - | - | - |
| Non-operating Income | 1,111 | - | - | - | - |
| INVESTING CASH FLOW (b) | (3,497) | (3,884) | (9,711) | (4,430) | (4,430) |
| Debt Issuance/(Repaid) | (609) | - | 3,500 | (1,000) | (1,000) |
| Interest Expenses | (27) | - | - | - | - |
| FCFE | 1,361 | (500) | (26) | 2,355 | 4,589 |
| Share Capital Issuance | 21 | 14 | 14 | 14 | 14 |
| Dividend | - | - | - | - | - |
| Others | (2,213) | - | - | - | - |
| FINANCING CASH FLOW (c) | (2,827) | 14 | 3,514 | (986) | (986) |
| NET CASH FLOW (a+b+c) | 46 | (485) | (11) | 2,370 | 4,603 |
| EO Items, Others | 574 | 626 | 141 | 129 | 2,499 |
| Closing Cash & Equivalents | 626 | 141 | 129 | 2,499 | 7,102 |

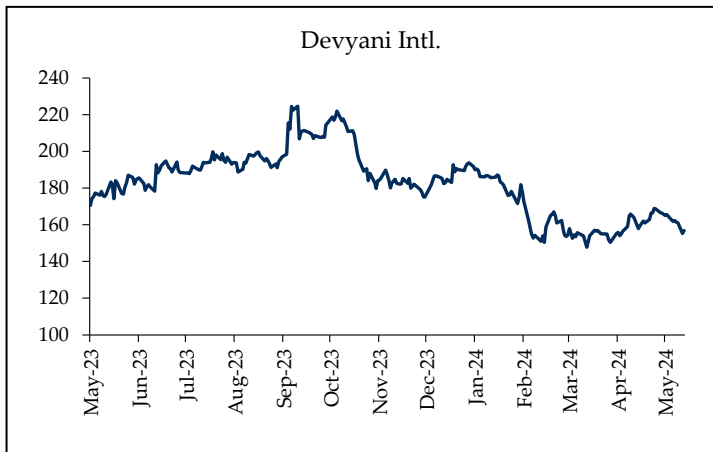
Source: Company, HSIE Research

Ratios

| Year End | FY23 | FY24 | FY25E | FY26E | FY27E |
|------------------------------------|--------|--------|--------|--------|--------|
| PROFITABILITY (%) | | | | | |
| GPM | 69.8 | 70.0 | 69.5 | 69.8 | 70.0 |
| EBITDA Margin | 14.6 | 10.8 | 10.4 | 11.5 | 12.5 |
| EBIT Margin | 11.0 | 6.9 | 6.7 | 8.4 | 10.1 |
| APAT Margin | 11.6 | 5.0 | 3.5 | 4.8 | 6.4 |
| RoE | 41.5 | 16.8 | 14.3 | 17.5 | 20.0 |
| RoIC (or Core RoCE) | 35.3 | 16.6 | 17.1 | 19.7 | 25.5 |
| RoCE | 37.1 | 15.9 | 13.2 | 15.2 | 18.2 |
| EFFICIENCY | | | | | |
| Tax Rate (%) | 6.4 | 25.2 | 25.2 | 25.2 | 25.2 |
| Fixed Asset Turnover (x) | 1.8 | 1.7 | 1.7 | 1.8 | 1.8 |
| Inventory (days) | 15.8 | 15.8 | 15.8 | 15.8 | 15.8 |
| Debtors (days) | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Other Current Assets (days) | 6.8 | 5.8 | 3.8 | 3.2 | 2.8 |
| Payables (days) | 29.7 | 29.7 | 29.7 | 29.7 | 29.7 |
| Other Current Liab & Provns (days) | 36.0 | 30.3 | 20.1 | 17.1 | 14.8 |
| Cash Conversion Cycle (days) | (39.4) | (34.9) | (26.6) | (24.2) | (22.3) |
| Net D/E (x) | (0.0) | 0.1 | 0.3 | 0.0 | (0.2) |
| PER SHARE DATA (Rs) | | | | | |
| EPS | 2.9 | 1.5 | 1.5 | 2.5 | 3.8 |
| Dividend | - | - | - | - | - |
| Book Value | 8.1 | 9.3 | 12.2 | 16.2 | 21.9 |
| VALUATION | | | | | |
| P/E (x) | 55.7 | 108.9 | 103.6 | 64.0 | 41.7 |
| P/BV (x) | 19.7 | 17.0 | 13.1 | 9.8 | 7.3 |
| EV/EBITDA (x) | 44.0 | 50.5 | 35.5 | 26.8 | 20.7 |
| EV/Revenues (x) | 6.4 | 5.5 | 3.7 | 3.1 | 2.6 |
| OCF/EV (%) | 3.33 | 1.76 | 3.16 | 4.05 | 5.37 |
| FCF/EV (%) | 1.04 | (0.41) | (1.82) | 1.75 | 2.99 |
| FCFE/Mkt Cap (%) | 0.7 | (0.4) | (0.0) | 1.2 | 2.4 |
| Dividend Yield (%) | - | - | - | - | - |

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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