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IPO Note – Devyani International Limited

02-August-2021

RETAIL RESEARCH

Issue Snapshot:
Issue Open: Aug 04 – Aug 06 2021

Price Band: Rs. 86 – 90

*Issue Size: 204,222,219 eq shares (Fresh Issue of Rs.440 cr + Offer for sale of 155,333,330 eq sh)

Issue Size: Rs.1756.31 – 1838.0 cr

Reservation for:

QIB	atleast	75% eq sh
Non Institutional	Upto	15% eq sh
Retail	Upto	10% eq sh
Employee	Upto	550,000 eq sh

Face Value: Rs 1

Book value: Rs 0.65 (Mar 31, 2021)

Bid size: - 165 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 115.36 cr
*Post issue Equity:	Rs. 120.25 cr

Listing: BSE & NSE

Book Running Lead Managers: Kotak Mahindra Capital Company Ltd, CLSA India Private Ltd, Edelweiss Financial Services Ltd, Motilal Oswal Investment Advisors Ltd

Registrar to issue: Link Intime India Private Ltd

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	75.8	65.2
Public	24.2	34.8
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Devyani International Ltd (DIL) is the largest franchisee of Yum Brands in India and is among the largest operators of chain quick service restaurants ("QSR") in India, on a non-exclusive basis, and operates 655 stores across 155 cities in India, as of March 31, 2021, and 696 stores across 166 cities in India, as of June 30, 2021. Yum! Brands Inc. operates brands such as KFC, Pizza Hut and Taco Bell brands and has presence globally with more than 50,000 restaurants in over 150 countries, as of December 31, 2020. In addition, it is a franchisee for the Costa Coffee brand and stores in India.

DIL' business is broadly classified into three verticals that includes stores of KFC, Pizza Hut and Costa Coffee operated in India (KFC, Pizza Hut and Costa Coffee referred to as "Core Brands", and such business in India referred to as the "Core Brands Business"); stores operated outside India primarily comprising KFC and Pizza Hut stores operated in Nepal and Nigeria ("International Business"); and certain other operations in the F&B industry, including stores of its own brands such as Vaango and Food Street ("Other Business"). Revenue from Core Brands Business, together with International Business, represented 83.01%, 82.94% and 94.19% of its revenue from operations in Fiscals 2019, 2020 and 2021, respectively.

The Company began its relationship with Yum in 1997, when it commenced operations of its first Pizza Hut store in Jaipur. It has subsequently continued to expand its operations with both KFC and Pizza Hut franchises, and as of March 31, 2021, operated 264 KFC stores and 297 Pizza Hut stores across India. It operated 284 KFC stores and 317 Pizza Hut stores in India as of June 30, 2021. In its Core Brands Business, it had an extensive presence in 26 states and three union territories in India as of March 31, 2021 and June 30, 2021. In addition, it is a franchisee of the Costa Coffee brand in India, which is owned by Costa, and operated 44 Costa Coffee stores as of March 31, 2021 and June 30, 2021. It has been consistently expanding its store network over the years. Despite the ongoing COVID-19 pandemic, it continued to expand its store network and in the six months ended March 31, 2021, it opened 109 stores in its Core Brands Business.

Following the onset of COVID-19, DIL has increased its focus on safety by introduction of contactless delivery and takeaway, ensuring greater cleanliness of its stores, additional safety measures such as frequent sanitization and temperature checks. Among measures it adopted to counter the effects of COVID-19 include re-developing its menus to focus on delivery and takeaway options. It also introduced measures to reduce fixed and variable costs and sought rental waivers from store landlords and lessors. It also rationalized certain loss-making stores to ensure that it continue to maintain its profitability position and strong financial performance.

Objects of Issue:

The Offer comprises a Fresh Issue by DIL and Offer for Sale by the Selling Shareholders.

Offer for Sale

The Offer comprises of a Fresh Issue aggregating up to Rs. 4,400 million by DIL and an Offer for Sale of up to 155,333,330 Equity Shares, comprising up to 65,333,330 Equity Shares by Dunearn and up to 90,000,000 Equity Shares by RJ Corp.

Fresh Issue

DIL proposes to utilise the Net Proceeds towards funding of the following objects:
- Repayment/prepayment of all or certain of its borrowings (Rs.3,240 mn); and
- General corporate purposes.

Further, DIL expects to receive the benefits of listing of the Equity Shares, including to enhance visibility and brand image among existing and potential customers.

Particulars(1)	As of / for the year ended March 31,			As of / for the three months ended	
	2019	2020	2021	December 31, 2020	March 31, 2021
	(₹ million except percentages and number of stores)				
Same Store Sales Growth ("SSSG")(2)					
- KFC	4.65%	3.15%	(33.69)%	(13.00)%	19.62%
- Pizza Hut	4.67%	(3.68)%	(30.25)%	(11.01)%	13.40%
- Costa Coffee	2.72%	(4.38)%	(61.64)%	(55.92)%	(24.89)%
Stores(3)					
- KFC	134	172	264	240	264
- Pizza Hut	268	269	297	273	297
- Costa Coffee	67	63	44	45	44
Total Stores – Core Brands Business	**469**	**504**	**605**	**558**	**605**
Revenue from operations					
- KFC	4,641.14	6,091.34	6,442.64	2,210.53	2,540.30
- Pizza Hut	4,232.88	4,174.27	2,879.09	951.19	1,035.90
- Costa Coffee	902.04	819.62	213.95	76.07	85.25
Total Revenue from Operations – Core Brands Business	**9,776.06**	**11,085.23**	**9,535.69**	**3,237.79**	**3,661.46**

Competitive Strengths

Portfolio of highly recognized global brands catering to a range of customer preferences: DIL operates franchises of several highly recognized global QSR brands and are the largest franchise partner for Yum in India. Its Core Brands include: (i) KFC, a global chicken restaurant brand with over 25,000 restaurants in over 140 countries, as of December 31, 2020. (ii) Pizza Hut, the largest restaurant chain in the world specializing in the sale of ready-to-eat pizza products. Pizza Hut operates in the delivery, carryout and casual dining segments around the world with 17,639 restaurants, as of December 31, 2020. and (iii) Costa Coffee, a global coffee shop chain with over 3,400 coffee shops in 31 countries. It is the non-exclusive sole franchisee for KFC and Pizza Hut in Nepal, and for KFC in Nigeria. It is also a franchisee for Costa Coffee in India. In addition, DIL owns and operates stores of certain other brands that include Vaango, Food Street, Masala Twist, Ile Bar, Amreli, and Ckrussh Juice Bar. Its Core Brands Business as well as Other Business offers a range of full and limited-service dining experiences not only in terms of cuisine, that includes a variety of offerings such as burgers, pizza, south-Indian food and street food, but also in terms of the format of offerings including dine-in, cafés, take-away, delivery, and drive-thrus.

The Company serves a wide range of customers across various price points. Its close association with Yum and Costa and ongoing investment in training, operations and marketing efforts in conjunction with them, has resulted in its Core Brands to further consolidate their leadership position in the QSR industry in India. For KFC and Pizza Hut, it works closely with Yum to recognize and implement measures addressing customer feedback across various parameters including food taste, service and hospitality standards and overall satisfaction. DIL continues to invest in marketing the Core Brands. For KFC and Pizza Hut, it is required to spend 6.00% of its gross revenues per store (excluding applicable taxes), as agreed between Yum and DIL, for advertising, promotion and marketing activities. It is able to further consolidate its leadership position in the QSR segment in India by leveraging its Core Brands, increasing brand recognition for Other Business, innovative product offerings, digital offerings, delivery capabilities and robust supply chain management system.

Multi-dimensional comprehensive QSR player*:* DIL is a multi-dimensional comprehensive QSR player. Its close association with Yum together with technical, marketing and operational expertise has enabled it to establish itself as a comprehensive player in the QSR industry in India with expertise and control in all areas of operations. The QSR channel has been rapidly growing in popularity in India, owing to factors such as rise in literacy, exposure to media, increase in disposable incomes, easier and greater availability and proliferation of internet. The sales value of the QSR channel is forecast to grow at a CAGR of 12.4% between 2020 – 2025. The parameters on which DIL focusses include quality and safety, customer experience, digital adoption, delivery and its people and culture.

Quality and Safety. DIL is firmly committed to providing the highest level of food safety, hygienic food handling and quality product to its customers. Food quality and safety is an integral part of its operations and is accorded the highest priority levels. All its supplies and raw materials for KFC and Pizza Hut stores are procured from reputed and pre-approved suppliers who adhere to international safety norms.

Customer Experience: DIL' communication practices are aligned with consumer needs and preferences and are targeted at boosting overall customer experience across all stores. It continuously looks for ways to improve the experience of customers that visit its stores and/ or order its products. It continually invests in refurbishing its stores and improving the ambience of stores. It continuously focusses on brand recall and customer connect through the extensive marketing campaigns of its Core Brands, including through social media, messaging and packaging of products.

Digital Adoption: DIL has actively adopted tech-enabled enhancements to provide its customers with a personalized and enriched dining experience and to increase its operational efficiency. The digital ordering and payment technologies it has adopted for the brands it operates has allowed it to optimize staffing at its stores and reduce associated costs for ordering and cash management.

Delivery: DIL is among the single largest QSR companies in India that is listed on the Swiggy platform and was among the largest QSR companies in India listed on the Zomato platform in the calendar years 2019 and 2020. It also has the nonexclusive right to open and operate delivery-focused Pizza Hut stores in all of India. It has deployed an integrated model working with third-party delivery aggregators to increase traffic and has dedicated riders for KFC or Pizza Hut orders originated from its own platform.

Culture and People: DIL employees are one of its greatest assets and that its transparent and open culture has helped it grow operations over the years. All its store level employees are trained as per modules provided by the Core Brands or otherwise and undergo various certification processes to improve efficiency and quality of customer service.

Presence across key consumption markets with a cluster-based approach: DIL operated 655 stores across all brands and were present in 26 states and three union territories across 155 cities in India, as of March 31, 2021. It operated 696 stores across all brands and was present in 26 states and three union territories across 166 cities in India, as of June 30, 2021. It has a strong presence in key metro regions of Delhi NCR (comprising Faridabad, Ghaziabad, Gurgaon, Delhi and Noida), Bengaluru, Kolkata, Mumbai and Hyderabad. As of March 31, 2021 and June 30, 2021, it had 304 stores and 323 stores, respectively, of its Core Brands located in these five major metros in India. Over the years, it has been consistently increasing the number of its stores both organically and inorganically. Stores in its Core Brands Business increased from 469 stores as of March 31, 2019 to 605 stores as of March 31, 2021, and was 645 stores as of June 30, 2021. Its expansion is driven by its ability to keep its costs low and implement economies of scale through operational leverage.

With cluster-based expansion approach, DIL has been able to address demand in high-potential domestic markets. As of March 31, 2021, 76.69% of the stores in its Core Brands Business, i.e. 464 stores were located across 40 key cities in India while 50.25% of the stores in its Core Brands Business, i.e. 304 stores were present across five regions in India, i.e. Bengaluru, Kolkata, Hyderabad, Mumbai and Delhi NCR (comprising Faridabad, Ghaziabad, Gurgaon, Delhi and Noida). As of June 30, 2021, 75.35% of the stores in its Core Brands Business, i.e. 486 stores were located across 40 key cities in India while 50.08% of the stores in its Core Brands Business, i.e. 323 stores were present across five regions in India, i.e. Bengaluru, Kolkata, Hyderabad, Mumbai and Delhi NCR (comprising Faridabad, Ghaziabad, Gurgaon, Delhi and Noida). The Company' stores are situated in locations that has significant footfalls such as high street locations, shopping malls, food courts, airports, hospitals, business hubs and transit areas. It assesses the location of each store on the basis of a number of factors including demographics, footfalls, accessibility, parking, delivery potential, consumption patterns and population density of the local community and availability of other restaurants within the area. Its portfolio of brands in Other Business also helps it scale up its store network. In the cities in India that it currently operates KFC stores, it is the only franchisee of Yum to operate KFC stores, with the exception of captive markets (i.e. airports, railway stations) within the cities.

Cross brand synergies with operating leverage: DIL has expanded its operations in the last few years and has opened 72, 50 and 111 stores under its Core Brands Business in Fiscals 2019, 2020 and 2021, respectively. In addition, it acquired 13, 9 and 51 KFC stores from Yum in Fiscals 2019, 2020 and 2021, respectively. It has been able to leverage substantial operating synergies across the brands it operates. One of the most important aspects of DIL' business that distinguishes it from its competitors is the focus on bringing cost efficiencies at each level. The Company has streamlined business processes from conceptualization of its stores to execution of daily operations. Its sourcing, warehousing and distribution of raw materials is centralized for particular regions and across its Core Brands Business. This reduces the storage space required at its stores, thereby enabling to minimize its store operating costs, without incurring significant additional expenses at the commissary level. The vehicles DIL deploy for the delivery of raw materials to its stores are common across the Core Brands Business and also for stores of brands that form part of Other Business.

With wide portfolio of brands and offerings, DIL is able to launch and operate smaller brands such as Vaango as it benefits from operating leverages derived from operating a wider brand portfolio. It is able to negotiate competitive commercial terms for the locations of stores, leverage the supply chain and warehousing network of its Core Brands. It is also able to obtain competitive rates for raw materials given that it taps a common pool of suppliers and ensure consistency in service and delivery standards that it has have gained from operating stores of its Core Brands.

Disciplined financial approach with focus on cash flows and returns: DIL's revenue from operations was Rs. 13,105.98 million in Fiscal 2019 and increased by 15.70% to Rs. 15,163.86 million in Fiscal 2020. Its revenue from operations was Rs. 11,348.38 million in Fiscal 2021. EBITDA for Fiscal 2019, 2020 and 2021 was Rs. 2,789.62 million, Rs. 2,554.84 million and Rs. 2,269.28 million, respectively. Its EBITDA Margins were 21.29%, 16.85% and 20.00%, respectively, in such periods. While its SSSG has been impacted on account of COVID-19, it has focused on improving the trend. As part of its commitment to cost containment, it undertakes a ROI analysis prior to opening a store to determine the financial feasibility of the store. Its margin profile is supported by strong Brand Contribution Margins of its Core Brands Business. Its net cash generated from operating activities was Rs 2,395.57 million in Fiscal 2021, indicating support for its continued growth.

Distinguished Board and experienced senior management team: DIL's Board comprises individuals from various fields of finance and business with varied and diverse experience. Its operations are conducted by a well-qualified and experienced management team that has significant experience in all aspects of its business. Each brand, whether owned or otherwise, that it operates has a dedicated team responsible for developing and delivering a superior brand experience. The strength and quality of management team and their understanding of the F&B industry enables it to identify and take advantage of strategic market opportunities. Its industry experience has enabled the Company to anticipate and capitalize on changing market trends, manage and grow its operations.

Business Strategy:

Strategically expand store network of Core Brands Business: DIL intends to continue to seek additional franchise opportunities for its Core Brands Business. In 2021, QSRs are expected to witness a better recovery compared to other channels, owing to their better suitability for takeaways. Investments of operators in expansion and technology will also drive the growth. It intends to increase its store network by implementing its defined new-store roll out process and cluster approach and penetration strategy with respect to store location, while aiming to achieve an optimal mix across its different types of restaurant formats in order to drive footfalls and compete effectively. As DIL expand its store network, it also intends to expand in new areas and markets where there is strong potential for growth.

KFC and Pizza Hut: The Company's focus will continue to remain on increasing sales across the KFC and Pizza Hut brands by opening additional stores. There are significant opportunities to expand within India, and it intends to focus its efforts on increasing geographic footprint in both existing and new cities to capitalize on the growing market opportunity in India for QSR restaurants.

Costa Coffee: The coffee and tea channel is expected to grow at a CAGR of 15.0% between 2020 and 2025, primarily due to rising average transaction prices and transaction numbers. Future growth in this segment is attributed to rising demand from the young population, rapid urbanization, business culture, and western lifestyle. DIL has recently entered into a non-binding Costa Term Sheet, pursuant to which it intends to amend the terms of the Costa IDA. It also intends to expand its stores in a manner that will ensure a better payback. These include developing smaller stores that are delivery and take-away focused.

Continue to improve unit-level performance: DIL's endeavour will be to manage unit economics and achieve economies of scale. With further cost efficiencies it will be able to expand its store level profitability and Brand Contribution Margins. The growth of its stores will allow it to apportion fixed overheads costs such as brand building and administrative expenses across its store network which will improve Brand Contribution Margins. In parallel, it has been able to rationalize certain stores that were loss-making to improve its overall store level profitability. Store rationalization will also help improve DIL' margins going forward. Going forward, it also intends to work with Yum to re-engineer its menus and introduce high margin offerings aligned to target groups for home consumption. It also intends to switch from frozen supplies to chilled supplies which will reduce transportation and storage costs. DIL will continue to focus on innovation and strengthen its value proposition of innovative product offerings. It also intends to launch targeted marketing campaigns for such value products and leverage its core menu items and work with Yum to introduce innovative menu items to meet evolving consumer preferences and local tastes, drive customer engagement and continue to broaden the brand appeal of its Core Brands.

Focus on delivery channel for Core Brands: Given the COVID-19 pandemic, DIL anticipate considerable growth in the delivery business. It intends to continue to create synergies between stores of its Core Brands and delivery services by taking advantage of its extensive store network to improve efficiency and increase margins. To facilitate its strategy, it intends to open additional stores for Pizza Hut and KFC that will be primarily focused on delivery. Its focus going forward will be to have limited dine-in capacity at its delivery focused stores. In addition to taking advantage of the growing online delivery market it also intends to engage further with delivery aggregators. Its own delivery and collaboration with delivery aggregators will represent a significant portion of its sales compared to pre-COVID-19 period. It intends to work with third-party delivery aggregators to increase the number of dedicated riders for KFC and Pizza Hut to allow for greater control over delivery quality and improve ability to make timely deliveries. It intends to collaborate further with Yum to provide data analytics on riders and route information to optimize business cycles and improve scheduling efficiency of riders.

Invest in technology and focus on digital capabilities: DL will continue to invest in technology to maintain its competitive advantage. It will focus on improving its overall technology infrastructure including digital and delivery capabilities. Going forward, it will continue to leverage its digital ecosystem to drive sales, improve the guest experience and increase operational efficiency. It also plans to increase its investment in end-to-end digitalization, automation, artificial intelligence and machine learning, to connect online traffic with its offline assets effectively. The Company is working with Yum to improve its technology platform and further integrate its systems with Yum's platform to ensure greater operational efficiency. Going forward, it will continue to optimize its delivery service by adopting innovative technologies and developing new delivery service concepts.

Industry:

Profit Sector Metrics – India Food Services

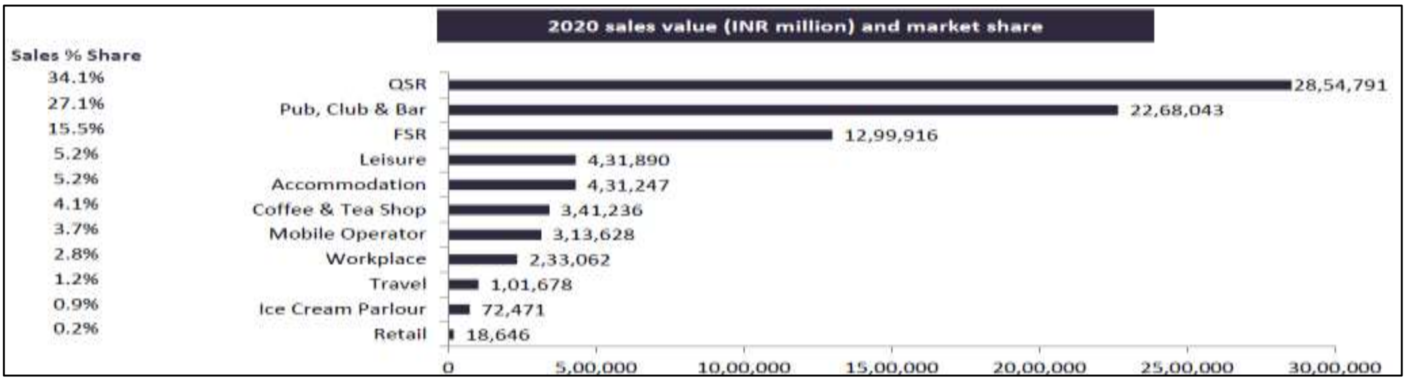
The Indian food services profit sector generated a total revenue of Rs.8,366.6 billion (US$117.5 billion) in 2020, growing at a CAGR of 1.9% from Rs.7,601.4 billion (US$118.5 billion) in 2015. Growth was mainly driven by the rise in the number of transactions, which grew at a CAGR of 2.4%, during the same period. Increased deliveries, a higher demand for eating out, urbanization, and an increased exposure to different food types have played a significant role in the growth of transactions, especially in 2020, due to COVID-19.

The number of transactions is expected to grow by an even higher rate of 6.9% in the period between 2020 and 2025. While both dine-in and take-away/ delivery transactions are expected to grow during this period, deliveries are projected to grow at a higher rate compared to dine-ins. For instance, in the ice-cream parlour channel, take-away is projected to grow by a robust CAGR of 40.6%, compared to 6.9% for dine-ins, from 2020 to 2025. Concurrently, food delivery applications, such as Zomato and Swiggy, are expected to play an even more prominent role during the forecast period, and the pandemic has amplified their role in the ecosystem.

The number of outlets is expected to grow at a CAGR of 4.5% in the period between 2020 and 2025. Growth in the quick service restaurant ("**QSR**") channel, supported by urbanization and increasing exposure of the youth to these food types, is expected to play a key role in the overall growth of the foodservice industry. The total foodservice revenue is expected to grow to Rs.17,220.3 billion (US$219.4 billion) in 2025, registering a strong CAGR of 15.5% from 2020 to 2025.

India Food Services Profit Sector: Value and Share by Channel

QSR, pub, club and bar and FSR lead the India food service profit sector



In 2020, the QSR channel made the largest contribution to the foodservice industry, with a sales share of 34.1%. This was followed by pub, club, and bar, and full-service restaurants, with market shares of 27.1% and 15.5% respectively. Rapid urbanization and the rising number of commercial spaces for consumers to have a quick bite amid their work or shopping schedules played an important role in the growth of quick-service restaurants. Busier lifestyles and less time for eating habits have made QSR channels more relevant. Quick service restaurants' large market share can be attributed to their large number of transactions and a significantly higher number of outlets compared to other channels. In 2020, QSRs contributed more than half the number of transactions and the number of outlets among all foodservice channels.

India Food Services Profit Sector: Value Growth by Channel

All channels are expected to grow at robust rates in coming years, owing to the post pandemic economic rebound

Historically, the QSR channel recorded the fastest growth among all foodservice channels, at a CAGR of 5.5% from 2015 to 2020. Their ability to provide affordable meals, with a quick service time, helped them register significant growth during this period. Global chains, such as KFC, McDonald's, and Burger King, have invested in expanding their presence in the market. Dependence on take-away for a large part of its sales helped the channel during 2020, amid the pandemic. The channel is expected to continue to grow at a robust rate in the coming years as well. Mobile operators and full-service restaurants ("**FSR**") also registered significant growth rates during the review period. Pub, club, and bar channels declined in value historically. This decline was mainly in 2020, as lockdown restrictions affected the channel substantially. Take-away and deliveries could not help the channel, as they did for other channels, and hence the overall sales value declined by a CAGR of 0.8% between 2015 and 2020.

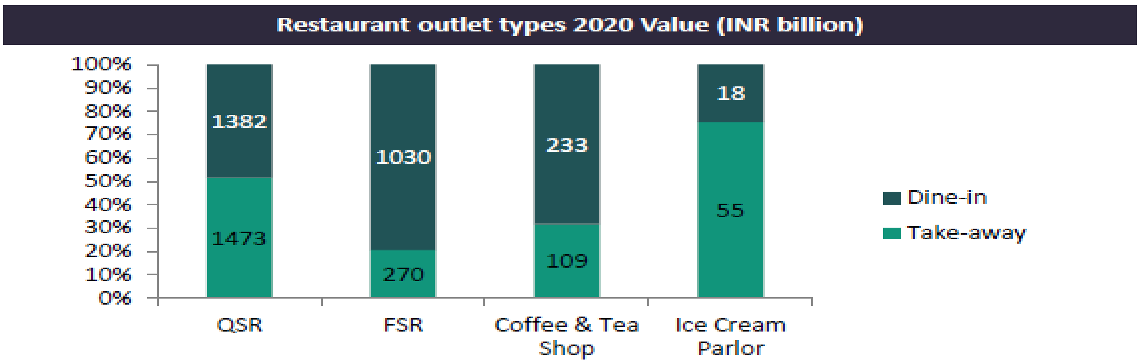
India Food Services Profit Sector: Transactions and Growth by Channel

Quick Service restaurants led the food service profit sector in terms of the number of transactions in 2020

The QSR channel leads the foodservice industry in terms of the number of transactions as well. A large number of transactions in the channel can be attributed to its affordability, short service time, and wide presence in terms of outlets. Further, apart from dining-in, consumers can also easily carry around their meals offered at these restaurants, such as burgers. Between 2020 and 2025, the QSR channel is projected to grow at a CAGR of 6.9%.

Restaurant Outlet – Type Growth Dynamics

As most restaurant facilities were closed or restricted during lockdown, takeaway segment grew rapidly in 2020.



Restaurant outlet types value growth

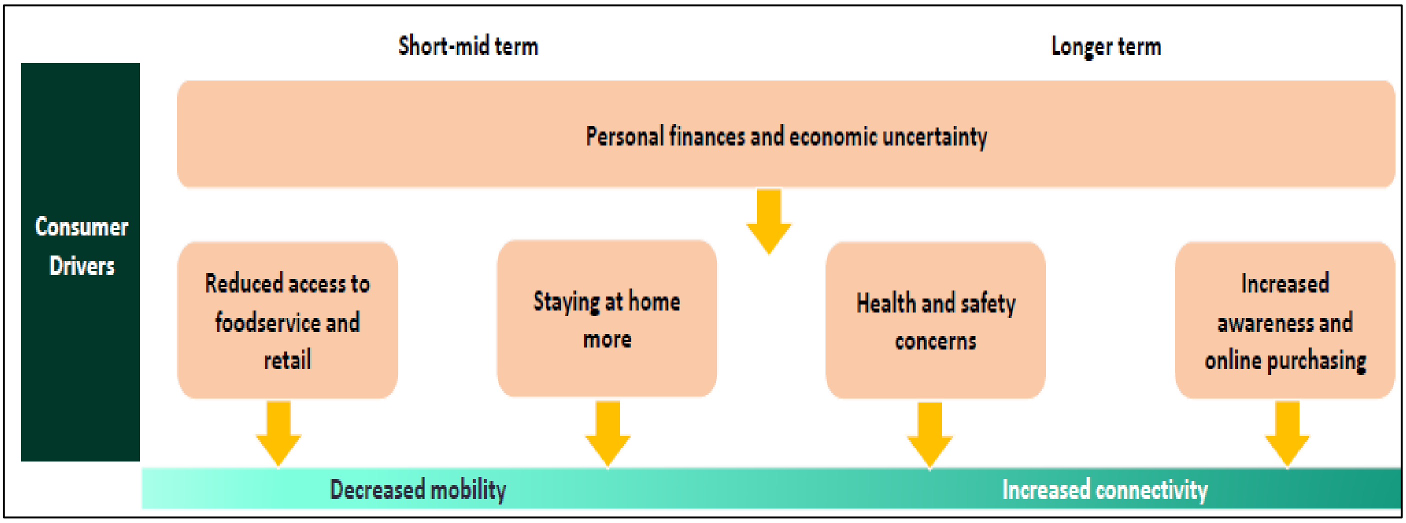
	CAGR 2020–2025	
Channel	**Dine-in**	**Take-away**
Quick-service restaurant	14.0%	10.9%
Full-service restaurant	17.1%	11.3%
Coffee and tea shop	18.1%	7.1%
Ice cream parlor	40.6%	6.9%

The pandemic accelerated the growth of online food ordering through food delivery apps, as consumers turned to online platforms to avoid spreading or being infected by the virus in public places. Besides the pandemic, increasing internet and mobile penetration in India and the advent of food delivery apps are also key factors leading consumers away from traditional dine-in experiences and towards convenience-driven options. A new addition to the mobile app ordering trend is 'cloud kitchen', where food is prepared only for take away and the restaurant exists only inside a mobile app.

While health concerns may have prompted the initial adoption of online ordering, continued use of online food delivery platforms will be driven by its speed and ease. However, future growth is expected to be driven by dine-transactions, as some of the converted takeaway occasions are expected to shift back to dine-in, thereby losing some gain that takeaway benefited from during 2020.

Covid-19: Impact On the Indian Foodservice Market

Key drivers of change in consumer behaviour due to COVID-19



Covid-19 Impact on Major Foodservice Channels

Quick service restaurants were more resilient compared to other channels in 2021.

	Quick Service Restaurant	Full Service Restaurant	Coffee & Tea Shop	Pubs, Clubs, and Bars
Initial impact (Until H1)	The initial lockdown restrictions on outlets and spread of COVID-19 among delivery personnel hampered QSR revenues significantly during the first half.	FSRs were hit significantly by initial strict lockdown measures and consumers' reluctance to dine-out. Decline in disposable incomes also played a key role, owing to FSR's high average transaction value.	Lockdown restrictions hampered these outlets' revenues like other channels. However, as consumers visit these outlets not just their products, but also for ambience, home deliveries were not of much help.	Strict restrictions on these outlets hampered their businesses. Furthermore, deliveries and take-aways weren't of much help in the pub, club, and bar channel, as in other channels.
Subsequent impact (Until H2)	Relatively higher dependence on takeaway transactions, compared to other channels, helped QSRs recover during H2. Contactless dine-ins introduced by key players also were instrumental.	FSRs recovered to some extent as typical dine-in restaurants as well adopted food deliveries. Even fine-dining venues, such as Taj, started offering their dishes at consumers' doorstep.	Owing to WFH policies of offices and reluctance of people to socialize, these outlets were slow to recover. Socializing is a key driver of transactions in these channels.	These outlets remained shut for a significant part of H2. Even when they opened there were restrictions, such as prohibition of new year parties, which were aimed at preventing large social gatherings.
Outlook 2021	Quick service restaurants will see a better recovery compared to other channels, owing to their better suitability for take-aways. Investments of operators in expansion and technology will also drive the growth.	Home dining will play a crucial role in recovery. FSR operators will invest significantly in hygiene, safety, and packaging. Paucity of manpower and tighter budgets for rentals will push operators to trim their dine-in operations.	Recovery of income levels of consumers, which is expected to drive their impulse spending, will help the channel. Also, rise in work from anywhere culture is also likely to bring more income to these outlets.	Demand from urban consumers, especially young professionals willing to party and socialize, will drive the recovery in 2021. Craft spirits will grow in demand from young, high income individuals.

Significant negative impact | Moderate negative impact | No impact | Moderate positive impact | Significant positive impact

Foodservice COVID-19 strategies

Short-term strategies

- Focus on menu items that are made of ingredients with higher nutritional value and immunity boosting properties. Attracting consumers who have turned more health conscious is the key.
- Enhance take-away and drive-thru capabilities. Consumers are likely to stay reluctant to dine-in over the next few months.
- Embrace technology by launching own, dedicated mobile applications.
- Contactless menus and payments. Focus on enabling consumers to scan QR codes to access online menus and pay through digital wallets.
- Expansion of geographical reach. Focus on including more regions and increase the radius of delivery to reach more customers.
- Streamlining of menus and continued innovation in key areas. Innovations such as meat-replacements will help in gaining consumers.
- Reduce the number of tables to ensure social distancing.

Long-term strategies

- Explore new dine-in experiences. Masque, a fine-dining restaurant in Mumbai, launched an initiative called 'tailgate experience', wherein consumers can book slots through WhatsApp and the food is served while they remain seated in their cars safely.

- Make contactless processes an integral part of operations. Focus on contactless deliveries and dine-in services to attract consumers who got habituated to such services during the pandemic. All major brands including KFC, Pizza Hut, and Domino's are already focusing on contactless deliveries, even in dine-in transactions.
- Focus on maintaining superior safety measures. Even after the pandemic, consumers, who have become highly conscious about safety and hygiene, will seek these factors in a restaurant.
- Aim at opening dark/cloud kitchens to expand footprint at a lower cost. Many operators including, The Speciality Kitchen, The biriyani House are planning to enter the cloud kitchen model.
- Partnerships with food-delivery providers. Food-delivery providers, such as Swiggy and Zomato, will play an even more important role in the future, as a large share of consumers will continue to prefer the convenience of home deliveries.

India Food Services Profit Sector - Quick Service Restaurants

Indian QSR channel grew by a CAGR of 5.5% to amount to Rs.2,854.8 billion (US$ 40.1 billion) in 2020 from Rs.2,189.2 billion (US$ 34.1 billion) in 2015. While the number of transactions grew by 3.8%, number of outlets grew by 2%. Home deliveries played a key role in pushing the number of transactions. The sales value of the QSR channel is forecast to rise at a CAGR of 12.4% between 2020 and 2025, a significant rebound compared to the review period. Economic recovery and greater investments from western fast food chains is expected to drive the growth.

QSR growth dynamics highlights

The quick-service restaurant channel has been rapidly growing in popularity in India, owing to factors such as rise in literacy, exposure to media, increase in disposable incomes, and easier and greater availability. Affordability has also been a key factor. Western fast-food chains are gaining Indian consumers by understanding consumer demands and customizing their menus to match Indian taste palates. As a result, value sales of quick-service restaurants grew by a CAGR of 5.5% and amounted to Rs. 2,854.8 billion (US$40.1 billion) in 2020 from Rs.2,189.2 billion (US$34.1 billion) in 2015. The number of outlets increased by 2%, while the number of transactions increased by 3.8% over the same period. Over the forecast period between 2020 and 2025, the value sales of quick-service restaurants is expected to grow at an even higher pace of 12.4%, indicating a steep rebound in these outlets post the pandemic.

The year 2020 saw significant changes in the business operations of quick-service restaurants. Contactless dining experiences and takeaways were adopted by restaurants, with the help of technology. For instance, Pizza Hut, when it opened restaurants during the 'unlock' phase of the pandemic, enabled consumers to order using QR codes on their tables, through which they could order online. The channel is also focused on modifying their menus according to changing global trends and Indian eating habits.

QSR: Key Players

Domino's Pizza Inc., Yum! Brands, Inc., McDonald's Corporation, Doctor's Associates Inc., Restaurant Brands International are the key players in the Indian QSR industry.

KFC India and Pizza Hut India:

Contactless takeaways and dine-ins were adopted amid the pandemic

Being among the first international chains that entered the Indian QSR industry in 1996, the KFC brand is associated with its vibrant, contemporary store designs, and signature menu items. In line with the growing Indian economy, the chain's expansion has been rapid. In 2020, KFC operated 395 outlets in the country. KFC outlets are predominantly found in urban locations and are often attached to major shopping centers. KFC's core offerings of fried chicken products with select herbs and spices are a unique offering in the Indian QSR industry, as there is no other recognized international chain of restaurants that has successfully been able to introduce fried chicken products in India.

Like KFC, Pizza Hut also made its entry into the Indian market in Bangalore. Over years, with Indian consumers becoming increasingly attracted to these western fast foods, Pizza Hut grew significantly. In 2020, it operated 430 outlets in the country. Pizza Hut's constant menu innovations and affordable pizza offerings make it a strong competitor in the Indian QSR industry, driving consumption of pizza as a regular meal rather than an occasional/ celebratory meal opportunity. Devyani International Limited is the largest franchisee of Yum Brands in India and is amongst the largest operators of chain quick service restaurants in India. Jointly, Pizza Hut, KFC, and Taco Bell – three trademarks of Yum! Brands Inc. operated 857 outlets in 2020. The number fell significantly, compared to 967 in 2019, owing to the pandemic

Domino's Pizza

In 1996, Jubilant Foodworks was incorporated with its chain of operations as Domino's Pizza in India. The company has since expanded its network to 1,264 Domino's Pizza chains, spread across the country. It has an established reputation for delivering pizzas within 30 minutes. Each store's area is mapped to find the fastest delivery route. Moreover, unlike branches located in most developed countries, Indian locations, often do not have a sole focus on delivery and have large seating areas, particularly in smaller cities, where eating out is a family event.

McDonald's

McDonald's plans to depend on technology and menu innovations to attract consumers on its path to recovery McDonald's entered the Indian market in 1996, opening its first location in central Delhi. The chain has since expanded to most major Indian cities. During the second quarter of 2019, McDonald's India announced the acquisition of full ownership of Connaught Plaza restaurants. McDonald's has been introducing menu items that are more suited for Indian taste palates, such as double patty burgers, dosa masala burger, and chicken McGrill. McDonald's India – North and East introduced 'Masala Chai' (masala tea) and chicken strips in October 2020. The focus has also been on constantly innovating with packaging. While the pandemic hampered McDonald's sales in the second quarter of 2020, its sales witnessed a sharp rebound in the third quarter of 2020, driven by on-the-go consumption, take-aways, deliveries, and drive-thru transactions. As part of its 2021 strategy, the company plans to include more items that attract Indian consumers. The focus is on introducing more technological innovations, to make the business more relevant in the post-COVID-19 era.

Subway India

Subway's number of outlets declined in 2020 amid the pandemic. Subway first entered the Indian market in 2001, opening its first outlet in Delhi. As of 2020, there were 555 Subway locations in India. Subway has expanded across the country through a network of local franchisees. These franchisees are however far larger than those in developed markets and control entire regions of the country. The Subway product offering in India is broadly the same as in the chain's core markets, with freshly made sandwiches assembled in front of the customer. Subway has partnered with delivery networks in India's largest cities to target convenience-seeking workers. Moreover, in collaboration with delivery networks such as Zomato, FoodPanda, and Swiggy, the company has experienced remarkable sales addressing a larger base of consumers, the trend is expected to continue over the forecast period.

Burger King

Burger King offers various types of foods, including burgers, wraps, and peri peri fries. The flagship offering of the company is its whopper. Among non-alcoholic beverages, it offers coffee, latte, thick shake, iced tea, and carbonated beverages. In order to match Indian tastes, the company included vegetarian, chicken, and egg burgers, unlike its western counterpart, where beef and sausages form a significant part of the menu.

QSR: Outlook

The QSR channel is expected to witness a significant rebound in the future.

Drivers

Rapid urbanization and proliferation of internet and scarcity of time for meals owing to busier lifestyles played key roles in the growth of popularity of western fast food in India. Concurrently, prominent global fast-food chains have expanded their presence in terms of outlets over this period, increasing the availability of these foods to Indian consumers, persuading them to consume more.

Menu innovations by operators to match Indian taste palates helped their growth immensely. In 2020 particularly, home deliveries drove revenues of these players, amid the pandemic. Much lower footfalls in their venues made them close several of their outlets. Domino's Pizza shut 100 of its outlets in the third quarter of 2020.

Future Outlook

The channel is expected to witness a significant rebound in the coming years. Driven by the economic recovery of the country and improvement in the purchasing power of consumers. Technological capabilities will be a key area of focus of these companies in the short-term. As the pandemic is still ongoing, contactless dining and deliveries will be priorities into 2021 as well. Similar to 2020, the year is likely to see more fast-food outlets adopting QR code-enabled menus.

Menu innovation will be another key growth driver. Given the heightened sense of health awareness among consumers, the companies are expected to decrease calorie and sugar content in their offerings. Cloud kitchens will see a rapid proliferation in the post-COVID-19 period. These outlets, designed exclusively for deliveries are aimed at attracting transactions from consumers, who are unwilling to visit traditional restaurants. For instance, Wendy's, in partnership with Rebel Foods, intends to open 250 cloud kitchens across the country.

Conclusion

The prevalence of home delivery in Indian QSR is expected to continue to grow due to changing lifestyles and changing consumer eating patterns in a post COVID atmosphere. Operators will be forced to modernize and digitize their operations and have an online presence to meet customer demand. The proliferation of cloud kitchens in the future will stand as a witness to the rise in demand for home deliveries and growing reluctance to visit regular dine-in outlets.

Coffee & Tea Shops

Coffee and tea shops may serve a mix of food and drink, but the focus and core offering is the provision of coffee or tea for immediate consumption. They will often have seating available for customers, but may also operate from kiosks or mobile units. The coffee tea shop channel was worth Rs.341.2 billion in 2020 registering a negative CAGR of -1.7% between 2015 and 2020. The virus outbreak was one of the main reasons for the decline in the channel's value during the review period. The channel represents only 4.1% of the Indian foodservice profit sector value. Indian coffee and tea shop market is expected to grow at a CAGR of 15.0% to reach a valuation of Rs.687.4 billion in 2025. Increasing the average transaction price will drive future value growth as key operators compete for quality and innovation rather than price. Although the channel remains dominated by independent operators, it is more consolidated than QSR and FSR restaurant channels in India, with the top five chain operators holding a combined market share of 4.4% of the channel's total sales value in 2020. With average transaction prices of the channel currently being the lowest of any foodservice channel, operators can look to add unique and indulgent food and drinks to the menu to gain premium positioning and increase average transaction prices. The revenue generated by coffee and tea shops is relatively small compared to other channels, accounting for just 4.1% of the food services sector's total sales.

According to GlobalData's 2020 Market Pulse Consumer Survey, 38% of surveyed Indian consumers stated that due to the outbreak of COVID-19 they stopped visiting coffee shops/ cafes and a further 23% stated that they are visiting coffee shops/ cafes significantly less frequently than before. This change in consumer behaviour impacted independent coffee and tea shops than chained coffee and tea shops, as they lacked the financial stability to withstand the hostile environment. As such, independent coffee and tea shops also recorded a significantly larger drop in value sales in comparison with chained coffee and tea shops.

Value sales of the coffee and tea shop channel is expected to post a strong CAGR of 15.0% between 2020 and 2025, while the growth in the number of transactions and outlets is set to record a CAGR of 5.9% and 1.4% respectively, in this period. Growth in average transactions is expected to be higher than the outlets and overall transactions. The growing popularity of specialty coffee among millennials, is expected to drive higher average spend as specialty coffee becomes a daily staple for consumers.

Future Outlook – Raising average transaction value is expected to drive the channel's growth

Despite its still small size, the channel is expected to have a noticeable impact on foodservice. Coffee chains, both local and foreign, are likely to grow their footprint significantly in coming years. The channel is forecast to experience strong value growth from 2020 to 2025 at a CAGR of 15.0%. Future value growth in the channel is expected to continue by rising average transaction prices and transaction numbers. The rising demand from the young population, rapid urbanization, business culture, and western lifestyle can be attributed to the coffee and tea shop's future growth. Further, an increase in the number of dual-income families, increasing global exposure, growing media penetration would all lead to the growth of coffee and tea shops in India. Owing to the dominance of independent operators, chain operators need to focus on their economies of scale, familiarity, and standardized offering further while focusing on using local ingredients and communicating the same with consumers for better engagement.

Key Concerns:

- The current and continuing impact of the ongoing COVID-19 pandemic on DIL's business and operations has been significant. The impact of the pandemic on its operations in the future, including its effect on the ability or desire of customers to dine in stores, is uncertain and may be significant and continue to have an adverse effect on the business prospects, strategies, business, operations, its future financial performance, and the price of its Equity Shares.

- Relies on arrangements with Yum for KFC and Pizza Hut stores that comprise a significant majority of its business, and a termination of or inability to renew these arrangements, will have a material adverse effect on the business, results of operations and financial condition.

- Relies on the Costa IDA with Costa for its Costa Coffee stores and a termination of or material modification to the existing terms of the Costa IDA will materially and adversely affect the ability to continue its Costa business and operations and its future financial performance.

- The operation of stores/ outlets under Core Brands ("KFC", "Pizza Hut" and "Costa Coffee") depends on its respective material agreements, which impose certain restrictions, limitations and other obligations on its operations that could adversely affect the ability to grow its business.

- Business depends on the continued success and reputation of its Core Brands globally, and any negative impact on these brands, or a failure by DIL or owners of its Core Brands to protect these brands, as well as other intellectual property rights and proprietary information, may adversely affect its business, results of operations and financial condition

- DIL has had negative cash flows in the past, and may have negative cash flows in the future.

- DIL may not be able to identify and obtain suitable store locations, which could impact its ability to achieve its growth strategy and meet its development commitments, which could adversely impact on its business, results of operations and financial condition.

- DIL is exposed to all of the risks associated with leasing real estate, and any adverse developments could materially affect its business, results of operations and financial condition.

- DIL is dependent on the adequate and timely delivery of quality ingredients, packaging materials and other necessary supplies and if its suppliers fail to provide with sufficient quality and quantities of ingredients, packaging materials and other necessary supplies, its business, results of operations and financial condition could be adversely affected.

- Any adverse development in relation to DIL's relationship with as well as performance of third-party food delivery aggregators, may adversely affect its business, results of operations and financial condition.

- Real and perceived health concerns arising from food-borne illnesses, epidemics, quality or other negative food related incidents could have a material adverse effect on the business, results of operations and financial condition.

- The QSR industry in India is competitive, and DIL's business and financial results may be adversely affected by actions of its competitors and its inability to respond to competition.

- DIL may undertake strategic acquisitions or investments, which may prove to be difficult to integrate and manage or may not be successful.

- Any failure to maintain effective quality control systems or protocols for DIL's supply chain or stores could have a material adverse effect on the business, reputation, results of operations and financial condition.

- Marketing and advertising campaigns that DIL contribute towards may not be effective in increasing the brand awareness of its Core Brands and the effectiveness of its competitors' advertising and promotional programs could adversely affect the competitive position of its Core Brands.

- Changes in consumer preferences and food habits as well as negative perception of the QSR industry could decrease the demand for DIL's products and have a material adverse effect on its business, results of operations and financial condition.

- Relies on third-party logistics providers for transportation, supply and delivery of most of DIL's ingredients, packaging materials as well as other necessary supplies and if they fail to deliver, there may be disruptions or delays in its services, which could have an adverse effect on its business, results of operations and financial condition.

- Increasing cost of raw materials and other costs could adversely affect its profitability.

- Increases in labour costs in India or DIL's failure to attract, motivate and retain qualified store managers and personnel could adversely affect its business, results of operations and financial condition.

- If DIL is unable to protect credit card or debit card data or any data related to any other electronic mode of payment, or any other personal information that it collects, its reputation could be significantly harmed.

- Failure to obtain or maintain or renew licenses, registrations, permits and approvals in a timely manner or at all may adversely affect DIL's business and results of operations.

- Any disruption in the operation of DIL's commissary site could affect the operations of its stores.

- DIL's inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could materially adversely affect the business.

- If DIL is unable to comply with health, safety and environmental regulations, and any other regulations, its business, results of operations and reputation could be adversely affected.

- Any failure or disruption or breaches of our information technology systems or an inability to adapt to newer systems could adversely impact DIL's business and operations.

- Any disruption in power supply to the stores or increase in power and fuel tariffs may have an adverse effect on DIL's business, results of operations and financial condition.

- A failure to protect and strengthen the brands under DIL's other business could adversely affect the business, results of operations and financial condition.

- DIL may be unable to accurately forecast demand for its products, which could have a material adverse impact on its brand, profit margins and results of operations.

- DIL is subject to a number of market, business, financial, legal and regulatory risks and uncertainties with respect to its international operations that could have a material impact on the business, financial condition or results of operations.

- The Company faces foreign exchange risks that could adversely affect the results of operations and cash flows.

- DIL's operations may involve certain transactions in or with countries or persons that are subject to U.S. and other sanctions.

- Political, economic or other factors that are beyond control may have an adverse effect on the business and results of operations.

- If inflation were to rise in India, DIL might not be able to increase the prices of its services at a proportional rate in order to pass costs on to its clients thereby reducing margins.

- Business may be adversely affected by changes in general macroeconomic and demographic factors in India.

Profit & Loss

Particulars (Rs in million)	FY21	FY20	FY19
Revenue from Operations	11348.4	15163.9	13106.0
Other Income	640.6	186.6	130.9
Total Income	**11989.0**	**15350.4**	**13236.8**
Total Expenditure	**9559.2**	**12647.8**	**10563.9**
Cost of materials consumed	3386.9	4487.2	3772.9
Purchases of stock-in-trade	59.7	116.8	115.8
Impairment of non-financial assets	480.1	38.8	247.5
Employee benefits expense	1543.3	2254.9	1915.7
Other expenses	4089.2	5750.2	4512.0
PBIDT	**2429.8**	**2702.6**	**2672.9**
Interest	1528.0	1584.4	1356.0
PBDT	901.8	1118.3	1316.9
Depreciation and amortization	2294.5	2233.1	2028.3
PBT	**-1392.8**	**-1114.9**	**-711.4**
Exceptional items	-568.8	-345.8	-131.5
Tax (incl. DT & FBT)	**-10.7**	**18.4**	**13.0**
Current tax	9.8	13.5	8.5
Deferred tax charge / (Credit)	-20.4	4.9	4.5
PAT	**-813.2**	**-787.5**	**-592.9**
EPS (Rs.)	-0.67	-0.74	-0.42
Face Value	1	1	1
OPM (%)	15.8	16.6	19.4
PATM (%)	-7.2	-5.2	-4.5

(Source:RHP)

Balance Sheet

Particulars (Rs in million) As at	FY21	FY20	FY19
Assets			
Non-current assets			
Property, plant and equipment	4306.7	4786.5	4840.5
Right-of-use assets	6660.2	10350.8	9946.6
Capital work-in-progress	142.8	135.3	115.2
Goodwill	644.5	224.3	161.3
Investment properties	455.9	414.0	470.7
Other intangible assets	1855.2	577.4	363.9
Financial assets			

- Loan	435.4	491.6	458.4
- Other financial assets	167.4	182.3	112.6
Deferred tax assets (net)	95.8	75.5	80.8
Income tax assets (net)	80.5	95.0	96.2
Other non-current assets	194.6	71.2	39.0
Total non-current assets	**15038.8**	**17403.9**	**16685.1**
Current assets			
Inventories	622.0	720.9	549.4
Financial assets			
- Loans	141.6	128.1	95.8
- Trade receivables	168.8	173.0	229.8
- Cash and cash equivalents	399.6	132.3	265.7
- Bank balances other than Cash and cash equivalents	5.7	28.1	5.1
- Other financial assets	106.1	36.4	0.6
Other current assets	201.6	213.2	243.4
Total current assets	**1645.3**	**1431.8**	**1389.8**
Total assets	**16684.1**	**18835.8**	**18074.9**
Equity and Liabilities			
Equity			
Equity Share Capital	1153.6	1061.7	1061.7
Other equity	-15.9	-2952.7	-1764.1
Equity attributable to equity holders of the Company	**1137.7**	**-1891.0**	**-702.4**
Non-controlling interests	-419.2	-391.1	-509.6
Total equity	**718.6**	**-2282.2**	**-1212.0**
Liabilities			
Non-current liabilities			
Financial liabilities			
- Borrowings	3593.7	3402.2	3324.8
- Lease liabilities	7937.0	11759.0	11240.9
- Other financial liabilities	49.3	52.8	33.7
Provisions	169.2	115.7	138.1
Other non-current liabilities	9.7	10.5	6.9
Total non-current liabilities	**11758.8**	**15340.3**	**14744.4**
Current liabilities			
Financial liabilities			
- Borrowings	211.1	904.6	676.9
- Lease Liabilities	787.4	1122.8	1105.7
- Trade payables			
total outstanding dues of micro enterprises and small enterprises	150.5	20.9	23.6
total outstanding dues of creditors other than micro enterprises and small enterprises	1468.5	1611.0	1344.5
Other financial liabilities	1305.9	1896.9	1179.3
Provisions	82.9	44.2	32.3
Other current liabilities	193.5	170.4	177.3
Current tax liabilities (net)	6.9	6.9	2.8
Total current liabilities	**4206.7**	**5777.7**	**4542.5**
Total equity and liabilities	**16684.1**	**18835.8**	**18074.9**

(Source:RHP)