

# Result Update

Q4 FY23

**Devyani International Ltd.**

Institutional  
Research

## Weak Operational Performance

Devyani International Ltd. reported a 27.8% YoY revenue growth to Rs. 755.0 crores in Q4FY23, led by an increase in its store additions but failed to beat market estimates of Rs. 740.8 crores. In Q4FY23, the EBITDA rose to Rs. 150.6 crores (down 13.4% QoQ / up 7.8% YoY), while the EBITDA margin narrowed further to 20.0% as compared to 23.6% in the corresponding quarter. This resulted from higher employment expenses, muted SSSG growth and lack of price actions in the Pizza Hut category. The company's PAT declined 15.7% QoQ / 21.2% YoY to Rs. 59.9 crores in Q4FY23, while the PAT margin stood at 7.9% in Q4FY23 (down 105bps QoQ / down 492bps YoY).

## Valuation and Outlook

Devyani International Ltd. clocked in decent revenue growth on the back of the company's aggressive new store additions during the fiscal. As per our expectations, tighter competition in the pizza category along with escalated dairy prices led to a deterioration in the company's margin profile. Moreover, the overall brand contribution margin took a hit due to the non-recurring statutory bonus recognition and an adverse product mix. The aggressive expansion of the company's stores in FY23 coupled with lower ADS and subdued SSSG growth indicates a slow uptick in consumer demand which makes us cautious about the company's volume-driven growth trajectory for the near term. In the long term, we maintain our positive outlook on the company's Costa Coffee and KFC portfolio, given the huge headroom for growth in both these categories. Meanwhile, we continue to monitor the management's commentary on reviving its Pizza Hut business.

## Key Highlights

Particulars (Rs. crs.)	Q4FY22	Q3FY23	Q4FY23	YoY (%)	QoQ (%)
Net Sales	591	791	755	27.8%	-4.5%
Gross profit	421	548	525	24.8%	-4.2%
Gross Margin (%)	71.3%	69.3%	69.6%	-167bps	25bps
EBITDA	140	174	151	7.8%	-13.4%
EBITDA Margin (%)	23.6%	22.0%	19.9%	-369bps	-205bps
PAT	76	71	60	-21.2%	-15.7%
PAT Margin (%)	12.9%	9.0%	7.9%	-492bps	-105bps

Source: Company, BP Equities Research

## Sector Outlook

Positive

## Stock

CMP (Rs.)	181
BSE code	543330
NSE Symbol	DEVYANI
Bloomberg	DEVYANI IN
Reuters	DEVY.BO

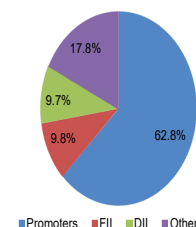
## Key Data

Nifty	18,203
52 Week H/L (Rs.)	215 / 134
O/s Shares (Mn)	1,205
Market Cap (Rs. bn)	217
Face Value (Rs.)	1

## Average Volume

3 months	24,36,370
6 months	21,89,240
1 year	29,54,300

## Share Holding (%)



## Relative Price Chart



## Research Analyst

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**Key Concall Highlights**

- The company added 66/305 net new stores across its portfolio in Q4FY23/FY23 and plans to add 300 stores in FY24. The company continues to focus towards non-metro cities and towns (53% mix) with the view that these places are going to drive growth in the coming period.
- The elevated input costs due to inflationary pressures caused the company's GP margin to contract to 70% in FY23 as compared to 71.2% in FY22.
- The higher spending on local store promotions and full-year statutory bonus recognition in H2FY23 caused the brand contribution to decline to 16.4% in Q4FY23 from 18.3% in Q3FY23.
- **KFC** - In FY23, sustained inflation in raw chicken prices led to a 100 bps contraction in KFC's GP margin and also its brand contribution margin. In Q4FY23, lower ADS and higher store operating costs resulted in a 17.5% brand contribution margin. Moreover, the company took a 3-3.5% price hike in April 2023.
- **Pizza Hut** - A change in product mix (fun flavour range which is margin dilutive), high dairy prices, and no price actions taken in H2FY23 weighed on the company's GP and brand contribution margin in FY23. Although the introduction of the value layer led to lower ADS, the company remains optimistic to drive volume growth in the medium to long term with this addition.
- **Costa Coffee** - Gross margins were lower on account of higher milk and coffee prices. Along with this, an increase in investments led to brand contribution dilution as well. The company plans to add 60-70 stores in FY24.
- The company maintained its medium-long-term outlook for its KFC brand's SSSG growth at 5-6% and for Pizza Hut at around 7-8% SSSG growth.
- The other income increased to Rs. 33 crores in FY23 as compared to Rs. 16 crores in FY22 due to certain Ind-AS adjustments.

**Key Financials**

YE March (Rs. crs.)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	1,135	2,084	2,998	3,850	4,703
Growth %		83.6%	43.8%	28.4%	22.2%
EBIDTA	242	478	655	856	1084
Growth%		97.5%	37.1%	30.7%	26.7%
Net Profit	-81	155	263	309	413
Growth %		NM	69.2%	17.9%	33.4%
Diluted EPS	-1.0	1.1	2.2	2.6	3.5

**Profitability & Valuation**

EBIDTA (%)	21.3%	22.9%	21.9%	22.2%	23.1%
NPM (%)	-7.2%	7.4%	8.8%	8.0%	8.8%
ROE (%)	NM	39.1%	32.0%	26.9%	27.7%
P/E (x)	NM	164.5	82.3	70.5	52.9
EV/EBITDA (x)	NM	47.2	28.8	27.5	21.7
Net Debt/EBITDA (x)	6.6	2.5	2.3	-0.1	-0.1

Source: Company, Bloomberg Estimates

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

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