

Barbeque Nation Hospitality

Rating: Subscribe | Price Band: Rs498-500

March 23, 2021

IPO Note

IPO Fact Sheet

Opening Date:	March 24, 2021
Closing Date:	March 26, 2021
BRLMs:	Axis Cap, IIFL Sec, SBI Cap Markets, Ambit Capital
Issue Size:	Rs 4.53bn
Numbers of Shares:	90,57,470
Face value:	Rs 5
Bid lot:	30 Shares

Indicative Timetable

Activity	Date
Finalisation of Basis of Allotment:	Apr 01, 2021
Refunds/Unblocking ASBA Fund	Apr 05, 2021
Credit of equity shares to DP A/c	Apr 06, 2021
Trading commences	Apr 07, 2021

Issue Structure

QIB	75%
NIB	15%
Retail	10%

Issue Details

Pre-issue equity shares	3,39,42,920
Post-issue equity shares*	3,75,42,920
Post-issue Market Cap (Rs Crs)*	1,877.1
Post-issue Market Cap (Rs Crs)#	1,870.4

* Upper Band / # Lower Band

Object of the Issue

Capital expenditure for expansion and opening of new restaurants, Prepayment or repayment of all or a portion of certain outstanding borrowings, General corporate purposes

Shareholding Pattern

(%)	Pre-Issue	Post-Issue
Promoters	47.80%	37.79%
Public	52.20%	62.21%

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Listing Gains likely, operations needs to improve

We assign subscribe rating to the IPO of Barbeque Nation (listing gains), one of the fastest growing Casual Dining Restaurant chain in India. The company has several growth levers such 1) Huge scope of expansion given low penetration 2) Expansion of Delivery business which has already grown from 3% of Revenues pre covid to 15% of Revenues in Nov20. 3) Strong value proposition with niche positioning in high growth casual dining segment. Negative working capital and Rs3.3bn funding (including pre IPO) bodes well for a turnaround and steady growth with an estimated 20 restaurant addition/year.

However little scalability of international operations (6 stores) and not so impressive track record of promoter group in scaling up Sayaji Hotels (loss in 5 out of last 10 years), promoter pledge (Rs246mn), insolvency proceedings and OFS by promoters in IPO (2.03mn shares), merit caution. We believe the company is valued cheaply at 1.4x FY23 EV/Sales however the stock at ~46x FY23 EPS offers limited upside. Although we expect reasonable listing gains given IPO euphoria in the markets, the operational delivery needs to improve significantly for any serious re-rating in the long term.

Key Positives about Barbeque Nation

- Strong Presence in the Chain Casual dining market with sales CAGR of 18% to reach Rs 302bn by FY25 from Rs 134bn in FY20.
- Barbeque-in-a-Box has received strong traction and has helped scale delivery business.
- Pre IND AS margins of 23% achieved by matured stores.
- Focus on India operations with launch of 20 stores expected in FY22.
- Lower Debt burden post issue as the company will reduce its debt by Rs 750 mn in FY22 from current debt of Rs 1430mn.
- Launch of updated BBQ App and healthy growth witnessed in the redemption of loyalty program.

Key Risks to the Issue

- Promoter entities have insolvency proceedings and there is a promoter pledge of Rs270mn (Rs400mn earlier).
- BBQ's promoter entity Sayaji hotels has reported loss in 5 out of last 10 years with little growth and market cap of just Rs4bn.
- Little scalability of International business with just 6 stores in 4 countries and Sales and EBIDTA of Rs 450mn and nil during FY20.

Barbeque Nation

Barbeque Nation Hospitality Limited operates one of India's leading casual dining restaurant chains and also owns and operates Toscano Restaurants and UBQ by Barbeque Nation. The first Barbeque Nation Restaurant was launched in 2006 by SHL, one of the Promoters and Barbeque Nation has steadily grown its owned and operated 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 9MFY21.

Barbeque Nation pioneered the 'over the table barbeque' concept in Indian restaurants. In addition, the nature and quality of food offerings, ambience and service of its restaurants create a one-of-a-kind customer experience.

Barbeque Nation Restaurants, compared to other fixed price dining options, offer great customer value with a wide range of vegetarian and non-vegetarian appetizers/ main courses, a popular dessert menu, a pleasant and casual dining environment and prompt service thereby making it a popular destination for celebrations.

Offer Details

Exhibit 1: Offer Details

Offer Period	Opens On: 24 th March, 2021 Closes On: 26 th March, 2021
Issue Details	Fresh Issue of Rs1.8bn and Offer for Sale Rs2.73bn
Issue Size	Rs4.53bn
Price Band	Rs498-500
Bid Lot	30 Shares
QIB	Not more than 75% of net offer
NIB	Not less than 15% of the Net Offer
Retail	Not less than 10% of the Net Offer
BRLM	Axis Cap, IIFL Sec, SBI Cap Markets, Ambit Capital
Registrar	Link Intime
Listings	BSE & NSE

Source: Company, PL

Exhibit 2: Object of the Issue

Objects	Amount (Rs Mn)
Capital expenditure for expansion and opening of new restaurants by the Company	546.2
Prepayment or repayment of all or a portion of certain outstanding borrowings obtained by Company on a consolidated basis	750.0

Source: Company, PL

Key Attributes of Barbeque Nation

- Fastest growing Brand in the CDR market:** Barbeque Nation has steadily grown its owned and operated restaurant network from a single restaurant in 2008 to 147 restaurants (including opened, temporarily closed and under construction outlets). It has presence across 77 cities in India and six International Barbeque Nation Restaurants in three countries outside India as of 9MFY21. Barbeque Nation restaurants are located in popular business districts, neighborhoods, and local markets. Currently almost half of Barbeque Nation Restaurants are located in Metro cities.
- Steady growth in covers and consistent APC:** Barbeque Nation has been able to maintain consistent growth in covers in recent years with in-dining covers served in India increasing from 6.86 million in FY17 to 9.92 million in FY20 at a CAGR of 13.1%.

APC (excluding revenues from UBQ and taxes) for dine-in customers at Barbeque Nation Restaurants in India has grown from ₹707 in FY17 to ₹764 in FY20 at a CAGR of 2.6%. Barbeque Nation Restaurants has been able to attract groups with an average customer size between four and five customers in last three fiscals leading to a healthy average bill size of Rs 3,026/ 3,215/ 3,249/ 2,757 in FY18/FY19/FY20/ and 8MFY21.

Exhibit 3: Consistent cover growth in recent fiscals

Year/Period	Number of in dining covers		APC(In Rs)
	In Mn	YoY (%)	
FY17	6.86	21	707
FY18	7.66	12	741
FY19	8.96	17	777
FY20	9.92	11	764
Eight Months ended Nov20	1.87	NA	762

Source: Company, PL

- Constant menu innovation:** Barbeque Nation Restaurants pioneered the format of 'over the table barbeque' concept in Indian restaurants with live grills embedded in dining tables allowing customers to grill their own barbeques. BBQ Restaurants continues to offer new menu options, both vegetarian and non-vegetarian, largely based on Indian cuisine and use seasonal customer preferences to introduce new dishes. BBQ runs food festivals such as Jewels of the Sea, Barbeque Nation Festival League and Mango Mania to attract new customers and retain existing consumers.
- Strong Value Proposition:** Fixed price 'all you can eat' concept at Barbeque Nation Restaurants offers customers a varying spread of consistently delicious food at a value-oriented price in a pleasant and casual dining environment. BBQ cuisine offers value as compared to other dining options due to its DIY and cooked-at-the table nature which helps create dishes according to each diner's individual tastes and preferences. In addition, fixed price dining is very popular amongst larger groups, due to customers' perception of value for money and the comfort of certainty over the bill amount irrespective of varying individual consumption.

- **Strong business processes and back-end systems:** Barbeque Nation has developed strong processes and systems that have been established over the 14 years of Company's operation.

 - BBQ has undertaken careful selection of location by a dedicated internal team to open stores in popular business districts, neighborhoods and local markets without typically paying high street premium rentals. Rent was Rs 624.5/ 863.4/ 1,059.9/ 432.02 mn for FY18/ FY19/ FY20/ eight months ended Nov20 respectively.
 - BBQ has been able to achieve rent waiver of 40% due to stores remaining shut and due to lower sales. Going forward some portion of rent has shifted to partly revenue share model in order to diversify risk associated with fixed rental cost.
 - Barbeque Nation places a strong emphasis on customer reviews and feedback and uses two cloud-based systems, the Central Reservation System ("CRS") and the Central Feedback System ("CFS") to collect the necessary customer data. BBQ Restaurants use an in-house call center to obtain customer feedback and initiate a quick response based on the data collected.

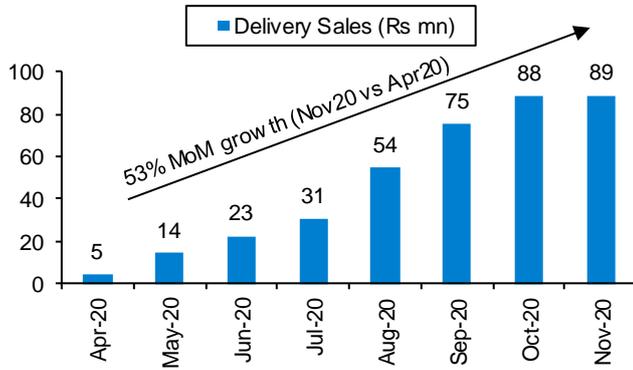
- **Continuing the fast pace of expansion:** Strong presence in the Indian market positions Barbeque Nation well to capitalize on the anticipated growth in consumer spending from expected increases in the level of disposable income in India.

 - Barbeque Nation intends to grow by opening new BBQ and Toscano Restaurants in existing cities as well as new cities in India and additional opportunities for UBQ by Barbeque Nation.
 - Increasing penetration in existing cities with a greater number of restaurants will enable Barbeque Nation to access new catchment areas within these cities and optimize its infrastructure usage.
 - Currently 70% of stores are located in metros and 30% in Tier I/II cities and the company expects to maintain the same ratio going forwards as it believes it is still underpenetrated in the metros.
 - Barbeque Nation opened 23/24/21 new restaurants in FY18/FY19/FY20 and expect to launch 2 restaurants in FY21 and 20 restaurants in FY22.
 - Focus will be primarily on expanding domestic business followed by expansion of Toscano restaurants. The company might also look for franchising opportunities for expanding international operations, although visibility on expansion remains poor.

- **Increasing focus on Delivery business:** Barbeque Nation's delivery business though UBQ by Barbeque Nation has grown from Rs 260.9 mn in FY20 to Rs 378.90 mn during the eight months ending November 30, 2020. Delivery Business has grown from 3% of Revenues pre covid to ~18% of Revenues in Nov20. Barbeque Nation continues to focus on the delivery segment and will continue to work on improving delivery revenue and has

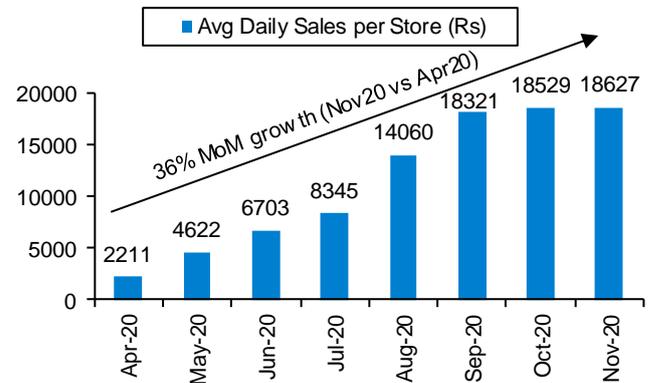
launched “Barbeque-in-a-Box,” which provides a wide range of starters, main course and desserts at a value price of Rs700-750. This is in addition to two other products, “Grills in a Box” and “Meals in our Box”, which are offered through delivery among other offerings.

Exhibit 4: Delivery Sales grew 53% MoM (Nov20 vs Apr20)



Source: Company, PL

Exhibit 5: Avg Daily Sales/ store grew to Rs 18,627 by Nov20



Source: Company, PL

- **Strengthened digital Assets:** Barbeque Nation recently updated its BBQ App. This updated BBQ App includes: (i) option to make dine-in reservations; (ii) online ordering for delivery products; and (iii) exclusive offers through digital coupons. The BBQ App also provides a payment option for dine-in customers.
 - Share from digital assets (BBQ App, our website and chat bots) as a percentage of total reservations has grown from 34.6% in the month of Feb20 to 47.5% in Dec20.
 - Barbeque Nation also introduced its Smiles Loyalty program, where currently it provides 5% of the bill value (subject to certain terms and conditions) to customers as Smiles points which can be redeemed within a defined timeline during the customer’s next dine in visit or delivery order from BBQ App or website. In the month of Feb20, only 0.8% of customer bills reflected the redemption of Smiles points but this has grown to/ 9.6% of customer bills in Dec20.

Impact of Covid-19

Barbeque Nation’s restaurants in different states and regions have been disproportionately affected by COVID-19 and the measures implemented in each state have varied due to regional and regulatory differences. As a result of COVID-19, the company had to temporarily close a number of restaurants across India commencing from March 2020 and have experienced reduced store-level operations, including reduced operating hours and restaurant closures. During the initial stage of the COVID-19 crisis, footfalls and sales in the restaurants fell significantly due to the lockdown and other measures implemented by the GoI. The footfalls and sales have since started to recover, although not yet to levels seen prior to the COVID-19 crisis.

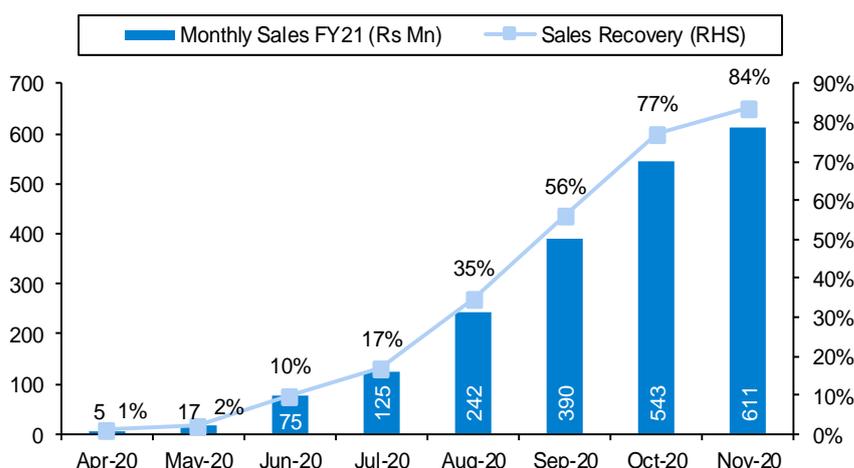
As of the date, restaurants in 77 cities across India have reopened, often with limited operations. The majority of restaurants have opened for dine-in guests; however, the capacity may be limited, based on local regulations. In addition, the COVID-19 pandemic has directly impacted the same-store sales in the restaurants. Reduction in the level of business activity due to the COVID-19 crisis has also led to write offs of food inventory and a reduction in orders with the suppliers since the inventory includes food items which are perishable in nature.

Exhibit 6: Re-opening of Restaurants during FY21

Number Of Restaurants	31-Mar	30-Apr	31-May	30-Jun	31-Jul	31-Aug	30-Sep	31-Oct	30-Nov	31-Dec
Operational	0	2	4	73	89	106	123	152	156	159
Temporarily Closed and Under Construction	167	165	162	92	75	58	41	12	8	5
Permanently Closed	0	0	1	1	1	0	0	0	0	0
Total Store Network	167	167	167	166	165	164	164	164	164	164

Source: Company, PL

Exhibit 7: Sales Recovery trend in 8MFY21



Source: Company, PL

Key Risk Factors relating to Barbeque Nation

- International business: BBQ entered international markets and currently operates 6 stores. It has closed 2 stores already. The company achieved sales and EBIDTA of Rs450mn and nil during FY20. We believe just 6 stores in 4 countries defies logic of scalability and will remain a drag on the company in the near to medium term
- BBQ has been trying to diversify into new brands. It acquired Johnny Rockets which gave a loss of Rs38mn, 106 and 137 mn before it was disposed of in 2019. It has acquired 61% stake in Red Apple which has Toscano restaurants in South India, although it was profitable till FY20 (Rs11.5 in 1H20), future trends post covid need to be watched out for.

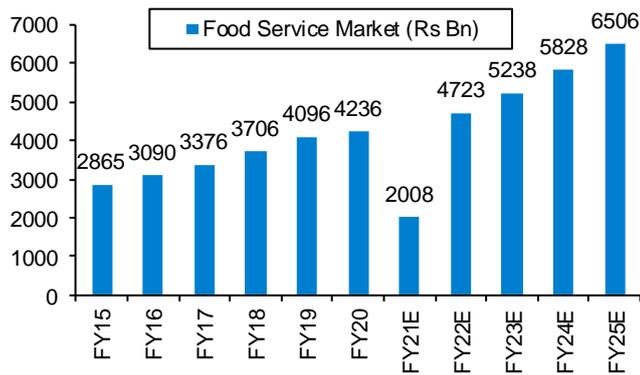
Promoter track record is not great:

- BBQ had not qualified for NSE listing eligibility in 2017
- BBQ's promoter entity Sayaji hotels has reported loss in 5 out of last 10 years with little growth and market cap of just Rs4bn.
- BBQ had a promoter pledge of Rs400mn (current loan outstanding Rs246mn) and promoter linked and promoted entities such as Sara Suole Pvt Ltd and Samar lifestyle Pvt Ltd have defaulted and have applications for initiating corporate insolvency resolution process filed against them by operational creditors.
- Promoters also received a showcause notice issued by SEBI, for failure to make a public announcement on acquisition of shares of Liberty Phosphate exceeding the prescribed thresholds. A settlement of Rs 22.1mn was accepted and paid after which SEBI disposed of its proceedings.
- Videocon Leasing and Industrial Finance Limited (Complainant) filed a complaint against, Raof Dhanani for dishonestly inducing the Complainant to part with Rs 160 mn for issuance of non-convertible, redeemable debentures of Divya Chemicals Limited, which were never issued. They subsequently filed and undertaking to repay an amount of Rs 225.57 mn to the Complainant which has yet not been paid. The matter is currently pending in the courts.

Industry Overview

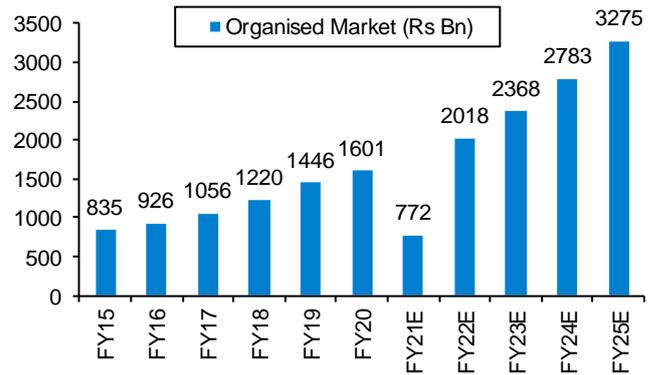
- The size of the food services market in India is estimated at Rs 4,236 bn in FY20 and is projected to grow at a CAGR of 9% over the next 5 years to reach Rs 6,506 bn by FY25. The organized market (chain and organized standalone outlets, excluding Restaurants in Hotels) is estimated at Rs 1,601 bn in FY20 and is projected to grow, at a CAGR of 15%, to reach Rs 3,275 bn by FY25 gaining a share of 50% from 38% in FY20

Exhibit 8: Food Service industry to grow CAGR of 9%



Source: Company, PL

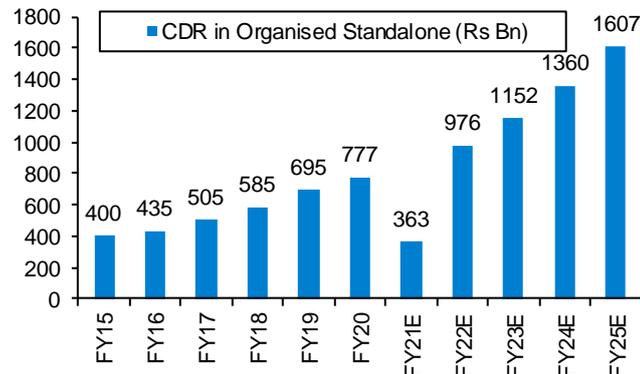
Exhibit 9: Organised Market share at 50% by FY25



Source: Company, PL

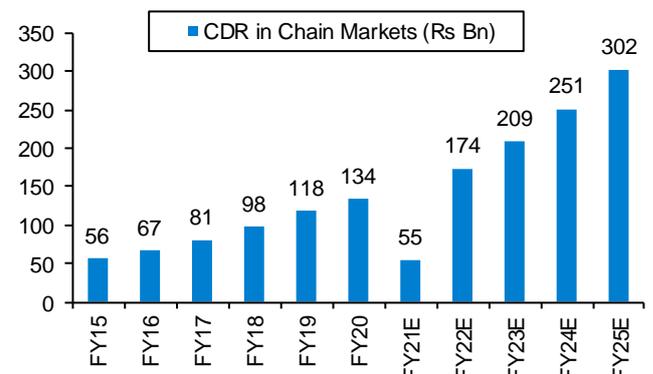
- The casual dining restaurants estimated at Rs 777 Bn in FY20 formulate around 64.5% of the organized standalone market and is expected to grow at a CAGR of 16% to reach INR 1,607 Bn (70%) in FY 2025. The chain market is expected to grow at a CAGR of 20% to reach INR 965 Bn by FY25. QSRs (47%) have the maximum market share followed by Casual Dining Restaurants (34%)

Exhibit 10: CDR in organized standalone to grow CAGR 16%



Source: Company, PL

Exhibit 11: CDR has 34% market share in Chain Market



Source: Company, PL

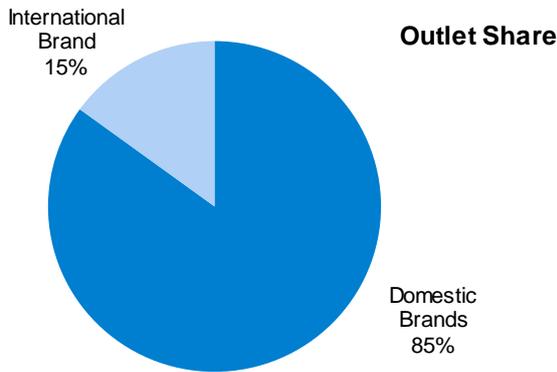
Exhibit 12: QSR and CDR dominate Chain Market format share

Chain Market Format Share	Market Share		
	FY15	FY20	FY25
Quick Service Restaurants	45%	47%	54%
Casual Dining Restaurants	32%	34%	31%
Café	10%	6%	4%
Frozen Dessert/ Ice Cream	6%	5%	4%
PBCL	5%	6%	5%
Fine Dining Restaurants	3%	2%	1%

Source: Company, PL

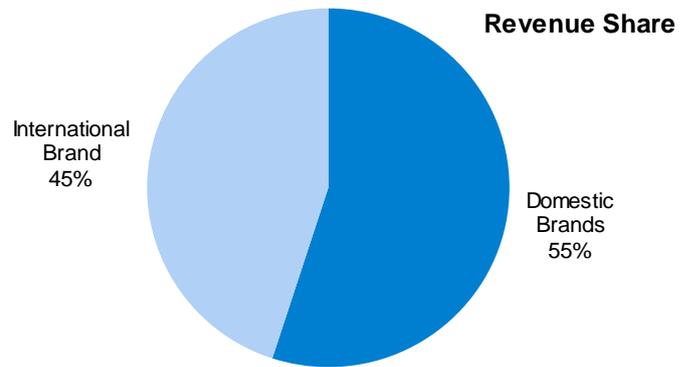
- In the Chain CDR market, Domestic CDRs dominate with around 50-55% revenue share. Home grown players like Moti Mahal Delux and Barbeque Nation dominate the Chain CDR market along with some key players like Sagar Ratna, Sigree and Mainland China.

Exhibit 13: Domestic brand share at 85% of Chain CDR



Source: Company, PL

Exhibit 14: Revenue share dominated by domestic brands



Source: Company, PL

Financials

Exhibit 15: Income Statement (Rs mn)

Y/E March	2017	2018	2019	2020	8MFY21
Net Sales	4,965	5,863	7,390	8,470	2,010
<i>Change (%)</i>		<i>18.1</i>	<i>26.0</i>	<i>14.6</i>	
Material Consumed	1,771	1,978	2,476	2,922	764
Gross Profit	3,194	3,885	4,914	5,548	1,246
<i>Gross Margin %</i>	<i>64.3</i>	<i>66.3</i>	<i>66.5</i>	<i>65.5</i>	<i>62.0</i>
Operating expenses	1,998	2,522	3,455	3,906	2,143
EBITDA	1,197	1,363	1,459	1,642	-230
<i>Change (%)</i>		<i>13.8</i>	<i>7.0</i>	<i>12.6</i>	
<i>Margin (%)</i>	<i>24.1</i>	<i>23.2</i>	<i>19.7</i>	<i>19.4</i>	<i>-11.4</i>
Depreciation	627	703	895	1,340	820
Int. and Fin. Ch.	438	536	564	756	591
Other Non-recurring Inc.	20	41	35	38	356
PBT	152	165	34	-415	-1,286
<i>Change (%)</i>		<i>8.9</i>	<i>-79.1</i>	<i>-1,303.1</i>	
<i>Margin (%)</i>	<i>3.1</i>	<i>2.8</i>	<i>0.5</i>	<i>-4.9</i>	<i>-64.0</i>
Tax	64	124	144	78	-258
Tax Rate (%)	42.3	74.9	416.8	-18.8	20.1
Adjusted PAT	88	41	-109	-493	-1,027
<i>Change (%)</i>		<i>-52.6</i>	<i>-363.5</i>	<i>351.0</i>	
<i>Margin (%)</i>	<i>1.8</i>	<i>0.7</i>	<i>-1.5</i>	<i>-5.8</i>	<i>-51.1</i>
Exceptional Item	7	-26	103	-164	-21
Loss from discontinued operations	-41	-126	-227	0	
Tax benefit / (expense) of discontinued operations	0	0	55	0	
Reported PAT	40	-58	-384	-329	-1,006

Source: Company, PL

Exhibit 16: Balance Sheet (Rs mn)

Y/E March	2017	2018	2019	2020
Property, Plant and Equipment	1,760	2,248	3,032	3,322
Right of Use Asset	2,237	2,939	3,546	4,015
Goodwill	230	230	190	723
Intangible Assets	65	62	55	67
Capital work in progress	150	185	159	109
Financial Assets				
Loans	172	212	232	289
Other	25	12	15	22
Other Non Current Assets	14	173	33	57
Assets for Current Tax	229	262	305	278
Current Assets				
Inventories	161	190	193	149
Financial Assets				
Investments	28	0	0	0
Trade receivables	41	56	49	22
Cash and cash equivalents	53	436	120	147
Other Financial Assets	1	3	10	42
Other Current Assets	123	224	252	313
Total Assets	5,288	7,232	8,191	9,554
Equity				
Equity share Capital	135	138	140	140
Other Equity	925	1,312	1,176	-81
Non Controlling Interest				52
Total Networth	1,060	1,450	1,316	112
Non Current Liabilities				
Financial Liabilities				
Borrowings	583	854	1,093	1,651
Lease liabilities	2,312	3,013	3,622	4,328
Provision	71	87	114	85
Other non-current liabilities	2	2	0	674
Current Liabilities	1,259	1,825	2,046	2,705
Financial Liabilities	1,125	1,673	1,892	2,516
Borrowings	34	185	157	415
Trade and other Payables	417	673	768	1,125
Lease liabilities	395	494	578	488
Other Financial liabilities	279	320	389	488
Short term Provisions	27	32	34	63
Other Current liabilities	65	67	80	116
Current Tax Liab	43	53	40	11
Total Equity and Liabilities	5,288	7,232	8,191	9,555

Source: Company, PL

Exhibit 17: Cash Flow (Rs mn)

Y/E March	2018	2019	2020
OP/(loss) before Tax	165	34	-415
Depreciation and Amort.	703	895	1,340
Interest Paid	536	564	756
Others	-269	-235	779
Direct Taxes Paid	-124	-144	-78
Incr in WC	267	218	380
CF from Operations	1,278	1,333	2,761
Increase in FA	-1,222	-1,607	-2,125
Change in Right of use of assets	-702	-607	-468
Purchase of Investments	28	0	0
Others	-40	-20	-57
CF from Investment Activity	-1,937	-2,234	-2,650
Issue of Shares	484	287	-7
Change in lease liabilities	701	609	706
Borrowings/(Repayments)	422	211	815
Interest paid	-536	-564	-756
Dividend paid	-33	-34	-34
Others	3	76	-809
CF from Finance. Activity	1,042	585	-84
Incr/Decr of Cash	384	-316	27
Add: Opening Balance	53	436	120
Closing Balance	436	120	147

Source: Company, PL

Exhibit 18: Key Ratios

Y/E March	2017	2018	2019	2020
Basic (INR)				
EPS	3.2	1.5	-3.9	-17.6
BV/Share	39.2	52.5	47.0	4.0
DPS	0.0	0.0	0.0	0.0
Payout %	0.0	0.0	0.0	0.0
Valuation (x)				
P/E	154.3	332.7	-128.0	-28.4
EV/Sales	2.8	2.5	2.0	1.9
EV/EBITDA	6.1	5.5	5.6	5.4
P/BV	12.7	9.5	10.6	125.5
Dividend Yield (%)	0.0	0.0	0.0	0.0
Return Ratios (%)				
RoE		3.3	-7.9	-71.7
RoCE		35.5	25.4	49.6
Working Capital Ratios				
Debtor (Days)	3	3	2	1
Inventory (Days)	33	35	28	19
Creditor (Days)	172	131	126	152
Asset Turnover (x)	0.9	0.8	0.9	0.9
Leverage Ratio				
Debt/Equity (x)	0.6	0.7	0.9	34.9

Source: Company, PL

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,829	2,740
2	Avenue Supermarts	BUY	3,296	2,968
3	Bajaj Electricals	BUY	884	768
4	Britannia Industries	BUY	4,280	3,474
5	Burger King India	BUY	221	145
6	Colgate Palmolive	Hold	1,651	1,564
7	Crompton Greaves Consumer Electricals	BUY	447	412
8	Dabur India	Accumulate	550	515
9	Emami	BUY	568	483
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Hold	1,126	1,131
12	Hindustan Unilever	BUY	2,502	2,391
13	ITC	BUY	254	226
14	Jubilant FoodWorks	Accumulate	3,261	3,114
15	Kansai Nerolac Paints	BUY	653	579
16	Marico	Accumulate	440	411
17	Nestle India	Accumulate	17,364	16,102
18	Pidilite Industries	Hold	1,739	1,670
19	Polycab India	BUY	1,247	1,278
20	Titan Company	Hold	1,601	1,563
21	Voltas	Hold	1,000	1,058
22	Westlife Development	BUY	618	496

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



ANALYST CERTIFICATION

(Indian Clients)

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