Devyani International Limited

ISIN :INE872J01023 | NSE :DEVYANI

Price: 149
Recommendation: Buy
Industry: Restaurants
Sector: Consumer Discretionary
Report Date: 17-Mar-2025

Devyani International Limited (DIL) has surpassed 2,000 stores, driven by its aggressive expansion strategy. In Q3 FY25, it added 111 new stores, with KFC, Pizza Hut, and Costa Coffee as key contributors. The company opened its first food court in Kota with PVR INOX and focuses on small format stores for cost efficiency. Despite challenges like food inflation, DIL achieved a 54% revenue growth, reaching Rs. 1,294 crore, and improved profitability.

Sales		Profit & Loss		Profitability Matrix	
Current Year	4786 Cr	Operating Profit(Year)	755 Cr	Operating Profit Margin	15.8 %
Previous Year	2998 Cr	Operating Profit(Quarter)	213 Cr	EBITDA Margin	14.35 %
Current Quarter	1294 Cr	PAT (Year)	49.8 Cr	Net Profit Margin	1.40 %
Previous Quarter	1222 Cr	PAT (Quarter)	-0.49 Cr	EPS	0.17
Revenue (QYoY)	843 Cr				
Valuation Matrix		**Growth(YoY)**		**Growth(QoQ)**	
Trailing P/E	1340	Sales Growth	46.6 %	Sales Growth	5.89 %
PEG Ratio	65.4	PAT Growth	-82.21 %	Sales Growth QYoY	53.5 %
EV/EBITDA	26.3	EPS Growth	-56.41 %	PAT Growth	-53.77 %
P/B	15.4	Dividend Yield	0.00	PAT Growth QYoY	-109.66 %
Capital Allocation		**Holdings**		**Leverage**	
RoE	4.92 %	Promoter	62.7 %	Debt/Equity	2.66
RoA	1.26 %	FII	11.2 %	Debt	3099 Cr
RoCE	8.73 %	DII	15.5 %	Market Cap	17967 Cr
RoIC	-18.9 %	Public	10.6 %	Enterprise value	20839 Cr
		No of Shares	121 Cr	Cash Equivalents	228 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

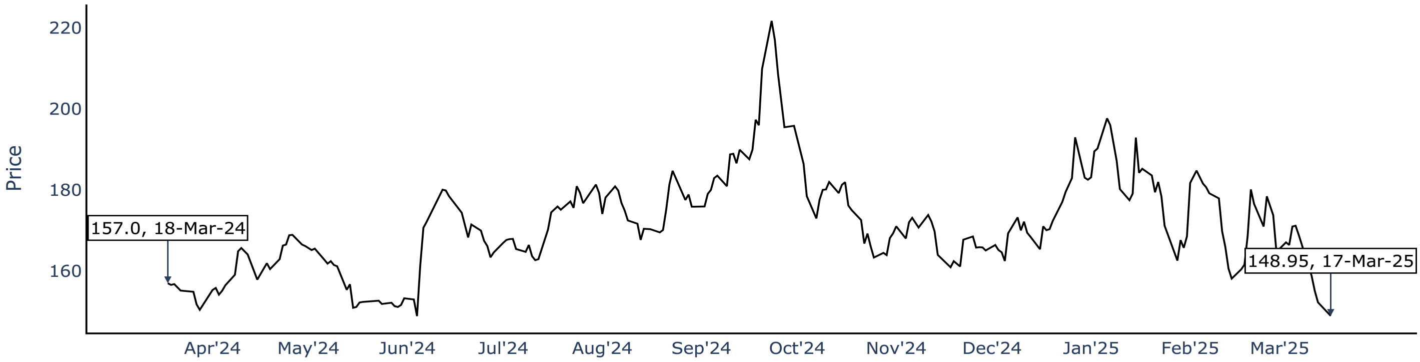
Devyani International Limited (DIL) has successfully achieved a significant milestone by surpassing 2,000 stores, a testament to its aggressive expansion strategy. This growth is driven by the addition of 111 net new stores in Q3 FY25, with core brands like KFC, Pizza Hut, and Costa Coffee contributing significantly. The company has also ventured into new territories, opening its first food court in Kota under a joint venture with PVR INOX. This strategic expansion is complemented by a focus on small format stores, which are capital efficient and offer strong payback potential. The company is optimistic about the recently presented Union Budget 2025, which is expected to boost consumer spending and positively impact the QSR industry.

The company's financial performance in Q3 FY25 reflects a robust 54% year-on-year growth in operating revenue, reaching Rs. 1,294 crore. This growth is attributed to both domestic and international operations, with the Thailand business acquired in January 2024 contributing to the numbers. Despite challenges like food inflation impacting gross margins, the company has implemented cost optimization measures to improve brand contribution margins. The Nigerian currency stabilization has also positively impacted the company's financials, with a notable improvement in PBT from a loss in the previous quarter to a profit of Rs. 9 crore.

Looking ahead, DIL is confident in its growth trajectory, with plans to continue expanding its store network, particularly in Thailand, where it aims to add 20 to 25 new stores. The company is also exploring opportunities in Nigeria, although expansion there will be cautious due to past currency devaluation challenges. The focus remains on enhancing store-level performance and leveraging strategic opportunities to drive sustained growth and profitability. The company is also experimenting with new product offerings, such as KFC Coffee, to enhance its value proposition and drive footfalls.

While the company has made significant strides, there are areas for improvement. The performance of Pizza Hut has been mixed, with margins declining despite flat ADS. The company is recalibrating its marketing strategies and cost optimization efforts to address these challenges. Additionally, geopolitical factors have impacted performance in certain regions, but the company remains hopeful for a turnaround as conditions stabilize. Overall, DIL's strategic initiatives and focus on operational efficiency position it well for future growth, although careful monitoring of market dynamics and consumer sentiment will be crucial.

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	9465.41	384.57	4.04%	8.75%	13.67%	399.17%	21.87%
Coffee Day Enter	493.92	13.00	3.36%	4.11%	9.15%	-212.46%	-114.86%
Jubilant Food.	40857.64	178.23	12.98%	10.03%	56.06%	-25.52%	-21.96%
Restaurant Brand	2971.97		-29.99%	1.05%	5.76%	16.24%	-39.30%
Devyani Intl.	17967.38	1339.83	4.92%	5.91%	53.52%	53.77%	-109.66%

Aspect	Commentary
Revenue	The company achieved a significant revenue increase, with a 54% year-on-year growth, reaching Rs. 1,294 crore. This growth is driven by both domestic and international operations, including the recent acquisition in Thailand, despite challenges like food inflation impacting gross margins.
Profit & Loss	Operating profit for the year stands at 755 Cr, with a quarterly operating profit of 213 Cr. However, the company faced a quarterly net loss of 0.49 Cr, indicating challenges in maintaining profitability amidst revenue growth.
Profitability Matrix	The operating profit margin is 15.8%, while the EBITDA margin is 14.35%. The net profit margin is low at 1.40%, reflecting the impact of high operating costs and other financial pressures on overall profitability.
Valuation Matrix	The company's valuation metrics show a high trailing P/E of 1340 and a PEG ratio of 65.4, indicating potential overvaluation. The EV/EBITDA is 26.3, and the P/B ratio is 15.4, suggesting a premium valuation in the market.
Growth (YoY)	Year-on-year growth shows a robust sales increase of 46.6%, but PAT growth is negative at -82.21%, and EPS growth is -56.41%. This indicates strong top-line growth but significant challenges in translating it to bottom-line profitability.
Growth (QoQ)	Quarter-on-quarter sales growth is 5.89%, with a QYoY growth of 53.5%. However, PAT growth is negative at -53.77%, and QYoY PAT growth is -109.66%, highlighting ongoing profitability challenges despite revenue increases.
Capital Allocation	Return on Equity (RoE) is 4.92%, Return on Assets (RoA) is 1.26%, and Return on Capital Employed (RoCE) is 8.73%. The negative Return on Invested Capital (RoIC) of -18.9% indicates inefficiencies in capital utilization.
Holdings	Promoter holding is strong at 62.7%, with Foreign Institutional Investors (FII) at 11.2% and Domestic Institutional Investors (DII) at 15.5%. Public holding is 10.6%, reflecting a balanced ownership structure.
Leverage	The company has a high debt-to-equity ratio of 2.66, with total debt at 3099 Cr. The market cap is 17967 Cr, and enterprise value is 20839 Cr, indicating significant leverage and potential financial risk.

Analyst viewpoint: Devyani International Limited is strategically positioned in the competitive landscape with its robust growth trajectory evidenced by a 54% YoY increase in revenue in Q3 FY25. This impressive growth is a result of the company's aggressive expansion strategy which includes the addition of 111 new stores, significantly bolstered by marquee brands like KFC, Pizza Hut, and Costa Coffee. With strategic moves such as the Thailand acquisition and the opening of its first food court in collaboration with PVR INOX, Devyani is set on a path of sustained growth. The focus on smaller, cost-effective store formats enhances capital efficiency, adding to its aggressive capital allocation strategy which promises impressive returns once margins are optimized. The company's valuation might seem stretched with high trailing P/E, but its market leadership and strategic position justify a premium. Furthermore, leveraging cost optimization measures has begun improving its contribution margins, especially with stabilizing international operations.

Despite the positive outlook, challenges remain with Pizza Hut's mixed performance in certain markets due to declining margins, underscoring the need for strategic recalibration. Financial leverage is significant with a debt-to-equity ratio of 2.66, which necessitates careful financial management. However, leveraging its extensive brand portfolio and strategic expansions, the company appears set to capitalize on consumer expenditure trends and international market stability, positioning itself as a formidable entity in the global QSR industry while continuously exploring avenues for cost optimization and product innovation.

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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