

### Revival expected; Maintain SELL

- DEVYANI's result was below our estimate. The company reported 15.8% revenue growth including Thailand acquisition (ex-Thailand up 6.6% YoY) led by revenue growth of 3.4/8.2/16.0/23.9% across KFC/ Pizza Hut/ Costa Coffee/ Vaango.
- The company added 7 stores in Q4FY25 taking the total count to 2,039 (inc. Thailand). Going ahead, the company will continue to expand KFC stores while remains cautious about store expansion in PH. Further, the company signed Master Franchise Agreements for 3 new brands in Q2FY25 - Tealive, New York Fries and Sanook Kitchen and opened the first New York Fries store in Mumbai.
- DEVYANI's operating performance and profitability was below our estimate due to lower SSSG across key brands. Though base for Pizza Hut and KFC would become favorable in the ensuing quarters, overall slowdown is expected to pressurize profitability. We have downward revised our FY26/27E EBITDA to factor in Q4 performance. We value the stock at 20x FY27E EV/EBITDA, arrived at a TP of Rs 157 (Rs 160 earlier). Reiterate 'SELL' rating.

### Result below our estimates

DEVYANI's revenue grew by 15.8% YoY (including Thailand) to Rs 12.1bn, which came below our estimate. Further, standalone business revenue grew by 6.6%. GM contracted by 70bps to 68.5% YoY. A 70/90bps increase in RM/other expenses was partially offset by 70bps decrease in employee expenses led to EBITDA margin contraction of 90bps to 15.4%. EBITDA grew by 9.5% YoY to Rs 1.9bn. The company reported a loss of Rs 168mn. Excluding exceptional items, DEVYANI posted a loss of Rs 153mn - below our estimate.

### Brand contribution declined across the key segments

Consolidated brand contribution declined QoQ from 14.3% to 13.8%, while YoY grew by 30bps driven by sales leverage and new cost optimization measures taken during the quarter. KFC/PH brand contribution contracted by 275/366bps YoY in Q4FY25. A significant drop in brand contribution margins was primarily due to SSSG decline and incremental investment in brand building during the quarter. Going ahead, we believe that the increase in competition and PH's premium positioning would remain a hurdle for its profitability revamp. Nevertheless, in the long run, we believe that KFC's brand contribution is likely to increase due to lower competition and strong brand positioning.

#### Key Data

Nifty	24,853
Equity / FV	Rs 1,206mn / Rs 1
Market Cap	Rs 216bn
	USD 2.5bn
52-Week High/Low	Rs 223/ 142
Avg. Volume (no)	24,55,800
Bloom Code	DEVYANI IN

	Current	Previous
Rating	SELL	SELL
Target Price	157	160

#### Change in Estimates

(Rs.bn)	Current		Chg (%) /bps	
	FY26E	FY27E	FY26E	FY27E
Revenue	56	63	(4.2)	(5.3)
EBITDA	9	11	(8.8)	(8.7)
EBITDA (%)	16.6	16.8	(84)	(63)
APAT	1	1	(56.7)	(47.9)
EPS (Rs)	0.6	0.8	(56.7)	(47.9)

#### Valuation (x)

	FY25P	FY26E	FY27E
P/E	1004.6	321.7	216.5
EV/EBITDA	27.3	23.8	20.4
ROE (%)	(7.9)	6.0	8.3
RoACE (%)	12.1	14.4	16.9

#### Q4FY25 Result (Rs Mn)

Particulars	Q4FY25	YoY (%)	QoQ (%)
Revenue	12,126	15.8	(6.3)
Total Expense	10,253	17.0	(5.4)
EBITDA	1,873	9.5	(11.0)
Depreciation	1,518	20.6	3.4
EBIT	355	(21.3)	(44.1)
Other Income	132	(8.0)	45.6
Interest	695	22.7	3.8
EBT	(223)	NA	NA
Tax	(56)	NA	NA
RPAT	(168)	NA	NA
APAT	(153)	NA	NA
		(bps)	(bps)
Gross Margin	68.5	(68)	(19)
EBITDA (%)	15.4	(89)	(80)
NPM (%)	(1.4)	NA	NA
Tax Rate (%)	25.0	NA	NA
EBIT (%)	2.9	(138)	(198)

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**Exhibit 1: Actual V/s Dolat Estimates**

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	12,126	13,733	(11.7)	KFC performance and store addition was lower than estimate
EBITDA	1,873	2,160	(13.3)	Cascading effect of lower revenues
EBITDA margin %	15.4	15.7	(30bps)	
PAT	(153)	72	NA	Cascading effect of lower EBITDA

Source: Company, Dolat Capital

**Exhibit 2: Change in estimates**

Particulars (Rs mn)	FY26E			FY27E		
	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	56,239	58,715	(4.2)	63,192	66,703	(5.3)
EBITDA	9,312	10,216	(8.8)	10,642	11,653	(8.7)
EBITDA margin (%)	16.6	17.4	(80bps)	16.8	17.5	(60bps)
PAT	673	1,556	(56.7)	1,000	1,920	(47.9)
EPS (Rs)	0.6	1.3	(56.7)	0.8	1.6	(47.9)

Source: Company, Dolat Capital

We have lowered our FY26/27E revenue estimates to factor in slowdown across brands and closure of PH stores. Further, we have reduced our EBITDA margin estimates to factor in lower operating leverage. In line, we have revised our APAT estimates downward.

**Exhibit 3: FY25 performance**

Particulars (Rs.mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	FY25	FY24	YoY (%)
Net Sales	12,126	10,471	15.8	12,944	(6.3)	49,511	35,563	39.2
Total Expenditure	10,253	8,760	17.0	10,841	(5.4)	41,313	29,068	42.1
RM Cost	3,819	3,226	18.4	4,052	(5.7)	15,388	10,566	45.6
Employee Exp	1,706	1,546	10.4	1,882	(9.3)	7,104	4,950	43.5
Other Exp	4,727	3,988	18.5	4,907	(3.7)	18,821	13,552	38.9
PBIDT (Excl OI)	1,873	1,710	9.5	2,103	(11.0)	8,197	6,495	26.2
Other Income	132	143	(8.0)	91	45.6	370	323	14.3
Depreciation	1,518	1,259	20.6	1,468	3.4	5,699	3,848	48.1
EBIT	487	595	(18.1)	726	(32.9)	2,869	2,970	(3.4)
Interest	695	567	22.7	670	3.8	2,648	1,869	41.7
PBT	(223)	(380)	NA	85	NA	128	37	248.2
Tax	(56)	110	NA	162	NA	197	133	47.7
Profit After Tax (Reported)	(168)	(489)	NA	(76)	NA	(69)	(97)	NA
APAT	(153)	(82)	NA	(105)	NA	(161)	(1,161)	NA
EPS	(0.1)	(0.4)	NA	(0.1)	NA	(0.1)	(0.1)	NA
			bps		bps			bps
Gross Profit (%)	68.5	69.2	(70)	68.7	(20)	68.9	70.3	(140)
Employee Exp (%)	14.1	14.8	(70)	14.5	(50)	14.3	13.9	40
Other Exp (%)	39.0	38.1	90	37.9	110	38.0	38.1	(10)
EBITDA (%)	15.4	16.3	(90)	16.2	(80)	16.6	18.3	(170)
PAT (%) Adj	(1.3)	(0.8)	NA	(0.8)	NA	(0.3)	(3.3)	NA

Source: Company, Dolat Capital

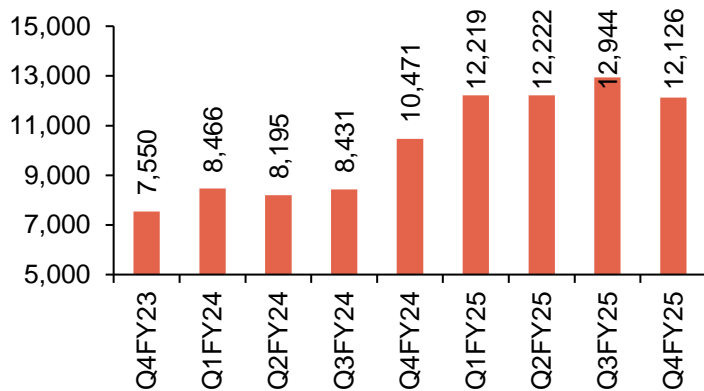
### Earnings Call KTAs

- Organic revenue grew by 6.6% YoY (consolidated revenue grew by 15.8% YoY) led by store expansion. Going ahead, the management expects improvement in demand conditions across the industry driven by union budget initiatives aimed at agriculture and rural development, along with increased consumption supported by tax relief measures. DEVYANI continued to implement initiatives i.e. (1) optimization of menu pricing, (2) cost control initiatives and (3) improvement in operational efficiency to drive revenue growth.
- GM contracted by 70bps YoY to 68.5% due to increased prices of cooking oil, chicken, coffee beans and higher-value deal composition. Additionally, EBITDA margin contracted by 90bps YoY to 15.4% due to higher RM and other expenses.
- KFC revenue grew by a mere 3.4% YoY (-10.3% QoQ) with a 6.1% SSSG decline in Q4FY25. Further, brand contribution margin de-grew by 275bps YoY to 16.2% driven by lower ADS of Rs 83k. KFC's performance was adversely impacted by a 70-75 days bird flu outbreak in Andhra Pradesh and Telangana, which significantly affected both SSSG and ADS. Additionally, geopolitical challenges in Kerala and West Bengal further weighed on sales. However, early signs of recovery are visible across these key markets and management anticipates improved performance as conditions stabilize.
- KFC's GM contracted by 160bps YoY to 68.3% due to higher prices of palm oil, chicken and flour. KFC reported a brand contribution margin of 16.2% with lower ADS of Rs 83k in Q4FY25. The management is confident that the brand can achieve a contribution margin of 20% with an ADS reaching Rs 100-105k. Going ahead, the company expects margin improvement driven by optimizing large KFC store spaces by introducing smaller format outlets for new brands and other cost-optimization measures.
- PH revenue grew by 8.2% YoY led by improved SSSG to 1.0% vs -14% in Q4FY24. However, brand contribution margins for PH declined to 0.7% versus 4.4% in Q4FY24 due to ADS deleverage – from Rs 32K in Q4FY24 to Rs 31K in Q4FY25. We believe that the demand environment will remain stagnant in the near term.
- Costa Coffee witnessed 16.0% YoY revenue growth with SSSG of 3.5% in Q4FY25 led by rapid store expansion. However, the brand contribution declined to 17.6% in Q4FY25 from 18.0% in Q4FY24 due to lower ADS of Rs 27k vs Rs 33k. Further, GM contracted by 60bps YoY to 76.1% due to higher coffee beans prices and increased costs of other input materials. We believe that Costa Coffee is under-penetrated and has sufficient headroom for growth going ahead.
- International business revenue de-grew by 2.4% QoQ to ~Rs 4,195mn in Q4FY25 due to decline in ADS in Nigeria, Nepal & Thailand. Further, Brand contribution in IB decreased from 16.6% in Q3FY25 to 16.1% in Q4FY25. Furthermore, GM expanded by a mere 10bps QoQ to 64.2% due to impact of the Thailand currency on the valuation of closing inventory.
- DEVYANI added 6 net new stores in India during the quarter, taking the overall store count to 1,664 (+7/-14/+11/+2 in KFC/PH/Costa coffee/Vaango net new stores added, taking the total store count to 696/630/220/96 respectively) across brands. Further, the company opened 1 store in Thailand. Nigeria/Nepal/Thailand's total store count stood at 40/29/306 respectively. Going ahead, the

company will continue to expand KFC stores (110-120 stores in FY26E), while remains cautious about store expansion in PH.

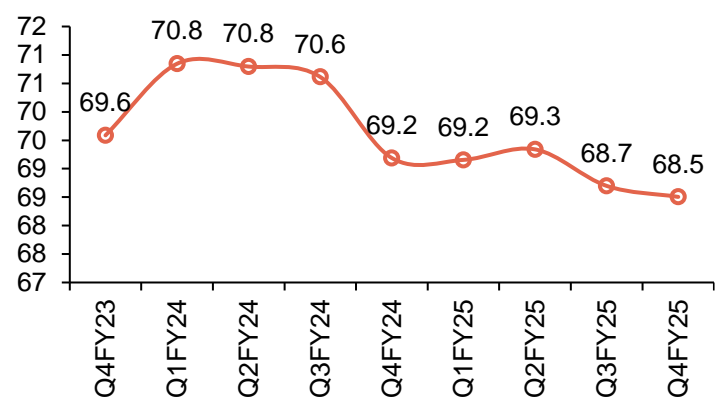
- The company signed Master Franchise Agreements for 3 new brands in Q2FY25 - Tealive, New York Fries and Sanook Kitchen and the company opened the first New York Fries store in Mumbai. Going ahead, the company intends to expand the presence of three new brands with more store openings planned in FY26E.
- The company has announced the acquisition of Sky Gate, which owns Biryani by Kilo, Goila Butter Chicken, and The Bhojan, marking its entry into high-potential Indian cuisine. The deal valued at Rs 5.2bn, involves an 80.72% stake to be settled via preferential allotment of DIL shares. An additional Rs 900mn will be infused as capital. The business is currently loss-making and it is expected to turn around within a year.

**Exhibit 4: Revenue Trend (Rs mn)**



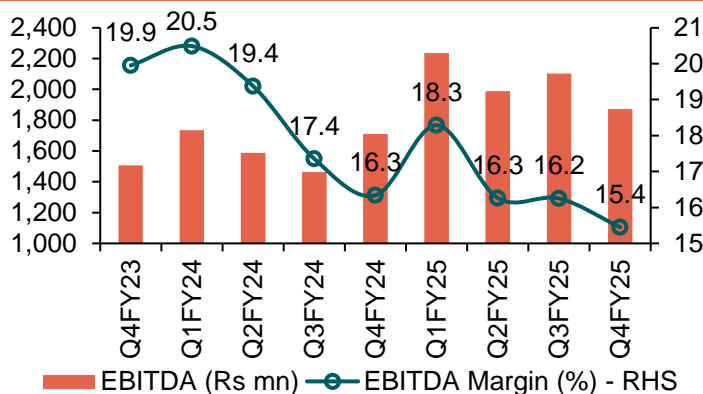
Source: Company, Dolat Capital

**Exhibit 5: Gross Margin Trajectory (%)**



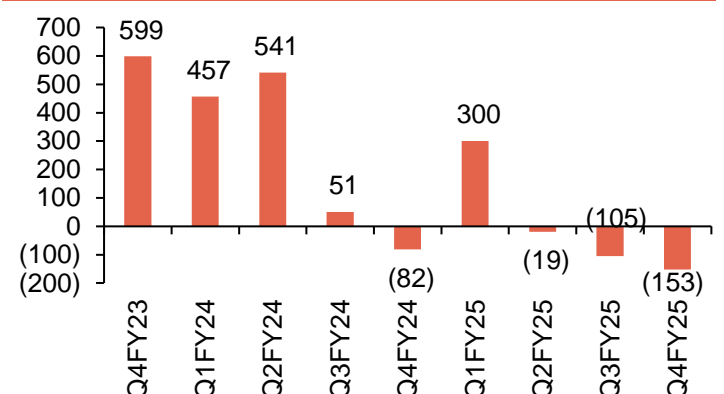
Source: Company, Dolat Capital

**Exhibit 6: EBITDA and EBITDA Margin Trends**



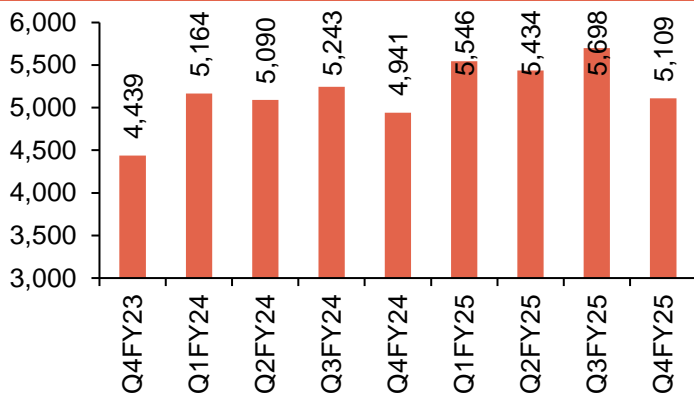
Source: Company, Dolat Capital

**Exhibit 7: Reported PAT Trends (Rs mn)**



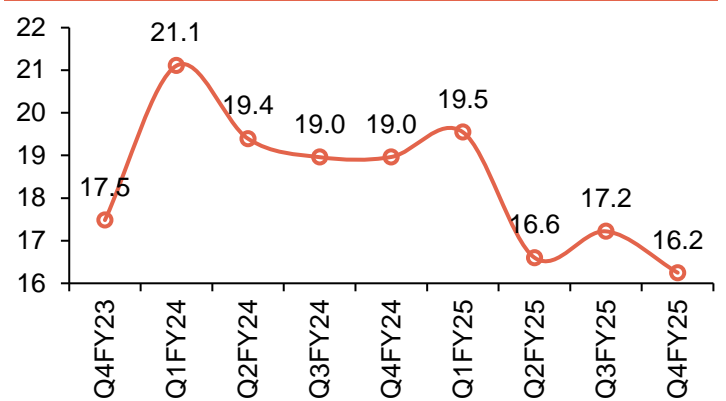
Source: Company, Dolat Capital

**Exhibit 8: KFC Revenue Trends (Rs mn)**



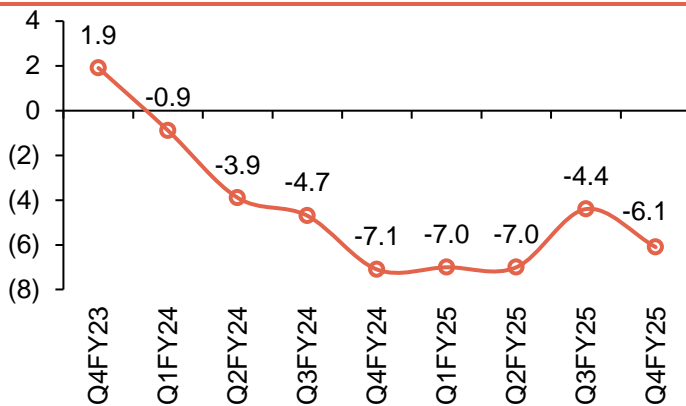
Source: Company, Dolat Capital

**Exhibit 9: KFC Contribution Margin**



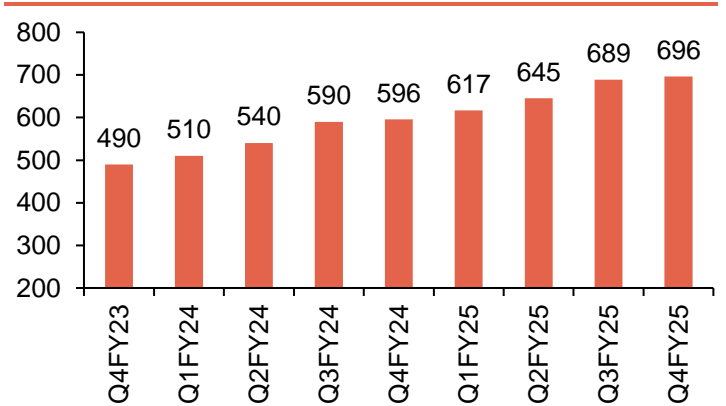
Source: Company, Dolat Capital

**Exhibit 10: KFC SSSG**



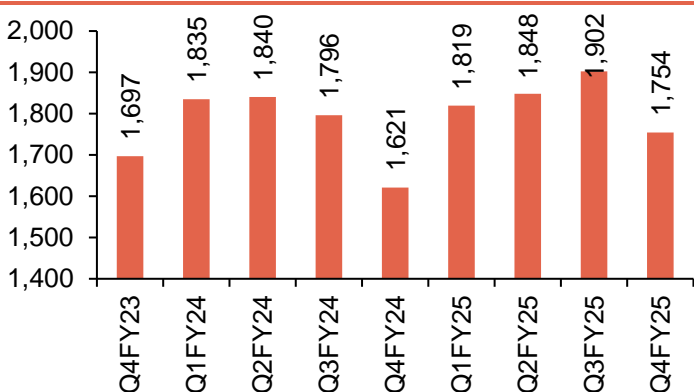
Source: Company, Dolat Capital

**Exhibit 11: KFC Store Count**



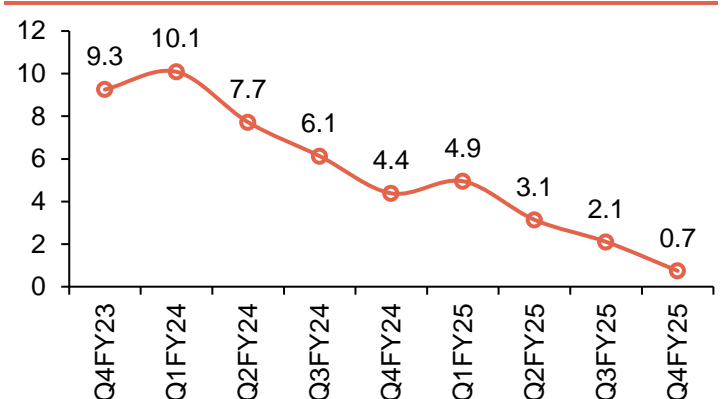
Source: Company, Dolat Capital

**Exhibit 12: Pizza Hut Revenue Trends (Rs mn)**



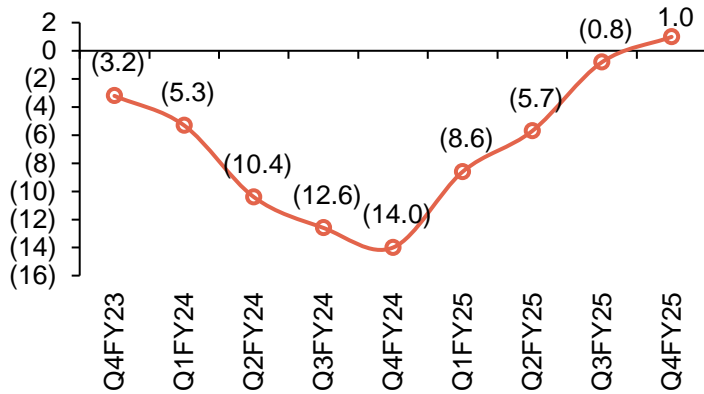
Source: Company, Dolat Capital

**Exhibit 13: Pizza Hut Contribution Margin (%)**



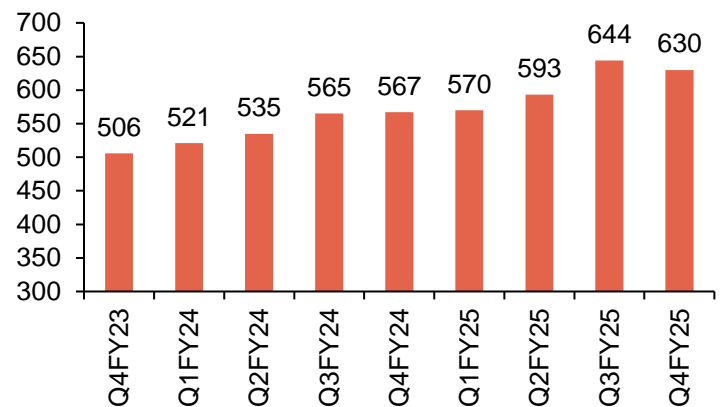
Source: Company, Dolat Capital

**Exhibit 14: Pizza Hut SSSG (%)**



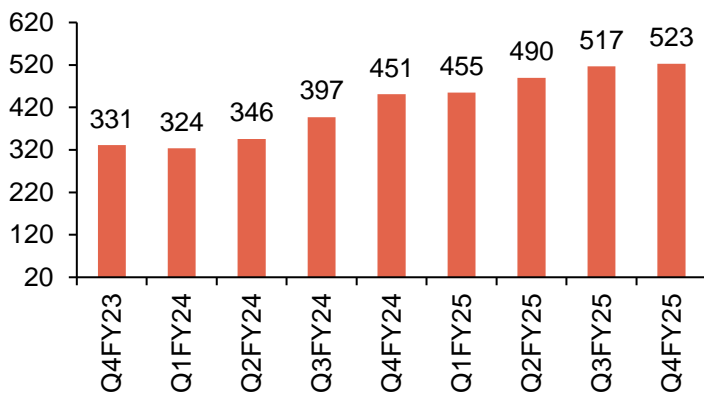
Source: Company, Dolat Capital

**Exhibit 15: Pizza Hut Store Count**



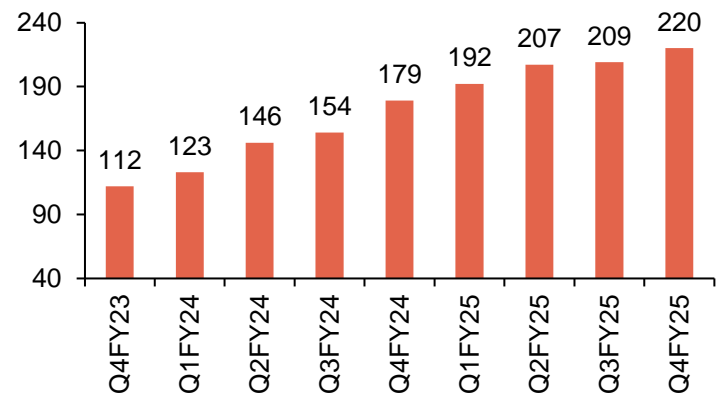
Source: Company, Dolat Capital

**Exhibit 16: Cost Coffee Revenue Trends (Rs mn)**



Source: Company, Dolat Capital

**Exhibit 17: Costa Coffee Store Count**



Source: Company, Dolat Capital



## Financial Performance

### Profit and Loss Account

(Rs Mn)	FY24A	FY25P	FY26E	FY27E
<b>Revenue</b>	<b>35,563</b>	<b>49,511</b>	<b>56,239</b>	<b>63,192</b>
<b>Total Expense</b>	<b>29,098</b>	<b>41,313</b>	<b>46,927</b>	<b>52,549</b>
COGS	10,566	15,388	16,856	18,508
Employees Cost	4,950	7,104	8,688	9,433
Other expenses	13,583	18,821	21,382	24,608
<b>EBIDTA</b>	<b>6,465</b>	<b>8,197</b>	<b>9,312</b>	<b>10,642</b>
Depreciation	3,848	5,699	6,131	6,652
<b>EBIT</b>	<b>2,617</b>	<b>2,499</b>	<b>3,181</b>	<b>3,990</b>
Interest	1,869	2,648	2,758	3,138
Other Income	323	370	380	428
Exc. / E.O. items	1,034	(1,068)	0	0
<b>EBT</b>	<b>2,105</b>	<b>(847)</b>	<b>802</b>	<b>1,280</b>
Tax	133	165	209	320
<b>Minority Interest</b>	<b>(570)</b>	<b>(160)</b>	<b>(80)</b>	<b>(40)</b>
Profit/Loss share of associates	0	0	0	0
RPAT	2,541	(852)	673	1,000
Adjustments	(1,034)	1,068	0	0
<b>APAT</b>	<b>1,507</b>	<b>215</b>	<b>673</b>	<b>1,000</b>

### Balance Sheet

(Rs Mn)	FY24A	FY25P	FY26E	FY27E
<b>Sources of Funds</b>				
Equity Capital	1,206	1,206	1,206	1,206
Minority Interest	2,928	3,079	2,998	2,958
Reserves & Surplus	9,352	9,738	10,331	11,290
<b>Net Worth</b>	<b>10,558</b>	<b>10,944</b>	<b>11,537</b>	<b>12,497</b>
Other LT liabilities	19,223	21,534	22,611	23,741
Total Debt	9,102	9,318	9,731	10,145
Net Deferred Tax Liability	(512)	(574)	(632)	(695)
<b>Total Capital Employed</b>	<b>41,298</b>	<b>44,300</b>	<b>46,245</b>	<b>48,646</b>

### Applications of Funds

Net Block	41,897	45,976	42,821	39,379
CWIP	110	35	38	42
Investments	268	259	0	0
Current Assets, Loans & Advances	6,538	6,541	10,610	16,519
<b>Current Investments</b>	<b>0</b>	<b>0</b>	<b>3,000</b>	<b>6,000</b>
Inventories	1,310	1,482	2,157	2,424
Receivables	527	413	837	940
Cash and Bank Balances	1,808	1,814	1,459	3,651
Loans and Advances	1,216	1,029	1,108	1,202
Other Current Assets	1,677	1,804	2,049	2,302
<b>Less: Current Liabilities &amp; Provisions</b>	<b>7,514</b>	<b>8,511</b>	<b>7,224</b>	<b>7,294</b>
Payables	3,756	4,411	4,009	3,603
Other Current Liabilities	3,757	4,100	3,215	3,691
<i>sub total</i>				
<b>Net Current Assets</b>	<b>(976)</b>	<b>(1,970)</b>	<b>3,386</b>	<b>9,225</b>
<b>Total Assets</b>	<b>41,298</b>	<b>44,300</b>	<b>46,245</b>	<b>48,646</b>

E – Estimates

### Important Ratios

Particulars	FY24A	FY25P	FY26E	FY27E
<b>(A) Margins (%)</b>				
Gross Profit Margin	70.3	68.9	70.0	70.7
EBIDTA Margin	18.2	16.6	16.6	16.8
EBIT Margin	7.4	5.0	5.7	6.3
Tax rate	6.3	NA	26.1	25.0
Net Profit Margin	7.1	NA	1.2	1.6
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	29.7	31.1	30.0	29.3
Employee	13.9	14.3	15.4	14.9
Other	38.2	38.0	38.0	38.9
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.9	0.9	0.8	0.8
Interest Coverage	0.0	0.0	0.0	0.0
Inventory days	13	11	14	14
Debtors days	5	3	5	5
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	39	33	26	21
Working Capital days	(10)	(15)	22	53
FA T/O	0.8	1.1	1.3	1.6
<b>(D) Measures of Investment</b>				
AEPS (Rs)	1.3	0.2	0.6	0.8
CEPS (Rs)	4.4	4.9	5.6	6.4
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	8.8	9.1	9.6	10.4
RoANW (%)	25.1	(7.9)	6.0	8.3
RoACE (%)	17.8	12.1	14.4	16.9
RoAIC (%)	18.1	12.1	14.7	18.4
<b>(E) Valuation Ratios</b>				
CMP (Rs)	180	180	180	180
Mcap (Rs Mn)	2,16,489	2,16,489	2,16,489	2,16,489
EV	2,23,782	2,23,993	2,21,761	2,16,983
MCap/ Sales	6.1	4.4	3.8	3.4
EV/Sales	6.3	4.5	3.9	3.4
P/E	143.7	NA	321.7	216.5
EV/EBITDA	34.6	27.3	23.8	20.4
P/BV	20.5	19.8	18.8	17.3
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>(F) Growth Rate (%)</b>				
Revenue	18.6	39.2	13.6	12.4
EBITDA	(1.4)	26.8	13.6	14.3
EBIT	(30.6)	(4.5)	27.3	25.4
PBT	(13.0)	NA	NA	59.6
APAT	(47.1)	(85.7)	212.3	48.6
EPS	(47.1)	(85.7)	212.3	48.6

E – Estimates



**Cash Flow**

Particulars	FY24A	FY25P	FY26E	FY27E
<b>Profit before tax</b>	<b>1,071</b>	<b>220</b>	<b>802</b>	<b>1,280</b>
Depreciation & w.o.	3,848	5,699	6,131	6,652
Net Interest Exp	0	0	0	0
Direct taxes paid	(267)	20	(209)	(320)
Change in Working Capital	375	648	(1,634)	483
Non Cash	(6,849)	(314)	(138)	(103)
<b>(A) CF from Operating Activities</b>	<b>(1,822)</b>	<b>6,273</b>	<b>4,952</b>	<b>7,992</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(4,619)	(4,818)	(2,980)	(3,214)
<b>Free Cash Flow</b>	<b>(6,441)</b>	<b>1,454</b>	<b>1,972</b>	<b>4,778</b>
(Inc.)/ Dec. in Investments	2	200	(2,741)	(3,000)
Other	0	0	0	0
<b>(B) CF from Investing Activities</b>	<b>(4,616)</b>	<b>(4,618)</b>	<b>(5,721)</b>	<b>(6,214)</b>
Issue of Equity/ Preference	12	10	0	0
Inc./(Dec.) in Debt	7,383	(1,659)	414	414
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	0	0	0	0
Other	0	0	0	0
<b>(C) CF from Financing</b>	<b>7,395</b>	<b>(1,649)</b>	<b>414</b>	<b>414</b>
Net Change in Cash	957	5	(355)	2,192
<b>Opening Cash balances</b>	<b>851</b>	<b>1,808</b>	<b>1,814</b>	<b>1,459</b>
<b>Closing Cash balances</b>	<b>1,808</b>	<b>1,814</b>	<b>1,459</b>	<b>3,651</b>

E – Estimates

**Notes**

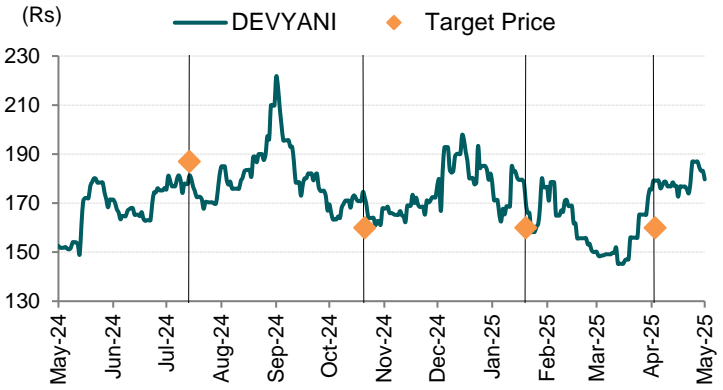
Stock Info and Rating History

Price Performance

Particulars	1M	3M	12M
Absolute (%)	2	2	18
Rel to NIFTY (%)	0	(7)	10

Shareholding Pattern

Particulars	Sep'24	Dec'24	Mar'25
Promoters	62.7	62.7	62.7
MF/Banks/FIs	15.4	15.5	16.9
FIIIs	11.2	11.2	10.5
Public / Others	10.7	10.7	10.0



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-24	Reduce	187	181
Nov-24	Sell	160	172
Feb-25	Sell	160	170
Apr-25	Sell	160	179

*\*Price as on recommendation date*

Notes

### Dolat Rating Matrix

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Dolat Team

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**I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**

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