

Barbeque Nation Hospitality (BNH) is one of India's leading casual dining restaurant chains with 164 restaurants. BNH owns 147 restaurants in India and six restaurants in three countries outside India under the brand name "Barbeque Nation". It also holds 61.35% stake in a company called "Red Apple", which operates 11 Italian cuisine restaurants. Out of this, nine restaurants are under the brand name "Toscano" and one each under the brand name "La Terrace" and "Collage". It operates in 77 cities in India. In November 2018, BNH launched 'UBQ by Barbeque Nation' restaurant to provide à la carte Indian cuisine in the value segment. At present, UBQ by Barbeque Nation restaurant predominantly caters to the delivery segment.

Strong restaurant brand in India

BNH is a strong brand with a presence in more than 77 cities. In the casual dining restaurant business, location remains an important factor for growth. Out of total 164 restaurants, 75 are located in mega metro cities. These cities remain the highest spenders in terms of eating out/ordering frequencies and average outing/ordering spends. Average billing in metro city is ~₹ 900 compared to ₹ 650 in tier-II & tier III cities. The company added 13-21 new restaurants every year in FY18-20. It incurs a capex of ₹ 2.7 crore per restaurant with break-even period of two to four months depending on location. The mature store can generate income of ₹ 7 crore per annum.

Continue to expand restaurants in future

The strong presence in the Indian market positions the company well to capitalise on the growth in consumer spending from expected increases in the level of disposable income in India. The company would be spending ~₹ 90 crore in the next two years to expand its restaurant (both 'Barbeque Nation' & 'Toscano') base in existing cities. Its delivery revenue, which used to contribute ~3% of revenue before the Covid-19 pandemic, is now contributing 15% to the topline. The company is looking to further expand its delivery revenues, going forward. Moreover, out of 11 Italian cuisine restaurants, eight operate only in Bengaluru. BNH can easily expand its Italian restaurants in other metro cities to grow overall restaurant network.

Key risks and concerns

- Delivery revenues are relatively low
- Localised lockdown can impact operations in medium term
- Redundancy in concept restaurants
- Competition risk

Priced at EV/S of 2.4x FY20 (post issue) on upper band

The chain CDR industry is expected to grow at a faster pace over the next five years. However, we believe the bigger size restaurants and limitation in scaling up delivery sales can impact the growth for the company. Moreover, we await clarity on full recovery from Covid 19 before assigning any recommendation. The stock is priced at 2.4x FY20 EV/sales (post listing).

Key Financial Summary

₹ crore	FY18	FY19	FY20	CAGR FY18-20 (%)
Total Revenues	586.3	739.0	847.0	20.2
EBITDA	136.3	145.9	164.2	9.8
EBITDA Margins (%)	23.2	19.7	19.4	
PAT	6.8	-21.2	-32.9	
EPS (₹)	2.5	-7.6	-11.8	
EV / Sales	3.5	2.8	2.4	
P/E (x)	276.9	NA	NA	
RoE (%)	4.7	NA	NA	
RoCE (%)	18.8	17.8	17.2	



Particulars

Issue Details

Issue Opens	24th March 2021
Issue Closes	26th March 2021
Issue Size*	₹ 452 ₹ 453 crore
Fresh Issue	₹ 180 crore
Price Band	₹ 498-500
No. of shares on offer (in crore)	0.91
QIB (%)	75
Retail (%)	10
Minimum lot size (no of shares)	30

*based on upper price band of ₹ 500 per share

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoter Group	47.8	37.8
Public	52.2	62.2

Objects of issue

Objects of the Issue	₹ crore
Capital expenditure for expansion and opening of new restaurants by the company	54.6
Pre-payment of outstanding borrowing	75.0
Fresh Issue	180.0
Offer for sale	273.0

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Company background

Barbeque Nation Hospitality (BNH) is one of India's leading casual dining restaurant chains (in terms of number of outlets) with 164 restaurants. BNH owned 147 restaurants in India and six restaurants in three countries outside India under the brand name "Barbeque Nation". It also hold a 61.35% stake in a company called "Red Apple", which operates nine Italian cuisine restaurants under the brand name "Toscano", one restaurant each under the brand name "La Terrace" and "Collage". The first Barbeque Nation Restaurant was launched in 2006 by Sayaji Hotels (SHL). The company started its first restaurant in 2008 and subsequently acquired five restaurants from SHL in 2012. BNH has grown the number of restaurants to 147 in 2020. It operates in 77 cities in India. In November 2018, BNH launched UBQ by Barbeque Nation Restaurant to provide à la carte Indian cuisine in the value segment. At present, UBQ by Barbeque Nation Restaurant predominantly caters to the delivery segment.

Barbeque Nation Restaurants has pioneered the format of 'over the table barbeque' concept in Indian restaurants. Live grills embedded in dining tables allow guests to grill their own barbeques. These restaurants are preferred destination for celebrations mainly on account of its wide range of vegetarian and non-vegetarian appetisers and main courses, a popular dessert menu, a pleasant and casual dining environment and prompt service. The company runs popular food festivals periodically related to Indian, international & fusion cuisine to attract customers.

The size of Barbeque Nation restaurants varies across regions. The average size of a Barbeque Nation restaurant i) in a metro city, ranges from 5,000 sq ft to 5,500 sq ft; ii) in a Tier I city, ranges from 4,500 sq ft to 5,000 sq ft; and iii) in a Tier II city, ranges from about 3,500 sq ft to 4,000 sq ft. Considering the business plan for setting up new Barbeque Nation restaurants across regions, the company have considered an average restaurant size of 4000 sq ft for arriving at the estimated costs to set up Barbeque Nation restaurants across regions and metro, Tier I and Tier II cities.

Exhibit 1: Total cost of setting up a restaurant

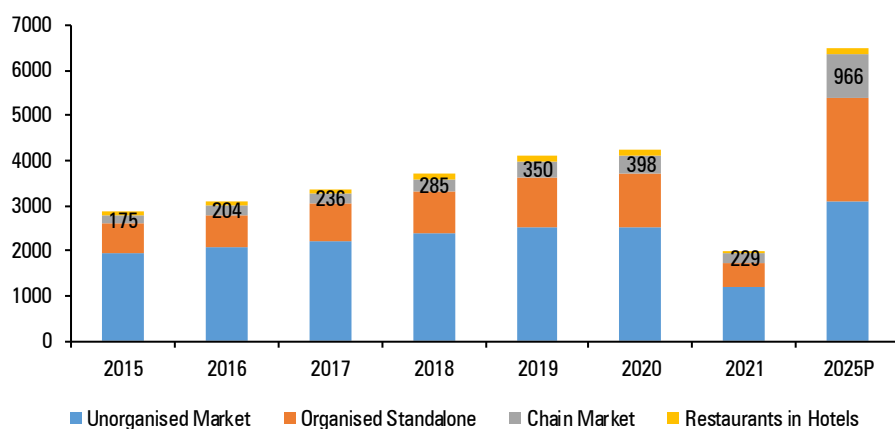
Particular	Amount (in crore)
Cost of civil, interiors, electrical and other related costs	0.91
Cost of air-condition, ventilation and other related costs	0.37
Costs of furniture & fixtures	0.17
Costs of kitchen equipment and other related costs	0.34
Costs of diesel generators and cables	0.10
Information technology costs	0.09
Costs of kitchen accessories and other related costs	0.14
Total estimated cost per restaurant	2.10

Source: RHP, ICICI Direct Research

Industry background

The size of the food services market in India is estimated at ₹ 4.2 lakh crore in FY20 and is projected to grow at a CAGR of 9% over the next five years to ₹ 6.5 lakh crore by FY25. The organised market (chain and organised standalone outlets, excluding restaurants in hotels) is estimated at ₹ 1.6 lakh crore in FY20 and is projected to grow at a CAGR of 15%, to ₹ 3.3 lakh crore in FY25 gaining a share of 50% from 38% in FY20. In FY21, due to Covid, the food services market is expected to show a dip of 53% in comparison to food services market size in FY20. Similarly in FY21, the chain market is expected to show a dip of 42% in comparison to FY20.

Exhibit 2: Food service market size in India (in ₹ billion)



Source: RHP, ICICI Direct Research

The top eight cities in India have been the centre of development, especially for the organised food services. Due to increased economic activity, rising disposable incomes, a greater need for convenience and an increasing women workforce, the chain food services brands have done well in these cities. The two mega metros: Delhi NCR & Mumbai contribute to around 42% of the chain food services market in India. The next six cities: Kolkata, Bengaluru, Chennai, Hyderabad, Pune and Ahmedabad along with Delhi NCR & Mumbai contribute around ~87% of the total chain market. The top eight cities together contribute 50% of the standalone market segment in the food services market. Meanwhile, the mega metros make up 27% of the standalone market segment.

Exhibit 3: Spending pattern among consumer

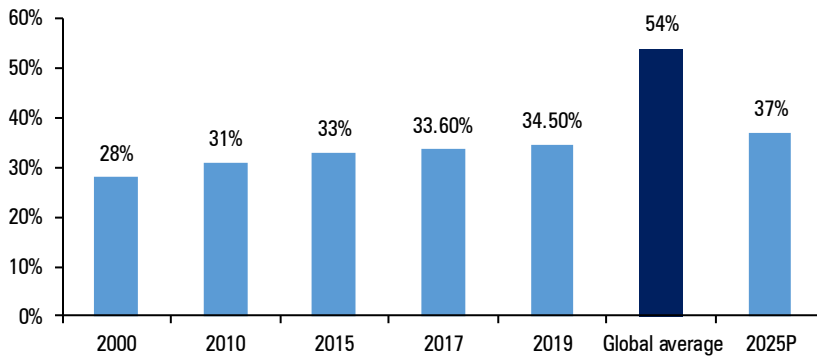
City Type	Eating Out frequency per month			Average spend per outing (₹)			Ordering Frequency per month			Average Spend per ordering-in (₹)		
	2014	2017	2020	2014	2017	2020	2014	2017	2020	2014	2017	2020
Mega Metros	5.7	6.1	6.3	902	998	1039	1.0	1.7	2.1	410	466	495
Mini Metros	5.0	5.3	5.5	752	829	861	0.9	1.4	1.9	360	410	433
Tier I & II	4.3	4.6	4.8	612	674	706	0.6	0.9	1.1	263	299	316

Source: RHP, ICICI Direct Research, IQVIA MAT March 2015-20

New trends driving Indian food services market

Rising urbanisation and rising disposable incomes are fuelling the growth of the Indian food services market. The trend of eating out is increasing in urban India and urban consumers do not need a special occasion to eat out. The occasion for eating out can vary from shopping & casual outing to spending free time. Indians are eating out not only to consume food but also to socialise and experiment with various cuisines. The trend of eating out is increasing across all sections of society irrespective of economic class. The increase of women in the workforce has seen a shift of patterns in terms of household activity including a downward trend in home cooked meals and an increase in demand for "out of home" meals. Total ~60% of Indians eating out are the Millennials in the age group of 15-34 years.

Exhibit 4: Urbanisation trend in India (in %)

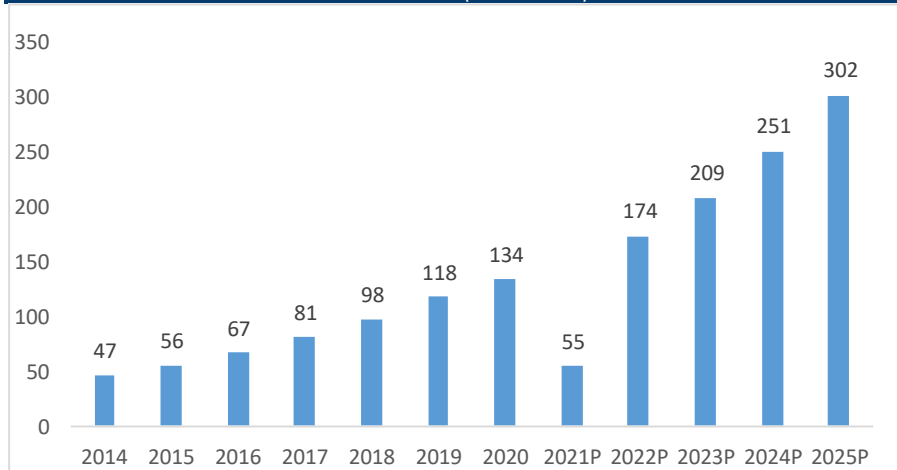


Source: RHP, ICICI Direct Research

Chain dining restaurant Industry

The chain casual dining (CDR) market in India has been booming over the last few years. The chain CDR segment represents the second largest share in the chain food services market in India after QSR. In FY20, the size of the chain casual dining market is estimated at ₹ 13,400 crore. The segment is expected grow at a healthy 18% CAGR to reach ₹ 30,200 crore by FY25E. The chain casual dining segment caters to the various needs of consumers by offering different service styles, cuisines, ambiance, price points such as Sagar Ratna & UBQ by Barbeque Nation having an average price per consumer (APC) of ₹ 200-300 caters to the value seeking consumer whereas a Barbeque Nation, Mainland China with an APC of ₹ 775-800 caters to the experiential consumer who would like to enjoy a sumptuous meal with great ambiance. Also, outlets like Farzi Café (APC of ₹ 1,100-1,250) caters to consumers looking to experiment with Indian food in a lively and eclectic environment.

Exhibit 5: Chain CDR market size in India (in ₹ billion)



Source: RHP, ICICI Direct Research

Larger focus on value meals: In the Indian food services market, value for money will continue to be the order of day as Indians are eating out and ordering in much more at an average of six to seven times per month per household. Indian consumers, irrespective of their economic class and type of city they live in, are eating out/ordering in more. This is primarily to experiment, preference to socialise and unwind over food. Indian consumers, though willing to spend more and more on experiential eating, are cost-conscious and look at value for money concepts, or for cost efficient functions when ordering in.

Investment Rationale

Strong restaurant brand in India

The company has steadily grown its owned and operated Barbeque Nation restaurant network from one restaurant in 2008 to 147 across 77 cities in India and six International Barbeque Nation restaurants in three countries outside India. It has granted franchise rights in respect of one Barbeque Nation restaurant. The company also operate 11 Italian cuisine restaurants, which contributes 6% to the topline. Also, it operate six stores overseas. However, it is not looking to expand aggressively in international locations. The company added 13-21 new restaurants during FY18-20. It incurred a capex of ₹ 2.7 crore per outlets while a store generally breaks even in two to four month depending on location. The mature store can generate an income of ₹ 7 crore per annum.

Exhibit 6: Barbeque Nation owned & operated stores

	FY17	FY18	FY19	FY20	Dec'FY21
Metro cities	50	55	68	68	75
Tier-I cities	13	14	17	17	22
Tier-II cities	14	28	35	35	42
Tier-III cities	2	5	6	6	8
International & Others	0	2	5	41	17
Total Owned & Operated	79	104	131	167	164

Source: RHP, ICICI Direct Research

In the casual dining restaurant business, location remains an important factor for growth. Out of total 164 restaurants, 75 are located in mega metro cities. These cities remains highest spenders in terms of eating out frequencies, ordering frequencies, average outing spends & average ordering spends. Average billing in metro city is ~₹ 900 compared to ₹ 650 in tier-II & tier III cities.

Efficient business processes and back-end systems

The company benefits from strong processes and systems that have been established over past 14 years. The restaurant locations are carefully chosen by a dedicated internal team. It has been successful in opening Barbeque Nation restaurants in popular business districts, neighbourhoods and local markets without typically paying high street premium rentals. The rental cost for the company remains low at 10-12% of sales (FY18-19). BNH sources its ingredients from various suppliers and, in some cases, imports them from outside India. It also had two commissaries, one each in Delhi NCR and Mumbai, which serve a number of nearby Barbeque Nation Restaurants by preparing dishes on a volume basis and further realising economies of scale.

Continue to expand restaurants in future

The strong presence in the Indian market positions the company well to capitalise on the growth in consumer spending from expected increases in the level of disposable income in India. BNH opened 70 restaurants in FY18-20. The company would continue to expand its restaurant (both 'Barbeque Nation' & 'Toscano') base in existing cities. We believe the company would open similar 20+ new restaurants every year. The company has started its delivery restaurants under the brand name 'UBQ by Barbeque Nation'. Its delivery revenue, which used to contribute ~3% of revenue before the Covid-19 pandemic, is now contributing 15% of the topline. The company is looking to spread its delivery revenues, going forward. Moreover, out of the 11 Italian cuisine restaurants, eight operate only in Bengaluru. The company can easily expand its Italian restaurants in other metro cities to grow its restaurant network.

Relatively higher Weekday & Lunch contribution

Barbeque Nation Restaurants have experienced steady growth in the last three years and proportion of total revenues from weekday sales and lunch covers at Barbeque Nation Restaurants is relatively higher compared to the industry average. The company chooses the locations of 'Barbeque Nation restaurants' with the objective of keeping rent to potential revenue ratio low. Exhaustive menus, quality food, high focus on presentation and the presence of specific cuisines or themes are all features of the CDR segment. We believe these factors result in higher per store revenues for the company.

Concept of food festivals to attract visitors

The company practice is to monitor all the steps of food delivery from the creation and maintenance of the approved products list to the supplier selection and menu item. It also aim to revise menu in accordance with changing consumer preferences. As of December 31, 2020, it has two commissaries, one each in Delhi NCR and Mumbai. These commissaries serve a number of nearby Barbeque Nation restaurants by preparing dishes on a volume basis and further realising economies of scale. From time to time, it also run periodic food festivals celebrating one or more cuisines or their fusion to add to menu offerings. Some of its popular food festivals at Barbeque Nation Restaurants include:

Exhibit 8: Periodic Food Festivals at Barbeque Nation Restaurants

Name of Festival	Cuisine
Hakuna Matata	African cuisine
Jewels of the Sea	Sea food
Mango Mania	Mango centred dishes
MA Road ki Masti	Mumbai's street food
Jat Set Go	Punjabi food and drinks
Moplah Festival	Kerala's food
Med Feast	Mediterranean food
Khao Galli – Dilli 6	Delhi's street food

Source: RHP, ICICI Direct Research

Healthy operating margins

The gross margins of the company remain at ~65%. Further, the company also generates healthy operating margins of ~19-22%. The depreciation cost has remained high due to aggressive restaurant expansion in the last three years. Its FY19 operating margins were impacted due to loss in international restaurants. However, the management indicated at not expanding in international locations aggressively in future.

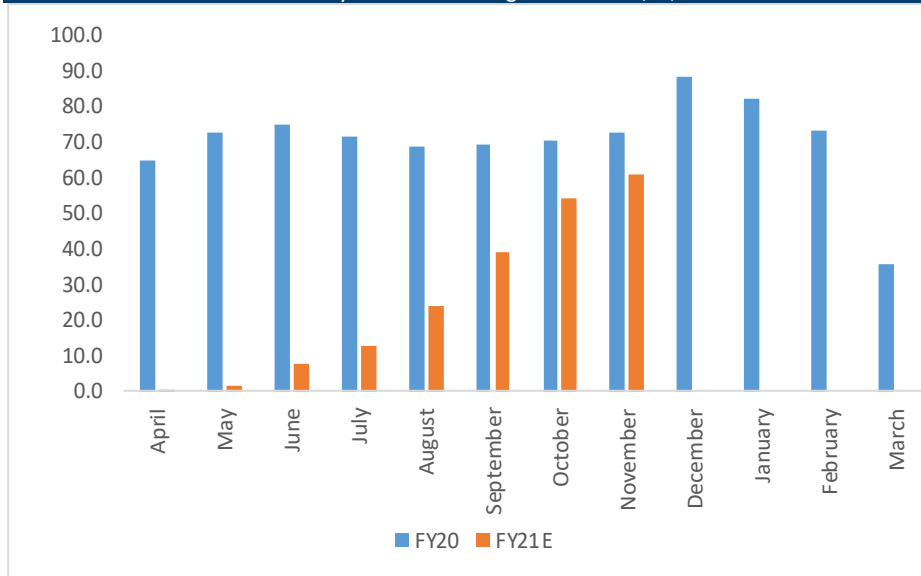
Several unorganised smaller joints closed

With the grave impact of lockdown on the restaurant industry, the smaller unorganised restaurants have been negatively impacted by adverse working conditions, increased operational cost & trust deficit with the smaller restaurants. Hence, many smaller restaurants have closed down in the last one year. This would eventually benefit the branded organised chain restaurants, in general.

Faster recovery from Covid-19

Chain restaurants have been adversely impacted by the Covid-19 lockdown given all restaurants remained completely closed in April-May 2020. The company slowly started opening restaurants from June onwards with the states starting to lift the lockdown. It has been able to recover ~84% of its revenues till November 2020. With adverse inclination on consumer expenditure on non-essential goods, post Covid-19, consumer focus is on availing low cost meals. Moreover, consumers are moving away from experiential eating. The company started its delivery based menu with the branding 'UBQ by Barbeque Nation'. It has been able to increase its delivery revenue to 15% from 3% in pre-Covid times. BNH also re-negotiated its rental in H2FY21 and closed down three of its restaurants in FY21.

Exhibit 9: Month wise recovery in sales during lockdown (%)



Source: RHP, ICICI Direct Research *sales numbers are available till November 2021

Key risks and concerns

Delivery revenues relatively low

The delivery revenue of the company was contributing 3% to total revenue before the Covid-19 breakout. Post pandemic, home delivery of food remained the preferred choice for consumers. The prevalence of food delivery aggregators also positively impacted the home delivery category. However, we believe opportunity in CDR for the home delivery of food is low. Even after pandemic, the home delivery segment is only contributing 15% to sales. We believe limited opportunity in food delivery for the company remains a concern for growth in future.

Localised lockdown to impact operations in medium term

Due to Covid-19 breakout, the restaurant industry was adversely impacted with 40-50% decline in revenues. However, the organised industry has recovered well till November-December 2020. We believe a possible second wave of the pandemic could result in intermediate or localised lockdown in the country. This could not only adversely impact the business in the short to medium term but could also result in a delay in expansion plans.

Redundancy in concept restaurants

The restaurant industry needs to change its menu and invent new food dishes frequently. We believe the similar food concepts for a longer period of time can lead to redundancy. This could lead to stagnation in same store growth for the restaurant. The inability to gauge consumer preferences and introduce new menu items could adversely affect the business.

Competition risk

The CDR is a competitive industry and new concept restaurants open very frequently. We believe excessing competition in this space can disrupt the pricing. Moreover, target market of metro cities does attract many organised chain restaurant, which can adversely impact the growth in future.

Financial Summary

Exhibit 10: Profit & loss statement				
(₹ crore)				
Revenue (₹ crore)	FY18	FY19	FY20	8mFY21
Revenue from operations	586.3	739.0	847.0	201.0
Other income	4.1	3.5	3.8	35.6
Total revenue	590.4	742.5	850.8	236.6
Cost of materials consumed	197.8	247.6	292.2	76.4
Employee expense	125.7	168.0	197.5	71.3
Other expenses	126.6	177.5	193.0	76.3
Total Expenses	450.1	593.2	682.8	224.0
EBITDA	136.3	145.9	164.2	-23.0
Finance costs	53.6	56.4	75.6	59.1
Depreciation and amortisation expense	70.3	89.5	134.0	82.0
Profit before tax and exceptional items	16.5	3.4	-41.5	-128.6
Exceptional items	-2.6	10.3	-16.4	-2.1
Profit before tax	19.2	-6.8	-25.1	-126.5
Current tax	15.4	18.4	4.9	0.0
Deferred tax	-3.1	-4.1	2.9	-25.8
Total Tax	12.4	14.4	7.8	-25.8
Profit after tax	6.8	-21.2	-32.9	-100.6
Loss from discontinuing operations	-12.6	-17.2	0.0	0.0
PAT after discontinuing operations	-5.8	-38.4	-32.9	-100.6

Source: RHP, ICICI Direct Research

Exhibit 11: Balance Sheet				
(₹ crore)				
Balance Sheet (₹ crore)	FY18	FY19	FY20	8mFY21
Shareholders' funds	145.0	131.6	11.1	-11.6
Share capital	13.8	14.0	14.0	14.0
Reserves and surplus	131.2	117.6	-8.1	-28.9
Non-Controlling stake	0.0	0.0	5.2	3.3
Non-current liabilities	395.7	482.9	673.8	551.4
Long-term borrowings	85.4	109.3	165.1	135.5
lease liability	301.3	362.2	500.2	407.4
Provisions	8.7	11.4	8.5	8.6
Other non-current liabilities	0.2	0.0	0.0	0.0
Current liabilities	182.5	204.6	270.5	368.8
Short-term borrowings	18.5	15.7	41.5	37.8
Trade payables	99.4	115.8	161.4	250.9
lease liability	49.4	57.8	48.8	50.2
Other financial liability	6.7	8.0	11.6	21.8
Provisions	3.2	3.4	6.3	5.6
Current tax liability	5.3	4.0	1.1	2.4
Equity & Liabilities Total	723.2	819.1	955.5	908.6
Tangible assets	224.8	303.2	332.2	303.4
Right to use assets	293.9	354.6	401.5	373.5
Goodwill on consolidation	23.0	19.0	72.3	72.3
Capital work in progress	18.5	15.9	10.9	5.1
Other Intangible assets	6.2	5.5	6.7	5.6
Financial Assets	22.4	24.8	31.1	31.7
Other Non-current assets	17.3	3.3	5.7	5.0
Deferred tax assets (net)	26.2	30.5	27.8	53.5
Current assets				
Inventories	19.0	19.3	14.9	15.9
Investments	0.0			
Trade receivables	5.6	4.9	2.2	4.1
Cash and bank balances	43.6	12.0	14.7	7.7
Other Financial assets	0.3	1.0	4.2	1.6
Other current assets	22.4	25.2	31.3	29.4
Assets Total	723.2	819.1	955.5	908.6

Source: RHP, ICICI Direct Research

Exhibit 12: Cash flow statement				
	(₹ crore)			
Cash Flow (₹ crore)	FY18	FY19	FY20	8mFY21
PBT	6.6	-15.8	25.1	-126.5
Depreciation	75.3	102.2	134.0	82.0
Operating profit before working capital change	129.9	142.2	159.8	-24.5
Changes in working capital	12.1	-5.7	29.1	55.1
Income tax paid	-14.5	-14.3	-7.8	1.5
CF from operating activities	127.5	122.3	181.1	32.1
(Purchase)/Sale of Fixed Assets	-101.1	-130.0	-84.1	-3.6
Interest Received	1.8	0.9	-68.8	5.6
CF from investing activities	-99.3	-129.1	-152.9	2.1
Proceeds from issue of share capital	47.8	32.0	0.1	0.0
Share issue expenses / expense towards of	-6.7	-2.3	-6.1	-0.2
Adj. of Loan	25.5	33.0	61.8	7.7
Interest Paid	-11.4	-10.3	-17.3	-13.0
Dividends Paid	-3.3	-3.4	-3.4	0.0
Other adjustments	-44.6	-73.8	-61.7	-35.7
CF from financing activities	7.3	-24.7	-26.5	-41.2
Net Cash Flow	35.6	-31.6	1.6	-7.0
Opening Cash	8.1	43.6	13.1	14.7
Closing Cash Flow	43.6	12.0	14.7	7.7

Source: RHP, ICICI Direct Research

Exhibit 13: Key Ratios			
Ratio Sheet	FY18	FY19	FY20
Per share data (₹)			
Diluted EPS	2.5	-7.6	-11.8
Cash EPS	27.9	24.4	36.1
BV per share	52.5	47.0	4.0
Cash Per Share	15.8	4.3	5.3
Operating Ratios (%)			
Gross Profit Margins	66.3	66.5	65.5
EBITDA Margins	23.2	19.7	19.4
PAT Margins	1.2	-2.9	-3.9
Inventory days	12	10	6
Debtor days	3	2	1
Creditor days	62	57	70
Return Ratios (%)			
RoE	4.7	NA	NA
RoCE	18.8	17.8	17.2
Valuation Ratios (x)			
EV / Sales	3.5	2.8	2.4
EV/EBITDA	15.2	14.2	12.6
Market Cap / Sales	3.2	2.5	2.2
P/E	276.9	NA	NA
Price to Book Value	12.9	14.3	168.4
Solvency Ratios			
Debt / EBITDA	0.8	0.9	1.3
Debt / Equity	0.7	0.9	18.5
Net Debt/ Equity	0.4	0.9	17.2
Current Ratio	0.5	0.3	0.2
Quick Ratio	0.4	0.2	0.2
Asset Turnover	2.2	2.2	2.0

Source: RHP, ICICI Direct Research

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