

## Burger King India Ltd

Burger King India is one of the fastest growing international QSR chains in India during the first five years of their operations based on the number of restaurants. (Source: Technopak). As the national master franchisee of the BURGER KING® brand in India, the company has exclusive rights to develop, establish, operate and franchise Burger King branded restaurants in India.

**Positives:** (1) Exclusive national master franchise rights in India with favorable royalty fees (capped at 5% of sales) (2) Brand positioned for large and growing population in India - The Millennials (3) Vertically managed and scalable supply chain (4) India tailored menu with focus on value leadership (5) Well defined and standardized processes.

**Investment concerns:** (1) The outbreak of Covid-19 had a substantial impact on the restaurant operations (2) The termination of the master franchise and development agreement would have a material adverse effect on the business (3) Demand for the products may decrease due to changes in consumer preferences and food habits.

**Outlook & Valuation:** In the last ~6 years of operations in India, the company has opened 268 stores. Looking at the run rate, we believe management will be able to achieve the target of 700 stores by Dec'26. As the store count will increase, operating leverage will kick in and the company will be able to report profit. We believe there is ample scope available for the company to increase its business in India. On FY20 basis, company peers such as Jubilant FoodWorks (Domino's Pizza) and Westlife Development (McDonald) are trading at 8.6x and 5.0x respectively on EV/sales multiple. At the upper end of the price band, the company will trade at an EV/sales multiple of 2.2x on FY20 basis, which we believe is quite reasonable. We believe that there is a good possibility of listing gains given lower valuations as compared to other listed peers. We are also positive on the long term growth prospects of the Industry and the company, and hence **recommend to "Subscribe" to the issue for long term as well as for listing gains.**

### Key Financials

Y/E March (₹ cr)	FY18	FY19	FY20
<b>Net Sales</b>	378.1	632.7	841.2
% chg	-	67.3	33.0
<b>Net Profit</b>	-82.2	-38.3	-76.6
% chg	-	53.4	-100.0
EBITDA (%)	2.1	12.5	12.4
<b>EPS (Rs)</b>	(3.1)	(1.4)	(2.8)
P/BV (x)	2.1	2.4	2.2
RoCE (%)	NA	2.3	NA
EV/EBITDA	184.7	20.7	17.5
EV/Sales	4.0	2.6	2.2

Source: Company, Angel Research (Valuation done at the upper price band)

## SUBSCRIBE

Issue Open: December 02, 2020

Issue Close: December 04, 2020

Present Eq. Paid up Capital: ₹306.7cr

Offer for Sale: 6 cr Shares

Fresh issue: ₹450 cr

Post Eq. Paid up Capital: ₹381.7 cr

Issue size (amt): \*₹804-\*\*₹810cr

Price Band: ₹59-60

Lot Size: 250 shares and in multiple thereafter

Post-issue implied mkt. cap: \*\*₹2,290cr

Promoters holding Pre-Issue: 94.3%

Promoters holding Post-Issue: 60.1%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	75% of issue
Non-Institutional	15% of issue
Retail	10% of issue

### Post Issue Shareholding Pattern

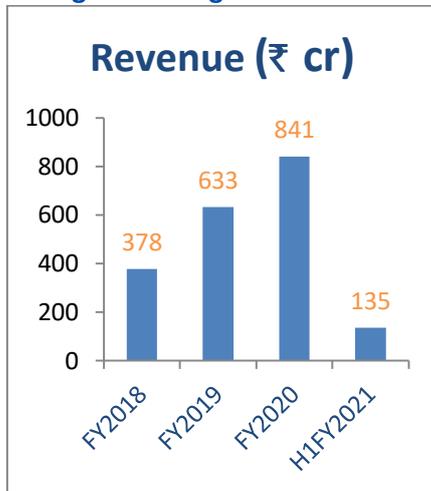
Promoters	94%
Others	60%

**Keshav Lahoti**

+022 39357600, Extn: 6363

keshav.lahoti@angelbroking.com

### Strong revenue growth



Source: Company, Angel Research

### Company background

Company opened its first restaurant in November 2014, they have used their well defined restaurant roll out and development process with the aim of growing quickly, consistently and efficiently into a pan-India QSR chain and capitalizing on the growing market opportunity in India for QSR restaurants. As at September 30, 2020, the company had 261 restaurants, including eight Sub-Franchised Burger King Restaurants, across 17 states and union territories and 57 cities across India. As at the date of this Red Herring Prospectus, the company had 259 company-owned Burger King Restaurants and nine Sub-Franchised Burger King Restaurants.

### Issue Details

Company is raising ₹450cr through fresh issue and ₹360cr (at higher price band) through offer for sale.

### Pre & Post IPO Shareholding

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	289,311,111	94.3	229,311,111	60.1
Public	17,343,494	5.7	152,343,494	39.9
Total	306,654,605	100.0	381,654,605	100.0

Source: Company, Angel Research (RHP)

Calculated at higher price band

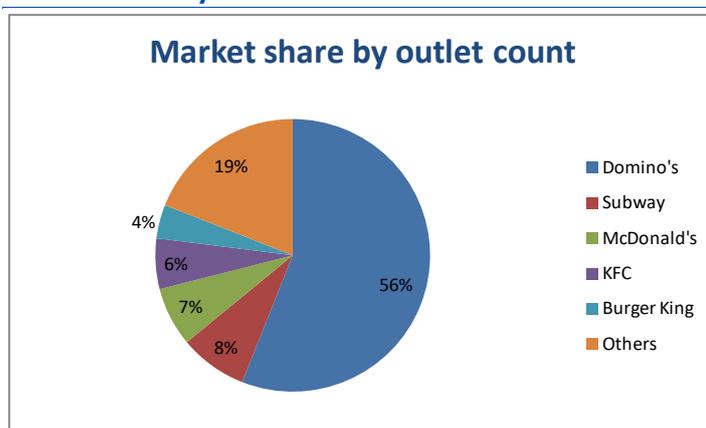
### Objects of the offer

#### Objects of the Fresh Issue ₹450cr

Particulars	Amt in ₹ cr
<b>(A) Funding roll out of new outlets</b>	<b>342</b>
(i) Repayment of borrowings	165
(ii) Capital Expenditure	177
<b>(B) General corporate purposes</b>	<b>[ · ]</b>
<b>Total</b>	<b>[ · ]</b>

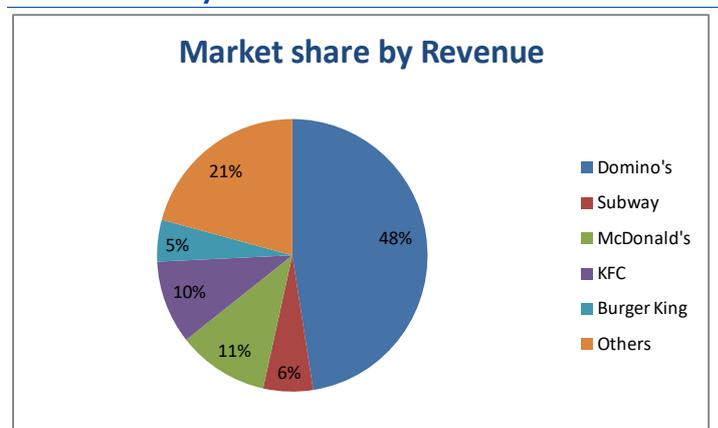
Source: Company, Angel Research (RHP)

### Market share by outlet count



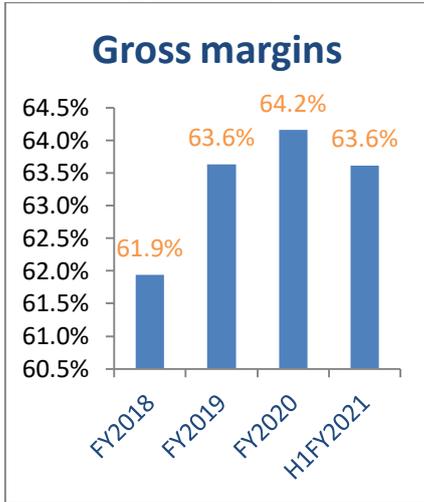
Source: Technopak Research & Analysis

### Market share by revenue



Source: Technopak Research & Analysis

**Improving gross margins**



Source: Company, Angel Research

**Key Management Personnel**

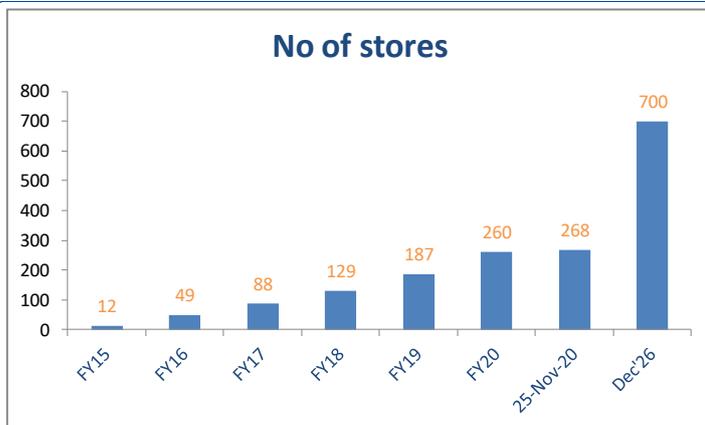
**Rajeev Varman** is the Chief Executive Officer and Whole Time Director of the company. He was appointed as the Chief Executive Officer and Whole Time Director of the company on February 27, 2014. He holds a bachelor’s degree in mechanical engineering from the Bangalore University and a master’s degree of business administration in marketing from the Golden Gate University. He is responsible for management and running of business of the company both at strategic and operational level and overview innovation in the company across all areas including operations and production. He has over 20 years of work experience in the food and beverage industry.

**Shivakumar Pullaya Dega** is Chairman and Independent Director of the company. He was appointed as an Independent Director of the company on October 14, 2019. He studied at Indian Institute of Technology, Madras. He is also an alumnus of Indian Institute of Management, Calcutta. He joined the Aditya Birla Group in January 2018 and is currently serving as the Group Executive President for corporate strategy and business development of Aditya Birla Management Corporation Private Limited. He previously served as the Chairman and Chief Executive Officer (India region) of PepsiCo India Holdings Private Limited and as a Managing Director of Nokia India Private Limited.

**Key Points**

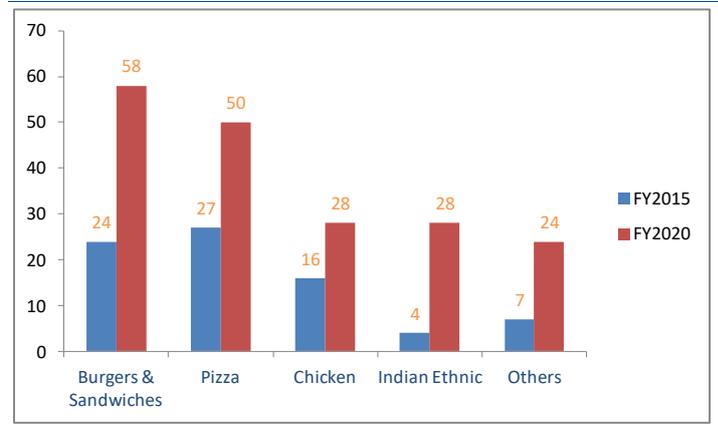
- Due to Covid-19, currently 249 stores out of 268 stores are operational as of November 25, 2020. Footfalls and sales are gradually recovering.
- Company has raised ₹58 crore from promoter through a rights issue in May’20 and ₹92 crore from Amansa by preferential allotment in Nov’20.
- Company has negotiated revised commercial terms with certain service providers in the changed scenario of Covid-19.

**Rapidly expanding stores of the company**



Source: Company, Angel Research

**Indian Chain QSR sub-segment size in ₹ billion**



Source: Technopak Research & Analysis

Note: Pizza & Indian Ethnic does not include companies operating in CDR and other segments.

**Profit & Loss Statement**

Y/E March (₹ cr)	FY18	FY19	FY20	H1FY21
<b>Total operating income</b>	378.1	632.7	841.2	135.2
% chg	-	67.3	33.0	
<b>Total Expenditure</b>	370.0	553.8	737.3	163.9
Cost of material consumed	143.9	230.1	301.5	49.2
Employee benefit expense	70.4	96.9	136.6	51.7
Other Expenses	155.7	226.8	299.2	63.0
<b>EBITDA</b>	8.1	78.9	103.9	-28.7
% chg	-	874.1	31.7	
(% of Net Sales)	2.1	12.5	12.4	-21.2
Depreciation & Amortisation	64.0	82.2	116.3	62.1
<b>EBIT</b>	-55.9	-3.3	-12.4	-90.8
% chg	-	94.1	-275.8	
(% of Net Sales)	-14.8	-0.5	-1.5	-67.2
Interest & other Charges	36.9	46.4	65.4	42.4
Other Income	10.6	11.4	5.6	16.4
(% of Sales)	2.8	1.8	0.7	12.1
<b>Recurring PBT</b>	-82.2	-38.3	-72.2	-116.8
% chg	-	53.4	-88.5	
Exceptional item	-	-	-4.4	-2.1
Tax	-	-	-	-
<b>PAT (reported)</b>	-82.2	-38.3	-76.6	-118.9
% chg	-	53.4	-100.0	
(% of Net Sales)	-21.7	-6.1	-9.1	-87.9
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	-3.1	-1.4	-2.8	-
% chg	-	53.4	-90.8	

Source: Company, Angel Research

**Balance Sheet**

Y/E March (₹ cr)	FY18	FY19	FY20	H1FY21
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	265.0	265.0	277.7	290.9
Other equity	22.1	-15.4	-2.3	-72.1
<b>Shareholders Funds</b>	<b>287.1</b>	<b>249.6</b>	<b>275.4</b>	<b>218.9</b>
<b>Total Loans</b>	<b>-</b>	<b>100.0</b>	<b>198.5</b>	<b>195.8</b>
Other liabilities	356.3	456.8	586.1	582.1
<b>Total Liabilities</b>	<b>643.5</b>	<b>806.4</b>	<b>1,060.0</b>	<b>996.7</b>
<b>APPLICATION OF FUNDS</b>				
Property, plant & equipment	240.2	347.5	474.2	459.1
Right-of-use Assets	343.3	429.2	538.0	521.7
Capital work-in-progress	10.3	20.2	47.6	41.1
Intangible assets	8.8	15.8	24.5	25.5
Current Assets	109.1	81.5	79.9	96.4
Inventories	5.2	6.9	9.4	8.1
Investments	86.9	38.4	18.6	28.0
Sundry Debtors	2.6	5.9	3.2	6.7
Cash & Bank Balance	7.4	16.0	28.0	33.4
Other Assets	7.0	14.4	20.6	20.2
Current liabilities	86.9	114.0	137.7	180.4
<b>Net Current Assets</b>	<b>22.2</b>	<b>-32.5</b>	<b>-57.8</b>	<b>-84.0</b>
Other Non Current Asset	18.7	26.1	33.5	33.2
<b>Total Assets</b>	<b>643.5</b>	<b>806.4</b>	<b>1060.0</b>	<b>996.7</b>

Source: Company, Angel Research

**Cash Flow Statement**

Y/E March (₹ cr)	FY18	FY19	FY20	H1FY21
Loss before tax	(81.4)	(38.6)	(77.6)	(119.0)
Depreciation	64.0	82.2	116.4	62.1
Change in Working Capital	20.1	6.6	10.8	44.7
Interest Expense	36.9	46.5	65.5	42.4
Direct Tax Paid	(0.4)	(0.2)	(0.2)	0.8
Others	(8.8)	(10.0)	(2.1)	(21.5)
<b>Cash Flow from Operations</b>	<b>30.5</b>	<b>86.5</b>	<b>112.7</b>	<b>9.6</b>
(Inc.)/ Dec. in Fixed Assets	(86.6)	(165.4)	(227.5)	(19.1)
Changes in investment	99.3	51.5	(2.9)	(8.7)
<b>Cash Flow from Investing</b>	<b>12.8</b>	<b>(114.0)</b>	<b>(230.4)</b>	<b>(27.8)</b>
Payment of lease liabilities	(48.4)	(63.9)	(89.5)	(24.8)
Changes in Borrowings	-	-	200.7	0.0
Proceeds from equity shares	-	100.0	-	58.1
Interest paid	-	-	(5.3)	(10.0)
<b>Cash Flow from Financing</b>	<b>(48.4)</b>	<b>36.1</b>	<b>105.9</b>	<b>23.3</b>
Inc./ (Dec.) in Cash	(5.2)	8.7	(11.8)	5.1
<b>Opening Cash balances</b>	<b>12.4</b>	<b>7.2</b>	<b>15.9</b>	<b>4.1</b>
<b>Closing Cash balances</b>	<b>7.2</b>	<b>15.9</b>	<b>4.1</b>	<b>9.2</b>

Source: Company, Angel Research

**Key Ratios**

Y/E March	FY18	FY19	FY20
<b>Valuation Ratio (x)</b>			
P/CEPS	NA	36.2	42.0
P/BV	2.1	2.4	2.2
EV/Sales	4.0	2.6	2.2
EV/EBITDA	184.7	20.7	17.5
<b>Per Share Data (Rs)</b>			
EPS (Basic)	(3.1)	(1.4)	(2.8)
EPS (fully diluted)	(3.1)	(1.4)	(2.8)
Cash EPS	(0.7)	1.7	1.4
Book Value	28.7	25.0	27.5
<b>Returns (%)</b>			
ROCE	NA	2.3	NA
<b>Turnover ratios (x)</b>			
Receivables (days)	2.5	3.4	1.4
Inventory (days)	5.0	4.0	4.1
Payables (days)	45.0	36.8	37.8
Working capital cycle (days)	(37.5)	(29.4)	(32.3)

Source: Company, Angel Research (Valuation done at the upper price band)

Research Team Tel: 022 - 39357800

E-mail: [research@angelbroking.com](mailto:research@angelbroking.com)Website: [www.angelbroking.com](http://www.angelbroking.com)

## DISCLAIMER

Angel Broking Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, Metropolitan Stock Exchange Limited, Multi Commodity Exchange of India Ltd and National Commodity & Derivatives Exchange Ltd. It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

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. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

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. Angel Broking Limited 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. Angel Broking Limited 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 Angel Broking Limited 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 Angel Broking Limited, 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.