Devyani International Limited

ISIN :INE872J01023 | NSE :DEVYANI

Price: 152
Recommendation: Buy
Industry: Restaurants
Sector: Consumer Discretionary
Report Date: 03-Apr-2025

Devyani International Limited (DIL) has shown strong growth and strategic foresight, surpassing its store expansion goals with over 2,000 stores globally. Key brands like KFC, Pizza Hut, and Costa Coffee drive this growth. DIL focuses on value menus and discounts, expanding in Thailand and exploring Nigeria and Nepal. Despite challenges in Pizza Hut margins, DIL aims for sustained growth through cost efficiencies and innovative consumer connections.

Sales		Profit & Loss		Profitability Matrix	
Current Year	3300 Cr	Operating Profit(Year)	614 Cr	Operating Profit Margin	18.6 %
Previous Year	2774 Cr	Operating Profit(Quarter)	146 Cr	EBITDA Margin	19.33 %
Current Quarter	873 Cr	PAT (Year)	-529 Cr	Net Profit Margin	-17.0 %
Previous Quarter	836 Cr	PAT (Quarter)	4.31 Cr	EPS	-0.56
Revenue (QYoY)	796 Cr				
Valuation Matrix		**Growth(YoY)**		**Growth(QoQ)**	
Trailing P/E	546	Sales Growth	7.67 %	Sales Growth	4.43 %
PEG Ratio		PAT Growth	-303.46 %	Sales Growth QYoY	9.67 %
EV/EBITDA	30.8	EPS Growth	-1020.0 %	PAT Growth	322.55 %
P/B	16.5	Dividend Yield	0.00	PAT Growth QYoY	-76.06 %
Capital Allocation		**Holdings**		**Leverage**	
RoE	-48.7 %	Promoter	62.7 %	Debt/Equity	2.04
RoA	-16.2 %	FII	11.2 %	Debt	2264 Cr
RoCE	10.4 %	DII	15.5 %	Market Cap	18314 Cr
RoIC	-9.54 %	Public	10.6 %	Enterprise value	20553 Cr
		No of Shares	121 Cr	Cash Equivalents	24.9 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

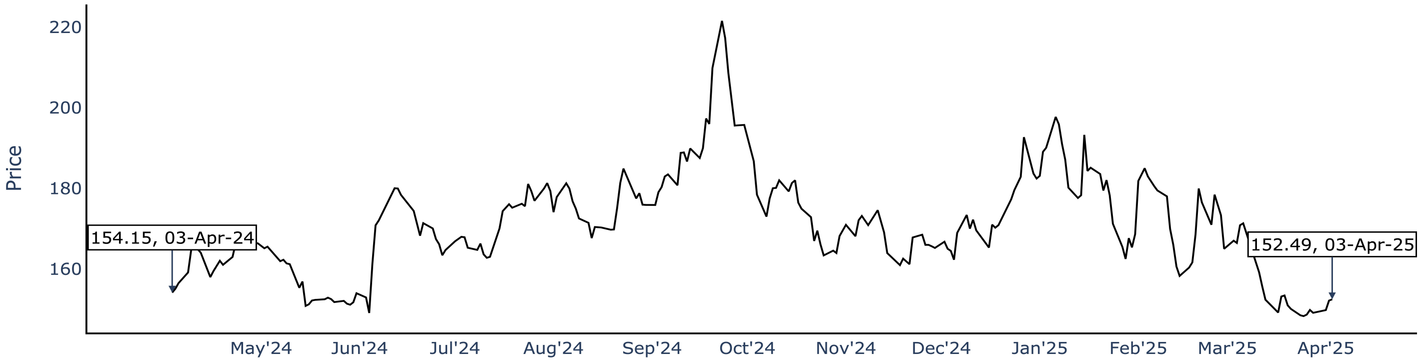
Devyani International Limited (DIL) has demonstrated robust growth and strategic foresight in its recent earnings call. The company has successfully surpassed its store expansion guidance, achieving a milestone of over 2,000 stores across all brands and geographies. This expansion is a testament to DIL's commitment to enhancing its market presence and strategic positioning in the Quick Service Restaurant (QSR) industry. The company added 111 net new stores in Q3, with core brands like KFC, Pizza Hut, and Costa Coffee contributing significantly to this growth. The consolidated revenue for the quarter was Rs. 1,294 crore, marking a 53.5% year-on-year growth, driven by better same-store sales growth (SSSG) and cost optimization measures.

DIL's strategic initiatives include a focus on value menu items and discounts, which have been instrumental in driving volumes during the festive season. The introduction of KFC Roll Variants and Snackers, along with Pizza Hut discounts, has helped in attracting budget-conscious consumers. The company is also expanding its food court business, with new locations being added, including a strategic joint venture with PVR INOX in Kota. Internationally, DIL has expanded its footprint in Thailand, adding nine new stores, and is exploring further opportunities in Nigeria and Nepal. The company is optimistic about the recovery of the QSR sector, with market conditions expected to improve.

Looking ahead, DIL is confident that its aggressive expansion strategy, which has doubled its store count in just over 2.5 years, will yield strong results. The company is focused on maintaining a balance between expansion and store-level performance, ensuring that new stores contribute positively to overall growth. DIL is also exploring new and innovative ways to connect with consumers, positioning itself to capitalize on the sector's recovery. The company plans to continue its expansion in Thailand, targeting a 3-4% SSSG and 11-12% revenue growth, while stabilizing operations in Nigeria amidst currency challenges.

While DIL's performance has been commendable, there are areas for improvement. The company acknowledges the need for better margin performance, particularly in Pizza Hut, where margins have declined despite flat average daily sales. DIL is implementing fresh cost optimization measures and recalibrating marketing spends to address these challenges. The company is also exploring the introduction of new products, such as KFC Coffee, to enhance gross margins. Overall, DIL's strategic focus on small format stores, cost efficiencies, and market expansion positions it well for sustained growth and profitability in the medium to long term.

DEVYANI Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Sapphire Foods	9801.36	398.24	4.04%	8.75%	13.67%	399.17%	21.87%
Coffee Day Enter	610.72	16.09	3.36%	4.11%	9.15%	-212.46%	-114.86%
Jubilant Food.	45720.87	199.34	12.98%	10.03%	56.06%	-25.52%	-21.96%
Restaurant Brand	4186.47		-29.99%	1.05%	5.76%	16.24%	-39.30%
Devyani Intl.	18313.61	545.86	-48.70%	4.42%	9.57%	322.55%	-76.07%

Aspect	Commentary
Revenue	The company shows a strong revenue increase, with a year-on-year growth of 7.67%. This indicates a positive trend in sales performance, reflecting effective market strategies and possibly an expanding customer base. The quarterly growth of 4.43% further supports a consistent upward trajectory in revenue generation.
Profit & Loss	Despite a significant operating profit, the company faces challenges with a negative PAT for the year, indicating high expenses or losses elsewhere. The quarterly PAT shows improvement, suggesting potential recovery or seasonal factors. This mixed performance requires strategic cost management to enhance profitability.
Profitability Matrix	The operating profit margin of 18.6% and EBITDA margin of 19.33% are healthy, yet the net profit margin is negative, highlighting inefficiencies or high costs impacting net earnings. The negative EPS further emphasizes the need for cost control and revenue enhancement to improve shareholder value.
Valuation Matrix	The high trailing P/E ratio suggests overvaluation or high growth expectations, while the EV/EBITDA of 30.8 indicates a premium valuation. The P/B ratio of 16.5 reflects market confidence but also potential overvaluation risks. Investors should consider these metrics in the context of growth prospects.
Growth (YoY)	Sales growth of 7.67% is positive, but the drastic PAT decline of -303.46% and EPS drop of -1020% highlight severe profitability issues. This suggests that while revenue is growing, cost management and operational efficiency need urgent attention to translate sales into sustainable profits.
Growth (QoQ)	Quarterly sales growth of 4.43% and PAT growth of 322.55% indicate short-term improvements, yet the PAT QYoY decline of -76.06% suggests volatility. This mixed performance underscores the need for consistent strategies to stabilize earnings and leverage sales growth effectively.
Capital Allocation	The negative RoE and RoA indicate inefficiencies in using equity and assets to generate profits. A positive RoCE suggests some operational efficiency, but the negative RoIC highlights challenges in capital investment returns. Strategic capital allocation is crucial for improving financial health.
Holdings	Promoter holding at 62.7% shows strong insider confidence, while FII and DII holdings indicate institutional interest. Public holding is relatively low, suggesting limited retail investor participation. This ownership structure can influence market perception and stock liquidity.
Leverage	A debt/equity ratio of 2.04 indicates high leverage, which can amplify financial risk. The substantial debt level requires careful management to avoid liquidity issues. The market cap and enterprise value suggest market confidence, but cash equivalents are low, necessitating prudent financial planning.

Analyst viewpoint: Devyani International Limited (DIL) has demonstrated impressive growth, marked by a robust quarterly sales growth of 4.43% and a PAT growth of 322.55%, reflecting short-term positive gains. The company's strategic focus on expanding its footprint with over 2,000 global stores and initiatives like value menu items and discounts have been pivotal, particularly in markets like Thailand where they expanded operations. Key brands such as KFC, Pizza Hut, and Costa Coffee continue to drive their expansion goals, ensuring they maintain a strong market presence and capitalizing on the recovering Quick Service Restaurant (QSR) sector. The strategic joint venture with PVR INOX and the introduction of innovative products have positioned DIL favorably in the competitive landscape.

However, while DIL has shown noteworthy performance, the declining margin at Pizza Hut due to stagnant average daily sales suggests a potential area for improvement. The company's current high leverage with a debt/equity ratio of 2.04 might indicate a level of financial risk that needs attention, though it is balanced by a strong operational focus on efficiency and cost optimization. Overall, DIL's strategic expansions and cost-control measures bode well for sustained growth, making it an attractive option for investors looking for short to mid-term gains.

Please read detailed disclosure on next page.

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Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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