



Barbeque-Nation Hospitality Limited

Issue Opens	Wednesday, March 24, 2021
Issue Closes	Friday, March 26, 2021
Price Band (in Rs)	498/500
Bid Lot	30 shares and multiples thereafter



IPO UPDATE

Barbeque-Nation Hospitality Limited

Industry Overview:

Food Services Market in India

India's food services market has come a long way from early 1980's when the number of organized brands were countable, and the market otherwise was dominated by un-organized players. The revolution in this sector began in FY-1996 with the opening up of restaurants by McDonald's, Pizza Hut, Domino's followed by entry of players like Subway and Barbeque Nation post 2000 and expansion of legendary home-grown players like Haldirams and Moti Mahal.

The food services market has been growing since then with the international and domestic brands making substantial investments in building the back-end consisting of suppliers and logistics segment. Since then, the market has witnessed many changes with respect to rising disposable income, availability of quality labour force, use of technology, which are collectively changing the face of the sector by enabling players to sustain efficiency at both front and back end.

Exhibit 1: Evolution of Food Services Market

	Phase I (1991-2000)	Phase II (2001-2010)	Phase I (2010 onwards)
Geographical	High focus on Metros & Mini-Metros	Initial entry into Tier II Cities	Greater presence in newer locations
Operating Model	Ownership & Franchisee Model	More Franchisee Models	Concept of JVs
Investment Needs	Family/Self-funded	Partnerships, JVs and start of PE funding	Brand expansion driven by IPO, PE and others
Industry Segmentation	Indian & International Brands	Emergence of defined formats e.g. CDR, QSR, FDR, Café etc.	Further sharpening of formats based on consumer needs

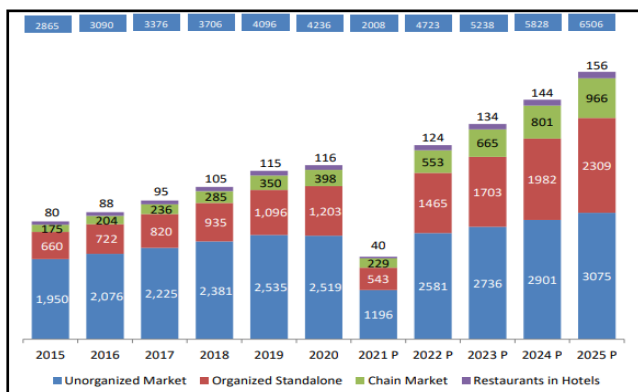
Source: Company RHP, Progressive Research

Food Services Market Structure:

The food services market can be broken down into three broad segments: unorganized, organized standalone and chain.

The size of the food services market in India is estimated at Rs4,236bn in FY20 and is projected to grow at a CAGR of 9% over the next 5 years to reach Rs6,506bn by FY25.

Exhibit 2: Food Service Market Size (Rs bn)



Source: Company RHP

SNAPSHOT

Issue Opens	Wednesday, March 24, 2021	
Issue Closes	Friday, March 26, 2021	
Price Band (Rs)	498/500	
Bid Lot	30 shares and multiples thereafter	
Face Value	Rs5	
Listing	BSE & NSE	
Type of Issue	Fresh Issue & Offer for Sale	
Offer Size (Rs Mn)	Fresh Issue	1,800
	OFS	2,729
	Total	4,529
*Implied Market Cap (Rs Mn)	18,771	
P/E (based on FY20 Earnings)*	-	

*Note: Implied Market Cap & P/E are calculated at upper price band of Rs500

Issue Allocation

Reservations	% of Net Issue
QIB	75
NIB	15
Retail	10
Total	100

Employee Reservation: Equity shares aggregating to Rs20mn

Object of the Offer

- Capital expenditure for expansion and opening of new restaurants
- Prepayment or repayment of all or a portion of certain outstanding borrowings
- General corporate purposes



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Industry: (contd.)

The organized market (chain and organized standalone outlets, excluding Restaurants in Hotels) is estimated at Rs1,601bn in FY20 and is projected to grow, at a CAGR of 15%, to reach Rs3,275bn by FY25 gaining a share of 50% from 38% in FY20. In FY21, due to Covid-19, food services market is expected to show a dip of 53% in comparison to food services market size in FY20. Similarly in FY21, Chain market is expected to show a dip of 42% in comparison to FY20.

Exhibit 3: Structure of Indian Food Services Market

Key Segments in the Food Services Market		Average Spend per Person (Rs)
Unorganized Segment – It includes roadside eateries and dhabas which have been the most common eating out option		10-100
Restaurant in Hotels - A full-service restaurant with premium interiors, specific cuisine specialty and high standard of service mainly present in premium Hotels. E.g. The Great Kebab Factory, Bukhara etc.		>1000
Organized Segment – Consists of: a) Standalone restaurants across all formats with less than 3 outlets. b) Chain format which has 3 or more outlets across all formats.		
Chain Segment:		
1.Cafe	Coffee & chai bars as well as parlours and bakeries. High focus on beverages supported by food items. E.g.: • Starbucks, Café Coffee Day etc	50-250
2. Quick Service Restaurants (QSRs)	Focused on speed of service, affordability and convenience. Strong focus on takeaway & delivery with minimal table service. E.g.: Haldiram’s, McDonald’s	75-250
3. Frozen Desserts/ Icecream (FD/IC)	Comprises small kiosk formats of ice-cream brands and has now extended the dine-in concept to frozen yogurt brands. E.g.: Baskin-Robbins, Red Mango etc.	50-150
4. Casual Dining Restaurants (CDRs)	A restaurant serving moderately to high priced food in an ambience oriented towards providing an affordable dining experience, with table service along with some restaurants offering eclectic high quality interiors and high standards of service. The offerings bridge the gap between QSRs and fine dining restaurants. E.g.: Farzi Cafe, Barbeque Nation, Oh! Calcutta	250-1000
5. Fine Dining Restaurants (FDRs)	A full service restaurant with premium interiors, specific cuisine specialty and high standard of service. They offer a unique ambience and an upscale service with the help of highly trained staff. E.g.: Olive Bar, Yautcha etc.	>1000
6. Pubs, Bar Café & Lounges (PBCL)	This format mainly serves alcohol and related beverages and includes night clubs and sports bars. E.g.: Beer Café, Xtreme Sports Bar etc.	750-1500

Source: Company RHP, Progressive Research

Impact of Covid-19 on various formats of the Food Services Industry

QSR: QSR formats, primarily chained, were the first to demonstrate recovery. Home delivery from these formats started as early as April 2020 in several states as most of the QSRs had the option of “Delivery and Takeaway services”. Chains like McDonald’s, Dominos and Burger King had modelled deliveries, drive-through and Over the Counter (OTC) pick-ups into their business long before the present crisis. So, while dine-in had been affected even for these businesses, the altered version to a delivery-based structure was not new for them and they quickly adapted to the alternate model to drive growth and revenues. Moreover, people prefer to order from reputed and international QSR chains given the highest level of hygiene and safety standards maintained by these chains.

Casual Dining Restaurant: Casual dining restaurants were primarily built for ‘Dine in experience’ but as situation demanded most of the chain CDR also started delivery. This helped them in starting of their business in initial few months of lockdown. As restaurants started opening during July-Aug 2020, sales started rising. Players such as Barbeque Nation started delivery apart from dine-in buffet which provided additional revenue stream.

Cafe : Cafe was primarily not designed for the “Delivery and takeaway model”. The share of home delivery and takeaways has been small for these players. Cafés typically known for their dine-in experience sometimes take a fair bit of time to incorporate new safety measures, social distancing, and new ways of customer service and engagement. As the situation demanded, this format has introduced/enhanced the delivery segment. This segment has also been recovering albeit slowly.

PBCL and Fine Dining: Pubs, Bars, Lounges, and Fine Dining restaurants are the facing recovery issues primarily because most of them were shut till the end of July 2020 and in some parts of the country till Oct 2020. Moreover, even when they restarted operations, customers have been hesitant to visit and dine in pubs, bars, and fine dining restaurants.



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Industry: (contd.)

Cloud Kitchens and Food Delivery Platforms: Cloud Kitchens and food delivery platforms such as Zomato, Swiggy played an important role during the lockdown. As of October 2020, Zomato and Swiggy recovered to nearly 100% of the pre-Covid levels.

Unorganized Segment: The unorganized segment, which primarily includes dhabas, roadside small eateries, hawkers and street stalls, is the worst hit within the food services market. It is also estimated that this segment will be the last to start on the recovery path primarily due to hygiene and food safety issues and lack of working capital with the small entrepreneurs. The void created by this segment can be addressed by emergence of organized value segment that can address the basic food safety concerns or by the existing QSR and ACDR (Affordable Casual Dining Restaurants) players in the organized play.

Way Forward:

There has been gradual opening up of economy being seen coupled with the vaccination progressing well across the country. It is estimated that by Q2FY22, the Food Services Market is expected to regain almost 99% of the market on a base of 2020 and by Q3 and Q4 it is estimated to be 110% on the base of FY20. However, based on market projections that were made before the pandemic, the Food Services Market is estimated to reach 90% levels of the projections by Q3FY22.

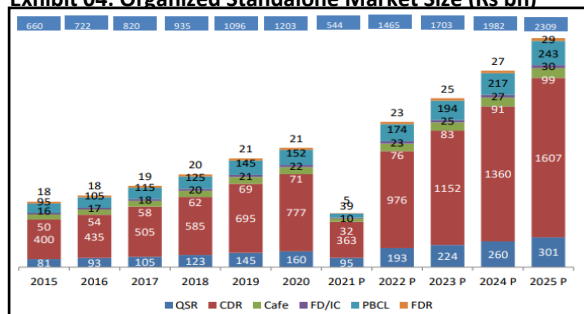
Growth Drivers and Trends in Food Services Market

- Increasing eating out behavior
- Conscious indulgence
- Emerging Urban Powerhouses
- Consistent growth of Indian and international brands
- Food Trends
 - ⇒ Larger Focus on Value Meals
 - ⇒ Unlimited Food at a Limited Price & DIY
- Contemporizing Indian Cuisine
- Beverage Remains the Game Changer

Organized Food Services Market:

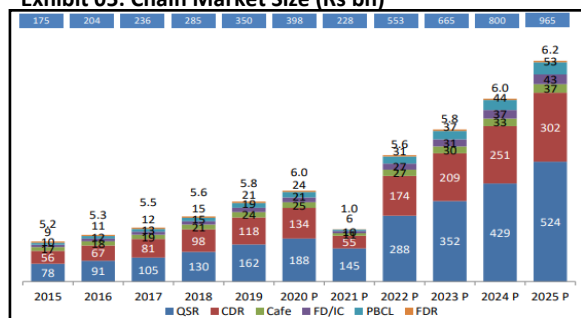
The organized standalone market is the largest organized segment with a market share of 28% in FY20. The segment is expected to grow at a CAGR of 14% from Rs1,203bn in FY20 to Rs2,309bn by FY25. The casual dining restaurants estimated at Rs777bn in FY20 formulate around 64.5% of the organized standalone market and is expected to grow at a CAGR of 16% to reach Rs1,607bn (70%) in FY25 followed by QSRs estimated to grow at 14% to reach Rs301bn in FY25.

Exhibit 04: Organized Standalone Market Size (Rs bn)



Source: Company RHP

Exhibit 05: Chain Market Size (Rs bn)



Source: Company RHP

Chain Market:

With Rs398bn in FY20, the chain market is expected to grow at a CAGR of 20% to reach Rs965bn by FY25. QSRs (47%) have the maximum market share followed by Casual Dining Restaurants (34%).

Chain Casual Dining Market

Key Trends Influencing the Food Services Market:

- Continuing Growth of Online Food Delivery and Food Tech
- Covid Impact on Ordering & Delivery
- Hygiene and Safety Concerns
- Market share shift from unorganized market to organized market
- Digital Marketing
- Social Media & Tech-savvy Consumers
- Impact of Advent of Capital Availability

Exhibit 06: Chain CDR Market Size (Rs bn)



Source: Company RHP



IPO UPDATE

Barbeque-Nation Hospitality Limited

About the Company:

Barbeque-Nation Hospitality Limited (BNHL) owns and operate Barbeque Nation Restaurants, one of India’s leading casual dining restaurant chains, according to the Technopak Report, and International Barbeque Nation Restaurants. It also owns and operate Toscano Restaurants and UBQ by Barbeque Nation Restaurant. The first Barbeque Nation Restaurant was launched in 2006 by SHL, one of its Promoters. BNHL launched its first Barbeque Nation Restaurant in 2008, and subsequently acquired 5 Barbeque Nation Restaurants owned by SHL in 2012. BNHL steadily grew owned and operated Barbeque Nation Restaurant network from a single restaurant in 2008 to 147 Barbeque Nation Restaurants (including opened, temporarily closed and under construction outlets) across 77 cities in India and 6 International Barbeque Nation Restaurants in three countries outside India as of December 31, 2020. It also owns 61.35% of the equity share capital on a fully diluted basis of one of its Subsidiaries, Red Apple, which owns and operates 9 restaurants under the brand name, “Toscano”, a casual dining Italian restaurant chain and operates 1 restaurant each under the brand names “La Terrace” and “Collage” respectively. As of December 31, 2020, Toscano Restaurant operated 11 Italian Restaurants, 9 of which are under the brand name “Toscano”, in 3 cities in India. In November 2018, BNHL launched UBQ by Barbeque Nation Restaurant to provide a la carte Indian cuisine in the value segment. At present, UBQ by Barbeque Nation Restaurant predominantly caters to the delivery segment.

BNHL, through its Barbeque Nation Restaurants, pioneered the format of ‘over the table barbeque’ concept in Indian restaurants. Barbeque Nation Restaurants, compared to other fixed price dining options, offer competitive attractions. The company has diversified into another brand with the acquisition of 61.35% of Red Apple, which operates 11 Italian Restaurants in 3 cities in India, namely Bengaluru, Chennai and Pune. Of the Italian Restaurants operated by the company as of December 31, 2020, 3 Toscano Restaurants were opened since March 31, 2019 and 4 Toscano Restaurants were opened over three fiscals immediately preceding FY19. Acquisition of Red Apple has enabled BNHL to diversify its brand, cuisine and customer segment beyond the flagship concept of ‘over the table barbeque’

Strengths:

- Barbeque Nation is one of India’s fastest growing and widely recognised restaurant brands in the rapidly growing CDR market
- Steady growth in covers and consistent APC with a relatively high proportion of total revenues from weekday sales and lunch covers
- Attractive offerings based on constant menu innovation and customer focus
- Strong business processes and back-end systems leading to efficient operations
- Experienced staff and value-oriented business culture led by some of the Promoters and senior management
- Team bringing experience from well-known hospitality brands
- Proven track record of revenue growth

Strategies:

- Increase same store sales growth, revenue per store and profitability as the vintage of Barbeque Nation
- Increase in Restaurants and continue expansion in Indian cities
- Preserve customer and team-focused culture and values
- Expansion through owned & franchise formats in select international markets
- Continue evaluating strategic brand acquisitions
- Delivery Focus with Product Innovation
- Strengthened Digital Assets
- Cost Optimisation and Liquidity status

Exhibit 07: City-wise Presence of BNHL Restaurants

City Type	Total owned and operated Restaurants (Mar 31, 2020)	Total owned and operated Restaurants (Dec 31, 2020)
Metro cities & International	95	92
Tier-I cities	22	22
Tier-II cities	42	42
Others	8	8
Total	167	164

Source: Company RHP, Progressive Research

Exhibit 08: Proven Track Record of Revenue Growth

Standalone	FY20	FY19	FY18
Standalone - SSSG	(2.8%)	5.6%	7.2%
Store level Adjusted EBITDA Margin - Mature stores	18.7%	22.9%	23.5%
Store level Adjusted EBITDA. Margin EBITDA - New stores	9.9%	8.8%	10.2%
Store level Adjusted EBITDA Margin EBITDA - Overall	17.0%	20.3%	21.6%

Source: Company RHP, Progressive Research



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Financials:

Consolidated revenues of the company grew at CAGR of 20.19% during FY2018-20 from Rs5,863mn to Rs8,470mn in FY20. Ebitda also grew by 9.78% to from Rs1363mn in FY18 to Rs1642mn in FY20. The company has significant depreciation expense due to its nature of business and result of high fixed assets due to opening of new restaurants. Depreciation expense has increased to Rs1340mn in FY20 from Rs703mn in FY18. 8MFY21 has been impacted by the pandemic and various initiatives taken by respective governments to curb the same. Revenue for 8MFY21 stood at Rs2010mn and BNHL reported negative Ebitda and earnings of Rs230mn and Rs1006.48mn respectively. It paid dividend of around 20% in FY18 and FY19, however skipped the same in FY20.

Exhibit 09: Financials Snapshot

Revenues (Rs mn)	FY18	FY19	FY20	8M ending Nov,2020
Sales	5,863	7,390	8,470	2,010
EBITDA	1,363	1,459	1,642	(230)
EBITDA Margin	23.2%	19.7%	19.4%	(11.4%)
Net Profit After Tax	68	(212)	(329)	(1,006)
Net Profit Margin	1.2%	(2.9%)	(3.9%)	(50.1%)
Earning Per Share	2.1	(8.3)	(11.8)	(36.0)
RoNW	(4%)	(29.16%)	(556.59%)	-

Source: Company RHP, Progressive Research

Risks & Concerns:

- The outbreak of the Covid-19 pandemic, as well as Govt measures to reduce the spread of COVID-19, have had a substantial impact on BNHL restaurant operations and the timing of how long the Covid-19 pandemic and the related GOI measures will last is still uncertain.
- Deterioration in the performance of, or relationships with, third-party delivery aggregators, may adversely affect business
- If the company is unable to implement its growth strategy successfully including in relation to selecting cities and locations for new restaurants; results of operations and financial condition may be adversely affected
- Company has been issued a notice from the National Anti-Profitteering Authority under the Central Goods and Services Tax Act, 2017. Any adverse decision in these matters may have a direct adverse impact on the business, operations, future prospects and financial position of the company and an indirect impact on the reputation, profitability and business
- SHL, Kayum Dhanani, Raof Dhanani and Suchitra Dhanani, who are Promoters, and certain Promoter Group members were involved in SEBI proceedings in relation to certain non-compliances under securities related laws.
- New restaurants may not be profitable or perform as planned and could also adversely impact sales in existing restaurants, which could adversely affect business, results of operations and financial condition.
- If the company is unable to continue to build the Barbeque Nation brand or the Toscano brand, its business, reputation and results of operations may be adversely affected.
- Business may be affected by seasonality.
- If BNHL is unable to maintain high food quality standards it may lead to negative publicity which may adversely affect reputation, business and results of operations.

Outlook and Recommendations:

BNHL is a player in the industry that was badly hit by the pandemic, casual dining segment. Prior to the IPO, BNHL has raised capital through placements ranging from Rs252-Rs827 per share. A major part of the business is live grill on the top and delivery cannot truly replace the dine in experience. The per person discretionary spending is also on the higher side competed to the likes of McDonalds etc. Considering the short financial history, BNHL continued to report losses in every financial year since FY18, though revenue has been increasing in same periods. BNHL is priced at negative P/BV based on NAV of Rs-5.33 (as on 30th November 2020). The initial reaction to the IPO would have to be seen after the not so great response to Easy trip IPO. Although there is ace investor RKJ having investments which did create euphoria for Nazara, but BNHL doesn't hold a leading position unlike Nazara. Overall we feel that with the second wave of Covid-19 setting in, there is uncertainty hovering around dine in providers of the segment. The same can be used to weigh BNHL performance and surely is a bet for risky investors. **The document is for information purpose. We do not have any rating on the IPO and keep it at the discretion of the investors with regard to investment in the IPO.**



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