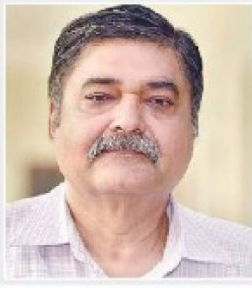


BNHL: Compelling valuations makes it a buy

EBITDA at 20% better than similar businesses including all QSRs as well

BARBEQUE Nation Hospitality Limited (BNHL) is tapping the capital markets with its fresh issue to raise Rs 180 crore and an offer for sale of 54.57 lakh shares in a price band of Rs 498-500. The combined issue would raise approximately Rs 453 crore. The issue would open on Wednesday March 24 and close on Friday March 26.



Arun Kejriwal



The company runs a chain of casual dining restaurants under the name of Barbeque Nation and offers a unique concept of on-table grill. The company runs 147 restaurants in India currently and has six restaurants abroad under the barbeque nation chain. They are all operated and managed by the company except for one outlet. Besides these, the company is the majority stake owner in a chain which runs 11 Italian restaurants making the total 164 restaurants.

The rationale behind the offering at Barbeque Nation is four-fold. Firstly, they offer live grill on the table. Secondly, they believe in the principle of all you can eat. Thirdly their restaurants offer a place for celebration and finally its value for money. Their price is per head and makes people generally overeat because of the offering and the unlimited food.

Indian food is the most popular cuisine amongst all the casual dining, and QSR (quick service restaurants) across the length and breadth of the country. The current year has been tough for all in the hospitality space and the company was no exception. With a complete lockdown in the first quarter of the current financial year, the company suffered losses primarily on account of depreciation and interest costs as almost half of its present store count of 164, came up in the last three years.

The situation since then has changed, and

by November 20, the company was almost on track having registered 84 per cent normalcy as compared to the previous year. The delivery business has picked up very smartly and currently about 18.8 per cent of its revenues come from delivery. They have amongst other things started a concept of barbeque in a box which has become extremely popular. In January 2021, the company did a placement of shares to Jubilant Food works and the present PE partner in

the company at a price of Rs 252 and raised Rs 150 crore. This offering of shares was a fire sale as money was desperately needed by the company as the net worth had become negative at that point of

time. Probably if they had negotiated and tried, they could have got a substantially higher price at that time itself. Having done what they did, the price now being asked looks expensive at almost double. Probably if one were to consider the situation and then compared, it would not look as bad.

Coming to comparisons, the IPO from Burger King had come in December 2020. The company was a loss-making firm and had a market capitalisation of seven times its sales. The sales of Barbeque Nation were Rs 850 crore for the year ended March 2020. Based on the above, the Enterprise value to sales of Barbeque Nation would be at two times while it was seven times for Burger

King, four times for Westlife Developers (Franchise for McDonald's in West and South) and eight times for Jubilant. This makes Barbeque Nation a company with compelling valuations. Barbeque Nation has been reporting EBITDA margins of 20 per cent, which are better than similar businesses including almost all QSR's as well.

Yet another way of looking at this business is the fact that the younger generation who have the spending power and discretionary spend available due to their higher disposable income, look at casual dining as a better way to eat rather than spend it on QSR's. The food choice makes it better and wholesome. Business dynamics with 48 per cent of the sales coming between Monday and Thursday and 52 per cent between Friday and Sunday help the company. Further there is even distribution between lunch and dinner with 45 per cent being lunchtime revenues and 55 per cent dinner time. In terms of expansion, the company plans to add 20 restaurants in the coming year.

The company has a strong case for subscription barring the fact that it is currently loss making at the net level. Secondly the pre-IPO was done at a substantially lower rate. Barring these two facts, the company merits attention and subscription.

(The author is the founder of Kejriwal Research and Investment Services, an advisory firm)

