



SMC Ranking

★ ★ ★ ☆ ☆ (2.5/5)

Issue Highlights

Industry	FMCG
Total Issue (Shares) - Offer for sale	60,000,000
Total Issue (Shares) - Fresh Issue	75,000,000
Net Offer to the Public	135,000,000
Issue Size (Rs. Cr.)	796-810
Price Band (Rs.)	59-60
Offer Date	2-Dec-20
Close Date	4-Dec-20
Face Value	10
Lot Size	250

Issue Composition

	In shares
Total Issue for Sale	135,000,000
QIB	101,250,000
NIB	20,250,000
Retail	13,500,000

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	94.34%	60.08%
QIB	5.66%	31.07%
NIB	0.00%	5.31%
Retail	0.00%	3.54%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company proposes to utilise the Net Proceeds towards funding the following objects:

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

Book Running Lead Manager

- Kotak Mahindra Capital Company
- CLSA India Private Limited
- Edelweiss Financial Services Ltd
- JM Financial Consultants Private Limited

Name of the registrar

- Link Intime India Private Limited

About the Company

Burger King is the India's fastest growing quick service restaurant chains. It is the second largest fast food burger brand with having 216 Burger-King restaurants and 8 Sub-Franchised Burger King restaurants. It has an exclusive right to establish, develop, and operate Burger King branded restaurants in India. It aims to cater to the Indian tastes and preferences through adding new food offerings to its product portfolio. As at September 30, 2020, BKIL had 261 restaurants, including 8 Sub-Franchised Burger King Restaurants, across 17 states and union territories and 57 cities across India. As of date, it 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.

Strength

Exclusive national master franchise rights in India: The company 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. The master franchisee arrangement, which expires on December 31, 2039, provides The company with the ability to use Burger King's globally recognised brand name to grow its business in India, while leveraging the technical, marketing and operational expertise associated with the global Burger King. Its subfranchise rights also provide them with the additional flexibility to sub-franchise restaurants in locations where access to direct ownership of restaurants may be restricted due to the type of location, such as in airports and certain shopping malls where one party directly owns all the outlets. The company also benefits from Burger King's extensive global marketing and advertising concepts, product development capabilities and cooking techniques to drive sales and generate increased restaurant footfalls, while also being guided by Burger King Corporation restaurant development procedures and standards. Company's right to use the Burger King brand exclusively on a national basis also provides them with substantial advantages with respect to operational efficiencies and the speed with which it is able to roll out its national advertising campaigns, manage its supply chain and tailor their menu architecture, promotions and pricing to the customers' tastes and preferences. The company also enjoys favourable royalty rates that are capped at 5% under its master franchisee arrangement.

Strong customer proposition: The company offers a customer proposition that it believes enables it to attract customers and drive footfalls at its restaurants. The key pillars of its customer proposition include its value leadership, variety, a wide range of vegetarian offerings, taste advantage and flame grilling expertise. The 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. The key driver of this strategy has been its "two good menu with variety", "2 for" promotions. The company has a wide variety of 18 different vegetarian and non-vegetarian burgers covering both value and premium offerings. While its core strength is burgers, BKIL continuously strive to enhance its customer experience by providing variety across its food offerings, including burgers, wraps, beverages, sides, snacks, shakes and desserts across different day parts, including breakfast, lunch and dinner, and snack times and late night. 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.

Brand positioned for millennials: The company has positioned its brand to target the large and growing millennial population in India. It is expected that India's population will

continue to grow, the number of millennials that form part of India's working-age population increases. The company tries to connect with millennials, many of whom are just entering the workforce, through its value leadership and strong entry menu at attractive price points.

Vertically managed and scalable supply chain model: The exclusive national rights and flexibility that its master franchisee arrangement provides BKIL a significant control over the purchasing of its ingredients and packaging materials. It also has 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. It also benefits from certain of its suppliers being global suppliers that source large volumes of ingredients and packaging materials, which helps them obtain more competitive pricing.

Operational quality, a people-centric culture and effective technology systems: BKIL maintains 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. It has multiple levels of supervision and quality control for both its restaurant operations and the supply chain, including a third-party expert company that specialises in quality control, processes and sanitation that is appointed by BK AsiaPac. 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. The company 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 The company 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. In identifying and selecting new restaurant locations, BKIL undertakes detailed analyses of the trade area quality of the location, which focuses on the demographics of the location and the businesses in the surrounding areas; the site quality, which focuses on site visibility, footfall generation, accessibility and parking; and the feasibility of the site, which focuses on whether there is enough space for its restaurant layout and operations at the site. Its well-defined restaurant development has contributed to them becoming one of the fastest growing QSR brands to reach 200 restaurants among international QSR brands in India during the first 5 years of its operations. Currently it has 259 Company-owned Burger King Restaurants and 9 Sub- Franchised Burger King Restaurants. It currently plans to have approximately 300 restaurants, including Sub-Franchised Burger King Restaurants, open by December 31, 2021.

Strategy

Increase the pace of expansion of the restaurant network: BKIL intends 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. By increasing the pace of growth of their restaurant network, BKIL will be able to achieve further economies of scale through operational leverage. They intend to increase the pace of expansion of their restaurant network using their well-defined new-restaurant roll out process and the cluster approach and penetration strategy with respect to restaurant location. They currently plan to have approximately 300 restaurants, including Sub-Franchised Burger King Restaurants, open by December 31, 2021.

Continue to build on the value leadership: The company intends to continue to build on its value leadership in order to drive footfalls and increase same-store sales in its restaurants, 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. It also intends 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. In addition, it plans to drive footfalls in its restaurants by continuing to offer a number of promotional offerings at attractive price points.

Continue to grow the brand awareness and loyalty: The company intends to continue to increase awareness and consideration of its brand amongst Indian consumers by using their integrated marketing approach. It also intends 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 it continues to grow the number of restaurants, BKIL intends 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. It also intends 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.

Leverage technologies across the business: BKIL intends to leverage its investments in the “360° technology” that it has invested in and deployed across its business of the past several years. It intends to continue to invest in technology. Its technology roadmap covers Customer engagement, Delivery and Business process.

Risk factor

- The company has reported a restated loss in Fiscal 2018, 2019 and 2020 and for the six months ended September 30, 2019 and September 30, 2020 and may incur additional losses in the future.
- The company business depends in part on the continued international success and reputation of the Burger King brand globally, and any negative impact on the Burger King brand may adversely affect our business, results of operation and financial condition.
- It relies on a single third-party distributor for the purchase, supply and delivery of most of its ingredients and packaging materials and if it is required to source its ingredients or packaging materials from alternative distributors, deliveries to certain of its restaurants may be disrupted or delayed, which could adversely affect its operations and has an adverse effect on its business, results of operations and financial condition.
- It may not be able to identify suitable locations and successfully develop and roll out new restaurants, and its expansion into new regions and markets may present increased risks due to its unfamiliarity with the areas in which its restaurants are located.
- The success of its business strategy depends on its ability to establish, deliver and maintain our value leadership strategy, the failure of which could have a material adverse effect on its business, results of operations and financial condition.
- Its marketing and advertising campaigns may not be effective in increasing its brand awareness and the effectiveness of its competitors’ advertising and promotional programs could adversely affect its competitive position.

Peer comparison

Company	Net Sales (TTM)	PAT (TTM)	EPS	P/E	P/BV	BV	FV	Price	Mcap
Westlife Develop	1064.32	-103.98	-ve	-ve	14.01	31.08	2	435.45	6778.61
Jubilant Food.	3184.85	137.03	11	227.06	29.33	85.16	10	2497.70	32961.91
Burger King India	135.21	-118.95	-ve	-ve	3.42	17.53	10	60.00	2289.93

Valuation

Considering the valuation as on 30th sep 2020 at the P/B ratio at Rs. 60 the stock is priced at P/B ratio of 8.41x on the pre issue book value of Rs. 7.14 and on the post issue book value of Rs. 17.53 the P/B comes out to 3.42x.

Considering the at the P/B ratio at Rs. 59 the stock is priced at P/B ratio of 8.27x on the pre issue book value of Rs. 7.14 and on the post issue book value of Rs. 17.53 the P/B comes out to 3.37x.

Industry overview

The Indian food services market has gained strong momentum in the last decade due to changing consumer consumption patterns that have seen an increase in the tendency to eat out that had not traditionally been a feature of Indians' lifestyle. This has ensured a constant growth of the Indian food services market, which has evolved considerably since the 1980s, when the number of organized brands operating in the country was negligible and the market was widely dominated by smaller unorganized players. A noticeable shift began in 1996 with the opening up of QSR such as McDonald's, Pizza Hut and Domino's Pizza, followed by Subway, KFC, Burger King, Haldiram's, Moti Mahal and Taco Bell, among others. The food services market in India has shown consistent growth since Fiscal 2015 and was estimated at ₹4,236 billion in Fiscal 2020. The food services market in India is projected to grow at a CAGR of 9% over the next five years and is expected to reach ₹6,505 billion by Fiscal 2025. In Fiscal 2020, the biggest segment of the food services market was the unorganized market, which accounted for ₹2,519 billion (59% of the food service market), followed by the organized standalone segment, the chain market and restaurants at hotels, each accounting for ₹1,203 billion, ₹397 billion and ₹116 billion, respectively (28%, 9% and 3% of the food services market, respectively). The organized food services market in India (chain and standalone outlets, excluding restaurants in hotels) was estimated at ₹1,600 billion in Fiscal 2020 and is projected to grow at a CAGR of 15.4% to ₹3,275 billion by Fiscal 2025, and is expected to increase its share of the total market from 37.8% in Fiscal 2020 to 50.3% by Fiscal 2025. Growth in the chain market is expected to be driven in the next five years by an increase in presence of international brands, strengthening of back end infrastructure, acceptance of new cuisines, changing lifestyles and aspirations and the emergence of entrepreneurial ventures in these segments. The QSR and CDR sub-segments had a combined market share of the total chain market of 76% and 81% in Fiscal 2015 and Fiscal 2020, respectively, and are expected to have a combined market share of 86% by Fiscal 2025. The QSR sub-segment is expected to grow driven by economic growth, demographic, cultural and lifestyle changes and increased penetration in Tier II and Tier III cities, which is expected to be facilitated by improved supply chains, innovation and customisation in operating models and store sizes. The organized QSR sub-segment in India was estimated at ₹348 billion in Fiscal 2020 and is projected to grow at a CAGR of 19% to ₹825 billion by Fiscal 2025. Growth in the QSR sub-segment is expected to be driven by the chain QSR market, which was approximately 54% of the total QSR sub-segment in Fiscal 2020 and is estimated to be approximately 64% of the total QSR sub-segment by Fiscal 2025 (Source: Company RHP).

Outlook

Burger King India Ltd. (BKIL) is one of the fastest-growing international QSR chains in India during the first five years of operations based on the number of restaurants. Following fancy for ready to eat and lavish lifestyle, BKIL was able to reach a milestone of 200 outlets in India in the first five years of operations. With the sudden change in lifestyle and awareness of healthy food habits, the company may see some hiccups going forward. However, the management of the company is confident of achieving the target of opening 700 outlets PAN India by extended timeframe up to December 2026

despite current slowdown due to Covid-19.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	December 02, 2020
Bid/Offer Closing Date	December 04, 2020
Finalisation of Basis of Allotment with the Designated Stock Exchange	December 09, 2020
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	December 10, 2020
Credit of Equity Shares to depository accounts of Allottees	December 11, 2020
Commencement of trading of the Equity Shares on the Stock Exchanges	December 14, 2020

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sept-20 (6 Months)	Period ended 31-Mar-20 (12 Months)	Period ended 31-Mar-19 (12 Months)
Total Operating Income	135.21	841.24	632.74
Total expenditure	163.94	737.23	553.75
Operating Profit	-28.73	104.01	78.99
OPM%	-21.25	12.36	12.48
Other Income	16.44	5.59	11.40
PBDIT	-12.29	109.60	90.38
Depreciation	62.14	116.37	82.21
PBIT	-74.43	-6.77	8.17
Interest	42.39	65.45	46.45
PBT before exceptional item	-116.82	-72.23	-38.28
Exceptional item	2.13	4.35	0.00
PBT	-118.95	-76.57	-38.28
Tax	0.00	0.00	0.00
Profit After Tax	-118.95	-76.57	-38.28

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sept-20	As on 31-Mar-20	As on 31-Mar-19
Non-current assets			
Property, plant and equipment	459.12	474.23	347.54
Right of Use Assets	521.68	537.95	429.23
Capital work-in-progress	41.15	47.56	20.24
Intangible assets	25.55	24.50	15.79
Financial assets			
Loans	29.63	29.10	21.31
Other financial assets	0.04	0.09	0.06
Income tax assets (net)	0.25	1.04	0.82
Other non-current assets	3.33	3.31	3.95
Total Non- Current Assets	1080.73	1117.79	838.92
Current assets			
Inventories	8.05	9.43	6.86
Financial assets			
Investments	28.02	18.58	38.41
Trade and other receivables	6.72	3.22	5.90
Cash and Bank balances	9.18	4.05	15.86
Bank Balances other than cash and cash equivalents	24.18	23.99	0.16
Other financial assets	0.49	1.23	2.97
Other current assets	19.76	19.42	11.40
Total current assets	96.39	79.92	81.55
Total Assets	1177.12	1197.71	920.47
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings	175.99	178.79	0.00
Lease liabilities	561.66	566.55	450.84
Provisions	19.663	18.728	5.178
Other non-current liabilities	0.75	0.82	0.79
Total non-current liabilities	758.06	764.88	456.80
Current liabilities			
Borrowings	19.768	19.729	100.00
Trade payables			
Micro and small enterprises	0.53	0.54	0.00
Others	125.54	81.07	60.90
Lease liabilities	26.65	31.20	23.18
Other financial liabilities	19.74	15.35	22.22
Provisions	3.72	3.29	2.38
Other current liabilities	4.22	6.23	5.35
Total current liabilities	200.17	157.40	214.02
Total liabilities	958.23	922.28	670.83
	218.89	275.43	249.65
Net worth represented by:			
Equity share capital	290.94	277.74	265.00
Other equity	-72.05	-2.32	-15.35
Total Equity	218.89	275.43	249.65

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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