



# DEVYANI INTERNATIONAL LIMITED

## Issue highlights

- ❑ **Devyani International Limited ("DIL")** was incorporated on December 13, 1991. DIL is the **largest franchisee of Yum Brands in India** and is among the largest chain operators of quick service restaurants ("QSR") in India on a non-exclusive basis, and operates 696 stores across 166 cities in India, as of June 30, 2021. Yum! Brands Inc. operates brands such as **KFC, Pizza Hut** and **Taco Bell** and has presence globally with more than 50,000 restaurants in over 150 countries, as of December 31, 2020. In addition, DIL is a franchisee for the **Costa Coffee** brand and stores in India.
- ❑ Company's business is broadly classified into 3 verticals that include:
  - Stores of KFC, Pizza Hut and Costa Coffee operated in India (KFC, Pizza Hut and Costa Coffee referred to as "**Core Brands**", and such business in India referred to as the "**Core Brands Business**");
  - stores operated outside India primarily comprising KFC and Pizza Hut stores operated in Nepal and Nigeria ("**International Business**"); and
  - Other operations in the F&B industry, including stores of their own brands such as Vaango and Food Street ("**Other Business**").
- ❑ DIL operated 284 KFC stores and 317 Pizza Hut stores and 44 Costa Coffee stores in India as of June 30, 2021. In their Core Brands Business, they had an extensive presence in 26 states and 3 union territories in India as of June 30, 2021.
- ❑ DIL has consistently expanding their store network over the years. Stores in their Core Brands Business grew at a CAGR of 13.58% from 469 stores as of March 31, 2019 to 645 stores as of June 30, 2021.
- ❑ Despite the on-going COVID-19 pandemic, they have continued to expand their store network and in the 6 months ended March 31, 2021, they opened 109 stores in their Core Brands Business
- ❑ DIL collaborates with Yum across various aspects of their operations for KFC and Pizza Hut for the franchisor's brand protection and management, including product innovation and development, brand strategy and technology initiatives. For Costa Coffee, they retain flexibility over their operations with respect to similar parameters and are supported by Costa in determining their menu, ingredients, suppliers and distributors.

## Brief Financial Details\*

(₹ In Cr)

	As at Mar' 31,		
	2021	2020	2019
Equity Share Capital	115.36	106.17	106.17
Reserves as stated	(1.59)	(295.27)	(176.41)
Net worth as stated	113.77	(189.10)	(70.24)
Revenue from Operations	1,134.84	1,516.39	1,310.60
Revenue Growth (%)	(25.16)%	15.70%	-
EBITDA as stated	226.93	255.48	278.96
EBITDA (%) as stated	20.00%	16.85%	21.29%
Loss Before Tax	(82.39)	(76.91)	(57.99)
Net Loss for the year~	(62.99)	(121.42)	(94.14)
NAV(₹)	1.03	(1.78)	(0.66)

Source: RHP \*Restated Consolidated, Reserve net of Capital Reserve. ~Loss from Continued and Discontinued operations.

## Issue Details

Fresh issue of Equity Shares aggregating upto ₹440 Crore and Offer for sale of 155,333,330 Equity Shares

**Issue size: ₹ 1,776 – 1,838 Cr**

**No. of shares: 206,496,120 – 204,222,218**

**Face value: ₹ 1/-**

**Employee Reservation: 550,000 Shares**

**Price band: ₹ 86 - 90**

**Bid Lot: 165 Shares** and in multiple thereof

**Post Issue Implied Market Cap:**

**₹ 10,361 – 10,823 Cr**

**GCBRLMs:** Kotak Mahindra Capital, CLSA India, Edelweiss Financial

**BRLMs:** Motilal Oswal

**Registrar:** Link Intime India Pvt. Ltd.

**Issue opens on: Wednesday, 4<sup>th</sup> Aug'2021**

**Issue closes on: Friday, 6<sup>th</sup> Aug'2021**

## Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	11-08-2021
Refunds/Unblocking ASBA Fund	12-08-2021
Credit of equity shares to DP A/c	13-08-2021
Trading commences	16-08-2021

## Issue break-up

	No. of Shares (Approx)	₹ In Cr	% of Issue
QIB	154,459,590- 152,754,165	1,328.35-1,374.79	75%
NIB	30,891,918 – 30,550,832	265.67 - 274.96	15%
Ret	20,594,612 – 20,367,221	177.11 -183.30	10%
Emp	550,000 – 550,000	4.73 -4.95	-
<b>Tot</b>	<b>206,496,120-204,222,218</b>	<b>1,775.87-1,838.01</b>	<b>100%</b>

**Listing: BSE & NSE**

## Shareholding (No. of Shares)

Pre issue	Post issue~	Post issue^
1,153,634,990	1,204,797,780	1,202,523,878

~@Lower price Band ^@ Upper Price Band

## Shareholding (%)

	Pre-Issue	Post-Issue
Promoters & Promoter Gr	75.79%	67.99%
Public	24.21%	32.01%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

## BACKGROUND

### Company and Directors

The company was originally incorporated as 'Universal Ice Creams Private Limited' on December 13, 1991 at New Delhi. The Promoters of the company are Ravi Kant Jaipuria, Varun Jaipuria, and RJ Corp. Currently, the Promoters, in aggregate, hold 874,339,464 Equity Shares in the company, representing 75.79% of the issued, subscribed and paid-up Equity Share capital of the company.

### Brief Biographies of Directors

**Ravi Kant Jaipuria** is the Non-Executive Director and Chairman of the Board of the company. He is a promoter of the company and has over 3 decades of experience in conceptualizing, executing, developing and expanding food, beverages and dairy business in South Asia and Africa.

**Varun Jaipuria** is the Non-Executive Director of the company. He is a promoter of the company and has 12 years of experience in the soft drinks industry.

**Raj Pal Gandhi** is the Non-Executive Director of the company. He has over 28 years of experience with one of the group companies (Varun Beverages Ltd) and has been instrumental in strategizing their diversification, expansion, mergers and acquisitions, capex funding and institutional relationship.

**Virag Joshi** is the Whole-time Director (President & CEO) of the company. He has been a key strategist in expansion of Pizza Hut, KFC, Costa Coffee outlets from a small base of 5 restaurants in 2002 to 600 plus outlets in last 19 years. He has been earlier associated with Indian Hotels Company Ltd, Domino's Pizza India Ltd, Milkfood Ltd, and Priya Village Roadshow Ltd. He has been a Director on the Board since November 10, 2004.

**Manish Dawar** is the Whole-time Director and Chief Financial Officer of the Company. He has wide experience in various industry domains and across various geographies in the world. He has worked in various corporate setups including Reebok India, Reckitt Benckiser, Vedanta, DEN Networks Ltd, and Vodafone India Ltd.

**Ravi Gupta, Rashmi Dhariwal, Naresh Trehan, Girish Kumar Ahuja and Pradeep Khushalchand Sardana** are the Independent Director of the company.

### Key Managerial Personnel

**Anil Dwivedi** is the company secretary and compliance officer of the company. He has been associated with the Company since February 7, 2020. He has over 15 years of experience in legal and compliance functions.

**Rajat Luthra** is the chief executive officer of the KFC business of the company. He has been associated with the company since November 7, 2011. Previously, he has been associated with Hindustan Lever Ltd, Barista Coffee Co Ltd, Celio Future Fashion Ltd, Domino's Pizza India Ltd, Essar Telecom Retail Ltd, Quality Inns India Pvt Ltd, Sterling Catering Services, and The Mobilestore Ltd.

**Amitabh Negi** is the chief executive officer of the Pizza Hut business of the company. He has been associated with the company since April 1, 2016. Previously, he has been associated with Specialty Restaurants Pvt Ltd, Dominos Pizza India Ltd, PICK 'N' EAT Ltd, Dodsal Corporation Pvt Ltd, Amalgamated Holdings Ltd, Serge Enterprise Pvt Ltd, Sbarro Restaurants (India) Ltd, and Yum Restaurants (India) Pvt Ltd.

## OBJECTS OF THE ISSUE

Objects	(₹ In Cr)
Repayment/prepayment of all or certain of the borrowings	324.00
General Corporate Purposes	[ • ]
<b>Total</b>	<b>[ • ]</b>

## OFFER DETAILS

The Offer	
Fresh Issue (₹ 440 Cr)	Upto 51,162,790~ - 48,888,889^ Equity Shares
<b>Offer for sale by:</b>	<b>Upto 155,333,330 Equity Shares</b>
RJ Corp Ltd - Promoter Selling Shareholder	Upto 90,000,000 Equity Shares
Dunearn Investments (Mauritius) Pte Ltd - Investor Selling	Upto 65,333,330 Equity Shares

(~ at lower price band and ^ upper price band)

## BUSINESS OVERVIEW

Devyani International Limited (“DIL”) is the **largest franchisee of Yum Brands in India** and is among the largest chain operators of quick service restaurants (“QSR”) in India on a non-exclusive basis, and operates 696 stores across 166 cities in India, as of June 30, 2021. Yum! Brands Inc. operates brands such as **KFC, Pizza Hut** and **Taco Bell** and has presence globally with more than 50,000 restaurants in over 150 countries, as of December 31, 2020. In addition, DIL is a franchisee for the **Costa Coffee** brand and stores in India.

Company’s business is broadly classified into 3 verticals that include:

- Stores of KFC, Pizza Hut and Costa Coffee operated in India (KFC, Pizza Hut and Costa Coffee referred to as “**Core Brands**”, and such business in India referred to as the “**Core Brands Business**”);
- stores operated outside India primarily comprising KFC and Pizza Hut stores operated in Nepal and Nigeria (“**International Business**”); and
- Other operations in the F&B industry, including stores of their own brands such as Vaango and Food Street (“**Other Business**”).

Revenue from the Core Brands Business, together with their International Business, represented 83.01%, 82.94% and 94.19% of their revenue from operations in Fiscals 2019, 2020 and 2021, respectively.

DIL began their relationship with Yum in 1997, when they commenced operations of their first Pizza Hut store in Jaipur. They have subsequently continued to expand their operations with both KFC and Pizza Hut franchises, and operated 284 KFC stores and 317 Pizza Hut stores in India as of June 30, 2021. In their Core Brands Business, they had an extensive presence in 26 states and 3 union territories in India as of June 30, 2021. In addition, they are a franchisee of the Costa Coffee brand in India, which is owned by Costa, and operated 44 Costa Coffee stores as of June 30, 2021.

DIL has consistently expand their store network over the years. Stores in their Core Brands Business grew at a CAGR of 13.58% from 469 stores as of March 31, 2019 to 605 stores as of March 31, 2021, and had 645 stores as of June 30, 2021. Despite the on-going COVID-19 pandemic, they have continued to expand their store network and in the 6 months ended March 31, 2021, they opened 109 stores in their Core Brands Business. Their defined store expansion and development process is focused on high potential locations across towns and cities, airports, high street locations, malls, food courts, hospitals, business hubs and transit areas. They ensure that their new stores are consistent in terms of look and feel across various formats that include dine-in, takeaway and delivery.

DIL collaborates with Yum across various aspects of their operations for KFC and Pizza Hut for the franchisor’s brand protection and management, including product innovation and development, brand strategy and technology initiatives. They also work closely with Yum on advertising, promotion and marketing activities. For Costa Coffee, they retain flexibility over their operations with respect to similar parameters and are supported by Costa in determining their menu, ingredients, suppliers and distributors.

Their value proposition to customers is predicated on the quality of products they offer, the brand recall of the Core Brands they operate, their sustained focus on customer satisfaction and implementation of digital measures to increase efficiency in operations. Raw materials for their operations are sourced from vendors that are pre-approved and meet international safety and quality standards. Their stores are routinely audited and accredited to ensure compliance with global standards. For example, their KFC and Pizza Hut stores are certified by Yum as part of their restaurant operations compliance check. The service and diverse menu including various value offerings across the Core Brands has led to significant brand recall for these brands.

DIL attributes their growth over the years to their employees and consider them to be among their key assets. They ensure that employees across their Core Brands Business, International Business and Other Business, undergo training to be able to provide quality customer service and ensure high standards of food safety and quality. Their employee engagement and training processes have led them to being awarded as a “*Great Workplace*” in 2018 and as one of “*India’s 100 Best Workplaces for Women 2020*” in 2020 by the Great Place to Work Institute, India.

Their committed senior management team and the experience of their Promoters have also led the growth of their operations. Their corporate Promoter, RJ Corp, is a diversified conglomerate that is focused on F&B sectors. The individual Promoter, Ravi Kant Jaipuria, also has significant experience in the F&B sector and has been instrumental

in the growth of their company. The Whole-time Director (President & CEO), Virag Joshi has been a key strategist in expansion of Pizza Hut, KFC and Costa Coffee stores.

The key performance indicators for the Core Brands Business in India for the periods indicated:

Particulars	As of / for the year ended March 31,		
	2021	2020	2019
	(₹ crore except percentages and number of stores)		
<b>Same Store Sales Growth ("SSSG")</b>			
- KFC	(33.69)%	3.15%	4.65%
- Pizza Hut	(30.25)%	(3.68)%	4.67%
- Costa Coffee	(61.64)%	(4.38)%	2.72%
<b>Stores</b>			
- KFC	264	172	134
- Pizza Hut	297	269	268
- Costa Coffee	44	63	67
<b>Total Stores – Core Brands Business</b>	<b>605</b>	<b>504</b>	<b>469</b>
<b>Revenue from operations</b>			
- KFC	644.26	609.13	464.11
- Pizza Hut	287.91	417.43	423.29
- Costa Coffee	21.40	81.96	90.20
<b>Total Revenue from Operations – Core Brands Business</b>	<b>953.57</b>	<b>1,108.52</b>	<b>977.61</b>
<b>Gross Margin</b>			
- KFC	436.02	394.97	306.43
- Pizza Hut	213.45	312.56	313.14
- Costa Coffee	16.80	63.40	69.36
<b>Total Gross Margin – Core Brands Business</b>	<b>666.27</b>	<b>770.92</b>	<b>688.93</b>
<b>Gross Margin (%)</b>			
- KFC	67.68%	64.84%	66.02%
- Pizza Hut	74.14%	74.88%	73.98%
- Costa Coffee	78.51%	77.35%	76.89%
<b>Total Gross Margin (%) – Core Brands Business</b>	<b>69.87%</b>	<b>69.55%</b>	<b>70.47%</b>
<b>Brand Contribution</b>			
- KFC	118.17	97.27	85.37
- Pizza Hut	37.24	43.90	65.55
- Costa Coffee	3.32	17.41	18.17
<b>Total Brand Contribution – Core Brands Business</b>	<b>158.74</b>	<b>158.57</b>	<b>169.09</b>
<b>Brand Contribution –Margin (%)</b>			
- KFC	18.34%	15.97%	18.39%
- Pizza Hut	12.94%	10.52%	15.49%
- Costa Coffee	15.52%	21.24%	20.15%
<b>Total Brand Contribution Margin - Core Brands Business</b>	<b>16.65%</b>	<b>14.30%</b>	<b>17.30%</b>

As of March 31, 2021, DIL had an employee base of 9,356 employees, of which 8,833 employees were in India, and 523 were outside India. Out of 8,833 employees in India, 1,506 employees were engaged on a full-time basis, while 7,327 were engaged on a part-time basis.

## BUSINESS IMPACT – COVID 19

Following the onset of COVID-19, DIL has increased their focus on safety by introduction of contactless delivery and takeaway, ensuring greater cleanliness of their stores, additional safety measures such as frequent sanitization and temperature checks. Among measures they adopted to counter the effects of COVID-19 include re-developing their menus to focus on delivery and takeaway options.

Besides the pandemic, increasing internet and mobile penetration within India and the advent of food delivery apps are key factors to lead consumers away from traditional dine-in experiences and towards convenience-driven options. **DIL is among the single largest QSR companies in India that is listed on the Swiggy platform, and among the largest QSR companies in India listed on the Zomato platform in the calendar years 2019 and 2020.** The

prevalence of home delivery in the Indian QSR industry is expected to continue to grow due to changing lifestyles and changing consumer eating patterns in the post-COVID atmosphere. DIL intends to grow their store network to be focused on delivery and takeaway formats while ensuring safety and convenience for customers who prefer to dine-in. They intend to continue to focus on enhancing their operations with the increased adoption of digital and technology measures including implementing artificial intelligence and machine learning measures to ensure greater customer satisfaction.

In response to the COVID-19 pandemic, KFC and Pizza Hut were among the earliest brands in India to roll out contactless delivery in May 2020 and June 2020, respectively. In May 2020, KFC introduced contactless takeaways from its restaurants. Consumers have been able to place an order that is prepaid on the KFC application, mSite, and website and collect the order. In June 2020, Pizza Hut adopted contactless dine-ins in its stores.

## COMPANY OPERATIONS

DIL broadly divide their business into the 3 verticals:

Business Verticals	Business Details	No. of Stores as on	
		June 30, 2021	March 31, 2021
<b>Core Brands Business</b>	Stores operated in India comprising KFC, Pizza Hut and Costa Coffee	645	605
<b>International Business</b>	Stores operated outside India, primarily comprising KFC stores and Pizza Hut stores	39	37
<b>Other Business</b>	Other operations in the F&B industry, including stores of other brands such as Vaango and Food Street	51	50
<b>Total</b>		<b>735</b>	<b>692</b>

The breakdown of the revenue from operations by business vertical:

Business Verticals	Year Ended March 31,					
	2021		2020		2019	
	Revenue (₹ in Cr)	% to Total	Revenue (₹ in Cr)	% to Total	Revenue (₹ in Cr)	% to Total
<b>Core Brands Business</b>	<b>953.57</b>	<b>84.02%</b>	<b>1,108.52</b>	<b>73.10%</b>	<b>977.61</b>	<b>74.59%</b>
- KFC	644.26	56.77%	609.13	40.17%	464.11	35.41%
- Pizza Hut	287.91	25.37%	417.43	27.53%	423.29	32.30%
- Costa Coffee	21.40	1.88%	81.96	5.41%	90.20	6.88%
<b>International Business</b>	<b>115.36</b>	<b>10.17%</b>	<b>149.11</b>	<b>9.83%</b>	<b>110.37</b>	<b>8.42%</b>
- Nigeria	93.23		113.15		76.36	
- Nepal	22.13		35.95		34.01	
<b>Other Business</b>	<b>59.87</b>	<b>5.28%</b>	<b>253.54</b>	<b>16.72%</b>	<b>217.76</b>	<b>16.62%</b>
<b>Other operating revenue</b>	<b>6.04</b>	<b>0.53%</b>	<b>5.21</b>	<b>0.34%</b>	<b>4.87</b>	<b>0.37%</b>
<b>Total for Revenue from operations</b>	<b>1,134.84</b>	<b>100.00%</b>	<b>1,516.39</b>	<b>100.00%</b>	<b>1,310.60</b>	<b>100.00%</b>

### Core Brands Business

As of March 31, 2021, DIL operated 605 stores of their Core Brands in India, comprising 264 KFC stores, 297 Pizza Hut stores and 44 Costa Coffee stores. As of June 30, 2021, DIL operated 645 stores of their Core Brands in India, comprising 284 KFC stores, 317 Pizza Hut stores and 44 Costa Coffee stores. They operate KFC and Pizza Hut stores based on various technology license agreements that they entered into with Yum, and trademark license agreements that they entered into with Kentucky Fried Chicken International Holdings LLC and Pizza Hut International LLC. They operate Costa Coffee stores based on the development agreement entered into with Costa.

DIL has a strong 25 year long relationship with Yum, and Yum holds strategic equity in the company. Yum! Brands Inc. through its affiliates, also has a minor equity stake in its other franchisee of KFC and Pizza Hut stores, located in Brazil.

Their growth across the Core Brands has been facilitated by a well-defined new-store roll out process that enables them to identify locations and build their stores quickly, consistently and efficiently. Despite the on-going COVID-19 pandemic, DIL has continued to expand their store network and in the 6 months ended March 31, 2021, they opened 109 stores in their Core Brands Business.

## NETWORK OF STORES

### Core Brands Business

With over 20 years of operations, DIL has developed extensive operational experience in the Indian market. As of June 30, 2021, they operated 645 stores of their Core Brands Business across 166 cities in India.

The total number of stores in the Core Brands Business in the periods indicated:

	Fiscal 2021	Fiscal 2020	Fiscal 2019
<b>Core Brands Business Total</b>	<b>605</b>	<b>504</b>	<b>469</b>
- KFC	264	172	134
- Pizza Hut	297	269	268
- Costa Coffee	44	63	67

### KFC India

Company's first KFC store in India opened in 2005 at Kolkata. As of June 30, 2021, they operated 284 KFC stores located in 21 states and 2 union territories, across 107 cities in India. They mainly operate 2 formats of their KFC stores, namely, a larger format with full service dining in capacities, and small-store formats to cater to delivery/take-away orders with limited seating for customers/riders waiting to pick-up orders.

The illustrative representation of the presence of their KFC stores across states in India as of March 31, 2021:



In the cities in India that DIL currently operate KFC stores, they are the only franchisee of Yum to operate KFC stores, with the exception of captive markets (i.e. airports, railway stations) within the cities.

They operate their KFC stores pursuant to technology license agreements entered into with Yum ("KFC TLA"), and trademark license agreements entered into with KFC International ("KFC TMA"). As the largest franchise partner for Yum in India, they are actively involved in various decision-making processes on key branding aspects such as marketing campaigns, brand placement and customer acquisition and retention strategies.

### Pizza Hut India

Company's first Pizza Hut store in India opened in 1997 at Jaipur. As of June 30, 2021, they operated 317 Pizza Hut stores located in 20 states and 3 union territories, across 106 cities in India. DIL mainly operates 2 formats of their Pizza Hut stores, namely, a larger format with full service dining-in capacities, and small store formats to cater to delivery/take-away orders with limited seating for customers/riders waiting to pick-up orders.

The presence of the Pizza Hut stores across states in India as of March 31, 2021:



DIL operates their Pizza Hut stores pursuant to technology license agreements entered into with Yum (“PH TLA”), and trademark license agreements entered into with Pizza Hut International LLC (“PH TMA”), that are typically valid for a period of 10 years with a one-time option to renew for a subsequent period of 10 years.

**Costa Coffee**

Company’s first Costa Coffee store in India opened in 2005 at Delhi. As of June 30, 2021, DIL operated 44 Costa Coffee stores located in 8 states and 1 union territory, across 17 cities in India. They currently operate 2 formats of Costa Coffee stores, namely, the full retail stores at high-street locations and malls, and branded kiosks at airports, hospitals and food courts at highways.

The illustrative representation of the presence of the Costa Coffee stores across states in India as of March 31, 2021:



DIL operates their Costa Coffee stores pursuant to an international development agreement entered into with Costa International Ltd (“Costa”) dated September 28, 2004 (the “Development Agreement”), amended subsequently by a deed of variation dated January 28, 2010 (the “Deed of Variation”) together with side letters and variation letters issued by Costa from time to time (together with the Development Agreement, the “Costa IDA”). Under Costa IDA, DIL has required to procure products for their Costa Coffee stores either from Costa or suppliers nominated/ approved by Costa.

Details of the number of stores opened in India by DIL during the periods indicated:

Fiscal Year	KFC Stores	Pizza Hut Stores	Costa Coffee
2021	50	57	4
2020	31	15	4
2019	25	35	12

The key financial and operational information:

Brand Period	KFC India			Pizza Hut India			Costa Coffee		
	FY2021	FY2020	FY2019	2021	2020	2019	2021	2020	2019
Stores	264	172	134	297	269	268	44	63	67
Cities	97	76	57	100	82	83	17	18	16
SSSG	(33.69)%	3.15%	4.65%	(30.25)%	(3.68)%	4.67%	(61.64)%	(4.38)%	2.72%
Revenue from Operations (₹ Cr)	644.26	609.13	464.11	287.91	417.43	423.29	21.40	81.96	90.20
Average Daily Sales per store (₹)	100,270	116,740	113,851	34,900	43,918	44,679	18,510	37,414	37,458
Average Daily Transactions per store	197	286	284	66	94	94	58	117	123
Average Transaction Size (₹)	508	409	401	530	467	476	320	319	304
Brand Contribution-Store Level (₹ Cr)	118.17	97.27	85.37	65.55	43.90	37.24	3.32	17.41	18.17
Brand Contribution -Store Level Margin (%)	18.34%	15.97%	18.39%	12.94%	10.52%	15.49%	15.52%	21.24%	20.15%

### Other Business

In addition to their Core Brands Business and International Business, DIL operates stores of other brands such as **Vaango, The Food Street, Ile Bar, AMRELI, Ckrushh Juice Bar**, among others. They typically operate these in the form of outlets within larger food courts in malls and airports.

#### Vaango

DIL launched its own brand 'Vaango', a south Indian QSR chain in 2011 at Noida. As of June 30, 2021, they operated 27 Vaango outlets located in 8 states and 1 union territory, across 15 cities in India. In Fiscal 2019, 2020 and 2021, they opened 12, 11 and 2 new Vaango outlets in India. The Vaango outlets are generally located in food courts in malls and shopping complexes.

DIL places emphasis on ensuring that they procure high-quality raw materials and equipment, enabling them to provide quality products in an attractive environment in a timely fashion to their customers.

#### Others

DIL also operates food courts, restaurants and bars for brands such as 'The Food Street', 'Ckrushh', 'Ile Bar', among others. They operate these outlets across food courts at airports, malls, highways, and hospitals.

## COMPETITIVE STRENGTHS

- **Portfolio of highly recognized global brands catering to a range of customer preferences**

DIL operates franchises of several highly recognized global QSR brands and is the largest franchise partner for Yum in India. Their Core Brands include:

- **KFC**, a global chicken restaurant brand with over 25,000 restaurants in over 140 countries, as of December 31, 2020;
- **Pizza Hut**, the largest restaurant chain in the world specializing in the sale of ready-to-eat pizza products. Pizza Hut operates in the delivery, carryout and casual dining segments around the world with 17,639 restaurants, as of December 31, 2020;
- **Costa Coffee**, a global coffee shop chain with over 3,400 coffee shops in 31 countries.

Their Core Brands Business as well as their Other Business offers a range of full and limited-service dining experiences not only in terms of cuisine, that includes a variety of offerings such as burgers, pizza, south-Indian food and street food, but also in terms of the format of offerings including dine-in, cafés, take-away, delivery, and drive-thrus. They serve a wide range of customers across various price points.

For KFC they have worked with Yum to introduce innovative product offerings as well as a distinct value proposition, including 'KFC Happy New Wednesdays', '4 Value Burgers starting at ₹ 69', 'Chicken Buckets starting at ₹ 199', 'Zinger Tandoori Burger', 'Chicken Lollipops' and 'KFC Chizza'. The Pizza Hut customers span all age groups and include children, young adults and families. For Costa Coffee, they offer various service formats including stores and kiosks.

The longevity and global recognition of the Core Brands and related quality and value offerings resonate with customers. The close association with Yum and Costa and company's on-going investment in training, operations

and marketing efforts in conjunction with them, has resulted in the Core Brands to further consolidate their leadership position in the QSR industry in India.

- **Multi-dimensional comprehensive QSR player**

DIL is a multi-dimensional comprehensive QSR player. The parameters on which they focus include quality and safety, customer experience, digital adoption, delivery and their people and culture.

**Quality and Safety:** Food quality and safety is an integral part of their operations and is accorded the highest priority levels. All their supplies and raw materials for the KFC and Pizza Hut stores are procured from reputed and pre-approved suppliers who adhere to international safety norms. In addition, store operation and compliance audits are routinely undertaken by them or by a third party on their stores to ensure compliance with cleanliness, hospitality, accuracy, maintenance, product quality and service.

**Customer Experience:** Company's communication practices are aligned with consumer needs and preferences and are targeted at boosting overall customer experience across all their stores. For customers that prefer to order or adopt an 'on-the-go' approach, they ensure that their ordering and delivery experience is seamless and efficient.

**Digital Adoption:** DIL has actively adopted tech-enabled enhancements to provide their customers with a personalized and enriched dining experience and to increase their operational efficiency. During the COVID-19 pandemic at KFC stores consumers began accessing menus using QR codes, along with making payments digitally. This has allowed them to optimize staffing at their stores and reduce associated costs for ordering and cash management. They are also focused on applying latest technologies to supply chain management and operations.

**Delivery:** DIL has optimized their delivery services by creating synergies between their stores and delivery services, leveraging their extensive store network to improve operating efficiencies and increase margins. In order to reduce risk of disease transmission while ensuring increase in delivery sales, they have introduced 'kerb-side delivery' where they deliver customers' orders directly to where they are parked within designated regions near their stores.

**Culture and People:** Company's employees are one of their greatest assets and they are trained as per modules provided by the Core Brands or otherwise and undergo various certification processes to improve efficiency and quality of customer service. The company operates stores that are managed only by women and especially abled persons and their riders and delivery personnel include women riders. Their diversity driven measures have led them to be awarded as one of "India's 100 Best Workplaces for Women 2020" and as a "Great Workplace" in 2018, by the Great Place to Work Institute, India.

- **Presence across key consumption markets with a cluster-based approach**

The company operates 696 stores across all brands and were present in 26 states and 3 union territories across 166 cities in India, as of June 30, 2021. They have a strong presence in key metro regions of Delhi NCR (comprising Faridabad, Ghaziabad, Gurgaon, Delhi and Noida), Bengaluru, Kolkata, Mumbai and Hyderabad.

DIL has established a standardized and scalable development model for their stores based on their know-how and experience that has led to faster and more cost-effective roll outs. Their expansion model is supported by streamlined store network planning, a robust supply chain network and an efficient staff recruitment and development program. With the cluster-based expansion approach, they have been able to address demand in high-potential domestic markets. The other factors they consider as part of their cluster based approach includes retail presence at a particular location and the brand recognition and recall value of their Core Brands. In assessing the expansion of their store network, they target an optimal mix across different formats, including dine-in, delivery, take-away and drive-thrus.

- **Cross brand synergies with operating leverage**

DIL has expanded their operations in the last few years and has opened 72, 50 and 111 stores under their Core Brands Business in Fiscals 2019, 2020 and 2021, respectively. In addition, they acquired 13, 9 and 51 KFC stores from Yum in Fiscals 2019, 2020 and 2021, respectively. They have been able to leverage substantial operating synergies across the brands they operate. They have streamlined business processes from conceptualization of their stores to execution of daily operations.

- **Disciplined financial approach with focus on cash flows and returns**

Company's SSSG has been impacted on account of COVID-19; they have focused on improving the trend. As part of their commitment to cost containment, they undertake a ROI analysis prior to opening a store to determine the financial feasibility of the store. Their margin profile is supported by the strong Brand Contribution Margins of the

Core Brands Business. The net cash generated from operating activities was ₹ 239.56 crore in Fiscal 2021, indicating support for their continued growth.

- ***Distinguished Board and experienced senior management team***

The Company Board comprises individuals from various fields of finance and business with varied and diverse experience. Ravi Kant Jaipuria, one of the Promoters and Non-Executive Director on the Board, has over 3 decades of experience in conceptualizing, executing, developing and expanding food, beverages and dairy business in South Asia and Africa. The experience of their Independent Directors helps ensure transparency and accountability in their operations across diverse functional aspects and their inputs enhance quality of the operations.

Company's operations are conducted by a well-qualified and experienced management team that has significant experience in all aspects of their business. Each brand, whether owned or otherwise, that they operate has a dedicated team responsible for developing and delivering a superior brand experience. Their management team is led by the Whole-time Director (President & CEO), Virag Joshi, who has been a key strategist in expansion of Pizza Hut, KFC, Costa Coffee stores. The management team have extensive experience in various sectors including FMCG, F&B and hospitality. The strength and quality of their management team and their understanding of the F&B industry enables them to identify and take advantage of strategic market opportunities.

## **LONG TERM GROWTH STRATEGIES**

- ***Strategically expand store network of the Core Brands Business***

In 2021, QSRs are expected to witness a better recovery compared to other channels, owing to their better suitability for takeaways. Investments of operators in expansion and technology will also drive the growth. They intend to increase their store network by implementing the defined new-store roll out process and their cluster approach and penetration strategy with respect to store location, while aiming to achieve an optimal mix across their different types of restaurant formats in order to drive footfalls and compete effectively.

- *KFC and Pizza Hut*

Company's focus will continue to remain on increasing sales across the KFC and Pizza Hut brands by opening additional stores. There are significant opportunities to expand within India, and DIL intends to focus their efforts on increasing their geographic footprint in both existing and new cities to capitalize on the growing market opportunity in India for QSR restaurants.

- *Costa Coffee*

The coffee and tea channel is expected to grow at a CAGR of 15% between 2020 and 2025, primarily due to rising average transaction prices and transaction numbers. Future growth in this segment is attributed to rising demand from the young population, rapid urbanization, business culture, and western lifestyle. Subject to entering into a definitive agreement with Costa International Limited, they intend to develop stores across multi-business formats and explore new store formats.

- ***Continue to improve unit-level performance***

The growth of their stores will allow them to apportion fixed overheads costs such as brand building and administrative expenses across their store network which will improve their Brand Contribution Margins. In parallel, they have been able to rationalize certain stores that were loss-making to improve their overall store level profitability. Store rationalization will also help improve their margins going forward. The large store network coupled with the supply chain infrastructure will allow them to improve their gross margins. They also intend to switch from frozen supplies to chilled supplies which will reduce transportation and storage costs.

- ***Focus on delivery channel for Core Brands***

Given the COVID-19 pandemic, DIL anticipates considerable growth in the delivery business. Revenue generated from delivery sales represented 51.15% of the revenue from operations in their Core Brands Business in Fiscal 2020 and increased to 70.20% of the revenue from operations in their Core Brands Business in Fiscal 2021. DIL intends to continue to create synergies between stores of their Core Brands and the delivery services by taking advantage of their extensive store network to improve efficiency and increase margins. To facilitate their strategy, DIL intends to open additional stores for Pizza Hut and KFC that will be primarily focused on delivery. Their focus going forward will be to have limited dine-in capacity at their delivery focused stores. They intend to work with third-party delivery

aggregators to increase the number of dedicated riders for KFC and Pizza Hut to allow for greater control over delivery quality and improve their ability to make timely deliveries.

- **Invest in technology and focus on the digital capabilities**

DIL will continue to invest in technology to maintain their competitive advantage. They will focus on improving their overall technology infrastructure including digital and delivery capabilities. These efforts will further support their sustainable growth, improve their operational efficiency and ensure quality. Going forward, they will continue to leverage their digital ecosystem to drive sales, improve the guest experience and increase operational efficiency. DIL plans to increase their investment in end-to-end digitalization, automation, artificial intelligence and machine learning, to connect online traffic with their offline assets effectively.

## COMPETITION

DIL competes within the food service industry and the QSR sector not only for customers, but also for personnel and suitable sites for their restaurants. Their competitors include international QSR chains operating in India, such as **McDonalds, Domino's Pizza, Subway, Starbucks, and Burger King**, as well as local restaurants in the QSR segment such as **Café Coffee Day** and **Chai Point**. They generally compete on the basis of product and service quality and price, location.

## COMPARISON WITH LISTED INDUSTRY PEERS (AS ON 31<sup>ST</sup> MARCH 2021)

Name of the Company	Consolidated/ Standalone	Face Value	Total Income (₹ Cr)	EPS (Basic)	NAV <sup>^</sup>	P/E <sup>~</sup>	RoNW (%)
Devyani International Ltd	Consolidated	1	1,198.90	(0.50)	1.03	[ • ]	(48.52)%
<b>Peer Group</b>							
Jubilant FoodWorks Ltd	Consolidated	10	3,384.95	17.55	108.12	179.21	16.16%
Westlife Development Ltd	Consolidated	2	1,030.33	(6.38)	30.89	NA	(20.66)%
Burger King India Ltd	Consolidated	10	522.93	(5.47)	17.59	NA	(25.82)%

Source: RHP; P/E Ratio has been computed based on the closing market price of the equity shares (Source: NSE) on July 16, 2021

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