

Sapphire Foods India | BUY

Weak quarter; pace of recovery in SSSG will be key monitorable

Sapphire's 4QFY24 earnings print was no different vs trend seen in recent quarter – revenue inline but soft led by store additions, while scale deleverage led c.5% miss on vs our comparable EBITDA forecast. Same store sales continued to remain under pressure across brands impacted by weak demand trend and high competitive intensity (PH). From FY24 performance, KFC delivered a resilient operating performance – c.19.7% is the highest ever restaurant margin despite strong store additions and SSS decline (Westlife's restaurant margins were down c.190bps in FY24). PH had forgettable year with 16% decline in SSS resulting in RoM closer to lows of FY21. Sapphire has upped ante on innovations & stepped up brand investments; seasonal uptick in PH in 1Q so far is better vs trend last year along with store rationalisation which should help gradually revive brand performance over medium term. Srilanka business has seen green shoots with uptick in SSS & management expects better delivery here vs FY24. While operating environment has been challenging, commentary suggests further weakness is unlikely & performance should gradually revive. We like Sapphire's approach to go aggressive on a more resilient KFC (c.65% of sales) and be calibrated in PH, green shoots in SL also augurs well. Valuations at 20x FY26E EBITDA (pre-IND AS) not demanding. BUY.

- Revenue inline, weak SSS-led scale deleverage drove EBITDA miss:** Consolidated sales of INR 6.3bn, up 12.7% yoy was slightly ahead of our expectation. India sales grew by 11.4% yoy, while Srilanka business continued strong momentum with sales growth of 22.3% yoy. India store count was up 19.3% while average sales/store was down by c.7% yoy – a function of muted same store sales across brands due to challenging operating environment, soft consumer sentiments and higher competition (PH). Gross margins remained healthy (largely inline with expectations) and were up 94bps/flat qoq (GM improved yoy across brands & for Srilanka too) to 68.9% (JMFe: 69%). While KFC's operating performance was resilient, sharp deterioration in PH margins and cost inflation-led impact on SL businesses resulted in 267bps/143bps yoy decline in pre-IND AS restaurant EBITDA/company EBITDA margins to 13.6%/8.6%.
- KFC relatively resilient, SL trajectory improves while PH was miss across metrics:** 1) **KFC India** revenues were up 16.1% yoy (SSSG -3% vs Westlife's -5%), led by store additions (+25.8% yoy). ADS was down 10.2% yoy (c.-8-9% yoy for Westlife) - a function of higher pace of store additions & muted SSS. GM improved 150bps/flattish yoy/qoq to 68.3% led by favorable input-costs environment. However, scale deleverage resulted in restaurant margins declining by 80bps yoy to 18.3%. 2) **PH India** business remained under pressure due to sluggish demand and higher competitive intensity; sales declined by 2.7% yoy. While store additions remained healthy (+11.5% yoy), decline in ADS remained steep at 18% yoy. Same store sales declined by 15% on soft base. GM improved 120bps yoy to 75.5%. Scale deleverage coupled with additional marketing investments resulted in EBITDA loss of INR 32 mn. Excluding the additional marketing spend, the brand broke even at the ROM level. 3) **Srilanka** sales saw growth of 22.3% yoy (ADS +15.4% yoy). CC growth was 8% (SSSG improved to 4%). Though green shoots were seen, store operating costs inflation was a drag on the profitability.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,570
Upside/(Downside)	10.6%
Previous Price Target	1,555
Change	1.0%

Key Data – SAPPHERE IN

Current Market Price	INR1,419
Market cap (bn)	INR90.3/US\$1.1
Free Float	54%
Shares in issue (mn)	63.5
Diluted share (mn)	63.5
3-mon avg daily val (mn)	INR330.7/US\$4.0
52-week range	1,700/1,213
Sensex/Nifty	72,664/22,055
INR/US\$	83.5

Price Performance

%	1M	6M	12M
Absolute	-6.4	9.0	8.2
Relative*	-4.4	-2.6	-7.6

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	17,154	22,571	25,880	30,616	36,572
Sales Growth (%)	68.8%	31.6%	14.7%	18.3%	19.5%
EBITDA	3,050	4,284	4,613	5,693	7,042
EBITDA Margin (%)	17.8%	19.0%	17.8%	18.6%	19.3%
Adjusted Net Profit	465	2,329	528	692	1,234
Diluted EPS (INR)	7.3	36.6	8.3	10.9	19.4
Diluted EPS Growth (%)	-146.2%	400.3%	-77.4%	31.1%	78.2%
ROIC (%)	9.1%	13.9%	8.4%	8.2%	11.9%
ROE (%)	6.3%	20.6%	4.1%	5.0%	8.4%
P/E (x)	NA	38.7	NA	NA	73.3
P/B (x)	9.0	7.2	6.8	6.4	5.9
EV/EBITDA (x)	28.4	20.5	19.3	15.5	12.3
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, JM Financial. Note: Valuations as of 10/May/2024

JM Financial Institutional Securities Limited

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. 4Q & FY24 result snapshot: SSSG trends broadly similar as per trend – Revenue inline, scale deleverage drove miss on earnings (INR mn)

	4QFY24	4QFY23	YoY chg	4QFY24E	% var	FY24	FY23	YoY chg
Net Sales	6,317	5,604	12.7%	6,185	2.1%	25,943	22,656	14.5%
Gross Profit	4,351	3,807	14.3%	4,269	1.9%	17,834	15,249	17.0%
Gross Profit Margin %	68.9%	67.9%	94 bps	69.0%	-15 bps	68.7%	67.3%	144 bps
Staff Cost	857	767	11.7%	920	-6.8%	3,456	2,929	18.0%
Other Expenses	2,464	2,059	19.7%	2,288	7.7%	9,765	8,036	21.5%
EBITDA	1,029	981	4.9%	1,061	-3.0%	4,613	4,284	7.7%
EBITDA margin %	16.3%	17.5%	-121 bps	17.2%	-86 bps	17.8%	18.9%	-113 bps
Comparable EBITDA (Pre Ind-AS 116)	544	563	-3.4%	573	-5.1%	2,717	2,647	2.6%
Comparable EBITDA margin %	8.6%	10.0%	-143 bps	9.3%	-65 bps	10.5%	11.7%	-121 bps
Depreciation	870	724	20.3%	900	-3.3%	3,239	2,642	22.6%
EBIT	159	258	-38.2%	161	-1.0%	1,374	1,642	-16.3%
Net Financial Income	-151	-135	11.8%	-180	-16.1%	-675	-558	20.9%
PBT	8	123	-93.2%	-19	-144.1%	699	1,084	-35.5%
Net Profit	24	1,356	-98.2%	-19	-225.7%	528	2,334	-77.4%

Source: Company, JM Financial

Exhibit 2. Costs Breakdown

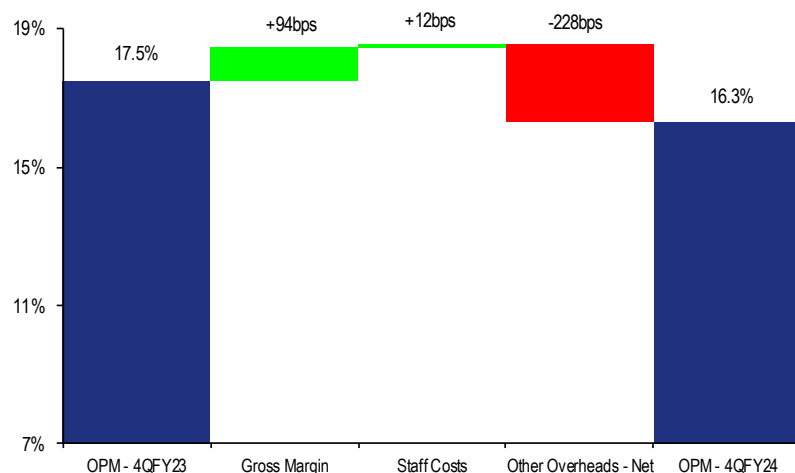
% of sales	4QFY24	4QFY23	4QFY24E	FY24	FY23
Cost of Goods Sold	31.1%	32.1%	31.0%	31.3%	32.7%
Staff Cost	13.6%	13.7%	14.9%	13.3%	12.9%
Other Expenses	39.0%	36.7%	37.0%	37.6%	35.5%
Depreciation	13.8%	12.9%	14.6%	12.5%	11.7%

Source: Company, JM Financial

Exhibit 3. Per store economics

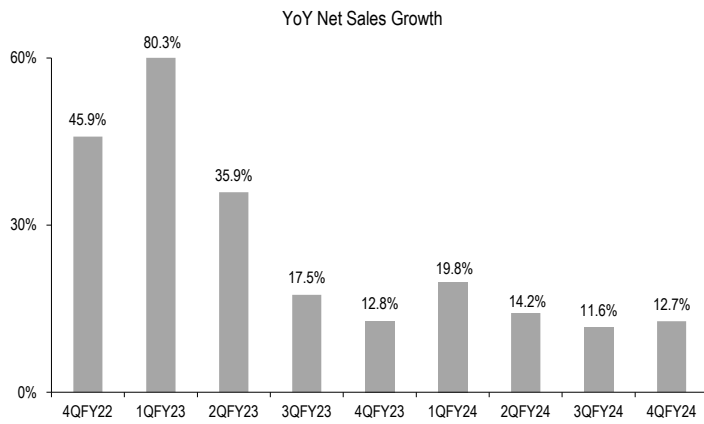
Per store basis (INR mn)	4Q24	3Q24	4Q23	% chg. YoY	% chg. QoQ
Average revenue / store	7.3	8.0	7.7	-4.6%	-8.3%
Staff cost / store	1.0	1.1	1.1	-5.4%	-5.2%
Other expenses / store	2.9	3.0	2.8	1.4%	-4.4%
EBITDA	1.0	1.3	1.2	-18.6%	-21.9%

Source: Company, JM Financial

Exhibit 4. GM expansion benefit more than offset by scale deleverage


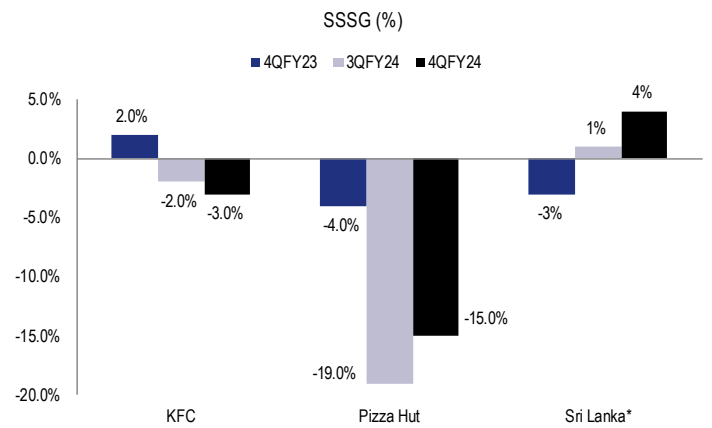
Source: Company, JM Financial

Exhibit 5. Sales growth trend



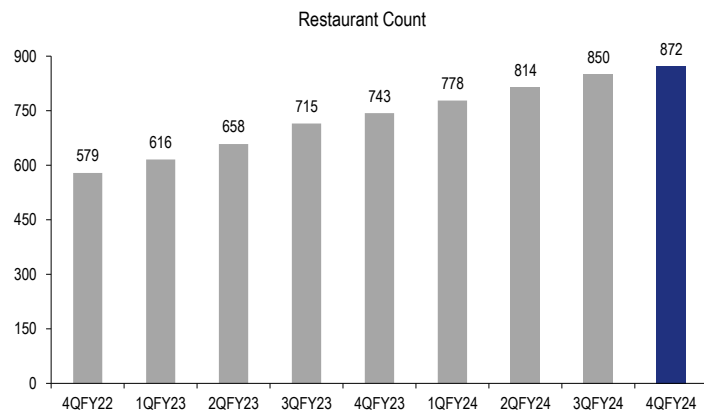
Source: Company, JM Financial

Exhibit 6. SSSG trends remained weak



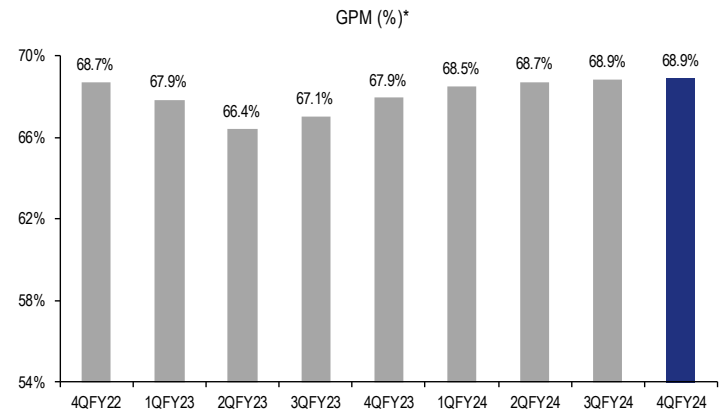
Source: Company, JM Financial

Exhibit 7. 22 restaurants were added during the quarter



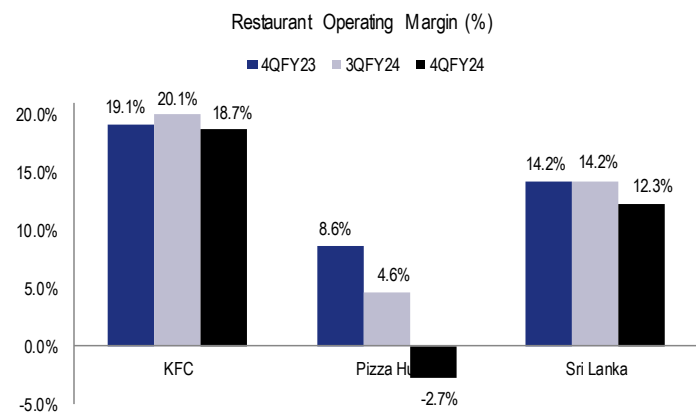
Source: Company, JM Financial

Exhibit 8. Gross margin expanded 94bps yoy but flat qoq



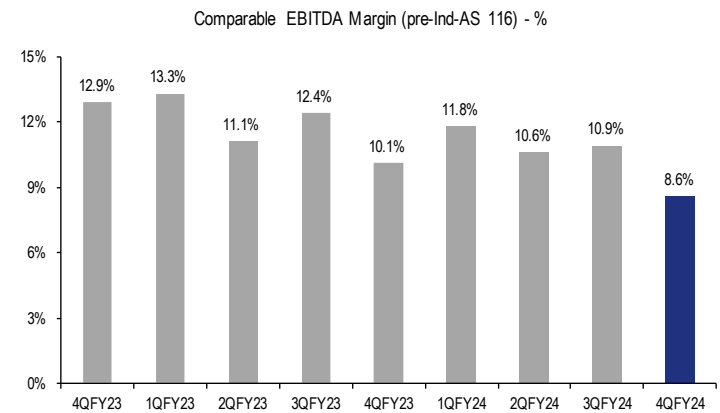
Source: Company, JM Financial
*Includes other operating income

Exhibit 9. KFC resilient & SL improved; PH margins continue to remain under pressure



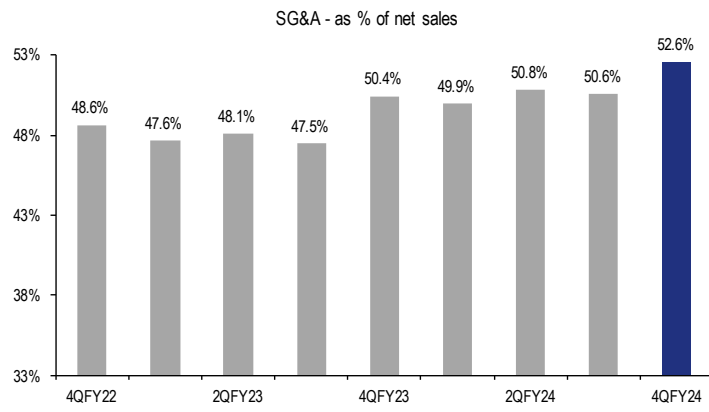
Source: Company, JM Financial

Exhibit 10. Comparable EBITDA margin stood at 8.6%, lower 150bps yoy and 230bps qoq



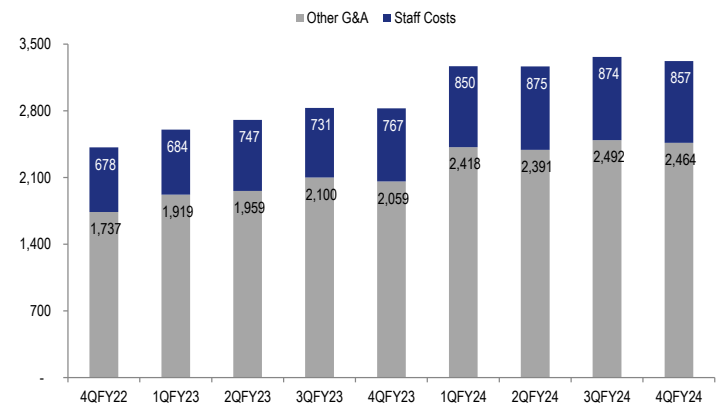
Source: Company, JM Financial

Exhibit 11. SG&A grew at 1.4 times the rate of growth in revenue



Source: Company, JM Financial

Exhibit 12. Staff costs grew 11.7% yoy



Source: Company, JM Financial

Exhibit 13. Our 12-month DCF based price target works out to INR1,570/share

(INR mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E
Revenue	11,938	13,404	10,196	17,216	22,656	25,943	30,731	36,662	42,409	48,805	55,690	62,902	69,732	76,893	84,547	92,722	101,454
yoy growth		12.3%	-23.9%	68.8%	31.6%	14.5%	18.5%	19.3%	15.7%	15.1%	14.1%	12.9%	10.9%	10.3%	10.0%	9.7%	9.4%
Comparable EBITDA (Pre Ind As 116)	435	662	382	1,808	2,647	2,717	3,424	4,431	5,284	6,231	7,265	8,542	9,716	10,827	11,952	13,162	14,464
EBITDA margin %	3.6%	4.9%	3.7%	10.5%	11.7%	10.5%	11.1%	12.1%	12.5%	12.8%	13.0%	13.6%	13.9%	14.1%	14.1%	14.2%	14.3%
Comparable EBIT	-309	-357	-728	703	1,281	1,027	1,419	2,153	2,730	3,383	4,122	5,117	6,026	6,879	7,748	8,707	9,763
EBIT margin %	-2.6%	-2.7%	-7.1%	4.1%	5.7%	4.0%	4.6%	5.9%	6.4%	6.9%	7.4%	8.1%	8.6%	8.9%	9.2%	9.4%	9.6%
Tax Rate	-1.6%	1.1%	-1.2%	10.5%	-115.1%	25.7%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
NOPAT	-314	-353	-737	630	2,755	763	1,057	1,604	2,034	2,520	3,071	3,812	4,490	5,125	5,772	6,487	7,274
Depreciation	744	1,019	1,110	1,105	1,366	1,690	2,006	2,278	2,554	2,848	3,144	3,425	3,690	3,948	4,204	4,455	4,700
Capex	-6,871	-1,165	-426	-2,221	-3,693	-3,790	-3,230	-3,238	-3,694	-4,038	-4,235	-4,272	-4,439	-4,739	-5,053	-5,382	-5,727
Net working capital investment	3,528	-2,979	23	-312	73	-144	488	472	622	229	261	220	228	241	297	290	340
Free Cash Flow	-2,913	-3,478	-30	-798	501	-1,481	321	1,116	1,516	1,558	2,241	3,186	3,968	4,575	5,220	5,849	6,588
YoY Growth - %								248.0%	35.8%	2.8%	43.8%	42.2%	24.6%	15.3%	14.1%	12.1%	12.6%
Discounting Factor							1.00	0.93	0.84	0.76	0.69	0.62	0.56	0.51	0.46	0.42	0.38
Present Value of FCF							321	1,036	1,273	1,184	1,541	1,983	2,235	2,332	2,408	2,442	2,489
Fade period forecast	FY36E	FY37E	FY38E	FY39E	FY40E	FY41E	FY42E	FY43E	FY44E	FY45E							
FCF	7,382	8,231	9,131	10,078	11,067	12,090	13,140	14,208	15,282	16,352							
Discounting Factor	0.34	0.31	0.28	0.25	0.23	0.21	0.19	0.17	0.15	0.14							
Present Value of FCF	2,524	2,546	2,556	2,554	2,538	2,509	2,468	2,415	2,350	2,276							

12M Forward Equity Valuation

PV of Cash Flow - Explicit Period	19,242
PV of Cash Flow - Fade Period	24,735
PV of Terminal Value	53,611
Enterprise Value	97,589
Debt - Mar'23	138
Cash - Mar'23	2,229
Net Debt	-2,091
Equity value	99,679
Mn no of shares	64
12M Target (DCF value) - Rs per share	1,570

Source: Company, JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	17,154	22,571	25,880	30,616	36,572
Sales Growth	68.8%	31.6%	14.7%	18.3%	19.5%
Other Operating Income	61	85	63	115	89
Total Revenue	17,216	22,656	25,943	30,731	36,662
Cost of Goods Sold/Op. Exp.	5,278	7,407	8,109	9,696	11,562
Personnel cost	2,740	2,929	3,456	4,179	4,848
Other expenses	6,148	8,036	9,765	11,164	13,209
EBITDA	3,050	4,284	4,613	5,693	7,042
EBITDA (%)	17.8%	19.0%	17.8%	18.6%	19.3%
EBITDA Growth (%)	145.2%	40.4%	7.7%	23.4%	23.7%
Comparable EBITDA	1,808	2,647	2,717	3,424	4,431
Comparable EBITDA (%)	10.5%	11.7%	10.5%	11.2%	12.1%
Depn & Amort	2,135	2,642	3,239	3,867	4,437
EBIT	915	1,642	1,374	1,826	2,605
Other Income	380	311	334	270	401
Finance Cost	781	869	1,009	1,167	1,350
PBT before Excep & Forex	514	1,084	699	929	1,656
Excep & forex Inc/Loss(-)	0	0	0	0	0
PBT	514	1,084	699	929	1,656
Taxes	54	-1,248	180	237	422
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	5	2	9	0	0
Reported Net profit	465	2,334	528	692	1,234
Adjusted Net Profit	465	2,329	528	692	1,234
Net Margin (%)	2.7%	10.3%	2.0%	2.3%	3.4%
Diluted share capital (mn)	63.5	63.5	63.7	63.7	63.7
Diluted EPS (Rs)	7.3	36.6	8.3	10.9	19.4
Diluted EPS Growth	-146.2%	400.3%	-77.4%	31.1%	78.2%
Total Dividend + Tax	0	0	0	0	0
Dividend Per Share (Rs)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	10,071	12,559	13,391	14,083	15,317
Share capital	635	635	637	637	637
Reserves & Surplus	9,436	11,924	12,754	13,446	14,680
Preference Share Capital	0	0	0	0	0
Minority Interest	-17	-20	7	7	7
Total Loans	612	443	276	138	69
Def. Tax Liab / Assets (-)	87	-1,184	-1,094	-1,094	-1,094
Total - Equity & Liab	10,754	11,798	12,580	13,134	14,298
Net Fixed Assets	6,944	9,269	11,095	11,584	11,658
Gross Fixed Assets	11,978	15,433	19,107	22,337	25,575
Intangible Assets					
Less: Depn. & Amort.	4,329	5,458	7,148	9,154	11,432
Capital WIP & Net lease assets	-705	-706	-864	-1,599	-2,485
Investments	1,525	659	0	0	0
Current Assets	5,890	5,607	4,814	5,920	8,201
Inventories	652	993	969	1,174	1,403
Sundry Debtors	141	179	344	252	301
Cash & Bank Balances	2,546	2,204	1,676	2,229	3,791
Loans & Advances	2,131	1,578	1,490	1,837	2,194
Other Current Assets	420	653	336	429	512
Current Liab. & Prov.	3,605	3,738	3,329	4,370	5,560
Current Liabilities	3,429	3,561	3,109	4,116	5,275
Provisions & Others	176	177	220	254	286
Net Current Assets	2,285	1,870	1,485	1,550	2,641
Application of Funds	10,754	11,798	12,580	13,134	14,298

Source: Company, JM Financial

Cash Flow statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	514	1,084	699	929	1,656
Depn. & Amort.	2,135	2,642	3,239	3,867	4,437
Net Interest Exp. / Inc. (-)	401	558	675	897	949
Inc (-) / Dec in WCap.	592	-669	-317	488	472
Others	393	225	212	0	0
Taxes Paid	-86	-21	-20	-237	-422
Operating Cash Flow	3,949	3,818	4,488	5,944	7,092
Capex	-2,844	-3,825	-3,850	-3,230	-3,238
Free Cash Flow	1,105	-6	638	2,714	3,854
-Inc/dec in investments	-1,184	910	691	0	0
Other current assets	-2,889	879	1,289	270	401
Investing Cash Flow	-6,916	-2,036	-1,869	-2,960	-2,837
Inc(dec) in capital	4,690	0	83	0	0
Dividend+Tax Thereon	0	0	0	0	0
Inc/dec in loans	-176	-192	-209	-138	-69
Other assets	-1,384	-1,756	-1,999	-2,293	-2,623
Financing Cash Flow	3,130	-1,948	-2,125	-2,431	-2,692
Inc / Dec (-) in Cash	162	-166	493	553	1,562
Opening cash balance	2,384	2,370	1,182	1,676	2,229
Closing cash balance	2,546	2,204	1,676	2,229	3,791

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	2.7%	10.3%	2.0%	2.3%	3.4%
Asset Turnover (x)	2.1	2.0	2.1	2.4	2.7
Leverage Factor (x)	1.1	1.0	0.9	0.9	0.9
RoE	6.3%	20.6%	4.1%	5.0%	8.4%

Key Ratios

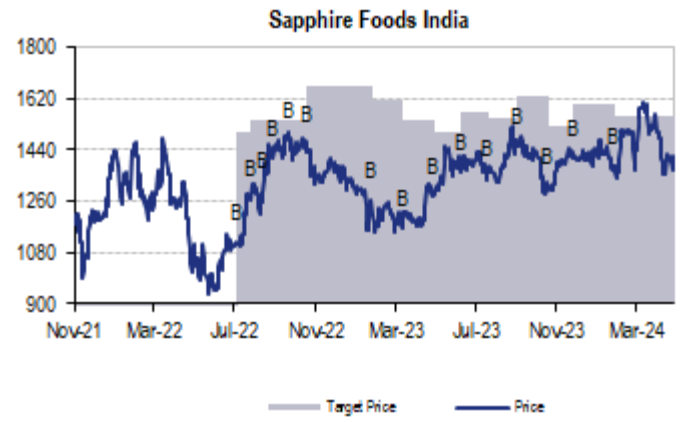
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (Rs)	158.5	197.7	210.2	221.1	240.4
ROIC (%)	9.1%	13.9%	8.4%	8.2%	11.9%
ROE (%)	6.3%	20.6%	4.1%	5.0%	8.4%
Net Debt-equity ratio (x)	-0.3	-0.2	-0.1	-0.1	-0.2
PER	NA	38.7	NA	NA	73.3
PBV	9.0	7.2	6.8	6.4	5.9
EV/EBITDA	28.4	20.5	19.3	15.5	12.3
EV/Net Sales	5.1	3.9	3.4	2.9	2.4
Debtor days	3	3	5	3	3
Inventory days	14	16	14	14	14
Creditor days	88	71	53	60	65

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
20-Jul-22	Buy	1,500	
11-Aug-22	Buy	1,540	2.7
29-Aug-22	Buy	1,540	0.0
13-Sep-22	Buy	1,540	0.0
7-Oct-22	Buy	1,540	0.0
3-Nov-22	Buy	1,665	8.1
9-Feb-23	Buy	1,610	-3.3
27-Mar-23	Buy	1,545	-4.0
13-May-23	Buy	1,500	-2.9
23-Jun-23	Buy	1,570	4.7
3-Aug-23	Buy	1,550	-1.3
18-Sep-23	Buy	1,630	5.2
3-Nov-23	Buy	1,520	-6.7
12-Dec-23	Buy	1,600	5.3
10-Feb-24	Buy	1,555	-2.8

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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