



Company Overview

Burger King brand was founded in 1954 in the United States and is owned by Burger King Corporation, a subsidiary of Restaurant Brands International Inc., which holds a portfolio of fast food brands that are recognized around the world that include the BURGER KING®, POPEYES® and TIM HORTONS® brands. It is the second largest fast food burger brand globally going by the total number of restaurants, with a global network of over 18,000 restaurants in more than 100 countries and U.S. territories as at June 30, 2019. In India, it is known as one of the fastest growing international QSR chains in India during the first five years of its operations based on number of restaurants. A key focus of its business is promoting and maintaining operational quality, a people-centric culture and effective technology systems that enables them to optimise the performance of their restaurants, enhance the customer experience which can and contribute to their growth. As at June 30, 2019, they have 202 restaurants, including seven Sub-Franchised Burger King Restaurants, across 16 states and union territories and 47 cities across India.

Objects of the issue

The issue consist of Offer for sale (INR 3.6 bn) and Fresh issue (INR 4.5 bn). Burger King proposes to utilize the net proceeds from fresh issue for:

- A) Funding roll out of new Company-owned Burger King Restaurants. (INR 3.41 bn)
- 1) Repayment or prepayment of outstanding borrowings of our Company obtained for setting up of new Company-owned Burger King Restaurants. (INR 1.64 bn)
 - 2) Capital expenditure incurred for setting up of new Company-owned Burger King Restaurants (INR 1.77bn)
- B) General corporate purposes. (INR 1.09 bn)

Investment Rationale

Vertically managed and scalable supply chain model

BKIL benefits from a vertically managed and scalable supply chain model in which it individually negotiates with and actively manages suppliers of ingredients and packaging materials. The exclusive national rights and flexibility that the master franchisee arrangement provides BKIL a significant control over the purchasing of the ingredients and packaging materials. Substantially, all ingredients used in the preparation of the food it serves in restaurants are purchased locally from known suppliers that comply with Burger King's food quality standards. It also has multiple suppliers for most of the company's key ingredients, enabling it to generate competitiveness among suppliers with the aim of obtaining the best procurement price. Company regularly reviews the company's supply contracts and negotiates individually with suppliers at each level of the company's supply chain. The company's arrangement with third-party distributors also helps it to reduce working capital requirements to a large extent. During COVID-19 crisis, BKIL has continued to manage the company's supply chain and, in certain circumstances, has negotiated payment extensions from suppliers.

Exclusive national master franchise rights in India

The company is the national master franchisee of the Burger King brand in India, with exclusive rights to develop, establish, operate and franchise Burger King branded restaurants in India. The master franchisee arrangement, which expires on December 31, 2039, provides the company with the ability to use Burger King's globally recognised brand name to grow its business in India, while leveraging the technical, marketing and operational expertise associated with the global Burger King. Its master franchisee arrangement also provides it with flexibility to tailor its menu, promotions and pricing to the Indian tastes and preferences while meeting Burger King global quality assurance standards. It also provides them with flexibility over its vertically managed and scalable supply chain, and they receive the support of BK AsiaPac through its supplier approval process in selecting each of their suppliers. The subfranchise rights also provide them with the additional flexibility to subfranchise restaurants in locations where access to direct ownership of restaurants may be restricted due to the type of location, such as in airports and certain shopping malls where one party directly owns all the outlets.

Valuation and Outlook

Burger King India Limited (BKIL) is one of the fastest-growing international Quick Service Restaurants (QSR) chains in India with 261 stores as of Sept 20 (the first store was opened in Nov 2014). On the operational front, the company's revenue grew by 2.2x over FY18-FY20 to INR 8,412mn in FY2020. Moreover, the company aims to have 370 stores by the end of Dec 2022 (700 stores by Dec 2026). On the valuation front, At the upper price band, the company is valued at 23.7x EV/EBITDA considering the diluted equity shares which looks attractive compare to its listed peers (i.e Westlife development - 37x and Jubilant Foodworks - 38.5x) based on FY20 numbers. Considering, its robust franchisee model, increasing market and strong store expansion plans would enable the company to improve its growth prospects in the upcoming years. Hence, we give a "SUBSCRIBE" rating on this issue for the medium to long-term.

Issue Details

Offer Period	Dec 02nd - 4th Dec 2020
Price Band	INR.59 to INR.60
Bid Lot	250
Listing	BSE&NSE
Issue Size (no. of shares in mn)	135
Issue Size (Rs. in bn)	8.1
Face Value	10

Issue Structure

QIB	75%
Retail	15%
HNI	10%
BRLM	Kotak Mahindra Capital, CLSA India, Edelweiss Financial, JM Financial
Registrar	Link Intime India Pvt. Ltd

Particulars Pre Issue % Post Issue %

Promoter	94.34	60.08
Public	5.70	39.92
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Revenue				
Revenue from operations	3,781	6,327	8,412	1,352
Total revenue	3,781	6,327	8,412	1,352
Expenses				
Cost of materials consumed	1,439	2,301	3,015	492
Employee benefit expenses	704	969	1,365	517
Other expenses	1,557	2,268	2,992	630
Total Operating expenses	3,700	5,538	7,372	1,640
EBITDA	81	789	1,040	(287)
Depreciation and amortization expense	640	822	1,164	621
Other income	106	114	56	164
EBIT	(453)	81	(68)	(745)
Finance costs	369	465	655	424
Exceptional Item	-	-	44	21
PBT	(823)	(384)	(766)	(1,190)
Total tax	-	-	-	-
PAT	(823)	(384)	(766)	(1,190)
Diluted EPS	(2.2)	(1.0)	(2.0)	(3.1)

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Cash Flow from operating activities	305	865	1,127	96
Cash flow from investing activities	128	(1,140)	(2,304)	(278)
Cash flow from financing activities	(484)	361	1,059	233
Net increase/(decrease) in cash and cash equivalents	(51)	87	(118)	51
Cash and cash equivalents at the beginning of the period	124	72	159	41
Cash and cash equivalents at the end of the period	72	159	41	92

Source: RHP, BP Equities Research

Balance Sheet (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Liabilities				
Share Capital	2,650	2,650	2,777	2,909
Other Equity	221	(154)	(23)	(721)
Net worth	2,871	2,496	2,754	2,188
Borrowings	-	-	1,788	1,760
Lease Liabilities	3,523	4,508	5,665	5,617
Provisions	33	52	187	197
Other non-current liabilities	7	8	8	7
Total Non Current Liabilities	3,563	4,568	7,649	7,581
Borrowings	-	1,000	197	198
Trade payables	434	609	816	1,261
Lease liabilities	177	232	312	266
Other financial liabilities	157	222	154	197
Provisions	17	24	33	37
Other current liabilities	83	53	62	42
Total Current Liabilities	869	2,140	1,574	2,001
Total liabilities	7,304	9,204	11,977	11,770
Assets				
Tangible Assets	2,402	3,475	4,742	4,591
Right of Use Assets	3,433	4,292	5,380	5,216
Capital Work in Progress	103	202	475	412
Intangible assets	88	158	245	255
Financial assets	162	214	292	297
Income tax assets (net)	6	8	10	3
Other non-current assets	19	40	33	33
Total Non current assets	6,212	8,389	11,177	10,807
Inventories	52	69	94	81
Investments	869	384	186	280
Trade Receivables	26	59	32	67
Cash and Bank Balances	75	160	280	334
Other financial assets	13	30	12	5
Other current assets	57	114	194	198
Total Current Asset	1,092	816	799	964
Net Current Assets	223	(1,324)	(775)	14
Total Assets	7,304	9,205	11,977	11,770

Source: RHP, BP Equities Research

Key Risks

- ⇒ Changes in governmental regulation or public perception with respect to healthy eating habits could adversely affect their business.
- ⇒ The company's business depends on the continued international success and reputation of the Burger King brand globally, and any negative impact on the Burger King brand may adversely affect their business
- ⇒ Increasing cost of ingredients or packaging materials and other costs could adversely affect their profitability.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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