BUY
TP: Rs 145 | 18%

DEVYANI INTERNATIONAL

| Consumer Discretionary | 04 February 2026

Execution remains key

- **Revenue growth remained healthy; performance led by margin recovery and cost actions vs a sharp revival in volumes**
- **Early signs of demand stabilisation with positive SSSG in January across most formats (ex.-Pizza Hut)**
- **KFC continues expansion; the Sapphire merger is positioned as a key enabler of long-term scale and synergies**

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Result Highlights: DIL revenue stood at INR 14,409 mn, up by 11.3% YoY including Skygate. During Q3FY26, KFC delivered SSSG of -2.9% and Pizza Hut SSSG stood at -9.10%. The company has a total of 2,279 stores (KFC 1174/ PH 648/, own brands 218/ Franchisee 214). Consolidated gross margin at 69.8% showed 1.2% improvement YoY, on account of deleveraging impact, given the lower ADS and higher delivery revenues. EBITDA margins at 15.7%, were down 162 bps YoY, due to a dip in brand contribution margin to 13.9%. ADS came in at INR 90,000/31,000/27,000 for KFC/PH/Franchise brands respectively. International revenues grew 10.1%.

Pizza Hut rationalisation: Management stated that turnaround of the Pizza Hut business has begun through the rationalisation of loss-making stores, with no net new store additions planned for the brand. DIL will open new stores only to compensate for the closure of loss-making stores. Moreover, management highlighted a key positive within the owned brands portfolio, noting that Biryani By Kilo has achieved breakeven at the brand EBITDA level much ahead of the earlier guided timeline; reflecting improving unit economics and execution. The company strong push towards technology and AI-led enablement, admitting that Devyani has historically lagged peers on the technology front. Key focus areas include better integration of online and offline channels, improved data-led promotions, smarter pricing and deal structures, enhanced delivery optimisation, and stronger digital marketing effectiveness. Strategically, KFC remains a growth engine despite the acknowledged cannibalisation, while Pizza Hut firmly in a turnaround mode with the net store additions halted and loss-making outlets being closed.

Our View: We view the proposed Sapphire merger as a key medium-term catalyst, offering structural benefits through synergies, technology control, and faster decision-making; though near-term guidance remains cautious. We expect the Revenue/EBITDA to grow at 19.4%/18.2% CAGR over FY26-28E, resp., led by aggressive network expansion, international business growth and gradual recovery. We recommend BUY with DCF-based TP of Rs 145 based on Dec27 estimates.

Ticker/Price	DEVYANI IN/Rs 123
Market cap	US$ 1.7bn
Free float	39%
3M ADV	US$ 5.9mn
52wk high/low	Rs 191/Rs 110
Promoter/FPI/DII	61%/6%/19%

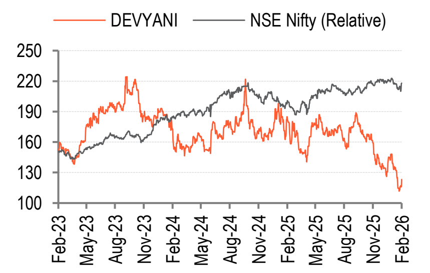
Source: NSE | Price as of 4 Feb 2026

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	49,511	56,530	63,443
EBITDA (Rs mn)	8,333	8,706	10,151
Adj. net profit (Rs mn)	(68)	(193)	823
Adj. EPS (Rs)	(0.1)	(0.2)	0.7
Consensus EPS (Rs)	(0.1)	(0.1)	0.9
Adj. ROAE (%)	(0.1)	(0.4)	1.4
Adj. P/E (x)	NA	NA	NA
EV/EBITDA (x)	18.2	17.5	15.0
Adj. EPS growth (%)	(0.1)	(0.2)	0.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Earnings Call KTAs

1. Macro Environment & Near-term Demand:
Management highlighted early signs of demand stabilisation, with January SSSG turning positive across most brands, barring Pizza Hut. While consumers remain value-conscious amid a challenging macro backdrop, sequential improvement in trends provides comfort on near-term recovery, if momentum sustains.

2. Store Network & Scale:
The company ended Q3FY26 with a total network of ~2,279 stores, adding ~95 net new stores in Q3 and ~240 stores YTD FY26. Expansion continues at a steady pace, with an increasing emphasis on store-level profitability and return metrics.

3. KFC India – Core Growth Engine:
KFC India continues to be the primary growth driver, supported by menu innovation, value-led offerings and strong delivery penetration. Management noted stable average daily sales (ADS) and improving operating leverage; reinforcing KFC's role as the anchor brand.

4. Pizza Hut – Turnaround Strategy:
The turnaround of Pizza Hut has commenced through the rationalisation of loss-making stores, with management clearly stating that no net new store additions will be pursued. New openings will only replace the closed stores, enabling the reuse of assets and equipment and lowering capex intensity.

5. Costa Coffee – Premium Play:
Costa Coffee delivered steady performance, aided by its premium positioning and urban-centric demand. Management remains selective on expansion, focusing on high-traffic locations and unit-level profitability vs aggressive store additions.

6. Franchisee Brands Portfolio:
The franchisee brands portfolio continues to provide scale and operational stability, with a focus on cost optimisation and execution efficiency amid a mixed demand environment. These brands remain cash-generative and support consolidated margins.

7. Own Brands – Sky Gate Hospitality:
Sky Gate scaled to ~88 stores, reporting revenue of INR ~426 mn for Q3FY26; up sequentially. Strong gross margins of ~76% and brand contribution margin of ~15–16% underline the improving unit economics and scalability of the owned-brands model.

8. Biryani By Kilo – Early Profitability Milestone:
Management highlighted that Biryani By Kilo achieved brand EBITDA breakeven well ahead of the earlier guidance. This marks a key inflection point for owned brands and validates the company's strategy of building scalable, profitable proprietary formats.

9. New Launches & Product Innovation:
Across brands, focus stays on new product launches, limited-time offerings and regional innovations. These initiatives are aimed at driving footfalls, improving ticket sizes and sustaining consumer engagement.

10. Delivery vs Dine-in Mix:
Delivery remains a structural growth lever, supported by aggregator partnerships and brand strength. Dine-in trends showed sequential improvement during the quarter, aided by festive demand and targeted promotions.

11. Promotions & Value Strategy:
Management emphasised a calibrated promotional approach, focusing on value-led offers without materially impacting margins. The increasing use of data and technology-driven targeting is helping improve the promotional efficiency.

12. International Business
International revenues grew ~10% YoY, with brand contribution margins improving to ~17%, reflecting operating leverage. The segment continues to add diversification and margin stability to the consolidated business**.** Thailand continues to be the largest international geography with ~326 stores, delivering steady growth and margin improvement. Management cited improving ADS and stable consumer demand supporting performance.

14. Capex & Store Additions in FY26:
FY26 capex remains disciplined and return-focused, with an emphasis on selective expansion, asset reusage and profitability over aggressive scale, particularly for Pizza Hut and newer formats.

15. Management Outlook:
Management remains cautiously optimistic on demand recovery, with a focus on execution discipline, portfolio optimisation and margin improvement, to drive sustainable growth over the medium term.

Fig 1 – Quarterly table

INR mn	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
Total Revenues	**12,219**	**12,222**	**12,944**	**12,126**	**13,570**	**13,768**	**14,409**
% growth YoY	44.3	49.1	53.5	15.8	11.1	12.6	11.3
Store Operating cost and expense							
COGS	3,769	3,747	4,052	3,819	4,318	4,438	4,481
% growth YoY	52.7	56.6	63.5	18.4	14.6	18.4	10.6
as % of sales	30.8	30.7	31.3	31.5	31.8	32.2	31.1
Gross Profit	**8,450**	**8,474**	**8,892**	**8,306**	**9,252**	**9,329**	**9,928**
Gross Margin (%)	69.2	69.3	68.7	68.5	68.2	67.8	68.9
Employee costs	1,682	1,834	1,882	1,706	2,011	2,017	2,175
% growth YoY	50.4	65.3	60.0	10.4	19.5	10.0	15.6
as % of sales	13.8	15.0	14.5	14.1	14.8	14.6	15.1
Other expenses	4,534	4,653	4,818	4,604	5,181	5,338	5,453
% growth YoY	44.1	49.9	45.4	16.3	14.3	14.7	13.2
as % of sales	37.1	38.1	37.2	38.0	38.2	38.8	37.8
Total Expense	6,216	6,487	6,700	6,311	7,192	7,355	7,628
EBITDA	**2,234**	**1,987**	**2,192**	**1,996**	**2,060**	**1,974**	**2,300**
Margin %	18.3	16.3	16.9	16.5	15.2	14.3	16.0
Depreciation and Impairment	1322	1391	1557	1653	1497	1603	1656
Interest	630	653	670	695	668	688	700
Extraordinary expense	76.04	30.1	(30)	2	1	2	216
Other operating (income)/expenses (net)	99	48	91	132	135	51	123
PBT	**305**	**(39)**	**86**	**(223)**	**29**	**(268)**	**(149)**
Tax	81	10	162	(56)	5	(52)	(49)
PAT	**224**	**(49)**	**(75)**	**(168)**	**24**	**(216)**	**(100)**
% growth YoY	(1506.3)	(113.7)	(248.8)	(65.8)	(89.2)	339.1	32.3

Source: Company, BOBCAPS Research

Fig 2 – Key operating metrics

KFC	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Store Count	617	645	689	696	704	734
Store addition	21	28	44	7	8	30
SSSG	(0.1)	(0.1)	(0.0)	(0.1)	(0.0)	(0.0)
Restaurant related revenue (INR mn)	5,546	5,434	5,698	5,109	6,126	5,723
Growth %	0.1	(0.0)	0.0	(0.1)	0.2	(0.1)
Avg Revenue per store (INR mn)	9.1	8.6	8.5	7.4	8.8	8.0
ADS	104,000	96,000	96,000	83,000	98,000	89,000
Gross Margin %	0.7	0.7	0.7	0.7	0.7	0.7
Brand Contribution Margin (%)	0.2	0.2	0.2	0.2	0.2	0.1

Source: Company, BOBCAPS Research

Fig 3 – Pizza Hut

PH	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
Store Count	570	593	644	630	618	621	639
Store addition	3	23	51	(14)	(12)	3	18
SSSG (%)	(8.6)	(5.7)	(0.8)	1.0	(4.2)	(4.1)	(9.1)
Restaurant related revenue (INR mn)	1,819	1,848	1,902	1,754	1,873	1,860	1,781
Growth %	12.2	1.6	2.9	(7.8)	6.8	(0.7)	(4.2)
Avg Revenue per store (INR mn)	3	3	3	3	3	3	3
ADS	36,000	35,000	35,000	31,000	33,000	33,000	31,000
Gross Margin %	76.8	76.7	76.2	75.6	74.8	74.8	76.0
Brand Contribution Margin (%)	5.0	3.1	2.1	0.7	(1.1)	(0.2)	0.8

Source: Company, BOBCAPS Research

Fig 4 – Costa Coffee

Costa Coffee	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
Store Count	192	207	209	220	222	224	211
Store addition	13	15	2	11	2	2	(13)
SSSG (%)	0.6	8.7	5.1	3.5	0.0	0.0	0.0
Restaurant related revenue (INR mn)	455	490	517	523	519	514	563
Growth %	0.9	7.7	5.5	1.2	(0.8)	(1.0)	9.5
Avg Revenue per store (INR mn)	2	2	2	2	2	2	3
ADS	28,000	27,000	26,000	27,000	26,000	24,000	27,000
Gross Margin %	75.0	75.0	75.5	76.1	75.2	73.6	75.7
Brand Contribution Margin (%)	15.0	14.5	16.9	17.6	13.0	10.5	15.7

Source: Company, BOBCAPS Research

Fig 5 – International Business

International Business	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
Store Count	364	374	375	378	382	402
Store addition	1	10	1	3	4	20
Restaurant related revenue (INR mn)	3,943	4,300	4,195	4,332	4,495	4,734
Avg Revenue per store (INR mn)	11	12	11	12	12	12

Source: Company, BOBCAPS Research

Fig 6 – KFC Marketing Campaigns

Source: Company, BOBCAPS Research

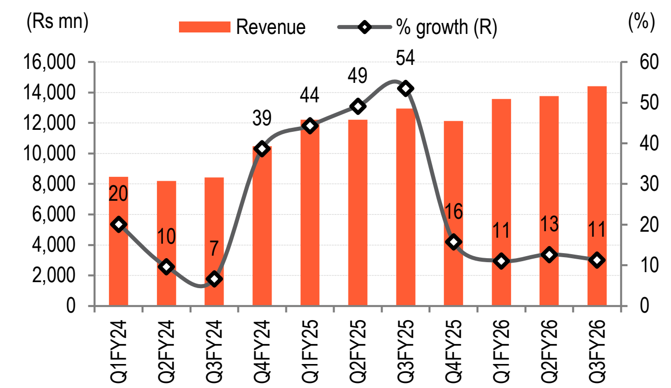
Fig 7 – PH Marketing Campaigns

Source: Company, BOBCAPS Research

Fig 8 – PH Innovation

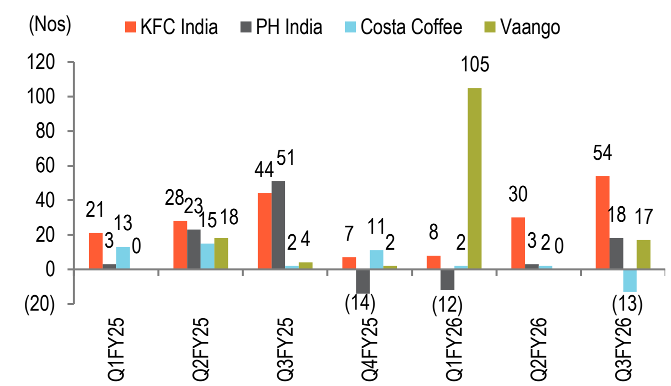
Source: Company, BOBCAPS Research

Fig 9 – Revenue and its growth



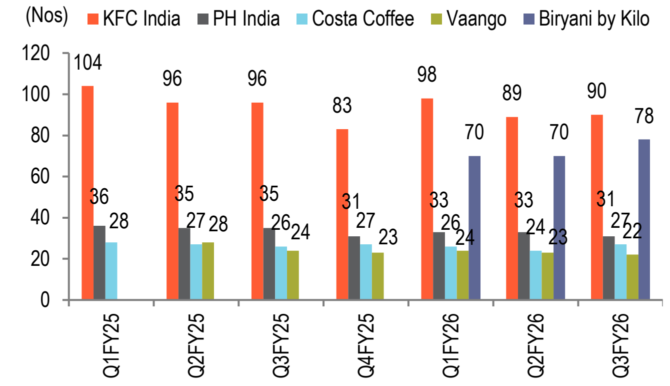
Source: Company, BOBCAPS Research

Fig 10 – Store additions



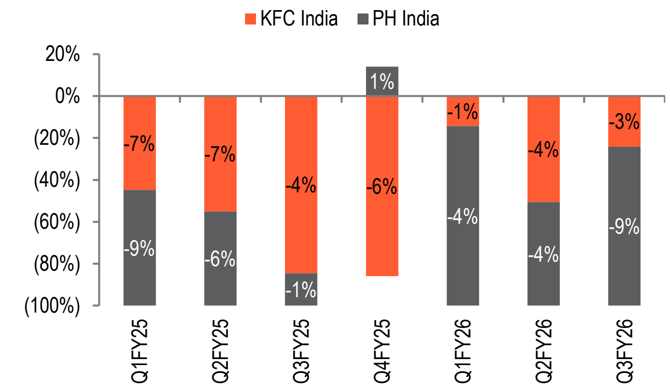
Source: Company, BOBCAPS Research

Fig 11 – ADS (000)



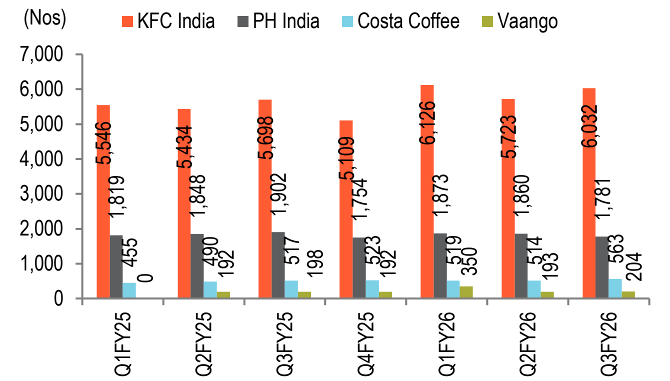
Source: Company, BOBCAPS Research

Fig 12 – SSSG



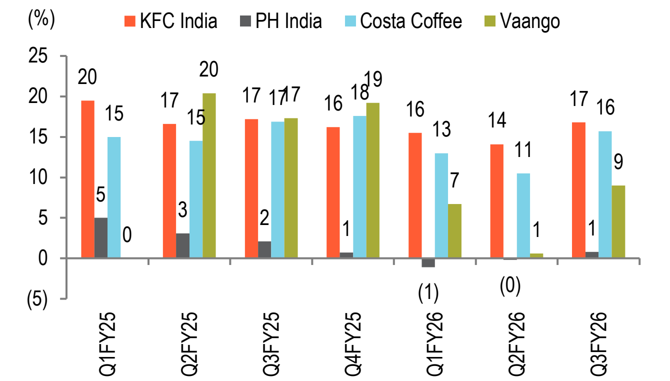
Source: Company, BOBCAPS Research

Fig 13 – Segment-wise revenue



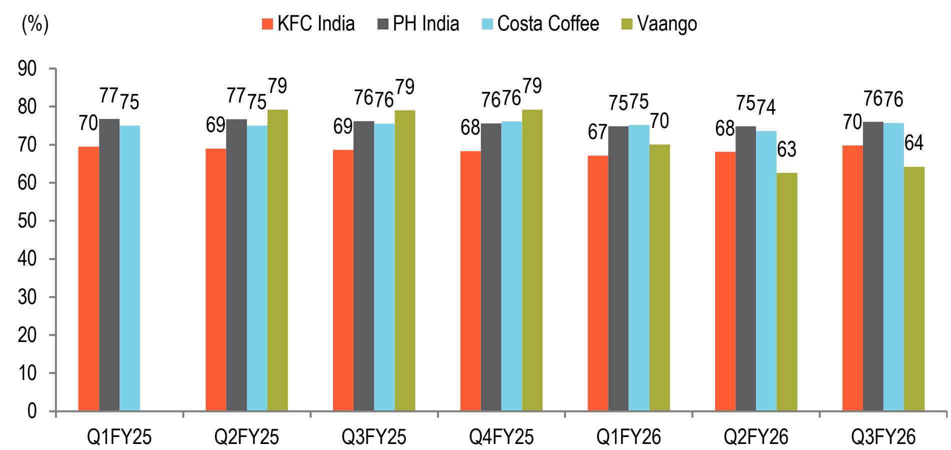
Source: Company, BOBCAPS Research

Fig 14 – Brand contribution



Source: Company, BOBCAPS Research

Fig 15 – Segment wise GM%



Source: Company, BOBCAPS Research

Valuation Methodology

We view the proposed Sapphire merger as a key medium-term catalyst, offering structural benefits through synergies, technology control, and faster decision-making; though near-term guidance remains cautious. We expect the Revenue/EBITDA to grow at 19.4%/18.2% CAGR over FY26-28E, respectively. This is likely to be led by aggressive network expansion, international biz growth and gradual recovery. We recommend BUY on the stock with a DCF-based TP Rs 145 based on Dec'27 estimates.

Key Risks

Key downside risks to our estimates:

- Slower-than-expected recovery in discretionary consumption may pressure SSSG and margins.
- Delays in rationalising loss-making stores could prolong losses and impact profitability.
- Input cost inflation or higher promotional intensity may compress gross and contribution margins.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Total revenue	**35,563**	**49,511**	**56,530**	**63,443**	**70,536**
EBITDA	6,524	8,333	8,706	10,151	11,638
Depreciation	3,848	5,699	6,412	6,990	7,789
EBIT	2,675	2,634	2,294	3,161	3,849
Net interest inc./(exp.)	1,869	2,648	2,713	2,538	2,821
Other inc./(exp.)	326	370	422	474	527
Exceptional items	1,037	3	0	0	0
EBT	1,074	131	(257)	1,097	1,555
Income taxes	133	197	(64)	274	389
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(569)	(160)	0	0	0
Reported net profit	**940**	**(65)**	**(193)**	**823**	**1,166**
Adjustments	1,037	3	0	0	0
Adjusted net profit	**(97)**	**(68)**	**(193)**	**823**	**1,166**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	3,756	4,411	4,646	5,215	5,797
Other current liabilities	577	568	568	568	568
Provisions	116	136	136	136	136
Debt funds	9,120	9,318	8,818	8,318	7,818
Other liabilities	22,288	24,930	27,084	29,452	32,058
Equity capital	1,206	1,206	1,206	1,206	1,206
Reserves & surplus	9,352	9,738	9,545	10,367	11,534
Shareholders' fund	13,486	14,023	13,830	14,652	15,818
Total liab. and equities	**42,076**	**44,874**	**46,335**	**49,026**	**52,298**
Cash and cash eq.	1,808	1,814	424	1,340	3,607
Accounts receivables	527	413	620	695	773
Inventories	1,310	1,482	2,773	3,112	3,460
Other current assets	640	561	617	678	746
Investments	268	271	1,171	2,071	2,971
Net fixed assets	13,440	16,820	21,232	26,223	32,012
CWIP	110	35	35	35	35
Intangible assets	5,709	6,254	6,254	6,254	6,254
Deferred tax assets, net	512	574	574	574	574
Other assets	1,699	1,811	1,992	2,191	2,410
Total assets	**42,076**	**44,874**	**46,335**	**49,026**	**52,298**

Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	**5,925**	**8,354**	**5,387**	**8,192**	**9,591**
Capital expenditures	(4,619)	(4,818)	(4,816)	(5,708)	(5,708)
Change in investments	2	(14)	(900)	(900)	(900)
Other investing cash flows	(10,892)	211	0	0	0
Cash flow from investing	**(15,509)**	**(4,622)**	**(5,716)**	**(6,608)**	**(6,608)**
Equities issued/Others	21	13	0	0	0
Debt raised/repaid	8,335	(288)	(500)	(500)	(500)
Interest expenses	(165)	(545)	(2,713)	(2,538)	(2,821)
Dividends paid	0	0	0	0	0
Other financing cash flows	702	(3,433)	2,153	2,369	2,606
Cash flow from financing	**8,893**	**(4,254)**	**(1,060)**	**(669)**	**(716)**
Chg in cash & cash eq.	**(691)**	**(521)**	**(1,389)**	**915**	**2,267**
Closing cash & cash eq.	**1,676**	**1,814**	**424**	**1,340**	**3,607**

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	0.4	0.1	(0.2)	0.7	1.0
Adjusted EPS	0.8	(0.1)	(0.2)	0.7	1.0
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	11.2	11.6	11.5	12.2	13.1

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	4.3	3.1	2.7	2.4	2.2
EV/EBITDA	23.3	18.2	17.5	15.0	13.1
Adjusted P/E	157.9	(2,269.5)	(769.1)	180.5	127.4
P/BV	11.0	10.6	10.7	10.1	9.4

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	(9.0)	(52.1)	75.0	75.0	75.0
Interest burden (PBT/EBIT)	40.1	5.0	(11.2)	34.7	40.4
EBIT margin (EBIT/Revenue)	7.5	5.3	4.1	5.0	5.5
Asset turnover (Rev./Avg TA)	84.5	110.3	122.0	129.4	134.9
Leverage (Avg TA/Avg Equity)	3.1	3.2	3.4	3.3	3.3
Adjusted ROAE	7.0	(0.5)	(1.4)	5.6	7.4

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	18.6	39.2	14.2	12.2	11.2
EBITDA	(0.4)	27.7	4.5	16.6	14.7
Adjusted EPS	0.8	(0.1)	(0.2)	0.7	1.0
Profitability & Return ratios (%)					
EBITDA margin	18.3	16.8	15.4	16.0	16.5
EBIT margin	7.5	5.3	4.1	5.0	5.5
Adjusted profit margin	2.6	(0.1)	(0.3)	1.3	1.7
Adjusted ROAE	(0.2)	(0.1)	(0.4)	1.4	1.9
ROCE	11.8	11.3	10.1	13.8	16.3
Working capital days (days)					
Receivables	5	3	4	4	4
Inventory	13	11	13	13	13
Payables	39	33	30	30	30
Ratios (x)					
Gross asset turnover	0.8	1.1	1.2	1.3	1.3
Current ratio	0.4	0.3	0.5	0.5	0.6
Net interest coverage ratio	1.4	1.0	0.8	1.2	1.4
Adjusted debt/equity	0.5	0.5	0.6	0.5	0.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
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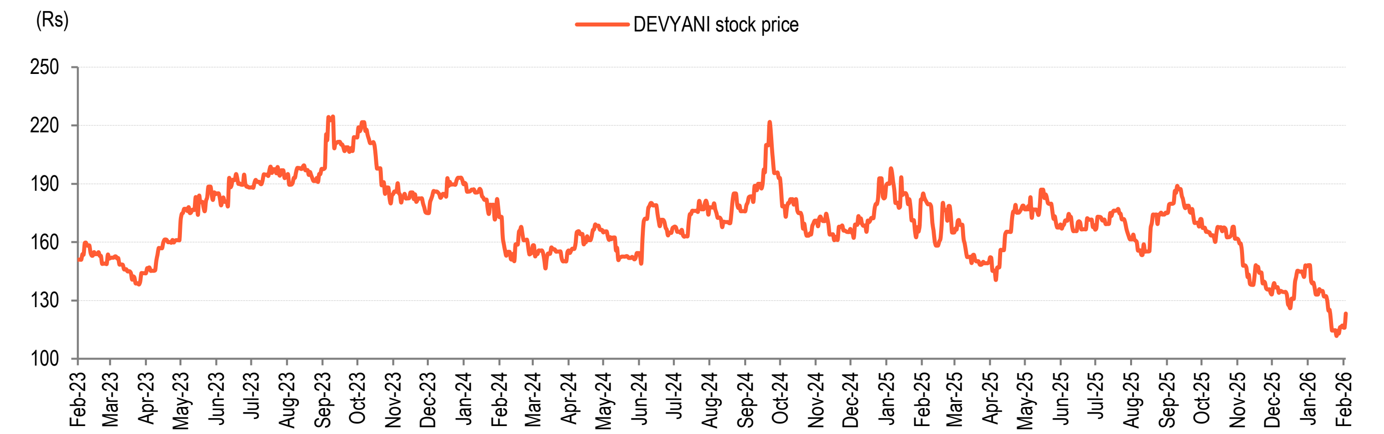
Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%
HOLD – Expected return from -6% to +15%
SELL – Expected return <-6%
Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): DEVYANI INTERNATIONAL (DEVYANI IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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