

Details of the Issue

Price Band	₹ 59 - ₹ 60
Issue Size	₹ 810 Cr
Opening Date	Dec 2, 2020
Closing Date	Dec 4, 2020
Face Value	₹10
Bid Lot	250
Listing on	BSE, NSE

Objects of the Issue

To finance the roll out of new company owned restaurants
General corporate purposes

Lead Managers

CLSA India Private Limited
Edelweiss Financial Services Ltd
JM Financial Consultants Private Limited
Kotak Mahindra Capital Company Limited

Registrar

Link Intime India Private Ltd

Offer

Fresh Issue	₹ 450 Cr
OFS *	₹ 360 Cr

*QSR Asia is the selling shareholder. Pre Issue shareholding is 99.39%, which will come down to 65%.

Investment Details

No. of shares at cut-off	3,250
Max. Amount to be paid (₹)	₹ 1,95,000

Minimum Bid

Quantity	250
Amount	₹ 15,000

Company Background

Burger King India is one of the fastest growing international QSR chains in India during the first five years of their operations based on number of restaurants. (Source: Technopak). The company has a master franchise agreement with BK AsiaPac that provides it with the ability to use Burger King's globally recognised brand name to grow business in India, while leveraging the technical, marketing and operational expertise associated with the global Burger King brand.

BKI had 261 restaurants, including eight sub-franchised restaurants, across 17 states and union territories and 57 cities across India as at September 30, 2020.

According to the Master Franchise and Development Agreement with BK AsiaPac, the Company is obligated to develop and open at least **700 restaurants** (whether Company-owned or sub-franchised) by **December 31, 2026**, provided that at all times the Company-owned Burger King Restaurants will represent 60% of the total number of restaurants open.

Promoter - QSR Asia Pte. Ltd who will have a **post issue shareholding of 65%**.

Strengths & Strategies**Exclusive national master franchise rights in India**

The BURGER KING® brand is the second largest fast food burger brand globally as measured 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. This exclusivity is until 2039 and includes a 5% royalty on sales as part of the agreement.

Strong value proposition and brand recall for millennials

In addition to the "2 for" promotions, BKI has also created a wide entry level menu across burgers, wraps, sides and drinks that is available for under ₹100.

Scalable supply chain model

BKI purchases ingredients and packaging materials through a single third-party distributor which in turn procures from our approved suppliers. This arrangement gives them access to the third-party distributor's multiple warehousing space and extensive logistics network across the country, which provides them with reach to support the cluster approach and penetration strategy in a cost effective manner and helps to lower costs and achieve further economies of scale through operational leverage.

The ingredients and materials are held as inventory in the books of the third party, until required by BKI.

Restaurant Network Expansion

By maintaining the pace of growth of the restaurant network, BKI will be able to achieve further economies of scale through operational leverage and drive further cost efficiencies to expand margins and drive profitability in restaurants, such as by leveraging our vertically managed and scalable shared supply chain infrastructure, increasing bargaining power with suppliers and spreading corporate-level costs across a larger number of restaurants.

The management plans to have approximately 325 restaurants, including Sub-Franchised Burger King Restaurants, open by December 31, 2020.

Leverage Technology

The company has focused on building and scaling its application delivery architecture and with third party aggregators in the past few months. With value offerings, the company plans to invest more in technology and improve delivery systems.

Source: RHP, GEPL Capital Research

COVID - 19 Update

The COVID-19 pandemic has directly impacted our same-store sales in BKI's restaurants and the revenue from sale of food and beverages. Although same-store sales grew at 29.21% in Fiscal 2019 and 6.11% in the nine months ended December 31, 2019, the same-store sales decreased by 0.30% in Fiscal 2020 and by 56.9% in the six months ended September 30, 2020 primarily due to the impact of the COVID-19 crisis.

The revenue from sale of food and beverages decreased in the six months ended September 30, 2020 to ₹1,346.93 million compared to ₹4,193.70 million in the six months ended September 30, 2019.

The management expects the negative effects to continue into the third and fourth quarters of Fiscal 2021.

The company has certain **outstanding amounts due** and payable under the Master Franchise and Development Agreement with respect to royalty payments, franchise fees, travel expenses and subscriptions fees in respect of certain periods in 2020. BKI has entered into a letter agreement dated November 18, 2020 with BK AsiaPac with respect to these overdue fees and expenses as a one-time accommodation, pursuant to which it is required to pay the aggregate amount of **US\$1,455,535** to BK AsiaPac in three instalments in the fourth quarter of Fiscal 2021.

Valuation & Recommendation

The company plans to use roughly ₹270 cr of the offer towards expansion of stores with a target of opening 370 restaurants by CY22.

Although the expansions may drive operating efficiencies going forward, we have a cautious stance on the business considering the company has sought a staggered payment of **\$1.45 million** for outstanding payments under the franchise agreement, a failure to which might constitute a 'default' under the terms of the contract. As of September 30, 2020, BKI also had a total of **₹286.58 million** in outstanding rental payments to landlords. Even though the recent rights issue and existing credit facilities provide some comfort, the company may have to access further liquidity, depending on how the situation plays out.

Revenue per store for FY20 was -₹325 lakhs (260 stores) as compared to -₹283 lakhs for its listed peer - Jubilant Foodworks (1,373 stores). However, on an operational level, the company has a high burn rate and posted a net loss of ₹1.18 million in H1FY21.

On the upper price of ₹60, the offer is priced at a ~14.8x FY20 CFO (Cash flow from operations) per share. ***We recommend a SUBSCRIBE to the offer for the purpose of listing gains. However, as a longer term investment, we would wait a few quarters for signs of a sustainable recovery in the same-store sales growth and the ability to repay the pending obligations with a sustainable debt to equity.**

Financial Snapshot

Particulars	H1FY21	2020	2019	2018
Net worth	2,188.90	2,754.26	2,496.47	2,871.31
Total Income	1,516.54	8,468.29	6,441.30	3,887.37
Profit / Loss	-1,189.46	-765.70	-382.79	-822.32
EPS	-4.14	-2.87	-1.44	-3.10
BVPS	7.62	10.31	9.42	10.84
Total borrowings	1,983.43	1,985.16	1,000.00	-

(In ₹ million except per share data)

Source: RHP, GEPL Capital Research

NOTES

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