

## Barbeque-Nation Hospitality Ltd

Recommendation	SUBSCRIBE		BACKGROUND																																																
Price Band	Rs 480-500		<b>Company Overview</b>																																																
Bidding Date	24-26 March		Barbeque Nation Hospitality Ltd (BBQN) is one of India's leading casual dining restaurant chains (in terms of outlet count as of September 30, 2020). It also owns and operate Toscano Restaurants and UBQ by Barbeque Nation Restaurant. The company has steadily grown its Restaurant network from a single restaurant in 2008 to 147 Barbeque Nation Restaurants across 77 cities in India and six International Barbeque Nation Restaurants in three countries outside India as of December 31, 2020. Barbeque Nation pioneered the format of 'over the table barbeque' concept in Indian restaurants.																																																
Book Running Lead Manager	IIFL Sec., Axis Capital, Ambit, SBI Caps		<b>Objects of the Issue</b>																																																
Registrar	Link In-time		The issue of Rs 453 cr comprised of Rs 180 cr fresh issue and Rs 273 cr Offer for Sale. The company intends to utilize the funds to incur capex, repayment of debt.																																																
Sector	Hospitality		<b>Investment Rationale</b>																																																
<b>Minimum Retail Application – Details at Cut off Price</b>			<ul style="list-style-type: none"> <li>• <b>One of the Fastest Growing Restaurant Brand in Rapidly Growing CDR market</b></li> <li>• <b>Expansion and Diversification</b> – (a) Expansion Within India – Going Deeper (b) Increasing International Footprint (c) Diversifying into Italian (d) Diversifying Delivery Model</li> <li>• <b>Strong Backend Processes to Manage Growth</b></li> <li>• <b>Healthy Financials</b></li> </ul>																																																
Number of Shares	30		<b>Valuation and Recommendation</b>																																																
Application Money	15000		Between FY18-20, Barbeque Nation's revenues have grown at CAGR of 20% while EBITDA grew by 10%. The company is consistently earning margins in the range of 22-24%. We believe, the company has robust engine and would be back on track soon. we believe the more accurate method is comparing Operating Cash Flows which has been positive for past 4 yrs after paying lease liabilities and interest cost. The company has around Rs 173 cr loans on the books which would be reduced from the IPO proceeds, thereby reducing the interest liability in future. On comparing EV/Cash generation, the valuations of Barbeque Nation looks attractive. With healthy balance sheet, robust revenue growth and strong cash flow generations we believe the company can be looked from long term investment perspectives. <b>Hence, we recommend "Subscribe for long term"</b> .																																																
Discount to retail	NIL																																																		
Payment Mode	ASBA, UPI																																																		
<b>Consolidated Financials (Rs Cr)</b>	<b>FY19</b>	<b>FY20</b>																																																	
Total Income	739	847																																																	
EBITDA	146	164																																																	
PAT	-21	-33																																																	
<b>Valuations*</b>	<b>Lower Band</b>	<b>Upper Band</b>																																																	
Market Cap (Rs cr)	1802	1877																																																	
EPS	-8.8	-8.8																																																	
BV/share	3	3																																																	
P/BV	161.7	168.4																																																	
P/E	-54.7	-57.0																																																	
<i>*FY20 numbers, diluted equity</i>																																																			
<b>Post Issue Shareholding Pattern</b>																																																			
Promoters	37.8%																																																		
Public	62.2%																																																		
<b>Offer structure for different categories</b>																																																			
QIB (Including Mutual Fund)	75%																																																		
Non-Institutional	15%																																																		
Retail	10%																																																		
Post Issue Equity Capital (Rs cr)	18.8																																																		
Issue Size (Rs cr)	435-453																																																		
Face Value (Rs)	5																																																		
Runjhun Jain Assistant Vice President (+91 22 6273 8177) <a href="mailto:runjhun.jain@nirmalbang.com">runjhun.jain@nirmalbang.com</a>			<table border="1"> <thead> <tr> <th>Financial Snapshot</th> <th>FY18</th> <th>FY19</th> <th>FY20</th> <th>8MFY21</th> </tr> </thead> <tbody> <tr> <td>Revenues</td> <td>586</td> <td>739</td> <td>847</td> <td>201</td> </tr> <tr> <td>%growth*</td> <td></td> <td>26%</td> <td>15%</td> <td></td> </tr> <tr> <td>EBIDTA</td> <td>136</td> <td>146</td> <td>164</td> <td>(23)</td> </tr> <tr> <td>% margins</td> <td>23.2%</td> <td>19.7%</td> <td>19.4%</td> <td>-11.4%</td> </tr> <tr> <td>Adj. PAT</td> <td>7</td> <td>(21)</td> <td>(33)</td> <td>(101)</td> </tr> <tr> <td>EV/Sales</td> <td></td> <td></td> <td>2.4</td> <td>6.8</td> </tr> <tr> <td>EV/Cash Generation</td> <td></td> <td></td> <td>27.1</td> <td>-187.2</td> </tr> <tr> <td>P/BV</td> <td></td> <td></td> <td>168.4</td> <td>-161.5</td> </tr> </tbody> </table>				Financial Snapshot	FY18	FY19	FY20	8MFY21	Revenues	586	739	847	201	%growth*		26%	15%		EBIDTA	136	146	164	(23)	% margins	23.2%	19.7%	19.4%	-11.4%	Adj. PAT	7	(21)	(33)	(101)	EV/Sales			2.4	6.8	EV/Cash Generation			27.1	-187.2	P/BV			168.4	-161.5
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## Barbeque-Nation Hospitality Ltd

### Company Overview

Barbeque Nation Hospitality Ltd (BBQN) is one of India's leading casual dining restaurant chains (in terms of outlet count as of September 30, 2020). It also owns and operate Toscano Restaurants and UBQ by Barbeque Nation Restaurant.

The company has steadily grown its Restaurant network from a single restaurant in 2008 to 147 Barbeque Nation Restaurants across 77 cities in India and six International Barbeque Nation Restaurants in three countries outside India as of December 31, 2020. It owns 61.35% of the equity share capital on a fully diluted basis of one of its Subsidiaries, Red Apple, which owns and operates nine restaurants under the brand name, "Toscano", a casual dining Italian restaurant chain and operates one restaurant each under the brand names "La Terrace" and "Collage" respectively. As of December 31, 2020, BBQN operates eleven Italian Restaurants, nine of which are under the brand name "Toscano", in three cities in India. The acquisition of Red Apple has enabled it to diversify its brand, cuisine and customer segment beyond its flagship concept of 'over the table barbeque'. In November 2018, it launched UBQ by Barbeque Nation Restaurant to provide a la carte Indian cuisine in the value segment. At present, UBQ by Barbeque Nation Restaurant predominantly caters to the delivery segment.

Barbeque Nation pioneered the format of 'over the table barbeque' concept in Indian restaurants.

According to Technopak, the Chain Casual Dining market in India has been flourishing over the last few years. The Chain CDR segment represents the 2nd largest share in the chain food services market in India after QSR. In FY 2020, the size of the Chain Casual Dining market is estimated at Rs 134 billion. The segment is expected grow at a healthy CAGR of 18% to reach Rs 302 billion by FY 2025.

**Barbeque-Nation Hospitality Ltd**

**Investment Rationale**

**One of the Fastest Growing Restaurant Brand in Rapidly Growing CDR market**

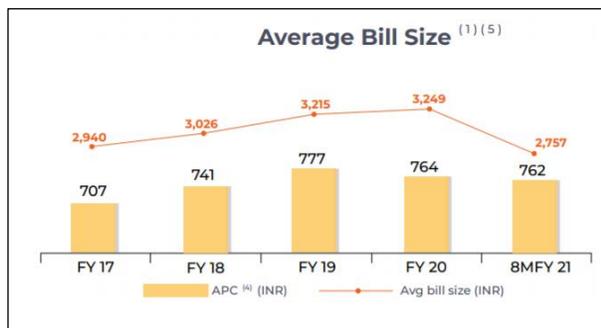
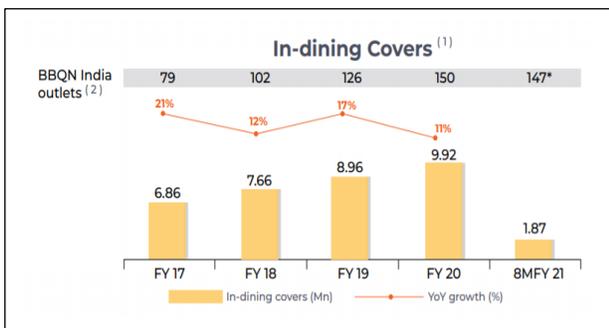
According to Technopak, Barbeque Nation falls under the chain CDR market and the chain CDR market grew at a CAGR of 19% between FY15 and FY20 and is expected to further grow at a CAGR of approximately 18% from FY20 to FY25.

The company has steadily grown its owned and operated Barbeque Nation Restaurant network from a single restaurant in 2008 to 147 Barbeque Nation Restaurants across 77 cities in India and six International Barbeque Nation Restaurants in three countries outside India as of December 31, 2020. In addition, as of December 31, 2020, it has granted franchise rights in respect of one Barbeque Nation Restaurant

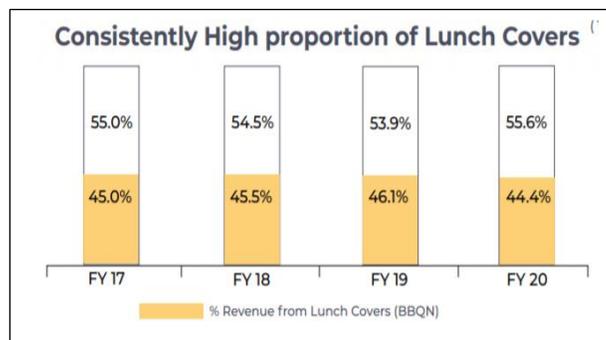
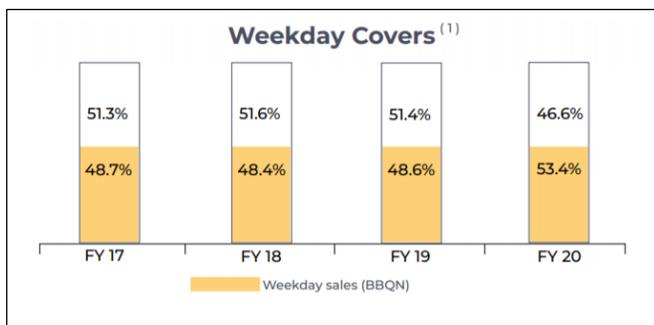
	India		International	
	Added	Total	Added	Total
FY17	13	79	1	1
FY18	23	102	1	2
FY19	24	126	3	5
FY20	21	150	2	7
9MFY21	0	147	0	6

Fixed price casual dining, given its convenience, quick service and moderate average spending, is increasingly popular amongst consumers.

The company has experienced consistent cover growth in recent years. The number of in-dining covers (customers) served at the Barbeque Nation Restaurants in India increased from 6.86 million in FY17 to 9.92 million in FY20 at a CAGR of 13.1%



According to the Technopak Report, brands like Barbeque Nation have higher proportion of the total revenues from weekday sales and lunch covers as compared to the industry average. On an average BBQN gets 48% of revenues on weekdays and 45% from lunch, implying it is a popular choice for corporate lunches during the week.



## Barbeque-Nation Hospitality Ltd

### Expansion and Diversification

#### Expansion Within India – Going Deeper

We believe that the company's strong presence in the Indian market positions it well to capitalize on the anticipated growth in consumer spending from expected increases in the level of disposable income in India. BBQN intends to increase both its revenues and profits by opening new Barbeque Nation Restaurants and new Toscano Restaurants in existing cities where it operates as well as in new cities in India and exploring additional opportunities for UBQ by Barbeque Nation. BBQN will continue to further expand the Barbeque Nation Restaurant network in Metro cities, Tier I, Tier II and Tier III cities in India.

Increasing the penetration in existing cities with a greater number of restaurants will enable it to access new catchment areas within these cities and optimize the infrastructure usage. Enhancing its reach to cover additional cities will enable it to reach out to a larger target customer base.

#### Increasing International Footprint

BBQN intends to continue to roll out restaurants in select international cities in line with its carefully defined process for new restaurant openings. It will prioritize its expansion of restaurants in those markets where it can leverage its existing infrastructure and expertise. At the same time the management has clarified that it is long term objective and no capex for international growth is earmarked from the IPO funds.

#### Diversifying into Italian

The company has diversified into the Italian food segment pursuant to its acquisition of 61.35% of the share capital of Red Apple, which operates 11 Italian Restaurants in three cities in India. It's acquisition of Red Apple has enabled it to diversify the brand, cuisine and customer segment beyond the flagship 'over the table barbeque'.

Toscano, as a brand, has demonstrated scalability in a single city, and has the potential to expand to Metro and Tier I cities. For instance, it operates eight Italian Restaurants in Bengaluru where there are 13 Barbeque Nation Restaurants

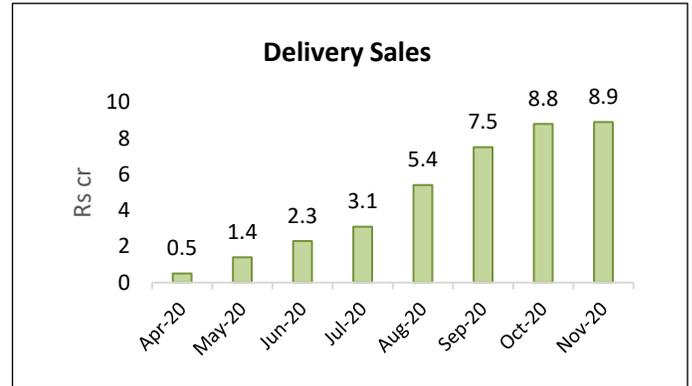
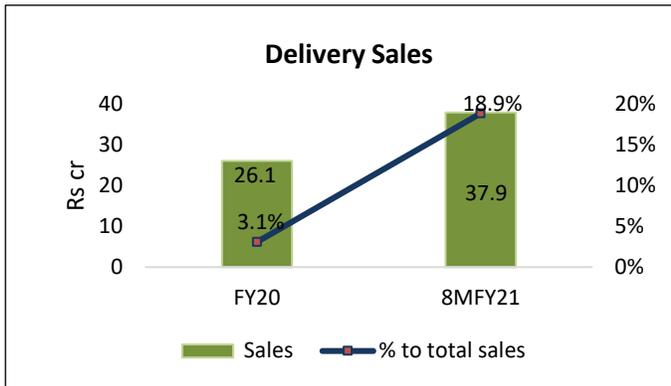
#### Diversifying Delivery Model

in FY20 delivery services have gained traction primarily in office areas or residential complexes as evidenced by their increasing market share. Due to COVID, dine in has been affected in FY21, and trend of Delivery and Takeaway has increased.

In November 2018, it launched UBQ by Barbeque Nation Restaurant to provide a la carte Indian cuisine in the value segment. At present, UBQ by Barbeque Nation Restaurant predominantly caters to the delivery segment. As of December 31, 2020, it is providing delivery in 77 cities in India of a la carte Indian cuisine under UBQ by Barbeque Nation from its existing kitchen infrastructure.

The delivery business has grown from Rs 26.1 cr in FY20 to Rs 37.9 cr during the eight months ending November 30, 2020. The management said that it will continue to focus on the delivery segment. One of its delivery products, "Barbeque-in-a-Box," that was launched in June 2020, provides a wide range of starters, main course and desserts. This is in addition to two other products, "Grills in a Box" and "Meals in Box", which are offered through delivery among other offerings. BBQN said that it will continue to work towards increasing the average daily sales of these products and these variants. On an average daily delivery sales per restaurant was Rs 5,354 in FY20.

**Barbeque-Nation Hospitality Ltd**



The company plans to continue pursuing brand diversification to capture additional market segments, take advantage of a wider range of market opportunities and ultimately increase its overall market share by enlarging the customer base. It intends to structure the brand portfolio to offer different price points and appeal to different clientele, with each brand maintaining a distinctive identity. A multi-brand strategy will allow it to (i) reduce the exposure to risks in a specific market segment, and (ii) derive cost efficiency and synergy from sharing operations or functions, leveraging industry knowledge and experience, pooling negotiating powers with landlords and suppliers, and coordinating marketing and promotion initiatives across different brands and market segments.

**Strong Backend Processes to Manage Growth**

**Guest Focus**

BBQN places a strong emphasis on customer reviews and feedback. It has a in-house department to gather feedback daily across multiple satisfaction parameters for its internal Guest Satisfaction Index (GSI). The results determined by GSI play an important role in management and staff incentive schemes.

Based on management’s several years of experience and regular customer feedback, it carefully designs and adjust its menus. It aims to inculcate a service-oriented mind-set in all its staff and train them to be attentive to customer needs.

**Back end**

The company has developed a strong back end network for sourcing and operations of the company. As of December 31, 2020, it has two commissaries, one each in Delhi NCR and Mumbai, which serve a number of nearby Barbeque Nation Restaurants by preparing dishes on a volume basis and further realising economies of scale.

Central Reservation System (CRS) is connected to its CRS agents, smartphone application, web-based app and in-restaurant POS reservation system. This synchronised system allows the company to track all reservations for Barbeque Nation Restaurants centrally, with all interconnected booking systems feeding the central cloud database. Central Feedback System (CFS) allows quick customer response from multiple media at any time of the day. It has integrated “Business Insights”, its in-house business intelligence software, which allows it to track restaurant wise data (operational and financial) for Barbeque Nation Restaurants at a granular level.

## Barbeque-Nation Hospitality Ltd

### Digital investments

Over the years, the company has invested significantly to integrate and enhance its digital footprint. As a result, it has witnessed increased reservations through its online platforms. In FY20 and the eight months ended November 30, 2020, over 46.7% and 60.8% of total reservations at Barbeque Nation Restaurants were made online. Also, as of December 31, 2020, its BBQ App had registered over 2.2 million downloads.

### Healthy Financials

BBQN has strong unit of economies. The mature restaurants (3-5 yrs post opening) gets 23-25% of EBITDA margins and has payback of period of 3 yrs. Recently introduced delivery business is working as an additional source of revenue and has similar margins.

Overall, the company has proven track record of double-digit sales growth. The company enjoys relatively high EBITDA margins at 23-24% however FY19 was impacted due to international business. On PAT level, the company reported loss for last 2 years due to change in the IND-AS which resulted into higher depreciation and higher interest. So, we believe the more accurate method is comparing Operating Cash Flows which has been positive for past 4 yrs after paying lease liabilities and interest cost. The company has around Rs 173 cr loans on the books which would be reduced from the IPO proceeds, thereby reducing the interest liability in future.

**Almost all the companies in this segment are loss making due to capital intensity requirement of the business. Hence, we believe the correct method is to look at cash flow generations.**

**On comparing EV/Cash generation, the valuations of Barbeque Nation looks attractive.**

	Westlife Development	Jubilant Foodworks	Burger King	Specialty Rest.	Barbeque Nation
CFO	200	728	113	65	181
lease liability paid	74	132	90	54	87
interest paid	15	165	5	0	17
<b>Cash generated</b>	<b>111</b>	<b>430</b>	<b>18</b>	<b>11</b>	<b>76</b>
EV/CFO	66.3	88.4	223.4	19.0	27.1

## Barbeque-Nation Hospitality Ltd

### Risks and Concerns

- Lockdown extended:** Barbeque Nation is in Dine-in business. Any extension of lockdown would impact the business of the company. Though it has started delivery business, but it is still at nascent stage.
- Promoter concerns alleviated:** There are certain promoter related concerns like pledges shares, certain promoters involve in the similar line of business, litigations against few promoters, however we believe that the company is process of addressing these concerns proactively. For example, it has signed a non-compete agreement with promoters etc. Moreover, more professionals have been inducted in the business who takes care of day-to-day operations.
- Issuance of equity shares at lower price:** The company has recently issued shares at lower price at Rs 252 than the issue price of Rs 500. Due to lockdown the company incurred losses and had negative net worth during that time. It faced liquidity crunch during the time. In order to sustain its business, the company had done a pre-IPO placement though at lower price of Rs 252 which we believe is justified as it was need of hour.

### Valuation and Recommendation

Between FY18-20, Barbeque Nation Hospitality Ltd's revenues have grown at CAGR of 20% while EBITDA grew by 10%. The company is consistently earning margins in the range of 22-24%. However, in FY19 margins dipped below 20% due to international business. In FY20 margins recovered but due to lockdown, the company clocked 19.4% margins. We believe, the company has robust engine and would be back on track soon.

	FY20 Sales	Sales CAGR FY18-20	EBITDA CAGR FY18-20	D/E	Total Asset Turns	EBITDA Margins	ROE	EV/Sales
<i>Indian cos. – FY20 figures in Rs. Cr.</i>								
Westlife Development	1548	17%	66%	0.3	2.0	13.8%	-1.3%	4.7
Jubilant Foodworks	3927	14%	41%	-0.6	3.5	22.3%	25.0%	9.7
Burger King	841	49%	258%	0.6	1.8	12.4%	-27.8%	4.8
Specialty Rest.	358	10%	766%	0.0	2.2	15.9%	-23.2%	0.6
<b>Barbeque Nation</b>	<b>847</b>	<b>20%</b>	<b>10%</b>	<b>17.2</b>	<b>3.9</b>	<b>19.4%</b>	<b>-295.4%</b>	<b>2.4</b>

With healthy balance sheet, robust revenue growth and strong cash flow generations we believe the company can be looked from long term investment perspectives. Hence, we recommend **"Subscribe for long term"**.

## Barbeque-Nation Hospitality Ltd

### FINANCIALS

P&L (Rs. Cr)	FY18	FY19	FY20	8MFY21
Net Revenue	586	739	847	201
<b>% Growth</b>	<b>18%</b>	<b>26%</b>	<b>15%</b>	<b>#DIV/0!</b>
COF&BC	198	248	292	76
<b>% of Revenues</b>	<b>33.7%</b>	<b>33.5%</b>	<b>34.5%</b>	<b>38.0%</b>
Employee Cost	126	168	198	71
<b>% of Revenues</b>	<b>21.4%</b>	<b>22.7%</b>	<b>23.3%</b>	<b>35.5%</b>
Other expenses	127	178	193	76
<b>% of Revenues</b>	<b>21.6%</b>	<b>24.0%</b>	<b>22.8%</b>	<b>38.0%</b>
<b>EBITDA</b>	<b>136</b>	<b>146</b>	<b>164</b>	<b>(23)</b>
<b>EBITDA Margin</b>	<b>23.2%</b>	<b>19.7%</b>	<b>19.4%</b>	<b>-11.4%</b>
Depreciation	70	90	134	82
Other Income	4	4	4	36
Interest	54	56	76	59
Share of PAT (Invst)				
Exceptional Item	3	(10)	16	2
<b>PBT</b>	<b>19</b>	<b>(7)</b>	<b>(25)</b>	<b>(126)</b>
Tax	12	14	8	(26)
<b>Tax rate</b>	<b>65%</b>	<b>-211%</b>	<b>-31%</b>	<b>20%</b>
<b>PAT</b>	<b>7</b>	<b>(21)</b>	<b>(33)</b>	<b>(101)</b>
<b>% Growth</b>				
<b>EPS (Post Issue)</b>	<b>1.8</b>	<b>(5.6)</b>	<b>(8.8)</b>	<b>(26.8)</b>
<b>Performance Ratios</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>8MFY21</b>
EBITDA Margin (%)	23.2%	19.7%	19.4%	-11.4%
PAT Margin (%)	1.2%	-2.9%	-3.9%	-50.1%
ROE (%)	4.7%	-16.1%	-295.4%	1299.1%
ROCE (%)	29.2%	19.3%	23.2%	-62.5%
Net D/E (x)	0.4	0.9	17.2	-14.3
<b>Turnover Ratios</b>	<b>FY16</b>	<b>FY17</b>	<b>FY20</b>	<b>8MFY21</b>
Debtors Days	3	2	1	5
Inventory Days	12	9	6	19
Creditor Days	41	37	48	192
Asset Turnover (x)	2.4	2.9	3.9	1.9
<b>Valuation Ratios</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>8MFY21</b>
Price/Earnings (x)			-57.0	-12.4
EV/EBITDA (x)			12.1	-59.2
Price/BV (x)			168.4	-161.5
Mkt cap/Sales (x)			2.2	6.2
EV/Sales (x)			2.3	6.8

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY17	FY18	FY19	FY20	8MFY21
Share Capital	14	14	14	14	14
Reserve & Surplus	93	131	118	(8)	(29)
Non Controlling Int	(0)	-	-	5	3
<b>Networth</b>	<b>106</b>	<b>145</b>	<b>132</b>	<b>11</b>	<b>(12)</b>
<b>Total Loans</b>	<b>62</b>	<b>104</b>	<b>125</b>	<b>207</b>	<b>173</b>
Lease Liability	271	351	420	482	458
Other non-curr liab.	0	0	-	67	-
Trade payable	42	67	77	113	160
Other Current Liab	39	44	51	61	115
Total provisions	10	12	15	15	14
<b>Total Current Liab.</b>	<b>90</b>	<b>123</b>	<b>142</b>	<b>189</b>	<b>289</b>
<b>Total Equity &amp; Liab.</b>	<b>529</b>	<b>723</b>	<b>819</b>	<b>955</b>	<b>909</b>
Fixed Assets & CWIP	421	543	679	751	688
Goodwill	23	23	19	72	72
Investments	3	0			
Deff Tax Assets	23	26	30	28	53
Other non Curr. assets	21	40	28	37	37
Cash	5	44	12	15	8
Inventories	16	19	19	15	16
Debtors	4	6	5	2	4
Other Current assets	12	23	26	36	31
<b>Total Assets</b>	<b>529</b>	<b>723</b>	<b>819</b>	<b>955</b>	<b>909</b>
<b>Cash Flow (Rs. Cr)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>8MFY21</b>
EBITDA	120	136	146	164	(23)
Provisions & Others	(5)	(6)	(4)	(4)	(2)
<b>Op. profit before WC</b>	<b>115</b>	<b>130</b>	<b>142</b>	<b>160</b>	<b>(25)</b>
Change in WC	2	12	(6)	29	55
Less: Tax	(9)	(14)	(14)	(8)	2
<b>CF from operations</b>	<b>108</b>	<b>128</b>	<b>122</b>	<b>181</b>	<b>32</b>
Addition to assets	(72)	(101)	(130)	(84)	(4)
(Purchase)/Sale of invst.	(19)	2	(1)	(71)	3
Div/Int Received	0	0	2	2	2
<b>CF from Investing</b>	<b>(90)</b>	<b>(99)</b>	<b>(129)</b>	<b>(153)</b>	<b>2</b>
Loans	23	41	30	88	2
Dividend Paid	(2)	(3)	(3)	(3)	-
Interest paid	(52)	(11)	(10)	(17)	(13)
Equity	4	41	30	(6)	(0)
Lease Liability		(60)	(71)	(87)	(30)
<b>CF from Financing</b>	<b>(27)</b>	<b>7</b>	<b>(25)</b>	<b>(27)</b>	<b>(41)</b>
<b>Net Change in cash</b>	<b>(9)</b>	<b>36</b>	<b>(32)</b>	<b>2</b>	<b>(7)</b>
Cash at beginning	4	8	44	12	14
Cash on acquisition	13				

## Barbeque-Nation Hospitality Ltd

**Disclosure:**

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