

Barbeque Nation Hospitality Ltd

AVOID

IPO Price: Rs498-500

Issue Opens: 24-Mar-21

Issue Closes: 26-Mar-21

Leading brand in fast-growing casual restaurant dining market

Barbeque Nation (BBQN) is one of the leading casual dining restaurant chains which pioneered the “live grill on the table” format. After starting in 2008, the company has now grown to 164 restaurants – 147 BBQ Nation stores in India, 6 international stores and 11 stores of Italian cuisine Toscano. The company has also entered the delivery segment by introducing “UBQ” providing a-la-carte Indian cuisine in the value segment and “Barbeque-in-a-Box” as one of their flagship delivery products. Promoted by Sayaji Hotels and the Dhanani family, key shareholders include CX Partners, Jubilant Foodworks, Xponentia and Alchemy.

Sales have recovered post pandemic but risks resurfacing again

The management has ensured a strong recovery post getting severely hit by the pandemic in 1HFY21 with sales recovering to 84% by November 2020. A key reason for this recovery has been the strong growth in the delivery business which now contributes about 15% to total revenue vs 3% in FY20. The company has updated their BBQ App to further strengthen its digital offering and also undertaken various cost optimization initiatives. A pre-IPO placement of Rs 1.5bn has helped in improving liquidity and ensured continuity of operations. A second wave of the pandemic remains a near-term operational risk for the company.

Future growth strategy centered around footprint and delivery expansion

While the concept is no longer a novelty, the company is focused on menu innovation and continuously improving guest satisfaction and experience to stay ahead of competition. A well-integrated customer reservation system helps in quality customer data analytics. Adding a loyalty program has increased repeat business while adding the delivery platform has helped increase restaurant throughput without significant additional costs. Given the Italian cuisine foray is still in its infancy (6% of revenue) and international foray (5% of revenue) has not yielded strong results, entire expansion will be in India only in the foreseeable future in addition to further ramping up the delivery business.

Operating leverage and debt repayment crucial for turning profitable

Despite relatively high EBITDA margins, the company has not yet turned profitable given the high depreciation and interest costs which have ballooned on account of aggressive store expansion. Margins have also been coming down due to losses in international stores in FY19 and COVID impact in FY20 and 8MFY21. Post the pre-IPO fund raise and IPO, debt should come down which can take the company close to profitability if pace of expansion is controlled. In last 3 years, store expansion CAGR has been higher than revenue CAGR indicating weak performance of new stores. Therefore, strong SSSG rates for stores opened in last 3 years is crucial for the company to reach its target of becoming profitable.

Some concerns on valuations in light of near-term headwinds

Company is targeting a market cap of Rs 18.8bn post-issue which equates to 12.2x FY20 EV/EBITDA and 2.2x P/S, which is significantly lesser than QSR peers like Westlife and Burger King. But given the highly capital intensive and more volatile dine-in business model, we believe the discount is justified. Moreover, given the recent pre-IPO allotment in December and January was done at 50% less than IPO price and COVID concerns have again come back which would be a near term headwind for the space, the pricing looks on the higher side with not a lot left on the table for investors. We also note that earlier fund raises in 2018 have been done at a much higher price, but fundamentals have deteriorated since. Despite a strong growth outlook for the space (18% expected industry CAGR) and strong brand equity for the company which should help market share gains, we would advise avoiding the IPO and awaiting better entry opportunities post listing.

Issue details

Face value (Rs)	5
Issue Size*	Rs4.53bn
Offer for sale*	Rs2.73bn
Fresh Issue	Rs1.8bn
Post-issue M-cap*	Rs18.77bn
Issue type	100% Book building *At upper price band

Share reservation (of net offer)

QIB	Not less than 75%
Non-institutional	Not more than 15%
Retail	Not more than 10%

Issue Manager

BRLM	Ambit Private Limited, Axis Capital Limited IIFL Holdings Limited, SBI Capital Markets Limited
Registrar	Link Intime India Pvt. Ltd.
Listing	BSE, NSE

Company management

Rahul Agrawal	CEO
Amit Betala	CFO
Gulshan Chawla	CPO
Ahmed Raza	CTO

Financial Summary – Y/E March (Rs mn)

	FY18	FY19	FY20
Revenue	5,863	7,390	8,470
Gross margin	66.3%	66.5%	65.5%
EBITDA margin	23.9%	20.2%	19.8%
PAT	-58	-384	-329
EPS (Rs)	-2.1	-8.3	-11.8
RoE (%)	-4%	-27.8%	-47.9%

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Management Team

Mr. Rahul Agrawal, CEO

Prior to joining Barbeque Nation Hospitality, Rahul Agrawal was associated with Ernst & Young Private Limited, Beacon BVM Advisors Private Limited and CX Advisors. He holds a bachelor's degree in commerce (honors) from Shri Ram College of Commerce, University of Delhi and a post graduate diploma in management from the Indian Institute of Management, Bengaluru.

Mr. Amit Betala, CFO

Mr. Amit Betala possesses more than 7 years of experience in various organization including Clix Capital and Axis Bank. He holds a bachelor's degree in science from the University of Madras and a post graduate diploma in agribusiness management from the Indian Institute of Management, Lucknow. He is also a certified FRM.

Mr. Gulshan Chawla, CPO

Mr. Gulshan Chawla is Chief People's Officer. He worked as HR in HCL Technology Pvt Ltd across India and USA, as General Manager in Lava Mobiles and in Oyo Rooms as VP-HR. He holds a bachelor's degree in commerce from the Shri Ram College of Commerce, University of Delhi and a master's degree in business administration from MDI, Gurgaon.

Mr. Ahmed Raza, CTO

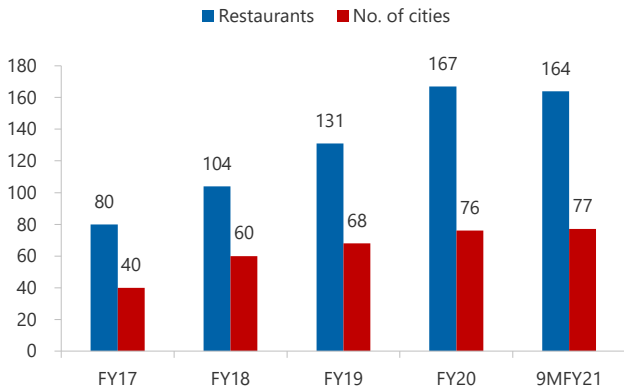
Mr. Ahmed Raza brings with rich experience in procourse, oracle 8/8i and visual basic 6.0. He has worked with ShawMan Software Private Limited and with SHL as Head, Corporate Human Resources / Information Technology. He holds a bachelor's degree in commerce from University of Mumbai.

Shareholding

Shareholding Pattern	No of shares	Holding (%)
SHKSL (Sayaji Housekeeping Services Ltd)	1,26,21,116	37.2
Kayum Dhanani	5,22,846	1.5
Suchitra Dhanani	6	0.0
Azhar Dhanani	4,97,890	1.5
Saba Jameel Sayed	4,97,890	1.5
Sadiya Dhanani	4,97,890	1.5
Sanya Dhanani	4,97,893	1.5
Zoya Dhanani	4,44,631	1.3
Zuber Dhanani	6,45,259	1.9
TPL (Tamara Pvt Ltd)	60,78,402	17.9
AAJVIT	1,98,392	0.6
MPL (Menu Pvt Ltd)	5,32,104	1.6
Jubilant	36,50,794	10.8
PPL	31,82,964	9.4
Xponentia	15,87,302	4.7
Alchemy India	5,75,000	1.7
Partner reinsurance	3,85,000	1.1

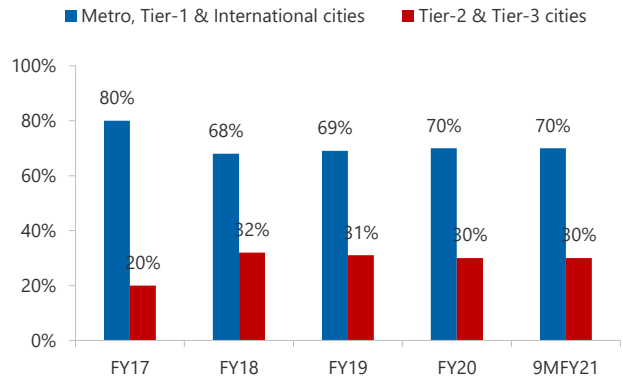
Source: RHP

Exhibit 1: Aggressive footprint expansion post FY17



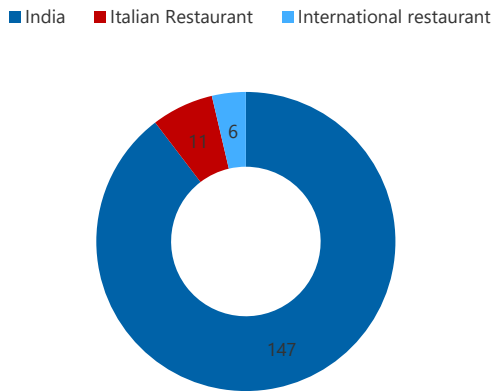
Source: Company, YES Sec – Research; GLA is Gross Loan Assets

Exhibit 2: Still concentrated in metro and Tier 1



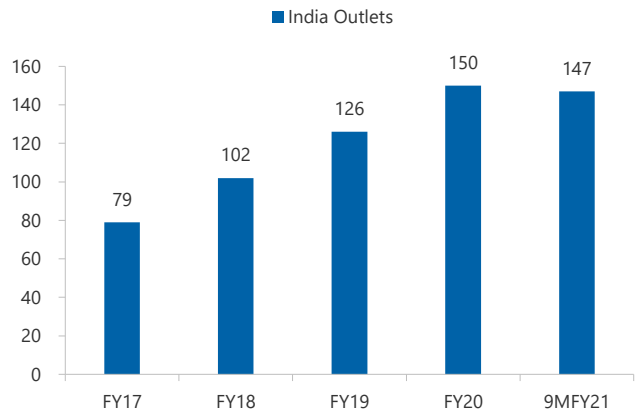
Source: Company, YES Sec – Research

Exhibit 3: Expansion into Italian cuisine and outside India



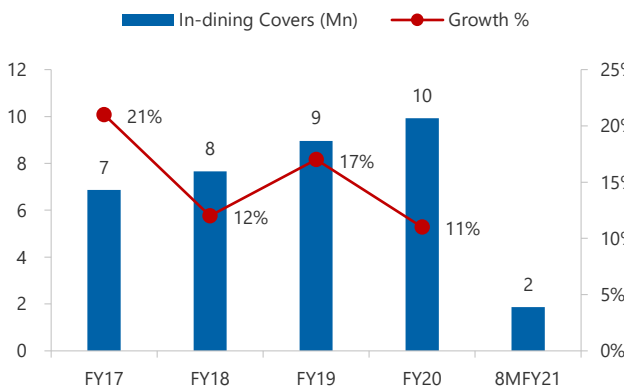
Source: Company, YES Sec – Research

Exhibit 4: Have shut only 3 restaurants during COVID period



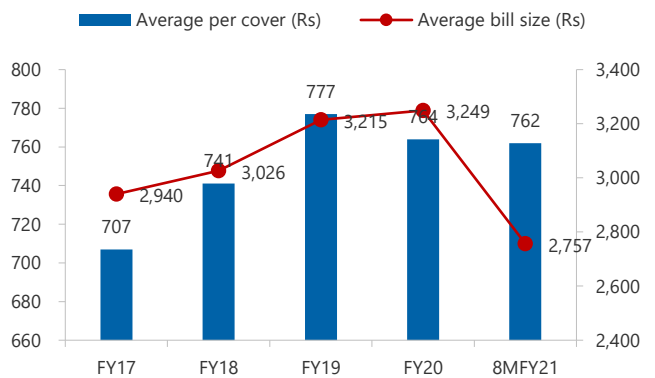
Source: Company, YES Sec – Research

Exhibit 5: In-dining covers have been expanding



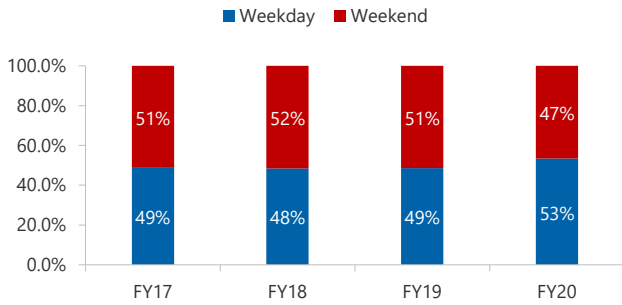
Source: Company, YES Sec – Research

Exhibit 6: With gradual increase in average bill size



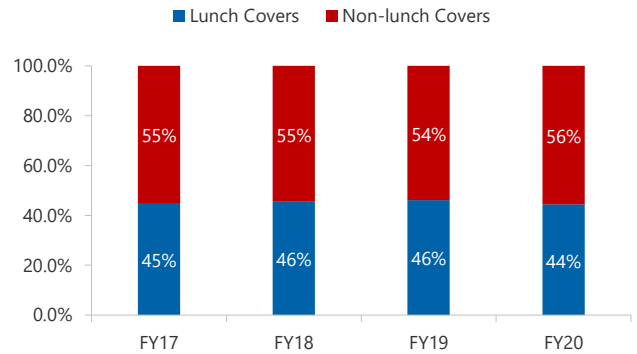
Source: Company, YES Sec – Research

Exhibit 7: Decent traffic and revenue in weekdays as well



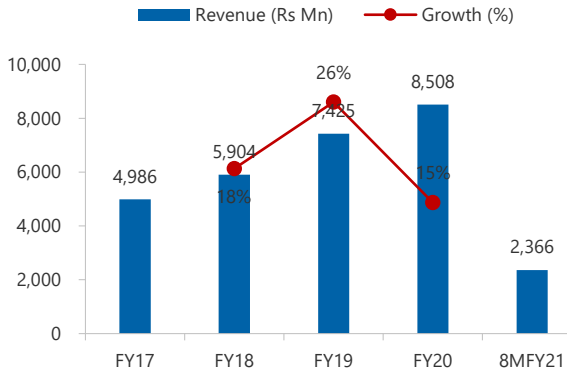
Source: Company, YES Sec – Research

Exhibit 8: Well divided revenue between lunch and dinner



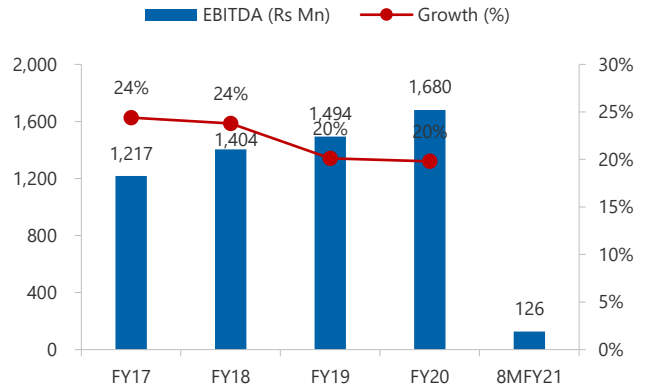
Source: Company, YES Sec – Research

Exhibit 9: Revenue and Revenue growth



Source: Company, YES Sec – Research

Exhibit 10: EBITDA and EBITDA growth



Source: Company, YES Sec – Research

FINANCIALS

Exhibit 11: Balance sheet

Y/E March 31 (Rs mn)	FY18	FY19	FY20
Equity and Liabilities			
Equity share capital	138	140	140
Other equity	1312	1176	-81
Non-controlling interest	-	-	52
Total equity	1450	1316	111
Borrowings	854	1093	1650
Lease liability	3013	3623	4328
Other financial liabilities	-	-	674
Provisions	87	114	85
Other non-current liabilities	2	-	-
Total Non-current liabilities	3957	4829	6738
Borrowings	185	157	415
Lease liability	494	578	488
Trade payables	673	768	1125
Other financial liabilities	320	389	488
Other current liabilities	67	80	116
Provisions	32	34	63
Current tax liabilities (Net)	53	40	11
Total current liabilities	1825	2046	2705
Total equity and liabilities	7232	8191	9555
Assets			
Property, plant and equipment	2248	3032	3322
Right-of-use assets	2939	3546	4015
Capital work-in-progress	185	159	109
Goodwill	230	190	723
Other intangible assets	62	55	67
Financial Assets	224	248	311
Deferred tax assets (net)	262	305	278
Other non-current assets	173	33	57
Total Non-current assets	6322	7568	8881
Inventories	190	193	149
Investments	-	-	-
Trade receivables	56	49	22
Cash and cash equivalents	436	120	147
Other financial assets	3	10	42
Other current assets	224	252	313
Total current assets	909	623	673
Total assets	7232	8191	9555

Source: Company, YES Sec – Research

Exhibit 12: Income statement

Y/e 31 Mar (Rs m)	FY18	FY19	FY20
Revenue	5863	7390	8470
Operating profit	4500	5932	6828
Depreciation	703	895	1340
Interest expense	536	564	756
Profit before tax	165	35	-415
Taxes	124	144	78
Net profit	-58	-384	-329

Source: Company, YES Sec – Research

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