HUNGER GAMES

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Quick Service Restaurants

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Elara Securities (India) Private Limited
Image source: Google

Quick Service Restaurants

Hunger games

Increased adoption: double-digit growth intact in India's QSR space

India's QSR chain market is set to post a market size CAGR of 32% during FY23-27, well ahead of its F&B industry growth rate of 19%, and ahead of global counterparts (Source: Technopak), led by 1) increased per capita income at a CAGR of 4% during FY15-22, 2) acceptance in the non-metro markets, 3) increased delivery revenue in post-COVID era, and 4) strong expansion by new & existing firms. Within organized QSR, KFC India posted 30% CAGR during FY19-23 vs peers across categories that have grown by a mere 17% during the same period.

No longer the boss: competition, fried chicken muscles in pizza share

The post COVID era has worked unfavorably for pizza on 1) new and existing companies expanding aggressively (increased competition) , 2) scale up in delivery offerings by aggregators, which have increased variety (pizza was the only category which has ~60% delivery revenue as on FY20); this, in turn, has led to the category losing market share by 500bp during FY17-22. Pan-India, penetration of pizza outlets is double than that of fried chicken; India has 3.9 pizza outlets per mn vs a mere 1.05 fried chicken outlets per mn, which shows penetration opportunity for fried chicken. In large metro cities, the penetration of Domino's & Pizza Hut based on population is 4-6x that of KFC (Mumbai has 11.5 Domino's & PH stores per mn vs KFC's mere 1.8). Fried chicken would continue to outperform pizza on 1) new store expansion, and 2) adoption of non-vegetarian food (~70% of Indians are non-vegetarian), which would drive better same store sales growth (SSSG) than peers.

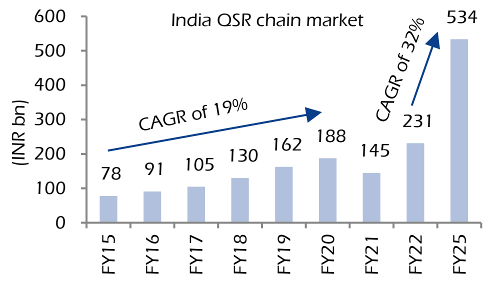
Key lever hits a plateau: delivery revenue at ~42% in the near term

Most non-pizza QSR chains had a delivery revenue share of 22-25% pre-COVID, which has reached 35-38% in the post COVID era, led by 1) aggregators scaling up delivery offerings, 2) brands working on better packaging for delivery, and 3) more customers ordering products other than pizza. We believe expansion in delivery contribution is a key lever behind better SSSG for the non-pizza category; menu innovation and increased adoption of non-pizza food would be growth drivers; however, we do not expect fried chicken and burgers to expand more than 40%-42% in delivery contribution in the near term, as consumers return to restaurants and most non pizza chains will continue to drive a bigger share of revenue (~55%-60%) from dine-in, due to their larger store size. Although we believe delivery contribution may not move way too much beyond 40% in the near term, there is still room for some expansion.

Our outlook: selective positive stance; top picks - DEVYANI & SAPPHIRE

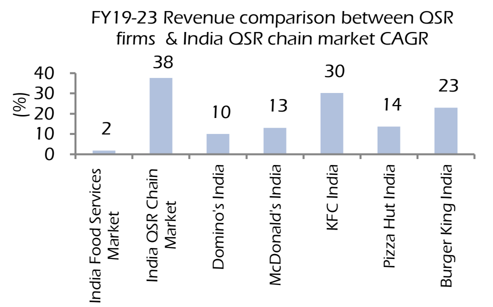
We are selectively positive on India's QSR sector and prefer Devyani International (DEVYANI IN) and Sapphire Foods (SAPPHIRE IN) due to their focus on KFC, which is heavily underpenetrated in India vs pizza franchises. We initiate on DEVYANI and SAPPHIRE with a **Buy** rating and a SOTP-based TP of INR 210 and INR 1,740. We initiate Restaurant Brands Asia (RBA IN) with an **Accumulate** rating with a SOTP-based TP of INR 130. We retain **Reduce** on Jubilant FoodWorks (JUBI IN) and Westlife Foodworld (WLDL IN) with an unchanged TP of INR 500 (on 31x FY26E pre-IndAS EV/EBITDA) and INR 880 (on 34x FY26E pre-IndAS EV/EBITDA) respectively.

India QSR chain market size CAGR of 32% over FY22-25



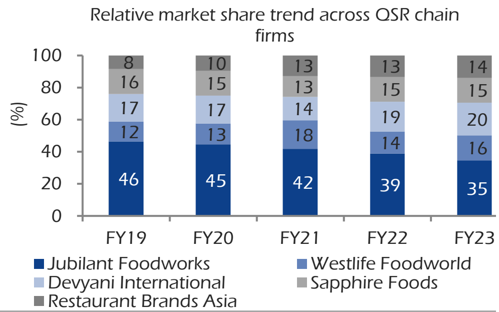
Source: Technopak, RBA Annual Report, Elara Securities Research

KFC India grows the most among Indian QSR chains



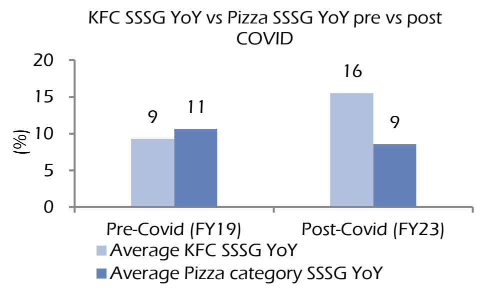
Source: Technopak, RBA Annual Report, Company, Elara Securities Research

Relative market share of JUBI down from 46% in FY19 to 35% in FY23



Source: Company, Elara Securities Research

KFC's SSSG faring better than pizza's post COVID



Note: Pizza SSSG is average of Domino's India & Pizza Hut India. KFC SSSG is average of Devyani & Sapphire. Source: Company, Elara Securities Research

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Increased adoption

- **India's food services market size at a CAGR of 19.2% during FY23-27**
- **India's organized QSR chain market size CAGR of 32% during FY23-27**
- **QSR chain market growth outpaces India's GDP and per capita income growth**

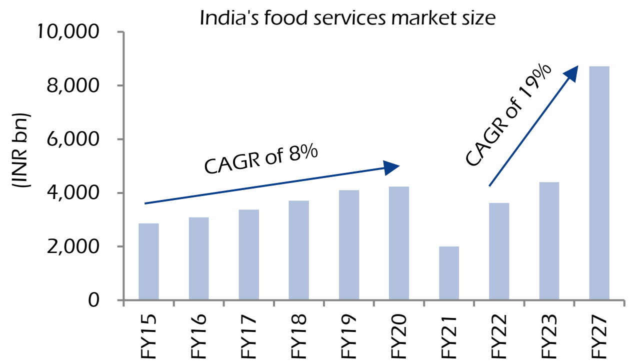
India's food services market

Market size CAGR of 19.2% during FY23-27

The food services industry in India has undergone a significant transformation in recent years, driven by 1) economic growth, 2) a young and working-age population, 3) urbanization, 4) changing lifestyles, and 5) shifting consumption patterns. This dynamic industry is expected to continue its growth trajectory, with India's food services market projected to expand from INR 4,400bn in FY23 to INR 8,720bn in FY27, posting a CAGR of 19.2% (Source: Technopak)

As a result, leading international food service companies are actively engaged in tailoring their services and menu offerings to cater to specific taste and preferences of the India's consumer base.

Exhibit 1: India food services industry CAGR of 19.2% over FY23-27

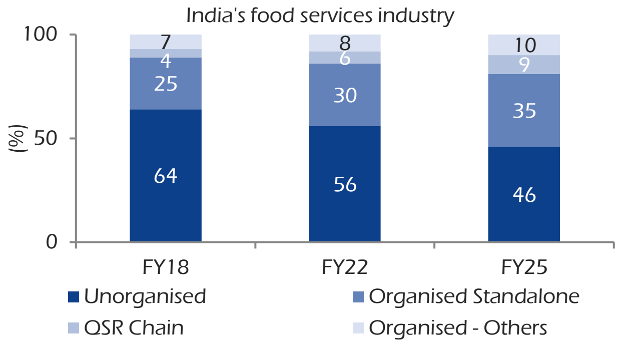


Source: Technopak, RBA Annual Report, Elara Securities Research

QSR chain addition to total food to rise to 9% in FY25

Due to the boom in the QSR chain market in India with various international QSR chains setting up shop and expanding their presence, contribution of the QSR chain market to the total food services market is expected to increase from 4% in FY18 to 9% in FY25 (Source: Technopak).

Exhibit 2: QSR chain market contribution at move to 9% in FY25



Source: Technopak, RBA Annual Report, Elara Securities Research

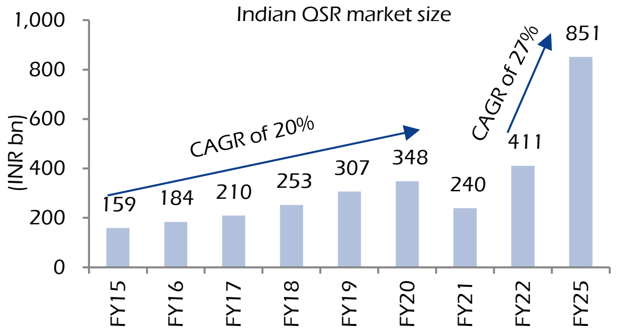
India's organized QSR market

Market size CAGR of 27% over FY22-25

India's QSR market (chain+standalone) size was INR 411bn in FY22, in which the QSR chain market size makes up INR 231bn (Source: Technopak). It is expected to post a market size CAGR of 27% over FY22-25 to reach INR 851bn in FY25 whereas the QSR chain market is expected to register a CAGR of 32% over FY22-25 to reach INR 534bn in FY25. This growth underscores the evolving dining preferences and changing consumption patterns in India's dynamic food services industry.

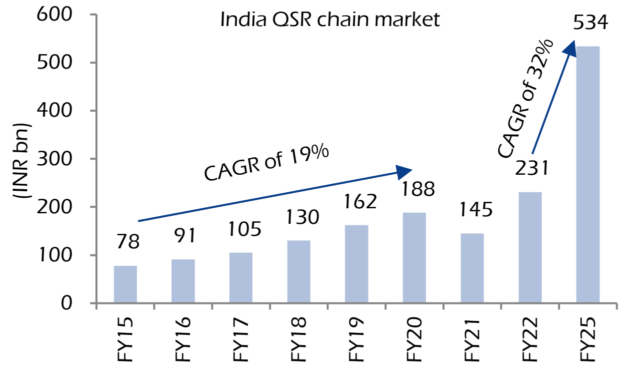
The notable expansion in the QSR chain market can be ascribed to rising inclination toward dining out and the convenience of online food ordering. Additionally, the establishment of a well-defined branded food services ecosystem, the rapid proliferation of fast food chains, and rising curiosity surrounding non-native cuisine have played instrumental roles in propelling this growth.

Exhibit 3: India QSR market size CAGR of 27% during FY22-25



Source: Technopak, RBA Annual Report, Elara Securities Research

Exhibit 4: India's QSR chain market size CAGR of 32% during FY22-25

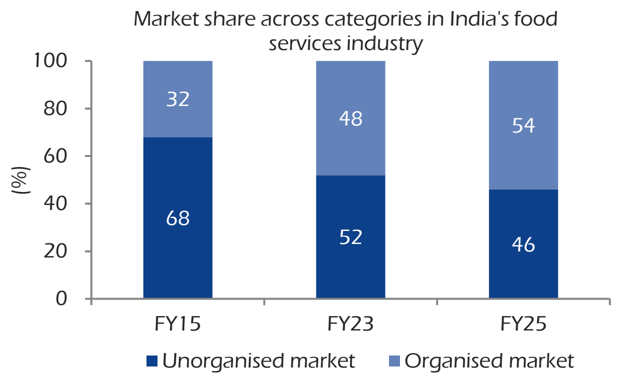


Source: Technopak, RBA Annual Report, Elara Securities Research

Shift to organized to prop up growth

<u>Within the food services market, the organized chain segment is expected to see rapid growth. The share of the organized market in India food industry moved from 32% in FY18 to 51% in FY23 and may touch 54% in FY25</u> (Source: Technopak), implying new restaurants and hotels may enter the organized economy.

Exhibit 5: India's organized food services market contribution to increase to 54% by FY25



Source: Technopak, RBA Annual Report, Elara Securities Research

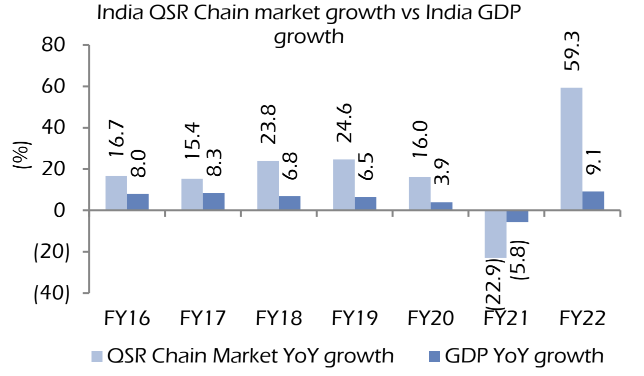
QSR chain market growth

Outpaces India's GDP growth

India's economic resilience remains evident, as it continues to rank among the world's fastest-growing economies despite external challenges. The nation is on track to becoming a USD 5tn economy by FY26 (Source: Government of India). This growth trajectory is fueled by a rapid implementation of economic reforms and robust domestic consumption. The real GDP growth for FY23 was 7.2%, following 9.1% growth in FY22.

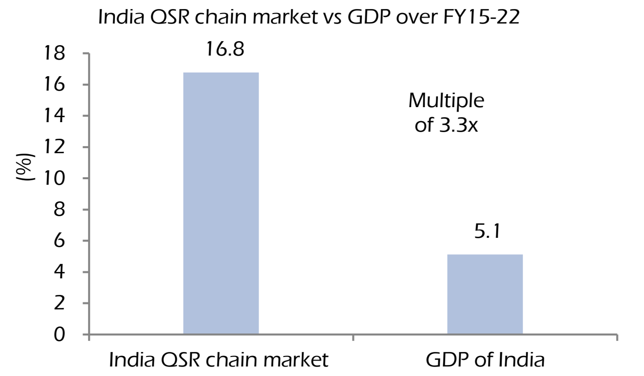
If we draw a comparison between GDP growth of India and QSR market growth, QSR market growth has outpaced GDP growth by 3.3x during FY15-22. With India's economy expected to boom in the coming years, it is expected to bolster QSR market growth.

Exhibit 6: QSR chain market grows more than GDP of India over the past six years



Source: Technopak, RBA Annual Report, Elara Securities Research

Exhibit 7: On average, QSR chain market grows 3.3x compared to GDP of India

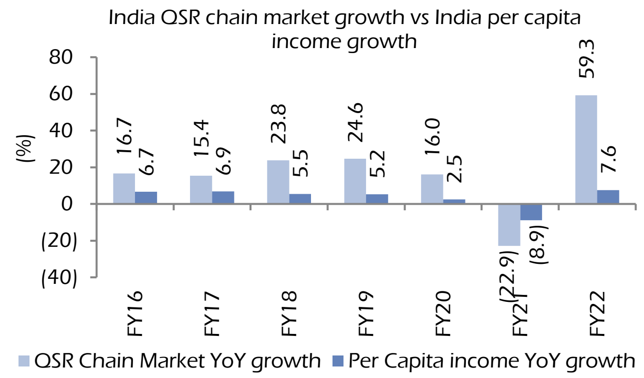


Source: Technopak, RBA Annual Report, Elara Securities Research

QSR chain market CAGR at 4.8x of per capita income

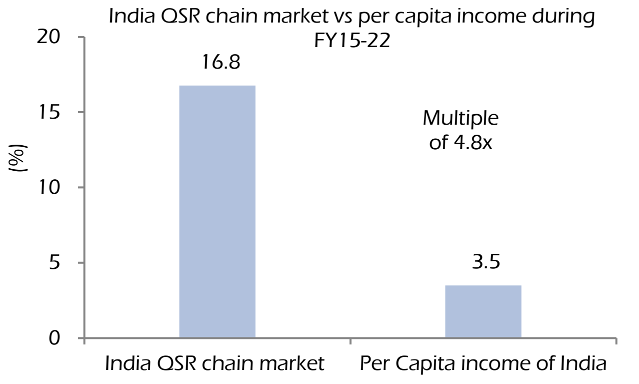
India's per capita income took a hit during the pandemic, but during FY15-22, the QSR chain market CAGR was ~4.8x of India's per capita. With higher per capita income along with rising disposable income and purchasing power, consumers would tilt toward QSR chain foods, thereby increasing revenue.

Exhibit 8: QSR chain market grow more than per capita income of India for the past six years



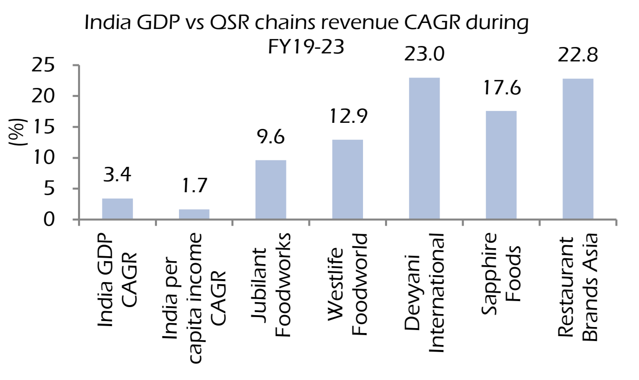
Source: Technopak, RBA Annual Report, Elara Securities Research

Exhibit 9: On average, QSR chain market grows 4.8x compared to per capita income of India



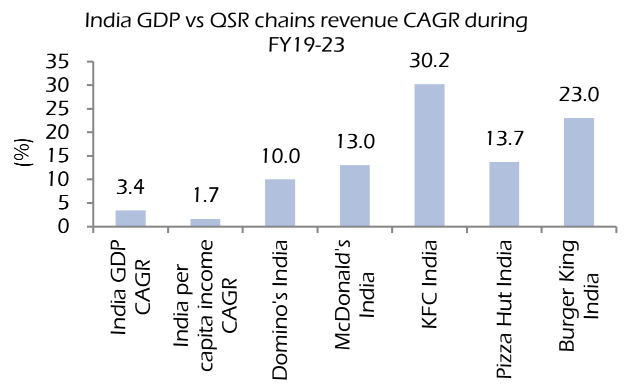
Source: Technopak, RBA Annual Report, Elara Securities Research

Exhibit 10: In similar period, India QSR companies showed superior growth compared to GDP of India



Source: Technopak, Company, Elara Securities Research

Exhibit 11: In similar period, India QSR chains showed superior growth compared to GDP of India

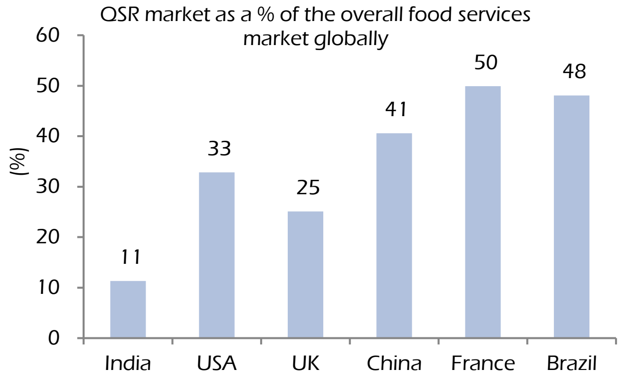


Source: Technopak, Company, Elara Securities Research

QSR contribution to total India food market at ~11%

The QSR segment in India is on a robust growth trajectory, indicating huge potential for expansion in the sector. <u>The contribution of the QSR market to the total food services market in India is at ~11% as on FY23 vs 33% for the US, 25% for the UK, 41% for China, 50% for France and 48% for Brazil, thereby indicating huge scope for the QSR sector in India.</u>

Exhibit 12: QSR contribution to total food services market in India low compared to other nations



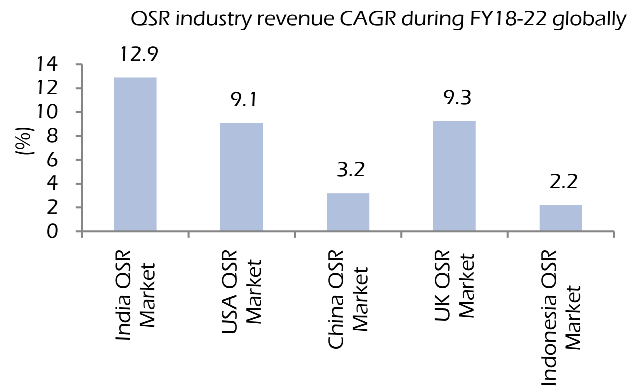
Note: as on FY23; Source: Technopak, Company, Elara Securities Research

India's QSR market grows the most

The overall QSR market (chain + standalone) grew 12.9% during FY18-22 in India, the fastest among major economies globally. Among major economies, the US grew 9.1%, China at 3.2%, the UK at 9.3% and Indonesia at 2.2%.

Major QSR chains are expanding their presence in India and opening stores to capture the huge market opportunity.

Exhibit 13: QSR market (chain + standalone) growth in India highest among major economies

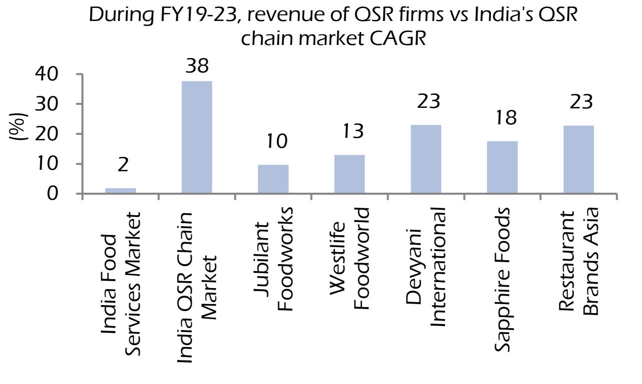


Source: Technopak, Company, Elara Securities Research

KFC India grows the most among major franchises

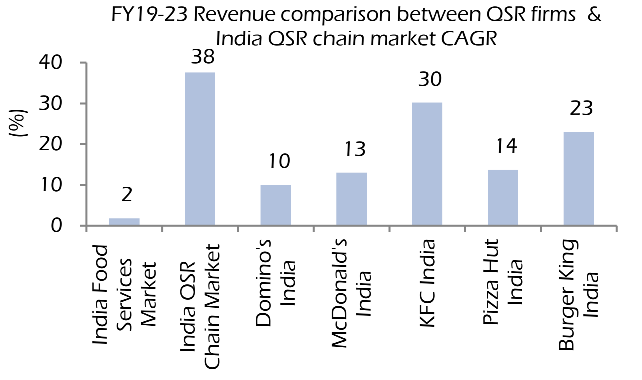
During FY19-23, India's food services market growth was at a mere ~2% vs the QSR chain market at 38% (Source: Technopak). Among major companies, which are involved in QSR chains – Devyani International & Restaurant Brands Asia – grew the fastest during the same period at 23% each, followed by Sapphire Foods at 18%, Westlife Foodworld at 13% and Jubilant Foodworks at 10%. However, if we compare franchise-wise, KFC grew the most at 30% followed by Burger King India at 23%.

Exhibit 14: Devyani International grows the most among major QSR chain firms



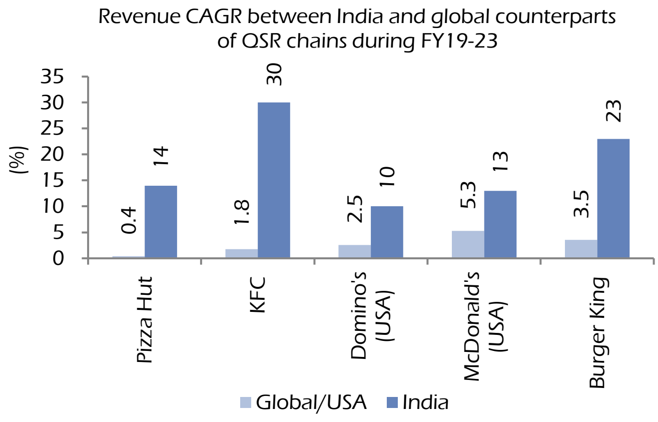
Source: Technopak, Company, Elara Securities Research

Exhibit 15: KFC India grows the most among Indian QSR chains



Source: Technopak, Company, Elara Securities Research

Exhibit 16: KFC India grows the most among major QSR chain firms globally and in India



Source: Technopak, Company, Elara Securities Research

Growth drivers

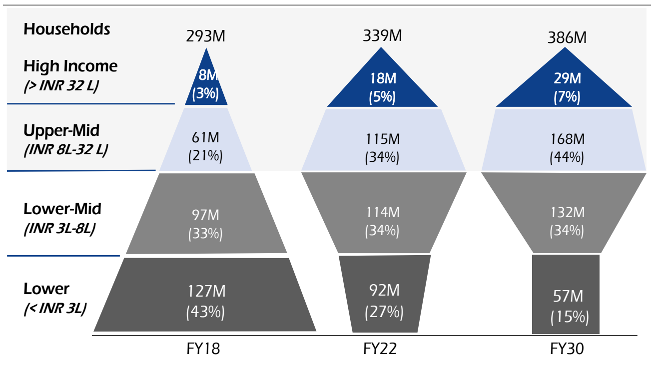
Rapid urbanization and demographic shift

India possesses the world's second-largest urban population, and the rapid pace of urbanization is a pivotal trend with far-reaching implications for its economic growth. India may add 416mn individuals to its urban population during CY18-50, resulting in an urbanization rate of ~40% by CY30 (Source: Technopak). This significant trend is anticipated to bring heightened purchasing power within urban hubs, offering increased growth prospects for various industries.

Furthermore, the ongoing urbanization process coupled with a shift toward nuclear families is reshaping consumer spending patterns and food preferences. This shift is fostering a growing preference for dining out and home delivery services.

As on CY22, the average age of an Indian citizen was 28.7 years, and over half of India's population falls under the age of 25. This demographic skew significantly influences the consumer market, with millennials aged 15-34 playing a prominent role. This generation is characterized by their inclination toward dining out, ordering food digitally, embracing technological advancements, and their willingness to experiment with food choices. These attributes make millennials a target audience for QSR.

Exhibit 17: Growing Middle Class to aid in QSR growth



Source: Technopak, Nykaa PPT, Elara Securities Research

Rising income, consumption driving economic growth

India's economy has long been driven by domestic consumption. The consumption-led economic model has remained resilient for decades and is expected to persist. Socioeconomic factor contribute to this continued strength in consumption. The high proportion of private consumption in GDP provides India with a degree of insulation from global economic volatility. Moreover, it implies sustainable economic growth directly translates into ongoing consumer demand for goods and services.

Rapid digitalization across India – UPI and ONDC

The widespread availability of affordable internet access, budget-friendly smartphones, and the prevalence of social media platforms are contributing to industry growth. These factors are enabling improved online ordering experiences and reducing the divide between urban and non-urban areas, making food services more accessible.

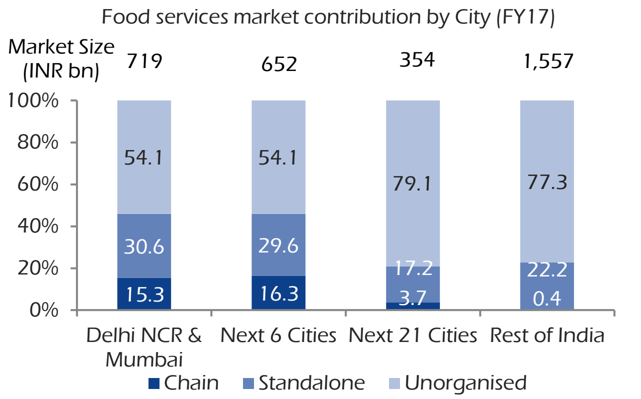
The number of internet users in India are expected to grow from 700mn to 1,200mn by CY28; data consumption too is expected to grow from 25 GB to 43 GB by CY28 (Source: Ericson). We believe this will bring a huge shift in the online consumption space with customers ordering food from anywhere within few minutes.

Tier I resilient; Tiers II, III & IV cities joining the fray

The eight largest cities in India – Delhi, Mumbai, Kolkata, Bengaluru, Chennai, Hyderabad, Pune, and Ahmedabad – have emerged as pivotal development hubs for the organized food services market. Despite constituting only ~43% of total revenue in India's food services market in FY22, these cities contributed 83% to the chain food services market during the same period. Demand for food services in these cities is primarily propelled by increased economic activity and rising income.

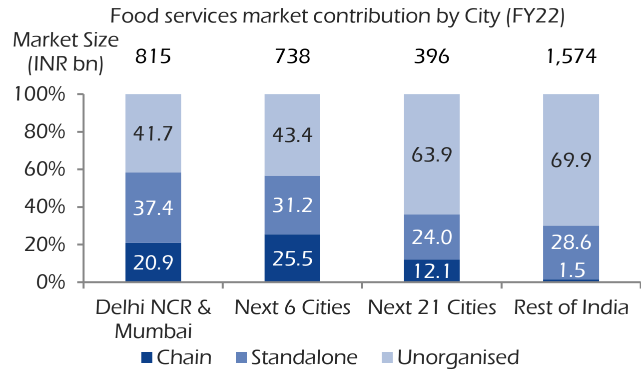
Furthermore, prominent food services chains have expanded their footprints into Tier II and III cities, tapping into the huge consumer market for QSR brands in these regions. Moreover, expansion of the food delivery aggregators, such as *Zomato* and *Swiggy*, are expanding rapidly into Tier II & III cities, which will further help QSR in growing revenue in these markets, in our view.

Exhibit 18: In FY17, 15.3% of Delhi NCR & Mumbai food services market was Chain...



Source: Technopak, RBA Annual Report, Elara Securities Research

Exhibit 19: ...whereas in FY22, it moved up to 20.9%



Source: Technopak, RBA Annual Report, Elara Securities Research

Expansion of food delivery aggregators

The QSR market is expected to experience growth, driven by widespread adoption of app-based ordering and doorstep delivery services offered by food aggregators. This growth is driven by ease of access and convenience these services provide to consumers.

Zomato and *Swiggy* are improving services not only in cities but also in Tier II & III cities. Smoother and faster delivery services along with proper customer delivery experience by these aggregators would propel growth.

Diversifying food experiences and localization of menu

The increased exposure to global cultures, which has been enhanced by travel and tourism activities, is driving a growing demand for international and fusion cuisine. This trend reflects a desire for diverse and unique culinary experiences.

As a result, QSR are well poised to provide varied cuisine and foods due to their global presence and tie-ups. Most QSR, such as JUBI, WLDL and DEVYANI, are expanding their menu and incorporating dishes from their global counterpart stores to satisfy local taste buds. Moreover, JUBI also has been promoting brands, such as *Popeye's,* which were not present in India almost a decade ago and have been well received today.

No longer the boss

- ❑ **Regional and local pizza firms eating away at JUBI's market share**
- ❑ **More scope for market share growth for KFC**
- ❑ **Rapid shift underway from pizza: fried chicken is the silver lining**

Pizza faces increased competition

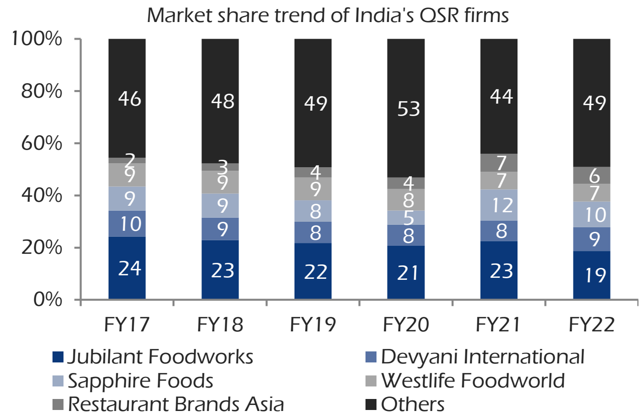
The pizza category has been facing increased competition which is adversely affecting large firms, such as JUBI and *Pizza Hut*.

As the popularity of pizza continues to increase in India, residents are looking for more options. Local as well as international pizza establishments have developed and advanced the market for pizza in India to meet growing demand.

Increased popularity of pizza has opened the door for growth opportunities for several key firms (other than *Dominos* and *Pizza Hut*), such as *Papa Johns, Smoking Joe's Pizza, Chicago Pizza, La Pinos Pizza,* and *Mojo Pizza*.

Rather than being solely focused on larger cities, in recent years, retailers are looking more toward smaller cities to grow their brand and increase the share of pizza revenue. This competition is becoming intense, and, as such, franchisors are increasing their presence across smaller cities to gain a competitive edge. As a result, JUBI has lost around 4% market share in India QSR market (19% in FY22 from 24% in FY17).

Exhibit 20: JUBI's overall market share declines to 19% in FY22

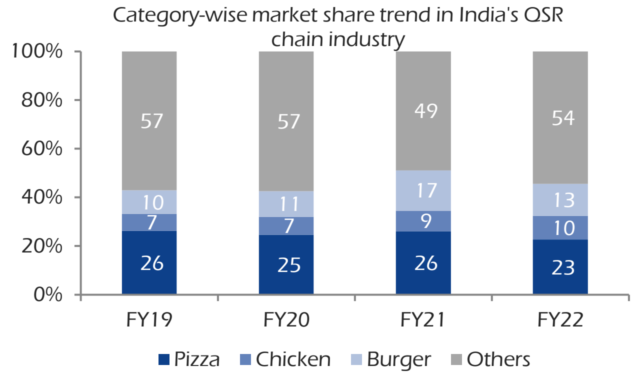


Source: Company, Elara Securities Research

Boost in KFC market share post COVID

The market share of KFC and fried chicken has seen a boost post COVID, rising from 7% in FY19 to 10% in FY22. Competition has been less in the fried chicken category. *Popeyes* is the only large global competitor with presence in India, but it has a mere 32 stores in India currently. The figure is too low to make any huge negative impact to KFC's market share in India.

Exhibit 21: Fried chicken market share at 10% in FY22



Source: Company, Elara Securities Research

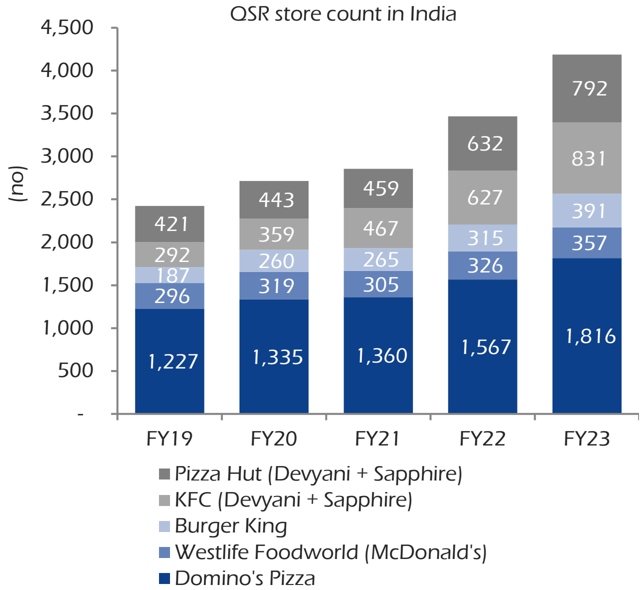
Also, local firms, such as SFC (Sizzling Frizzling Chicken) and CFC (Calcutta Fried Chicken), have yet to pose a threat to KFC as customers are still flocking to KFC stores to satisfy their fried chicken cravings with higher adoption post COVID. We believe there will be consistent growth in KFC's market share, due to less competition and higher store growth count.

Huge room for store growth for KFC

As on FY23, JUBI had a total store count of 1,816 stores in India, the highest among global QSR. *Pizza Hut* too has a store count of 792 stores, taking the total store count of global pizza firms to 2,608 stores as on FY23. <u>Due to high store count among pizza firms and increased competition, store growth expansion has slowed for these firms in the past few years.</u>

On the other hand, KFC is on an expansion spree and has been doubling down on store count. <u>As on FY23, KFC had a total store count of 792, which is well below the store count of global pizza. Thus, there is huge potential for store growth of KFC, which should lead to a higher market share in the medium term.</u>

Exhibit 22: JUBI with the most store count of 1,816 stores as on FY23



Source: Company, Elara Securities Research

Pizza store density highest at Bengaluru

Among the Top 20 cities in India, the pizza category has the highest number of stores per million compared to fried chicken and burgers. On an average (Top 20 cities in terms of population), there are 13.9 pizza stores per million whereas there are only 4.2 KFC India stores per million people.

Among the Top 3 cities in terms of population, Bengaluru has the highest number of *Dominos* and *Pizza Hut* stores per million people at 29.4 stores, followed by Delhi and Mumbai at 15.6 and 11.5, respectively.

Pune has the highest pizza store density at 38.1 stores per million people, followed by Bengaluru, Thane at 23.4 and Chennai at 21.3. This indicates penetration levels of the pizza category are higher than other categories, which has led to increased competition, especially due to the presence of strong regional and local companies.

Exhibit 23: Lower competition in the fried chicken category with fewer established firms

Category	Restaurant	Launch date	Outlets (no)	Latest revenue (INR mn)
Burger	Burger King	2013	405	20,543
	McDonald's	1996	389	22,775
	Biggies Burger	2011	152	79
	Jumbo King	2001	145	24
	Burger Singh	2014	98	291
	Wat-a-Burger	2016	47	3,013
	Boss Burger	2021	42	NA
	Good Flippin' Burgers	2019	26	325
Fried chicken	KFC	1995	831	32,243
	Chick Blast	2009	150	1,320
	Wow Chicken	2021	83	NA
	Nothing But Chicken	1993	33	112
	American Fried Chicken	2017	24	NA
Pizza	Domino's Pizza	1996	1,838	50,960
	Pizza Hut	1996	805	12,211
	LaPinoz	2011	515	9,000
	Chicago Pizza	2008	200	NA
	Mojo Pizza	2017	200	NA
	Laziz Pizza	2013	119	NA
	U.S. Pizza	1996	75	NA
	Smokin' Joe's	1993	41	17
	Sbarro	2012	33	230
	Sam's Pizza	1999	19	NA
	Pizza Express	2012	16	NA

Note: Stores as on FY23; Source: Company, Elara Securities Research

Exhibit 24: KFC with fewer stores than *Domino's* and *Pizza Hut*

City	Population (mn)	Per Capita Income (USD '000)	Pizza Store per million people	KFC stores per million people
Mumbai	12.4	23.0	11.5	1.8
Delhi	11.0	7.5	15.6	5.5
Bengaluru	8.4	25.5	29.4	8.2
Hyderabad	6.7	4.7	18.0	8.6
Ahmedabad	5.6	2.3	8.1	1.3
Chennai	4.6	3.5	21.3	6.9
Kolkata	4.5	6.7	17.1	6.9
Surat	4.5	5.5	5.4	0.9
Pune	3.1	3.1	38.1	9.0
Jaipur	3.0	1.7	8.5	1.0
Lucknow	2.8	1.2	14.6	4.6
Kanpur	2.8	1	4.0	0.7
Nagpur	2.4	3.1	8.7	1.7
Indore	2.0	1.9	11.7	3.1
Thane	1.8	3.2	23.4	3.8
Bhopal	1.8	2.1	9.5	2.8
Visakhapatnam	1.7	3	7.5	5.2
Pimpri and Chinchwad	1.7	2.3	0.6	-
Patna	1.7	0.9	13.1	4.7
Vadodara	1.7	10.7	12.6	2.4

Source: Company, Elara Securities Research

Chicken category: lower store penetration than pizza

Among the top 20 cities in India, penetration of the chicken category is low at 4.2 stores per million. Among the Top 3 cities in terms of population, Bengaluru has the highest number of KFC India stores per million people at 8.2, followed by Delhi and Mumbai at 5.5 and 1.8, respectively.

Pune has the highest KFC India store density at 9.0 stores per million, followed by Hyderabad at 8.6, Bengaluru at 8.2, and Chennai & Kolkata at 6.9 each.

It is evident that compared to the pizza category, chicken has a low penetration in cities across India, thereby providing a golden opportunity to QSR firms to expand footprint across cities to bolster presence and increase sales. Moreover, competition in the chicken category today is lower than in pizza.

On average, each State with 2x pizza vs chicken stores

On average, each state has ~2x pizza stores than chicken. Among the Top 3 States in terms of population, Maharashtra has the highest number of pizza and chicken stores at 3.7 stores per million and 0.6 stores per million, respectively.

Compared to other states, Karnataka has the highest density of pizza stores at 4.9 stores per million whereas Telangana has the highest number of chicken category stores at 2.1 stores of KFC India per million.

Among the Union Territories, Delhi has the highest number of pizza stores at 10 stores per million whereas Chandigarh has the highest number of KFC India stores at 4.7 stores per million.

Exhibit 25: Pizza outlets (Domino's + Pizza Hut) per million highest in Karnataka

State	Population (mn)	Pizza outlets per million (no)	KFC outlets per million (no)
Uttar Pradesh	199.8	1	0.3
Maharashtra	112.4	3.7	0.6
Bihar	104.1	0.4	0.1
West Bengal	91.3	1.3	0.6
Madhya Pradesh	72.6	0.8	0.2
Tamil Nadu	72.1	1.9	1.1
Rajasthan	68.5	0.8	0.1
Karnataka	61.1	4.9	1.5
Gujarat	60.4	2.1	0.2
Andhra Pradesh	49.4	1	0.7
Odisha	42	0.5	0.3
Telangana	35.2	3.9	2.1
Kerala	33.4	1.9	1
Jharkhand	33	0.7	0.2
Assam	31.2	1	0.5
Punjab	27.7	3	1.7
Chhattisgarh	25.5	1	0.2
Haryana	25.4	4.4	1.3
Uttarakhand	10.1	2.8	1.2
Himachal Pradesh	6.9	2.2	0.4
Tripura	3.7	0.8	0.3
Meghalaya	3	1	1
Manipur	2.9	1.1	1.1
Nagaland	2	2	1.5
Goa	1.5	13.7	4.1
Arunachal Pradesh	1.4	2.2	2.9
Mizoram	1.1	4.6	5.5
Sikkim	0.6	6.6	1.6
Total	**1,178**	**2.3**	**0.7**

Note: Considered stores of Domino's & Pizza Hut; Source: Company, Elara Securities Research

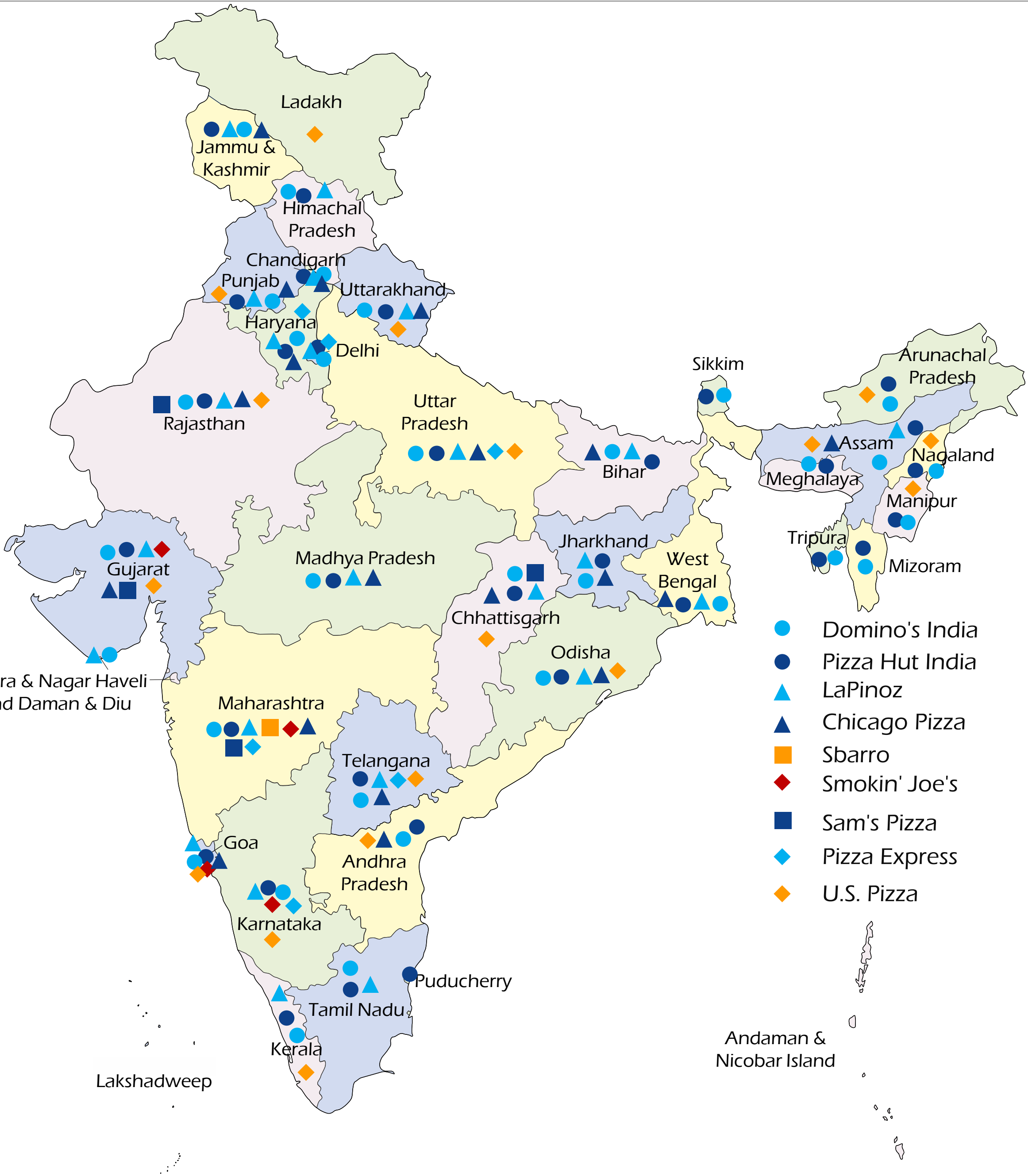
Exhibit 26: Pizza outlets per million is almost 3.7 times that of fried chicken outlets per million

Total pizza outlets in India (approx., nos)	4,500
Pizza outlets per million people (x)	3.90
Total outlets selling fried chicken in India (approx., nos)	1,120
Fried chicken outlets per million people (x)	1.05

Source: Company, Elara Securities Research

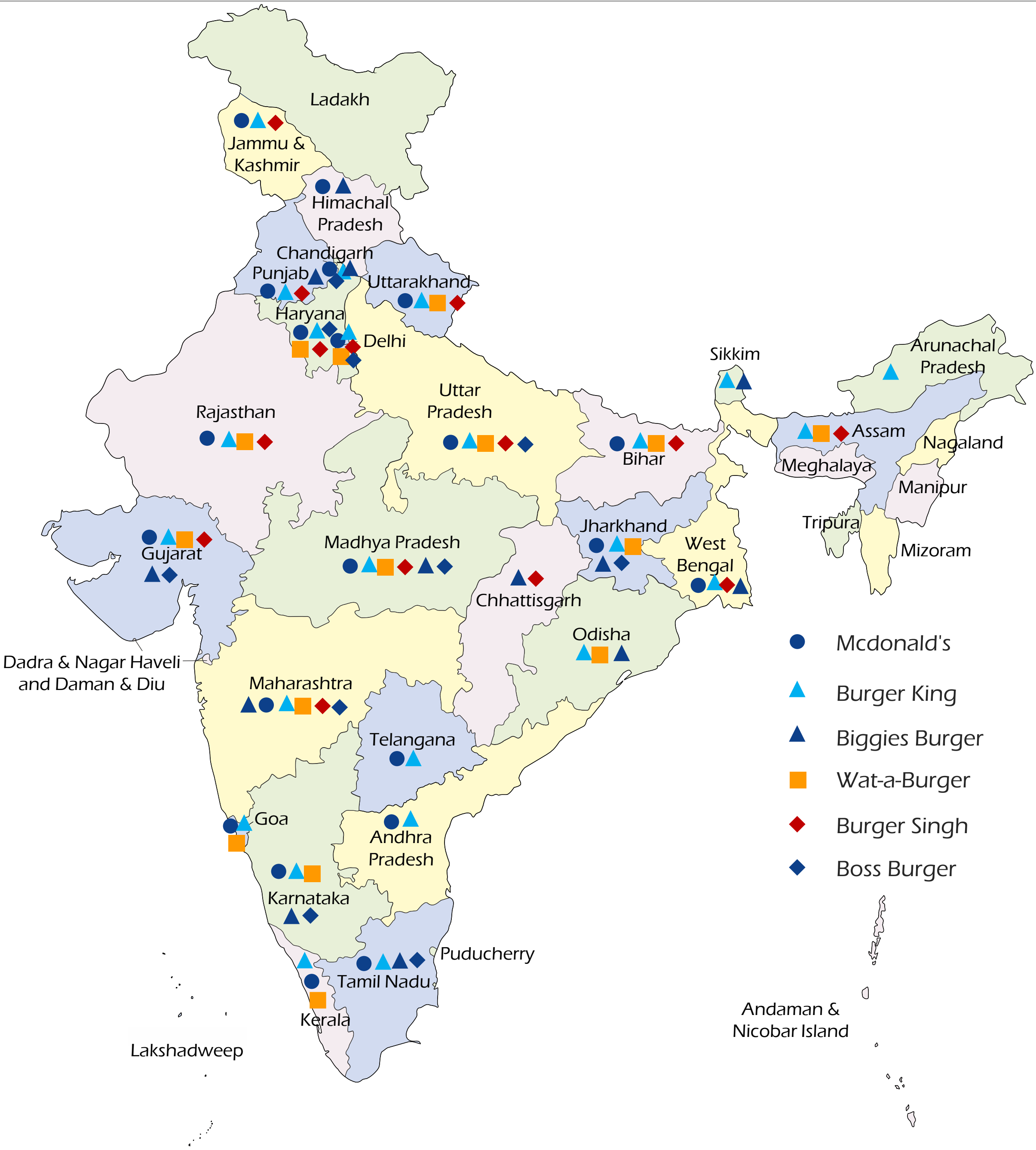
Consumer Discretionary

Exhibit 27: Presence of regional and local firms hampering growth of JUBI and *Pizza Hut*



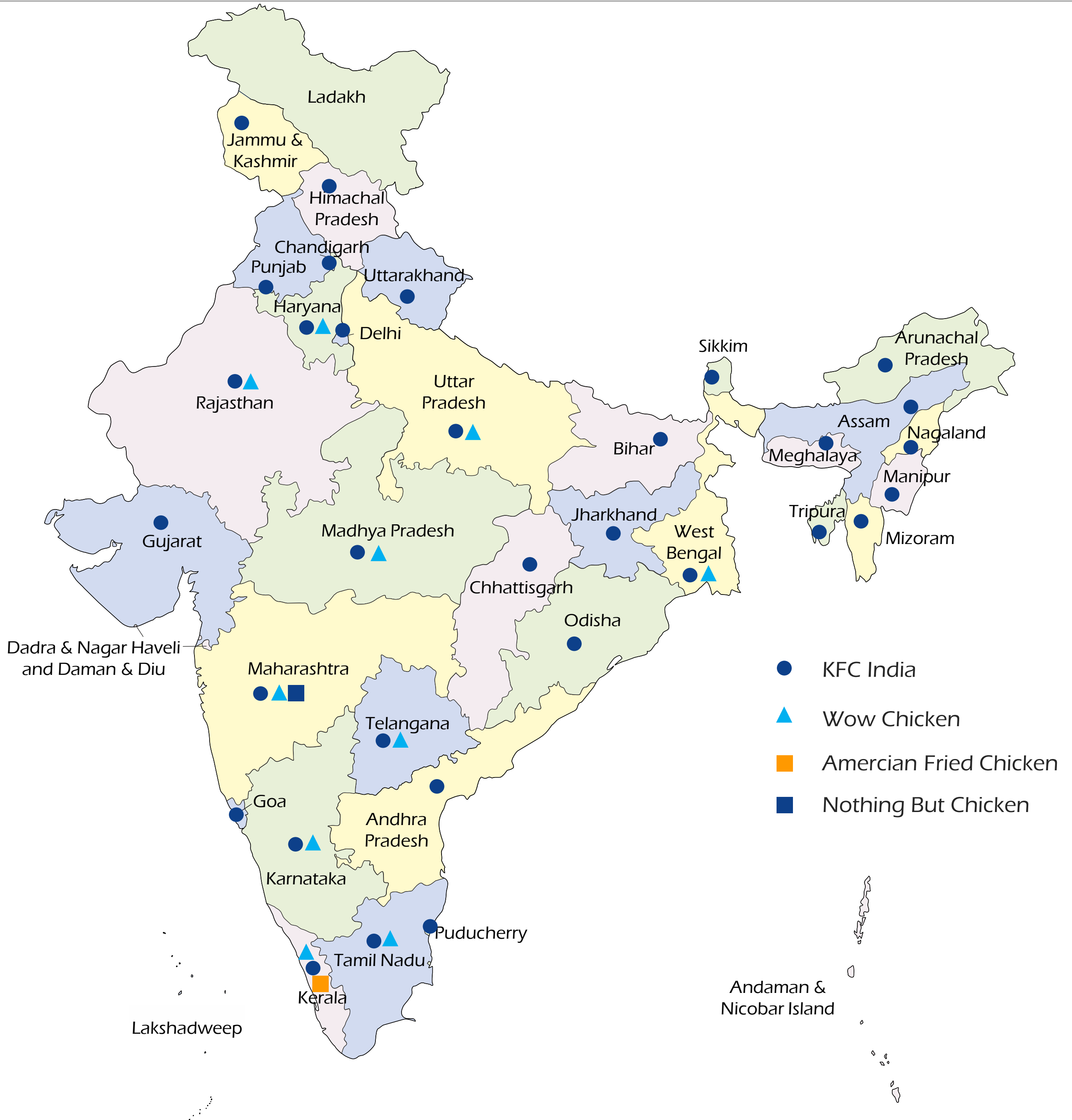
Note: Map not to scale; Source: Company, Elara Securities Research

Exhibit 28: McDonald's market share intact due to lower scale of other regional and smaller burger firms



Note: Map not to scale; Source: Company, Elara Securities Research

Exhibit 29: Lower penetration of fried chicken stores to bolster prospects of KFC



Note: Map not to scale; Source: Company, Elara Securities Research

Fried chicken is the silver lining

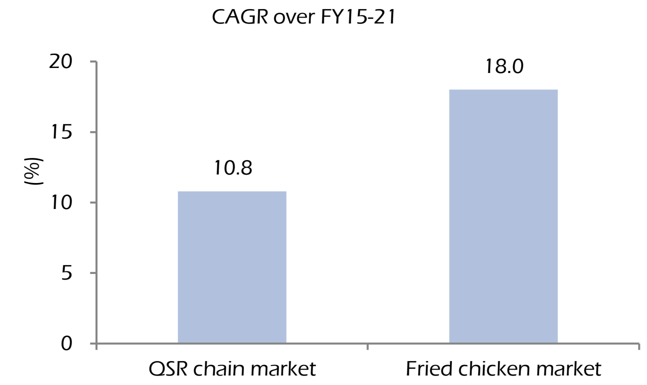
Fried chicken market size CAGR at 18% over FY15-21

The fried chicken category is picking up pace in India's QSR market and has posted a market size CAGR of 18% over FY15-21 vs QSR chain market's at 10.8% during the same time period.

Following the COVID-19 pandemic, the fried chicken category has become popular. Major firms like KFC are expanding their store count to cater to growing demand. Additionally, traditional non-fried chicken QSR firms are entering the segment and introducing their own version of products to tap into this trend.

We believe fried chicken category revenue will have a higher growth as compared to pizza category revenue due to 1) lower penetration, 2) higher store expansion rate and 3) higher SSSG.

Exhibit 30: Fried chicken market grows faster than the QSR chain market



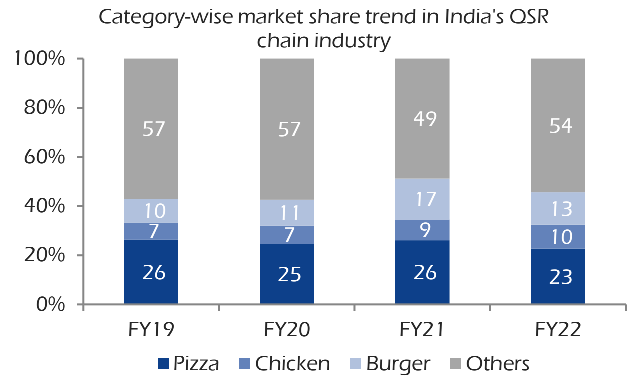
Source: Technopak, Company, Elara Securities Research

Underpenetrated fried chicken market

The chicken category in India's QSR market has traditionally lagged other categories, such as pizza and burger. In FY18, chicken's market share in the QSR space was ~7%, but by FY22, it had modestly increased to 10%. Pizza has historically been the dominant category in terms of market share within the QSR industry.

India, being predominantly a non-vegetarian country where ~70% consumes meat, with a preference for chicken, presents significant opportunities for firms like KFC to expand their presence and capture market share. Despite this existing market, it has historically been underpenetrated by QSR brands, indicating huge growth potential in the chicken category.

Exhibit 31: Market share of chicken as a category at a mere 10% in FY22

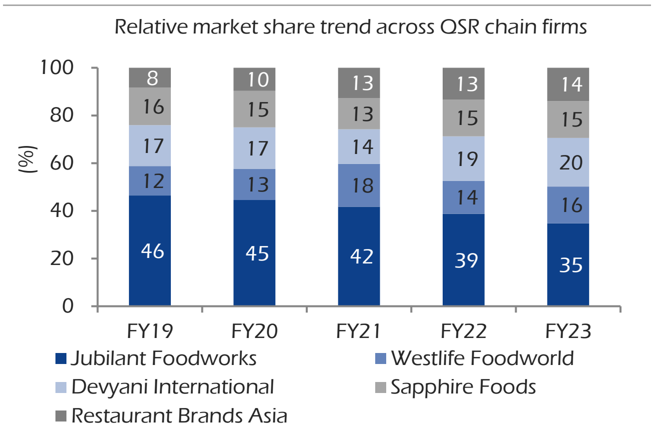


Source: Company, Elara Securities Research

JUBI market share down to 35% in FY23

JUBI's market share has declined significantly compared to major QSR firms. In the past four years, the relative market share of JUBI declined 1,100bp from 46% in FY19 to 35% in FY23.

Exhibit 32: Relative market share of JUBI down from 46% in FY19 to 35% in FY23



Source: Company, Elara Securities Research

Anything chicken win-win across India

Chicken, especially fried chicken, is one of the most sought-after segments of India's QSR market. Most brands like JUBI and WLDL are keen to foray into it aggressively. WLDL launched the McSpicy Chicken in South India whereas JUBI has been doubling down on *Popeyes*.

In South India, all States except Karnataka, 90% of the population eats meat. Even in Karnataka, close to 80% eat meat while the national average is 70%. Hence, with higher disposable income and aspirational customers, the fried chicken market is booming in India.

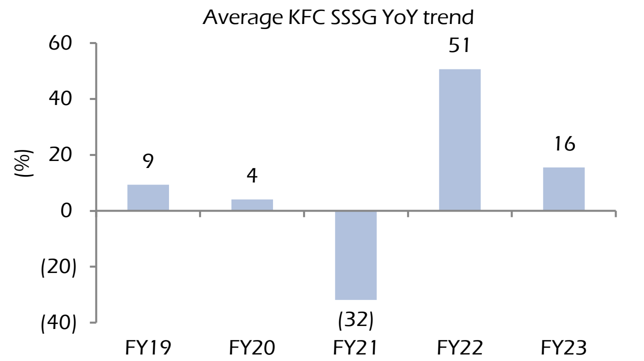
JUBI chose Bengaluru for its first eight *Popeye* stores whereas WLDL launched chicken offerings in South India. Fried chicken is a USD 604mn market in South India and the product also enjoys higher gross margin.

Post COVID-19, fried chicken space sees huge growth

Analyzing the current trend, we observe that prior to the pandemic, KFC in India experienced an average SSSG of ~7% YoY. However, during the post-COVID period, SSSG saw a significant increase, reaching ~33% YoY. If we were to exclude data from FY22, which had a low base and consequently higher SSSG, in the standalone FY23 figures, KFC would achieve 16% YoY SSSG. This indicates a strong recovery and growth trajectory for the brand in India, especially in the post-pandemic period.

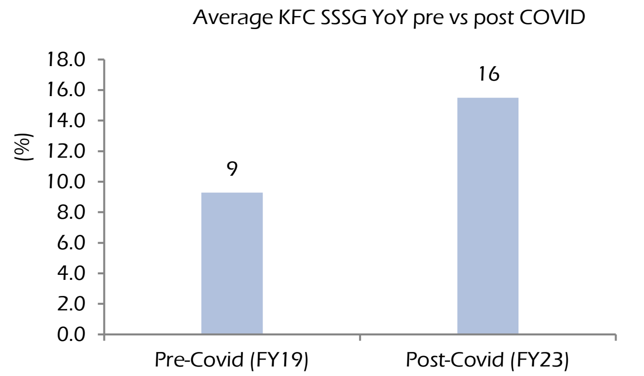
In the medium term, we expect SSSG of KFC to remain towards pre-COVID levels due to 1) higher delivery segment contribution, 2) low penetration of stores leading to higher growth in store expansion and 3) lower competitive intensity.

Exhibit 33: KFC India's SSSG grows 16% YoY in FY23



Source: Company, Elara Securities Research

Exhibit 34: KFC's SSSG grows 16% YoY post COVID



Source: Company, Elara Securities Research

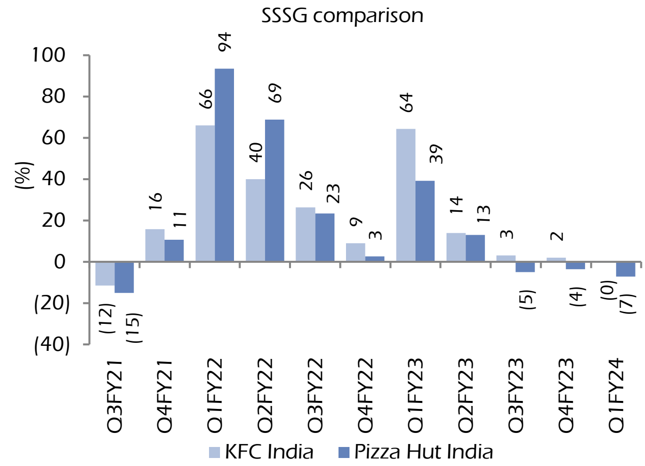
KFC outpacing SSSG of pizza post COVID

Compared to other categories such as pizza, fried chicken has been outpacing the former post COVID in terms of SSSG.

SSSG of KFC India has consistently outperformed SSSG of Pizza Hut India in the past 10 quarters. Compared to pizza as a category, KFC India has outperformed too as its SSSG grew 51% YoY in FY22 and 16% YoY in FY23 vs pizza's 35% YoY in FY22 and 9% YoY in FY23.

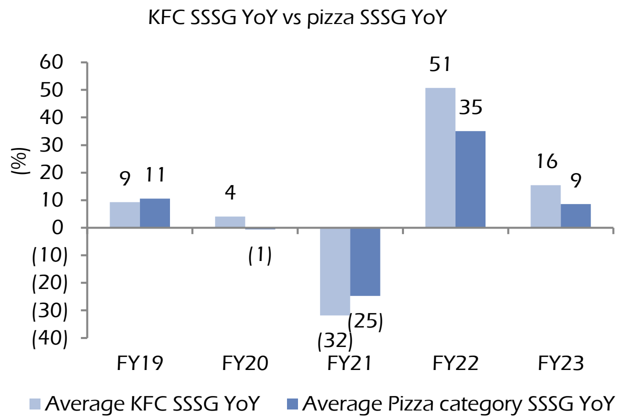
Pre-COVID SSSG of KFC lagged SSSG of pizza (KFC was at 9% YoY vs pizza's 11% YoY) while post COVID, SSSG of KFC India was at 10% YoY vs pizza's 5% YoY.

Exhibit 35: Quarterly, KFC's SSSG higher than *Pizza Hut's*



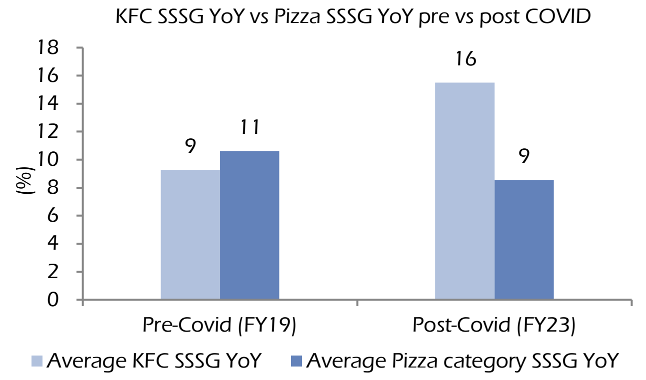
Source: Company, Elara Securities Research

Exhibit 36: KFC's SSSG higher than pizza's in FY22 as well as FY23



Source: Company, Elara Securities Research

Exhibit 37: KFC's SSSG faring better than pizza's post COVID



Note: Pizza SSSG is average of Domino's India & Pizza Hut India. KFC SSSG is average of Devyani & Sapphire. Source: Company, Elara Securities Research

KFC doubling down on store growth

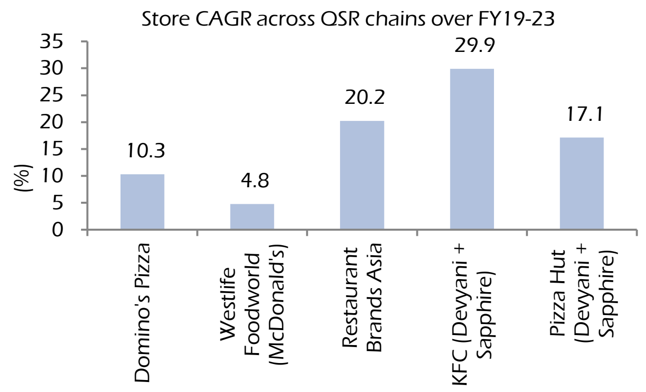
Sensing the huge opportunity of fried chicken in India's QSR market along with robust SSSG, DEVYANI and SAPPHIRE have started to expand stores aggressively.

Among QSR, *Dominos* still leads the pack with 1,816 stores as on FY23 whereas the number of KFC stores is relatively low at 831. Hence, there is huge room for firms like DEVYANI and SAPPHIRE to increase store count of KFC as it is almost half compared to *Dominos*.

Among QSR, store count of KFC grew the highest at a CAGR of ~30% during FY19-23. We expect store growth of KFC India to sustain at similar levels in the medium term.

The pizza category has been facing increased competition from smaller firms, which are eating away market share, thereby slowing growth. In case of fried chicken, the scene is different: competition is less (KFC is practically the leader) along with low store penetration; hence, the fried chicken category is headed for huge growth.

Exhibit 38: KFC store CAGR at 30% during FY19-23



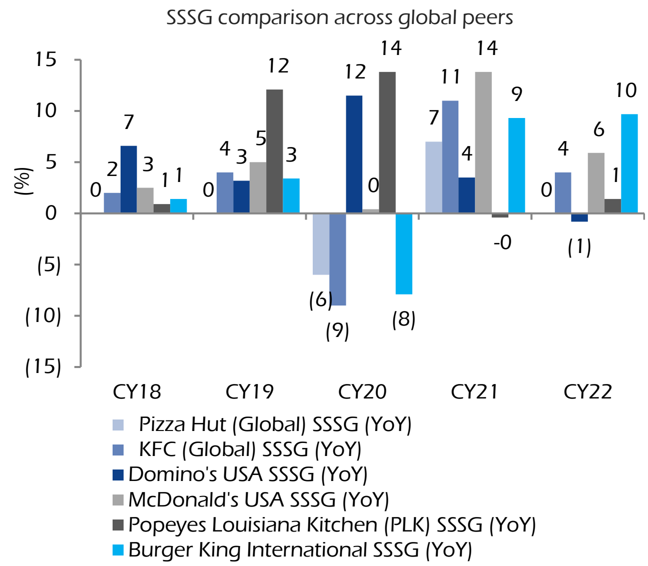
Source: Company, Elara Securities Research

KFC seeing good SSSG globally as well

Globally, although the QSR market has yet to experience similar growth rates post COVID compared to India, KFC has sustained higher growth levels.

In CY21, KFC's SSSG grew 11% YoY while that of *Dominos'* and *Pizza Hut's* grew 4% YoY and 7% YoY, respectively. Similarly, in CY22, *Pizza Hut's* SSSG remained flat and *Domino's* declined 1% YoY while KFC's grew 4% YoY.

Exhibit 39: KFC's SSSG grows 4% YoY in CY22



Source: Company, Elara Securities Research

Success of fried chicken forcing QSR to experiment

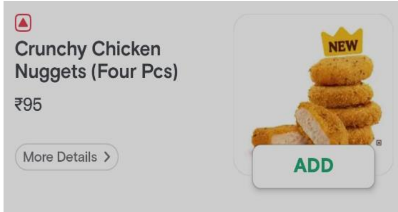
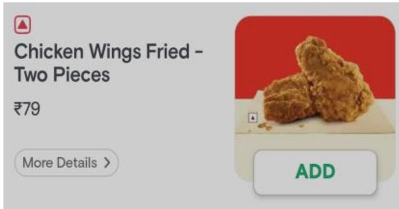
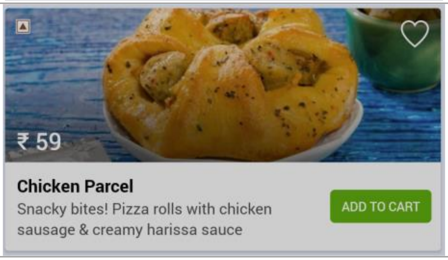
The success of fried chicken post COVID is forcing other QSR (main focus is not chicken) to innovate and introduce newer menus related to fried chicken.

Due to declining SSSG of pizza and other categories, the strategy is to introduce newer menus related to fried chicken to offset lower SSSG post COVID and capture newer & higher footfalls.

WLDL has introduced the McSpicy Fried Chicken and targeted South India as ~90% of people in that region are meat and chicken eaters, which has led to customers flocking to *McDonald's* to taste their fried chicken offerings. As on now, McSpicy fried chicken contributes more than 10% of McDonald's revenue in South India.

Even JUBI has been introducing *Popeye's* in India to enjoy a part of India's fried chicken market share, but the total store count is too low to make a dent. We believe these steps are inadequate to derail the growth plans of KFC India as it remains the market leader in the fried chicken category and is the only firm focused exclusively on fried chicken.

Exhibit 40: Chicken portfolio of QSR players apart from KFC India

McDonald's India	Domino's India	Burger King India
		
		
		
		

Source: Company, Elara Securities Estimate Research

Innovation helping the non-pizza category

Innovation, particularly, has helped the non-pizza category to generate higher sales, SSSG and margin than the pizza category.

In terms of competition, the pizza category has been facing huge pressure from regional and local firms, which coupled with low demand, has led to a slump in sales of *Dominos*. Consequently, *Dominos* has introduced low-value items under INR 100 to bolster demand and sales, which has resulted in the margin getting adversely affected.

In case of burger and pizza category, KFC India has introduced new items in the premium segment and *McDonalds* has introduced items in both gourmet & value segment as both categories have less competition and untapped market opportunity. This has resulted in higher SSSG & margin, and both have outperformed *Domino's* in terms of SSSG and margin expansion post COVID.

Companies which have been focusing on value-based product innovation may face pressure in gross margin and EBITDA margin as the value products have a lower margin.

Exhibit 41: Value innovation higher for *Domino's* and Burger King

Company	Innovation (no)	Average price (INR)
Domino's India	5	<200
McDonald's India	1	<200
Burger King India	8	<200
KFC India	4	<200
Pizza Hut India	3	<200

Source: Company, Elara Securities Research

Exhibit 42: Premium category innovation higher for KFC and McDonalds

Company	Innovation (no)	Price (INR)
Domino's India	2	>200
McDonald's India	6	>200
Burger King India	2	>200
KFC India	4	>200
Pizza Hut India	3	>200

Source: Company, Elara Securities Research

Key lever hits a plateau

- ❑ **Tech integration fine-tuning QSR delivery segment**
- ❑ **Delivery revenue growth stabilizing post COVID, but there is room for expansion**
- ❑ **Focus on in-house app to ramp up delivery sales**

India's online food delivery

Market size CAGR of 20.5% during CY22-30E

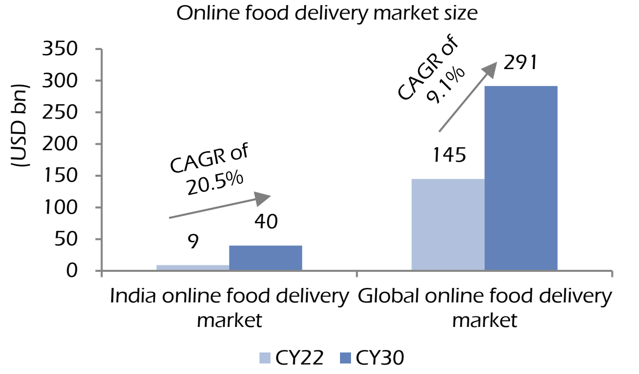
The global online food delivery market, estimated to be ~USD 145bn in CY22, is one of the few industries which is posting close to double-digit CAGR to likely reach USD 291bn by CY30 (Source: e-Conomy INDIA). In India alone, the online food delivery market was worth ~USD 9bn in CY22 and is one of the fastest-growing sectors, attracting significant investment. By CY25, the industry is set to be worth USD 17bn, with a CAGR of 22% during CY22-25. Hence, the total addressable market (TAM) for online food delivery in India is huge and the market is expected to grow 2.3x faster than global growth during CY22-30. The contribution of India online delivery market to global is expected to rise to 13.7% in CY30 from 6.2% in CY22.

Post covid, higher delivery revenue contribution was one of the major driver of higher revenue growth and SSSG. Higher delivery revenue contribution was seen due to factors like 1) better brand packaging, 2) expansion of third-party aggregators, 3) lower delivery time (Dominos India started delivery pizza within 20 min from 30 min earlier), 4) ease of comfort and 5) better user experience.

Factors propelling accelerated growth of India's online food delivery market include:

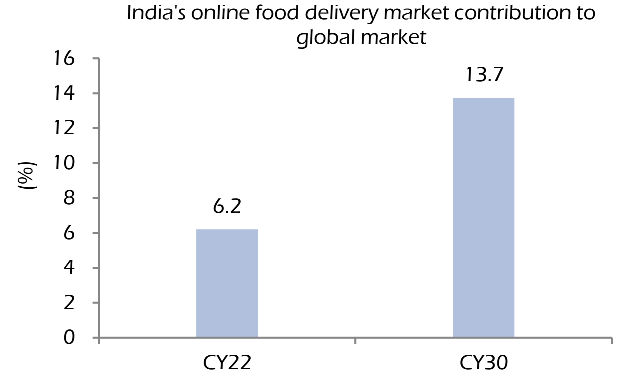
- Changing lifestyle and eating habits of locals
- Hectic schedules compounded by growing disposable income are pushing consumers toward ready-to-eat food available at a cheaper rate
- The one-click, on-demand feature has popularized food delivery options among busy urbanites
- Rising digitalization among millennials, an increasing proportion of working women, and the prevalence of double-income families which prefer eating out have driven online food delivery trends in India
- COVID-19 has accelerated the online food delivery market with an uptick in order volume and propensity toward paying online instead of cash

Exhibit 43: India's online food delivery market to reach USD 40bn in CY30



Source: e-Conomy INDIA 2023, DataM Intelligence, Elara Securities Research

Exhibit 44: Contribution of India's online food delivery market to global to rise to 13.7% in CY30



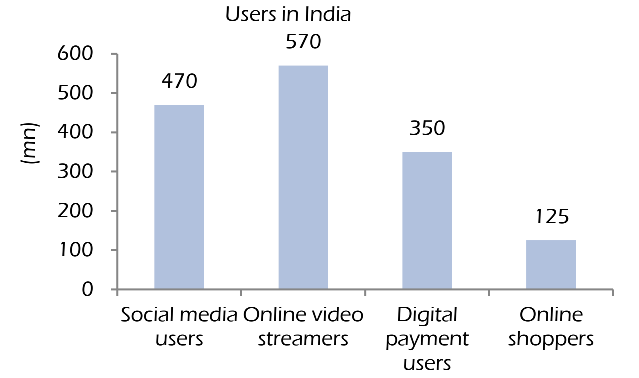
Source: e-Conomy INDIA 2023, DataM Intelligence, Elara Securities Research

Tech integration delivery game-changer

Higher internet penetration leading to higher delivery

The surge in smartphone adoption, affordable internet access, and a growing focus on digital transformation have positioned India to be on the brink of a digital revolution. The COVID-19 pandemic further accelerated this transformation, particularly in the realm of digital payments. Digital wallet, such as PayTM, Mobikwik, and PhonePe, have played a pivotal role in driving expansion of digital transactions. The flourishing digital eCommerce sector, coupled with innovation and convenience of payment methods like Unified Payment Interface (UPI), real-time transactions, and mobile point-of-sale systems, have significantly contributed to the proliferation of digital payments within the food & beverage (F&B) industry.

Exhibit 45: There are ~700mn internet users in India



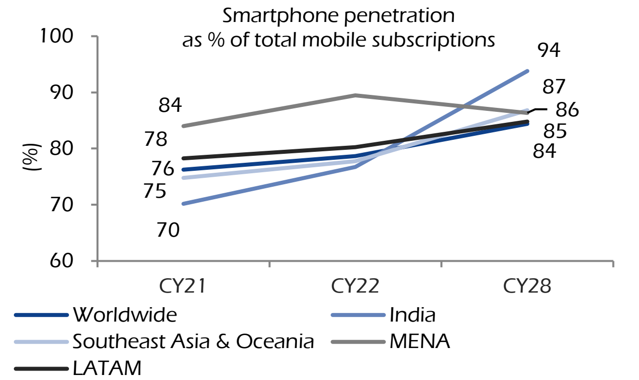
Note: as on FY23: Source: Reliance Presentation, Elara Securities Research

Exhibit 46: Data traffic per smartphone

(GB/month)	CY21	CY22	CY28	CAGR over CY22-28 (%)
Worldwide	12	15	46	20.5
India, Nepal & Bhutan	**20**	**25**	**54**	**13.7**
Southeast Asia & Oceania	9	13	54	27.6
MENA	8	11	38	23.0
LATAM	8	11	41	25.5

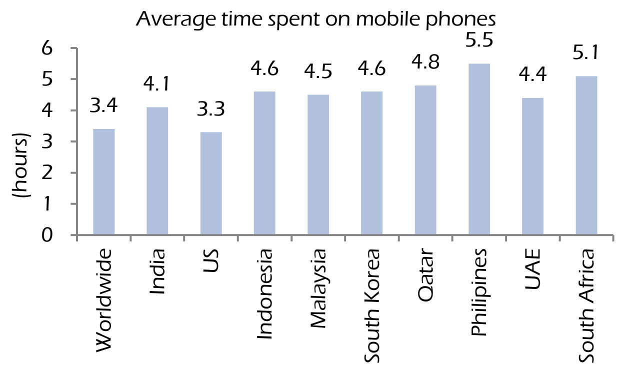
Source: Ericson Mobility Report, Elara Securities Research

Exhibit 47: Smartphone penetration growth



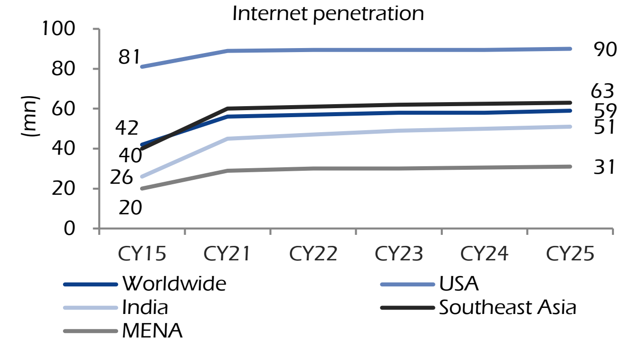
Source: Ericson Mobility Report, Elara Securities Research

Exhibit 48: Emerging markets customers spend the most time on mobile phones



Source: India, Elara Securities Research

Exhibit 49: Internet penetration in India to reach 51% in CY25



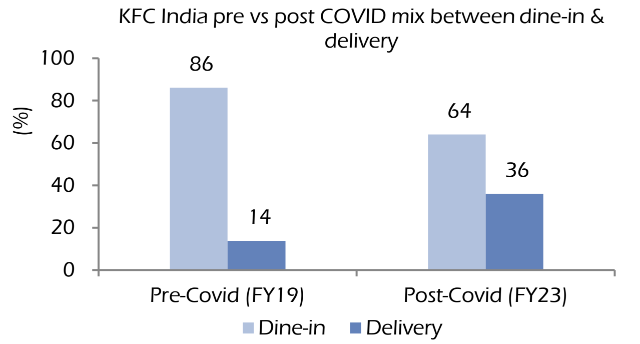
Source: eMarketer, Elara Securities Research

Delivery picking up post COVID

Among QSR firms, KFC India's delivery revenue contribution grew the most just as it did for Pizza Hut India. Although *Domino's* currently has the highest delivery contribution among major QSR companies, others are slowly rising up the chart.

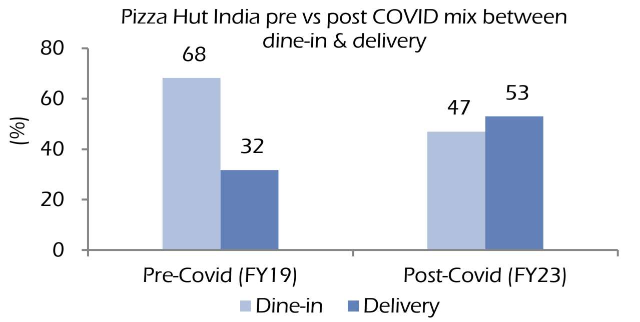
Although the share of delivery declined in FY23 due to dine-in coming back, overall delivery contribution is expected to sustain or increase hereafter. This is because post COVID, consumers are more focused on ordering food at home, due to reasons like 1) hygiene, 2) home comfort, and 3) better prices.

Exhibit 50: Contribution of delivery for KFC India grows 2,200bp post COVID



Source: eMarketer, Elara Securities Research

Exhibit 51: Contribution of delivery grows 1,900bp post COVID for Pizza Hut India



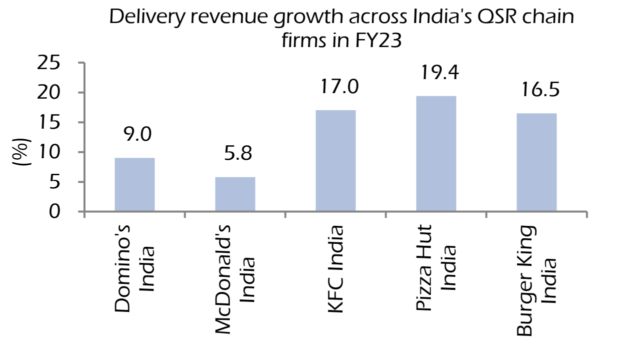
Source: eMarketer, Elara Securities Research

KFC India delivery segment grows 17% YoY in FY23

Among the large QSR firms in India, the delivery segment grew the highest for Pizza Hut India at 19.4% YoY, followed by KFC India at 17% YoY, Burger King India at 16.5% YoY, Dominos India at 9.0% YoY and McDonalds India at 5.8% YoY.

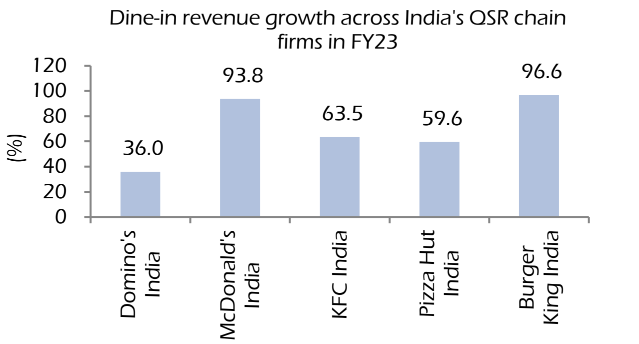
Considering the delivery revenue contribution of these QSR firms as on FY23, Dominos India still leads the pack at 66%, followed by Burger King India at 49%, McDonalds India at 49%, Pizza Hut India at 48% and KFC India at 30%. Dine-in revenue contribution is the highest for KFC India at ~70%.

Exhibit 52: Delivery revenue growth of 17% for KFC India in FY23



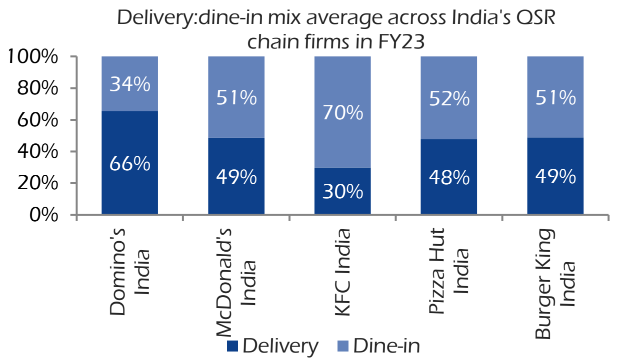
Source: eMarketer, Elara Securities Research

Exhibit 53: ...whereas dine-in revenue growth at ~63.5% for KFC India



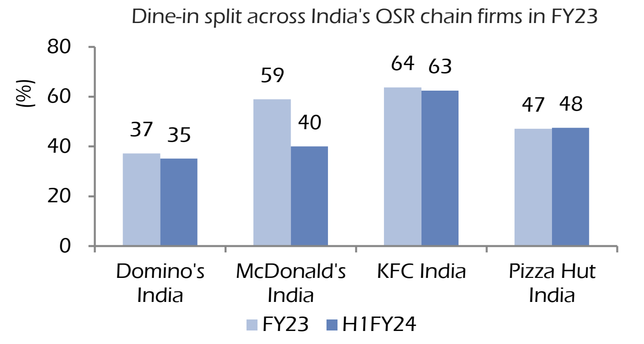
Source: eMarketer, Elara Securities Research

Exhibit 54: Delivery share of Dominos is the highest at 66% in FY23



Source: eMarketer, Elara Securities Research

Exhibit 55: Dine-in split of KFC India is the highest at 64% in FY23



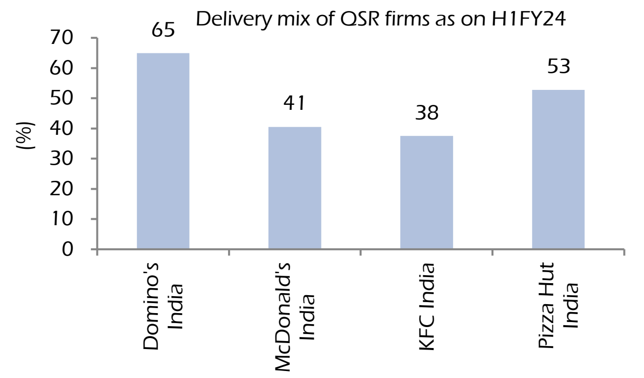
Source: eMarketer, Elara Securities Research

Delivery revenue contribution stabilizes in H1FY24

Due to COVID, delivery revenue contribution increased by a large extent for QSR firms, which helped them to increase margin and SSSG.

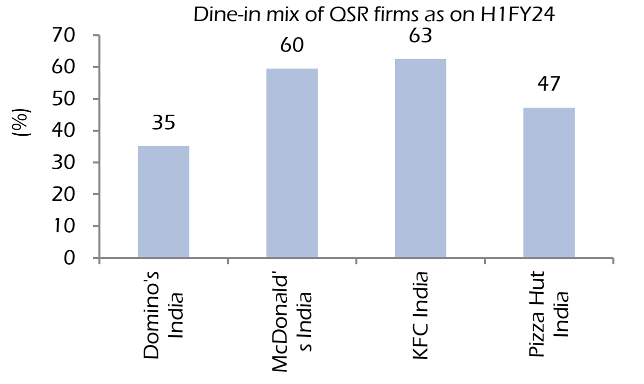
But, as on H1FY24, delivery revenue contribution of non-pizza QSR firms have been stabilizing in the range of 35-38% as consumers return to restaurants. We do not expect fried chicken and burgers to expand more than 40%-42% in delivery contribution in the near term, as consumers return to restaurants and most non pizza chains will continue to drive a bigger share of revenue (~55%-60%) from dine-in, due to their larger store size. Although we believe delivery contribution may not move way too much beyond 40% in the near term, there is still room for some expansion.

Exhibit 56: Delivery share of *Dominos* highest in H1FY24



Source: eMarketer, Elara Securities Research

Exhibit 57: Dine-in share of KFC India highest in H1FY24



Source: eMarketer, Elara Securities Research

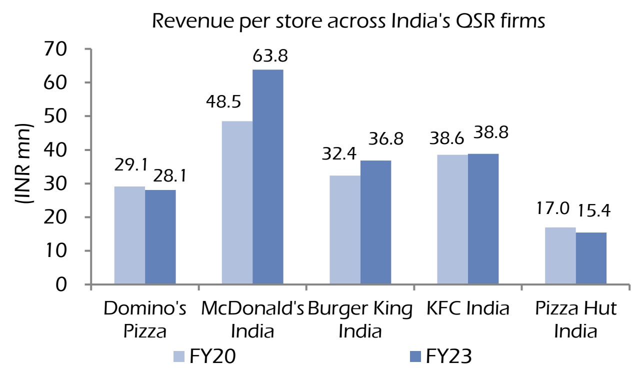
McDonald's India with the highest revenue and EBITDA per store

Among India's firms, as on FY23, McDonald's has the highest revenue per store and EBITDA per store at INR 64mn and INR 11mn, respectively. Also, McDonald's India's revenue per store CAGR and EBITDA per store CAGR over FY20-23 grew 9.6% and 16.1% respectively – the fastest among India QSR chains.

Among the QSRs, McDonald's India, KFC India and Pizza Hut India's EBITDA per store CAGR over FY20-23 grew above 10% due to better margins and higher delivery share whereas for Burger King India, EBITDA margin CAGR declined in spite of 4.4% revenue per store CAGR due to lower margins and presence of low value products.

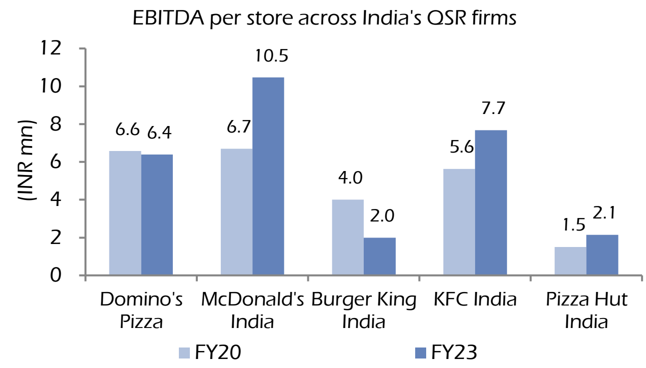
McDonald's India achieved this feat as the company focused on a lot of propositions, such as 1) menu innovation, 2) *McCafé* (88% penetration across restaurants as on Q2FY24), 3) gourmet burgers, and 4) enhancing omnichannel capabilities (integration of channels & touchpoints to one platform), which have led to a surge in SSSG.

Exhibit 58: McDonald's India reports the highest revenue per store among peers in FY23



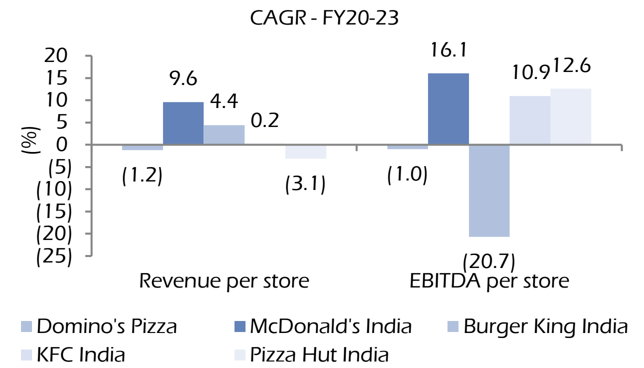
Source: Company, Elara Securities Research

Exhibit 59: McDonald's India reports the highest post IndAS EBITDA per store among peers in FY23



Source: Company, Elara Securities Research

Exhibit 60: McDonald's India's revenue and post IndAS EBITDA per store CAGR grew the fastest



Source: Company, Elara Securities Research

Indian chains executing global trends

Domino's – emphasis on delivery

Domino's places a strong emphasis on delivering quality service to consumers and has achieved a significant milestone by introducing 20-minute delivery in 20 zones across 13 cities. This accomplishment is the result of years of preparation by cross-functional teams, dedicated to enhancing consumer service. Since the inception of Domino's delivery service, the company has ensured some conditions are never compromised. These include:

- Food quality
- Compliance with traffic rules
- Rider and pedestrian safety

The reduction in delivery time is made possible through key factors:

- Process re-engineering
- Domino's training programs
- Culture that emphasizes smart hustle with precision
- Precisely defining delivery polygons
- Increasing store density

These elements contribute to Domino's ability to improve delivery times without compromising on quality, safety, and compliance aspects of its service.

In the past year, the company introduced a redesigned user experience (UX) for the Domino's app through a Home revamp. The primary goals of this customer-centric initiative were to enhance user experience by:

- Simplifying the ordering process by bringing menu options to the forefront
- Replacing existing product images with more immersive and enticing food cards
- Reducing the number of steps required to explore options by enabling scrolling
- Enhancing the ease of checkout through options on the bottom sheet

As a result, Domino's India app has retained its status as the highest-rated app on both iOS and the Play Store. This success is attributed to ongoing efforts of the digital team to ensure a seamless and intuitive customer experience. Engagement levels on the digital platform remains high, with robust quarterly trends in monthly active users (MAU) and continued growth in app downloads. Additionally, online ordering remains strong and steady growing part of the company's digital journey, reflecting the sustained momentum of its digital operations.

McDonald's – improved McDelivery app

McDonald's has made huge advancement in its technology platform by introducing a new McDelivery app. This app is designed to provide users with exceptional experience and ability to efficiently manage huge volume of orders. Additionally, it has expanded its in-house delivery fleet for the McDelivery platform. This strategic move has led to increased average sales per store and improved operating leverage. Consequently, EBITDA margin rose to 17.3% in FY23, a significant increase from 13.1% in FY22. These initiatives highlight McDonald's commitment to enhancing its technological infrastructure and delivery services, resulting in improved financial performance.

Burger King India – embracing digital transformation

Burger King India is actively embracing digital transformation driven by the influence of millennials and widespread digital adoption across channels. It has initiated a huge digital shift by implementing a 100% Cloud and mobile strategy. This strategy guarantees accessibility from anywhere, enhances agility, and delivers improved performance. One notable outcome of this transformation is the significant enhancement in application uptime, reduced recovery time, and capacity to scale up & recover automatically.

This shift has effectively brought the entire Burger King experience into a mobile application catering to diverse requirements of a range of stakeholders regardless of location. It underlines the company's commitment to leveraging digital technology to improve services and accessibility.

DEVYANI – 56% of sales in FY23 through off-premise

DEVYANI (DIL) is actively working on enhancing its delivery performance and fostering closer relationships between its stores and delivery services. It also is planning to expand presence of Pizza Hut and KFC outlets that are specifically geared toward delivery. This includes collaborating extensively with delivery aggregators to leverage the fast-growing online delivery segment.

In case of Pizza Hut India, it has shifted focus toward a delivery-centric model while maintaining strategically located dine-in and flagship stores. The accelerated expansion of delivery-focused stores has resulted in significantly improved delivery times, which, in turn, has enhanced overall consumer experience. This transition from large dining-oriented stores to smaller, delivery-focused formats has not only positively affected unit-level performance but also has facilitated a faster nationwide expansion.

In FY23, off-premise sales contributed to 56% of total sales mix vs 63% in the previous year. While on-premise sales has increased with subsiding pandemic concerns, there is a preference for online ordering, which is in line with evolving consumer dining habits. DEVYANI'S strategy aligns with this trend as it prioritizes establishing smaller store formats with a strong emphasis on delivery services. Furthermore, the rollout of new KFC stores in existing markets has not only increased brand presence but also has improved delivery speed, further enhancing overall consumer experience.

SAPPHIRE – focused on digital restaurant experience

SAPPHIRE wants to enhance its delivery channel by focusing on digital restaurant experience and in-house delivery capabilities. It works closely with aggregators to improve operational efficiency and increase the size & volume of transactions. This is achieved through analytics-based marketing and the introduction of innovative menu offerings. Additionally, the company remains committed to modernizing its restaurant designs, simplifying menus, and making ordering convenient through technology, all of which cater to evolving consumer taste and preferences. In the digital sphere, it has launched a native App version of the global Pizza Hut app, specifically enhanced for India. This move reflects its commitment to providing a tailored digital experience for customers in India.

Exhibit 61: Delivery growth outperforms, as dine-in revenues plateau in post COVID era (FY24)

		Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Domino's India	Delivery growth (%) YoY	8.8	13.1	10.3	6.0	8.8	7.4
	SSSG (%)	28.3	8.4	0.3	(0.6)	(1.3)	(1.3)
McDonald's India	Delivery growth (%) YoY	13.3	10.7	14.0	4.4	8.8	7.4
	SSSG (%)	97.1	40.0	20.0	14.0	7.0	7.0
KFC India	Delivery growth (%) YoY	12.3	17.4	24.8	17.4	26.7	25.1
	SSSG (%)	64.3	14.0	3.0	2.0	(0.5)	(2.0)
Pizza Hut India	Delivery growth (%) YoY	13.8	34.2	13.6	20.9	17.9	(2.2)
	SSSG (%)	39.3	13.0	(5.1)	(3.6)	(7.2)	(15.2)
Burger King India	Delivery growth (%) YoY	28.1	21.7	18.1	19.2	-	-
	SSSG (%)	66.0	27.0	8.6	8.3	3.5	3.0

Source: Company, Elara Securities Research

Menu innovation – key driver for footfalls and SSSG

Traditionally, menu innovation has been an important driver for bolstering footfalls and SSSG. Most QSR companies are heavily investing in menu innovation, which is yielding positive results.

JUBI took a major step toward menu innovation in the last quarter through the introduction of millet-based pizza (last major menu innovation was plant-based meat pizza in January 2021). Providing a healthy pizza option may enable it to target a larger section of the public.

Similarly, KFC too is focused on menu innovation and has been quite ahead of peers. It has introduced Double Down Burger, Biryani, Chicken Rolls, and Peri Peri Chicken, which have been a hit.

Pizza Hut has introduced a variety of options to compete with the likes of JUBI in the form of Momo Mia Pizza & Keema Makhani Pasta and improved its menu offerings.

Burger King has introduced *McSpicy Chicken Burger, Peri Peri Whooper*, and a breakfast range, which is well received.

McDonalds India has introduced a range of burger/wrap options in chicken category like 1) McSpicy Chicken Premium, 2) McSpicy Chicken and 3) Chicken Kebab. Also, chicken category is a huge market in South India and McDonalds India has launched McSpicy Fried chicken to take advantage of the market which we feel is an important move to expand SSSG. All these measures may go a long way in driving better footfalls and SSSG compared to competitors in the respective categories.

Exhibit 62: Menu Innovation - Domino's Pizza (JUBI)

Launch date	Product	Price (INR)	Product
Q1FY22	Lavalicious Red Velvet	139	
Q1FY22	Stuffed Garlic Bread	159-169	
Q2FY22	The 4 Cheese Pizza	639	
Q4FY22	Overloaded Chicken Pizza	559-699	
Q1FY23	Paratha Pizza	179-249	
Q3FY23	Everyday Value	49	
Q4FY23	Pizza Mania	49	
Q1FY24	Red Hot Spicy Pizza	179	

Source: Company, Elara Securities Research

Exhibit 63: Menu Innovation - KFC India (DEVYANI & SAPPHIRE)

Launch date	Product	Price (INR)	Product
Q2FY22	Double Down Burger	229	
Q4FY22	KFC Biryani Bucket	199-230 (Regular Size)	
Q1FY23	Popcorn Nachos	399	
Q2FY23	Chicken Peri Peri	519	
Q4FY23	Chicken Roll	119.1	

Source: Company, Elara Securities Research

Exhibit 64: Menu Innovation - Pizza Hut (DEVYANI & SAPPHIRE)

Launch date	Product	Price (INR)	Product
Q2FY22	Momo Mia Pizza	269	
Q3FY22	Cheese Maxx Pizza	195	
Q4FY22	San Fransico Style Crust Pizza	149	
Q1FY23	Flavour Fun Pizzas	79	
Q4FY23	Keema Makhani Pasta	259	
Q1FY24	Mood Your Pizza	299	

Source: Company, Elara Securities Research

Exhibit 65: Menu Innovation - Burger King

Launch date	Product	Price (INR)	Product
Q1FY22	Masala Whopper	199	
Q2FY22	Peri Peri Whopper	209	
Q4FY22	Choco Lava Cake, Choco Mousse Cup	99	
	Stunner Campaign	50-70	
Q1FY23	Breakfast range @ BK Café	89-179	
	Kings Collection Premium Layer	199	
Q3FY23	Chicken King menu	199	
Q4FY23	Twisted Whopper range	219-359	
	Tasty Meals	99	
Q1FY24	Kings Collection Loaded Wraps	199	

Source: Company, Elara Securities Research

Exhibit 66: Menu Innovation - McDonald's India (WLDL)

Launch date	Product	Price (INR)	Product
Q1FY22	McSpicy Fried Chicken	415	
Q2FY22	McCafe - Masala Kadak Chai& Turmeric Latte	99-149	
	Double Cheese McMuffin & Spicy Egg McMuffin	72-100	
Q3FY22	McCafe - Oreo Shake	192	
Q4FY22	Gourmet Burger Collection	260	
Q1FY23	McFlurry Minion Mischief		
Q2FY23	McSpicy Fried Chicken Wings	246	
Q3FY23	McSpicy Fried Chicken Wings	249-272	
Q4FY23	Chicken Big Mac	247	
Q1FY24	Piri Piri McSpicy	209	

Source: Company, Elara Securities Research

QSR revamping in-house app

Most QSR companies are revamping their in-house app to bolster sales and save on commission while providing items at a lower price to consumers, which is a win-win for QSRs as well as consumers.

Global QSR companies are charged 14-16% as commission by aggregators whereas in case of India's QSRs, the commissions are marginally higher at 15-18%.

Moreover, reluctance of third-party apps in sharing customer data with companies has resulted in firms focusing on their in-house app to get first-party data, which would become handy to target customers and bolstering sales.

QSR products expensive in 3P apps vs in-house apps

Most products of QSR companies are expensive on 3P platforms, such as *Zomato & Swiggy*, compared to in-house apps. Usually, the third-party aggregators bump up prices to generate higher commissions. Global QSR companies are charged 14-16% as commission by aggregators whereas in case of India's QSRs, the commissions are marginally higher at 15-18%.

For e.g., a basic Margherita Pizza costs ~INR 330 on *Swiggy* and *Zomato* whereas it costs INR 296 in the *Domino's* app, which is ~10% cheaper. Similarly, for KFC, a Classic Chicken Zinger burger costs INR 190 on the *Swiggy* and *Zomato* whereas it costs INR 170 on the KFC India app, which is ~10% cheaper.

Moreover, compared to the aggregators apps, individual company apps have an advantage of 1) higher discounts by saving aggregator commissions , 2) exclusive offers to push loyalty within customers and 3) access to customer data/usage pattern

Hence, consumers are preferring to order QSR fast foods from individual company apps, which is a plus point not only from a consumer point of view but also for QSR, as it helps them to bolster delivery contribution, increasing gross margin and SSSG.

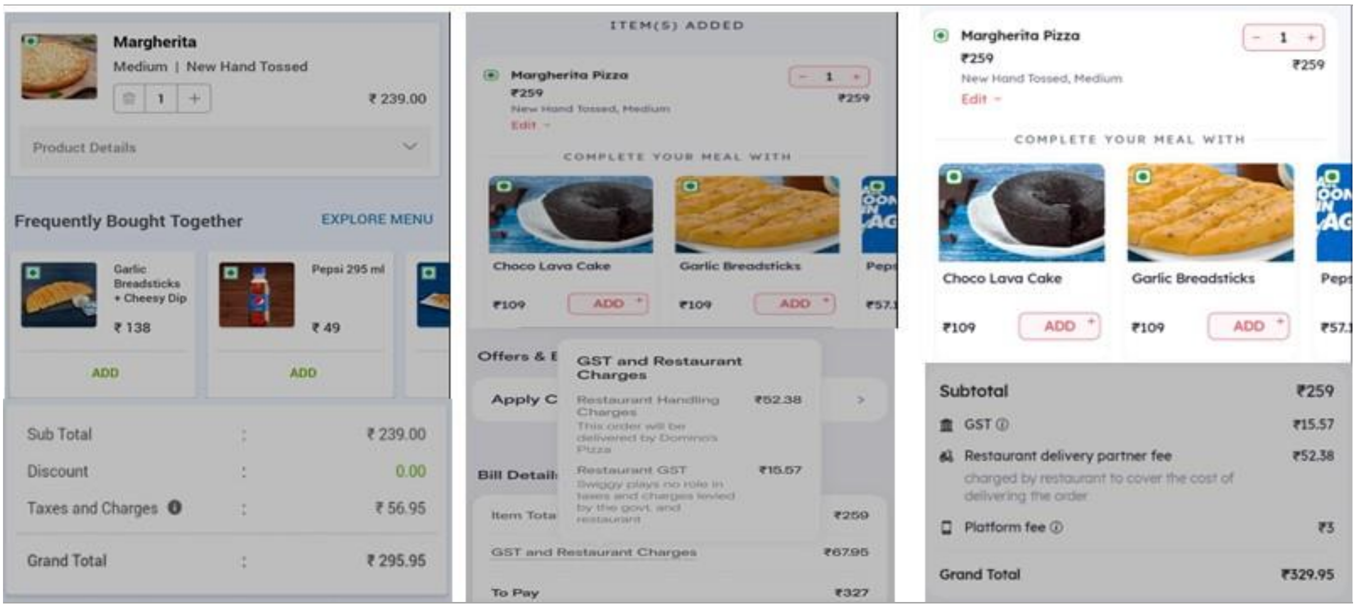
Exhibit 67: App ratings

	Proprietary apps (India)					Top aggregator apps	
	Domino's	McDonald's	KFC	Pizza Hut	Burger King	Zomato	Swiggy
Downloads (Play Store) (mn+)	50	10	10	5	5	100	100
App size (MB)							
Play Store	15	13	51	11	32	29	31
App Store	94	105	47	82	110	163	226
Rating							
Play Store	4.5	4.0	4.1	4.1	4.7	4.5	4.4
App Store	4.7	4.1	4.6	4.5	4.5	4.6	4.4
Number of ratings ('000)							
Play Store	1,000	151	104	153	40	8,000	7,000
App Store	299	32	90	24	6	3,200	903
Ranking							
Play Store	#3	#15	#7	#11	#8	#1	#2
App Store	#4	#18	#10	#17	#8	#1	#2

Source: Play store, App store, Company, Elara Securities Research

Exhibit 68: Domino's products ~INR 40-50 more expensive in 3P apps

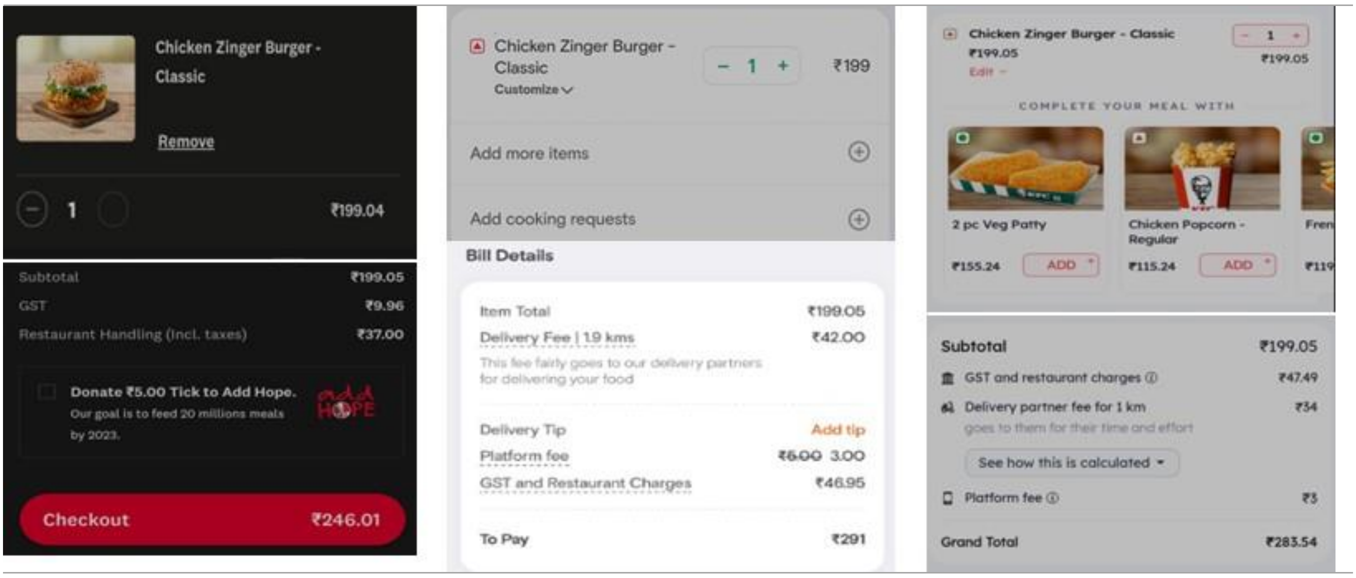
Domino's (in-house app) | Domino's (Swiggy) | Domino's (Zomato)



Source: Elara Securities Research

Exhibit 69: KFC products ~INR 40-50 more costlier in 3P apps

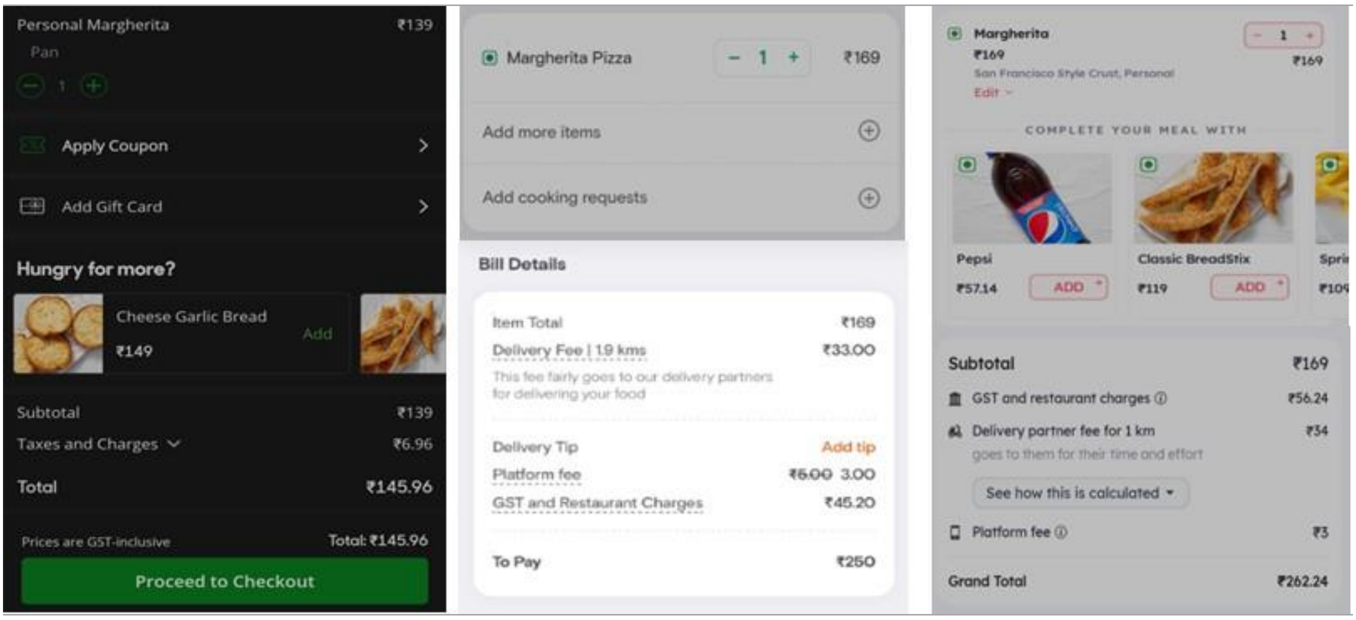
KFC India (in-house app) | KFC India (Swiggy) | KFC India (Zomato)



Source: Elara Securities Research

Exhibit 70: Pizza Hut products ~INR 100 costlier than in 3P apps

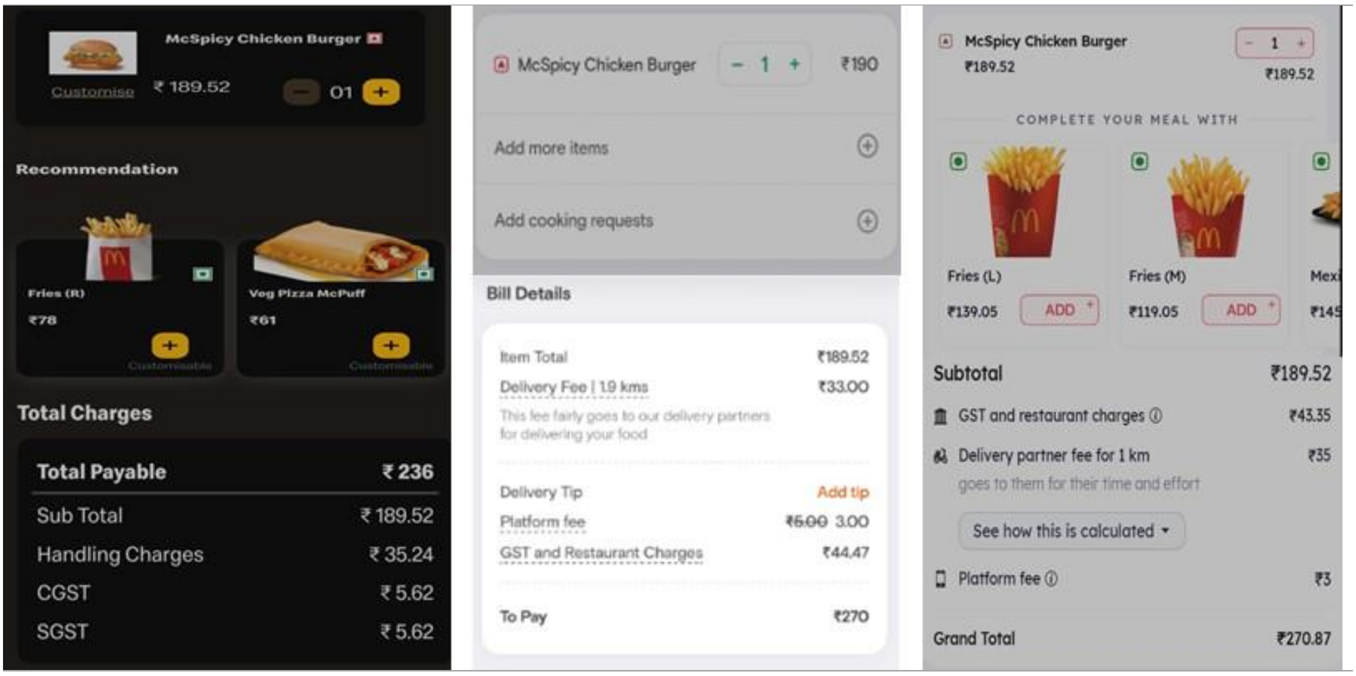
Pizza Hut (in-house app)	Pizza Hut (Swiggy)	Pizza Hut (Zomato)



Source: Elara Securities Research

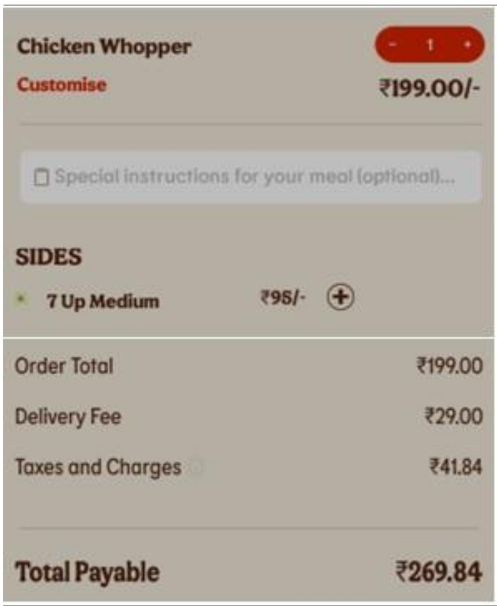
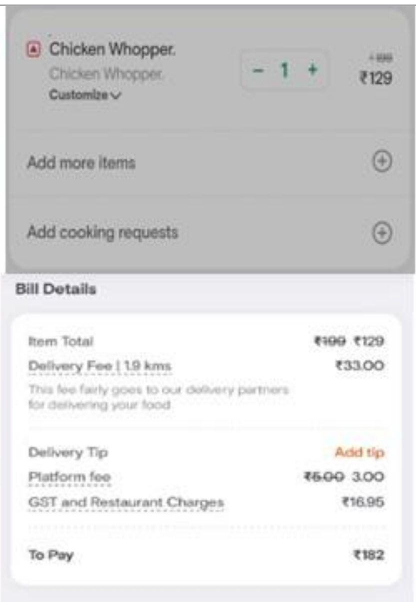
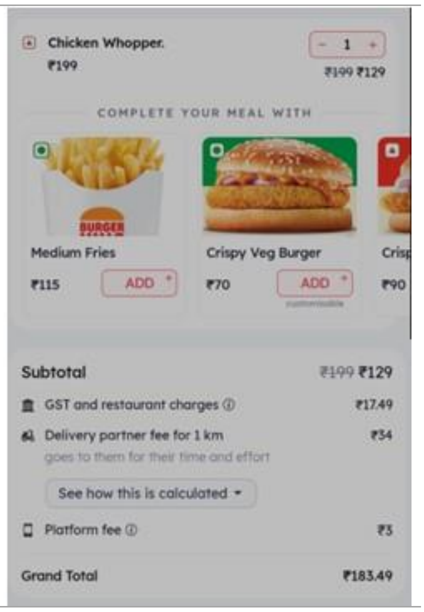
Exhibit 71: McDonald's India products ~INR 20-30 more expensive in 3P apps

McDonald's (in-house app)	McDonald's (Swiggy)	McDonald's (Zomato)



Source: Elara Securities Research

Exhibit 72: Burger King products cheaper by INR 80 in 3P apps

Burger King (in-house app)	Burger King (Swiggy)	Burger King (Zomato)
		

Source: Elara Securities Research

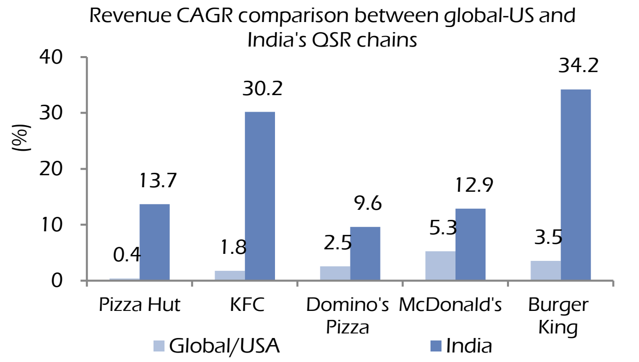
Elephant starts to run

- Domino's India with the highest EBITDA margin among QSR firms
- McDonald's India with the highest EBITDA per store
- Revenue growth of India companies ahead of global counterparts

India outpaces global peers in sales

Revenue of India's QSR firms grew at a faster pace than global peers during FY19-23. On an average, India's QSR posted a revenue CAGR of ~20% vs global peers' average of ~3% during the same period. Higher acceptance of global QSR brand and food by Indians and lower penetration, thereby resulting in higher opportunity for opening new stores, have bolstered revenue growth.

Exhibit 73: India's QSR firms outpace global parents in revenue growth during FY19-23

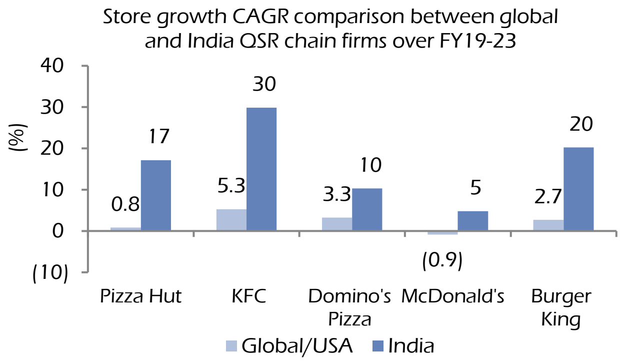


Source: Company, Elara Securities Research

KFC India with highest store CAGR during FY19-23

In term of store growth, India's QSR companies posted a store expansion CAGR of ~15% during FY19-23 with KFC India stores growing the highest at a CAGR of 30%. This has been primarily due to under-penetration of the fried chicken category in India and less competition, which led KFC India to expand significantly compared to the pizza category, which has increased competition and faces a tough fight from regional and local firms. Global peers registered an average store expansion CAGR of a mere 4% over FY19-23.

Exhibit 74: India peers of global QSR post higher store growth during FY19-23

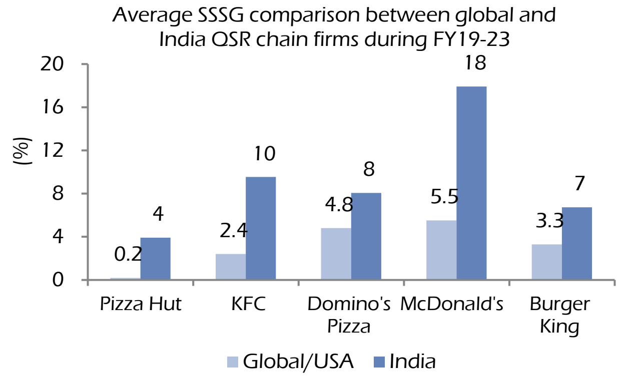


Source: Company, Elara Securities Research

McDonald's India leads in terms of SSSG

In terms of SSSG, India QSR posted average SSSG of 9% during FY19-23 compared 3.2% by global peers. Among India peers, SSSG of McDonald's was the highest at 18% whereas among global QSR firms, the highest SSSG was also registered by McDonald's at 5.5%. The introduction of gourmet burgers and *McCafe* helped the company to achieve this feat. Overall, SSSG of India's QSR firms was ~2.5x of global QSR firms during FY19-23

Exhibit 75: India peers of global QSR report higher SSSG on average during FY19-23



Source: Company, Elara Securities Research

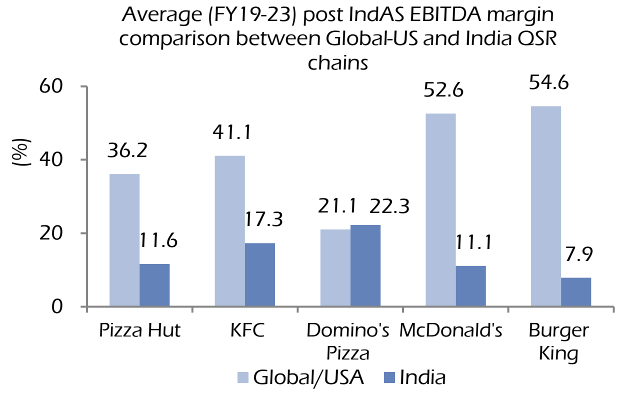
Domino's with highest EBITDA margin among peers

Among global QSR firms in India, Domino's has the highest post IndAS EBITDA margin at 22% (average) during FY19-23 followed by KFC India at 17% whereas Pizza Hut India and McDonalds India are at 11% each. Burger King India is in the bottom of the pyramid at 8%. Domino's has sustained a superior EBITDA margin among QSR peers.

Post COVID, almost all QSR companies had a superior EBITDA margin than the pre-COVID levels except Burger King while KFC's grew the highest at 500bp post COVID.

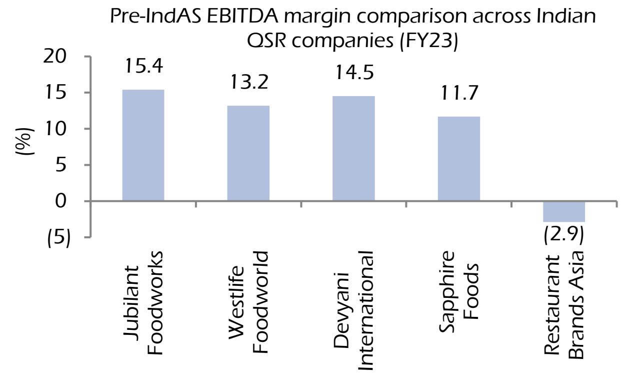
Changes in dietary habits post COVID tilted preference toward QSR firms with superior hygiene, which helped firms to maximize revenue and margin. Moreover, higher contribution of delivery revenue plays a big role as well in maximizing margin.

Exhibit 76: Average post IndAS EBITDA margin of India firms of global QSR lower than the parent



Source: Company, Elara Securities Research

Exhibit 77: Jubilant FoodWorks had the highest pre-IndAS EBITDA margin in FY23



Source: Company, Elara Securities Research

Benchmarking JUBI with global QSR companies

We have benchmarked JUBI's growth with global QSR firms and franchises, such as Domino's, McDonald's, Yum Brands and Restaurant Brands International. Global peers are expected to post an average revenue CAGR of 6.4% during FY23-26E. They are trading at an average of 3.0x one-year forward EV/EBITDA-to-sales growth ratio. Considering the multiplier effect, we expect JUBI to trade at 31x one-year forward EV/EBITDA (pre IndAS), similar to the one-year forward EV/EBITDA (pre-IndAS) during FY19-20.

We expect SSSG of JUBI to be not more than 1-2% YoY over the medium term and will continue to underperform vs peers, due to 1) increased competition, 2) lower delivery moat, post rapid adoption of aggregators and 3) low potential to increase dine-in throughput due to smaller store size. We have considered an EV/EBITDA (pre IndAS) target of 31x.

On the basis of JUBI's target EV/EBITDA (pre-IndAS), we have benchmarked EV/EBITDA (pre-IndAS) of other QSR firms in India. We assign an EV/EBITDA (pre-IndAS) which is at a 10% premium to JUBI for Westlife Foodworld, at a 25% premium to JUBI for KFC Devyani, at a 5% discount to JUBI for KFC Sapphire, at a 15% discount to JUBI for PH Devyani, at a 30% discount to JUBI for PH Sapphire and at a 15% discount to JUBI for Burger King India.

Profitability and revenue growth expectations of fried chicken and burger firms remain higher than traditional pizza companies; hence, we have assigned higher valuation multiple to KFC and McDonald's.

Exhibit 78: JUBI to trade at a one-year forward EV/EBITDA (pre-IndAS) of 31x

Company	Revenue CAGR (FY23-26E, %)	One year fwd. EV/EBITDA (x)
Domino's Pizza (Global)	4.3	22.0
McDonald's (Global)	7.4	18.1
YUM! Brands (Global)	6.5	19.0
Restaurant Brands International (Global)	7.2	18.3
Average	6.4	19.3
Jubilant FoodWorks	10.4	31.0

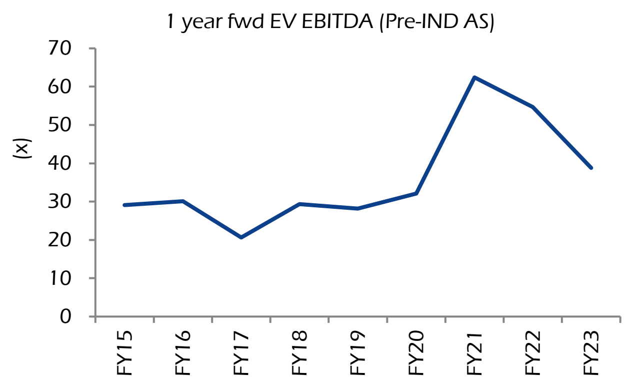
Source: Bloomberg, Elara Securities Estimate

Exhibit 79: We benchmark target EV/EBITDA (pre-IndAS) of QSR firms with JUBI

Company	Target one-year forward EV/EBITDA (x)	Premium/ (Discount)
Westlife Foodworld	34.0	10% premium to JUBI
KFC segment of Devyani International	39.0	25% premium to JUBI
KFC segment of Sapphire Foods	29.0	5% discount to JUBI
PH segment of Devyani International	27.0	15% discount to JUBI
PH segment of Sapphire Foods	22.0	30% discount to JUBI
Burger King India	27.0	15% discount to JUBI

Source: Elara Securities Estimate

Exhibit 80: JUBI traded at a one-year forward EV/EBITDA (pre-IndAS) of 31x during FY19-20



Source: Bloomberg, Company, Elara Securities Research

Exhibit 81: Average one year forward EV/EBITDA (pre-IndAS) in phases

Time period	One-year forward EV/EBITDA of JUBI (x)	SSSG (%)
FY14-18	27.3	4
FY19-20	30.2	10
FY22	54.0	23
FY23	38.0	6

Source: Bloomberg, Elara Securities Research

Initiate on DEVYANI with Buy and a TP of INR 210

We initiate coverage of Devyani International (DEVYANI IN) with a **Buy** and a TP of INR 210, implying 30% upside. We value the KFC business, the Pizza Hut Business, the Costa Coffee business, the Vaango business and the international business separately. We expect a revenue CAGR of 17% for KFC, 10% for Pizza Hut, 41% for Costa Coffee, 23% for Vaango and 21% for the international business during FY23-26E and an EBITDA margin (pre-IndAS) of 17.9%, 9.8%, 17.8%, 20.0% and 13.3% in FY26E, respectively.

We assign a one-year forward EV/EBITDA (pre-IndAS) of 39x for KFC, 27x for Pizza Hut, 18x for Costa Coffee, 12x for Vaango and 18x for the international business. A lower demand environment, high commodity inflation and poor execution are key risks to our call.

Initiate on SAPPHIRE with Buy and a TP of INR 1,740

We initiate coverage of Sapphire Foods (SAPPHIRE IN) with a **Buy** and a TP of INR 1,740, implying 24% upside. We value the KFC business, the Pizza Hut business, and the Sri Lanka business separately. We expect a revenue CAGR of 19% for KFC, 12% for Pizza Hut and 13% for the Sri Lanka business during FY23-26E with an EBITDA margin (pre-IndAS) of 14.3%, 4.0% and 9.1% in FY26E, respectively.

We assign a one-year forward EV/EBITDA (pre-IndAS) of 29x for KFC, 22x for Pizza Hut and 2x for Sri Lanka business. A lower demand environment, high commodity inflation and poor execution are key risks to our call.

Initiate on RBA with Accumulate and a TP of INR 130

We initiate coverage of Restaurant Brands Asia (RBA IN) with a **Buy** and a TP of INR 130, implying 15% upside. We value the RBA India business and the RBA Indonesia business separately. We expect a revenue CAGR of 16% for the RBA India business and 29% for the RBA Indonesia business during FY23-26E with an EBITDA margin (pre-IndAS) of 6.5% and 0.5% in FY26E, respectively.

We assign a one-year forward EV/EBITDA (pre-IndAS) of 27x for the RBA India business and 2x for the RBA Indonesia business. A lower demand environment, high commodity inflation, higher competitive intensity and poor execution are key risks to our call.

Retain Reduce on JUBI with unchanged TP of INR 500

Jubilant FoodWorks (JUBI IN)vis trading at a one-year forward EV/EBITDA (pre-IndAS) of 29x, below the pre-COVID average of 33x during FY16-19 whereas its peers are trading at an average EV/EBITDA (pre-IndAS) of 32x.

We expect SSSG of JUBI to be not more than 1-2% YoY over the medium term and will continue to underperform vs peers, due to 1) increased competition, 2) lower delivery moat, post rapid adoption of aggregators and 3) low potential to increase dine-in throughput due to smaller store size.

We retain our estimates, and we have already factored in a margin improvement of 180bp during FY24-26E. Potential earnings upgrade seems limited from the current levels. The stock has moved up by a mere 3% in the past six months.

We reiterate **Reduce** with an unchanged TP of INR 500. Our TP is based on 31x,one-year forward EV/EBITDA (pre-IndAS). Improvement in SSSG vs peers, less competition or scale up in the non-pizza business are catalysts for a rerating.

Retain Reduce on WLDL with unchanged TP of INR 880

Westlife Foodworld (WLDL IN) had one of the highest SSSG of 2% YoY in 9MFY24 (excluding external factors) among QSR firms due to better execution, superior store penetration and product innovation. The company has guided long-term SSSG of 7-8% YoY, although we believe growth will be in the range of 3-5% YoY on a steady-state basis.

We retain our estimates and value WLDL based on a one-year forward EV/EBITDA (pre-IndAS) of 34x. We maintain **Reduce** with an unchanged TP of INR 880. Superior execution of strategy, addition in the chicken portfolio and higher SSSG are key for a further re-rating.

Risks to our call

- There has been a slowdown in the demand environment of the QSR industry with below par growth even during the festival season. We believe this is a temporary phenomenon, and we expect a demand boost in the medium term to drive sales. However, a prolonged lower demand scenario may hamper revenue growth.
- India's food services market is highly competitive and dominated by the unorganized sector. Customer loyalty is low for small- and mid-sized restaurants due to a lack of best practices in maintaining hygiene & food safety standards and the growing trend among consumers to explore established international and domestic chains to gain new experiences. Firms in the chain QSR market have a competitive advantage with their robust food safety and hygiene standards, strong operating procedures, consistent taste & flavor and global best practices
- Soaring cost of fuel, freight, energy and ingredients, such as palm oil, meat & cheese and packing materials may increase input cost and significantly drag operating performance & restaurant margin
- After the pandemic, customers have become more hygiene conscious. Food safety and quality have become crucial. India's food service firms, including chain QSR players, are required to follow stringent food safety and all applicable regulations regarding hygiene, sanitation, food manufacturing practices, handling of food, and pest control on premises to ensure the health and safety of consumers

Exhibit 82: Global mega trends

Domino's
To bolster order frequency in the US, Domino's has revamped its loyalty program, Domino's Rewards.
The spending threshold to earn points has been lowered from USD 10 to USD 5 to bolster takeaway orders wherein the order ticket size tends to be low.
More attainable redemption opportunities have been created for lower frequency customers with items from eight different categories being offered to the members.
Engagement with the revamped program has been promising thus far.
Yum! Brands
In CY23 so far, the company has allocated 10% more general and administrative (G&A) expenses to digital and technology investments to improve employee productivity at franchisee stores.
In-store kiosks are expected to be a key growth driver
Kiosks stimulate higher order values than traditional store counters and improve operational efficiency, leading to higher margins.
Additionally, kiosks provide new opportunities to leverage customer data and create personalized ordering experiences.
About 40% of KFC stores outside China and all Taco Bell stores in the US have kiosks
Yum! plans to increase kiosk penetration by 20% in CY24 (excluding KFC stores in China), with the goal to reach 100% of stores by 2026.
Restaurant Brands International
>75% of BK International stores have a modern look and feel, offering customers a more digital experience. This results in better operational efficiency, with new restaurant technology and higher staff retention rates
>50% of all international stores have kiosks, which led to >50% of international sales revenue from digital channels. In countries such as China and South Korea, ~90% of sales are online.
Digital sales offer better experience to both customers and staff, with higher order frequency and also order value.

Source: Company, Elara Securities Research

Exhibit 83: Peer valuation

Company	BB Code	CMP (INR)	CAGR (FY23-26E) (%)		Sales (INR bn)			EBITDA (INR bn)			PE (x)			EV/EBITDA (x)		
			Revenue	Earnings	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
QSR companies																
Jubilant FoodWorks	JUBI IN	485	7.5	7.9	54	58	63	11	13	15	98.1	76.4	63.2	27.7	24.0	21.1
Westlife Foodworld	WLDL IN	838	9.6	11.6	24	27	30	4	5	5	116.8	93.2	74.7	32.2	27.9	24.5
Devyani International	DEVYANI IN	162	15.7	18.4	35	41	46	8	9	11	94.3	69.1	53.6	26.0	21.1	17.5
Restaurant Brands Asia	RBA IN	113	20.2	55.8	24	30	36	2	3	4	(26.2)	(36.0)	(77.4)	27.9	19.5	14.0
Sapphire Foods	SAPPHIRE IN	1,401	16.1	16.5	26	31	35	5	6	7	128.3	81.0	56.5	18.6	15.4	12.8
Alcobev companies																
United Breweries	UBBL IN	1,809	8.4	32.2	78	87	95	9	12	14	91.5	62.1	51.5	55.0	39.2	32.8
United Spirits	UNSP IN	1,084	9.5	15.9	108	122	136	18	20	22	59.9	52.9	46.8	39.1	34.8	30.8
Radico Khaitan	RDCK IN	1,675	18.5	33.2	39	45	52	5	7	8	69.5	50.2	40.7	41.7	31.7	26.4
Jewellery companies																
Titan Company	TTAN IN	3,627	19.8	19.2	484	562	652	55	69	83	86	69	57	60	48	40
Kalyan Jeweller	KALYANKJ IN	341	28.3	23.3	185	237	297	13	17	21	55	40	30	27	22	18
Footwear companies																
Metro Brands	METROBRA IN	1,055	17.2	16.9	24	29	34	7	9	11	80.9	60.7	48.7	39.8	32.1	26.8
Relaxo Footwear	RLXF IN	839	13.1	21.9	30	35	40	4	5	6	100.7	76.3	64.5	49.8	39.5	34.1
Fashion and Retail companies																
Avenue Supermart	DMART IN	3,787	19.4	20.8	506	607	727	42	52	64	92.7	73.5	59.3	59.0	47.2	38.3
Vedant Fashions	MANYAVAR IN	966	15.2	13.2	14	17	21	7	8	10	55.3	45.4	37.8	34.2	28.4	23.8
Trent	TRENT IN	3,172	35.3	37.2	116	154	191	17	23	29	133.7	99.5	78.5	65.8	49.6	39.2
Go Fashion	GOCOLORS IN	1,071	22.0	24.0	8	10	12	3	3	4	58.7	42.6	33.3	23.5	18.4	14.9

Note: pricing as on 5 February 2024; Source: Elara Securities Estimate

Consumer Discretionary

Company Section

Devyani International

Rooster rules the roost

Chicken run: large addressable market to bolster KFC sales

Devyani International (DEVYANI IN) operates franchisees of *KFC, Pizza Hut, Costa Coffee,* and *Vaango* in India. The company has 540 stores of KFC as on Q2FY24; we believe the company is well positioned to drive higher sales and SSSG, due to 1) less competition and lower penetration in the fried chicken category, 2) better SSSG than peers (16% in FY23 vs 15% for KFC of SAPPHIRE), 3) higher adoption of fried chicken by consumers, 4) more number of stores, and 5) presence in East & South India, which have higher non-vegetarian consumption. It is focused on product innovation and store expansion in Tier II & III cities; it aims to open 120 KFC stores pa. We expect a KFC revenue CAGR of 17% during FY23-26E.

Consistency key: sustainable PH turnaround essential to growth

Pizza Hut (PH) has been a drag compared to Domino's with lower SSSG (although higher than SSSG of Pizza Hut of SAPPHIRE) and higher delivery time. DEVYANI aims to resolve this by 1) pivoting toward a delivery-centric model with strategically located smaller format, dine-in and flagship stores, 2) accelerated role out of delivery stores to reduce delivery time, leading to better unit economics, 3) product innovation & discounts, and 4) increased pace of new store expansion to deepen market reach & brand presence. We expect a PH revenue CAGR of 10% during FY23-26E.

Caffeine fix: Strategy revamp and store expansion in Costa Coffee

DEVYANI has been expanding Costa Coffee (CC) stores rapidly; as on Q2FY24, it has 146 CC stores. The company aims to open 15 CC stores pa by focusing on metro and Tier I cities (earlier stores were concentrated in North India) at airports, highways, and premium offices, due to the thriving coffee culture. We believe CC SSSG will grow at a superior pace than other core brands, although its impact on overall revenue will be lower due to low revenue contribution at 5% as on H1FY24. We expect a CC revenue CAGR of 41% during FY23-26E.

Rating: Buy

Target Price: INR 210

Upside: 30%

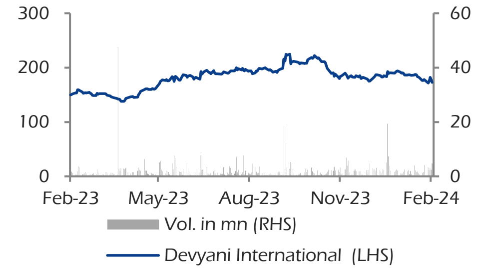
CMP: INR 162 (as on 5 February 2024)

Key data

Bloomberg /Reuters Code	DEVYANI IN/ DEVY.BO
Current /Dil Shares O/S (mn)	1206/1206
Mkt Cap (INR bn/USD mn)	196/2,355
Daily Volume (3M NSE Avg)	2,395,075
Face Value (INR)	1
1 USD= INR 83.1	

Note: *as on 5 February 2024; Source: Bloomberg

Price & Volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	62.8	62.8	62.7	62.7
Institutional Investor	19.4	20.8	21.6	21.0
Other Investor	12.1	11.8	11.3	11.2
General Public	5.6	4.6	4.3	5.1

Source: BSE

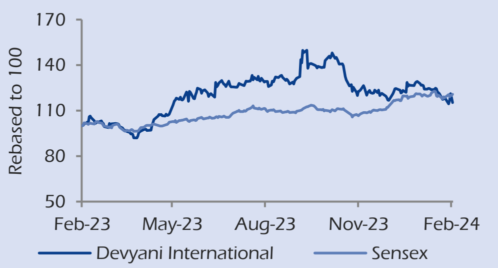
Price performance (%)	3M	6M	12M
Nifty	13.2	11.6	21.9
Devyani International	(12.6)	(14.1)	7.0
Sapphire Foods	7.2	3.1	21.0
Restaurant Brands Asia	0.2	(4.3)	6.4

Source: Bloomberg

Valuation

We initiate coverage of Devyani International (DEVYANI IN) with a **Buy** and a SOTP-based TP of INR 210, implying 30% upside. We assign a one-year forward EV/EBITDA (pre-IndAS) of 39x to KFC, 27x for Pizza Hut, 18x for Costa Coffee, 12x for Vaango, and 18x for international business. We expect a KFC revenue CAGR of 17%, a Pizza Hut revenue CAGR of 10%, a Costa Coffee revenue CAGR of 41%, a Vaango revenue CAGR of 23% and an international business revenue CAGR of 21% during FY23-26E with an EBITDA margin (pre-IndAS) of 17.9%, 9.8%, 17.8%, 20.0% and 13.3% in FY26E, respectively. Improved performance of KFC is key for rerating. Lower demand environment, high commodity inflation and poor execution are key risks to our call.

Price performance



Source: Bloomberg

Key Financials

YE March	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY23	29,977	43.8	6,556	21.9	3,026	69.2	2.2	31.9	17.5	74.4	29.8
FY24E	35,120	17.2	7,557	21.5	2,071	(21.1)	1.7	19.4	15.8	94.3	26.0
FY25E	40,535	15.4	9,192	22.7	2,827	36.5	2.3	21.5	17.4	69.1	21.1
FY26E	46,452	14.6	10,882	23.4	3,646	29.0	3.0	22.3	17.9	53.6	17.5

Note: pricing as on 5 February 2024; Source: Company, Elara Securities Estimate

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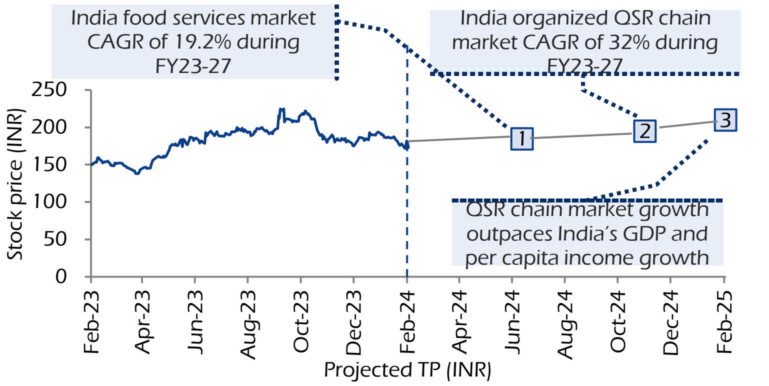
Elara Capital

Valuation trigger



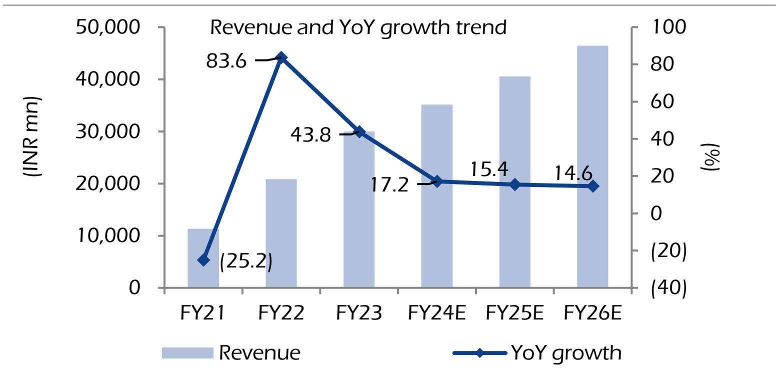
Source: Bloomberg, Elara Securities Estimate

Valuation overview - DEVYANI SOTP valuation

(INR mn)	March 2026E
KFC India	
One-year forward EBITDA (pre-IndAS)	5,086
Multiple (x)	39
EV	200,832
Pizza Hut India	
One-year forward EBITDA (pre-IndAS)	914
Multiple (x)	27
EV	25,126
Costa Coffee	
One-year forward EBITDA (pre-IndAS)	509
Multiple (x)	18
EV	9,413
Vaango	
One-year forward EBITDA (pre-IndAS)	193
Multiple (x)	12
EV	2,411
International & others	
One-year forward EBITDA (pre-IndAS)	650
Multiple (x)	18
EV	12,020
Total EV	**249,804**
Cash	6,813
Debt	1,774
Equity value	**254,843**
Shares (mn)	1205.9
TP (March 2025E, INR)	**210**

Source: Elara Securities Estimate

Valuation driver: Overall revenue CAGR of 16% in FY23-26E



Source: Company, Elara Securities Estimate

Investment summary

- Large addressable market in chicken to bolster KFC sales
- Lower competitive intensity and lower penetration in the fried chicken category
- Sustainable turnaround in PH key for overall growth
- PH pivoting towards delivery centric model with strategically located smaller format dine-in and flagship stores
- Strategy revamp and store expansion in Costa Coffee

Valuation trigger

- India food services market CAGR of 19.2% during FY23-27
- India organized QSR chain market CAGR of 32% during FY23-27
- QSR chain market growth outpaces India's GDP and per capita income growth

Key risks

- Slowdown in the demand environment of QSR with below par growth during the festival season
- Increased competition in the pizza category
- Higher commodity inflation, especially for cheese and wheat, may increase input cost

Our assumptions

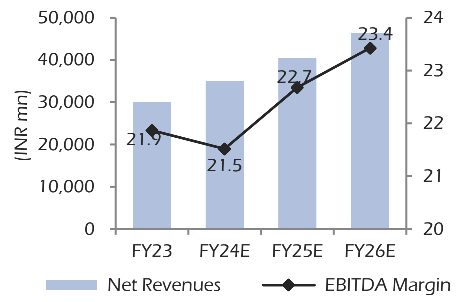
- KFC revenue CAGR of 17% during FY23-26E
- Pizza Hut delivery revenue CAGR of 10% during FY23-26E
- Costa Coffee revenue CAGR of 41% during FY23-26E
- KFC EBITDA margin (pre-IndAS) of 17.9%, Pizza Hut of 9.8%, Costa Coffee of 17.8%, Vaango of 20% and international business of 13.3% in FY26E

Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Net Revenues	29,977	35,120	40,535	46,452
EBITDA	**6,556**	**7,557**	**9,192**	**10,882**
Add:- Non operating Income	326	255	304	405
OPBIDTA	6,882	7,813	9,496	11,287
Less :- Depreciation & Amortization	2,788	3,487	4,089	4,682
EBIT	**4,094**	**4,326**	**5,407**	**6,605**
Less:- Interest Expenses	1,475	1,565	1,638	1,743
PBT	**2,620**	**2,761**	**3,770**	**4,862**
Less :- Taxes	(206)	690	942	1,215
Adjusted PAT	**2,826**	**2,071**	**2,827**	**3,646**
Add/(Less): - Extra ordinary exp/(Inc)	(200)	0	0	0
Reported PAT	**3,026**	**2,071**	**2,827**	**3,646**
Balance Sheet (INR mn)	**FY23**	**FY24E**	**FY25E**	**FY26E**
Share Capital	1,205	1,205	1,205	1,205
Reserves	8,437	10,508	13,335	16,981
Total borrowings	774	1,774	1,774	1,774
Trade Payables	2,419	2,791	3,138	3,564
Other liabilities	17,051	16,537	18,751	21,170
Total Equity & Liabilities	**29,885**	**32,814**	**38,203**	**44,693**
Fixed Assets	11,012	11,525	11,936	12,255
Inventories	1,290	1,512	1,745	2,000
Trade Recievables	289	339	391	448
Cash & other bank balances	851	893	3,371	6,813
Other assets	16,442	18,545	20,760	23,179
Total Assets	**29,885**	**32,814**	**38,203**	**44,693**
Cash Flow Statement (INR mn)	**FY23**	**FY24E**	**FY25E**	**FY26E**
Operating Cash Flow	6,370	4,351	8,312	9,780
Less:- Capex	(4,373)	(4,000)	(4,500)	(5,000)
Free Cash Flow	1,996	351	3,812	4,780
Investing Cash Flow	(3,497)	(3,745)	(4,196)	(4,595)
Financing Cash Flow	(2,827)	(565)	(1,638)	(1,743)
Net change in Cash	51	41	2,478	3,442
Opening Cash	573	626	667	3,145
Closing Cash	624	667	3,145	6,587
Ratio Analysis	**FY23**	**FY24E**	**FY25E**	**FY26E**
Income Statement Ratios (%)				
Revenue Growth	43.8	17.2	15.4	14.6
EBITDA Growth	38.8	15.3	21.6	18.4
PAT Growth	69.2	(21.1)	36.5	29.0
EBITDA Margin	21.9	21.5	22.7	23.4
PAT Margin	8.8	5.9	7.0	7.8
Return & Liquidity Ratios				
Net Debt/Equity (x)	(0.0)	0.1	(0.1)	(0.3)
ROE (%)	31.9	19.4	21.5	22.3
ROCE (%)	17.5	15.8	17.4	17.9
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	2.2	1.7	2.3	3.0
EPS Growth (%)	69.2	(21.1)	36.5	29.0
P/E Ratio (x)	74.4	94.3	69.1	53.6
EV/EBITDA (x)	29.8	26.0	21.1	17.5
EV/EBITDA (pre-IndAS, x)	44.9	40.1	31.7	25.9
EV/Sales (x)	6.5	5.6	4.8	4.1
BVPS (INR)	8.0	9.7	12.1	15.1
Price/Book (x)	20.3	16.7	13.4	10.7
Dividend Yield (%)	0.0	0.0	0.0	0.0

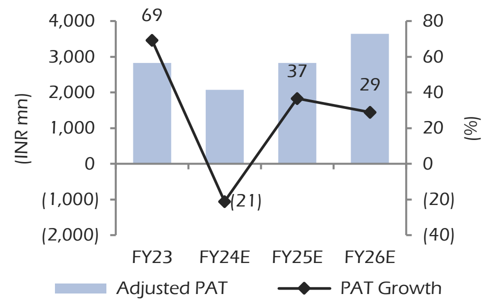
Note: pricing as on 5 February 2024; Source: Company, Elara Securities Estimate

Revenue & EBITDA margin trend



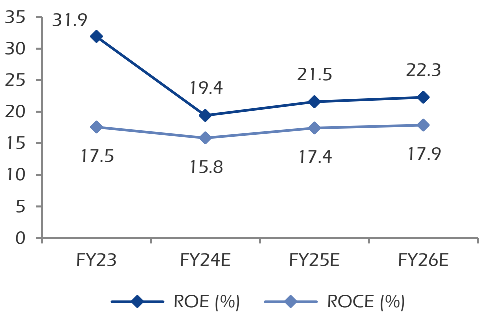
Source: Company, Elara Securities Estimate

Adjusted profit growth trend



Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Leading the QSR pack

- KFC revenue CAGR of 17% during FY23-26E
- Pizza Hut revenue CAGR of 10% during FY23-26E
- Initiate with a Buy and a SOTP-based TP of INR 210, implying 30% upside

KFC business

Revenue CAGR of 17% during FY23-26E

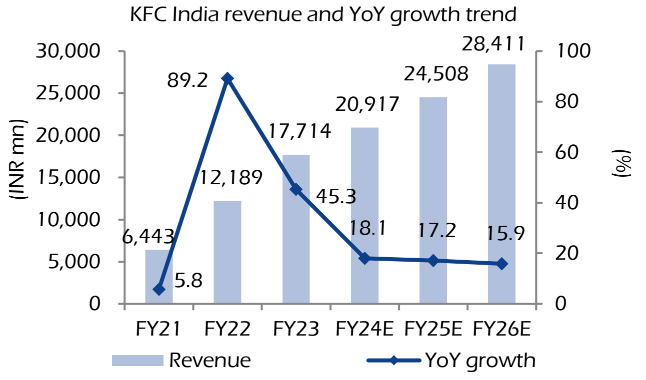
KFC reported revenue growth of 45% in FY23 and 17% YoY in H1FY24. We expect a KFC revenue CAGR of 17% during FY23-26E.

With SSSG of 16% in FY23 and a contraction of 2.4% in H1FY24, we expect KFC to post SSSG contraction of 1% in FY24E and SSSG expansion of 3.0% in FY25E and 5.0% in FY26E, as the fried chicken category has been growing well with increased customer demand and less competition compared to the pizza category.

We expect DEVYANI to add 110 KFC stores in FY24E, 100 in FY25E and 90 in FY26E, as the company is doubling down on expanding the number of KFC stores as the segment is underpenetrated; hence, there is a huge room for expansion, especially in the Tier II & III cities and towns.

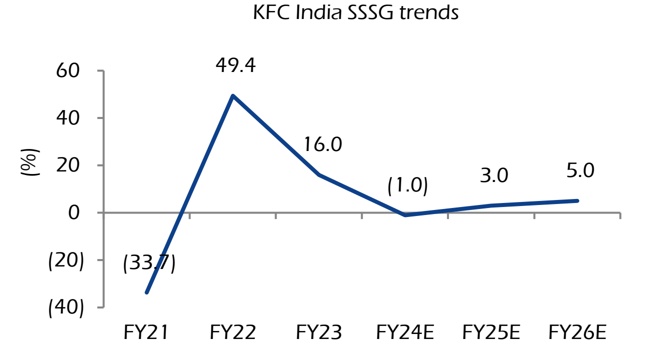
DEVYANI has 540 KFC stores as on Q2FY24. We believe the company is well positioned to drive higher sales and SSSG, due to 1) less competition and lower penetration in the fried chicken category, 2) better SSSG than peers (SSSG of 16% in FY23 vs 15% of KFC of SAPPHIRE), 3) higher adoption of fried chicken by consumers, 4) greater number of stores, and 5) presence in East & South India, which have higher non-veg consumption. The company has focused on product innovation and newer store expansion in Tier II & III cities and aims to open ~120 KFC stores pa. We believe a better KFC performance is key to rerating.

Exhibit 1: KFC revenue CAGR of 17% during FY23-26E



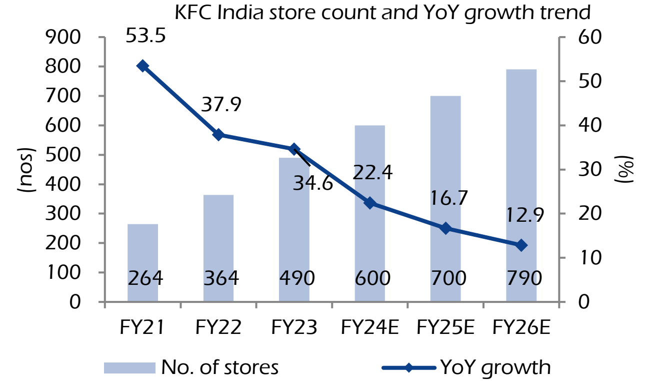
Source: Company, Elara Securities Estimate

Exhibit 2: KFC same store sales to contract 1% in FY24E, expand of 3% in FY25E and 5% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 3: KFC stores CAGR of 17% during FY23-26E

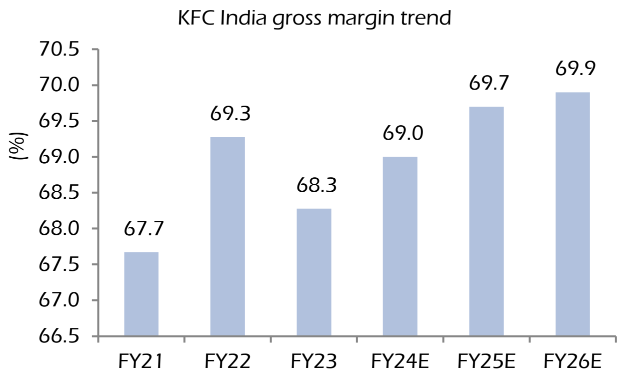


Source: Company, Elara Securities Estimate

Gross margin to reach 69.9% in FY26E

Gross margin of the KFC segment of DEVYANI stood at 68.3% in FY23 and 69.3% in H1FY24. We expect gross margin to reach 69.0% in FY24E, 69.7% in FY25E and 69.9% in FY26E, due to a stable commodity inflation scenario, especially for chicken and flour.

Exhibit 4: KFC gross margin to reach 69.9% in FY26E



Source: Company, Elara Securities Estimate

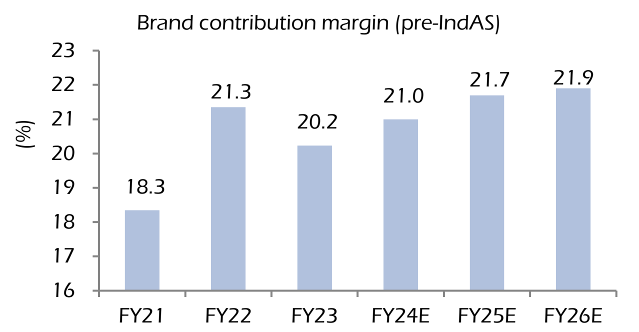
Brand contribution margin to reach 21.9% in FY26E

The brand contribution margin of the KFC segment stood at 20.2% in FY23 and 20.2% in H1FY24. We expect brand contribution margin to be 21.0% in FY24E, 21.7% in FY25E and 21.9% in FY26E.

EBITDA margin (pre-IndAS) to reach 17.9% in FY26E

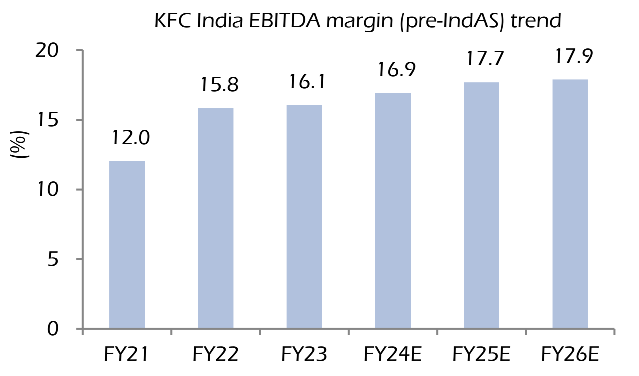
EBITDA margin (pre-IndAS) stood at ~16.1% in FY23. We expect EBITDA margin (pre-IndAS) to be 16.9% in FY24E, 17.7% in FY25E and 17.9% in FY26E.

Exhibit 5: KFC brand contribution margin to reach 21.9% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 6: KFC brand EBITDA margin (pre-IndAS) to reach 17.9% in FY26E



Source: Company, Elara Securities Estimate

Pizza Hut

Revenue CAGR of 10% during FY23-26E

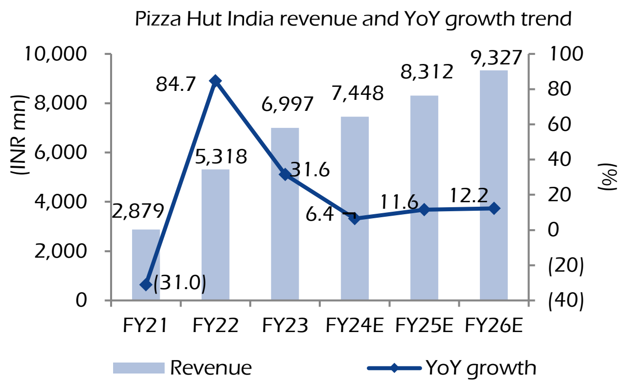
Pizza Hut (PH) reported revenue growth of 32% in FY23 and 6% YoY in H1FY24. We expect a PH revenue CAGR of 10% during FY23-26E.

With SSSG of 4.4% in FY23 and contraction of 7.9% in H1FY24, we expect a PH same store sales contraction of 7.0% in FY24E, remain flat in FY25E and expand 2.0% in FY26E, lower than the fried chicken category, as increased competition in the pizza category has dampened growth prospects of SSSG of PH.

We expect DEVYANI to add 80 KFC stores each in FY24E, FY25E and FY26E, as the company is doubling down on expanding the number of PH stores as the segment is severely underpenetrated; hence, there is a huge room for expansion, especially in the Tier II & III cities and towns.

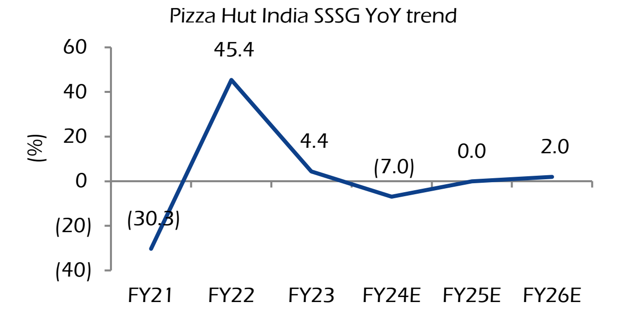
PH has been a drag compared to Domino's with lower SSSG (although higher than SSSG of PH of SAPPHIRE) and higher delivery time. DEVYANI aims to resolve this by 1) pivoting toward delivery-centric model with strategically located smaller format dine-in and flagship stores, 2) accelerated role out of delivery stores to reduce delivery time leading to better unit economics, 3) product innovation & discounts and 4) strong new store expansion pace to increase market reach & brand presence. We believe proper execution is key for overall sustainable growth and better profitability.

Exhibit 7: PH revenue CAGR of 10% during FY23-26E



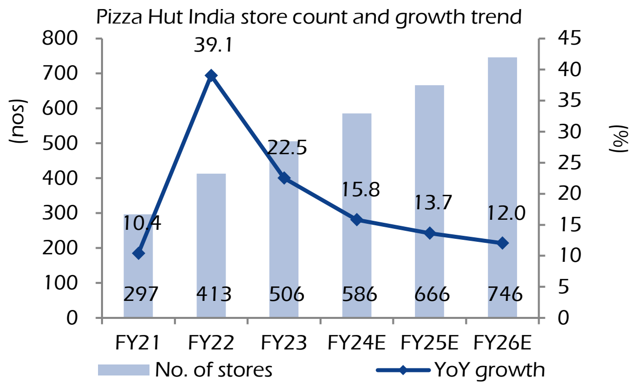
Source: Company, Elara Securities Estimate

Exhibit 8: PH same store sales to contract by 7.0% in FY24E, remain flat in FY25E & expand 2.0% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 9: PH stores CAGR of 13% during FY23-26E

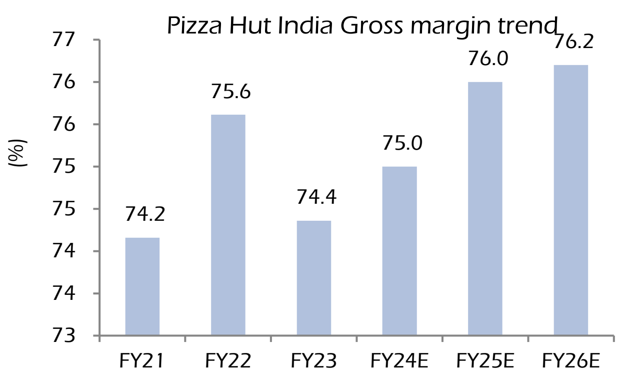


Source: Company, Elara Securities Estimate

Gross margin to reach 76.2% in FY26E

Gross margin of the KFC segment of DEVYANI stood at 74.4% in FY23 and 74.8% in H1FY24. We expect gross margin to reach 75.0% in FY24E, 76.0% in FY25E and 76.2% in FY26E, due to a stable commodity inflation scenario, especially for chicken and flour.

Exhibit 10: PH gross margin to reach 76.2% in FY26E



Source: Company, Elara Securities Estimate

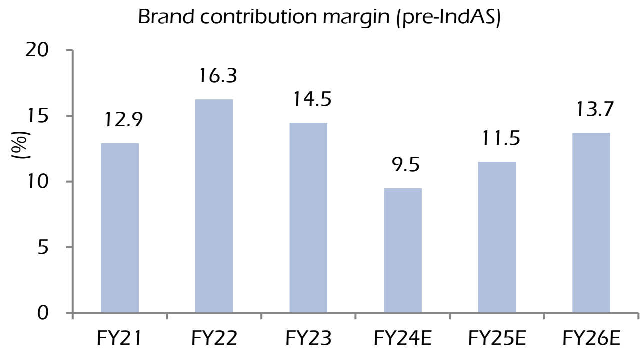
Brand contribution margin to reach 13.7% in FY26E

Brand contribution margin of the PH segment stood at 14.5% in FY23 and 9.5% in H1FY24. We expect brand contribution margin to be 9.5% in FY24E, 11.5% in FY25E and 13.7% in FY26E.

EBITDA margin (pre-IndAS) to reach 9.8% in FY26E

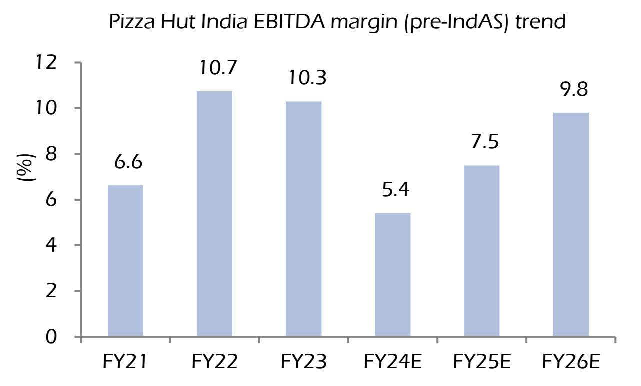
EBITDA margin (pre-IndAS) stood at ~10.3% in FY23. We expect EBITDA margin (pre-IndAS) to be 5.4% in FY24E, 7.5% in FY25E and 9.8% in FY26E.

Exhibit 11: PH brand contribution margin to reach 13.7% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 12: PH brand EBITDA margin (pre-IndAS) to reach 9.8% in FY26E



Source: Company, Elara Securities Estimate

Costa Coffee

Revenue CAGR of 41% during FY23-26E

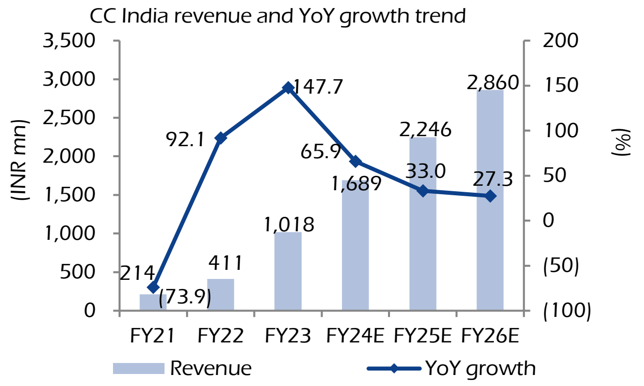
Costa Coffee (CC) reported revenue growth of 148% in FY23 and 69% YoY in H1FY24. We expect a CC revenue CAGR of 41% during FY23-26E.

With an SSSG of 56.3% in FY23 and 9.0% YoY in H1FY24, we expect CC SSSG of 9.0% in FY24E, and 8.0% each in FY25E and FY26E, as the fried chicken category has been growing well with higher customer demand and less competition compared to the pizza category.

We expect DEVYANI to add 75 CC stores in FY24E, and 55 stores each in FY25E and FY26E, as the company is doubling down on expanding the number of KFC stores as the segment is severely underpenetrated; hence, there is a huge room for expansion, especially in the Tier II & III cities and towns.

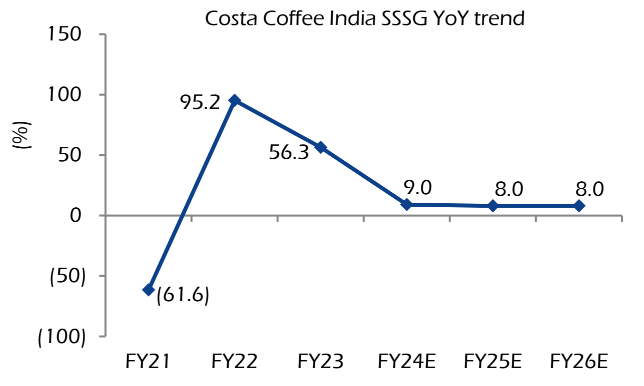
DEVYANI has been rapidly expanding CC stores; as on Q2FY24, the company has 146 CC stores. It aims to open 15 CC stores pa by focusing on metro and Tier I cities (earlier stores were concentrated in North India) in airports, highways and premium offices, due to the thriving coffee culture. We believe CC SSSG will grow at a superior pace than other core brands, although its impact on consolidated revenue will be lower, due to less revenue contribution at 5% as on H1FY24.

Exhibit 13: CC revenue CAGR of 41% over FY23-26E



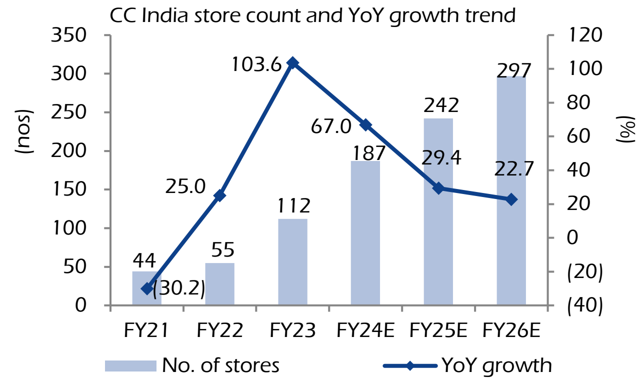
Source: Company, Elara Securities Estimate

Exhibit 14: CC SSSG to grow 9.0% in FY24E and 8.0% each in FY25E and FY26E



Source: Company, Elara Securities Estimate

Exhibit 15: CC stores CAGR of 37% during FY23-26E

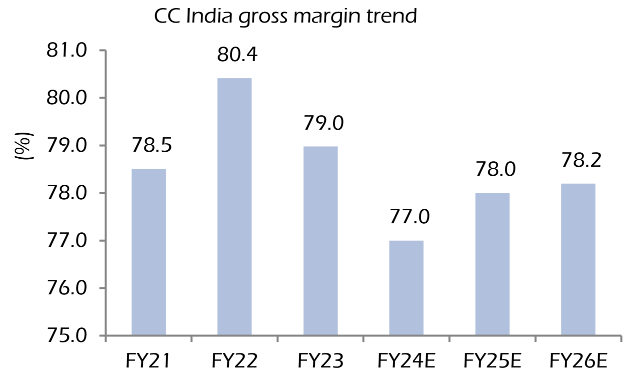


Source: Company, Elara Securities Estimate

Gross margin to reach 78.2% in FY26E

Gross margin of the CC segment of DEVYANI stood at 79.0% in FY23 and 76.7% in H1FY24. We expect gross margin to reach 77.0% in FY24E, 78.0% in FY25E and 78.2% in FY26E, due to a stable commodity inflation scenario, especially for chicken and flour.

Exhibit 16: CC gross margin to reach 78.2% in FY26E



Source: Company, Elara Securities Estimate

Brand contribution margin to reach 21.7% in FY26E

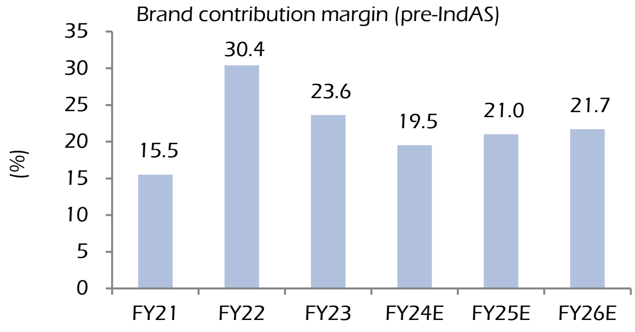
The brand contribution margin of CC segment stood at 23.6% in FY23 and 17.9% in H1FY24. We expect brand contribution margin to be 19.5% in FY24E, 21.0% in FY25E and 21.7% in FY26E.

EBITDA margin (pre-IndAS) to reach 17.8% in FY26E

EBITDA margin (pre-IndAS) stood at ~19.5% in FY23. We expect an EBITDA margin (pre-IndAS) to be 15.4% in FY24E, 17.0% in FY25E and 17.8% in FY26E.

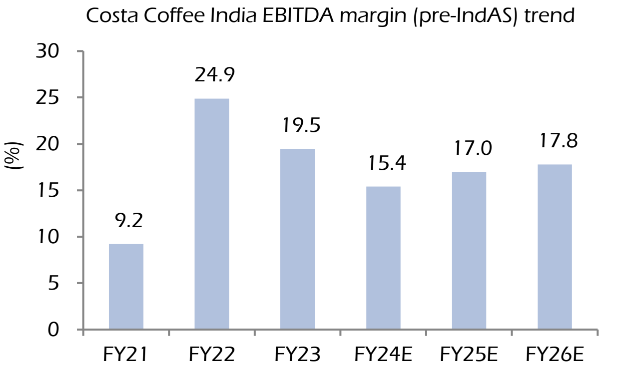
Consumer Discretionary

Exhibit 17: CC brand contribution margin to reach 21.7% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 18: Costa Coffee brand EBITDA margin (pre-IndAS) to reach 17.8% in FY26E



Source: Company, Elara Securities Estimate

Vaango

Revenue CAGR of 23% during FY23-26E

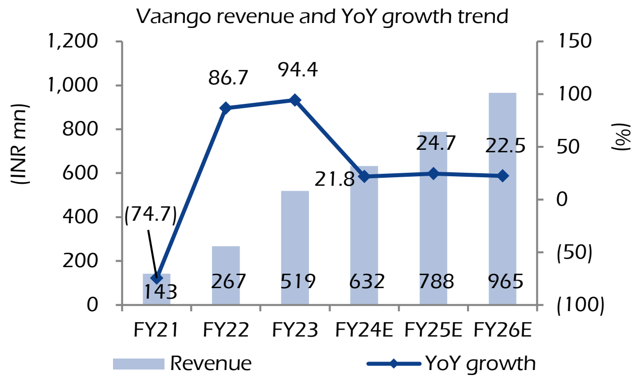
Vaango reported revenue growth of 94% in FY23 and 24% YoY in H1FY24. We expect a Vaango revenue CAGR of 23% during FY23-26E.

With SSSG of 69.0% YoY in FY23 and 13% YoY in H1FY24, we expect Vaango to post superior SSSG of 12.0% in FY24E, 10.0% in FY25E and 10.0% in FY26E, as the fried chicken category has been growing well with higher customer demand and less competition compared to the pizza category.

We expect DEVYANI to add six Vaango stores in FY24E and 10 stores each in FY25E and FY26E, as the company is doubling down on expanding the number of Vaango stores as the segment is severely underpenetrated; hence, there is a huge room for expansion, especially in the Tier II & III cities and towns.

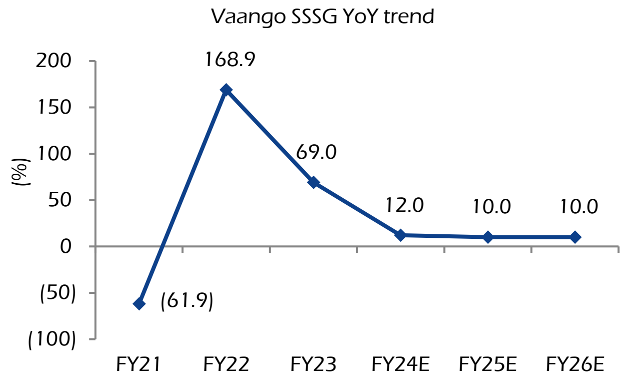
Vaango has demonstrated strong performance in locations with high footfalls, and the company has gained insight into what drives success for the brand. Leveraging on this knowledge, DEVYANI is strategically increasing the pace of opening new Vaango stores in territories where it has already proven to be successful. This focused expansion strategy would allow the company to capitalize on Vaango's strengths and drive accelerated growth in the segment.

Exhibit 19: Vaango revenue CAGR of 23% during FY23-26E



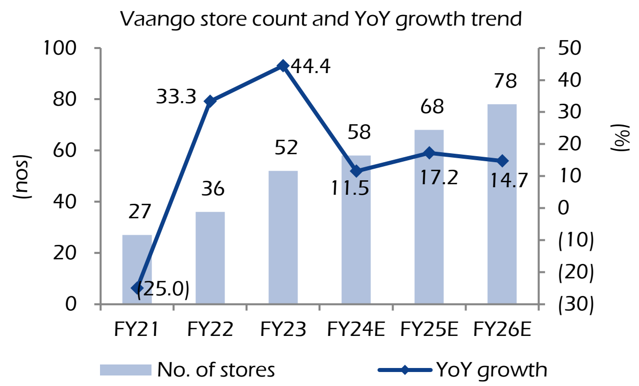
Source: Company, Elara Securities Estimate

Exhibit 20: Vaango SSSG at 12.0% in FY24E and 10.0% each in FY25E and FY26E



Source: Company, Elara Securities Estimate

Exhibit 21: Vaango stores CAGR of 14% over FY23-26E

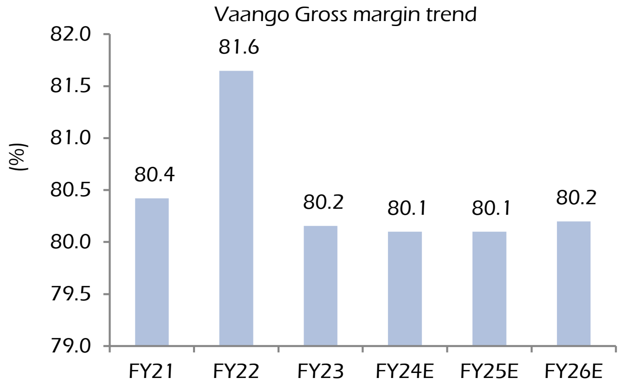


Source: Company, Elara Securities Estimate

Gross margin to reach 80.2% in FY26E

The gross margin of the Vaango segment of Devyani International stood at 80.2% in FY23 and 80.1% in H1FY24 whereas we expect to gross margin to reach 80.1%/80.1%/80.2% in FY24E/FY25E/FY26E respectively due to stable commodity inflation scenario and supply chain initiatives.

Exhibit 22: Vaango – Gross margin to reach 80.2% in FY26E



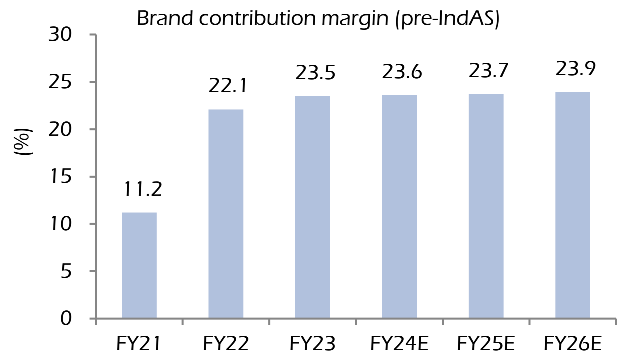
Source: Company, Elara Securities Estimate

Brand contribution margin and EBITDA margin (pre-IndAS) to reach 23.9% & 20.0% in FY26E respectively

The brand contribution margin of Vaango segment stood at 23.5% in FY23 whereas the EBITDA margin (pre-IndAS) stood at ~19.3% in FY23.

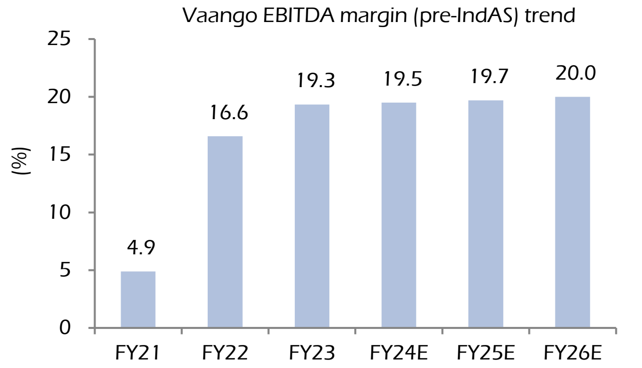
We expect the brand contribution margin to be 23.6%/23.7%/23.9% in FY24E/FY25E/FY26E respectively whereas the EBITDA margin (pre-IndAS) is expected to be 19.5%/19.7%/20.0% in FY24E/FY25E/FY26E.

Exhibit 23: Vaango brand contribution margin to reach 23.9% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 24: Vaango brand EBITDA margin (pre-IndAS) to reach 20.0% in FY26E



Source: Company, Elara Securities Estimate

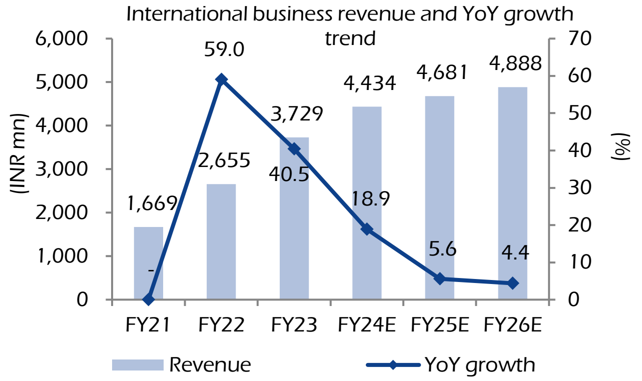
International business & Others

Revenue CAGR of 21% during FY23-26E

The international business & others segment posted revenue growth of 40% in FY23 and 22% YoY in H1FY24. <u>We expect an international business revenue CAGR of 21% during FY23-26E.</u>

DEVYANI operates KFC and Pizza Hut stores in Nepal and only KFC stores in Nigeria. These businesses have demonstrated strong profitability and cash generation, allowing the company to reinvest in store presence expansion in these respective markets.

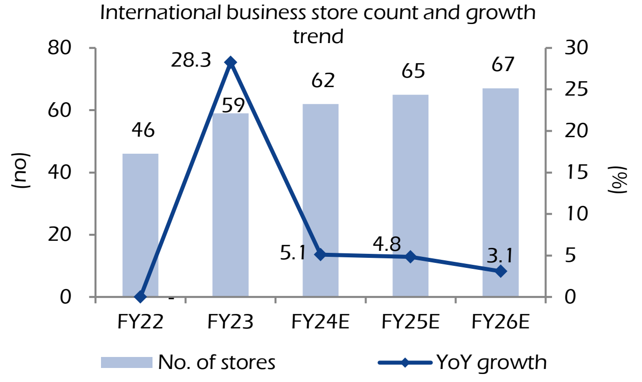
Exhibit 25: International business & others revenue CAGR of 21% during FY23-26E



Source: Company, Elara Securities Estimate

Consumer Discretionary

Exhibit 26: International business & others stores CAGR of 4% during FY23-26E

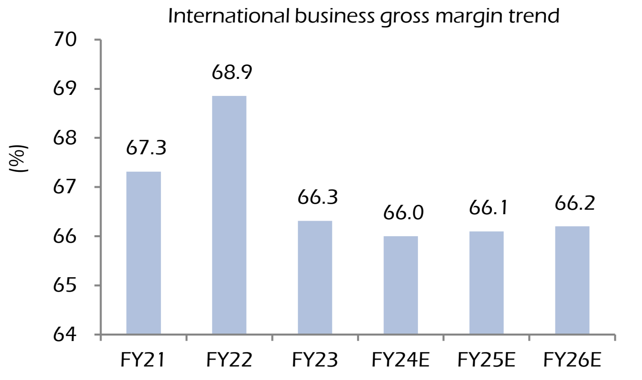


Source: Company, Elara Securities Estimate

Gross margin to reach 66.2% in FY26E

Gross margin of the international business & others segment of DEVYANI was at 66.3% in FY23. We expect gross margin to reach 66.0% in FY24E, 66.1% in FY25E and 66.2% in FY26E.

Exhibit 27: International business & others gross margin to reach 66.2% in FY26E



Source: Company, Elara Securities Estimate

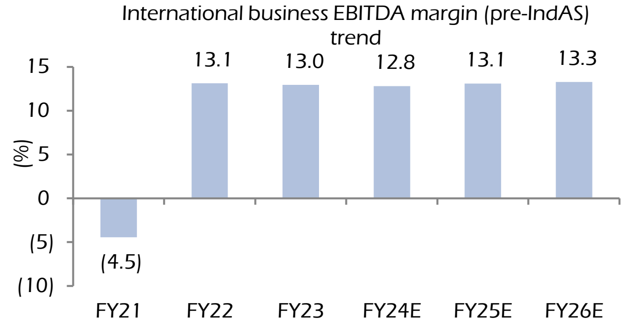
Brand contribution margin to reach 17.2% in FY26E

The brand contribution margin of the international business & others segment stood at 17.1% in FY23. We expect brand contribution margin to be 16.9% in FY24E, 17.1% in FY25E and 17.2% in FY26E.

EBITDA margin (pre-IndAS) to reach 13.3% in FY26E

EBITDA margin (pre-IndAS) stood at 13.0% in FY23. We expect EBITDA margin (pre-IndAS) to be 12.8% in FY24E, 13.1% in FY25E and 13.3% in FY26E.

Exhibit 28: International business & others brand EBITDA margin (pre-IndAS) to reach 13.3% in FY26E



Source: Company, Elara Securities Estimate

Initiate with Buy and a TP of INR 210

We initiate coverage of Devyani International (DEVYANI IN) with a **Buy** rating and a SOTP-based March 2025E TP of INR 210, implying 30% upside.

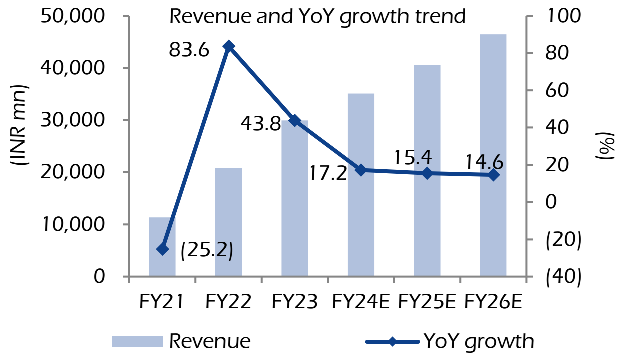
We assign an EV/EBITDA (pre-IndAS) of 39x for KFC at a 25% premium to JUBI, 27x for Pizza Hut at a 15% discount to JUBI, 18x to Costa Coffee at a 40% discount to WLDL, 12x to Vaango and 18x to the international & others business. We believe KFC's performance will be key for a higher rerating.

Overall revenue CAGR of 16% and EBITDA CAGR of 19%

We expect a consolidated revenue CAGR of 16% during FY23-26E. This growth trajectory would see the contribution of KFC to total revenue increase from 59% in FY23 to 61% in FY26E. This shift is attributed to likely higher growth rates of KFC as the fried chicken category to poised to grow at a faster rate than in the pizza category coupled with higher demand, lower penetration of stores and less competition.

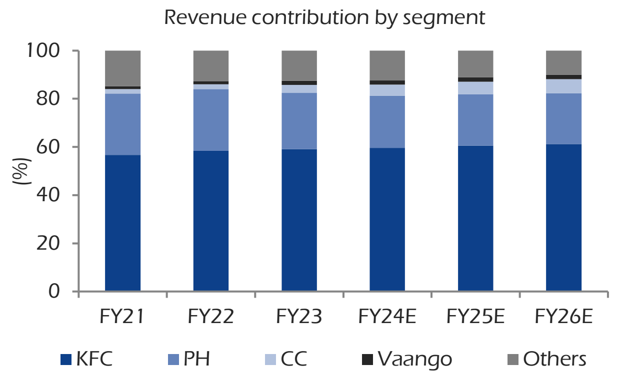
DEVYANI is expanding its reach beyond metro and tier-I cities, aiming to establish a strong presence in high potential markets across India. With a focus on safety and hygiene, the company is strategically expanding its store network of core brands to tap into growing demand for organized firms in the food services industry, which would lead to higher revenue growth of the consolidated entity.

Exhibit 29: Overall revenue CAGR of 16% in FY23-26E



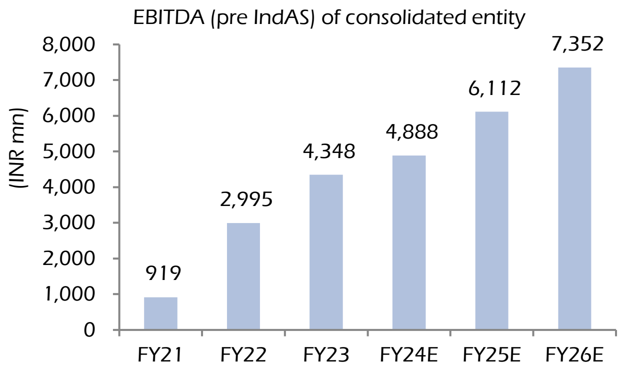
Source: Company, Elara Securities Estimate

Exhibit 30: Contribution of KFC to consolidated revenue may rise to 61% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 31: Consolidated EBITDA (pre-IndAS) CAGR of 19% during FY23-26E



Source: Company, Elara Securities Estimate

Consolidated gross margin of 71.0% in FY26E

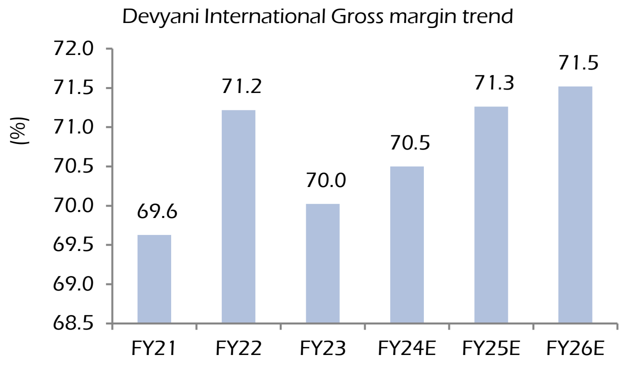
Gross margin of the consolidated entity stood at 70.0% in FY23 and 70.8% in H1FY24. We expect gross margin to reach 70.5% in FY24E, 71.3% in FY25E and 71.0% in FY26E.

Consolidated EBITDA margin of 15.8% in FY26E

EBITDA margin (pre-IndAS) stood at 14.5% in FY23 and 13.5% in H1FY24. We expect EBITDA margin (pre-IndAS) to reach 13.9% in FY24E, 15.0% in FY25E and 15.8% in FY26E.

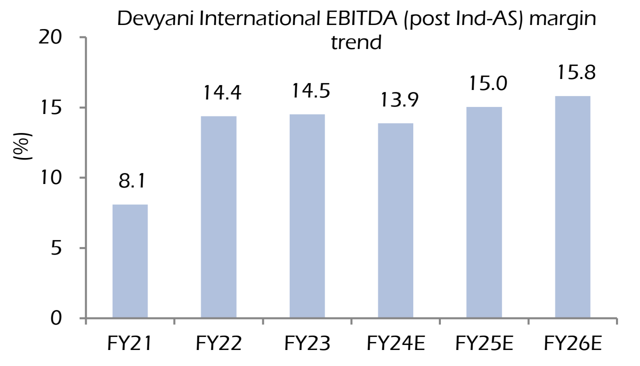
DEVYANI has been enhancing customer experience and improving business efficiency through strategic store expansion, efficient management of unit-level economics, and cost optimization. By increasing the number of outlets, the company is spreading fixed overhead expenditure to improve profitability and margin.

Exhibit 32: Consolidated entity gross margin to reach 71.5% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 33: Consolidated EBITDA margin (pre-IndAS) to reach 15.8% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 34: DEVYANI SOTP valuation

(INR mn)	March 2026E
KFC India	
One-year forward EBITDA (pre-IndAS)	5,086
Multiple (x)	39
EV	200,832
Pizza Hut India	
One-year forward EBITDA (pre-IndAS)	914
Multiple (x)	27
EV	25,126
Costa Coffee	
One-year forward EBITDA (pre-IndAS)	509
Multiple (x)	18
EV	9,413
Vaango	
One-year forward EBITDA (pre-IndAS)	193
Multiple (x)	12
EV	2,411
International & others	
One-year forward EBITDA (pre-IndAS)	650
Multiple (x)	18
EV	12,020
Total EV	249,804
Cash	6,813
Debt	1,774
Equity value	254,843
Shares (mn)	1205.9
TP (March 2025E, INR)	210

Source: Elara Securities Estimate

Key risks

Slowdown in the demand environment

There has been a slowdown in the demand environment of QSR with below par growth during the festival season. We believe this is a temporary phenomenon, and we expect a demand boost in the medium term to drive sales. However, a prolonged lower demand scenario may hamper revenue growth.

Increased competition in the pizza category

Pizza Hut already faces a disadvantage due to higher delivery time than Domino's. Coupled with it, higher competition due to presence of regional and local firms may impact SSSG.

High commodity inflation scenario

Higher commodity inflation, especially for cheese and wheat, may increase input cost and significantly impact operating performance and restaurant margin.

Company Description

Established in 1991, Devyani International (DEVYANI IN) is one of India's largest operators of chain quick service restaurants (QSR). The company has a diverse portfolio of global and successful in-house brands, with an extensive network of 1,300 restaurants as on 30 September 2023 across India, Nepal and Nigeria. It is part of RJ Corp, a conglomerate that has thriving businesses in beverages, fast food restaurants, retail, ice cream, dairy products, healthcare, and education.

DEVYANI is the largest franchisee for Yum Brands (KFC & Pizza Hut) in India and is the sole franchisee for *Costa Coffee* brand and cafes in India. Its homegrown brands include *Vaango*, a popular destination for South Indian vegetarian food, and *The Food Street*, a food court that serves multiple brands under one roof. It has a strong presence across airports in India where it serves a variety of F&B offerings.

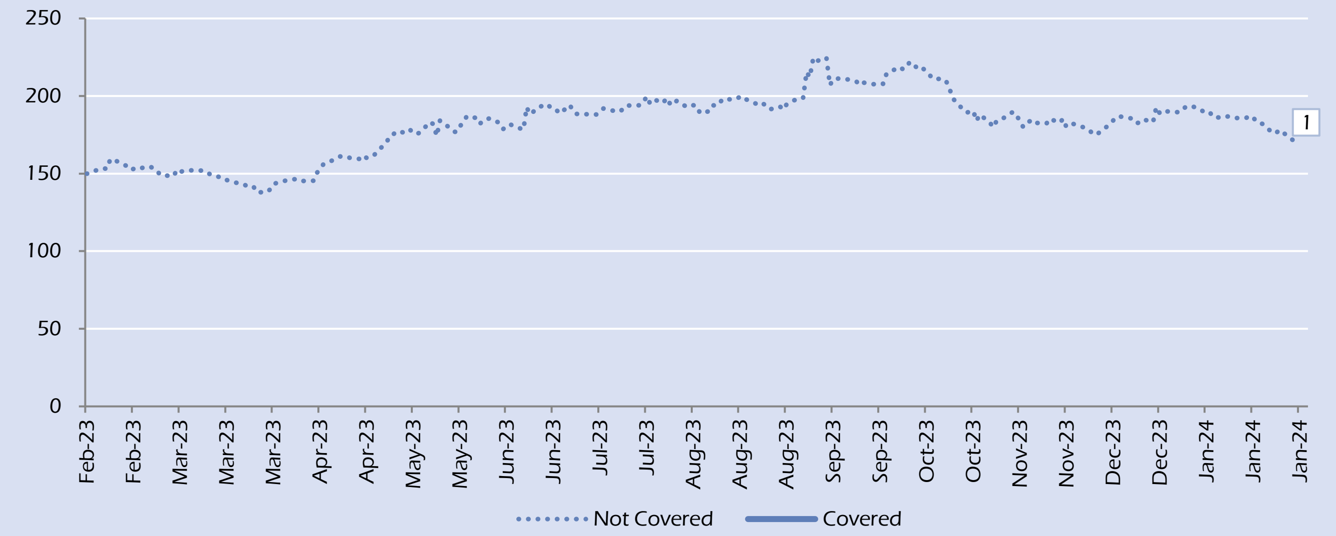
Board of Directors & Management

Name	Designation	About
Ravi Jaipuria	Promoter & Non-Executive Chairman	Four decades of experience in conceptualizing, executing, developing and expanding food, beverages and dairy business in South Asia and Africa. Higher secondary education from Delhi Public School, Mathura Road, New Delhi. Reputed entrepreneur and business leader. Only Indian company promoter to receive PepsiCo's award for International Bottler of the Year in 1997
Varun Jaipuria	Promoter & Non-Executive Director	Attended Millfield School, Somerset, England and degree course in International Business from the Regent's University, London. Harvard Alumni and had attended Program for Leadership Development (PLD), 2018-2019 batch from Harvard Business School, Boston. He has 14 years of experience in the soft drinks industry
Raj Gandhi	Non-Executive Director	Qualified Chartered Accountant of 1980 batch. Management program with Harvard Business School. Out of 42 years of experience, 30 years with the RJ Corp Group. Instrumental in formulating company's strategy toward diversification, expansion, mergers and acquisitions, capex planning including capital and fund-raising. Extensive relationship with institutional investors and lenders
Virag Joshi	Whole-time Director (President & CEO)	Key strategist in expansion of Yum Brands in India for two decades at DEVYANI. Under his able leadership, brands have grown multi-fold to become household names in India. Proven credentials of building motivated teams, driving processes & leading customer-focused organizations. He brings with him unparalleled experience of three decades in the hospitality industry. Instrumental in spearheading hospitality brands and creating new benchmarks in the QSR industry
Manish Dawar	Whole-time Director & CFO	Bachelor's degree in Commerce with Honors from Punjab University, Chandigarh. Member of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India. Wide experience in industry domains and across geographies in the world. Worked at Hindustan Unilever, Reebok India, Reckitt Benckiser, Vedanta, DEN and Vodafone India
Rahul Shinde	Whole-time Director	Master's and post-doctoral degrees in Industrial Engineering from the University of Wisconsin Madison. He has 21 years of global experience. In his most recent assignment, he was responsible for stewarding the KFC brand in some of Asia's largest markets. In his previous assignments, he was instrumental in building long-term strategy and driving change at corporates Taco Bell and JCP. Associated with McKinsey for five years
Dr. Ravi Gupta	Independent Director	Bachelor's degree and Master's degree in Commerce from the University of Delhi as well as Bachelor's degree in Law from the University of Delhi, a diploma in Labor Law from the Indian Law Institute, a Master's degree in Business Administration from the Faculty of Management Studies, University of Delhi, and a doctorate in Philosophy for his thesis on 'Country Risk Analysis in Investment Financing Decision Making' from the University of Delhi. Associate Professor in the Commerce department of Shri Ram College of Commerce, University of Delhi. Appointed by the Government of India as a Member of the Committee constituted for simplification of Income Tax Act
Rashmi Dhariwal	Independent Director	Bachelor's degree in Arts from the University of Delhi. Advocate with the Calcutta High Court since 1978. Trustee of a non-profit organization called Prayatn, which provides education to underprivileged children. Worked in leading firms in India, including Khaitan & Co, Calcutta and Delhi, Mulla & Mulla, Mumbai and also in the Philippines

Name	Designation	About
Pradeep Sardana	Independent Director	Bachelor's degree in Mechanical Engineering from the Indian Institute of Technology, Delhi. He has 52 years of experience (41 years in service and 11 years in consultancy). CEO of PM Consulting, a consultancy firm in the field of food, beverages, FMCG and other industries. Previously worked at senior management level with renowned companies, including Polyplex Hydro Group, PepsiCo, Hindustan Lever and Union Carbide
Naresh Trehan	Independent Director	Bachelor's degree in Medicine and Surgery from the University of Lucknow and has been certified as a renowned Cardiothoracic Surgeon by the American Board of Thoracic Surgery. Trained and practiced at New York University Medical Center at Manhattan USA from July 1, 1971 to June 30, 1975. Honorary fellow at the Royal Australasian College of Surgeons. He has received prestigious awards, including the Padma Bhushan Award by the Government of India
Girish Kumar Ahuja	Independent Director	Doctorate from the University of Delhi for his thesis on Financial Sector Reforms: Capital Market Efficiency and Portfolio Investment completed in CY06. Qualified and practicing Chartered Accountant for the past 51 years and a Member of the Institute of Chartered Accountants of India. Professor at the Shri Ram College of Commerce, University of Delhi. Member of the task force constituted by the Government of India for redrafting the Income Tax Act
Prashant Purker	Independent Director	Graduate of IIT Kanpur and a rank holder from IIM Ahmedabad. Former MD & CEO of ICICI Venture with 31 years of varied experience in Private Equity, Capital Markets, Technology and Banking. Director of more than 25 domestic and overseas companies as listed public firms as well as private and not listed

Source: Company, Elara Securities Research

Coverage History



	Date	Rating	Target Price	Closing Price
1	5-Feb-2024	Buy	INR 210	INR 162

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

Notes

Elara Capital

Global Markets Research

Sapphire Foods

Omni drive

Profit in numbers: rapid KFC store expansion to bolster penetration

Sapphire Foods (SAPPHIRE IN) operates the franchisees of KFC & Pizza Hut in India and has a presence in Sri Lanka. The company intends to drive higher revenue and SSSG of KFC through 1) focus on innovation (introduction of *Double Down Burger*, 2) value snackers at INR 99, 3) providing frictionless customer experience (via digital kiosks, KFC app and partnership with aggregators), 4) operational excellence (7 minutes express pickup), and 5) store expansion (double KFC stores in 3-4 years). SAPPHIRE aims to add 80 stores pa and the compact store size of ~1,600 sqft will accelerate pace, as it is key to offset the disadvantage of territorial rights. <u>We expect KFC stores CAGR of 20%, Pizza Hut (PH) stores CAGR of 14%, and Sri Lanka stores CAGR of 11% over FY23-26E.</u>

Seamless shopping: omnichannel key for sustained PH growth

Pizza Hut has been a laggard for SAPPHIRE with Domino's taking away bulk of market share with lower SSSG than Pizza Hut of Devyani International. The company wants to expand SSSG and profitability through 1) product innovation & value offerings, 2) enhancing marketing spend, 3) growing dine-in sales via tech and analytics, 4) higher delivery revenue contribution of Pizza Hut of SAPPHIRE was at 49% vs 60% of Domino's in Q2), and 5) expansion of new stores with a format of ~1,200 sqft, leading to lower capex. <u>We expect an overall revenue and EBITDA (pre-IndAS) CAGR of 17% each during FY23-26E.</u>

Improving operations may lead to margin expansion

SAPPHIRE has built organizational capabilities in minimizing wastage and enhancing efficiency through ERP systems, processes, and people. Restaurant-level cost benchmarking programs helped improve restaurant operating margin. We believe overall profitability will improve on the back of 1) its omnichannel strategy, which may lead to higher delivery revenue contribution, and 2) new restaurant expansion model focusing on small-sized restaurants. <u>We expect an EBITDA margin (pre-IndAS) of 11.6% in FY26E.</u>

Rating: Buy

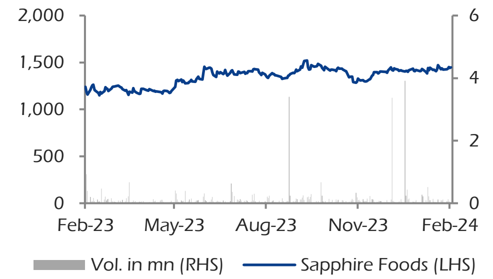
Target Price: INR 1,740
Upside: 24%
CMP: INR 1,401 (as on 5 February 2024)

Key data

Bloomberg /Reuters Code	SAPPHIRE IN/SAPI.BO
Current /Dil Shares O/S (mn)	64/64
Mkt Cap (INR bn/USD mn)	89/1,075
Daily Volume (3M NSE Avg)	98,429
Face Value (INR)	10
1 USD= INR 83.1	

Note: *as on 5 February 2024; Source: Bloomberg

Price & Volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	44.9	44.9	41.7	31.3
Institutional Investor	42.9	48.3	51.7	61.7
Other Investor	7.6	2.7	2.6	2.7
General Public	4.6	4.2	4.0	4.4

Source: BSE

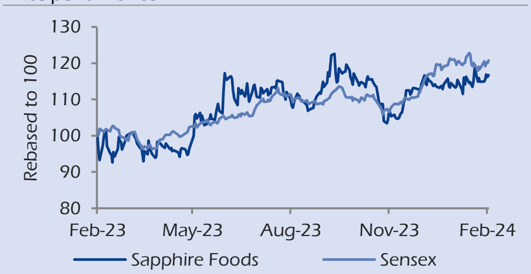
Price performance (%)	3M	6M	12M
Nifty	13.2	11.6	21.9
Sapphire Foods	7.2	3.1	21.0
Restaurant Brands Asia	0.2	(4.3)	6.4
Devyani International	(12.6)	(14.1)	7.0

Source: Bloomberg

Valuation

We initiate coverage of Sapphire Foods (SAPPHIRE IN) with a **Buy** rating and a TP of INR 1,740, implying 24% upside. We assign a one-year forward EV/EBITDA (pre-IndAS) of 29x for the KFC business, 22x for the Pizza Hut business and 2x for the Sri Lanka business. We expect KFC business revenue CAGR of 19%, Pizza Hut business revenue CAGR of 12% and Sri Lanka business revenue CAGR of 13% during FY23-26E with an EBITDA margin (pre-IndAS) of 14.3%, 4.0% and 9.1% in FY26E, respectively. Lower demand environment, high commodity inflation and poor execution are key risks to our investment rationale.

Price performance



Source: Bloomberg

Key financials

YE March	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY23	22,656	31.6	4,284	16.4	2,332	407.1	36.6	20.6	8.7	38.3	20.3
FY24E	26,034	14.9	4,771	15.1	696	(70.2)	10.9	5.4	8.3	128.3	18.6
FY25E	30,526	17.3	5,739	16.1	1,102	58.4	17.3	8.0	10.1	81.0	15.4
FY26E	35,491	16.3	6,775	16.8	1,578	43.3	24.8	10.4	12.0	56.5	12.8

Note: pricing as on 5 February 2024; Source: Company, Elara Securities Estimate

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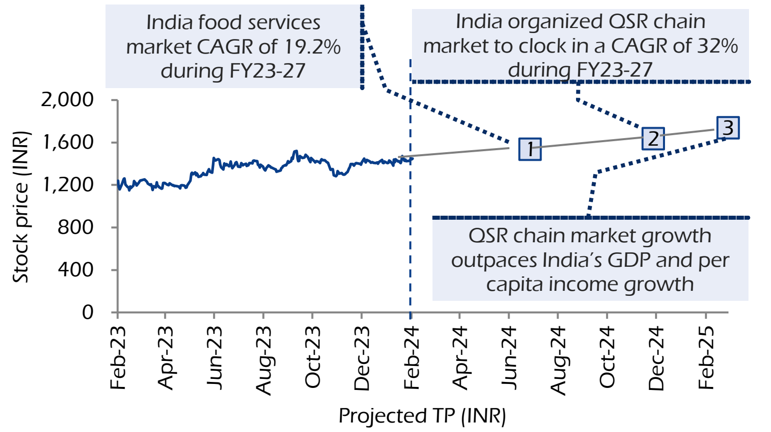
Elara Securities (India) Private Limited

Valuation trigger



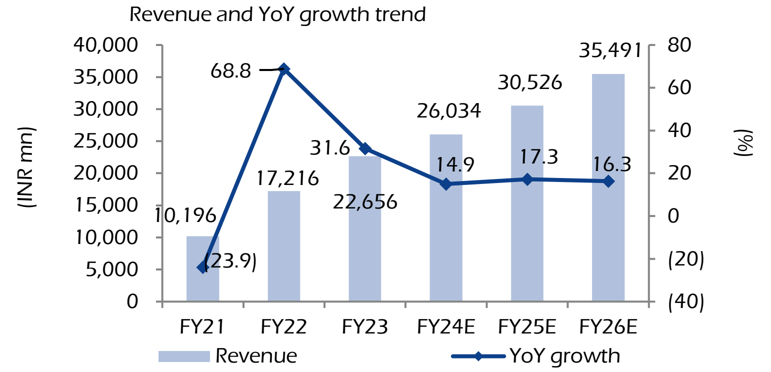
Source: Bloomberg, Elara Securities Estimate

Valuation overview - SAPPHIRE SOTP valuation

(INR mn)	March 2026E
KFC India	
One-year forward EBITDA (pre-IndAS)	3,461
Multiple (x)	29
EV	100,374
Pizza Hut India	
One-year forward EBITDA (pre-IndAS)	412
Multiple (x)	22
EV	9,057
Sri Lanka Business	
One-year forward EBITDA (pre-IndAS)	358
Multiple (x)	2
EV	716
Total EV	**110,147**
Cash	4,396
Debt	1,943
Equity value	**112,600**
Shares (mn)	63.7
TP (March 2025E, INR)	**1,740**

Source: Elara Securities Estimate

Valuation driver: Consolidated revenue CAGR of 16% during FY23-26E



Source: Company, Elara Securities Estimate

Investment summary

- Rapid expansion in KFC stores to bolster penetration, with a KFC stores CAGR of 20% over FY23-26E
- Compact store KFC size of ~1,600sqft to accelerate pace of store expansion, which is key to offset the disadvantage of territorial rights
- Omnichannel expansion key for sustainable growth in Pizza Hut
- Margin expansion of 700bp by FY26E via better organizational capabilities

Valuation trigger

- India food services market CAGR of 19.2% during FY23-27
- India organized QSR chain market to clock in a CAGR of 32% during FY23-27
- QSR chain market growth outpaces India's GDP and per capita income growth

Key risks

- Slowdown in the demand environment of QSR with below par growth during the festival season
- Increased competition in the pizza category
- Slower expansion of new restaurants may hamper revenue growth of key brands
- Higher commodity inflation, especially of cheese and wheat, may increase input cost

Our assumptions

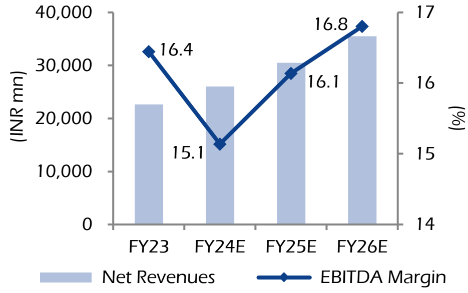
- KFC revenue CAGR of 19% during FY23-26E.
- Pizza Hut delivery revenue CAGR of 12% during FY23-26E.
- KFC EBITDA margin (pre-IndAS) of 14.3%, Pizza Hut EBITDA margin of 4.0% and Sri Lanka EBITDA margin of 9.1% in FY26E

Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Net Revenues	22,656	26,034	30,526	35,491
EBITDA	**4,284**	**4,771**	**5,739**	**6,775**
Add:- Non operating Income	311	229	318	409
OPBIDTA	4,595	5,000	6,056	7,184
Less :- Depreciation & Amortization	2,642	3,014	3,458	3,859
EBIT	**1,953**	**1,987**	**2,599**	**3,326**
Less:- Interest Expenses	869	1,059	1,130	1,221
PBT	**1,084**	**927**	**1,469**	**2,105**
Less :- Taxes	(1,248)	232	367	526
Adjusted PAT	**2,332**	**696**	**1,102**	**1,578**
Reported PAT	**2,332**	**696**	**1,102**	**1,578**
Balance Sheet (INR mn)	**FY23**	**FY24E**	**FY25E**	**FY26E**
Share Capital	635	635	635	635
Reserves	11,904	12,599	13,701	15,279
Total borrowings	443	1,943	1,943	1,943
Trade Payables	2,170	2,691	3,139	3,631
Other liabilities	10,789	9,935	10,761	11,541
Total Equity & Liabilities	**25,941**	**27,803**	**30,180**	**33,030**
Fixed Assets	8,353	9,839	10,881	11,223
Investments	659	659	659	659
Inventories	993	1,141	1,338	1,556
Trade Recievables	179	206	242	281
Cash & other bank balances	2,204	1,989	2,264	3,736
Other assets	13,552	13,968	14,795	15,574
Total Assets	**25,941**	**27,803**	**30,180**	**33,030**
Cash Flow Statement (INR mn)	**FY23**	**FY24E**	**FY25E**	**FY26E**
Operating Cash Flow	3,818	3,615	5,587	6,484
Less:- Capex	(3,842)	(4,500)	(4,500)	(4,200)
Free Cash Flow	(23)	(885)	1,087	2,284
Investing Cash Flow	(2,036)	(4,271)	(4,182)	(3,791)
Financing Cash Flow	(1,921)	441	(1,130)	(1,221)
Net change in Cash	(138)	(215)	275	1,472
Opening Cash	583	444	229	504
Closing Cash	444	229	504	1,976
Ratio Analysis	**FY23**	**FY24E**	**FY25E**	**FY26E**
Income Statement Ratios (%)				
Revenue Growth	31.6	14.9	17.3	16.3
EBITDA Growth	40.4	11.4	20.3	18.1
PAT Growth	407.1	(70.2)	58.4	43.3
EBITDA Margin	16.4	15.1	16.1	16.8
PAT Margin	10.3	2.7	3.6	4.4
Return & Liquidity Ratios				
Net Debt/Equity (x)	(0.1)	(0.0)	(0.0)	(0.1)
ROE (%)	20.6	5.4	8.0	10.4
ROCE (%)	8.7	8.3	10.1	12.0
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	36.6	10.9	17.3	24.8
EPS Growth (%)	407.1	(70.2)	58.4	43.3
P/E Ratio (x)	38.3	128.3	81.0	56.5
EV/EBITDA (x)	20.3	18.6	15.4	12.8
EV/EBITDA (pre-IndAS, x)	32.8	31.4	25.6	21.1
EV/Sales (x)	3.8	3.4	2.9	2.4
BVPS (INR)	196.9	207.8	225.1	249.9
Price/Book (x)	7.1	6.7	6.2	5.6
Dividend Yield (%)	0.0	0.0	0.0	0.0

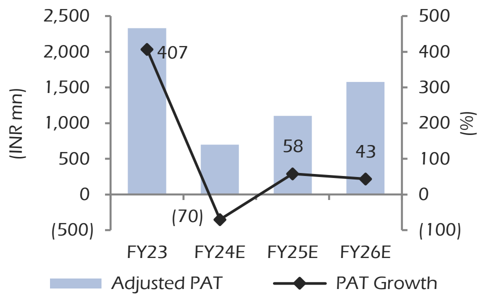
Note: pricing as on 5 February 2024; Source: Company, Elara Securities Estimate

Revenue & EBITDA margin trend



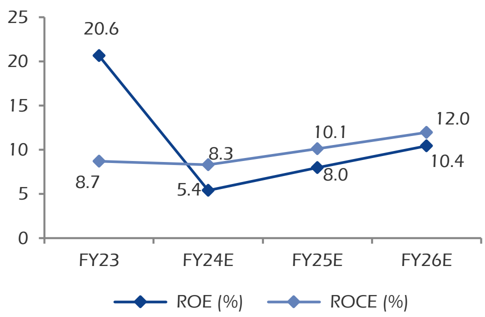
Source: Company, Elara Securities Estimate

Adjusted profit growth trend



Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Store expansion to drive growth

- **KFC revenue CAGR of 19% during FY23-26E**
- **Pizza Hut revenue CAGR of 12% during FY23-26E**
- **Initiate with a Buy and a SOTP-based TP of INR 1,740, implying 24% upside**

KFC business

Revenue CAGR of 19% during FY23-26E

KFC reported revenue growth of 40% YoY in FY23 and 20% YoY in H1FY24. We expect KFC revenue CAGR of 19% during FY23-26E.

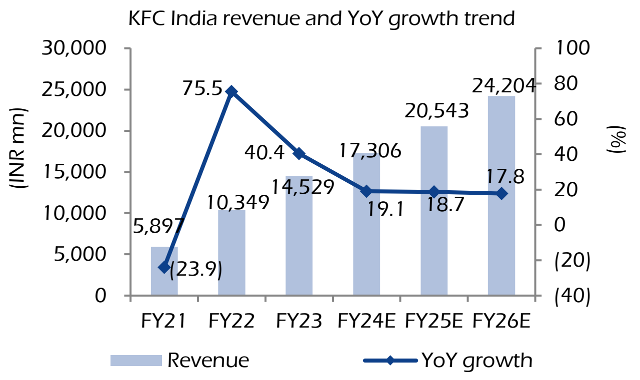
KFC SSSG stood at 15.0% YoY in FY23 and flat in H1FY24. We expect KFC same store sales (SSS) to contract 2.0% in FY24E, expand 2.0% in FY25E and 4.0% in FY26E, as the fried chicken category has been growing well with higher demand and less competition compared to the pizza category.

We expect SAPPHIRE to add 90 KFC stores each in FY24E, FY25E and FY26E, as the company is doubling down on expanding the number of KFC stores as the segment is severely underpenetrated; hence, there is a huge room for expansion, especially in the tier II & III cities and towns.

The company intends to drive higher sales and SSSG of KFC through 1) focus on innovation (introduction of *Double Down Burger*, 2) value snackers at INR 99, 3) providing frictionless customer experience (via digital kiosks, KFC app and partnership with aggregators), 4) operational excellence (7 minutes express pickup), and 5) higher store expansion (aims to double KFC stores in the next 3-4 years).

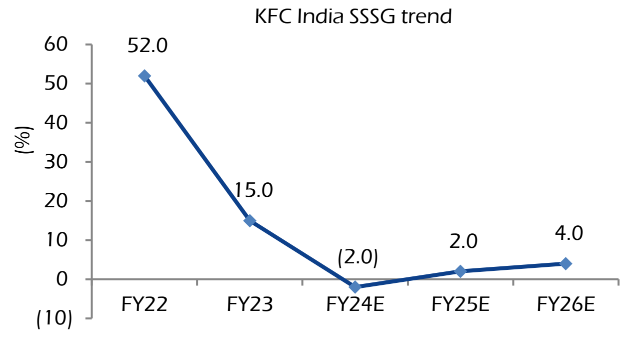
As on Q2FY24, SAPPHIRE has 381 KFC stores across 10 States in India and aims to add at least 80 stores every year. We believe compact store size of ~1,600 sqft will help accelerate the pace of store expansion as it is key to tackle the disadvantage of territorial rights.

Exhibit 1: KFC revenue CAGR of 19% during FY23-26E



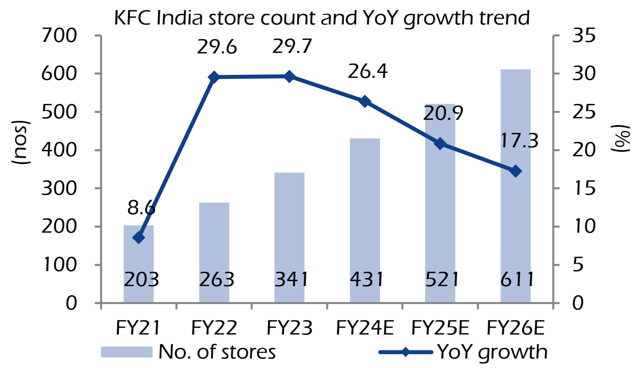
Source: Company, Elara Securities Estimate

Exhibit 2: KFC same store sales to contract 2.0% in FY24E, expand 2.0% in FY25E and 4.0% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 3: KFC stores CAGR of 21% during FY23-26E

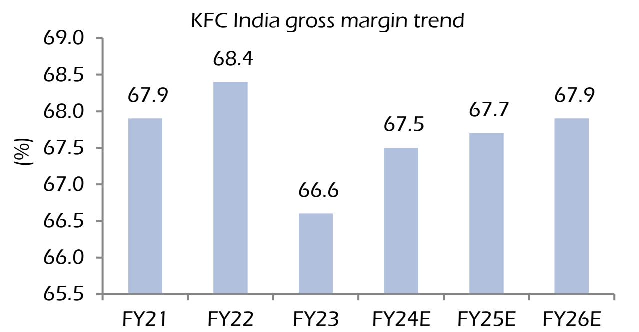


Source: Company, Elara Securities Estimate

Gross margin to reach 67.9% in FY26E

The gross margin of the KFC segment of Sapphire Foods was at 66.6% in FY23 and 68.0% in H1FY24. We expect gross margin to reach 67.5% in FY24E, 67.7% in FY25E and 67.9% in FY26E, due to a stable commodity inflation scenario, especially for chicken & flour, and operational excellence.

Exhibit 4: KFC gross margin to reach 67.9% in FY26E



Source: Company, Elara Securities Estimate

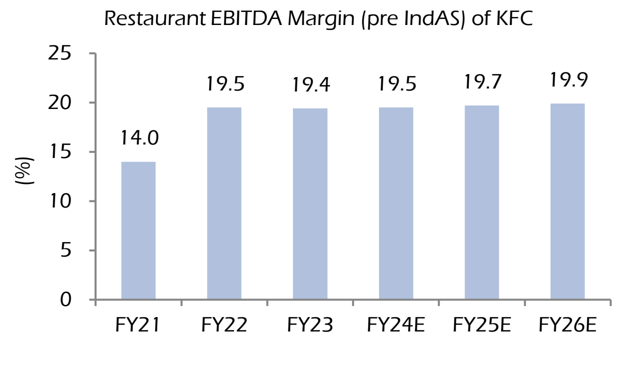
Brand contribution margin of 19.9% in FY26E

The brand contribution margin of the KFC segment stood at 19.4% in FY23 and 20.0% in H1FY24. We expect brand contribution margin to be 19.5% in FY24E, 19.7% for FY25E and 19.9% in FY26E.

EBITDA margin (pre-IndAS) of 14.3% in FY26E

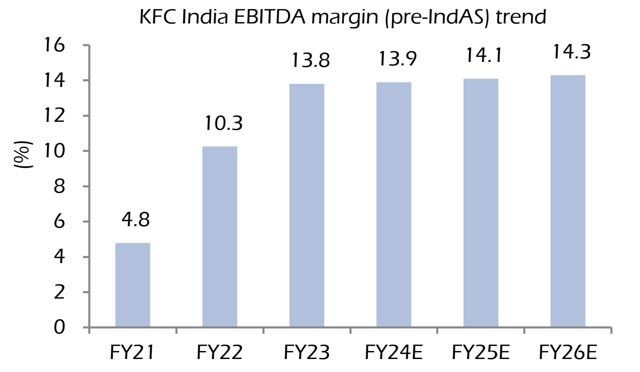
EBITDA margin (pre-IndAS) stood at 13.8% in FY23. We expect EBITDA margin (pre-IndAS) to be 13.9% in FY24E, 14.1% in FY25E and 14.3% in FY26E, led by higher delivery revenue contribution and better cost optimization.

Exhibit 5: KFC brand contribution margin to reach 19.9% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 6: KFC brand EBITDA margin (pre-IndAS) to reach 14.3% in FY26E



Source: Company, Elara Securities Estimate

Pizza Hut business

Revenue CAGR of 12% during FY23-26E

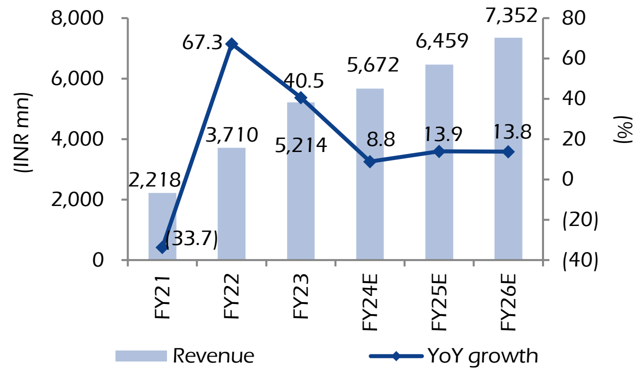
Pizza Hut (PH) reported revenue growth of 41% in FY23 and 2% YoY in H1FY24. We expect Pizza Hut revenue CAGR of 12% during FY23-26E.

We expect Pizza Hut same store sales to contract by 8.0% in FY24E, remain flat in FY25E and expand 2.0% in FY26E as increased competition, lower demand and presence of Domino's may drag revenue and SSSG growth.

We also expect SAPPHIRE to add 60 Pizza Hut stores each in FY24E, FY25E and FY26E, as the company is doubling down on expanding the number of stores in smaller format leading to lower capex.

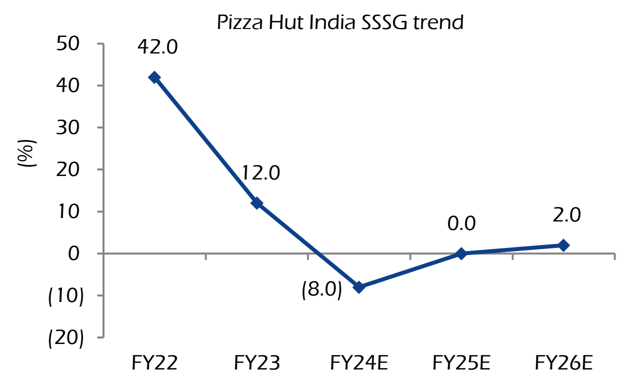
Pizza Hut has been a laggard for SAPPHIRE with Domino's taking away the larger chunk of market share with lower SSSG than the Pizza Hut business of DEVYANI. The company wants to improve SSSG and profitability through 1) product innovation and value offerings, 2) enhancing marketing spend, 3) growing dine-in sales through tech and analytics, 4) higher delivery contribution (delivery revenue contribution of Pizza Hut of SAPPHIRE stood at 49% vs 60% of Domino's in Q2FY24), and 5) expansion of new stores with a tighter format of ~1,200 sqft, leading to lower capex. SAPPHIRE has 311 Pizza Hut stores as on Q2FY24 and intends to add ~40-50 stores every year.

Exhibit 7: Pizza Hut revenue CAGR of 12% during FY23-26E



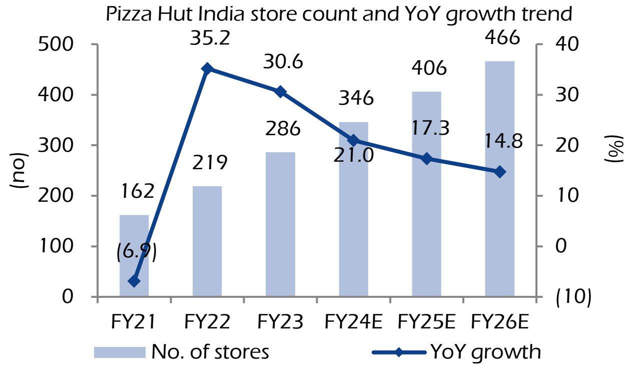
Source: Company, Elara Securities Estimate

Exhibit 8: PH SSS to contract 8.0% in FY24E, remain flat in FY25E and expand 2.0% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 9: Pizza Hut stores CAGR of 14% over FY23-26E

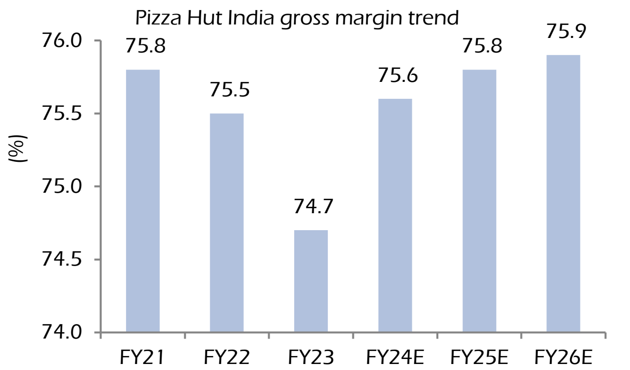


Source: Company, Elara Securities Estimate

Gross margin to reach 75.9% in FY26E

Gross margin of the Pizza Hut segment of Sapphire Foods stood at 74.7% in FY23 and 75.6% in H1FY24 whereas we expect gross margin to reach 75.6% in FY24E, 75.8% in FY25E and 75.9% in FY26E, due to lower cheese prices & stable inflation scenario and third-party cost optimization.

Exhibit 10: Pizza Hut gross margin to reach 75.9% in FY26E



Source: Company, Elara Securities Estimate

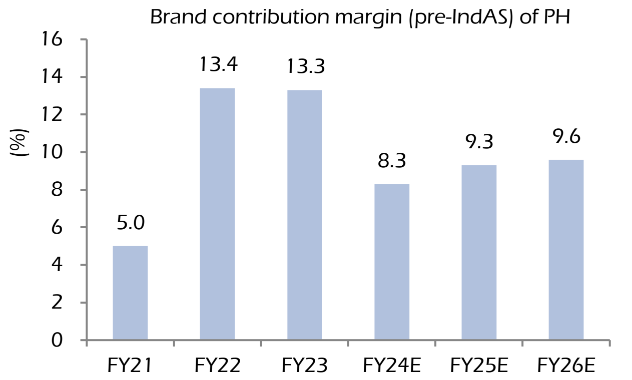
Brand contribution margin of 9.6% in FY26E

The brand contribution margin of the Pizza Hut segment stood at 13.3% in FY23 and 8.3% in H1FY24. We expect the brand contribution margin to be 8.3% in FY24E, 9.3% in FY25E and 9.6% in FY26E.

EBITDA margin (pre-IndAS) of 4.0% in FY26E

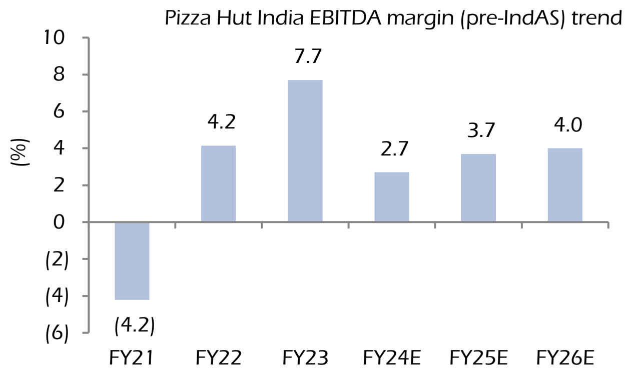
EBITDA margin (pre-IndAS) stood at 7.7% in FY23. We expect EBITDA margin (pre-IndAS) to be 2.7% in FY24E, 3.7% in FY25E and 4.0% in FY26E, due to higher delivery revenue contribution and better cost optimization.

Exhibit 11: Pizza Hut brand contribution margin to reach 9.6% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 12: Pizza Hut brand EBITDA margin (pre-IndAS) to reach 4.0% in FY26E



Source: Company, Elara Securities Estimate

Sri Lanka business

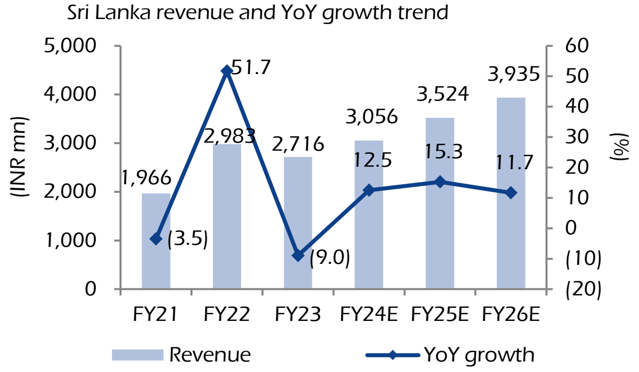
Revenue CAGR of 13% during FY23-26E

The Sri Lanka business reported a revenue decline of 9% in FY23 and but grew 28% YoY in H1FY24. We expect a Sri Lanka revenue CAGR of 13% during FY23-26E.

We expect Sri Lanka business SSSG of 2.0% in FY24E, 6.0% in FY25E and 5.0% in FY26E, with SSSG of 22.0% YoY in FY23 and 1% in H1FY24. We expect SAPPHIRE to add 15 stores in FY24E, and 12 stores each in FY25E and FY26E.

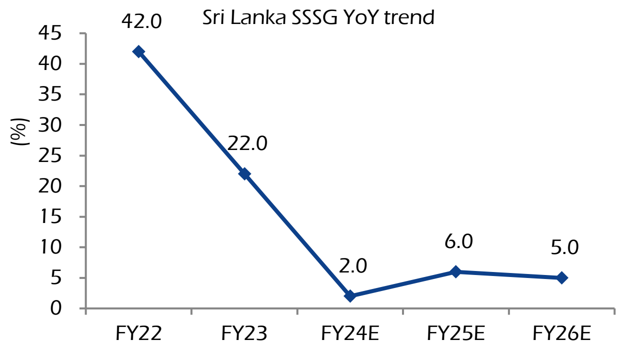
Sri Lanka faced adverse macro and political challenges that dragged operating performance in FY23. Despite this, SAPPHIRE is focused on supply chain and digital & delivery capabilities, which has delivered healthy SSSG and sustained its QSR leadership in the country. The macro situation has seen a turnaround, and we expect better revenue and SSSG growth in the upcoming years.

Exhibit 13: Sri Lanka revenue CAGR of 13% during FY23-26E



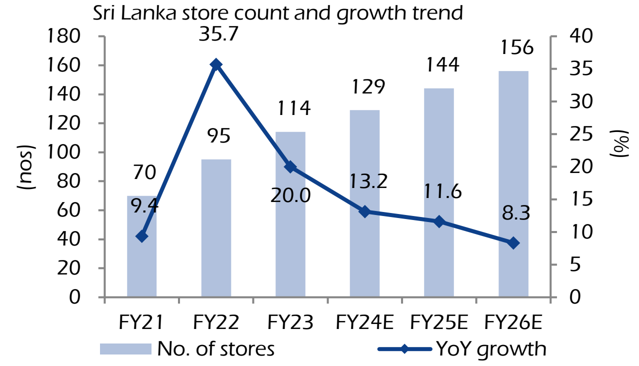
Source: Company, Elara Securities Estimate

Exhibit 14: Sri Lanka SSSG to grow 2.0% in FY24E, 6.0% in FY25E and 5.0% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 15: Sri Lanka stores CAGR of 11% during FY23-26E

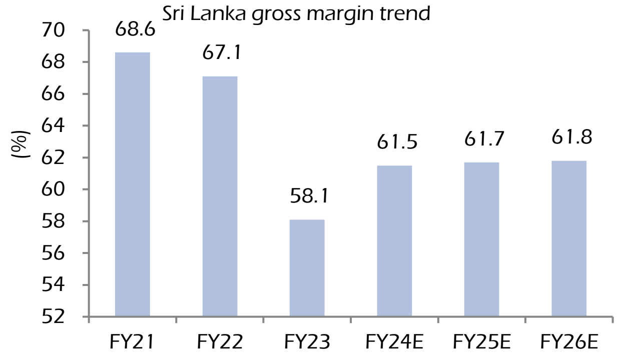


Source: Company, Elara Securities Estimate

Gross margin to reach 61.8% in FY26E

The shortage of raw materials, disruption in supply of utilities and depreciation of the local currency caused inflation to rise over the year. To offset the inflationary impact, the company increased prices; however, the increase was at a level below the inflation impact, which dragged gross margin adversely. Gross margin of the Sri Lanka business stood at 58.1% in FY23 and 61.4% in H1FY24 whereas we expect Sri Lankan gross margin to reach 61.5% in FY24E, 61.7% in FY25E and 61.8% in FY26E, due to turnaround in the economy of the country.

Exhibit 16: Sri Lanka gross margin to reach 61.8% in FY26E



Source: Company, Elara Securities Estimate

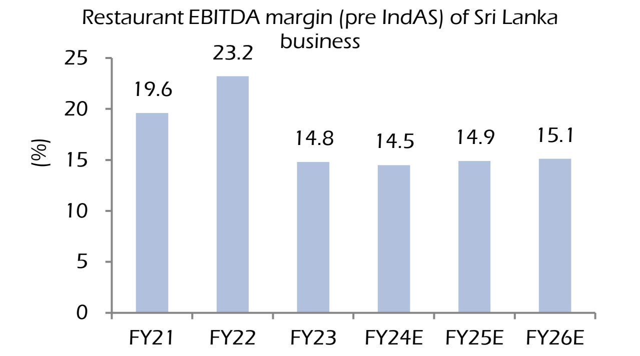
Brand contribution margin to reach 15.1% in FY26E

The brand contribution margin of Sri Lanka business segment stood at 14.8% in FY23 and 13.8% in H1FY24. We expect brand contribution margin to be 14.5% in FY24E, 14.9% in FY25E and 15.1% in FY26E.

EBITDA margin (pre-IndAS) to reach 9.1% in FY26E

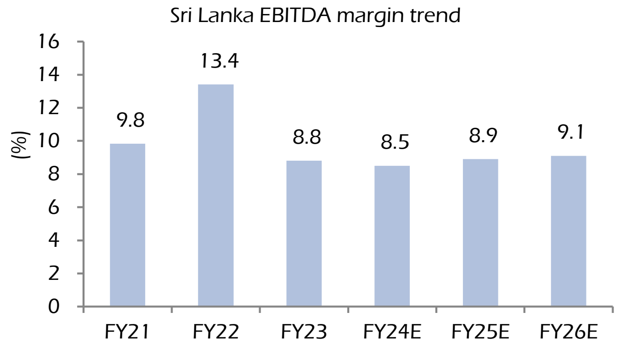
Sri Lanka business EBITDA margin (pre-IndAS) was at 8.8% in FY23. We expect EBITDA margin (pre-IndAS) to be 8.5% in FY24E, 8.9% in FY25E and 9.1% in FY26E, due to continued cost optimization initiatives.

Exhibit 17: Sri Lanka brand contribution margin to reach 15.1% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 18: Sri Lanka EBITDA margin (pre-IndAS) to reach 9.1% in FY26E



Source: Company, Elara Securities Estimate

Initiate with Buy and a TP of INR 1,740

We initiate coverage of SAPPHIRE with a **Buy** rating and a SOTP-based March 2025E TP of INR 1,740. We assign an EV/EBITDA (pre-IndAS) of 29x for KFC (5% discount to JUBI), 22x for Pizza Hut at a 30% discount to JUBI, and 2x to the Sri Lanka business.

Strong performance of KFC and proper execution of store expansion & cost optimization are important for further rerating.

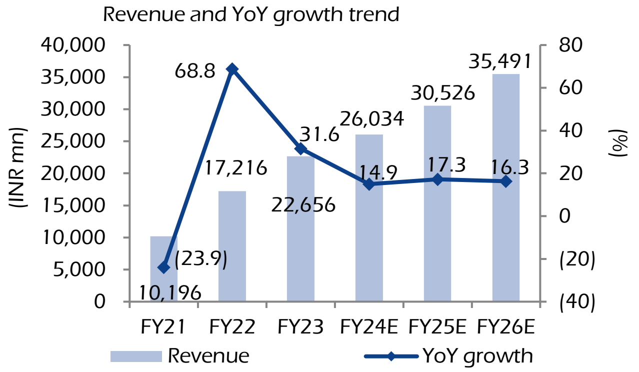
Revenue and EBITDA CAGR of 16% each in FY23-26E

We expect a consolidated revenue CAGR of 16% during FY23-26E. This growth trajectory would see the contribution of KFC to total revenue increase from 64% in FY23 to 69% in FY26E. The shift is attributed to likely higher growth rates of KFC as the fried chicken category to poised to grow at a faster rate than pizza coupled with higher demand, lower penetration of stores and less competition.

SAPPHIRE continues to strengthen the relevance of KFC and Pizza Hut as full meal options in addition to snacking. The company is focusing on menu innovation, abundant value meals options at the entry and premium price points, emphasis on superior food safety, hygiene standards, and freshness of ingredients to meet evolving consumer preferences, which would enable brands to appeal to consumers across age groups, leading to new consumer acquisition, increased ordering, and ticket size.

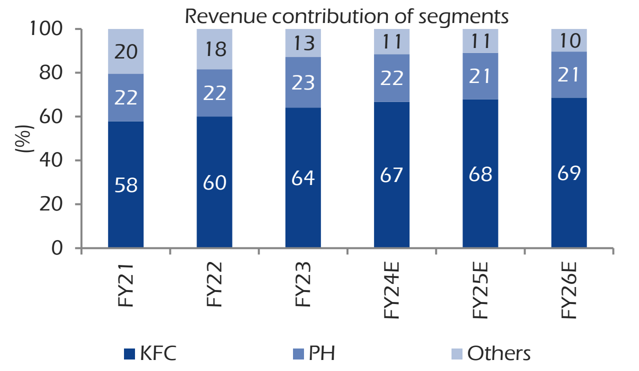
The company intends to expand the restaurant network and increase customer traffic by utilizing its cluster approach & penetration strategy and leveraging the global brand appeal of KFC and Pizza Hut. Management is focused on maximizing revenue through all channels, expansion of the consumer base via value options and newly evolved compact restaurant size. We believe KFC and Pizza Hut are well-placed to capitalize on the opportunity created by the growing Middle Class and dining-out culture.

Exhibit 19: Consolidated revenue CAGR of 16% during FY23-26E



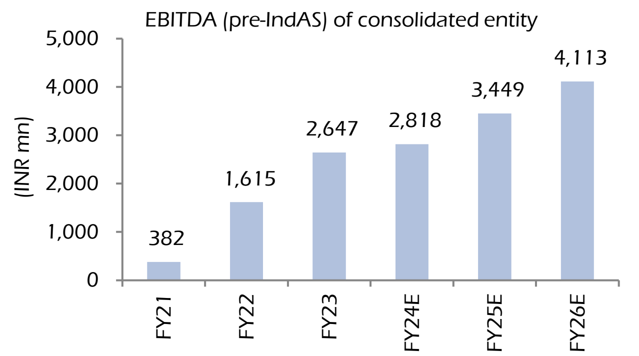
Source: Company, Elara Securities Estimate

Exhibit 20: Contribution of KFC to consolidated revenue may rise to 69% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 21: Consolidated EBITDA (pre-IndAS) CAGR of 16% during FY23-26E

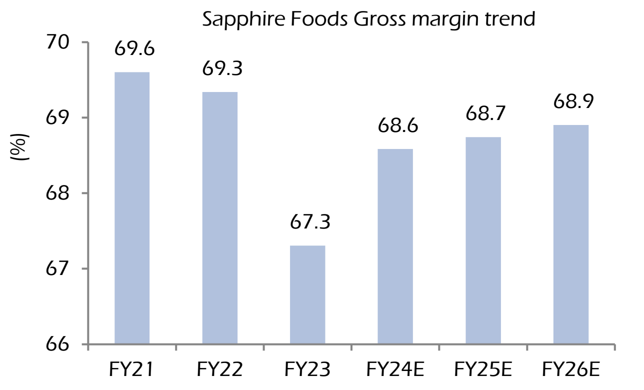


Source: Company, Elara Securities Estimate

Gross margin of 68.9%, EBITDA margin of 19.1% in FY26E

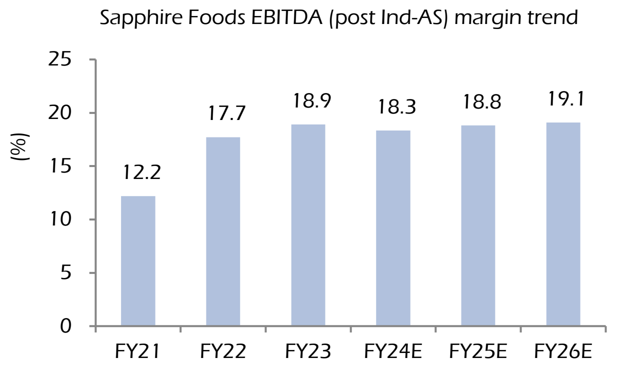
Gross margin of the consolidated entity stood at 67.3% in FY23 and 68.6% in H1FY24 whereas EBITDA margin (post-IndAS) was at 18.9% in FY23 and 18.2% in H1FY24. We expect consolidated gross margin to reach 68.6% in FY24E, 68.8% in FY25E and 68.9% in FY26E with EBITDA margin (post-IndAS) likely to reach 18.3% in FY24E, 18.8% in FY25E and 19.1% in FY26E as SAPPHIRE has built organizational capabilities in minimizing wastage and enhancing efficiency through a combination of ERP systems, processes, and people. Restaurant-level cost benchmarking Program, such as PACE SETTER, has helped improve restaurant operating margin.

Exhibit 22: Consolidated gross margin to reach 68.9% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 23: Consolidated EBITDA margin (pre-IndAS) to reach 19.1% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 24: SAPPHIRE SOTP valuation

(INR mn)	March 2026E
KFC India	
One-year forward EBITDA (pre-IndAS)	3,461
Multiple (x)	29
EV	100,374
Pizza Hut India	
One-year forward EBITDA (pre-IndAS)	412
Multiple (x)	22
EV	9,057
Sri Lanka business	
One-year forward EBITDA (pre-IndAS)	358
Multiple (x)	2
EV	716
Total EV	110,147
Cash	4,396
Debt	1,943
Equity value	112,600
Shares (mn)	63.7
TP (March 2025E, INR)	1,740

Source: Elara Securities Estimate

Key risks to our call

Slowdown in the demand environment

There has been a slowdown in the demand environment of QSR with below par growth during the festival season. We believe this is a temporary phenomenon, and we expect a demand boost in the medium term to drive sales. However, a prolonged lower demand scenario may hamper revenue growth.

Increased competition in the pizza category

Pizza Hut already faces a disadvantage due to higher delivery times than Domino's. Coupled with this, high competition due to presence of regional and local firms may impact SSSG.

Slower expansion or expansion in below par locations

Slower expansion of new restaurants may hamper revenue growth of key brands. Moreover, opening up of new stores in sub-optimal locations with lower footfalls and purchasing power may impact revenue growth.

High commodity inflation scenario

Higher commodity inflation, especially of cheese and wheat, may increase input cost and significantly impact operating performance and restaurant margin.

Consumer Discretionary

Company Description

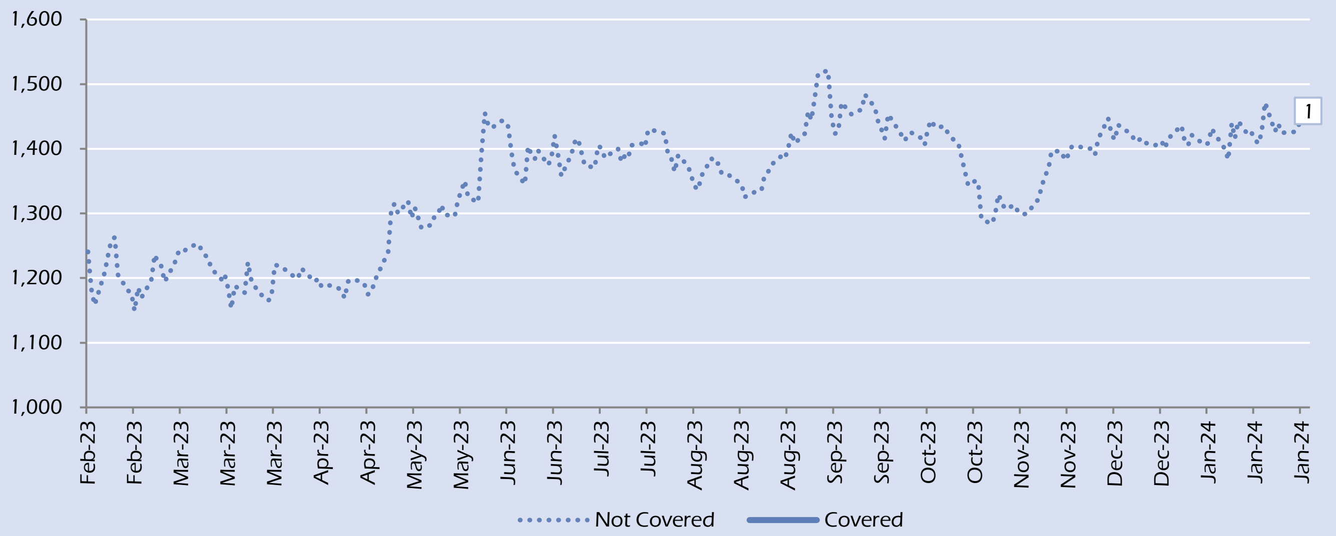
Sapphire Foods (SAPPHIRE IN) is one of the two franchisees of Yum! Brands (Yum) in India. Yum operates brands such as *KFC, Pizza Hut* (PH) and *Taco Bell*. It has a global presence with more than 53,000 restaurants in 150 countries. SAPPHIRE develops and operates KFC and PH stores in 10-11 States in India. It also has an international presence in Sri Lanka and the Maldives. Set up in September 2015 with the acquisition of 250 KFC and PH stores in India and Sri Lanka, it is promoted by a group of leading private equity firms, led by Samara Capital, Goldman Sachs, CX Partners, Creador, and Edelweiss. It operates 814 stores across brands and geographies as on 30 September 2023.

Board of Directors & Management

Name	Designation	About
Sunil Chandiramani	Chairman and Independent Director	Bachelor's degree in Commerce from University of Mumbai, and an Honor's diploma in Systems Management from the National Institute of Information Technology. Associate of the Institute of Chartered Accountants of India. Veteran with 29 years of experience in the fields of accounting and advisory services. Prior to joining SAPPHIRE, he was associated with SR Batliboi & Co. LLP and with Ernst & Young LLP as a Partner. Founder of NYKA Advisory Services and currently manages its business affairs as the proprietor
Sanjay Purohit	Whole-time Director & Group CEO	Mechanical engineer from Mangalore University and Alumnus of The Indian Institute of Management Bangalore. Formerly MD of Levi Strauss & Co India. 30 years of experience across consumer product categories, including food and apparel retail, packaged food, and paints. Associated with Cadbury India, Mobile Peevs Company, Asian Paints (India), Aristocrat Marketing, International Medical Company, and Goodlass Nerolac Paints
Sumeet Narang	Non-Executive Nominee Director	Bachelor's degree in Mechanical Engineering from University of Roorkee and Master's in Business Administration from Harvard University. Post Graduate Diploma in Management from Indian Institute of Management Society, Lucknow. Recipient of the prestigious John L Loeb Award from the MBA Financial AID and Fellowship Board, Harvard Business School. Prior to joining SAPPHIRE, he was associated with Citigroup, India. Founder and MD of Samara India Advisors. He has 16 of years of experience in the fields of inter-alia banking and investments
Vinod Nambiar	Non-Executive Nominee Director	Managing Director of More Retail. He has 30 years of experience across transformational leadership assignments at Hindustan Unilever India and Colgate Palmolive. Built and grown businesses across geographies spanning India, Romania, Italy, Greater China and the broader Asia-Pacific region
Vikram Agarwal	Non-Executive Nominee Director	Bachelor's Degree in Commerce from Shri Ram College of Commerce, University of Delhi and has been granted a certificate of practice by the Institute of Chartered Accountants of India. Experience of 13 years in the field of private equity; he is currently working as MD and CFO under dual employment with Samara India Advisors and Samara Alternate Investment Management LLP
Norbert Fernandes	Non-Executive Nominee Director	Undergraduate degree from IIT Kanpur and a management degree from IIM Calcutta. Director at TR Capital and leads the Mumbai office. Prior to TR Capital, he was cofounding principal at IvyCap Ventures. Before that, he worked at Temasek Holdings in Singapore and Mumbai, where he was an early member of the India Investment Team
Kabir Thakur	Non-Executive Nominee Director	Bachelor's Degree in Commerce and Master's degree in Management Studies from University of Mumbai. Prior to joining our Company, he was associated with Chrys Capital Group, and he is currently the Managing Partner of CR Advisors LLP. Experience of 14 years and has worked in the field of investment and private equity
Deepa Wadhwa	Independent Director	Bachelor's Degree in Science from Madras University and a Master's Degree in Arts from Sri Venkateswara University. Served in the Indian Foreign Services from July 1979 to November 2015 as Ambassador at Stockholm, Doha and Tokyo. During her extensive career of 36 years in the IFS, she had other assignments in Geneva, Hong Kong, China, Netherlands, the International Labour Organization (ILO) and served as Joint Secretary in the Ministry of External Affairs
Anu Aggarwal	Independent Director	Master's degree in Management Studies from Jamnalal Bajaj Institute of Management Studies, University of Mumbai. Work experience of 14 years in the banking sector. Recognized among The Economic Times' 'Women Ahead' for CY16. Prior to joining SAPPHIRE, she was associated with Citi Bank and currently holds the position of President in the Wholesale Banking Division of Kotak Mahindra Bank.

Source: Company, Elara Securities Research

Coverage History



	Date	Rating	Target Price	Closing Price
1	5-Feb-2024	Buy	INR 1,740	INR 1,401

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

Notes

ElaraCapital

Restaurant Brands Asia

Global Markets Research

Shadow and light

Small is big: value-based items to drive footfalls for BK India

Restaurant Brands Asia (RBA IN) operates franchisees of *Burger King* in India & Indonesia and *Popeyes* in Indonesia. The company intends to strengthen its value-focused meal (VFM) offerings to drive higher footfalls and traffic via items, such as 1) *Crispy Veg Burger Meal*, 2) *Makhani Veg Burger Meal*, 3) *Veg Taco Meal*, 4) *Crispy Chicken Burger Meal*, 5) *Makhani Chicken Burger Meal*, and 6) *Chicken Taco Meal*, all within a price range of INR 99-169. We believe this strategy will help RBA increase its market share in India in the burger category and strengthen its leadership & value credentials. We expect an overall revenue CAGR of 20% during FY23-26E.

Bigger footprints: more India BK *Café* key for higher ADS per store

BK Café continues to expand; BK India had 297 BK Café in its portfolio as on Q2FY24. RBA achieved incremental ADS of ~INR 7,000 in BK Café restaurants as it helped guest consumption frequency and higher upselling due to burgers and beverages. As on Q2FY24, total BK Café (standalone) ADS stood at INR 16,000. Overall, RBA has been mirroring the strategy of McDonald's although the latter has better ADS, profitability, and an all-round menu. We believe proper execution is key to bridge the gap with McDonald's. We expect an India revenue CAGR of 16% during FY23-26E.

Trump card: break-even of Indonesia business key to bolster margin

RBA has been expanding footprints and leadership in Indonesia via 1) focus on building relevance of chicken menu, 2) leadership in burgers, 3) innovation in the desert category to gain market share, 4) value offerings across burgers to drive higher transactions, and 5) closing underperforming restaurants. As on Q2, it has 162 BK restaurants and 12 *Popeyes* in Indonesia with *Popeyes* continuing to generate healthy ADS. We expect an Indonesia revenue CAGR of 29% during FY23-26E. RBA intends to break-even at the EBITDA level in FY24, which would be a huge boost for overall profitability.

Rating: Accumulate

Target Price: INR 130

Upside: 15%

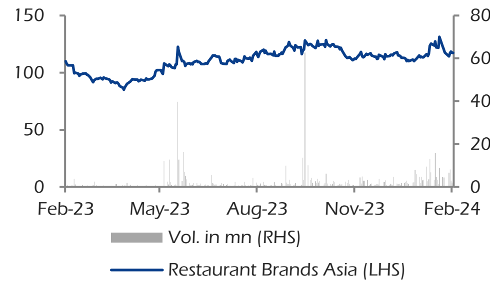
CMP: INR 113 (as on 5 February 2024)

Key data

Bloomberg /Reuters Code	RBA IN/RESR.BO
Current /Dil Shares O/S (mn)	496/496
Mkt Cap (INR bn/USD mn)	56/677
Daily Volume (3M NSE Avg)	2,943,203
Face Value (INR)	10
1 USD= INR 83.1	

Note: *as on 5 February 2024; Source: Bloomberg

Price & Volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	40.8	40.8	15.4	15.4
Institutional Investor	37.4	37.1	52.1	50.6
Other Investor	9.2	9.2	17.9	17.3
General Public	12.6	12.9	14.5	16.7

Source: BSE

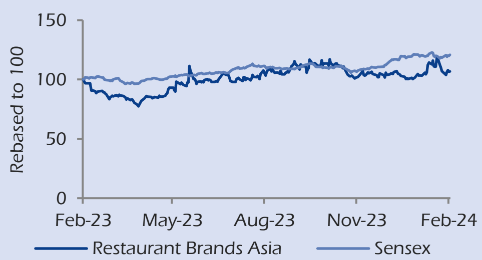
Price performance (%)	3M	6M	12M
Nifty	13.2	11.6	21.9
Restaurant Brands Asia	0.2	(4.3)	6.4
Devyani International	(12.6)	(14.1)	7.0
Sapphire Foods	7.2	3.1	21.0

Source: Bloomberg

Valuation

We initiate on RBA with an **Accumulate** rating and an SOTP-based TP of INR 130, implying 15% upside. We assign a one-year forward EV/EBITDA (pre-IndAS) of 27x to the India business and & 2x EV/Sales to the Indonesia business. We expect the India business revenue CAGR of 16% and Indonesia business revenue CAGR of 29% during FY23-26E with an EBITDA margin (pre-IndAS) of 6.5% & 0.5% in FY26E, respectively. Lower demand environment, high commodity inflation, increased competition and poor execution are key risks to our call.

Price performance



Source: Bloomberg

Key financials

YE March	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY23	20,543	37.8	1,115	5.4	(2,418)	15.2	(4.9)	(25.3)	(9.1)	(23.1)	48.9
FY24E	24,191	17.8	2,076	8.6	(2,131)	(11.9)	(4.3)	(28.8)	(5.4)	(26.2)	27.9
FY25E	29,500	21.9	3,025	10.3	(1,555)	(27.0)	(3.1)	(28.0)	(2.0)	(36.0)	19.5
FY26E	35,636	20.8	4,218	11.8	(722)	(53.5)	(1.5)	(16.4)	1.9	(77.4)	14.0

Note: pricing as on 5 February 2024; Source: Company, Elara Securities Estimate

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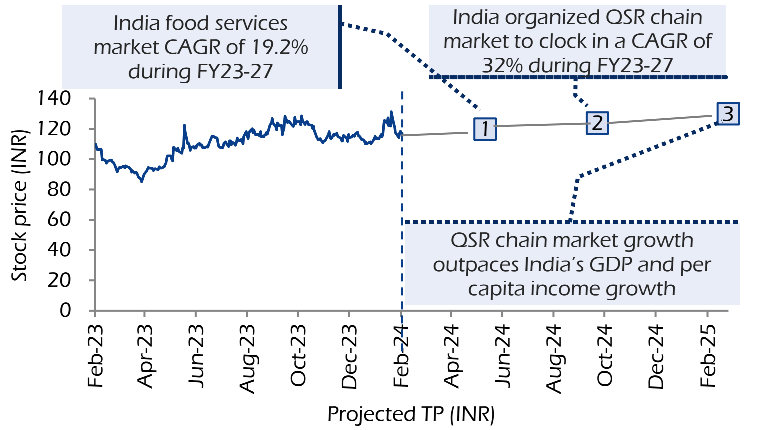
Elara Securities (India) Private Limited

Valuation trigger



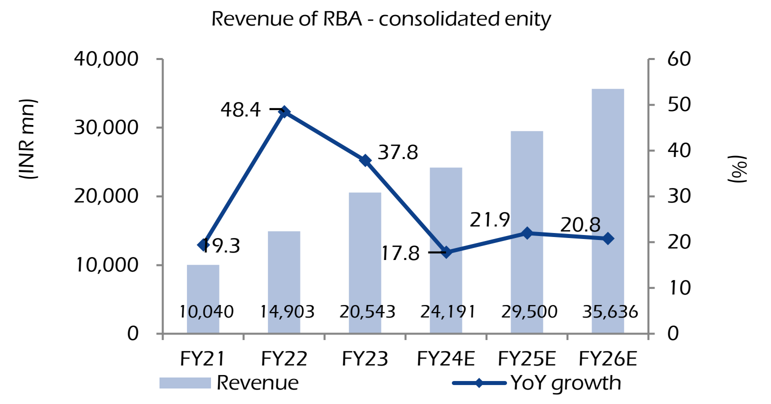
Source: Bloomberg, Elara Securities Estimate

Valuation overview – Restaurant Brands Asia – SOTP valuation

(INR mn)	March 2026E
BK India	
One-year forward EBITDA (pre IndAS)	1,454
Multiple (x)	27
EV	38,540
BK Indonesia	
One-year forward sales	13,261
Multiple (x)	2
EV	24,534
Total EV	**63,073**
Cash	3,021
Debt	1,648
Equity value	**64,446**
Shares (no mn)	495
TP (March 2025E, INR)	**130**

Source: Elara Securities Estimate

Valuation driver: Consolidated revenue CAGR of 20% during FY23-26E



Source: Company, Elara Securities Estimate

Investment summary

- Value-based items to drive higher footfalls for BK India
- Higher BK Café footprint crucial for higher ADS per store in India
- Break-even of the Indonesia business key to bolster margin

Valuation trigger

- India food services market CAGR of 19.2% during FY23-27
- India organized QSR chain market to clock in a CAGR of 32% during FY23-27
- QSR chain market growth outpaces India's GDP and per capita income growth

Key risks

- Slowdown in the demand environment of QSR with below par growth even during the festival season
- India and Indonesia's food services market is highly competitive and dominated by the unorganized sector
- Higher commodity inflation, especially of wheat and vegetables, may increase input cost
- Food safety and stringent regulatory landscape

Our assumptions

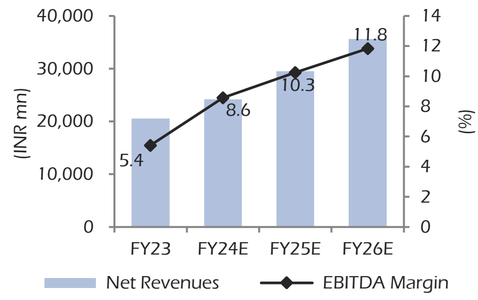
- India business CAGR of 16% during FY23-26E
- Indonesia business CAGR of 29% during FY23-26E
- EBITDA margin (pre-IndAS) of 6.5% for the India business and 0.5% for the Indonesia business in FY26E

Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Net Revenues	20,543	24,191	29,500	35,636
EBITDA	**1,115**	**2,076**	**3,025**	**4,218**
Add:- Non operating Income	360	211	267	306
OPBIDTA	1,474	2,287	3,291	4,524
Less :- Depreciation & Amortization	2,840	3,146	3,454	3,753
EBIT	**(1,366)**	**(859)**	**(163)**	**771**
Less:- Interest Expenses	1,052	1,273	1,392	1,493
PBT	(2,418)	(2,131)	(1,555)	(722)
Adjusted PAT	**(2,418)**	**(2,131)**	**(1,555)**	**(722)**
Reported PAT	**(2,418)**	**(2,131)**	**(1,555)**	**(722)**
Balance Sheet (INR mn)	**FY23**	**FY24E**	**FY25E**	**FY26E**
Share Capital	4,946	4,946	4,946	4,946
Reserves	3,516	1,385	(170)	(892)
Total borrowings	1,648	4,148	5,648	6,648
Trade Payables	2,675	3,107	3,775	4,532
Other liabilities	12,147	13,243	15,755	18,657
Total Equity & Liabilities	**24,932**	**26,828**	**29,954**	**33,891**
Fixed Assets	10,137	10,991	11,037	10,785
Investments	1,469	1,469	1,469	1,469
Inventories	315	371	452	547
Trade Recievables	169	198	242	292
Cash & other bank balances	1,552	753	1,077	2,084
Other assets	11,291	13,046	15,676	18,715
Total Assets	**24,932**	**26,828**	**29,954**	**33,891**
Cash Flow Statement (INR mn)	**FY23**	**FY24E**	**FY25E**	**FY26E**
Operating Cash Flow	1,243	3,431	5,879	7,501
Less:- Capex	(3,524)	(4,000)	(3,500)	(3,500)
Free Cash Flow	(2,281)	(569)	2,379	4,001
Investing Cash Flow	130	(5,457)	(5,662)	(6,001)
Financing Cash Flow	(1,703)	1,227	108	(493)
Net change in Cash	(330)	(799)	324	1,006
Opening Cash	1,880	1,550	751	1,076
Closing Cash	1,550	751	1,076	2,082
Ratio Analysis	**FY23**	**FY24E**	**FY25E**	**FY26E**
Income Statement Ratios (%)				
Revenue Growth	37.8	17.8	21.9	20.8
EBITDA Growth	15.5	86.2	45.7	39.5
PAT Growth	15.2	(11.9)	(27.0)	(53.5)
EBITDA Margin	5.4	8.6	10.3	11.8
PAT Margin	(11.8)	(8.8)	(5.3)	(2.0)
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.0	0.5	1.0	1.1
ROE (%)	(25.3)	(28.8)	(28.0)	(16.4)
ROCE (%)	(9.1)	(5.4)	(2.0)	1.9
Per Share data & Valuation Ratios	**FY23**	**FY24E**	**FY25E**	**FY26E**
Diluted EPS (INR/Share)	(4.9)	(4.3)	(3.1)	(1.5)
EPS Growth (%)	2.8	(11.9)	(27.0)	(53.5)
P/E Ratio (x)	(23.1)	(26.2)	(36.0)	(77.4)
EV/EBITDA (x)	48.9	27.9	19.5	14.0
EV/EBITDA (pre-IndAS, x)	(91.1)	280.1	76.8	38.8
EV/Sales (x)	2.7	2.4	2.0	1.7
BVPS (INR)	17.1	12.8	9.7	8.2
Price/Book (x)	6.6	8.8	11.7	13.8
Dividend Yield (%)	-	-	-	-

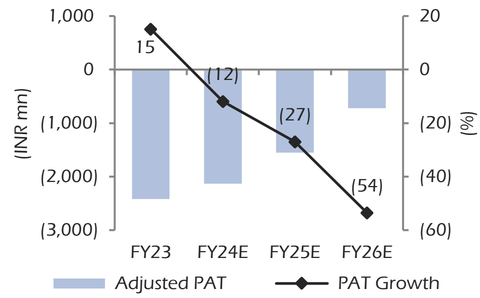
Note: pricing as on 5 February 2024; Source: Company, Elara Securities Estimate

Revenue & EBITDA margin trend



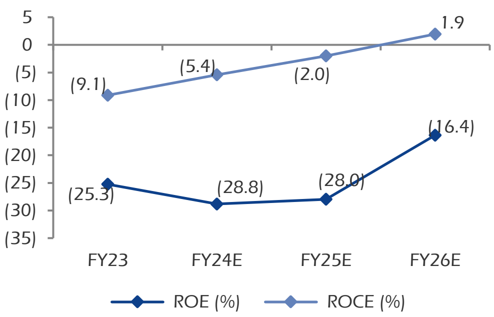
Source: Company, Elara Securities Estimate

Adjusted profit growth trend



Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Shadow and light

- India business revenue CAGR of 16% during FY23-26E
- Indonesia business revenue CAGR of 29% during FY23-26E
- Initiate with a Buy and a SOTP-based TP of INR 130, implying 15% upside

Restaurant Brands Asia – India business

Revenue CAGR of 16% during FY23-26E

The India business reported revenue growth of 53% YoY in FY23 on low base and 23% YoY in H1FY24. We expect India business to post a revenue CAGR of 16% during FY23-26E.

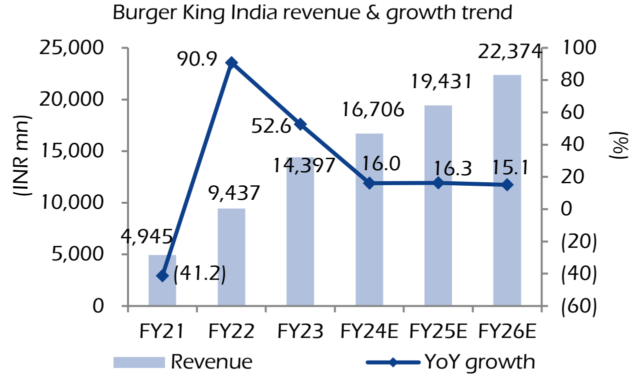
With SSSG of 23.1% in FY23 and 3.6% in H1FY24, we expect India business to post SSSG of 3% in FY24E, 5% in FY25E and 6% in FY26E as the burger and fried chicken (BK India has a small chicken portfolio) category has been growing well with higher customer demand and lower competition than the pizza category although growth has been subpar compared to McDonald's India, due to 1) fewer fragmented stores, 2) low delivery revenue contribution, and 3) slower expansion.

We expect an uptick in revenue in the medium term on the back of 1) focus on value proposition to drive higher footfalls, 2) innovation and premiumization of burgers, 3) higher penetration of *BK Café* leading to higher consumption frequency, and 4) Digital First strategy with self-ordering kiosk for faster services.

We also expect India business to add 60 *Burger King* stores in FY24E, 60 in FY25E and 55 in FY26E as the company intends to expand its restaurant network and increase customer traffic by utilizing its cluster approach and penetration strategy.

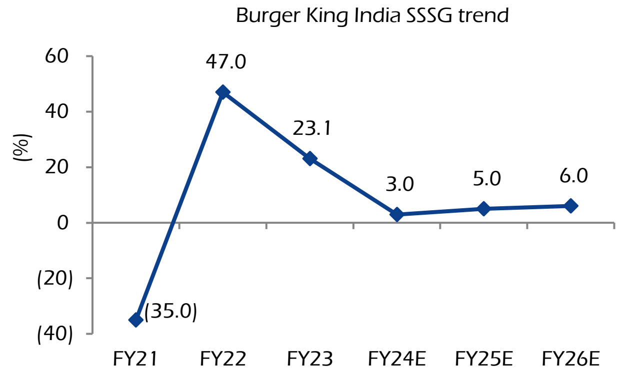
BK Café continues to expand rapidly, and BK India had 297 BK Café in its portfolio as on Q2FY24. The company has achieved strong incremental average daily sales (ADS) of ~ INR 7,000+ in *BK Café* restaurants, as it helped increase guest consumption frequency and higher upselling (due to a combination of burger and beverage). As on Q2FY24, total BK Café (standalone) ADS stood at INR 16,000. Overall, RBA has been mirroring the strategy of McDonald's although the latter has better ADS, profitability & all-round menu, and we believe proper execution of strategy is crucial for BK India to bridge gap with McDonald's.

Exhibit 1: India revenue CAGR of 16% over FY23-26E



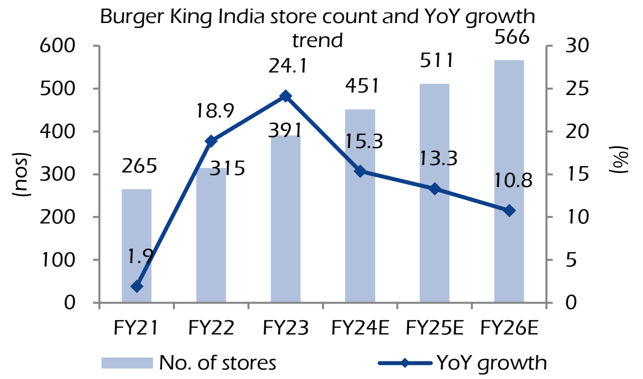
Source: Company, Elara Securities Estimate

Exhibit 2: India SSSG to grow 3% in FY24E, 5.0% in FY25E and 6.0% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 3: India store CAGR of 13% during FY23-26E

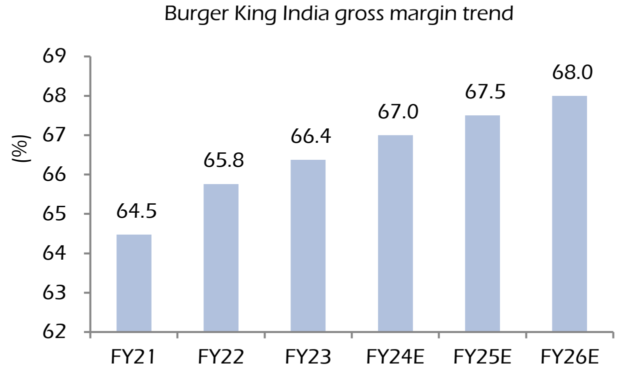


Source: Company, Elara Securities Estimate

Gross margin to reach 68.0% in FY26E

Gross margin of India business stood at 66.4% in FY23 and 66.7% in H1FY24 whereas we expect gross margin to reach 67.0% in FY24E, 67.5% in FY25E and 68.0% in FY26E, due to a stable commodity inflation scenario, especially for wheat and chicken. The company also leverages the vertically managed and scalable shared supply chain infrastructure with the third-party distributor, which would bolster gross margin.

Exhibit 4: India business gross margin to reach 68.0% in FY26E

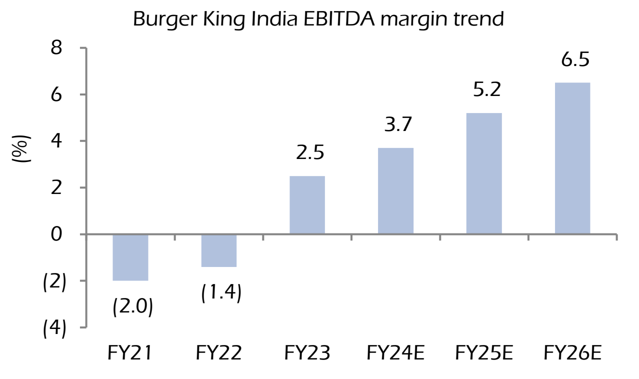


Source: Company, Elara Securities Estimate

EBITDA margin (pre-IndAS) to reach 6.5% in FY26E

EBITDA margin (pre-IndAS) of India business stood at 2.5% in FY23 and 3.8% in H1FY24. We expect EBITDA margin (pre-IndAS) to reach 3.7% in FY24E, 5.2% in FY25E and 6.5% in FY26E, as the company has been focused on optimum cost utilization across a large restaurant network by spreading corporate-level fixed cost in brand-building & launch expenses and the corporate-level administrative expenses for margin expansion to improve long-term efficiency of the business.

Exhibit 5: India EBITDA margin (pre-IndAS) to reach 6.5% in FY26E



Source: Company, Elara Securities Estimate

Restaurant Brands Asia – Indonesia biz

Revenue CAGR of 29% during FY23-26E

Restaurant Brands Asia Indonesia Business reported revenue growth of 12.5% YoY in FY23 and 15% YoY in H1FY24. We expect Indonesia business to post a revenue CAGR of 29% during FY23-26E, led by 13% growth in ADS per store and 16% growth in the number of stores.

We expect ADS per store of the Indonesia business to reach INR 0.11mn by FY26E, due to 1) focus on building relevance and credibility of chicken menu, 2) leadership in the burger category, 3) innovation in the desert category to gain higher market share, and 4) value offerings across burger layers to drive higher transactions.

We also expect Indonesia business to add 30/35/35 stores of *Burger King* and *Popeyes (together)* in FY24E/FY25E/FY26E, as the company is moving toward its target of achieving 325 stores of *Burger King* and *Popeyes* by FY27.

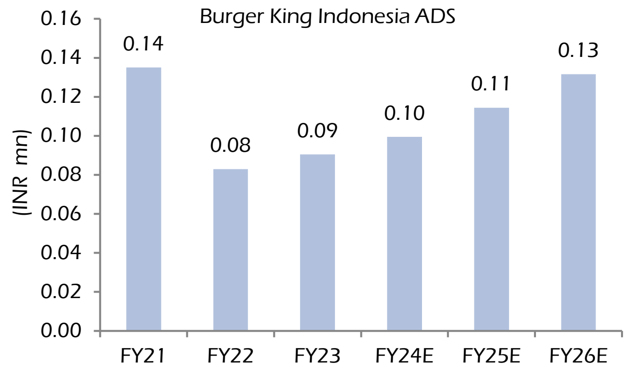
RBA has been expanding its footprint and leadership in Indonesia through 1) focus on building relevance and credibility of chicken menu, 2) leadership in the burger category, 3) innovation in the desert category to gain higher market share, 4) value offering across burger layers to driver higher transactions, and 5) closing underperforming restaurants. As on Q2FY24, the company has 162 BK restaurants and 12 *Popeyes* restaurants in Indonesia with *Popeyes* continuing to generate healthy ADS, thereby supporting overall revenue growth. The company intends to break-even at the EBITDA level in FY24, which would be a huge boost for overall profitability of the consolidated company.

Exhibit 6: Indonesia revenue CAGR of 29% during FY23-26E

Source: Company, Elara Securities Estimate

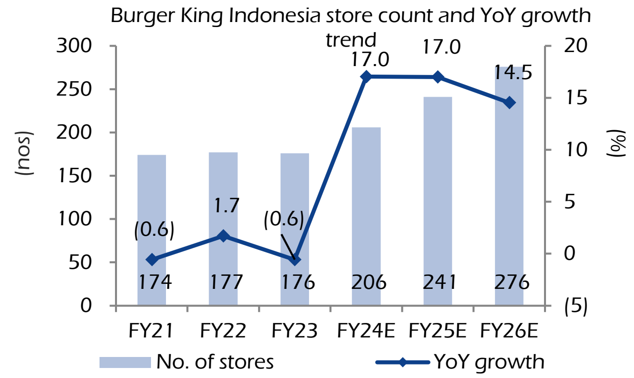
Consumer Discretionary

Exhibit 7: RBA Indonesia ADS to reach INR 0.13mn in FY26E



Source: Company, Elara Securities Estimate

Exhibit 8: RBA Indonesia (Burger King) stores to grow at a CAGR of 16% during FY23-26E

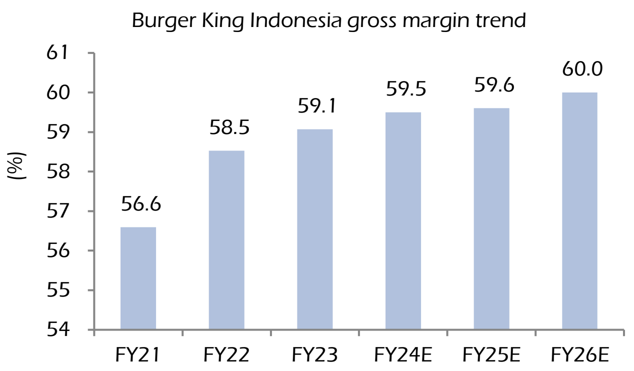


Source: Company, Elara Securities Estimate

Gross margin to reach 60.0% in FY26E

Gross margin of Indonesia business stood at 59.1% in FY23 and 58.0% in H1FY24; we expect gross margin to reach 59.5% in FY24E, 59.6% in FY25E and 60.0% in FY26E, due to greater emphasis on optimizing supply chain strategy of third-party distribution to reduce COGS and increase gross margin.

Exhibit 9: Indonesia gross margin to reach 60.0% by FY26E

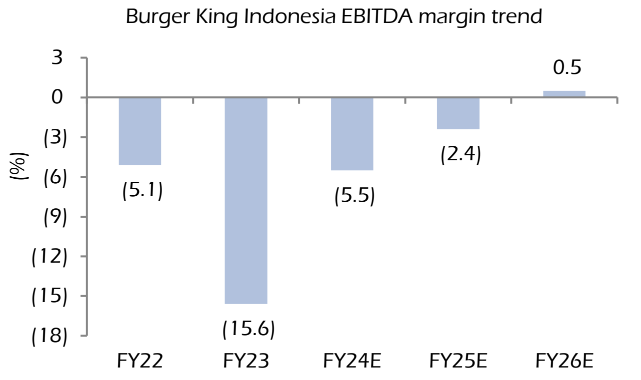


Source: Company, Elara Securities Estimate

EBITDA margin (pre-IndAS) to reach 0.5% in FY26E

EBITDA margin (pre IndAS) of the Indonesia business was -15.6% in FY23 and -7.7% in H1FY24. The company intends to achieve EBITDA (post-IndAS) break-even by FY24.

Exhibit 10: Indonesia EBITDA margin (pre-IndAS) to reach 0.5% in FY26E



Source: Company, Elara Securities Estimate

Initiate with Accumulate and a TP of INR 130

We initiate coverage of Restaurant Brands Asia (RBA IN) with a **Accumulate** rating and a SOTP-based TP of INR 130. We value RBA India business and RBA Indonesia business separately.

India business at 27x EV/EBITDA, Indonesia at 2x EV/Sales

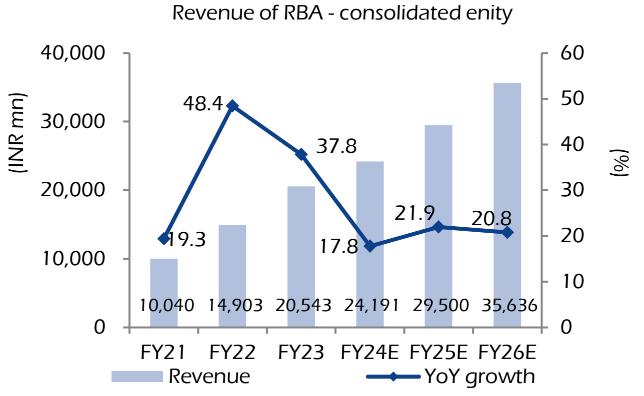
We have assigned an EV/EBITDA (pre-IndAS) of 27x for the India business at a 15% discount to target EV/EBITDA of JUBI and an EV/Sales of 2x for the Indonesia business.

Revenue CAGR of 20% in FY23-26E

We expect a consolidated revenue CAGR of 20% during FY23-26E. RBA is focused on maximizing revenue potential through all channels, and expansion of restaurants using a cluster approach.

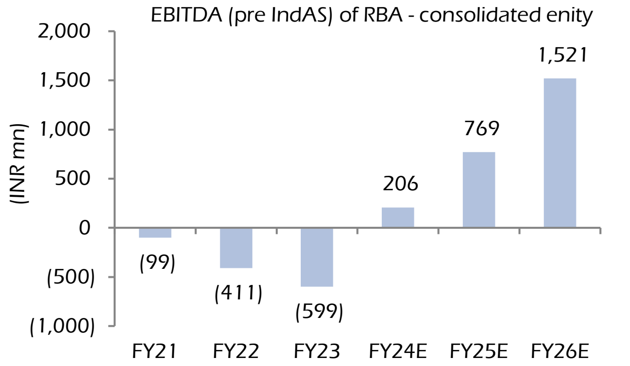
The company continues to aim to build a loyal customer base by spreading brand awareness and meeting customer expectations. Its integrated marketing approach targets a broad consumer base with frequent & inclusive messaging and engages consumers at several touchpoints, including through sustained investment in social media and mass media channels, such as TV commercials, big-ticket and high-impact media properties. RBA continues to target millennials through its marketing campaigns.

Exhibit 11: Consolidated revenue CAGR of 20% during FY23-26E



Source: Company, Elara Securities Estimate

Exhibit 12: Consolidated absolute EBITDA (pre-IndAS) to reach INR 1,521mn in FY26E



Source: Company, Elara Securities Estimate

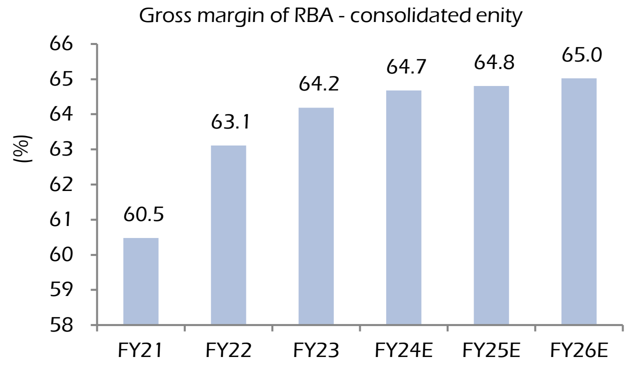
Gross margin at 65.0%, EBITDA margin at 4.5% in FY26E

Gross margin of consolidated entity stood at 64.2% in FY23 and 64.1% in H1FY24 whereas EBITDA margin (pre-IndAS) stood at -2.9% in FY23 & 0.6% in H1FY24. We expect gross margin to reach 64.7% in FY24E, 64.8% in FY25E and 65.0% in FY26E with an EBITDA margin (pre-IndAS) to reach 0.9% in FY24E, 2.6% in FY25E and 4.3% in FY26E.

RBA continues to spread corporate-level fixed cost in brand-building & launch expenses and corporate-level administrative expenses across a large restaurant network for optimum cost utilization and margin expansion to improve long-term efficiency of the business. It also intends to leverage the vertically managed and scalable shared supply chain infrastructure with a third-party distributor, which would drive gross margin.

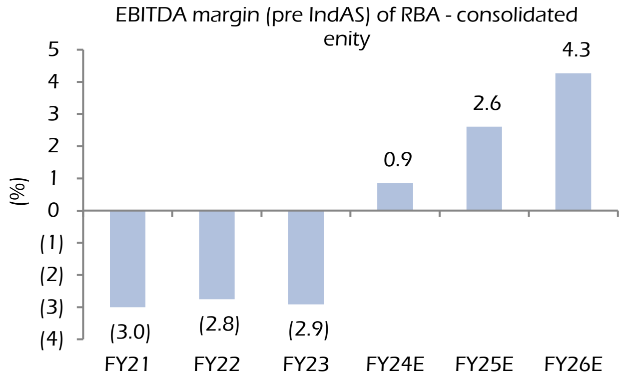
RBA aims to drive down distribution cost, which are embedded in the cost of material consumed since this would enable it to supply several restaurants at lower per-unit cost, due to their proximity to one another and distribution centers of the third-party distributor. These advantages would drive strategic cost efficiency and expand gross margin as the business grows.

Exhibit 13: Consolidated gross margin to reach 65.0% in FY26E



Source: Company, Elara Securities Estimate

Exhibit 14: Consolidated EBITDA margin (pre-IndAS) to reach 4.3% in FY26E



Source: Company, Elara Securities Estimate

Consumer Discretionary

Exhibit 15: Restaurant Brands Asia – SOTP valuation

(INR mn)	March 2026E
BK India	
One-year forward EBITDA (pre-IndAS)	1,454
Multiple (x)	27
EV	38,540
BK Indonesia	
One-year forward sales	13,261
Multiple (x)	2
EV	24,534
Total EV	63,073
Cash	3,021
Debt	1,648
Equity value	64,446
Shares (no mn)	495
TP (March 2025E, INR)	130

Source: Elara Securities Estimate

Key risks

Slowdown in the demand environment

There has been a slowdown in the demand environment of QSR with below par growth even during the festival season. We believe it is a temporary phenomenon, and we expect a demand boost in the medium term to drive sales. However, a prolonged lower demand scenario may hamper revenue growth.

Increased competition

India and Indonesia's food services markets are competitive and dominated by the unorganized sector. Customer loyalty is low for small and mid-sized restaurants due to a lack of best practices in maintaining hygiene & food safety standards and the growing trend among consumers to explore established international and domestic chains for gaining new experiences. However, presence of too many QSR chains may result in higher competition.

Volatility in fuel and commodity prices

Soaring cost of fuel, freight, energy and ingredients, such as palm oil, meat & cheese and packing materials may increase input cost and significantly impact operating performance & restaurant margin.

Food safety and stringent regulatory landscape

After the pandemic, people have become more hygiene conscious. Food safety and quality have become crucial. India's food service firms, including chain QSR companies, are required to follow stringent food safety and all applicable regulations regarding hygiene, sanitation, food manufacturing practices, handling of food, and pest control on premises to ensure health and safety of consumers. QSR firms in Indonesia also must fulfil hygiene and sanitary requirements.

Company Description

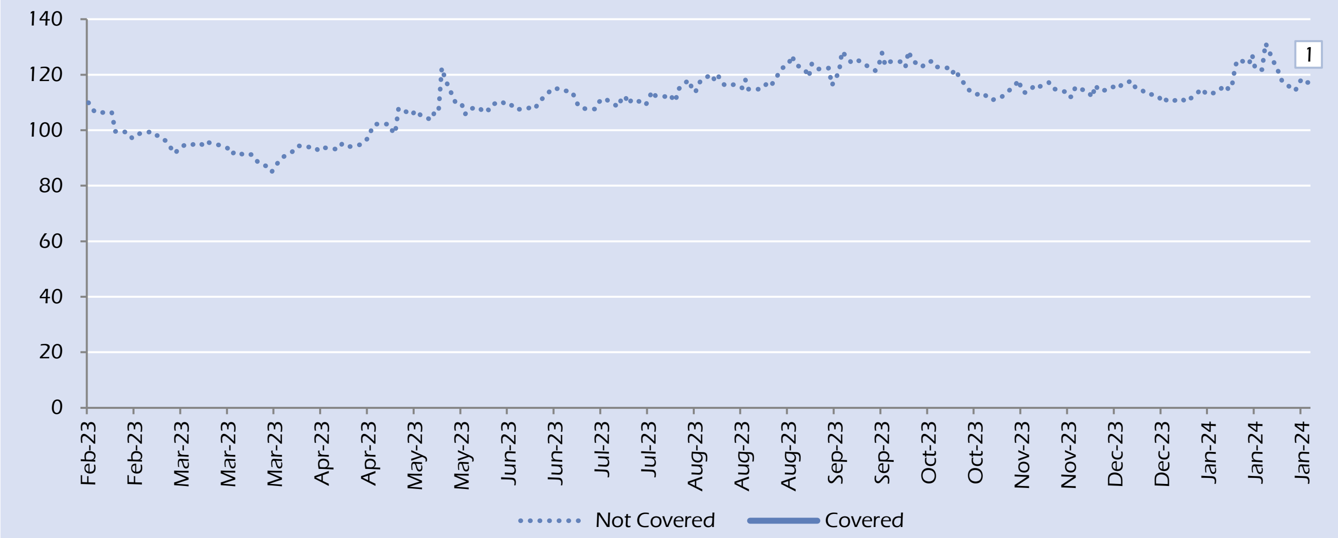
Restaurant Brands Asia (RBA IN) together with its subsidiaries operates quick service restaurants in India and Indonesia. The company develops, establishes, operates, and franchises *Burger King* restaurants. It also develops, establishes, operates, and franchises *Popeyes* restaurants in Indonesia. The company was formerly known as Burger King India and changed its name to Restaurant Brands Asia in February 2022. RBA was incorporated in CY13 and is based at Mumbai, India.

Board of Directors & Management

Name	Designation	About
Shivakumar Dega	Chairman & Independent Director	Degrees from IIT Madras & IIM Calcutta and is a distinguished alumnus awardee from both institutes. He was CEO of Nokia India and then Head of Emerging Markets for Nokia. He was Chairman and CEO of PepsiCo South Asia and held the position of Group Executive President for Strategy and Business Development at Aditya Birla Group. He has been on the Board of Governors of IIM Ahmedabad. He is currently on the Board of IIM Udaipur and XLRI
Rajeev Varman	Whole-time Director and Group CEO	Bachelor's degree in Mechanical Engineering from Bangalore University and a Master's degree in Business Administration from GGU in California. He has 25 years of experience in the food and beverage industry in countries like Canada, the UK, the US and India. Worked with the Tricon & *Taco Bell* brand, Lal Enterprises and Burger King Corporation. Held leadership positions and has cross-functional expertise
Tara Subramaniam	Independent Director	Bachelor's degree in Law from the University of Bombay. 39 years of work experience in banking, real estate, project financing, and business development. Held positions at Housing Development Finance Corporation, JM Financial Group, and SGE Advisors (India). She is on the Board of JM Financial Home Loans as a Non-Executive Director and Deltatech Gaming, Tips Industries and Vascon Engineers as an Independent Director. Works as Maharashtra RERA Conciliator
Sandeep Chaudhary	Independent Director	Post-Graduate Diploma in Management from the Symbiosis Institute of Management Studies, Pune. Business leader, adviser, educator, and technology enthusiast covering all aspects of Human Capital. Served at Aon Consulting for 17 years and was CEO from February 2014 to January 2019. During this time, he also served on the Global Executive Committee. Curerntly, he is CEO of People Strong, an emerging HR technology firm across India and Asia
Amit Manocha	Non-Executive Director	Rich experience in private equity & corporate finance and spearheaded investments in India and Southeast Asia across sectors. Alumnus of Harvard Business School and Associate Member of the Institute of Chartered Accountants of India. Currently, he is MD at Everstone Capital and has previously worked with Coca-Cola, GE Capital, and HCL Technologies
Rafael Odorizzi de Oliveira	Non-Executive Director	Master's degree in Business Administration from Kellogg School of Management, Northwestern University. President of Restaurant Brands International (RBI) for the Asia-Pacific region. Oversees RBI brands: BURGER KING®, TIM HORTONS®, POPEYES®, and FIREHOUSE SUBS®. Previously Regional Vice-President, Burger King® for the EMEA region. Has been with RBI since CY14 and has held strategic roles in both Zug and Miami offices, including General Manager for the BK EMEA North Division, Head of Operations for EMEA, and Director of Operations & Quality Assurance for Latin America in Miami
Roshini Bakshi	Non-Executive Director	Bachelor's degree in Economics from St Stephens College and a Master's degree in Business Administration from IIM Ahmedabad. She has more than 30 years of general management and marketing experience and string track record in consumer industries, setting strategy and improving operational effectiveness to deliver greater financial returns. She is a Managing Director, Private Equity at Everstone Capital Asia based out of Singapore.
Ajay Kaul	Non-Executive Director	Bachelor's degree in Technology from IIT Delhi and an Master's degree in Business Administration from XLRI Jamshedpur. In a corporate career of 30 years, he has served renowned companies like American Express, Lufthansa, TNT (India and Indonesia), and been CEO of Jubilant FoodWorks (operating Domino's pizza and Dunkin' Donuts in India). Works in an advisory capacity with companies, such as Everstone Capital Advisors, Domino's Pizza Indonesia, Chaayos, and California Burrito

Source: Company, Elara Securities Research

Coverage History



	Date	Rating	Target Price	Closing Price
1	5-Feb-2024	Accumulate	INR 130	INR 113

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

6 February 2024

ElaraCapital

Jubilant FoodWorks

Global Markets Research

Unraveling

No big delta: festival & CWC disappoint; expect SSSG of 3% in FY26E

Jubilant FoodWorks (JUBI IN) is expected to underperform in terms of same store sales growth (SSSG) in FY24E as no big delta in sales has been seen despite the festival season and the Cricket World Cup, which is in line with our expectations. We expect same sales store contraction of 3% in FY24E, flat SSSG in FY25E and 3% in FY26E, as the pizza category may continue to underperform vs other food categories. Growth also has been subdued, as: 1) aggregators scaling up aggressively, 2) increased competition in the pizza segment, and 3) fried chicken & burger categories growing faster than pizza category post COVID. JUBI also has introduced gourmet-based pizzas to revive growth in the premium segment; however, the company already has a large portfolio of mass market products.

Not all bad news: stable inflation may impact margin on the positive

JUBI may see respite in terms of gross margin due to lower inflation and cool offing in prices of major commodity items, especially cheese (cheese is ~37% of cost of goods sold (COGS) for JUBI) whereas there is a nominal inflation in wheat prices. Overall, inflation is stable currently, which may impact margin on the positive. Moreover, the company has been working on several levers to expand its margin, such as optimization of existing cost structures, systems, and processes, thereby increasing overall efficiency.

Chipping away: competition, low value items dragging market share

Increased competition in the pizza category has eaten into JUBI's market share. The presence of La Pinoz, Mojo Pizza, Chicago Pizza, Pizza Hut, Papa John and others have led to a dip in the overall market share of JUBI. Lately, La Pinoz has announced expansion of its stores by 50%, which may add to JUBI's woes. Moreover, these companies have been banking on promotional offers, which has led to JUBI relying on offers & discount and also led to introduction of value-based items to increase to footfalls – these may lead to negative impact on profitability for JUBI as value items have lower margin.

Valuation: retain Reduce with an unchanged TP of INR 500

JUBI is trading at a one-year forward EV/EBITDA (pre-IndAS) of 29x, below the pre-COVID average of 33x during FY16-19 whereas its peers are trading at an average EV/EBITDA (pre-IndAS) of 32x. We retain our estimates, and we have already factored in a margin improvement of 180bp during FY24-26E. Potential earnings upgrade seems limited from the current levels. The stock has moved up by a mere 3% in the past six months. We reiterate **Reduce** with an unchanged TP of INR 500. Our TP is based on 31x,one-year forward EV/EBITDA (pre-IndAS). Improvement in SSSG vs peers, less competition or scale up in the non-pizza business are catalysts for a rerating.

Rating: Reduce

Target Price: INR 500

Upside: 3%

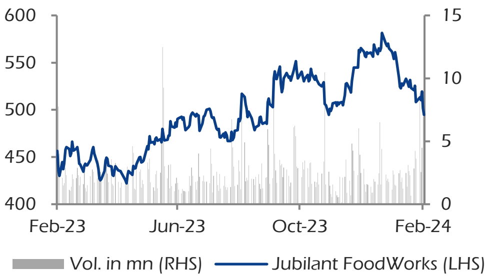
CMP: INR 485 (as on 5 February 2024)

Key data

Bloomberg /Reuters Code	JUBI IN/ JUBI.BO
Current /Dil. Shares O/S (mn)	660/660
Mkt Cap (INR bn/USD mn)	320/3,852
Daily Vol (3M NSE Avg)	2,215,498
Face Value (INR)	2
1 USD = INR 83.1	

Note: *as on 5 February 2024; Source: Bloomberg

Price & Volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	41.9	41.9	41.9	41.9
Institutional Investors	47.3	47.7	48.5	49.9
Other Investors	2.5	2.3	2.2	1.9
General Public	8.3	8.0	7.4	6.2

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	13.2	11.6	21.9
Jubilant FoodWorks	(4.3)	(6.2)	12.8
Westlife Development	2.1	(9.9)	21.2

Source: Bloomberg

Key financials

YE March	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA Margin (%)	Adj. PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY23	50,960	17.7	11,592	22.7	4,495	(9.4)	5.4	16.9	16.9	89.8	27.3
FY24E	53,725	5.4	11,390	21.2	3,262	(19.0)	4.9	14.1	13.6	98.1	27.7
FY25E	57,843	7.7	13,015	22.5	4,186	28.3	6.3	15.6	14.5	76.4	24.0
FY26E	63,356	9.5	14,572	23.0	5,065	21.0	7.7	16.1	14.8	63.2	21.1

Note: pricing as on 5 February 2024; Source: Company, Elara Securities Estimate

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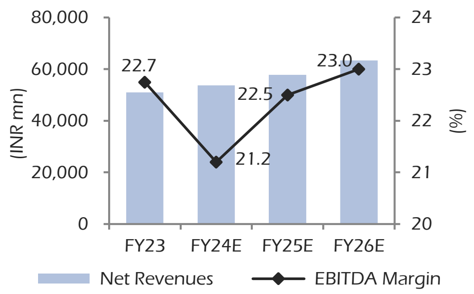
Rounak Ray • rounak.ray@elaracapital.com • +91 22 4204 8684

Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Net Revenues	50,960	53,725	57,843	63,356
EBITDA	**11,592**	**11,390**	**13,015**	**14,572**
Add:- Non operating Income	497	259	450	594
OPBIDTA	12,089	11,649	13,465	15,166
Less :- Depreciation & Amortization	4,753	5,315	5,782	6,211
EBIT	**7,336**	**6,334**	**7,683**	**8,955**
Less:- Interest Expenses	1,951	1,984	2,101	2,202
PBT	**5,385**	**4,350**	**5,582**	**6,753**
Less :- Taxes	1,356	1,087	1,395	1,688
Adjusted PAT	**4,029**	**3,262**	**4,186**	**5,065**
Add/(Less): - Extra ordinary exp/(Inc)	(466)	-	-	-
Reported PAT	**4,495**	**3,262**	**4,186**	**5,065**
Balance Sheet (INR mn)	**FY23**	**FY24E**	**FY25E**	**FY26E**
Share Capital	1,320	1,320	1,320	1,320
Reserves	20,135	23,397	27,584	32,648
Trade Payables	5,579	5,739	6,074	6,567
Other liabilities	25,473	26,739	28,625	31,151
Total Equity & Liabilities	**52,506**	**57,196**	**63,603**	**71,685**
Fixed Assets	14,270	16,875	17,934	18,563
Investments	1,225	1,225	1,225	1,225
Inventories	1,703	1,795	1,932	2,117
Trade Recievables	331	349	375	411
Cash & other bank balances	2,330	3,230	6,815	11,907
Other assets	32,647	33,721	35,321	37,463
Total Assets	**52,506**	**57,196**	**63,603**	**71,685**
Cash Flow Statement (INR mn)	**FY23**	**FY24E**	**FY25E**	**FY26E**
Operating Cash Flow	10,519	11,619	13,676	15,681
Less:- Capex	(7,746)	(7,920)	(6,840)	(6,840)
Free Cash Flow	2,774	3,699	6,836	8,841
Investing Cash Flow	(5,997)	(8,735)	(7,990)	(8,388)
Financing Cash Flow	(4,472)	(1,984)	(2,101)	(2,202)
Net change in Cash	51	900	3,585	5,092
Opening Cash	102	153	1,053	4,638
Closing Cash	153	1,053	4,638	9,730
Ratio Analysis	**FY23**	**FY24E**	**FY25E**	**FY26E**
Income Statement Ratios (%)				
Revenue Growth	17.7	5.4	7.7	9.5
EBITDA Growth	4.9	(1.7)	14.3	12.0
PAT Growth	(9.4)	(19.0)	28.3	21.0
EBITDA Margin	22.7	21.2	22.5	23.0
PAT Margin	7.0	6.1	7.2	8.0
Return & Liquidity Ratios				
Net Debt/Equity (x)	(0.1)	(0.1)	(0.2)	(0.4)
ROE (%)	16.9	14.1	15.6	16.1
ROCE (%)	16.9	13.6	14.5	14.8
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	5.4	4.9	6.3	7.7
EPS Growth (%)	(18.6)	(8.4)	28.3	21.0
DPS (INR/Share)				
P/E Ratio (x)	89.8	98.1	76.4	63.2
EV/EBITDA (x)	27.3	27.7	24.0	21.1
EV/EBITDA (pre IndAS, x)	40.3	41.7	35.0	30.5
EV/Sales (x)	6.2	5.9	5.4	4.8
BVPS (INR)	32.5	37.5	43.8	51.5
Price/Book (x)	14.9	12.9	11.1	9.4

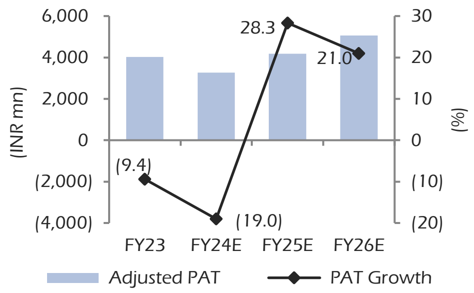
Note: pricing as on 5 February 2024; Source: Company, Elara Securities Estimate

Revenue growth & margin trend



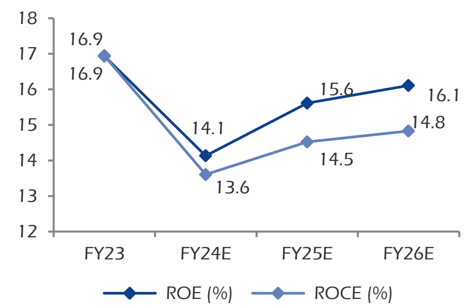
Source: Company, Elara Securities Estimate

Adjusted profit growth trend



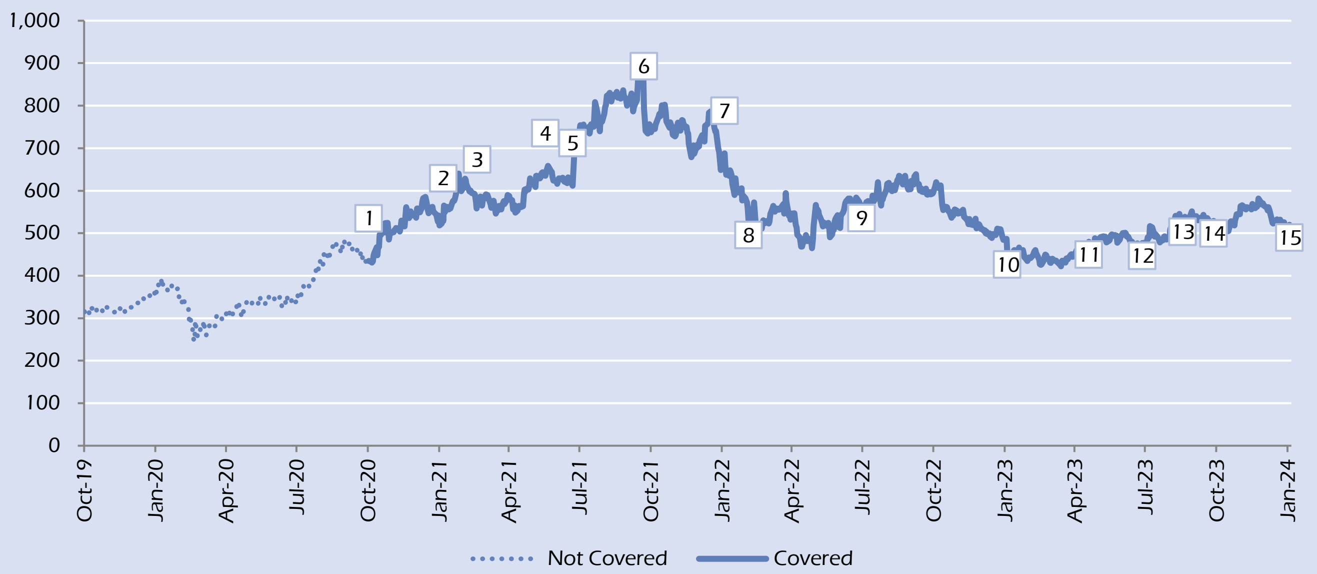
Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
7	2-Feb-2022	Buy	INR 4,110	INR 3,302
8	3-Mar-2022	Buy	INR 4,000	INR 2,800
	19-Apr-2022	Buy	INR 800*	INR 560*
9	28-Jul-2022	Buy	INR 840	INR 565
10	1-Feb-2023	Buy	INR 630	INR 456
11	17-May-2023	Buy	INR 600	INR 481
12	25-July-2023	Accumulate	INR 510	INR 477
13	15-Sep-2023	Accumulate	INR 560	INR 533
14	25-Oct-2023	Reduce	INR 515	INR 529
15	31-Jan-2024	Reduce	INR 500	INR 520

*Stock Split 10:2

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

Notes

6 February 2024

Global Markets Research

Westlife Foodworld

Burger turns savior

Integration key: SSSG of ~ 3% YoY in FY25E and ~4.5% in FY26E

Westlife Foodworld (WLDL IN) is expected to post same store sales decline of ~1% in FY24E and SSSG of 3%/4.5% in FY25E/FY26E – better than the pizza category players as the burger category has been performing better than other categories. WLDL had focused on a lot of propositions, such as 1) menu innovation, 2) *McCafé* (90% penetration across restaurants as on Q3FY24), 3) gourmet burgers, and 4) enhancing omnichannel capabilities (integration of channels & touchpoints to one platform), which have led to a surge in SSSG; but currently, it has hit a plateau. However, an appealing menu, especially during the peak hours, and less competition may drive SSSG in the medium term.

Fowl play: reaping benefits from the fried chicken portfolio

WLDL has focused extensively on the fried chicken category and introduced a comprehensive portfolio as the category remains underpenetrated with KFC the only major firm present in India. The company has introduced products, such as *McSpicy Chicken, McSpicy Fried Chicken,* and *Chicken Kebab,* which have led to increased overall sales. Trailing twelve months (TTM) average sales per store improved from INR 61.9mn in Q2FY23 to INR 66.5mn in Q2FY24. Moreover, the store expansion rate grew at a CAGR of 5% during FY19-23 as penetrating unserved geographies and fortifying existing markets are proving to be a success. WLDL is set to open 700 stores by FY27.

Green shoots: margin respite due to stable commodity inflation

Inflationary pressures on commodity items have eased off with the cool off in prices of wheat and vegetables, which may lead to an improvement in gross margin. However, there may be some pressure on EBITDA margin due to introduction of lower value items (lower value items are mostly margin decretive in nature). We expect gross and EBITDA margin (pre-IndAS) to reach 69.8% and 13.3% by FY26E, respectively, on the back of lower inflation and higher delivery revenue contribution.

Valuation: maintain Reduce with an unchanged TP of INR 880

WLDL had one of the highest average SSSG of 2% YoY in 9MFY24 (excluding external factors) among QSR firms due to better execution, superior store penetration and product innovation. The company has guided long-term SSSG of 7-8% YoY, although we believe growth will be in the range of 3-5% YoY on a steady-state basis. We retain our estimates and value WLDL based on a one-year forward EV/EBITDA (pre-IndAS) of 34x. We maintain **Reduce** with an unchanged TP of INR 880. Superior execution of strategy, addition in the chicken portfolio and higher SSSG are key for a further re-rating.

Rating: Reduce

Target Price: INR 880

Upside: 5%

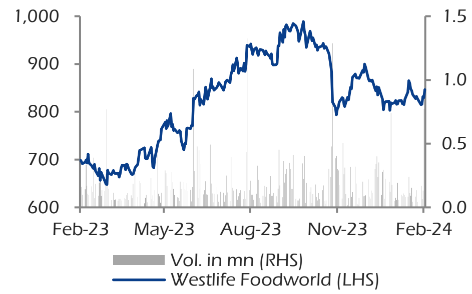
CMP: INR 838 as on 5 February 2024)

Key data

Bloomberg /Reuters Code	WLDL IN/WEST.BO
Current /Dil. Shares O/S (mn)	156/156
Mkt Cap (INR bn/USD mn)	131/1,573
Daily Vol (3M NSE Avg)	172,671
Face Value (INR)	2
1 USD = INR 83.1	

Note: *as on 5 February 2024; Source: Bloomberg

Price & Volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	56.2	56.2	56.2	56.2
Institutional Investors	33.8	33.8	34.1	34.5
Other Investors	1.1	1.1	1.0	0.9
General Public	8.9	8.9	8.7	8.4

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	13.2	11.6	21.9
Westlife Foodworld	2.1	(9.9)	21.2
Jubilant Foodworks	(4.3)	(6.2)	12.8

Source: Bloomberg

Key Financials

YE March	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY23	22,775	44.5	3,734	16.4	1,116	(6,797.5)	7.2	21.7	13.2	117.1	35.1
FY24E	24,337	6.9	4,064	16.7	1,119	0.3	7.2	18.8	12.5	116.8	32.2
FY25E	26,924	10.6	4,631	17.2	1,403	25.3	9.0	20.2	13.3	93.2	27.9
FY26E	30,020	11.5	5,193	17.3	1,749	24.7	11.2	20.5	13.5	74.7	24.5

Note: pricing as on 5 February 2024; Source: Company, Elara Securities Estimate

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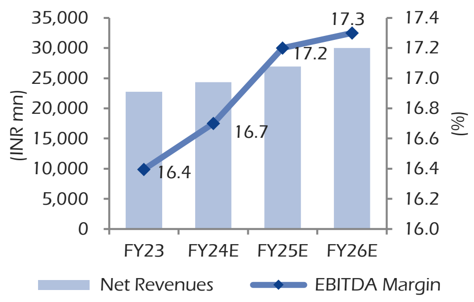
Elara Securities (India) Private Limited

Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Net Revenues	22,775	24,337	26,924	30,020
EBITDA	**3,734**	**4,064**	**4,631**	**5,193**
Add:- Non operating Income	210	190	259	397
OPBIDTA	3,944	4,254	4,890	5,590
Less :- Depreciation & Amortization	1,522	1,723	1,871	2,019
EBIT	**2,422**	**2,531**	**3,019**	**3,571**
Less:- Interest Expenses	927	1,035	1,144	1,232
PBT	**1,495**	**1,496**	**1,875**	**2,339**
Less :- Taxes	379	377	473	589
Adjusted PAT	**1,116**	**1,119**	**1,403**	**1,749**
Reported PAT	**1,116**	**1,119**	**1,403**	**1,749**
Balance Sheet (INR mn)	**FY23**	**FY24E**	**FY25E**	**FY26E**
Share Capital	312	312	312	312
Reserves	5,347	5,929	7,331	9,081
Total borrowings	2,070	2,070	2,070	2,070
Trade Payables	1,877	1,997	2,224	2,480
Other liabilities	11,383	12,066	13,197	14,551
Total Equity & Liabilities	**20,989**	**22,374**	**25,135**	**28,494**
Fixed Assets	7,006	7,383	7,562	7,493
Investments	1,299	1,299	1,299	1,299
Inventories	714	763	844	941
Trade Receivables	107	114	126	141
Cash & other bank balances	284	635	2,129	4,256
Other assets	11,579	12,180	13,175	14,365
Total Assets	**20,989**	**22,374**	**25,135**	**28,494**
Cash Flow Statement (INR mn)	**FY23**	**FY24E**	**FY25E**	**FY26E**
Operating Cash Flow	3,485	3,752	4,292	4,748
Less:- Capex	(2,696)	(2,100)	(2,050)	(1,950)
Free Cash Flow	789	1,652	2,242	2,798
Investing Cash Flow	(2,653)	(2,511)	(2,785)	(2,744)
Financing Cash Flow	(981)	(890)	(13)	122
Net change in Cash	(149)	351	1,494	2,126
Opening Cash	231	83	434	1,928
Closing Cash	83	434	1,928	4,054
Ratio Analysis	**FY23**	**FY24E**	**FY25E**	**FY26E**
Income Statement Ratios (%)				
Revenue Growth	44.5	6.9	10.6	11.5
EBITDA Growth	97.8	8.8	13.9	12.1
PAT Growth	(6,797.5)	0.3	25.3	24.7
EBITDA Margin	16.4	16.7	17.2	17.3
PAT Margin	4.9	4.6	5.2	5.8
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.4	0.3	0.3	0.2
ROE (%)	21.7	18.8	20.2	20.5
ROCE (%)	13.2	12.5	13.3	13.5
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	7.2	7.2	9.0	11.2
EPS Growth (%)	(6,797.5)	0.3	25.3	24.7
DPS (INR/Share)	0.0	3.5	0.0	0.0
P/E Ratio (x)	117.1	116.8	93.2	74.7
EV/EBITDA (x)	35.1	32.2	27.9	24.5
EV/EBITDA (pre IndAS, x)	43.6	42.3	36.4	31.9
EV/Sales (x)	5.8	5.4	4.8	4.2
BVPS (INR)	36.3	40.0	49.0	60.2
Price/Book (x)	23.1	20.9	17.1	13.9

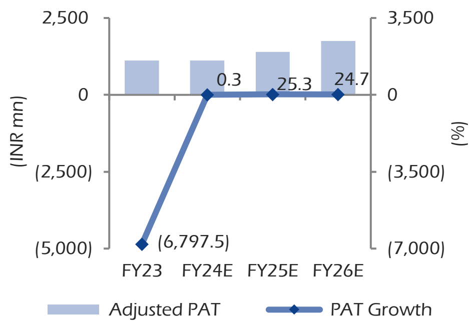
Note: pricing as on 5 February 2024; Source: Company, Elara Securities Estimate

Revenue growth & margin trend



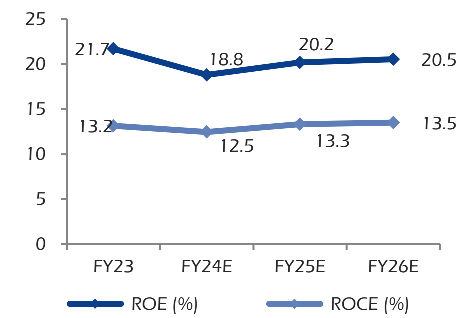
Source: Company, Elara Securities Estimate

Adjusted profit growth trend



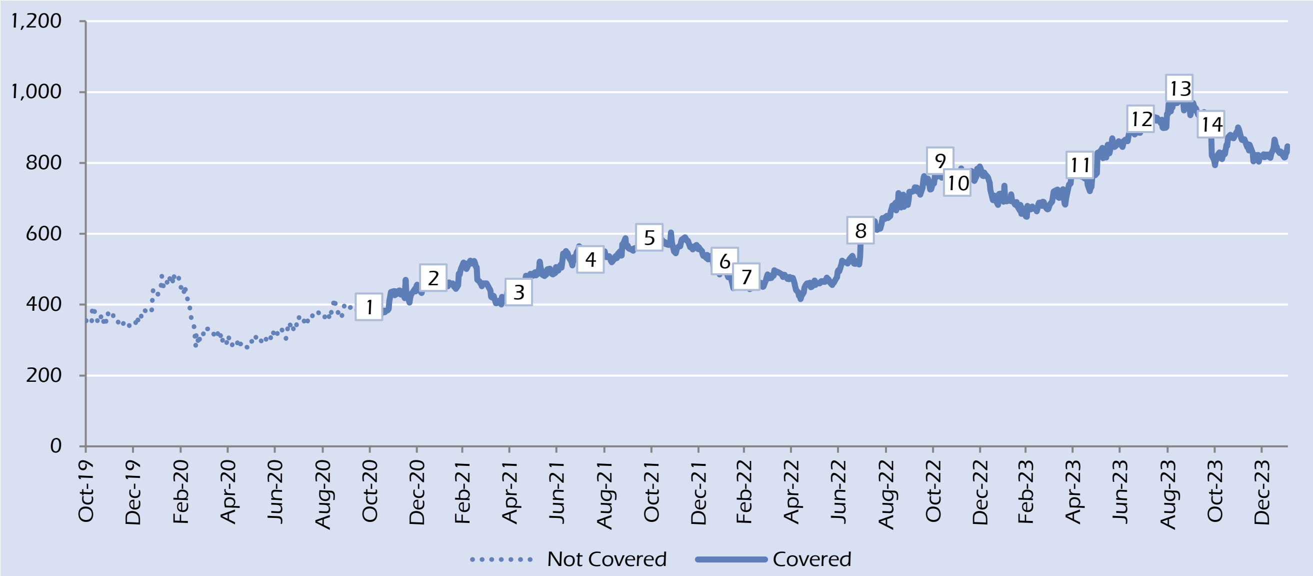
Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
6	3-Feb-2022	Accumulate	INR 570	INR 497
7	3-Mar-2022	Accumulate	INR 540	INR 453
8	29-Jul-2022	Accumulate	INR 650	INR 584
9	9-Nov-2022	Accumulate	INR 885	INR 781
10	1-Dec-2022	Accumulate	INR 850	INR 719
11	9-May-2023	Accumulate	INR 815	INR 768
12	27-July-2023	Reduce	INR 880	INR 898
13	15-Sep-2023	Reduce	INR 940	INR 983
14	26-Oct-2023	Reduce	INR 880	INR 883

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

Abbreviations

Acronym	Full Form
ADS	Average Daily Sales
BK	Burger King
CAGR	Compounded Annual Growth Rate
CWC	Cricket World Cup
CY	Cumulative Year
EBITDA	Earnings Before Interest,Taxes, Depreciation, and Amortization
ERP	Enterprise resource planning
EV	Enterprise Value
FY	Fiscal Year
GB	Gigabyte
GDP	Gross Domestic Product
JUBI	Jubilant Foodworks
KFC	Kentucky Fried Chicken
LATAM	Latin America
MENA	Middle East & North Africa
PH	Pizza Hut
QSR	Quick Service Restaurant
SOTP	Sum of the Parts
SSSG	Same Store Sales Growth
WLDL	Westlife Foodworld

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