ANANDRATHI

India I Equities

QSR

Result Update

Change in Estimates ☑ Target ☑ Reco ☐

30 July 2026

Devyani International

Sustained SSSG and rising dine-in salience drive optimism; retain BUY

Rating: **BUY**
Target Price (12-mth): Rs.160
Share Price: Rs.118

Devyani International delivered a broad-based growth in Q1FY27 with consolidated revenue rising by 17% to Rs15.8bn, aided by: (a) positive SSSG across most brands (led by KFC with 3% SSSG and BBK, Costa Coffee & Vango with >7% SSSG); (b) disciplined store expansion; and (c) continued strength in international business. The company's turnaround strategy of innovation (several launches lined up in KFC), value focus, higher dine-in sales and driving efficiency are yielding results. The management reiterated its confidence in proposed merger of Sapphire Foods, which remains on track for completion by FY27-end, and likely to strengthen execution, unlock operational synergy and create an efficient combined platform. We maintain BUY rating on the stock with a revised TP of Rs160 (from Rs172 earlier), valuing it at 16x FY28e EV/E (vs. 18x FY28e EV/E previously) to factor in soft operational performance over FY25/26, driving subsequent sectoral de-rating.

Key Quarterly Highlights: India business revenue grew 15% y/y to Rs10.7bn. KFC revenue grew 12% y/y to Rs6.8bn, while SSSG stood at 3.3% (vs. -0.7% Q1FY26) and net addition of 12 stores. PH revenue fell 1% y/y to Rs1.8bn, while SSSG stood at -2.2% (vs. -4.2% Q1FY26) with net reduction of 13 stores. Own Brands' revenue rose to Rs978m from Rs350m, due to BBK acquisition, with net store count rising by 17. International business revenue grew 20% y/y to Rs5.2bn, led by strong performance in Thailand. We expect the company's revenue to clock ~13% CAGR over FY26-28e, led by improved KFC performance, own brand portfolio and international business.

Operating Performance: EBITDA grew 24% y/y to Rs2.5bn with 100bps y/y expansion in EBITDA margin to 16.1%, aided by 90bps y/y improvement in gross margin, through better procurement, improved channel mix and disciplined pricing actions partly offsetting higher LPG, commodity and packaging cost. Going forward, we expect sustained SSSG recovery across KFC and own brand formats aiding operating leverage and driving EBITDA margin expansion by 190bps to 16.9% over FY26-FY28e.

Key Concall Highlights: (a) KFC continues to prioritise improving ADS and sustaining positive SSSG, with long-term margin expansion likely to be driven by operating leverage and technology-led efficiency; **(b)** Proposed merger of Sapphire Foods remains on track for completion by FY27-end, with technology integration, leadership hiring and organisational restructuring progressing as planned; **(c)** The company remains focused on driving dine-in growth through differentiated pricing and stronger consumer propositions, while maintaining a disciplined approach towards discounting and profitable growth; **(d)** It aims to scale Biryani by Kilo to a Rs10bn brand over the next few years through network expansion, new formats and menu innovation.

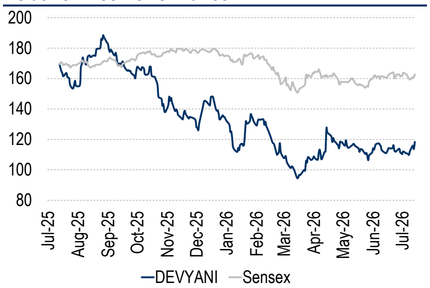
Outlook and Valuation: At CMP, the stock trades at 14/11.6x FY27/28e EV/EBITDA. We maintain BUY rating on the stock with a revised TP of Rs160, valuing it at 16x FY28e EV/E. **Key Risks:** (a) Weak SSSG due to lower discretionary demand; (b) adverse change/termination of franchisee agreement with Yum! Brands; (c) higher competition; and (d) sharp rise in input cost.

Key Data	DEVYANI IN
52-week high / low	Rs191 / 92
Sensex / Nifty	77928 / 24317
Market cap	Rs146bn
Shares outstanding	1233m

Shareholding Pattern (%)	Jun'26	Mar'26	Dec'25
Promoters	61.4	61.4	61.4
- of which, Pledged	*0*	*0*	*0*
Free Float	38.6	38.6	38.6
- Foreign Institutions	6.8	6.1	5.8
- Domestic Institutions	18.8	19.3	19.4
- Public	13.0	13.2	13.4

Estimates Revision (%)	FY27e	FY28e
Sales	2%	2%
EBITDA	1%	1%
PAT	-1%	-1%

Relative Price Performance



Source: Bloomberg

Ajay Thakur
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income Statement (Rs m)

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
Net revenue	35,563	49,511	56,115	63,743	71,813
Growth (%)	18.6	39.2	13.3	13.6	12.7
Direct cost	10,566	15,388	17,719	19,788	21,982
Gross profit	24,997	34,122	38,396	43,955	49,831
Gross margin (%)	70.3	68.9	68.4	69.0	69.4
Other expenses	18,513	25,989	29,986	33,645	37,710
EBITDA	**6,485**	**8,133**	**8,409**	**10,310**	**12,121**
EBITDA margin (%)	18.2	16.4	15.0	16.2	16.9
- Depreciation	3,848	5,699	6,540	7,288	8,057
Other income	327	370	564	640	732
Interest expenses	1,890	2,674	2,782	2,488	2,262
PBT	1,074	131	-349	1,173	2,534
Effective tax rates (%)	12.4	150.2	41.1	20.0	25.0
+ Associates / (Minorities)	-569	-160	-39	-	-
Net Income	940	-66	-205	939	1,901
WANS	1,206	1,206	1,233	1,230	1,230
FDEPS (Rs)	0.8	-0.1	-0.2	0.8	1.5

Fig 2 – Balance Sheet (Rs m)

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
Share capital	1,206	1,206	1,233	1,230	1,230
Net worth	10,558	10,944	15,418	16,354	18,255
Debt	9,102	9,318	13,604	10,504	9,004
Minority interest	2,928	3,079	3,434	3,434	3,434
TL / (Assets)	-512	-574	429	2,096	2,096
	-	-	-	-	-
Capital employed	**22,075**	**22,766**	**32,885**	**32,388**	**32,788**
Net tangible assets	31,901	35,129	45,844	41,030	42,653
Net intangible assets	5,709	6,254	6,254	6,254	6,254
Goodwill	4,287	4,581	4,581	4,581	4,581
CWIP (tang. & intang.)	378	294	257	800	800
Investments (strategic)	-28	-19	1	1	1
Investments (financial)	28	31	23	23	23
Current assets (excl. cash)	4,730	4,728	5,591	6,424	7,273
Cash	1,808	1,814	4,948	11,838	13,433
Current liabilities	26,737	30,045	34,614	38,564	42,230
Working capital	-22,008	-25,318	-29,024	-32,140	-34,957
Capital deployed	**22,075**	**22,766**	**32,885**	**32,388**	**32,788**

Fig 3 – Cash-flow Statement (Rs m)

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
PBT	37	131	-569	1,173	2,534
+ Non-cash items	-5,780	-8,203	-8,932	-9,136	-9,586
Oper. prof. before WC	5,817	8,334	8,363	10,310	12,121
- Incr./ (decr.) in WC	375	648	946	3,116	2,817
Others incl. taxes	267	-20	117	235	634
Operating cash-flow	5,925	9,002	9,192	13,191	14,304
- Capex (tang. + intang.)	-4,619	-4,818	-4,408	-3,017	-9,680
Free cash-flow	1,306	4,184	4,784	10,175	4,625
Acquisitions					
- Div. (incl. buyback & taxes)	-	-	-	-	-
+ Equity raised	21	13	128	-3	-
+ Debt raised	8,052	-288	500	-3,100	-1,500
- Fin investments	10,911	-185	18	-	-
- Misc. (CFI + CFF)	10,072	3,982	2,570	182	1,530
Net cash-flow	-11,605	112	2,824	6,890	1,595

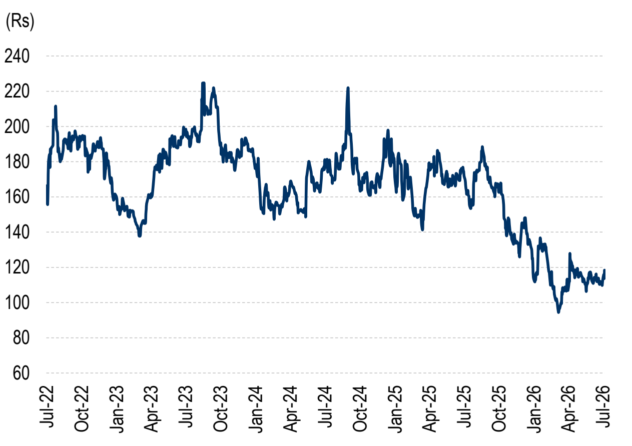
Source: Company, Anand Rathi Research

Fig 4 – Ratio Analysis

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
P/E (x)	148.7	-2,127.8	-697.0	152.0	75.1
EV / EBITDA (x)	23.2	18.5	18.0	13.7	11.4
EV / Sales (x)	4.2	3.0	2.7	2.2	1.9
P/B (x)	13.2	12.8	9.3	8.7	7.8
RoE (%)	8.9	-0.6	-1.3	5.7	10.4
RoCE (%) - after tax	16.5	-6.3	5.1	9.0	11.0
RoIC (%) - after tax	18.0	-6.8	5.9	12.1	18.0
DPS (Rs)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Dividend payout (%) - incl. DDT	-	-	-	-	-
Net debt / equity (x)	0.7	0.7	0.6	-0.1	-0.2
Receivables (days)	5.4	3.0	4.2	4.0	3.8
Inventory (days)	13.4	10.9	10.7	11.0	11.2
Payables (days)	38.6	32.5	40.0	40.6	40.2
CFO : PAT (%)	630.0	-13,689.5	-4,479.6	1,405.4	752.5

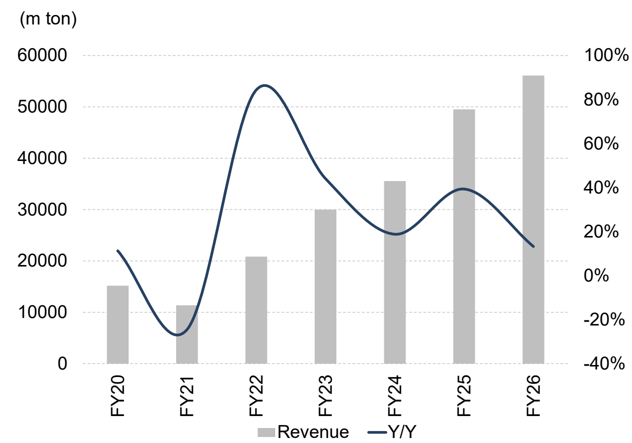
Source: Company, Anand Rathi Research

Fig 5 – Price Movement



Source: Bloomberg

Fig 6 – Revenue Trend



Source: Company

Earnings Concall – Key Highlights

Business Overview

- The company began FY27 on a strong note with continued momentum from H2FY26, delivering broad-based growth as most brands reported positive SSSG, led by KFC, while Costa Coffee, Vaango and Biryani by Kilo sustained healthy demand.
- Consolidated revenue grew **16.5% y/y to Rs15.8bn**, aided by healthy SSSG, disciplined store expansion and continued strength in international business.
- Turnaround strategy under new leadership has started yielding results, with the company focusing on profitable growth, improving customer experience, technology adoption, regional operating structures and organisational readiness for proposed merger of Sapphire Foods.
- Operating environment remained volatile due to elevated crude oil prices, LPG inflation, wage hikes and currency weakness, although demand trends remained stable with consumers responding positively to the company's differentiated dine-in strategy.
- The company reiterated its focus on profitable growth, sharper consumer propositions across dine-in and delivery channels and building a stronger combined platform ahead of the proposed merger with Sapphire Foods.
- Despite inflationary pressure from LPG, food commodities and annual wage revisions, disciplined cost management, selective price increases and better operating efficiencies helped offset a significant part of the cost inflation.

Margin & Cost Structure

- Operating EBITDA grew **38%to Rs1.51bn**, marking the company’s highest-ever quarterly operating EBITDA with margin expanding to **9.6%**.
- Gross margin improvement was driven by judicious discounting, procurement efficiency and disciplined pricing actions across KFC and Pizza Hut, while the company maintained a balanced promotional strategy instead of pursuing aggressive online discounting.
- Selective price hikes were implemented across KFC and Pizza Hut to partly offset higher LPG, commodity and packaging costs, while the company continues to closely monitor raw material inflation.
- Higher utility expenses during the summer season, increased minimum wages and annual salary increments weighed on operating cost, although these were largely mitigated through tighter cost control and operating leverage.
- Marketing investments remained focused on consumer occasions and return on investment rather than deep discounting, with KFC shifting spends towards increasing dine-in traffic while Pizza Hut concentrated on product quality and everyday value.
- Technology adoption has been identified as the next major margin lever, with meaningful efficiency benefits expected to emerge over the next few quarters following completion of Sapphire Foods merger.

Brand-wise Performance & Growth

KFC

- KFC remained the key growth driver with revenue increasing ~12% y/y to Rs6.8bn, while delivering 3.3% positive SSSG. Dine-in sales mix improved to 57%, >300bps higher y/y, as the company's differentiated pricing and promotional strategy successfully encouraged consumers to return to dine-in channels.
- Gross margin improved 230bps to 69.4%, while brand contribution margin expanded 140bps, resulting in brand contribution increasing 22% to Rs1.15bn.
- The company believes sustainable margin expansion will primarily be driven by improving average daily sales (ADS), with KFC targeting Rs105k-110k ADS, which could support 20%+ brand contribution margins under the current cost environment.
- The management expects medium-term SSSG of ~5-6%, aided by better quality store addition, stronger dine-in mix, operating leverage and technology-led productivity improvements.
- Global KFC initiatives including Quench beverage platform, sauces and boneless offerings are planned for India in phases, with Quench likely to be the first rollout after localisation and capex optimisation.

Pizza Hut

- Pizza Hut reported -2.2% SSSG, although performance improved sequentially with ADS increasing to ~Rs32k, indicating gradual operational recovery. Ending the quarter with 626 stores, while maintaining its strategy of exiting underperforming locations.
- Revenue stood at Rs1.84bn, while gross margin improved to 76.3%, aided by tighter cost control and disciplined pricing.
- Higher operating cost and lower sales productivity led to brand contribution loss of Rs36m, despite higher gross profitability.
- Strategic focus remains on strengthening product quality, innovation, menu architecture and pricing across all customer price points, with a broader turnaround expected after Sapphire Foods merger streamlines decision-making.

Own Brands (Biryani by Kilo & Vaango)

- Own brands delivered healthy show with BBK/Vaango recording 7.2/7.1% SSSG, reflecting sustained consumer acceptance. Own brands generated Rs980m, while gross margin improved sequentially to 65.9% with brand contribution margin of 10.2%.
- Biryani by Kilo continues to make progress on both revenue and profitability and remains on track to achieve acquisition turnaround objectives. The company has begun testing dine-in formats, airport outlets and a vegetarian portfolio for Biryani by Kilo to widen customer reach. The management aims to build Biryani by Kilo to a Rs10bn brand over the next few years.
- Vaango continues to benefit from favourable consumer preference for South Indian cuisine across multiple dayparts, while efforts remain focused on further strengthening product consistency before accelerating expansion.

Costa Coffee & International Business

- Costa Coffee and other franchise brands recorded ~6% revenue growth, while higher input cost moderated gross margin to 74.6%. Better operating cost management aided brand contribution margin to improve to 15.1%, despite inflationary pressure.
- International operations maintained strong momentum, delivering >20% revenue growth to Rs5.23bn, while operating leverage helped improve brand contribution margin by 150bps y/y to 18.2%.
- Thailand continued to perform strongly, with the management expressing confidence in business and remaining open to evaluating additional opportunities if offered by the franchisor.

Expansion & Capex Strategy

- The company opened 12 net new KFC stores and 3 net new BBK stores in Q1FY27, while reaffirming that annual store addition plan remains in line with earlier guidance.
- Development activities across all brands have been consolidated under a single leadership structure to improve site selection, landlord negotiations and overall expansion efficiency.
- BBK Express is being expanded via a smaller-format, lower-capex model, with encouraging early response across food court locations.
- Shift towards increasing dine-in traffic does not require larger stores or incremental capex, as existing restaurant formats possess enough seating capacity following structural rise in delivery sales after COVID.

Merger Update

- Proposed merger with Sapphire Foods remains on schedule, with approvals from NSE and BSE already received and completion expected by the end of FY27e.
- Leadership hiring, organisational restructuring and technology platform development are progressing in line with integration plans to ensure a seamless post-merger transition. As both companies currently operate on similar technology platforms, the management expects system integration to be relatively smooth.
- It has partnered with Cognizant to accelerate technology development while strengthening its internal technology leadership ahead of merger.

Outlook & Other Highlights

- The company remains focused on maintaining positive SSSG across major brands, while improving profitability through technology adoption, disciplined cost management and operating efficiency.
- Dine-in will continue to receive greater strategic emphasis through differentiated pricing, exclusive offers and enhanced customer experience.
- The management believes Indian QSR demand remains fundamentally stable despite macroeconomic volatility, aided by improving consumer response, stronger performance of newer stores and healthier demand.
- Newly constituted leadership team has largely completed its transition, with the management expecting stronger execution, faster innovation and improved organisational capability.

Result Highlights

Fig 7 – Quarterly Results (Consolidated)

(Rs m)	Q1FY24	Q2Y24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q13Y26	Q4FY26	Q1FY27
Net sales	**8,466**	**8,195**	**8,431**	**10,471**	**12,219**	**12,222**	**12,944**	**12,126**	**13,570**	**13,768**	**14,409**	**14,369**	**15,805**
y/y (%)	20.1	9.6	6.6	38.7	44.3	49.1	53.5	15.8	11.1	12.6	11.3	18.5	16.5
Gross Profit	5,998	5,802	5,954	7,244	8,450	8,474	8,892	8,306	9,252	9,329	9,928	9,886	10,915
Gross margin (%)	70.8	70.8	70.6	69.2	69.2	69.3	68.7	68.5	68.2	67.8	68.9	68.8	69.1
Staff cost	1,118	1,109	1,176	1,546	1,682	1,834	1,882	1,706	2,011	2,017	2,175	2,093	2,301
Other expenses	3,146	3,105	3,314	3,959	4,534	4,653	4,818	4,592	5,192	5,369	5,486	5,498	6,066
EBITDA	**1,734**	**1,588**	**1,463**	**1,739**	**2,234**	**1,987**	**2,192**	**2,008**	**2,049**	**1,943**	**2,267**	**2,295**	**2,548**
y/y (%)	5.5	-4.0	-15.9	14.9	28.8	25.2	49.9	15.5	-8.3	-2.2	3.4	14.3	24.4
EBITDA margin (%)	20.5	19.4	17.4	16.6	18.3	16.3	16.9	16.6	15.1	14.1	15.7	16.0	16.1
PBT	**602.9**	**330.0**	**96.8**	**43.9**	**305.3**	**(39.0)**	**86.2**	**(223.5)**	**30.8**	**(265.8)**	**67.2**	**(181.2)**	**228.6**
PAT	**590.9**	**473.4**	**96.2**	**349.1**	**301.1**	**0.2**	**(3.9)**	**(147.4)**	**40.2**	**(193.2)**	**122.3**	**(135.9)**	**145.8**
% to sales													
Staff cost	13.2	13.5	14.0	14.8	13.8	15.0	14.5	14.1	14.8	14.6	15.1	14.6	14.6
Other expenses	37.2	37.9	39.3	37.8	37.1	38.1	37.2	37.9	38.3	39.0	38.1	38.3	38.4

Source: Company

Fig 8 – Segment Performance

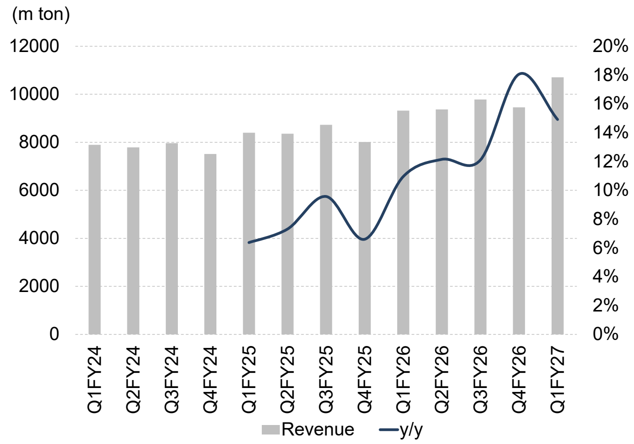
KFC	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27
Revenue(m)	5164	5090	5243	4941	5546	5434	5698	5109	6126	5723	6032	5855	6842
y/y (%)	22	15	14	11	7	7	9	3	10	5	6	15	12
Dine in (%)	63	61	60	59	59	58	58	55	54	54	55	55	57
Delivery (%)	37	39	40	41	41	42	42	45	46	46	45	45	43
SSSG (%)	-1	-4	-5	-7	-7	-7	-4	-6	-1	-4	-3	5	3
No of stores	510	540	590	596	617	645	689	696	704	734	788	783	794
ADS'000	117	109	104	93	104	96	96	83	98	89	90	84	98
Brand margin (%)	21.1	19.4	19.0	19.0	19.5	16.6	17.2	16.2	15.5	14.1	16.8	17.0	16.9

Pizza Hut	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27
Revenue(m)	1835	1840	1796	1621	1819	1848	1902	1754	1873	1860	1781	1692	1843
y/y (%)	11	1	-2	-4	-1	0	6	8	3	1	-6	-4	-2
Dine in (%)	43	45	44	45	45	44	46	44	45	45	46	46	48
Delivery (%)	57	55	56	55	55	56	54	56	55	55	54	54	52
SSSG (%)	-5	-10	-13	-14	-9	-6	-1	1	-4	-4	-9	-4	-2
No of stores (%)	521	535	565	567	570	593	644	630	618	621	639	639	626
ADS'000	40	39	37	32	36	35	35	31	33	33	31	30	32
Brand margin (%)	10.1	7.7	6.1	4.4	4.9	3.1	2.1	0.7	-1.1	-0.2	0.8	-1.4	-2.0

International	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27
Revenue(m)					3897	3943	4300	4195	4332	4495	4734	5033	5230
y/y (%)									11	14	10	20	21
No of stores					363	364	374	375	378	382	402	399	400
ADS '000'													
Thailand (THB)					59	59	58	55	56	54	54	55	55
Nigeria (Naira)					1064	1008	1064	962	1006	1029	1061	1011	1046
Nepal (NPR)					126	129	152	134	145	162	180	146	159
Gross margin (%)					63.7	65.1	64.0	64.2	65.7	64.0	64.9	65.1	65.4
Brand margin (%)					14.8	16.0	16.6	16.1	16.7	16.7	17.1	17.7	18.1

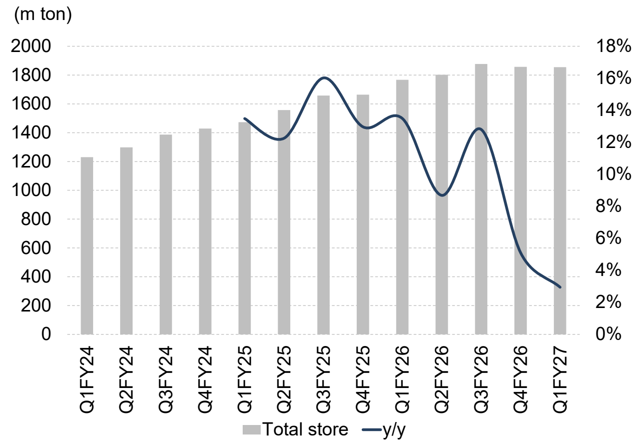
Source: Company

Fig 9 – DIL – India Revenue Trend



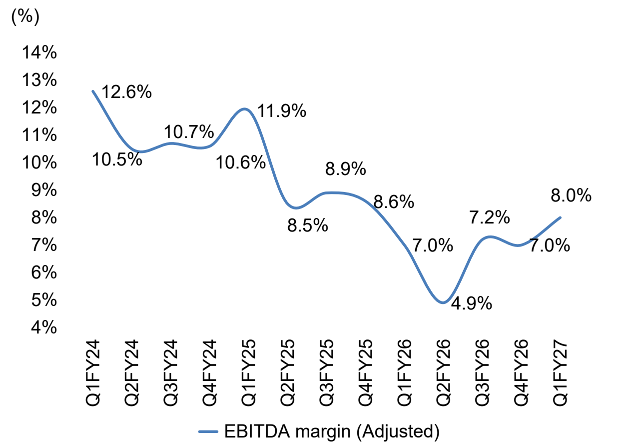
Source: Company, Anand Rathi Research

Fig 10 – DIL – India Store Growth Trend



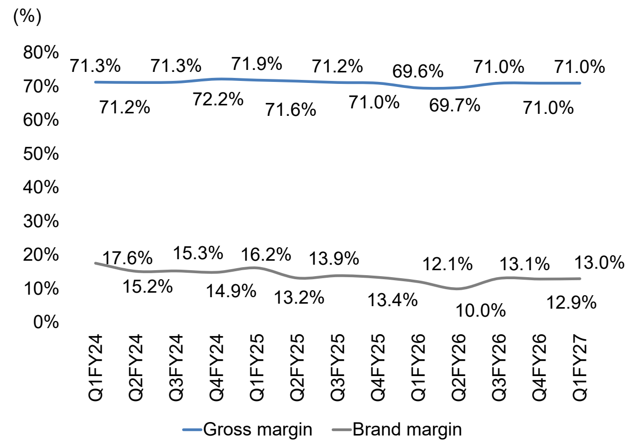
Source: Company, Anand Rathi Research

Fig 11 – DIL – India Adj. EBITDA Trend



Source: Company, Anand Rathi Research

Fig 12 – DIL – India Gross & Brand Margin Trend



Source: Company, Anand Rathi Research

Outlook and Valuation

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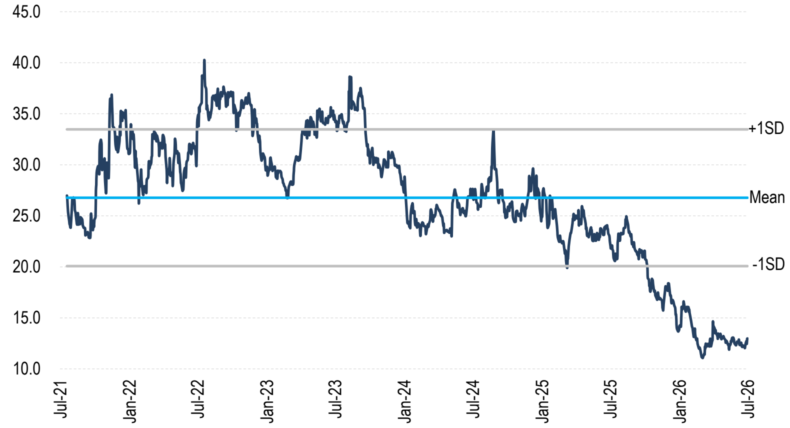
Fig 13 – Change in Estimates

(Rs m)	Old Estimates		Revised Estimates		Change (%)	
	FY27e	FY28e	FY27e	FY28e	FY27e	FY28e
Sales	62,420	70,589	63,743	71,813	2	2
EBITDA	10,247	11,981	10,310	12,121	1	1
PAT	945	1,920	939	1,901	-1	-1

Source: Anand Rathi Research

Fig 14 – 1-Year Fwd. EV/E



Source: BSE, Bloomberg, Anand Rathi Research

Key Risks

- Weak SSSG due to lower discretionary demand
- Adverse change/termination of franchisee agreement with Yum! Brands.
- Higher competitive intensity
- Sharp rise in input cost.
- Complexity in RM sourcing, hygiene protocols and cold-chain logistics.
- Limited differentiation and overlapping offerings across QSRs

Appendix

Analyst Certification

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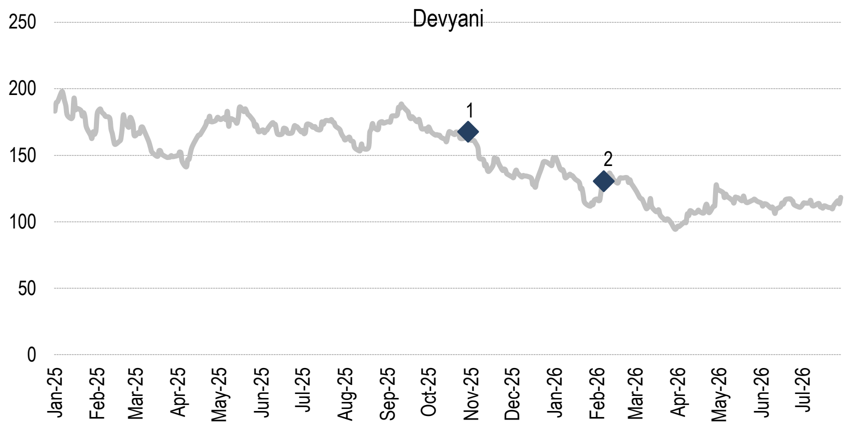
Rating and Target Price History (as of 29 July 2026)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	30-Oct-25	Buy	202	164
2	07-Feb-26	Buy	172	130

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