

## Burger King India Ltd

### IPO Note

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**Analyst:**

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30 November 2020

# IPO details

Key Data	
Issue Opens	02-Dec-20
Issue Closes	04-Dec-20
Equity Shares Offered (in mn.)	135.00
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (Rs)	10
Price Band (Rs)	59-60
Max. Issue Size (Rs mn)	8,100
Lot Size (Eq. Shares)	250 and multiple thereof

Valuation	@ 59 per share	@ 60 per share
Market Cap ( mn)	22,518	22,899
Net Debt (Rs mn)	170	170
Enterprise Value (Rs mn)	22,688	23,070
EV/ Sales	27.0	27.4
EV/ EBITDA	218.1	221.8
P/E	NA	NA

\* Calculated on EPS of FY17

Source: Red Herring Prospectus, Dealmoney Research

	Pre Issue		Post Issue^	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	289.3	94.3%	229.3	60.1%
Public	17.3435	5.7%	17.3	4.5%
Others	0.0	0.0%	0.0	0.0%
Offer for sale		0.0%	60.0	15.7%
Fresh Issue		0.0%	75.0	19.7%
Total	306.7	100.0%	381.7	100.0%

## Object of the issue

- To finance the roll-out of new company-owned Burger King Restaurants.
- To meet the general corporate purposes

## Recommendation

Burger King is one of the fastest growing QSR business in India it has been growing at a CAGR of 98% over 5 years bearing Covid 19 impacted Quarter. We therefore expect the growth trajectory will continue and its financial position to improve going ahead. Therefore, we recommend to **SUBSCRIBE** over the issue.

## One of the fastest growing international QSR chains in India

- ❑ Burger King India Ltd (BKIL) is one of the fastest growing international QSR chains in India during the first five years of its operations based on number of restaurants. (Source: Technopak) As the national master franchisee of the BURGER KING® brand in India, it has exclusive rights to develop, establish, operate and franchise Burger King branded restaurants in India.
- ❑ Its master franchisee arrangement provides it with flexibility to tailor its menu to Indian tastes and preferences, as well as its promotions and pricing. Its customer proposition focuses on value leadership, offering its customers variety through innovative new food offerings at different day parts, catering to the local Indian palate, offering a wide range of vegetarian meal options, and its taste advantage and flame grilling expertise.
- ❑ 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 its restaurants, enhance the customer experience it offers and contribute to its growth.
- ❑ As of the date, they had 259 Company-owned Burger King Restaurants and 9 Sub-Franchised Burger King Restaurants, of which 249 were operational, including 2 Sub-Franchised Burger King Restaurant.
- ❑ Its revenue from sale of food and beverages grew from ₹3,752.00 million in Fiscal 2018 to ₹8,353.23 million in Fiscal 2020. However, the COVID-19 crisis has had a significant impact on results of operations at the end of Fiscal 2020 and in the six months ended September 30, 2020, resulting in a decrease of its revenue to ₹1,346.93 million in H1FY21, compared to ₹4,193.70 million in H1FY20. In addition, although its same-store sales grew at 29.21% in Fiscal 2019 and 6.11% in the nine months ended December 31, 2019, its same-store sales decreased by 0.30% in Fiscal 2020 and by 56.9% in the six months ended September 30, 2020 primarily due to the impact of the COVID-19 crisis.

Source: Red Herring Prospectus, Dealmoney research

# Strengths

- ❑ **Exclusive national master franchise rights in India:** It is the national master franchisee of the Burger King brand in India, with exclusive rights to develop, establish, operate and franchise Burger King branded restaurants in India.
- ❑ **Strong customer proposition:** Company's aim has not only been to offer quality products that are tailored to Indian taste and preferences, but also to provide substantial value at attractive price points. BKIL has a wide variety of 18 different vegetarian and non-vegetarian burgers covering both value and premium offerings. Its menu items are developed and made in India to cater to the local Indian palate and include a wide range of vegetarian meal options. Of the 18 burgers that BKIL has developed specifically for the Indian market, 7 are vegetarian burgers targeting customers who seek vegetarian food options.
- ❑ **Brand positioned for millennials:** Approximately 60% of Indians eating out are millennials, which represent the age group from 15 to 34 years old. India has a large number of millennials. BKIL connect with millennials, many of whom are just entering the workforce, through its value leadership and strong entry menu at attractive price points. They also connect with millennials through its advertising and marketing campaigns, both on television and social media, its inrestaurant design and messaging, and the packaging of its products.
- ❑ **Vertically managed and scalable supply chain model:** The exclusive national rights and flexibility that its master franchisee arrangement provides BKIL means that they have significant control over the purchasing of its ingredients and packaging materials. They also have multiple suppliers for most of its key ingredients, enabling them to generate competitiveness among its suppliers with the aim of obtaining the best procurement price. They also benefit from certain of its suppliers being global suppliers that source large volumes of ingredients and packaging materials, which helps them obtain more competitive pricing.

# Strengths

- ❑ **Operational quality, a people-centric culture and effective technology systems:** BKIL maintain system-wide operating procedures consistent with Burger King's global standards with respect to product quality, taste parameters, food preparation methods, food safety and cleanliness and customer service standards. : BKIL's operations are driven by its people-centric policies and practices, which is a principal component of its ability to enhance customer experience at their restaurants. BKIL utilises "360° technology" in its interactions with their customers and across the operations, including in the operations of its restaurants, its supply chain and in the management of the business. They equip all of its restaurants with technology, which provides them with the flexibility to alter menu placement of its products and match customer preferences.
- ❑ **Well defined restaurant development process:** BKIL has a well-defined new-restaurant roll out process that enables them to identify locations and build out restaurants quickly, consistently and efficiently. BKIL build its restaurant network using a cluster approach and penetration strategy with the objective to provide greater convenience and accessibility for the customers across relevant geographies.

## Future road ahead

- ❑ **Increase the pace of expansion of the restaurant network:** BKIL intend to grow its restaurant network in a disciplined manner by continuing to identify new locations in key metropolitan areas and cities across India in order and build out restaurants quickly, consistently and efficiently to capitalise on the growing market opportunity in India for QSR restaurants. They expanded their number of restaurants from 12 restaurants as at March 31, 2015 to 260 restaurants, including 8 Sub-Franchised Burger King Restaurants, as at March 31, 2020, and currently had 268 restaurants, including 9 Sub-Franchised Burger King Restaurants.
- ❑ **Continue to build on the value leadership:** BKIL intends to continue to build on its value leadership in order to drive footfalls and increase same-store sales in its restaurants. They plan to do this by continuing to drive menu architecture to offer quality products that are not only tailored to Indian taste and preferences, but also to provide substantial value at attractive price points. They also intend to continue to offer customers its wide entry level menu across the burgers, wraps, sides and drinks that is available for under ₹100, which gives new customers opportunities to access its brand for the first time.
- ❑ **Continue to grow the brand awareness and loyalty:** The brand awareness and loyalty to the Burger King brand in India has increased since its launch in November 2014 and that there is significant opportunity to continue to grow its brand in India as their restaurant network grows and they penetrate further into existing and new markets. They intend to continue to increase awareness and consideration of its brand amongst Indian consumers by using their integrated marketing approach. They intend to continue to connect with millennials through its advertising and marketing campaigns.
- ❑ **Actively manage unit economics and achieve economies of scale through operational leverage:** BKIL intends to continue to actively manage the unit economics of its business and achieve economies of scale through operational leverage. As they continue to grow the number of restaurants, BKIL intend to continue spreading corporate-level fixed costs, in particular its brand building and launch expenses and its corporate-level administrative expenses, across a larger restaurant network. They also intend to continue to optimize spending on ingredients, reduce its exposure to price fluctuations and target best procurement prices by maintaining multiple suppliers for most of its key products.

Source: Red Herring Prospectus, Dealmoney research

## Future road ahead

- ❑ **Leverage technologies across the business:** BKIL intends to leverage its investments in the “360° technology” that they have invested in and deployed across its business of the past several years. They intend to continue to invest in technology. Its technology roadmap covers Customer engagement, Delivery and Business process.

Source: Red Herring Prospectus, Dealmoney research

## Peers Comparisons

### Business fundamentals of key QSR brands

Particulars	Dominos	McDonalds	KFC	Subway	Burger King
Average Ticket Value (Rs.)	500-550	550-600	500-550	250-300	500-550
Gross margins	77-78%	64-66%	64-66%	66-68%	64-65%
Royalty	3-4%	4-5%	7-8%	7-8%	4-5%
<b>Store EBIDTA margins</b>	<b>21-23%</b>	<b>13-15%</b>	<b>14-16%</b>	<b>20-22%</b>	<b>12-14%</b>
Capex per store	Rs1.5-2.0cr	Rs3.5-4cr	Rs3-3.5cr	Rs0.4-0.5cr	Rs.2 -2.5 crore
Average store size (in sq.ft.)	1400-1600	2600-3200	2500-3000	750-1000	1300-1400
<b>Average sales / Day</b>	<b>Rs. 0.7 lakh-0.8 lakh</b>	<b>Rs. 1.2 lakh -1.3lakh</b>	<b>Rs. 1.2 lakh -1.3 lakh</b>	<b>Rs. 0.3 lakh-0.35 lakh</b>	<b>Rs1.1 lakh-1.2 lakh</b>

### Same-store-sales growth of key brands

Brands	FY2018	FY2019	FY2020
Jubilant Foodworks (Dominos)	13.90	16.40	3.20
Westlife (McDonalds)	15.70	17.40	4.00
Burger King	12.20	29.20	-0.30

Source: Red Herring Prospectus, Dealmoney research



# Summary Financials

## Income Statement

Rs. mn	FY18	FY19	FY20	FY20
Total Income	378.1	632.7	841.2	135.2
Operating Expense	370.0	553.8	737.2	163.9
<b>EBIDTA</b>	<b>8.1</b>	<b>79.0</b>	<b>104.0</b>	<b>(28.7)</b>
Depreciation	64.0	82.2	116.4	62.1
Other Income	10.6	11.4	5.6	16.4
Finance Costs	36.9	46.5	65.5	42.4
<b>PBT</b>	<b>(82.2)</b>	<b>(38.3)</b>	<b>(72.2)</b>	<b>(116.8)</b>
Exceptional items	-	-	(4.4)	2.1
<b>Profit before tax</b>	<b>(82.2)</b>	<b>(38.3)</b>	<b>(76.6)</b>	<b>(118.9)</b>
Provision for Tax	-	-	-	-
<b>Profit for the year</b>	<b>(82.2)</b>	<b>(38.3)</b>	<b>(76.6)</b>	<b>(118.9)</b>

## Balance Sheet

Rs mn	FY17	FY18	FY19	FY20
<b>Liabilities</b>				
Share capital	265	265	265	278
Share Warrants & Outstandings	2	3	4	4
Minority Interest	-	-	-	-
Reserves and surplus	100	19	(19)	(6)
Long-Term Borrowings	-	-	-	179
Deferred tax liabilities(Net)	-	-	-	-
Other Long Term Liabilities	280	353	452	567
Long term provisions	3	3	5	19
Other financial liabilities	-	-	-	-
Trade payables	19	43	61	82
Other current liabilities	28	42	51	53
Short term borrowings	-	-	100	20
Short Term Provisions	1	2	2	3
<b>Total Liabilities</b>	<b>698</b>	<b>730</b>	<b>920</b>	<b>1,198</b>
<b>Assets</b>				
Net Block	475	592	793	1,037
Capital Work in Progress	10	10	20	48
Investments	-	-	-	-
Loans & Advances	13	19	26	32
Deferred Tax Assets	0	0	0	1
Currents Investments	177	87	38	19
Inventories	4	5	7	9
Trade receivables	1	3	6	3
Cash and cash equivalents	12	7	16	28
Loans & Advances	4	4	11	10
Other current assets	2	3	4	11
<b>Total Assets</b>	<b>698</b>	<b>730</b>	<b>920</b>	<b>1,198</b>

Source: Red Herring Prospectus, Dealmoney research

## Key Risks

- ❑ The outbreak of the 2019 novel coronavirus (“COVID-19”) pandemic, as well as GoI measures to reduce the spread of COVID-19, have had a substantial impact on its restaurant operations and the timing of how long the COVID19 pandemic and the related GoI measures will last is still uncertain.
- ❑ Real and perceived health concerns arising from food-borne illnesses, health epidemics, food quality, allergic reactions or other negative food-related incidents could have a material adverse effect on its business.
- ❑ Its exclusive right to develop, operate and franchise Burger King restaurants in India depends on the Master Franchise and Development Agreement.
- ❑ The termination of its Master Franchise and Development Agreement would have a material adverse effect on its business.
- ❑ Demand for its products may decrease due to changes in consumer preferences and food habits, which could have a material adverse effect on its business.

Source: Red Herring Prospectus, Dealmoney research

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