

Burger King AsiaPac	Burger King India
Has granted exclusive Master Franchise Rights to Burger King India till 2039	Has to pay royalty @ 5% (capped). Obligation to open 700 stores in India by 2026.

Issue period	
Issue Opens on	2nd Dec, 2020
Issue Closes on	4th Dec, 2020
Post-IPO market cap (Rs cr)	~2290

Offer Details for Retail category	
Bid Lot (Qty)	250
Offer Price [Rs 59 - Rs 60 per share]	60
Bid Amount per Lot (at Upper Band)	15,000

Issue Details (Rs Cr)	
Shares sold (OFS) by Promoter	360
Fresh Issue of Shares	450
IPO Size	810

Promoter Stake (%)	
Pre-IPO	94.1%
Post-IPO	60.3%

Utilisation of IPO Proceeds	
Repayment of borrowings	165
For Expansion (Capex for new stores)	177
General Corporate Purposes	108
Total	450

FY 19-20 (Rs Cr)	
Revenue	841
EBITDA	104
EBITDA Margin %	12%
PAT (Loss)*	-77

*PAT is negative due to high depreciation exp (116 cr) and finance exp (65 cr). As per Ind AS 116, lease payments are segregated into Depreciation and Interest. They are included in depreciation and finance expenses respectively.

Comparison with Peers	Burger King	WestLife Development (McDonald's)	Jubilant Foodworks (Domino's)
FY 20 Revenue (Rs Cr)	841	1,548	3,927
Gross Margin %	64-65%	64-66%	77-78%
FY 20 EBITDA (Rs Cr)	104	214	876
FY 20 EBITDA %	12.4%	13.8%	22.3%
Market Cap (Rs Cr)	2,290	6,637	33,297
Market Cap / Sales ratio (x)	2.7	4.3	8.5
Price to Book Value (x)	5.4	11.7	29.1

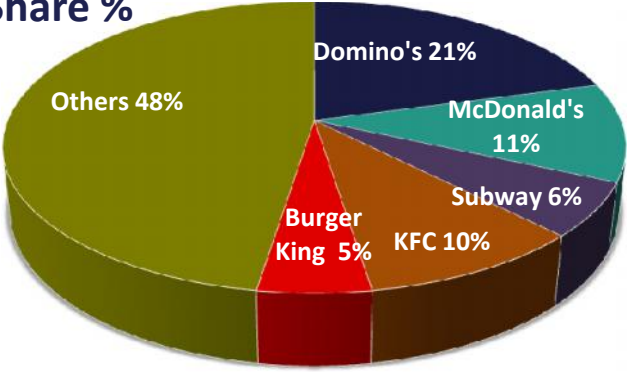
Burger King IPO valuations are at a discount to its listed peers which make it an attractive bet.

Note - Financials for H1 FY21 are severely impacted by Covid-induced lockdowns and are not representative of actual business performance. Thus, FY 20 numbers have been considered for analysis and comparison.

What works for the company?

Company operates in a high growth segment	Quick Service restaurants (QSR) market is expected to grow at a CAGR of 19% up to FY 25.
	With high growth due to aggressive expansion, company will benefit from operating leverage and can be expected to turn PAT positive by 2023.
Burger King brand	One of the largest brands globally in the food industry. 2nd largest fast food burger brand in the world with 18,675 restaurants.
Debt-free status	Company will become debt-free as it will use part of IPO proceeds to repay loans. This will improve cash flow and profitability position going forward.
Small portion for Retail and Non-institutional Investors (NII)	Issue size is for Rs 810 crores, out of which only Rs 81 cr is for retail investors and Rs 122 cr for NIIs. Rest is for Institutional Investors. Thus, you can expect the issue to be highly subscribed.

What may not work for the company in the future?

<p>Stiff competition</p>	<p>QSR is a highly competitive segment with many international brands fighting for gaining market share.</p>														
<div style="display: flex; align-items: center;"> <div style="flex: 1;"> <p>Market Share %</p>  <table border="1" style="margin-top: 10px;"> <caption>Market Share Data</caption> <thead> <tr> <th>Brand</th> <th>Market Share %</th> </tr> </thead> <tbody> <tr> <td>Domino's</td> <td>21%</td> </tr> <tr> <td>McDonald's</td> <td>11%</td> </tr> <tr> <td>Subway</td> <td>6%</td> </tr> <tr> <td>KFC</td> <td>10%</td> </tr> <tr> <td>Burger King</td> <td>5%</td> </tr> <tr> <td>Others</td> <td>48%</td> </tr> </tbody> </table> </div> <div style="flex: 1; padding-left: 20px;"> <p><i>Competition is toughest in the burger and sandwich category with BK, McD, Subway, KFC etc all trying to grow fast.</i></p> </div> </div>		Brand	Market Share %	Domino's	21%	McDonald's	11%	Subway	6%	KFC	10%	Burger King	5%	Others	48%
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<p>Operational weakness</p>	<p>Company's operational costs are higher than it's closest competitor McD. Higher operational efficiency helps McD in realising higher EBITDA margins.</p>														
<p>The Target for 700 stores by 2026. If the company does not meets its target, BK AsiaPac has the right to terminate the agreement.</p>	<p>Reaching this target while maintaining profitability will be a difficult task.</p> <p>McDonald's has been in India for 24 years (since 1996) and still has less than 500 stores across the country.</p> <p>The average capex per new store is Rs 2.79 crore. Current number of BK stores is 261. Thus, 439 more stores to go. Capex required = Rs 1225 cr [439 * 2.79]</p> <p>Company is going to utilise 177 cr from IPO proceeds for store expansion. That is enough capex for 63 stores. The company may use 92 cr (33 stores) raised in pre-IPO for expansion.</p> <p>Rest of the 956 cr [1225-177-92] will have to come from internal accruals.</p>														

<p>Conclusion</p>	
<p>The company may have a tough time in the medium to long term and the above factors need to be monitored closely.</p>	
<p>Valuations are at a discount to listed peers and that may result in listing gains.</p>	