

Burger King India Ltd

Price Band: INR 59-60

ISSUE SUMMARY	
Issue Opens	2-Dec-20
Issue Closes	4-sep-20
Offer Price (INR per share)	59-60
Bid Lot	250 shares
Face Value (INR)	10.0
Pre Issue Shares o/s (mn)	306.7
^Offer for Sale (No of sh. mn)	60.0
^Fresh Issue (No of sh. mn)	75.0
^Post Issue shares o/s (mn)	381.7
^*Issue Size (INR bn)	8.1
QIB	=>75%
Non-institutional	<15%
Retail	<10%
^ Issue Size (@INR60)	
POST ISSUE DETAILS	
M.Cap @INR60/sh. (INR bn)	22.9
Shareholding pattern	
Promoters	60.1%
Non-Promoters	39.9%

Burger King India Ltd (BKIL) is one of the fastest growing international QSR chains in India.

Exclusive National Master Franchisee Rights in India: BKIL enjoys exclusive National Master Franchisee Rights in India till Dec 31, 2039, with an obligation to develop and open atleast 700 restaurants by Dec 31, 2026. The royalty rate is favourable with capping at 5% of sales. The arrangement provides it with the ability to use Burger King's globally recognised brand name to grow its business in India, along with flexibility in tailoring menus and flexibility in supply chain management.

One of the fastest growing QSR, targeting millennials: BKIL is one of the fastest growing QSR chain India with 268 restaurants (including 9 sub-franchised) spread across 17 states/UTs and 57 cities. It has already garnered 5% market share in India's INR348billion QSR market (23% CAGR overFY20-25P), by positioning itself towards large and growing millennials (in the age group 15-34). It intends to leverage its investments in technology, to handle the current pandemic situation.

Improving Financials: Over FY18-20, BKIL's Revenue/EBITDA grew at a CAGR of 49%/258% led by 2x the store strength. However, it continues to make losses at PAT level. The same store sales growth stood at 12.2%/29.2% in FY18/FY19 while it surprisingly became flat in FY20. In 1HFY21, revenue declined 68% YoY, while it made losses at EBITDA and PAT levels due to the Covid-19 impact. Given its cash base business model, BKIL has negative working capital. The net debt/equity as of Sep'20 stood at 3.3x which post IPO will reduce to zero.

Issue Size: The INR8.1bn IPO consists of fresh issue of INR4.5bn and OFS of INR3.6bn (by promoters) which would result in promoter's stake reducing from 94.3% pre-IPO to 60.1% post-IPO. The funds raised will be utilized to repay debt and fund new restaurants. BKIL did pre-IPO placement of INR1.5bn through rights issue (INR0.6bn @INR44/sh) and preferential allotment to Amansa Investments (INR0.9bn @58.5/sh).

Valuation & View: At the higher end of the price band, the issue is valued at 2.7x FY20 Price/sales and 8.3x FY20 P/BV which is reasonable compared to peers. Considering its strong brand positioning, robust store expansion plans and the bright growth prospects of the QSR industry in India, we expect its financials to improve going ahead. Thus, we would recommend investors to **Subscribe for Listing Gains** to the IPO.

Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY18	FY19	FY20	1HFY21
Revenue	3,781	6,327	8,412	1,352
Growth (%)	-	67.3	33.0	-67.9
Adj PAT	-822	-383	-722	-1,168
Growth (%)	-	-53.4	88.7	223.5
EPS (INR)	-2.2	-1.0	-1.9	-6.1
RoE (%)	-28.6	-14.3	-27.5	-56.5
P/BV (x)	8.0	9.2	8.3	4.1

Source: Company RHP, MOFSL

Ratios are calculated on annualized and post issue basis, at the upper price band of INR60

About the Company

Incorporated in November'13, the Burger King India Ltd (BKIL) is the national master franchisee of the Burger King brand in India. During the first five years of its operations, it reached 200 restaurants, thus becoming one of the fastest growing QSR among international QSR brands in India. As the national master franchisee of the BURGER KING® brand in India, BKIL has exclusive rights to develop, establish, operate and franchise Burger King branded restaurants in India. The master franchisee arrangement provides the company with the ability to use Burger King's globally recognized brand name to grow its business in India, while leveraging the technical, marketing and operational expertise associated with the global Burger King brand.

Exhibit 2: Indian Food Industry (INR4.2t) to grow at 9% CAGR over FY20-25P

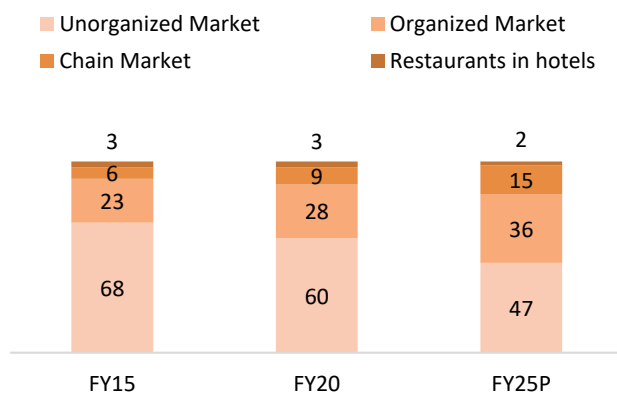
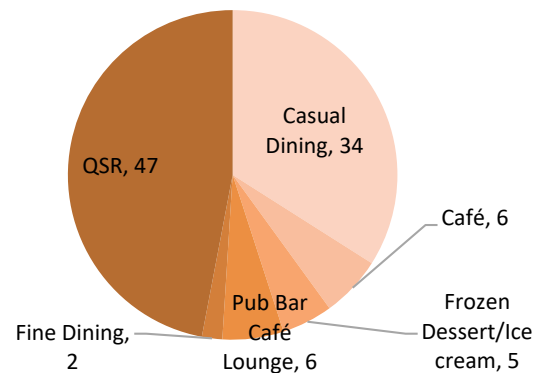


Exhibit 3: Chain Food Services (INR0.4t) to grow at 19% CAGR over FY20-25P



Source: RHP, MOFSL

The globally recognized Burger King brand, also known as the “HOME OF THE WHOPPER®”, was founded in 1954 in the United States and is owned by Burger King Corporation, a subsidiary of Restaurant Brands International Inc., which holds a portfolio of fast food brands that are recognized around the world that include the BURGER KING®, POPEYES® and TIM HORTONS® brands. The Burger King brand is the second largest fast food burger brand globally as measured by the total number of restaurants, with a global network of 18,675 restaurants in more than 100 countries and U.S. territories as at September 30, 2020.

Exhibit 4: QSR is the fastest growing Chained format

	CAGR (%)		Market Share (%)	
	FY15-FY20	FY20-FY25P	FY15	FY25P
Quick Service Restaurant	19	23	45	54
Casual Dining Restaurant	19	18	32	31
Café	8	8	10	4
Frozen Dessert Ice Cream	16	15	6	4
Pub Bar Café Lounge	22	17	5	5
Fine Dining Restaurant	3	1	3	1

Source: RHP, MOFSL

India was the 100th country that Burger King entered and yet doing well. The Franchiser has 10% stake in Holdco, perhaps the only franchiser in India to have a stake. As per

the 'Terms of franchise', royalty rate is capped at 5% until December 2039. It has a target of opening 700 restaurants by December 2026. The company has exceeded store expansion targets until March' 20. As per the Basic agreement, if beyond 6 months the company does not expand as planned, the agreement can be terminated. However, Parent company has shown understanding given Covid situation, and has already extended the agreement from Dec'25 to Dec'26.

Exhibit 5: Market share by Outlet count (%)

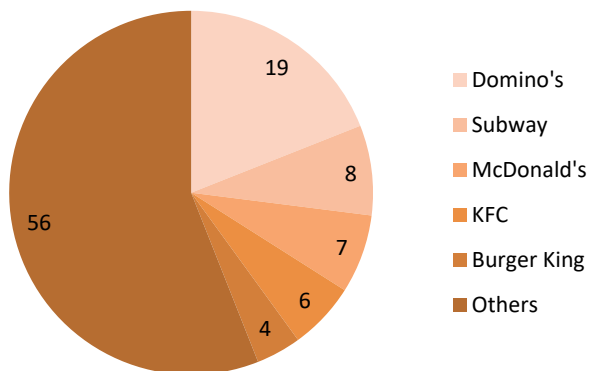
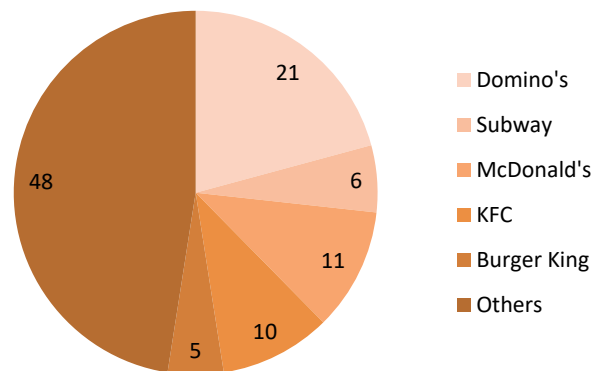


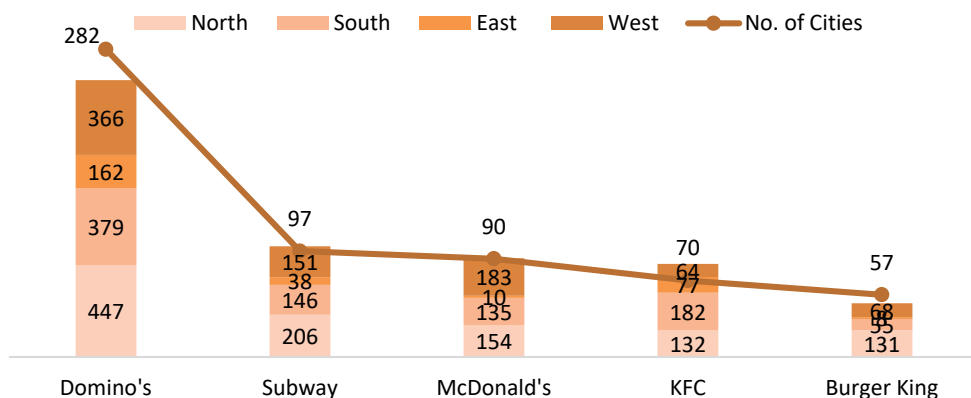
Exhibit 6: Market share by revenue (%)



Source: RHP, MOFSL

Since opening its first restaurant in November 2014, BKIL has used its well defined restaurant roll out and development process with the aim of growing quickly, consistently and efficiently into a pan-India QSR chain and capitalizing on the growing market opportunity in India for QSR restaurants. As at September 30, 2020, BKIL operates across 17 states and union territories and 57 cities across India. It has 259 Company-owned Burger King Restaurants and nine Sub-Franchised Burger King Restaurants, of which 249 are operational, including two Sub-Franchised Burger King Restaurant. The company plans to continue to build its restaurant network using a cluster approach and penetration strategy, which helps it to efficiently manage its vertically managed and scalable supply chain and drive down costs, due to the proximity of the restaurants to each other and to the distribution centres of its third-party distributor. It has a single contract with a large third party distributor, Coldex for procurement of raw materials and packaging.

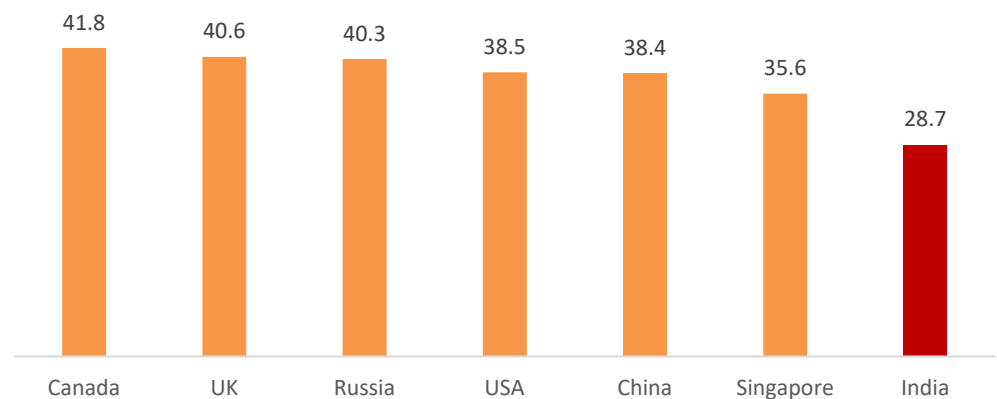
Exhibit 7: Key international brands by outlet count in India as of Sep 30, 2020



Source: RHP, MOFSL

BKIL is positioned as a millennial brand for 15-35 age group. Approximately 60% of Indians eating out are millennials, which represent the age group from 15 to 34 years old. BKIL'S competitive position depends on their continued ability to offer products that have a strong appeal to consumers. The Company tailors its menu, promotions and pricing to the Indian tastes and preferences through its customer proposition, aiming for value leadership, variety, a wide range of vegetarian offerings, taste advantage and flame grilling expertise. BKIL does not want to have price as a differentiator.

Exhibit 8: Young population in 15-35 age group (CY18; %)



Source: RHP, MOFSL

A key focus of its business is promoting and maintaining operational quality, a people-centric culture and effective technology systems that enable it to optimise the performance of the restaurant, enhance the customer experience and contribute to its growth. BKIL utilizes “360° technology” in its interactions with the customers and across the operations, including in the operations of its restaurants, its supply chain and in the management of the business. It equips all of its restaurants with technology, which provides them with the flexibility to alter menu placement of its products and match customer preferences. Thus BKIL's technology backend is very strong which makes it not just customer facing front end.

The company has an optimal mix across different types of restaurant formats, and look at factors that will drive footfalls. These include high street locations which typically have high impact and high visibility locations for brand awareness, shopping malls and food courts, which are both ready catchments to drive footfalls and transit locations, which present a significant opportunity given India's current promotion of infrastructure projects across the country. Of the total stores BKIL has, 55% stores are located in malls, and 25% in high street locations. Regionally, 50-55% stores are located in North, 40-45% South and West, and the rest in East.

Burger King Corporation has awarded BKIL the “Global Master Franchisee of the Year” in 2018 for the Company's strong business performance on sales, operations, development and profitability. Further, BKIL has consistently won regional performance awards since 2015, including “APAC Master Franchisee of the Year” and “APAC Operator of the Year” in 2018 and 2019, as well as “APAC Marketer of the Year” in 2017 and 2018.

Covid-19 impact

The revenue from sale of food and beverages grew from INR3.8bn in FY18 to INR8.4bn in FY20. However, the COVID-19 crisis has had a significant impact on its results of operations at the end of FY20 and in 1HFY21. Thus revenue from sale of food and beverages declined to INR1.3bn in 1HFY21, compared to INR4.2bn in 1HFY20. In addition, although its same-store sales grew at 29.21% in FY19 and 6.11% in the 9MFY20, the same-store sales growth decreased by 0.3% in FY20 and by 56.9% in 1HFY21 primarily due to the impact of the COVID-19 crisis. As of the date, its restaurants in all cities across India have reopened, but with limited operations. During the COVID-19 crisis, when the restaurants were not permitted to provide dine-in services but were allowed to remain open, BKIL focused its business on drive-thru, takeaway and delivery. The company has also launched an improved version of its BK mobile app, which includes (i) the Omni Channel experience in ordering for dine-in, takeaway and delivery (ii) the BK Crown loyalty program, and (iii) exclusive offers through digital coupons.

Peer Comparison

Exhibit 9: Business Model of key brands in India

Heads	Domino's	Subway	McDonald's	KFC	Burger King
Outlet Count	1,354	311	454	541	261
APC (INR)	200-225	225-250	200-225	175-200	200-225
Avg. Ticket Value (INR)	500-550	550-600	500-550	250-300	500-550
COGS	22-23%	34-36%	34-36%	32-34%	35-36%
Gross Margins	77-78%	64-66%	64-66%	66-68%	64-65%
Advertisement	4-5%	5-6%	6-7%	4-5%	~5%
Royalty	3-4%	4-5%	7-8%	7-8%	4-5%
Store EBITDA	21-23%	13-15%	14-16%	20-22%	12-14%
Capex for Initial Build & Opening	150-200L	350-400L	300-350L	40-50L	200-250L
Avg. Store Size (Sq. ft.)	1,400-1,600	2,600-3,200	2,500-3,000	750-1,000	1,300-1,400
Avg. Sales/Day	0.75-0.8L	1.2-1.3L	1.2-1.3L	0.3-0.35L	1.1-1.2L

Source: RHP, MOFSL

Exhibit 10: Financial comparison of listed peers

(INR m)	Burger King		Jubilant FoodWorks		Westlife Development	
	FY19	FY20	FY19	FY20	FY19	FY20
SSSG (%)	29.2	-0.3	16.4	3.2	17.0	4.0
Sales	6,327	8,412	35,631	39,273	14,020	15,478
YoY change (%)	67.3	33.0	18.0	10.2	23.5	10.4
EBITDA	790	1,040	5,998	8,756	1,190	2,140
Margins (%)	12.5	12.4	16.8	22.3	8.5	13.8
YoY change (%)	872.0	31.7	36.3	46.0	53.8	79.9
Adj. PAT	-383	-722	3,180	2,974	213	93
YoY change (%)	-	-	62.0	-6.5	65.7	-56.4

Source: RHP, MOFSL

Exhibit 11: Peer comparison

Company	M.Cap.	Revenue CAGR	No of Outlets CAGR	ROE	P/BV	P/Sales	EV/EBITDA
	INR Bn	FY16-20 (%)	FY16-20 (%)	FY20 (%)	(x)	(x)	(x)
Jubilant Foodworks	335	12.0	6.8	24.9	29.9	7.0	39.3
Westlife Development	69	17.0	5.6	-1.3	11.9	4.4	37.4
Burger King	23	56.3	51.8	-27.5	8.3	2.7	29.4

Source: Company RHP, MOFSL

*Price Data as on 1st December, 2020

^Calculated on annualized and fully diluted basis at upper price band of INR60

Management Profile

Shivakumar Pullaya Dega is the Chairman and Independent Director of the company. He was appointed as an Independent Director on October 14, 2019. He is currently serving as the Group Executive President for corporate strategy and business development of Aditya Birla Management Corporation Pvt. Ltd. He previously served as the Chairman and CEO (India region) of PepsiCo India Holdings Pvt. Ltd and as a Managing Director of Nokia India Pvt. Ltd. He has significant experience in, among others, food and beverage industry and mobile industry.

Rajeev Varman is the CEO and Whole Time Director of the company since February 27, 2014. He is responsible for management and running of business of the company both at strategic and operational level and overview innovation in the company across all areas including operations and production. He has over 20 years of work experience in food and beverage industry. Prior to joining the company, he has worked with Tricon/Taco Bell brand, Lal Enterprises Inc., and Burger King Corporation.

Ajay Kaul, Amit Manocha, Jaspal Sabharwal and **Peter Perdue** are the Non-Executive Directors in the company.

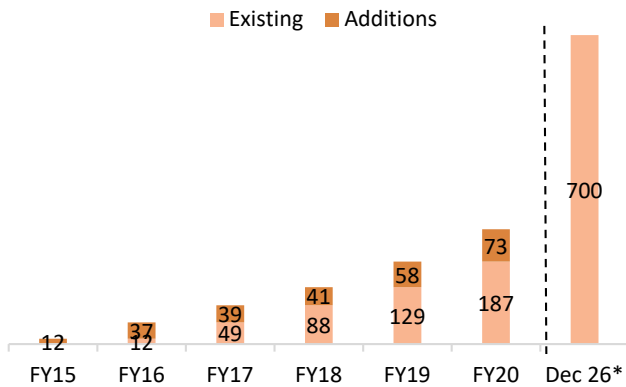
Sandeep Chaudhary and **Tara Subramaniam** are the Independent Directors of the company.

Risk and concerns

- The uncertainty over the COVID-19 pandemic persists which could continue to have a substantial impact on its restaurant operations.
- The termination of its Master Franchise and Development Agreement would have an adverse effect on the business and financial performance of the company.
- As an operator of QSR restaurants, its business is susceptible to health concerns arising from food-borne illnesses, health epidemics, food quality, allergic reactions and other negative food-related incidents, which could cause a temporary or permanent closure of restaurants and materially disrupt its business.
- BKIL relies on a single third-party distributor for the purchase, supply and delivery of most of its ingredients and packaging materials, which if disrupted or delayed, could adversely affect its operations.
- BKIL operates in a highly competitive industry with fast changing consumer preferences and food habits.

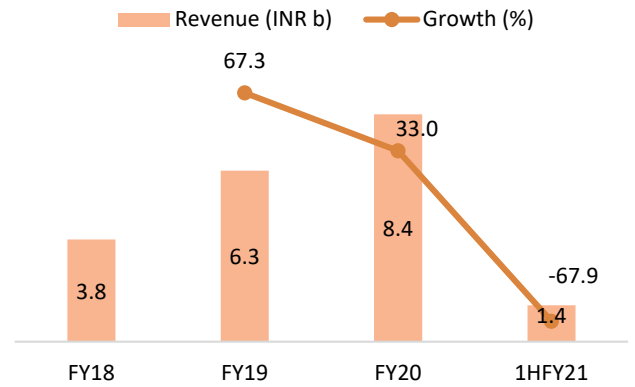
Story in Charts

Exhibit 12: Added 200+ stores in <5 years....



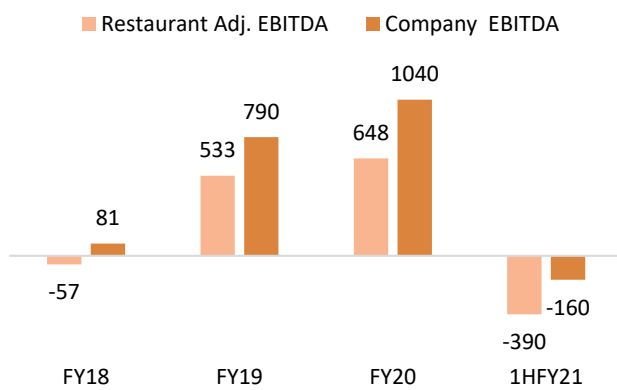
Source: RHP, MOFSL

Exhibit 13: ...led to revenue CAGR of 49% over FY18-20



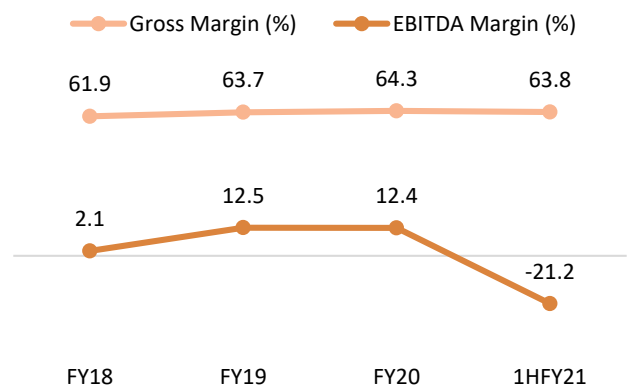
Source: RHP, MOFSL

Exhibit 14: EBITDA showing improving trend ex 1HFY21



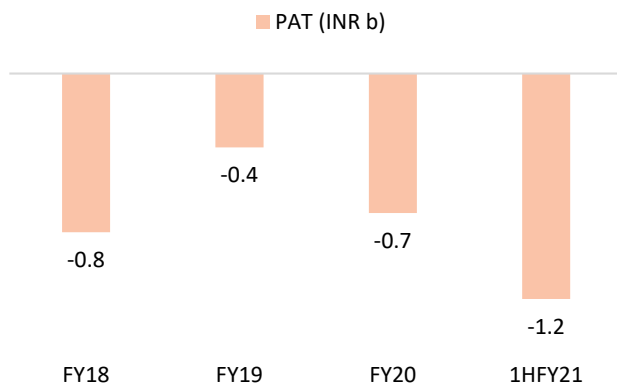
Source: RHP, MOFSL

Exhibit 15: Gross margins stable while EBITDA margin took a hit in 1HFY21



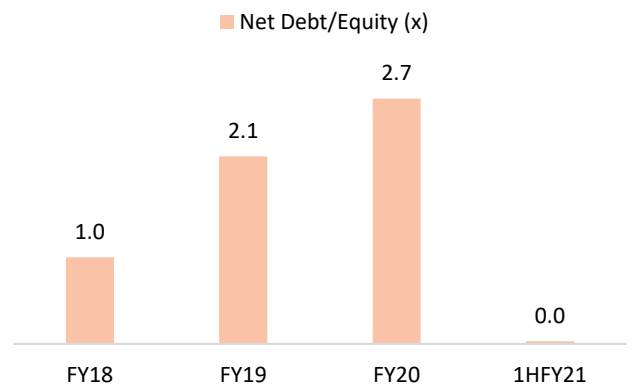
Source: RHP, MOFSL

Exhibit 16: PAT continues to be negative



Source: RHP, MOFSL

Exhibit 17: Debt to reduce to zero post IPO



Source: RHP, MOFSL

Financials

Income Statement

(INR mn)

Y/E March	FY18	FY19	FY20	1HFY21
Net Sales	3,781	6,327	8,412	1,352
Change (%)	-	67.3	33.0	-67.9
Total Expenditure	3,700	5,537	7,372	1,639
% of Sales	97.9	87.5	87.6	121.2
EBITDA	81	790	1,040	-287
Margin (%)	2.1	12.5	12.4	-21.2
Depreciation	640	822	1,164	621
EBIT	-559	-32	-124	-909
Int. and Finance Charges	369	465	655	424
Other Income	106	114	56	164
PBT	-822	-383	-766	-1,189
Tax	0	0	0	0
Tax Rate (%)	0.0	0.0	0.0	0.0
Reported PAT	-822	-383	-766	-1,189
Adjusted PAT	-822	-383	-722	-1,168
Change (%)	-	-53.4	88.7	223.5
Margin (%)	-21.7	-6.0	-8.6	-86.4

Source: Company RHP, MOFSL

Balance Sheet

(INR mn)

Y/E March	FY18	FY19	FY20	1HFY21
Share Capital	2,650	2,650	2,777	2,909
Reserves	221	-154	-23	-721
Net Worth	2,871	2,496	2,754	2,189
Debt	3,700	5,740	7,963	7,841
Deferred Tax (Net)	0	0	0	0
Total Capital Employed	6,572	8,237	10,717	10,030
Net Fixed Assets	5,923	7,926	10,367	10,063
Capital WIP	103	202	476	411
Investments	869	384	186	280
Current Assets	408	693	949	1,016
Inventory	52	69	94	81
Debtors	26	59	32	67
Cash and Bank Balance	74	160	280	334
Loans and Advances & OCA	257	405	542	535
Curr. Liability & Provisions	732	968	1,260	1,742
Account Payables	434	609	816	1,261
Current Liabilities	240	276	216	240
Other Long Term Liab. & Provs.	58	83	228	241
Net Current Assets	-324	-275	-311	-726
Misc Expenditure	0	0	0	0
Appl. of Funds	6,572	8,237	10,717	10,030

Source: Company RHP, MOFSL

Key Ratios

Y/E March	FY18	FY19	FY20	1HFY21
Basic (INR)				
EPS	-2.2	-1.0	-1.9	-6.1
Cash EPS	-0.5	1.2	1.2	-2.9
BV/Share	7.5	6.5	7.2	14.5
DPS	0.0	0.0	0.0	0.0
Valuation (x)				
P/E	-27.8	-59.8	-31.7	-9.8
Cash P/E	-125.8	52.1	51.9	-20.9
P/BV	8.0	9.2	8.3	4.1
EV/Sales	7.0	4.5	3.6	9.6
EV/EBITDA	326.4	36.1	29.4	-45.1
Dividend Yield (%)	0.0	0.0	0.0	0.0
Return Ratios (%)				
RoE	-28.6	-14.3	-27.5	-56.5
RoCE	-6.9	1.1	-0.7	-13.8
Working Capital Ratios				
Asset Turnover (x)	0.6	0.8	0.8	0.3
Inventory (Days)	5	4	4	11
Debtor (Days)	2	3	1	9
Creditor (Days)	42	35	35	170
Leverage Ratio (x)				
Net Debt/Equity	1.0	2.1	2.7	0.0

Source: Company RHP, MOFSL

*All ratios calculated on annualized and fully diluted basis

#Calculated on the upper price band of INR60

Cash Flow Statement**(INR mn)**

Y/E March	FY18	FY19	FY20	1HFY21
OP/(Loss) before Tax	-814	-386	-776	-1,190
Depreciation	640	822	1,164	621
Interest paid	369	465	655	424
Income Taxes paid	-4	-2	-2	8
(Inc)/Dec in WC	201	66	108	447
CF from Operations	393	965	1,148	310
Others	-88	-100	-21	-215
CF from Operating (Net)	305	865	1,127	96
(Pur)/Sale of FA	-866	-1,654	-2,275	-191
(Pur)/Sale of Investments	993	515	209	-90
(Inc)/ Dec in non-current bank deposits	-0	-0	-239	-1
Interest Received	0	0	0	5
CF from Investments	128	-1,140	-2,304	-278
Proceeds from borrowings	-	-	2,007	-
Proceeds from issue of shares/CCPS	-	1,000	-	581
Interest Paid	-	-	-53	-100
Payment of lease liabilities	-484	-639	-895	-248
CF from Fin. Activity	-484	361	1,059	233
Net Inc/Dec of Cash	-52	87	-118	51

Source: Company RHP, MOFSL

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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