

Issue Details		
Issue Opens	04-08-21	
Issue Closes	06-08-21	
Issue Size (in Rs. Crs)	1776.00 – 1838.00	
Issue Size (Shares)	206,496,120 – 204,222,218	
Authorised Shares	5,000,000,000	
Issued, Subscribed and Paid Up Sh. Pre offer	1,153,634,990	
Offer for Sale	155,333,330	
Face Value	Rs. 1.00	
Lot Size (Sh)	20	
Price Band	Rs.86 - Rs.90	
Issue Type	Book Building	
Book Value (in Rs.)( FY21)	0.99	
BRLMs	Kotak Mahindra Capital Co., CLSA India, Edelweiss Financial Services, Motilal Oswal Investment Advisors.	
Registrar	Link Intime India Pvt. Ltd.	
Listing Venue	BSE/NSE	
Finalization of Allotment	11-Aug -21	
Initiation of refund	12-Aug -21	
Credit to Demat Account	13-Aug -21	
Listing	16-Aug -21	
Issue Structure		
Categories	Allocation	
QIBs	75.00%	
Non-Institutional	15.00%	
Retail Portion	10.00%	
Total	100.00%	
Shareholding Pattern		
Categories	Pre Issue	Post Issue
Promoter & Promoter Group	75.79%	67.99%
Public	24.21%	32.01%
Total	100.00%	100.00%
Recommendation		
<b>SUBSCRIBE</b>		

### Company Background

Devyani International Ltd. (DIL) is an associate company of RJ Corp, the largest bottling partner of food and beverages (F&B) major Pepsico, and has interests in the Indian retail F&B sector. It is the largest franchisee of Yum Brands, operating core brands such as Pizza Hut, KFC, Costa Coffee besides its own brands such as Vaango, Food Street, Masala Twist, Ile Bar, Amreli and Ckrussh Juice Bar.

### Objects of the Issue

DIL proposes to utilize the net proceeds towards funding the following objects a.) Repayment/Prepayment of all or certain borrowings, b.) General corporate purposes.

### Key Points

- DIL's has a **strong portfolio** of globally recognized brands, business and geographical diversification, strong presence across key consumption areas and increasing digital adoption that provides a strong growth runway for the company. While the overall Quick Service Restaurants (QSR) industry was hit by Covid-19 driven nationwide lockdowns, the company boosted **digital orders & delivery** and has shifted preference towards quality & safety, thus providing tailwinds for stronger brands.
- DIL is **multi-dimensional comprehensive QSR player**. Its profound association with Yum together with technical, marketing and operational expertise has enabled it to establish itself as a comprehensive player in the QSR industry in India with expertise and control in all areas of operations.
- DIL **operated 696 stores** across all brands and were present in 26 states and three union territories across 166 cities in India, as of June 30, 2021. It has a strong presence in key metro regions of Delhi NCR (comprising Faridabad, Ghaziabad, Gurgaon, Delhi and Noida), Bengaluru, Kolkata, Mumbai and Hyderabad.
- DIL has expanded its **scale of operations** in the last few years, whereby it has opened 72, 50 and 111 stores under our core brands business in FY2019, 2020 and 2021, respectively. In addition, it has acquired 13, 9 and 51 KFC stores from Yum in last three years.
- Revenue from core brands business, together with international business contributed 94.2% to revenue from operations in FY21.
- DIL incurred a loss of Rs.55.21 crores in FY21 as against loss of Rs.121.67 crores in the previous year. Its topline in FY21 took a nosedive largely due to Covid-19 lockdowns. However, the company intends to improve its unit performance which would aid better margins going ahead.

### Recommendation

**DIL has incurred loss in FY21 however; their losses have reduced dramatically from FY20. Besides, company has been embarking upon in expanding its scale of operations. Hence, considering the above positive factors & strong brand franchise we recommend to subscribe the issue with medium to long term horizon.**

Particulars (Rs. Crs)	FY21	FY20	FY19
Revenue from Operations	1,153.18	1,516.39	1,356.60
Other Income	64.06	24.34	8.80
Profit Before Tax	-64.06	-119.58	-65.30
Consolidated net Profit	-55.21	-121.67	-48.35
PATM (%)	-5.46	-8.01	-4.90
Equity	115.36	106.17	106.17
EPS (Rs.)	-0.48	-11.46	-4.55

Source: Company's RHP, Ace Equity, AUM Research

### Competitive Strengths

- ✦ DIL operates franchises of **several highly recognized global QSR brands and is the largest franchise partner for Yum in India**. Their Core Brands include: KFC, Pizza Hut & Costa Coffee.
- ✦ DIL is a **multi-dimensional** comprehensive QSR player. The parameters on which they focus include quality and safety, customer experience, digital adoption, delivery and their people and culture.
- ✦ The company **operates 696 stores across all brands and were present in 26 states and 3 union territories** across 166 cities in India, as of June 30, 2021. They have a **strong presence in key metro regions of Delhi NCR (comprising Faridabad, Ghaziabad, Gurgaon, Delhi and Noida), Bengaluru, Kolkata, Mumbai and Hyderabad**.
- ✦ DIL has expanded their operations in the last few years and has **opened 72, 50 and 111 stores under their Core Brands Business** in Fiscals 2019, 2020 and 2021, respectively. In addition, **they acquired 13, 9 and 51 KFC stores from Yum** in FY2019, 2020 and 2021, respectively. They have been able to **leverage substantial operating synergies across the brands they operate**. They have streamlined business processes from conceptualization of their stores to execution of daily operations.
- ✦ Company's **Same Stores Sales Growth (SSSG)** has been impacted on account of COVID-19. As part of their commitment to cost containment, they undertake a Return on Investment (RoI) analysis prior to opening a store to determine the financial feasibility of the store. Their margin profile is supported by the **strong brand contribution margins** of the Core Brands Business. The **net cash generated from operating activities was Rs.239.56 crore in FY2021, indicating support for their continued growth**.

### Key Business Strategies

- ✦ In 2021, QSRs are expected to witness a better recovery compared to other channels, owing to their better suitability for takeaways. Investments of operators in expansion and technology will also drive the growth. DIL intend to increase their store network by implementing the defined new-store roll out process and their cluster approach and penetration strategy with respect to store location, while aiming to achieve an optimal mix across their different types of restaurant formats in order to drive footfalls and compete effectively.
- ✦ The growth of their stores will allow them to apportion fixed overheads costs such as brand building and administrative expenses across their store network which will improve their brand contribution margins. In parallel, they have been able to rationalize certain stores that were loss-making to improve their overall store level profitability.
- ✦ DIL intends to continue to create **synergies between stores of their Core Brands and the delivery services by taking advantage of their extensive store network to improve efficiency and increase margins**. To facilitate their strategy, **DIL intends to open additional stores for Pizza Hut and KFC that will be primarily focused on delivery**. Their focus going forward will be to have limited dine-in capacity at their delivery focused stores.
- ✦ DIL will continue to invest in technology to maintain their **competitive scalable advantage**. Going forward, they will continue to leverage their **digital ecosystem** to drive sales, improve the guest experience and increase operational efficiency. DIL plans to increase their investment in end-to-end digitalization, automation, artificial intelligence and machine learning, to connect online traffic with their offline assets effectively.

### Risk Factors

- ✦ The current and continuing impact of the ongoing COVID-19 pandemic on the company's business and operations has been significant. The impact of the pandemic on the company's operations in the future, including its effect on the ability or desire of customers to dine in stores, is uncertain and may be significant and continue to have an adverse effect on their business prospects.
- ✦ The company relies on the Costa IDA (International Development Agreement) with Costa for their Costa Coffee stores and a termination of or material modification to the existing terms of the Costa IDA will materially and adversely affect their ability to continue their Costa business and operations and their future financial performance.
- ✦ The company has incurred losses in FY2019, 2020 and 2021. In the event net loss continues to increase, it may adversely affect their business and financial condition.

**Financials**

<b>Financial Highlights- Consolidated (Values in Rs. Crore)</b>			
<b>Description</b>	<b>FY21</b>	<b>FY20</b>	<b>FY19</b>
<b>Inc / Exp Performance</b>			
Gross Sales	1153.18	1516.39	1356.60
Total Income	1217.23	1540.72	1365.40
Total Expenditure	954.13	1310.62	1307.74
PBIDT	263.10	230.11	57.67
PBIT	90.53	41.37	-25.26
PBT	-64.06	-119.58	-65.30
Consolidated Net Profit	-55.21	-121.67	-48.35
EPS	-0.48	-11.46	-4.55
Book Value	0.97	-18.77	6.64
<b>Equity and Liabilities</b>			
Equity Paid Up	115.36	106.17	106.17
Reserves and Surplus	-3.03	-305.39	-35.66
Net Worth	112.33	-199.23	70.51
Total Debt (Long Term plus Short Term)	463.33	544.09	488.22
Capital Employed	577.10	354.99	570.06
<b>Assets</b>			
Gross Block	1797.11	2079.24	802.12
Cash and Bank balance	40.53	16.03	27.08
Net Current Assets (Including Current Investments)	-256.14	-434.58	-197.72
Total Current Liabilities	420.67	577.77	343.67
Total Assets	1658.83	1876.03	776.31
<b>Cash Flow</b>			
Cash Flow from Operations	239.56	300.72	76.10
Cash Flow from Investing activities	-358.60	-97.43	-167.97
Cash Flow from Finance activities	141.98	-222.62	71.46
Free Cash flow	75.04	47.71	-159.99
<b>Financial Ratios</b>			
Debt to Equity(x)	4.12	-2.73	6.92
Current Ratio(x)	0.39	0.25	0.42
ROCE (%)	19.43	8.94	-4.67
RONW (%)	0.00	0.00	-66.91
PBIDTM (%)	22.82	15.17	4.25
PATM (%)	-5.46	-8.01	-4.90

Source: Company's RHP, Ace Equity, AUM Research

**Aum Capital RESEARCH DESK**

Rajesh Agarwal	Head of Research	033-4057 2121	<a href="mailto:rajesh.agarwal@aumcap.com">rajesh.agarwal@aumcap.com</a>
Tanya Kothary	Manager – Equity Research	033-4057 2121	<a href="mailto:tanya.kothary@aumcap.com">tanya.kothary@aumcap.com</a>

**Disclosure & Disclaimer**

This document is solely for the personal information of the recipient and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved) and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. AUM Capital Market Private Limited (hereinafter referred to as "AUM Cap") or any of its affiliates/group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. AUM Cap has not independently verified all the information contained within this document. Accordingly, we cannot testify nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document.

While, AUM Cap endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory compliance or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly. Neither, AUM Cap nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

AUM Cap is registered under SEBI (Research Analysts) Regulations, 2014. Further, AUM Cap hereby declares that –

- AUM Cap/its associates/research analysts do not have any financial interest/beneficial interest of more than one percent/material conflict of interest in the subject company.
- AUM Cap/its associates/research analysts have not received any compensation from the subject company(s) during the past twelve months.
- AUM Cap/its research analysts has not served as an officer, director or employee of company covered by analysts and has not been engaged in market making activity of the company covered by analysts.

AUM Capital Market Private Limited  
Registered Office: 5, Lower Rawdon Street, Akashdeep building 1st Floor, Kolkata – 700020;  
Phone: +91(33) 24861040/43; Fax: +91(33) 24760191  
Website: [www.aumcap.com](http://www.aumcap.com); Email: [aumresearch@aumcap.com](mailto:aumresearch@aumcap.com)