CENTRUM

Thematic

India I QSR

20 March, 2023

Institutional Research

# QSR

## Back to the future: Margins still matter



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# Index

## Industry Section



## Company Section

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# QSR

# Back to the future: Margins still matter

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20 March 2023

NIFTY 50: 17,100

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**Notwithstanding the hype behind the high growth western Quick Service Restaurant category, we believe companies in this space will still be valued based on their margin strategy. Our in-depth study delves into the strategies of both i.e., the Indian companies and their global parents to understand how they are evolving and shape-shifting to win in the Indian market. We give little credence (though not ignored) to beaten to a pulp words like convenience, efficiencies, digital devices, disposable incomes, etc. as they disconcert you enough to believe the woods for the forest. Hence, instead look at margins and volumes, these will define the future prospects as the companies expand out of saturated metro and tier-1 markets, because they are still consumer companies! We initiate coverage with Buy on Jubilant Foodworks (TP Rs.555) and Sapphire Foods (Rs1,455), Westlife Foodworld with Add (TP Rs735), and Reduce on Devyani International (TP Rs145) and Restaurant Brands Asia with Sell (TP Rs86).**

### Western QSRs to outperform as international brands perfect product basket right

Our in-depth study reveals the strategies followed by global parent i.e. (1) follow margin expansion in the developed markets, (2) while drive the store expansion in emerging markets due to expanding QSR market opportunity and penetration beyond metros. Further, while store growth is important, margins and volumes will define the future prospects as companies expand out of saturated metro and tier-1 markets. Our study pointed three significant developments in consumption, (1) consumer affinity towards western QSRs, (2) changing consumer habits – simplicity of ordering and delivery through time efficient digital platforms, and (3) easing of competition from local outfits. Though millennials are shaping up demand favouring the shift towards organised segment, QSRs have used recent crisis to optimise cost structures, and they are capturing market share.

### Surge in QSR network to drive revenue CAGR of 13% over FY20-25E

We expect India's organised food services market to grow at CAGR of ~10.5% to Rs1,684bn over FY20-25E capturing ~46% market share from current 40%. Given vast growth potential, organised segment chains to grow at 13% CAGR garnering 12% market share of food service market to Rs383bn. Industry estimates point out Informal Eating out (IEO) market at Rs3.2trn and expecting to grow CAGR 12% in next 5 years. Growth in total addressable market (TAM) to be driven by, (1) targeting millennials, (2) consumer centric palate and choices, (3) focusing on online, time efficient delivery models, and (4) strategic pricing and promotions offering value proposition. Further, established brand acceptance helped top-5 global QSRs to garner ~50% market share with high concentration in top 25 cities, nonetheless, the brand reputation helps smoother entry in Tier 2/3 markets providing huge runway for growth. Therefore, we believe top QSR players to add +2,000 stores over FY22-25E.

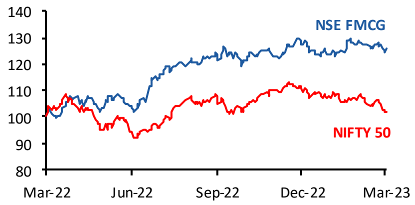
### High growth opportunity and established models, yet divergent return ratios

The recent pandemic has triggered pace of online ordering and delivery, shifting to platform-to-consumer (P2C) model and now shaping up growth for aggregators (Zomato and Swiggy). Reduction in restaurant led supply deliveries have resulted in lower discounting and higher delivery charges, now accepted by the consumers, however restricted dine-out and guaranteed delivery by aggregators coupled with wide choice of menu has altered consumer behaviour given ease of ordering food from outside against home-made. Despite popular brand imagery, established models report divergent return ratios. Domino's delivers most profitable growth attributed to, (1) better unit economics (2) higher unit throughput, and (3) growing delivery contribution. Burger QSRs operate with, (1) focus on dine-in (2) higher capex due to large store size, and (3) lower throughput due to poorer share of delivery. We expect most QSR players will focus on driving SSSG with higher volume to maintain profitability. We expect return ratios to stabilize in next few years.

### Rich valuations to be led by margin delivery even though store growth to continue

With strong visibility of store expansion serving time crunch millennials on-time, healthy growth for QSR players is anticipated. Over FY23-25E, we forecast revenue/ EBITDA/PAT CAGR for JUBI – 14.9%/19.3%/24.6%, WLDL – 16.9%/20.4%/33.2%, Sapphire 19.1%/20.6% /21.2%, Devyani – 22.1%/23.4%/15.1% and Restaurant Brands Asia – 25.9%/45.8%/na. We initiate coverage on JUBI with Buy - TP R555; Sapphire with Buy - TP Rs1,455; WLDL with Add-TP Rs735, Devyani with Reduce - TP Rs145, and Restaurant Brands Asia with Sell - TP Rs86. Key risks: delay in economic recovery, rise in competition from regional and national players and delay in store expansion.

### Nifty 50 vs NSE FMCG Index




Source: Bloomberg

| Company | Rating | CMP* (Rs) | Target price (Rs) |
|---|---|---|---|
| Jubiliant Foodworks | Buy | 428 | 555 |
| Devyani International | Reduce | 145 | 145 |
| Westlife Foodworld | Add | 685 | 735 |
| Sapphire Foods | Buy | 1,195 | 1,455 |
| Restaurant Brands Asia | Sell | 93 | 86 |

Source: Centrum Broking, *as on 17 March 2023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QSR

## Comparative Financials and Valuation

| Company | Rating | Price (Rs) | TP (Rs) | Upside (%) | Revenue(Mn) | | | CAGR FY23-25E(%) | | | EBITDA(Mn) | | | PAT(Mn) | | | EPS | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | FY23E | FY24E | FY25E | Revenue | EBITDA | PAT | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Jubiliant Foodworks | Buy | 428 | 555 | 29.7 | 51,892 | 59,152 | 68,539 | 14.9 | 19.3 | 24.6 | 12,041 | 14,261 | 17,148 | 4,505 | 5,862 | 6,995 | 6.8 | 8.9 | 10.6 |
| Devyani International | Reduce | 145 | 145 | -0.3 | 30,097 | 38,092 | 44,870 | 22.1 | 23.4 | 15.1 | 6,638 | 8,482 | 10,104 | 2,611 | 3,200 | 3,459 | 2.2 | 2.7 | 2.9 |
| Westlife Foodworld | Add | 685 | 735 | 7.4 | 23,032 | 26,611 | 31,495 | 16.9 | 20.4 | 33.2 | 3,883 | 4,648 | 5,629 | 1,276 | 1,721 | 2,264 | 8.2 | 11.0 | 14.5 |
| Sapphire Foods | Buy | 1,195 | 1,455 | 21.7 | 23,012 | 28,111 | 32,624 | 19.1 | 20.6 | 21.2 | 4,424 | 5,454 | 6,431 | 1,183 | 1,464 | 1,738 | 18.6 | 23.0 | 27.3 |
| Restaurant Brands Asia | Sell | 93 | 86 | -7.9 | 14,949 | 19,057 | 23,713 | 25.9 | 45.8 | NA | 1,732 | 2,782 | 3,684 | (577) | (272) | 19 | (1.2) | (0.5) | 0.0 |

Source: Centrum Broking

## Comparative Financial Data

| Company | No. of Store | | | Gross Margin (%) | | | Store Margin Pre-INDAS(%) | | | EBITDA Margin Pre-INDAS(%) | | | EBITDA Margin -Post(%) | | | FCFF (Mn) | | | Capex(Mn) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Jubiliant Foodworks | 1894 | 2223 | 2578 | 75.8 | 76.6 | 77.0 | 20.2 | 21.2 | 22.0 | 16.0 | 17.1 | 18.0 | 23.2 | 24.1 | 25.0 | 3,448 | 7,311 | 8,484 | 7,148 | 6,356 | 6,470 |
| Devyani International | 1197 | 1440 | 1665 | 70.3 | 70.3 | 70.5 | 18.8 | 19.8 | 20.3 | 13.8 | 14.7 | 15.2 | 22.1 | 22.3 | 22.5 | 2,697 | 4,104 | 5,254 | 4,242 | 3,900 | 3,923 |
| Westlife Foodworld | 366 | 414 | 469 | 65.8 | 65.9 | 66.2 | 18.8 | 19.4 | 19.7 | 12.9 | 13.5 | 13.9 | 16.9 | 17.5 | 17.9 | 1,544 | 1,765 | 2,452 | 2,192 | 2,740 | 2,932 |
| Sapphire Foods | 746 | 883 | 1018 | 67.0 | 67.4 | 67.7 | 17.6 | 17.7 | 18.0 | 12.0 | 12.2 | 12.6 | 19.2 | 19.4 | 19.7 | 1,851 | 2,918 | 3,518 | 4,022 | 3,104 | 3,098 |
| Restaurant Brands Asia | 390 | 470 | 545 | 67.0 | 68.9 | 69.5 | 8.5 | 11.5 | 12.4 | 3.1 | 6.1 | 7.0 | 11.6 | 14.6 | 15.5 | (2,005) | (889) | (106) | 4,026 | 4,174 | 4,275 |

Source: Centrum Broking

## Comparative Valuation

| Company | P/E(x) | | | EV/EBITDA Pre-INDAS (x) | | | EV/EBITDA –Post(x) | | | M.Cap to Sales (x) | | | Net Debt to EBITDA (x) | | | RoE (%) | | | RoCE (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Jubiliant Foodworks | 62.7 | 48.2 | 40.4 | 35.4 | 29.2 | 23.8 | 24.4 | 20.3 | 16.6 | 5.4 | 4.8 | 4.1 | 1.0 | 0.5 | 0.2 | 19.9 | 22.1 | 22.2 | 14.4 | 16.6 | 17.5 |
| Devyani International | 66.9 | 54.6 | 50.5 | 37.9 | 27.4 | 21.9 | 23.7 | 18.1 | 14.8 | 5.3 | 4.2 | 3.6 | -0.4 | -0.7 | -1.0 | 32.0 | 28.9 | 24.0 | 39.8 | 35.7 | 29.9 |
| Westlife Foodworld | 83.7 | 62.1 | 47.2 | 39.3 | 32.4 | 26.4 | 30.0 | 25.0 | 20.5 | 4.6 | 4.0 | 3.4 | 2.5 | 2.0 | 1.6 | 24.0 | 25.4 | 26.7 | 12.1 | 13.2 | 14.6 |
| Sapphire Foods | 64.2 | 51.9 | 43.7 | 26.1 | 20.1 | 16.0 | 16.3 | 12.6 | 10.2 | 3.3 | 2.7 | 2.3 | -0.8 | -1.3 | -1.6 | 11.1 | 12.2 | 12.8 | 17.1 | 17.9 | 18.2 |
| Restaurant Brands Asia | nm | nm | 2413.3 | 126.7 | 50.9 | 35.2 | 33.7 | 21.2 | 15.9 | 4.0 | 3.1 | 2.5 | -0.9 | -0.3 | -0.4 | -3.0 | -1.4 | 0.1 | 1.4 | 4.8 | 3.7 |

Source: Company, Centrum Broking

**Exhibit 1: We estimate Indian food services market to grow at CAGR of 7.2%, while organised food services to grow at CAGR of 10.5% over FY20-25E**

**Food service market (Rs4,257bn)**
CAGR (FY15-20): 8%
CAGR (FY20-25E): 7.2%

**Restaurants in Hotels (Rs117bn)**
CAGR FY15-20: 8%
CAGR FY20-25E: 6%
Market share -
FY20: 3%
FY25E: 3%

**Chain market (Rs383bn)**
CAGR FY15-20: 17%
CAGR FY20-25E: 13%
Market share FY20: 8%
Market share FY25E: 12%

**Standalone (Licensed) market**
(Rs1,184bn)
CAGR FY15-20: 12%
CAGR FY20-25E: 10%
Market share: FY20: 27%
Market share: FY25E: 31%

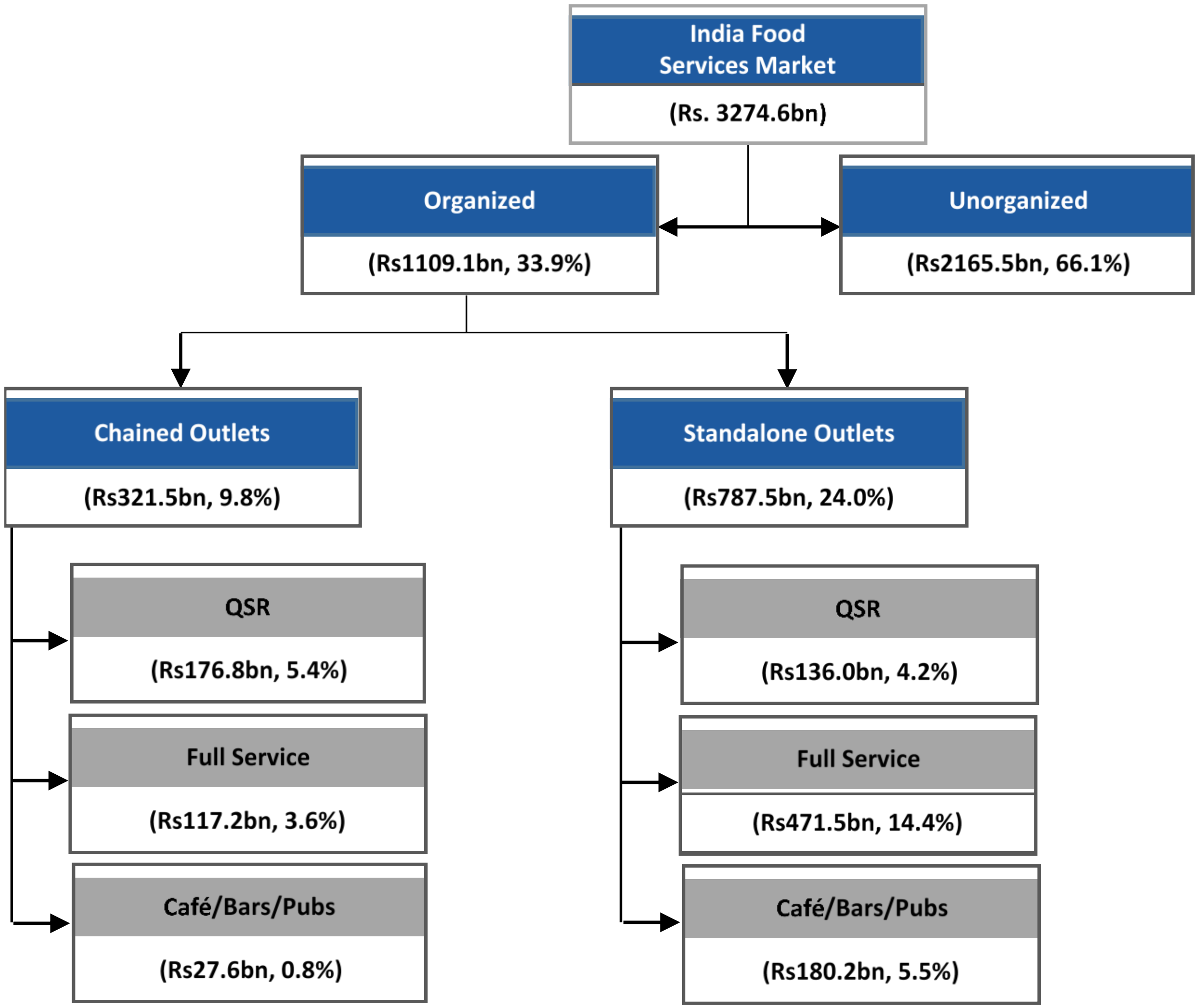
**Unorganised market (Rs2,573bn)**
CAGR FY15-20: 6%
CAGR FY20-25E: 5%
Market share -
FY20: 62%
FY25E: 54%

| Segment | Size (Rs.bn) | CAGR FY15-20 (%) | Market share (%) FY15 | MKT share (%) FY20 |
|---|---|---|---|---|
| Café | 25 | 7 | 11 | 7 |
| QSR | 180 | 19 | 44 | 46 |
| IC/FD | 21 | 15 | 6 | 5 |
| CDR | 129 | 19 | 31 | 34 |
| FDR | 6 | 2 | 3 | 2 |
| PBCL | 23 | 23 | 5 | 6 |

| Segment | Size (Rs.bn) | CAGR FY15-20 (%) | Market share (%) FY15 | MKT share (%) FY20 |
|---|---|---|---|---|
| Cafe | 72 | 7 | 8 | 6 |
| QSR | 156 | 14 | 12 | 13 |
| IC/FD | 22 | 7 | 2 | 2 |
| CDR | 757 | 13 | 60 | 63 |
| FDR | 23 | 4 | 3 | 2 |
| PBCL | 153 | 9 | 15 | 13 |

Source: Company, Centrum Broking

**Exhibit 2: Euro monitor estimated India Food Services market at Rs3,275bn in CY21 of which only 34% is organised**




Source: Euromonitor, Note: Chained street kiosks included under chained cafes and self-service cafeterias are included under standalone cafe

# Executive summary

## Growth drivers

Informal eating market to grow CAGR 12% reaching to Rs3.2trn

**We estimate the QSR category to grow much faster than rest of the food services sector at 13% vs. 10% for the industry. Its main demand drivers are, (1) young population, increasing nuclear families, growing urbanisation, (2) rapid penetration of food delivery ecosystem driven by mobile/internet users/apps, (3) expanding middle-class driven by rising per capita income with high disposable income, and (4) millennials' taste for western global QSR brands. The informal eating out market is expected to grow CAGR 12% over next five years reaching to Rs3.2trn. Therefore, western QSR players hold strong growth potential to add +2000 stores over FY22-FY25E.**

## Jubilant Foodworks

Jubilant Foodworks (JUBI) will continue to build extensively on its four moats i.e., (1) value-for-money proposition, (2) delivery expertise, (3) supply chain efficiencies, and (4) technology supremacy garnering 20.0% market share in the organized industry. Over FY13-22, JUBI delivered Revenue/EBITDA/PAT CAGR at 15.6%/19.5%/15.3%. As India market offers large opportunity for QSR segment, JUBI is well placed to fast-track store expansion powered by favorable macro factors and improved economics. Though rising competition and high inflation cycle pose concerns, JUBI's investments in new brands Popeyes, Hong's Kitchen and Ekdum! coupled with DP Eurasia offer excellent optionality. We believe JUBI holds the potential to transition in multi-brands QSR with its deep understanding on consumer preferences and unmatched store network. We reckon JUBI's success pivots on its capability to enrich organizational competences.

### Valuations are reasonable

**Jubilant Foodworks Buy:** TP Rs555

We estimate revenue/EBITDA/PAT CAGR over FY23-25E of 14.9%/19.3%/24.6% led by (1) Domino's store addition of 713 to reach 2,280 by Mar'25E, (2) Popeyes store count to reach 211 by FY25E, (3) SSSG for Domino's at 3.0%, (3) increase in volumes and price/mix, and EBITDA margin to improve gradually at ~25.0% (post-INDAS). On the home grown brands (Ekdum! And Hong's Kitchen) we estimate gradual scale up. We consider JUBI's recent investments made in DP Eurasia and Barbeque Nation as strategic and we value these businesses on EV/Sales basis. We initiate coverage on JUBI with BUY rating and TP of Rs555; (Domino's India: DCF-based - Rs542; International Business: Mcap/sales 1x - Rs3; Other business: EV/EBITDA 5x – Rs10); implied EV/EBITDA 16.6x FY25E Post-INDAS. With strong growth aspirations to become multi-brand, and multi-country player we expect JUBI to emerge strong player with steady operational performance. Despite JUBI trading at 30% discount to its 10-year average EV/EBITDA as on date, the gap could minimize in our view.

**Exhibit 3: SOTP Valuation Summary**

| SOTP | Basis | Assumption | | Price (Rs) |
|---|---|---|---|---|
| Jubilant - Standalone | DCF | WACC | 12.2% | 542 |
| | | Terminal Growth | 5.0% | |
| International | M.Cap to Sales | X | 1 | 3 |
| DP Eurasia | EV/EBITDA | X | 5 | 6 |
| BBQ | | | 8 | 4 |
| Total Value/Share | | | | 555 |

Source: Company, Centrum Broking

## Devyani International

DIL is the fastest growing QSR with 1047 stores

Devyani International Limited (DIL) is one of the leading franchisees of Yum! Brands and has emerged as the fastest growing QSRs in India with 1,047 stores including KFC, Pizza Hut (PH) and Costa Coffee as on 3QFY23. Over past few years, DIL has shown remarkable turnaround in its businesses. We expect growth momentum to continue led by, (1) faster penetration of KFC and Pizza Hut stores driven by the incentive program of Yum!, (2) strong operating parameters, and (3) sharper execution. Notwithstanding the current demand conditions, the management has guided for 250-300 new stores indicating higher KFC stores vs. PH. Further, despite higher ADS and FCF growth, DIL delivers industry leading return ratios, however it commands premium valuation.

### Valuations are priced in

**Devyani International: Reduce;** TP Rs145

We estimate revenue/ EBITDA/PAT CAGR over FY23-25E of 22.1%/23.4%/15.1% led by (1) 697 store additions under KFC/PH/Costa Coffee format in India by FY25E, (2) 5.6% increase in KFC AUV, and (3) 120bp expansion in EBITDA margin (Post-INDAS) in KFC portfolio. However, we expect gradual scale up in the international portfolio. Despite high spend on cumulative store capex of Rs12bn we expect structural improvement adopted by the company to expand profitability to reflect in cumulative FCF to reach Rs12.1bn from FY23-25E. We initiate coverage on DIL with Reduce rating and DCF-based target price of Rs145 (implying 14.8 FY25E EV/EBITDA Post-INDAS).

Strong support from Yum! Brands for store opening a key driver for valuations.

**Exhibit 4: DCF Valuation**

| SOTP | Basis | Assumption | | Price (Rs) |
|---|---|---|---|---|
| Devyani Int.– Consol. | DCF | WACC | 12.5% | 145 |
| | | Terminal Growth | 5.5% | |

Source: Company, Centrum Broking

## Sapphire Foods

Sapphire Foods (SF) is the 2nd franchisee of Yum! Brands with territorial rights to operate in India and Maldives for KFC/PH, and in Sri Lanka for PH/Taco Bell. We like SF given growth opportunities in QSR space, strong management team, execution capabilities and prominent valuations. SF operates 325 KFC, and 274 PH stores in India and 114 PH/Taco stores in Sri Lanka. SF has shown remarkable improvement in its performance and we expect SF to emerge as the fastest growing QSR. The growth momentum will be led by, (1) faster opening of KFC/ PH stores driven by Yum!'s incentive program, (2) scope for improving operating parameters, and (3) sharper execution. Notwithstanding the current demand conditions, the management has reiterated its intension of doubling stores count by 550 over next 3-4 years.

### Valuations are not fully priced in

**Sapphire Food: Buy;** TP Rs1,445

We estimate revenue/EBITDA/PAT CAGR over FY23-25E of 19.1%/20.6%/21.2% led by augmented growth in store expansion taking the store count to 1,018 in FY25E. Despite high spend on cumulative store capex of Rs10.0bn we expect structural improvement adopted by the company to expand profitability will reflect in cumulative FCF to reach Rs7.8bn from FY23-25E. We initiate coverage on Sapphire Foods with Buy rating and DCF-based target price of Rs1,455 (implying 10.2x FY25E EV/EBITDA post-INDAS).

**Exhibit 5: DCF Valuation**

| SOTP | Basis | Assumption | | Price (Rs) |
|---|---|---|---|---|
| Sapphire Foods – Consol. | DCF | WACC | 11.8% | 1455 |
| | | Terminal Growth | 5.2% | |

Source: Company, Centrum Broking

## Westlife Foodworld

WLDL clear leading in Burger QSR

Westlife Foodworld (WLDL) is a master franchisee of the McDonald's brand in West and South India with presence in 52 cities operating 341 stores as on Dec'22. Guided by global McDonald's framework, WLDL is transforming itself to become a multi category (burgers, wraps, chicken, desserts & beverages), multi day-part (breakfast-lunch-dinner) and multi-channel (dine-in, delivery, takeaway and drive-thru) company expecting to capture share of Rs200bn TAM. Over last few years, WLDL has shown steady track record of building relevant menu through innovation/localization enhancing its value proposition. Further, McCafé has strong influence on driving customer traffic and ramp-up ADS in driving unit economics. These strategies helped WLDL to report industry leading performance. Through its Vision-2027, management displayed its confidence to deliver healthy growth.

### Higher valuations supported by strong performance

**Westlife Foodworld: ADD;**
TP Rs735

We expect Westlife Foodworld to deliver revenue/EBITDA/PAT CAGR of 16.9%/20.4%/ 33.2% over FY23-25E. We strongly believe WLDL's multi-category, multi-channel and multi-day-part strategy holds lot of potential to drive volume and SSSG. Except the over-hang on revised royalty rate (Apr'26), WLDL could deliver long-term value creation in our view. We initiate coverage on WLDL with ADD rating with DCF-based TP of Rs735 (implying 20.5x FY25E EV/EBITDA Post-INDAS).

**Exhibit 6: DCF Valuation**

| DCF | Basis | Assumption | | Price (Rs) |
|---|---|---|---|---|
| WLDL – Consol. | DCF | WACC | 10.0% | 735 |
| | | Terminal Growth | 5.0% | |

Source: Company, Centrum Broking

## Restaurant Brand Asia

Restaurant Brands Asia expect to open 700 stores by Dec'26

Restaurant Brands Asia (RBA) was late to enter in India, however its aspiration to open 700 stores by Dec'26 drew investors' confidence given competition moved at a slower pace. Though this is commendable, we suspect RBA's margin could remain lower than optimum level compared to existing competition. Nonetheless, our per-unit economics leads us to believe that the format is capable to deliver >15% (pre-INDAS) store-level margins in next 5 years, we are unsure if it could translate into company EBITDA margins beyond 10% (pre-INDAS). Popeyes partnership in Indonesia appears to be promising, managing growth in ADS could be challenging. RBA's performance revolves around, (1) aggressive store expansion, (2) improve ADS, (3) margin expansion led by operating leverage, and (4) capital efficiency. Given its growth aspirations RBA commands higher EV/EBITDA multiple vs. JUBI on pre-INDAS, we believe premium valuation is unjustified.

### Valuations are expensive but there is lot of promise

**Restaurant Brands Asia: SELL;**
TP Rs86

We estimate revenue/ EBITDA CAGR over FY23-25E of 25.9%/45.8% led by (1) steady scale of store addition of 545 by FY25E and 700 by Dec'26E, (2) measured growth in ADS India Burger King, (3) curated growth in stores in BK Indonesia, and (4) Popeyes store count to reach 50-55 by FY25E.

We have used DCF valuation for India business and used Market-cap to sales multiple for Indonesia. We initiate coverage on Restaurant Brands Asia with Sell rating and TP of Rs86 (DCF for India Business at Rs77 and 0.5x M. Cap/Sales for Indonesia Business at Rs9). Implying 15.9x FY25E EV/EBITDA Post-INDAS).

**Exhibit 7: SOTP Valuation Summary**

| SOTP | Basis | Assumption | | Price |
|---|---|---|---|---|
| Burger King - Standalone | DCF | WACC | 14.3% | 77 |
| | | Terminal Growth | 4.5% | |
| Indonesia | M.cap/Sales | X | 0.5 | 9 |
| Total Value/Share | | | | 86 |

Source: Company, Centrum Broking

# Study on global QSRs

## Global parents focus on margins, looking for revenue growth in India

### A sneak-peak into global comparison

**Past 10-years CAGR store growth**:

Domino's: 6.8%; JUBI: 12.1%

McDonald's: 1.6%; WLDL: 8.6%

Yum!: 3.6%; DIL: 20.6%; SF: 18.8%

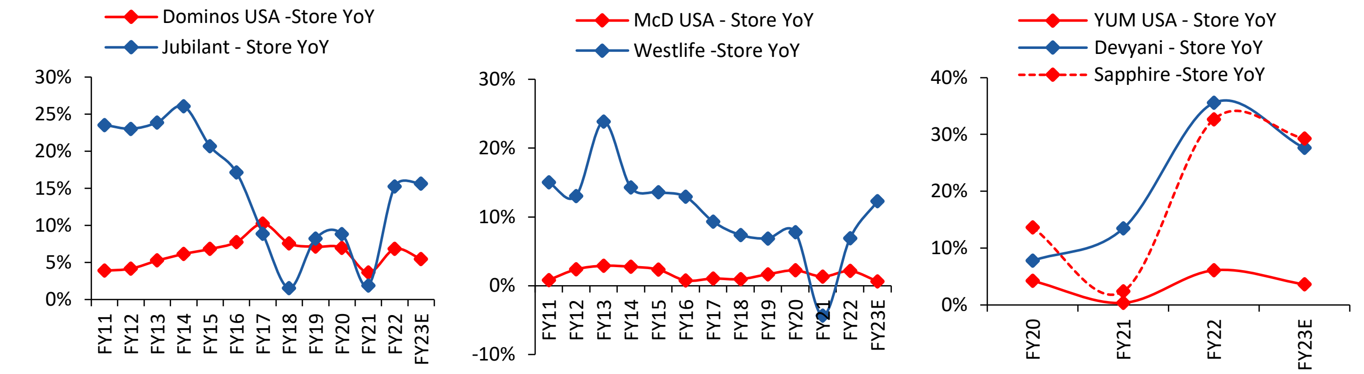
Notwithstanding the hype behind the high growth western Quick Service Restaurant category, we believe companies in this space will be valued based on each companies' margin strategies. Our in-depth study delves into the strategies of both – Indian companies and their global parents to understand how they are evolving and shape-shifting to win in the Indian market. We give little credence (though not ignored) to beaten to a pulp words like convenience, efficiencies, digital devices, disposable incomes, etc., as they disconcert you enough to believe the woods for the forest. Hence, we instead look at margins and volumes, which will define the companies' future prospects as the companies expand out of saturated metro and tier-1 markets, because they are still consumer companies!

We note all the master Franchisee located in India pay royalty ranging from 3.5% to 6%. In exchange to that the parent (brand owners) provides them strategy which broadly revolve around, (1) store expansion, (2) product-pricing-decisions, (2) menu innovation/obsession, and (4) store economics to drive profitability. Although this is very relevant for growth, we argue the merits of these strategies as they hold potential influence on the stock price performance.

One needs to note, while Yum! and McDonald's (parent) actively participate in discussion with their Franchisee partners such as Devyani International, Sapphire Foods and Westlife Foodword, Domino's has very little involvement in local decisions made by Jubilant Foodworks. Hence, we compare businesses of these companies with that of parent. We equate long period data for, (1) store expansion, (2) revenue growth, and (3) gross margin, operating margin and PBT margin (not considered PAT as parent would have many adjustments) and its impact on stock price performance.

**(1) Store network growth:** The parent companies such as Domino's, McDonald's and Yum! Brands followed calibrated store expansion in the core markets, yet store expansion was pushed in developing markets like India.

**Exhibit 8: Store network growth (%)**




Source: Centrum Broking, Company Data

Over the last 10 years (CY13-CY22), Domino's reported store network growth CAGR of 6.8% (from 10255 stores in CY13 to 19880 stores in CY22). In the same period, JUBI reported network growth at a CAGR 12.1% (from 576 stores in FY13 to 1567 stores in FY22). Similarly, McDonald's reported network expansion CAGR 1.6% (from 34480 stores to 40275 stores in CY22), whilst WLDL reported CAGR 8.6% (from 161 stores to 366 stores).

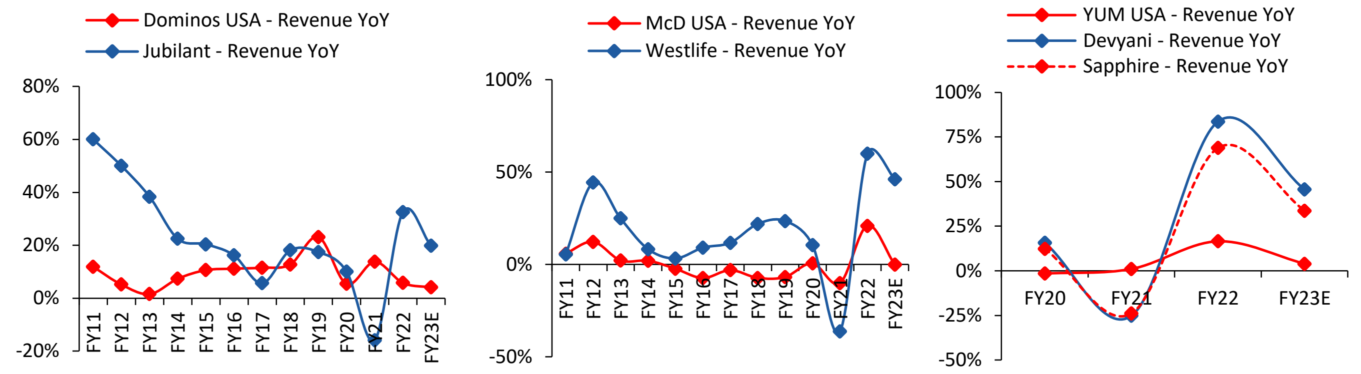
Notably, Yum! Brands USA saw CAGR of 3.6% for 10-years while its entry in India with Devyani and Sapphire (listing) was very recent, hence we see 4-year CAGR of 20.6%/18.8%, respectively.

Therefore, we draw three distinctions, (1) companies are facing ongoing loss of traffic to eating out, (2) loss of delivery sales from outsized inflation, and (3) lack of partnership with third party aggregators. However, these companies are now focusing on store expansion to provide efficient services driving ordering convenience to customers which will have two effects – (1) cut in delivery time, and (2) improve takeaway.

Therefore, we note even Franchisees based in India also following similar strategies off-late to focus on ramping up store network.

(2) **Revenue growth**: Over preceding 10 years (CY13-22) Domino's reported revenue growth at a CAGR of 10.5%, while JUBI grew at CAGR 13.9%. Thus, we infer JUBI's pace of store expansion was slower in last five years as it focused on improving store economics and driving SSSG.

**Exhibit 9: Revenue growth (%)**




Source: Centrum Broking, Company Data; YUM 10 years data not comparable

**Past 10-years CAGR Revenue growth:**

Domino's: 10.5%; JUBI: 13.9%

McDonald's: -1.7%; WLDL: 12.9%

Yum!: 4.7% for last 4-years

In case of McDonald's, the revenue declined at 1.7% CAGR over 10-year window, while WLDL grew at CAGR 12.9%. We reckon, McDonald's has managed to successfully sustain a consumer base focused on children as they are an important target group due to the influence they have on their parents'. Further, children become adult consumers of the future, and it is therefore important to forge brand loyalties at an early age. However, there is an incremental trend as most millennials have become health conscious, and hence their eating out frequency has decreased, but it is not visible in developing countries such as India.

In case of Yum! the revenue increased at a CAGR of 4.7% in last 4-years CAGR, yet Devyani and Sapphire Foods grew at 23.3%/17.8%, respectively.

Therefore, we conclude the parent's strategy was two pronged (1) roll out calibrated store expansion in US, and (2) focus on high growth in developing markets through store expansion to drive revenues.

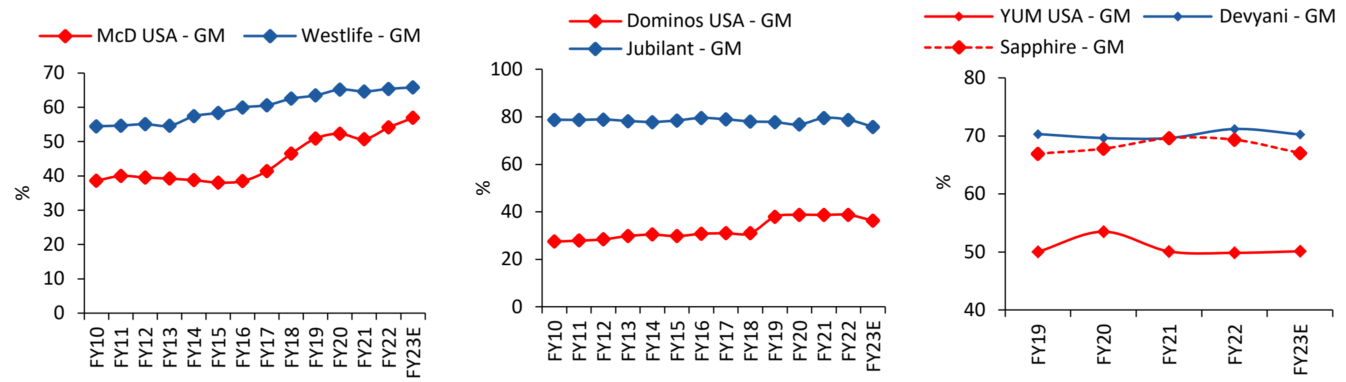
Company data indicates that over past 10-years Domino's reported store/revenue growth of 6.8%/ 10.5%, while McDonald's stood at 1.6%/ (1.7%), yet Yum! saw at 9.1%/4.7% in last 4-years period.

Interestingly, in the same period JUBI's store/revenue CAGR stood at 12.1%/13.9% and for WLDL at 8.6%/12.9%. Thus the data indicate both JUBI and WLDL did not focus on store growth.

**While we note parent companies are in sync with this strategy, it is important to evaluate if there is trade-off on margins.**

(3) **Gross margins:** Over last 10-years (CY13-22) Domino's reported gross margin/operating margin reaching to 36.3%/16.9% an expansion of 640bp/10bp driven by consolidation, while JUBI's margin performance was mixed where gross margin was cut to 75.8% (-240bp) yet operating margins improved to 23.2% (+580bp). We must highlight Domino's margin profile is much weaker as compared to JUBI (India partner).

**Exhibit 10: Gross margins (%)**




Source: Centrum Broking, Company Data; YUM 10 years data not comparable

**Gross margin (%)/ OPM (%):**

Domino's: 36.3%/16.9%;
JUBI: 75.8%/23.2%

McDonald's: 57.0%/40.4%
WLDL: 65.6%/16.5%

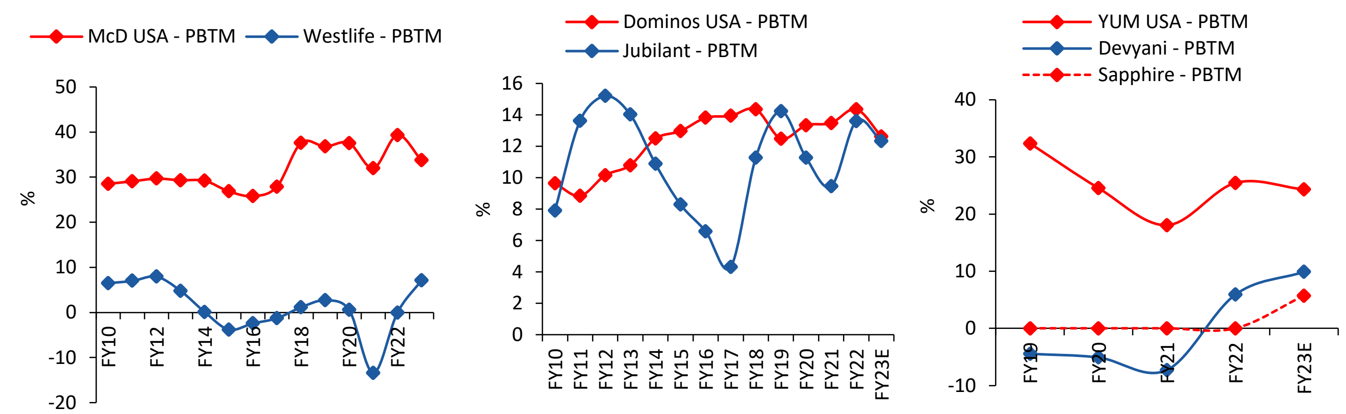
Yum!: 50.1%/32.0%
DIL: 70.3%/22.1%
SF: 67.0%/19.2%

Similarly, McDonald's US saw GM/OPM reaching to 57.0%/40.4%, an expansion of 1770bp/920bp, while WLDL reported it at 65.6%/16.5% (+1100bp/+810bp) indicating the strategy adopted by the parent has worked. In case of McDonald's, its margin profile is superior as compared to India, but WLDL saw remarkable improvement over past few years.

In case of Yum! over 10-years its GM/OPM moved up to 50.1%/32.0% growing by 320bp/1510bp driven by tailwinds like (1) store expansion, (2) fanfare for KFC's chicken portfolio, while Pizza Hut success was limited. Incidentally Devyani and Sapphire Foods reported gross margins at 70.3%/67.0% (+10bp each) and OPM at 22.1%/19.2% (+80bp/+700bp) indicates KFC acceptance and store expansion strategy has played out very well.

## (4) PBT margin (%)

**Exhibit 11: PBT margin (%)**




Source: Company, Centrum Broking

Thus, we consider PBT over PAT margin (as PAT would have more adjustments at the parent level). Over last 10-years (CY13-22) Domino's saw PBT margin expansion to 12.6% (+10bp), while for JUBI it declined to 13.6% (-160bps).

Similarly, for McDonald's, PBT margin reached to 33.8% (+460bps) and while WLDL has reached break even at PBT level (-490bps).

Yum! reported exit FY22 PBT margins at 25.4% (+970bps) while Devyani and Sapphire reported it at 5.9%/3.0%, respectively.

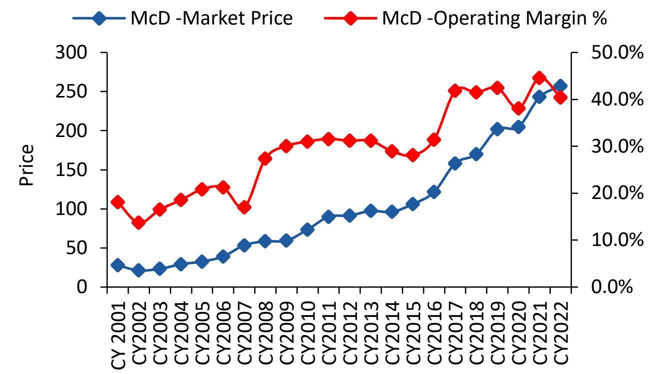
Therefore, we would like to highlight the parent companies and their India partners to follow similar strategies led by, (1) aggressive store expansion to counter competition, (2) focus to drive margin, and (3) drive volume growth to build solid SSSG. Hence, we conclude in the immediate future, margins may get capped led by sticky inflation and rising share of value-for-money products.

Further, we analyse how these strategies (store/revenue growth and margin expansion) influence the stock price performance of these companies.

## Stock price performance is driven by operating margins

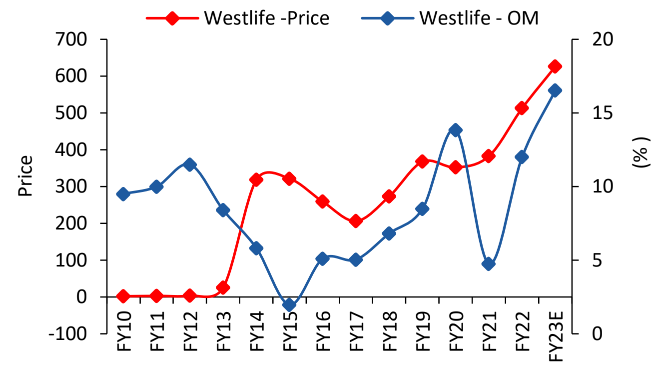
It is evident that store expansion drives revenue growth for companies, but stock prices move in tandem with margin expansion in reality. After analysing store and revenue impact on margins we put forth its eventual impact on stock prices. We see strong co-relations between margin expansion and ruling stock price as shown below.

**Exhibit 12: McDonald's USA**



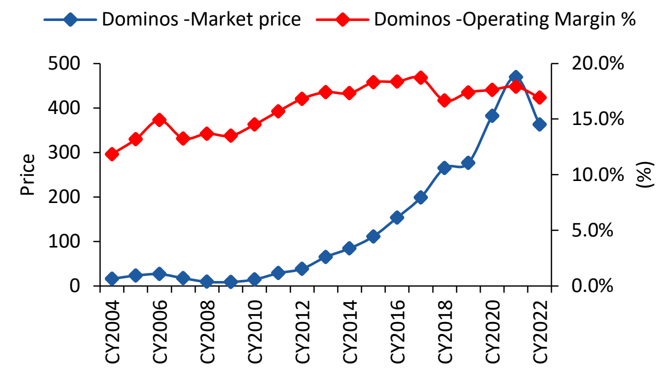

Source: Centrum Broking, Company Data

**Exhibit 13: Westlife Foodworlds**



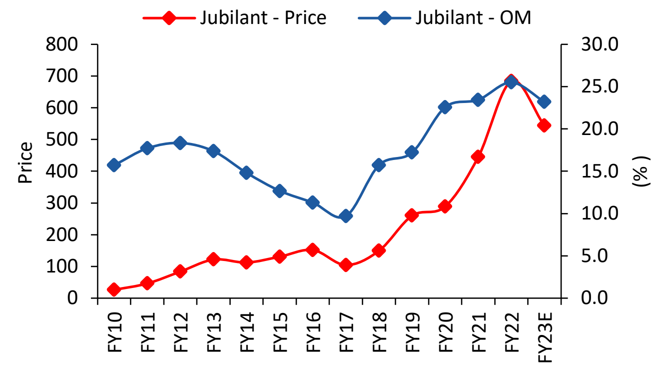

Source: Centrum Broking, Company Data

**Exhibit 14: Domino's USA**



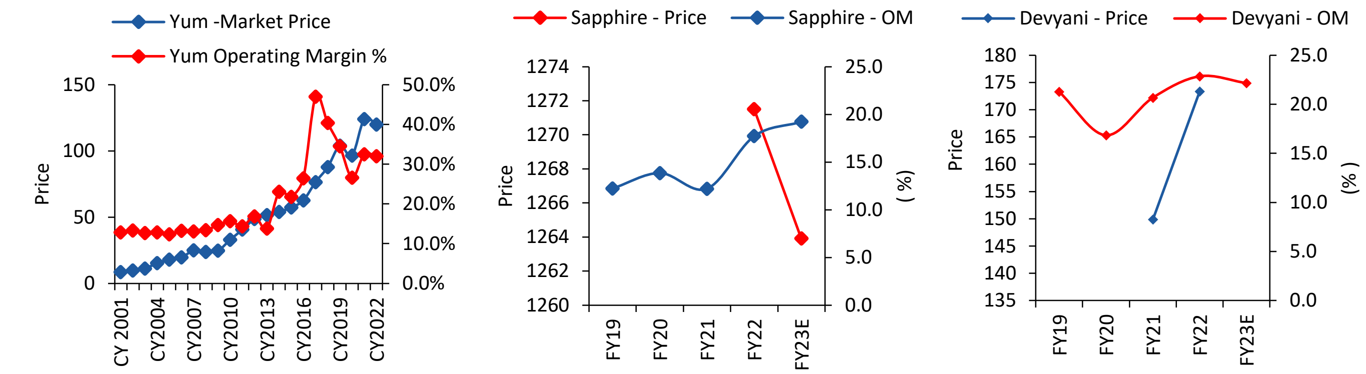

Source: Centrum Broking, Company Data

**Exhibit 15: Jubilant Foodworks**




Source: Centrum Broking, Company Data

**Exhibit 16: Yum! Brands, Sapphire Foods and Devyani International**




Source: Centrum Broking, Company Data, Note: Devyani & Sapphire have only 2 years price data whereas Operating margin data available for 4 years

To sum up, Domino's is focusing on store expansion to drive carryout and takeaway given its superior digital assets. McDonald's uses 'Arches strategy' driven by 3D's – digital, delivery and drive-thru. Therefore, we conclude, (1) stock price performance was driven by strong visibility in gross margin and operating margin expansion, (2) companies took calibrated store expansion and expanded margin in US, while used trade-off on margin to fast track growth in India using store expansion tactics.

# QSR consumption drivers

- Rising preference for western QSRs
- Rising urbanization
- Women force
- Abundant room for growth in top 8 cities
- Long way to go in terms of QSR density

## Western QSRs riding on big market opportunity

Our interaction with industry experts and consultants points three factors driving growth for the QSRs in the country, (a) store expansion in existing markets (cluster-based strategy to capture captive consumer base, (b) market beyond top 100 cities/clusters, and (c) try new formats dine-in vs. drive thru, takeaway, on-the-go or delivery heavy.

Per capita spends on Food service in urban India grew CAGR 5% over FY15-20

India, as compared to other markets, has one of the lowest per capita spends on eating out. This is primarily due to a higher rural population and a preference for eating at home over eating out. In addition, lack of significant eating out options in smaller cities and towns results in lower frequency of eating out. However, eating out frequency is expected to increase in the short term driven by growth of spending power and increased exposure to a variety of culinary customs from across the world sprucing up novelty factor.

**Exhibit 17: Per capita spend on food services by urban population (US$) per country in 2015 and 2020**

| Countries | CY15 | CY20 | CAGR CY15-20 |
|---|---|---|---|
| USA | 1,735 | 2,239 | 5.0% |
| UAE | 1,330 | 1,631 | 4.0% |
| China | 659 | 684 | 1.0% |
| Saudi Arabia | 665 | 769 | 3.0% |
| Brazil | 634 | 707 | 2.0% |
| South Africa | 170 | 282 | 11.0% |
| Indonesia | 219 | 253 | 3.0% |
| Turkey | 124 | 181 | 8.0% |
| India | 94 | 122 | 5.0% |
| 1 $ = Rs 75 | | | |

Source: Industry, Centrum Broking

Our bottom-up analysis points out incremental penetration in the existing markets remains lucrative, however entry in newer markets/clusters to boost profitable store economics as novelty drives the footfalls and consumer trails.

**Exhibit 18: Entry of western QSRs in India**


Source: Industry, Centrum Broking

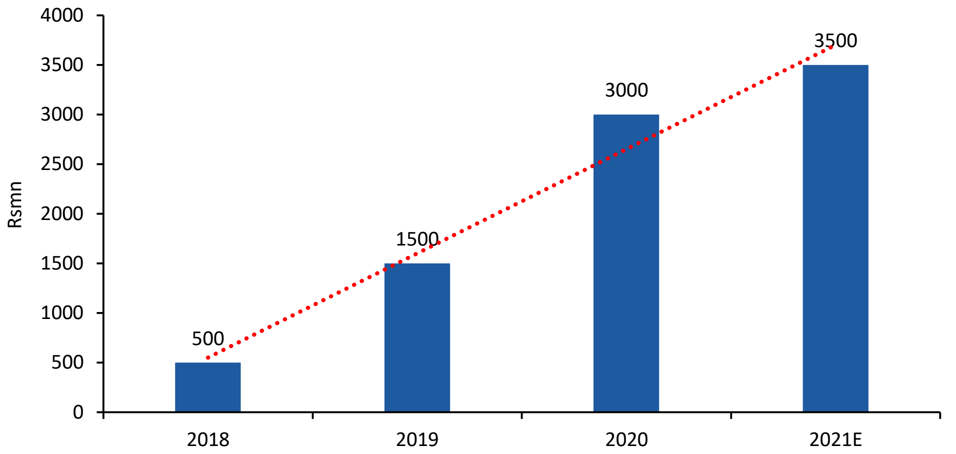
Store expansion in existing markets: Industry experts indicate, despite existing stores delivering better SSSG, top 5 QSRs can add ~50% more stores in top 40 cities following cluster base strategy to capture captive consumer base. We believe that proximity to existing stores and controlled logistics costs (overlap on basic infrastructure) following economies of scale principal remains fast growing opportunity for most QSRs as most of the costs are known.

Market beyond top 100 cities: The store expansion in beyond top 100 cities is driven by consumer purchase power, local infrastructure to support store operation and more importantly favourable unit economics in terms of revenue potential and return on investments (payback period, etc.). We believe store expansion in markets beyond top 100 cities would grow at slower pace before the companies perfect the unit economics.

Food GMV grew 7x over FY18-21

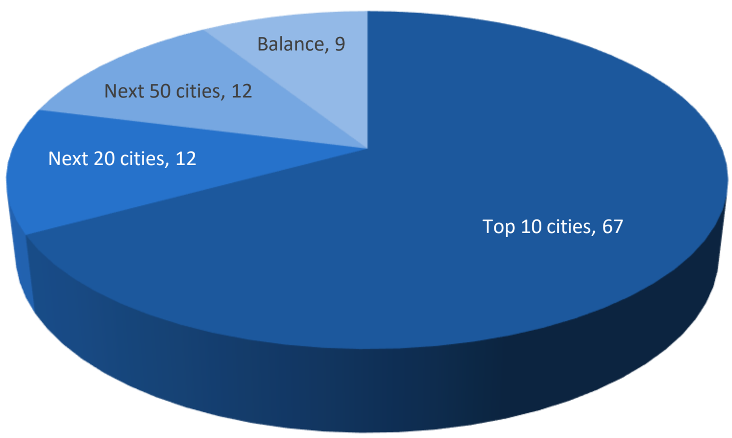
Try new formats dine-in vs. delivery or takeaway or drive thru: Industry participants suggest while there is no thumb rule which format works in any specific market, the operation teams try different formats before getting perfect mix of dine-in vs. takeaway and delivery or drive thru.

**Exhibit 19: Food delivery market GMV grew 7x over FY18-21 period**




Source: Industry

**Exhibit 20: Contribution from Top 10 cities exceed 70% of food delivery GMV**

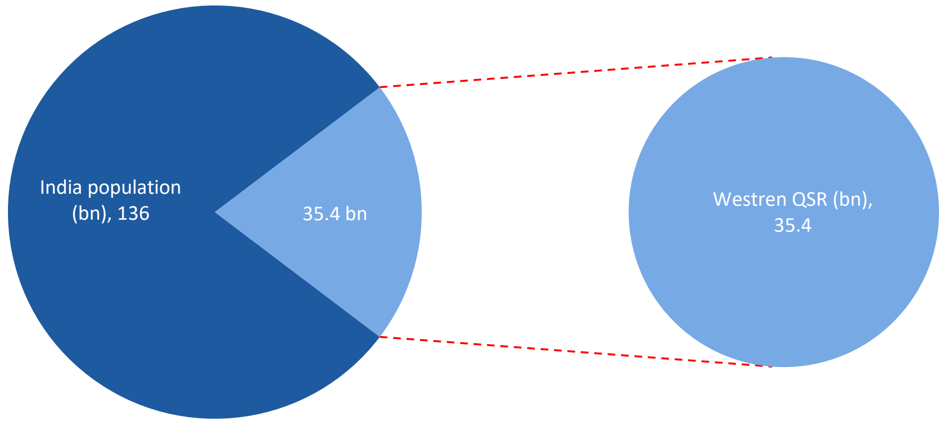



Source: Industry

Industry experts suggest western QSRs draw 65-67% sales contribution from top 8-10 cities, still they are expanding their network in these cities. Next 20 cities make up ~12% contribution but offer significant growth potential due to sheer change in consumer behaviour during pandemic.

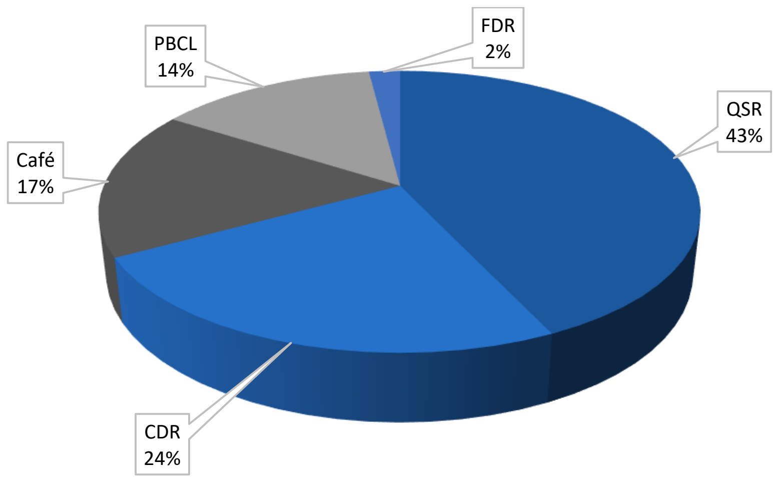
Interestingly, it is important to note that as per Swiggy and Zomato, Top 100 cities account for ~90%+ of sales while next 400 make up just 10%. Our on ground checks suggest these markets may not appear attractive to many QSR players due to higher investments required to set up logistics infrastructure. While QSRs make small attempt to expand their footprint in small towns, premium QSRs don't find it attractive enough given unit economics costs led by capex, higher revenue contribution from dine-in and equipment cost.

**Exhibit 21: Western QSRs reach ~26% of India's population**




Source: Industry

**Exhibit 22: Western QSR being the most preferred sub-category within food service industry among millennials**




Source: Industry

(QSR: Quick Service Restaurants; CDR: Casual Dining Restaurants; PBCL: Pubs, Bars & Lounges; FDR: Fine Dining Restaurants)

**Exhibit 23: Store network of QSRs as of Dec'22 (no. of stores, cities)**

**Store as on Dec'22**

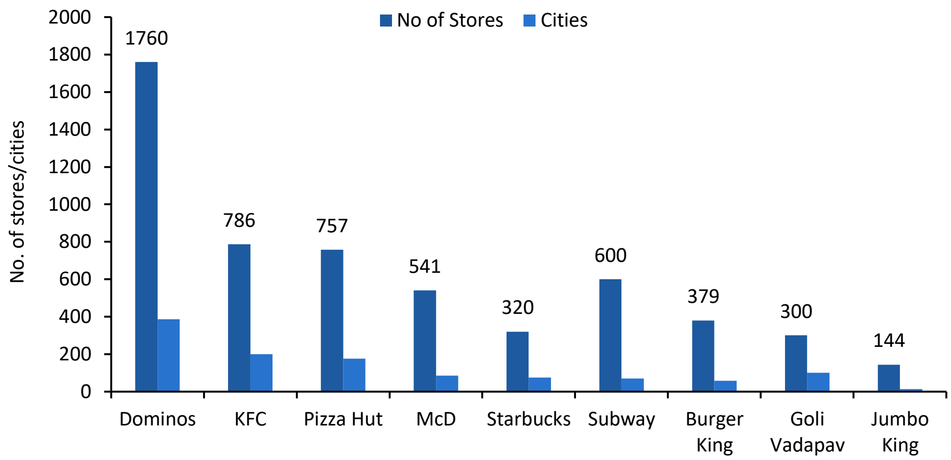
Domino's: 1760

KFC: 786

Pizza Hut: 757

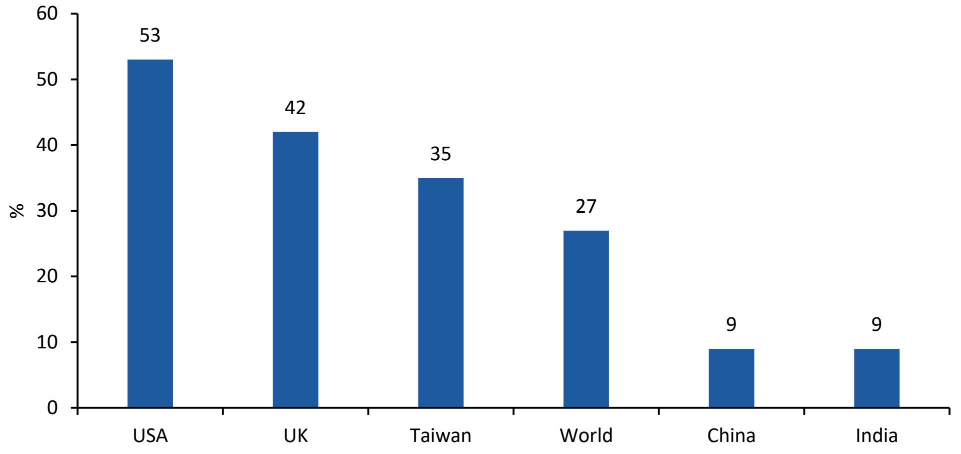
McDonald's: 541

Starbucks: 320



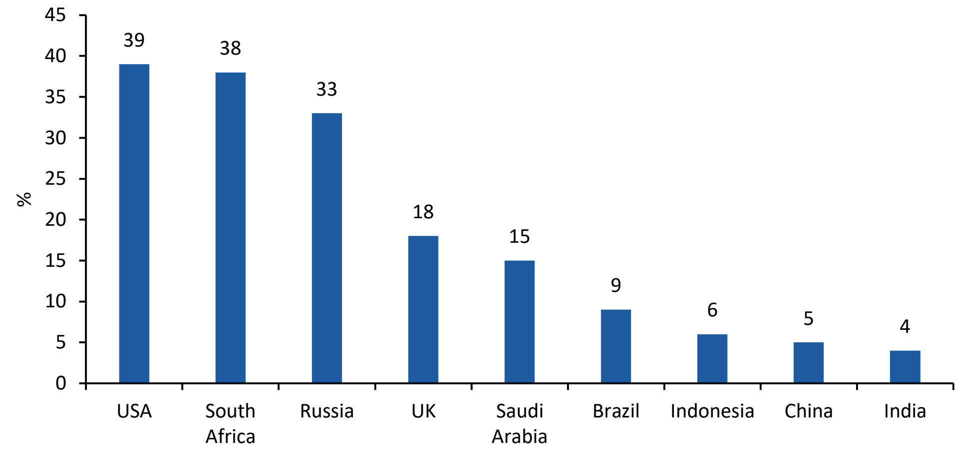

Source: Industry, Centrum Broking

**Exhibit 24: Share of chain restaurants in food service market (%)**




Source: Industry

**Exhibit 25: QSR chains share in food service market (%)**




Source: Industry

## Young population, increasing nuclear families, growing urbanisation, more working women

- **Rising per capita income**: With strong rebound in the economy there could be gradual rise in the GDP and fast growth in per capita income. Industry data indicates that India being fastest growing economy (4$^{th}$ largest), has a lot of potential for growing its per capita income growth.

India's per capita consumption at current price was US$1,901 in calendar year 2020 and is expected to grow at a CAGR of 8.9% between calendar year 2020 and calendar year 2025 to reach approximately US$2,909 by FY25, largely aided by an increase in the quality of education, rising income levels of the younger demographic groups, an increase in the working age population and a shift of social and cultural factors. The figure below shows GDP per capita consumption in selected countries.

**Exhibit 26: Country-wise GDP per capita consumption (at current US$)**

| Country | CY10 | CY11 | CY12 | CY13 | CY14 | CY15 | CY16 | CY17 | CY18 | CY19 | CY20 | CY25E | CAGR CY20-25E (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| US | 48,467 | 49,883 | 51,603 | 53,107 | 55,050 | 56,863 | 58,021 | 60,110 | 63,064 | 65,280 | 63,544 | 78,660 | 4.4 |
| China | 4,550 | 5,618 | 6,317 | 7,051 | 7,679 | 8,067 | 8,148 | 8,879 | 9,977 | 10,217 | 10,500 | 15,855 | 8.6 |
| Indonesia | 3,122 | 3,643 | 3,694 | 3,624 | 3,492 | 3,332 | 3,563 | 3,838 | 3,894 | 4,135 | 3,870 | 5,530 | 7.4 |
| India | 1,358 | 1,458 | 1,444 | 1,450 | 1,574 | 1,606 | 1,733 | 1,981 | 1,997 | 2,101 | 1,901 | 2,909 | 8.9 |

Source: World Bank Data, IMF forecast

- **Rapid urbanization**: India's ~35% population or 480mn people reside in urban centres. Such rapid urbanisation, however lower than world average at 54% could catch speed and such trends would continue to rise.

The implementation of "Smart City" initiative run by the Indian government aimed at the creation of new urban clusters is expected to accelerate urban development in India. Currently, urban populations contribute 63% of India's GDP. It is estimated that 37% (or 541 million) of India's population will be living in urban centres by FY25, and the urban population is expected to contribute 75% of India's GDP in FY30.

Therefore, we believe primary demand driver for QSR industry is led by shift from Home-cooked food to trusted restaurant food or outside food i.e., dine-in or delivery/ordering.

- **Shifting consumption behaviour**: The shifting consumer behaviour saw fast emergence of the aggregator/food-delivery models which led to a surge in restaurant supply and altered consumption patterns, driven by significant rise in ordering.

**Eating out/ ordering frequency**
Mega metros: 6.3x/ 2.1x
Mini Metros: 5.5x/ 1.9x
Tier-I: 4.8x/ 1.1x

**Exhibit 27: Eating-out and Ordering-in frequency of household**

| City type | Eating-out frequency/month | | | Ordering in frequency/month | | | Avg. spend per trip (Rs) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY14 | FY17 | FY20 | FY14 | FY17 | FY20 | FY14 | FY17 | FY20 |
| Mega Metros | 5.7 | 6.1 | 6.3 | 1.0 | 1.7 | 2.1 | 902 | 998 | 1039 |
| Mini Metros | 5.0 | 5.3 | 5.5 | 0.9 | 1.4 | 1.9 | 752 | 829 | 861 |
| Tier I/ II | 4.3 | 4.6 | 4.8 | 0.6 | 0.9 | 1.1 | 612 | 674 | 706 |

Source: Technopak

- **Favourable demographic profile**: India is blessed with favourable demographic profile given that it holds one of the youngest populations globally. Further, its working age population (49% of total population in FY20) is on rise as well. We expect higher share of the young working age population with disposable income supporting augmented consumption. Moreover, rising number of working women and dual income nuclear families drive more consumption.

**Exhibit 28: Eating-out and Ordering-in frequency (15-34 yrs.) in FY20**

| Age Group | Eating-out frequency/month | Ordering-in frequency/month | Avg. spend per trip |
|---|---|---|---|
| 15-24yrs. | 2.3 | 0.9 | 230 |
| 25-34yrs. | L9 | 0.7 | 225 |
| >35yrs | L5 | 0.3 | 303 |

Source: Technopak

India holds inherent advantage as one of the youngest populations globally compared to other leading economies. The median age in India is estimated to be 28.1 years in 2021, compared to 38.1 years and 37.4 years in the United States and China, respectively, as shown below, and is expected to remain under 30 years until 2030.

**Exhibit 29: Median Age: Emerging & Developed Economies (CY21 Estimated)**

| Country | India | China | USA | Singapore | Russia | Korea | Canada | UK |
|---|---|---|---|---|---|---|---|---|
| Median Age (yrs.) | 28.1 | 37.4 | 38.1 | 34.6 | 39.6 | 41.8 | 42.2 | 40.5 |

Source: World population review

The size of India's young population has contributed to a decline in the dependence ratio (the ratio of dependent population size compared to the working-age population size between 15 to 64 years of age), which has decreased from 64% in FY18 to 50% in FY20. Such decreasing trend in the dependence ratio is expected to lead to rising income levels per household as well as higher levels of discretionary expenditure reflecting in strong demand for food service sector.

Young segments of the population are naturally inclined towards adopting new trends, given their educational profile and their exposure to media and technology, which presents an opportunity for domestic consumption in the form of branded behaviour, organized retail and product designs.

Moreover, QSR players' ability to provide affordable meals, with a quick service time, has helped to register strong growth. Further, deepening acceptance on take-away for a large part of sales helped the players to report robust recovery post Covid relaxation.

- **Covid tailwind**: The recent pandemic had higher impact on standalone stores with heavy skewness on dine-in resulting in the shift in demand towards delivery based models. This has not only brought new customers but also won consumer confidence with stable pricing and delivery proposition. That said, the pandemic accelerated the growth of online through delivery apps., as consumers turned to online platforms to avoid spreading or being infected by the virus in public places. The convenience driven option led to a new addition of the mobile app ordering trend like 'cloud kitchen' where food is prepared as made to order suiting consumer taste and preference, yet affordable.

While health concerns may have prompted the initial adoption of online ordering little slower, but continuous use of online food delivery coupled with ease of ordering and speed of delivery caught shift in consumer behaviour.

## Women workforce

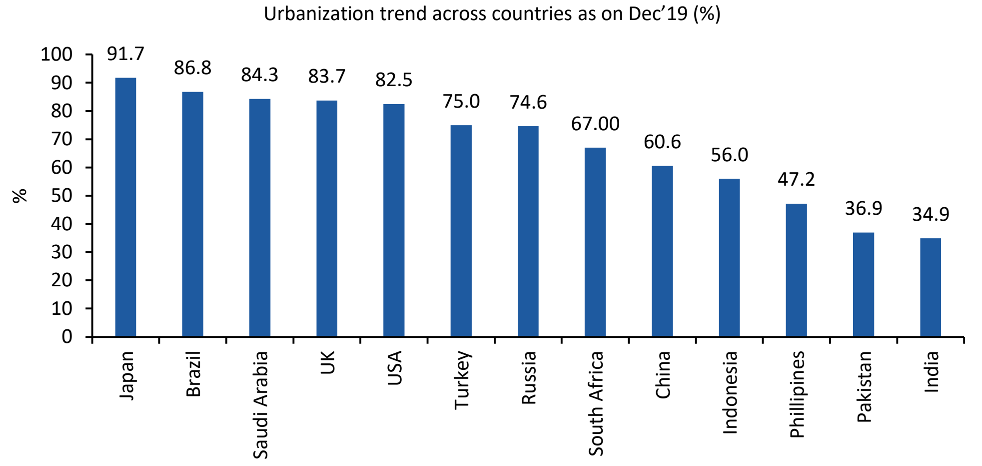
Share of working women increased from 14% in FY10 to 24% in FY18

Between 2005 and 2015, enrolment of girls in secondary education increased from 45.3% to 81% and that in FY19 was higher than enrolment of boys. Higher education has also seen an increase in women enrolment, with almost 20% of women pursuing higher studies compared to 22% of men in FY19. The share of women workforce in the services sector has increased from 17.5% in calendar year 2010 to 28% in calendar year 2019. The overall share of working women increased from ~14% in 2000 to ~17% in 2010 and ~24% in 2018. These changes are expected to have a broad impact on societal factors, including workforce demographics and economic independence for women. This increase of women in the workforce has seen a shift in household activity, including a downward trend in home-cooked meals and an increase in demand for out-of-home meals from households with working couples.

- **Policy interventions**: Growing compliance (FSSAI) from policy tightening resulted in market share gains for organised food service retailers.

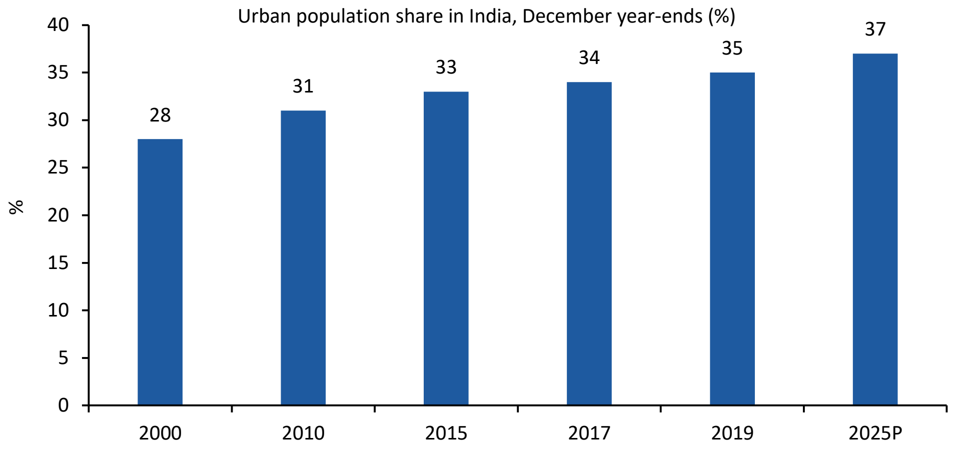
Therefore, success factors for QSR players are driven by, (a) careful selection of store location, (b) brand popularity, (c) altering offerings/menu selection suiting to local taste, (d) established supply chain economics, and (e) product-service-price value equation.

**Exhibit 30: Ample scope for urbanization in India**



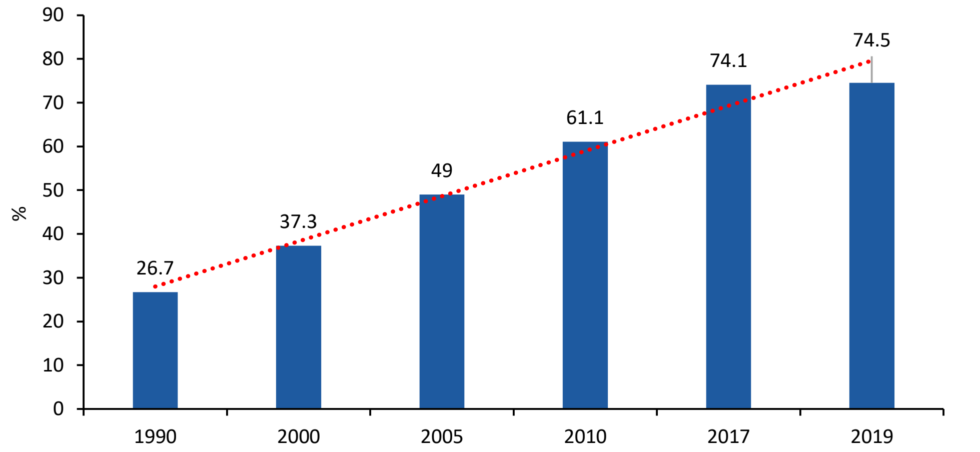

Source: World Bank

**Exhibit 31: Rising urbanization in India**



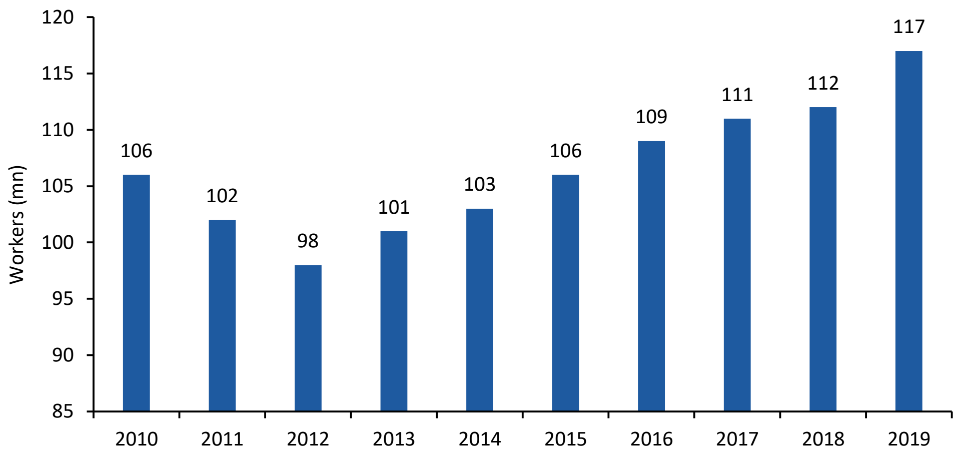

Source: World Bank

**Exhibit 32: Rising trend in women enrolment in secondary school (%) to total women**



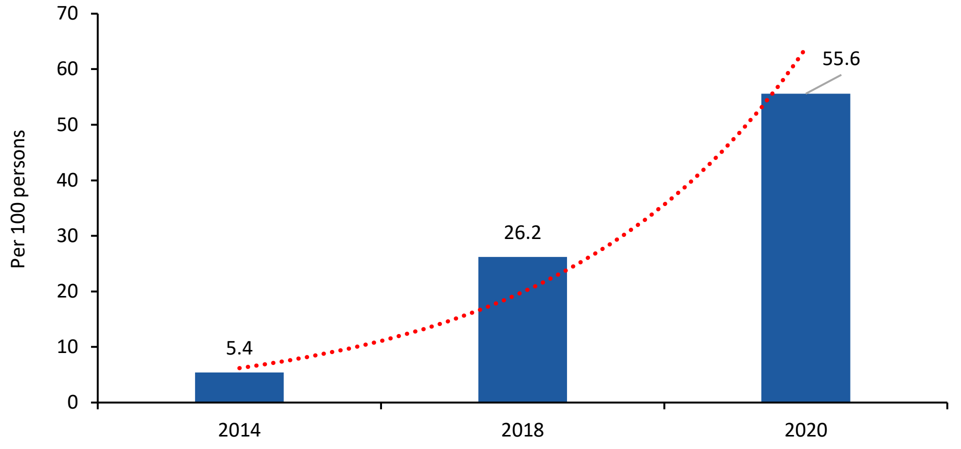

Source: World Bank

**Exhibit 33: Rising education; more women in workforce, no. of female workers (mn)**



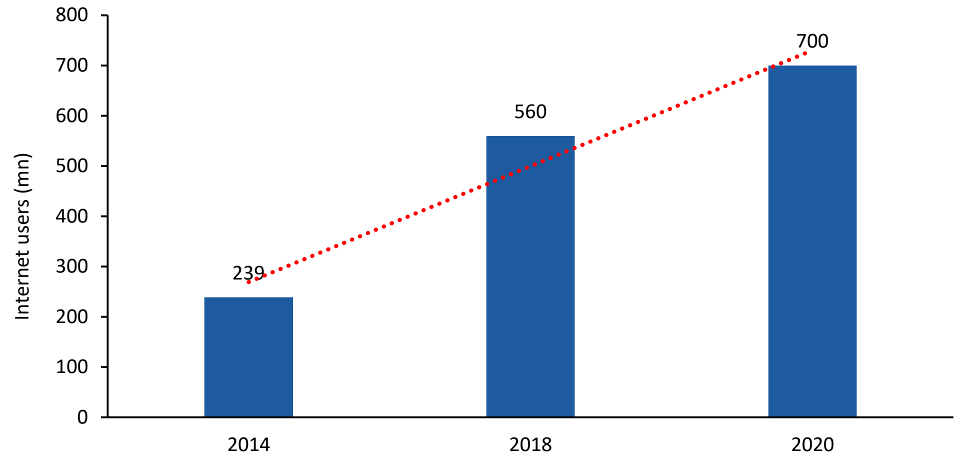

Source: World Bank

**Exhibit 34: Exponential increase in smartphone users (smartphone users per 100 persons)**




Source: McKinsey 2019

**Exhibit 35: India internet users increased significantly – no. of internet users in India (mn)**




Source: McKinsey 2019

## Abundant room for growth in top 8 cities

Our analysis suggests western QSRs and food aggregators draw ~65% revenues from top 8 cities in the country. Even though all the QSR players map their footprints in these cities, there is abundant room for growth for all QSRs to follow penetration led strategy. We mapped western QSRs within the large market opportunity and found that, top 6 QSRs' share in the total city wise restaurant count is just 2.8%; Domino's, McDonald's, KFC, Burger King, Subway and Pizza Hut make up ~2,281 stores in total. Moreover, western QSRs share in the organised food services market is ~8%, while the aggregate market share of the top 6 QSR chains in the top 8 cities is ~25% of the organised chain food services market in the country or 8.4% of the total organised food services market and 2.8% of the overall food services market. As shown above, in the developed market the QSR share is significantly higher at ~39%.

**Exhibit 36: Top 8 cities account for ~56% store network and ~64% revenue contribution for western QSRS**

| City | Total Restaurants (no) | Organized food services market (Rs bn) | Store count | | | | | | | Top 6 QSR (% share) in | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Dominos | Subway | PH | McD | KFC | BK | Total | Restaurant (no) | Org. Food service market |
| Mumbai | 18,000 | 223 | 148 | 72 | 48 | 76 | 32 | 36 | 412 | 2.3 | 6.1 |
| Delhi including NCR | 24,000 | 218 | 208 | 136 | 99 | 74 | 89 | 62 | 668 | 2.8 | 9.4 |
| Bengaluru | 11,900 | 117 | 162 | 49 | 72 | 45 | 66 | 30 | 424 | 3.6 | 10.7 |
| Pune | 8,700 | 75 | 77 | 42 | 28 | 32 | 17 | 16 | 212 | 2.4 | 8.3 |
| Hyderabad | 6,450 | 57 | 72 | 51 | 42 | 21 | 49 | 16 | 251 | 3.9 | 12.9 |
| Chennai | 6,700 | 70 | 73 | 38 | 20 | 10 | 26 | 9 | 176 | 2.6 | 7.9 |
| Kolkata | 5,200 | 59 | 58 | 22 | 16 | 3 | 26 | 9 | 134 | 2.6 | 7.7 |
| Ahmedabad | 4,200 | 34 | 34 | 26 | 11 | 13 | 6 | 6 | 96 | 2.3 | 8.2 |
| Top 8 cities | 85,150 | 853 | 832 | 436 | 336 | 274 | 311 | 184 | 2373 | 2.8 | 8.4 |
| Total no of stores (Jun'22) | | | 1503 | 575 | 680 | 492 | 706 | 315 | 4271 | | |
| **Share of top 8 in total stores** | | | **55.4%** | **75.8%** | **49.4%** | **55.7%** | **44.1%** | **58.4%** | **55.6%** | | |

Source: Industry, Centrum Broking (data as on Jun'22)

***COVID-19 had altered consumer behaviour in various markets in the food services industry***

**Quick Service Restaurants (QSR)**

QSRs, particularly the chain QSRs, were the first to demonstrate recovery from the impacts of COVID-19. Chain QSRs, including western premium brands, generally have the infrastructure and process for delivery services in place long before the COVID-19 crisis and were able to adapt to the government restrictions swiftly. Therefore, while dine-in services had been affected the chain QSRs were able to maintain growth and revenues through enhancing their delivery services. Consumers are also more inclined to order from reputable international QSR chains given they generally maintain high hygiene and safety standards.

Moreover, sales recovery for QSR brands started as early as May 2020 when home delivery of food was allowed. The COVID-19 pandemic has not only accelerated 'Delivery' significantly but also 'Takeaway'. Domino's overall system sales increased by 24% in April 2020 in comparison to the same period last year, with 'Delivery', 'Takeaway' and 'Dine-in' system sales increasing by 47%, 3.6% and 0.2%, respectively, in comparison to the same period last year. In August'20, Domino's overall system sales increased by 84% and Delivery, Takeaway, and Dine-in increased by 110%, 154% and 16%, respectively, in comparison to the same period last year. Other QSR chains such as McDonalds, Burger King, etc., have also recovered sales as most of their outlets opened gradually by the end of second quarter of FY21, however, there was significant growth in the share of 'Delivery' and 'Takeaway' for them. Notably, during lockdown, dine-in services were mostly shut down. As sales through dine-in were affected, new sales channels emerged. Apart from delivery, sales through drive-through, on-the-go, take-away were also showing rapid growth.

## India has long way to go in terms of QSR density – Burger chains under-indexed

Industry data indicates favourable scenario for QSR players in India as compared to that of developed markets given its sheer size and depth in terms of pop strata. The potential for addressable market for QSRs plyers in India is growing in direct relation to growth in terms of per capita income. We reckon, Domino's captures 100-150K population per store in the top 8 Indian cities, which may differ vastly in next 50 markets and significantly lower than the developed markets. Therefore, we expect that there is long way for further saturation for most QSR players including Domino's.

**Exhibit 37: Domino's India is most penetrated as compared Burger chains (Dec'21)**

| Country | McD | Burger King | Pizza Hut | Domino's | Starbucks |
|---|---|---|---|---|---|
| United States | 14,146 | 7,257 | 6,536 | 6,571 | 15,374 |
| China | 3,463 | 1,379 | 2,355 | 300 | 5,400 |
| Japan | 2,975 | 99 | 444 | 900 | 1,661 |
| France | 1,582 | 392 | 133 | 431 | 187 |
| Germany | 1,510 | 750 | 77 | 348 | 167 |
| Canada | 1,521 | 327 | 480 | 577 | 1,410 |
| UK | 1,383 | 1,040 | 579 | 1,213 | 1,107 |
| Brazil | 1,023 | 912 | 229 | 315 | 129 |
| Australia | 1,011 | 440 | 263 | 724 | 84 |
| Russia | 782 | 879 | 77 | 189 | 147 |
| Philippines | 779 | 23 | 163 | 67 | 398 |
| Indonesia | 234 | 170 | 521 | 109 | 481 |
| India. | 495 | 310 | 493 | 1,495 | 246 |
| Mexico | 412 | 419 | 218 | 802 | 750 |
| South Korea | 447 | 440 | 378 | 476 | 1,611 |
| Turkey | 290 | 683 | 159 | 578 | 547 |
| **Total** | **32,053** | **15,520** | **13,105** | **15,095** | **29,699** |
| **Worldwide** | **37,773** | **18,700** | **18,122** | **17,644** | **34,317** |

Source: Company, Centrum Broking

In addition, we are also sanguine about the ever expanding city limits and development of satellite towns around main cities which provides further headroom for growth in our view. The industry stakeholders indicate the average area covered by Domino's store ranges in between 8-20 sq. km in the top 8 cities as was seen in case of Greater Mumbai. Considering the width of city limits – satellite towns and ever growing vehicle population and worsening traffic conditions we believe the restaurant saturation is far away, especially in major metros such as Greater Mumbai, Delhi NCR and Bengaluru.

Domino's said that it is targeting 20+ million deliveries in the large cities given the fast pace of demand from home delivery market. Interestingly, most of the QSR players are underserved as compared to Domino's and there is good opportunity in terms of reaching the inflexion point for maximum geographic scale up for stores. To further substantiate our hypothesis Domino's has displayed its focus on increasing store count in the top 8 cities primarily focusing on closing saturation gaps. Nevertheless, in the history, Domino's has opened new stores by splitting in close vicinity to improve its customer service and capture local demand.

Further, we estimate that western QSR players can add 150-250 stores in next three years in the top 8 cities with addressable population of ~95mn. Despite high demand for premium store locations, we estimate Delhi NCR followed by Greater Mumbai remain battlefields for most of the players and there is ample scope for trying only-delivery or takeaway formats.

Our interaction with industry experts suggests faster expansion and developments due to growing IT hub has raised working population in Pune city and indeed it is a bigger market for western QSRs as compared to metros, Chennai and Kolkata. Notably, Bangalore is close to Mumbai for pizza chains and much ahead of KFC in store count and even revenue pie.

The industry data for food aggregators point out Hyderabad scores in top four food aggregator markets contributing 50% of delivery menu for Biryani due to its sheer love for Biryani being popular dish, however western QSRs score lower preference except KFC chicken. We reckon, the average revenue for Domino's store in Hyderabad is 10-12% lower than company's average; KFC enjoys higher ticket size.

**Exhibit 38: We expect QSR players to focus on reducing distance for addressable population reach**

| City cluster | Area (Sq.km.) | Number of Restaurants | FY21E Pop. (mn) | FY21E Addressable Market (%) | FY21E Addressable Pop. (mn) | FY25E Pop. (mn) | FY25E Addressable Market (%) | FY25E Addressable Pop. (mn) | Stores in FY25E Per mn pop. |
|---|---|---|---|---|---|---|---|---|---|
| Delhi NCR | 2,557 | 24,000 | 32.2 | 70 | 22.5 | 34.9 | 75 | 26.1 | 918 |
| Greater Mumbai | 1,331 | 18,000 | 23.9 | 70 | 16.7 | 25.9 | 75 | 19.4 | 928 |
| Kolkata | 878 | 5,200 | 21.5 | 50 | 10.8 | 23.3 | 55 | 12.8 | 406 |
| Chennai | 808 | 6,700 | 11.3 | 70 | 7.9 | 12.2 | 75 | 9.2 | 730 |
| Bengaluru | 1,452 | 11,900 | 12.7 | 70 | 8.9 | 13.7 | 72 | 9.9 | 1,202 |
| Ahmedabad | 464 | 4,200 | 9.2 | 65 | 6.0 | 10.0 | 70 | 7.0 | 603 |
| Hyderabad | 690 | 6,450 | 9.7 | 55 | 5.3 | 10.5 | 60 | 6.3 | 1,024 |
| Pune | 512 | 8,700 | 5.9 | 65 | 3.8 | 6.4 | 67 | 4.3 | 2,033 |
| **Total** | **6,135** | **85,150** | **126.4** | **64.8** | **82.0** | **136.8** | **108.2** | **95.0** | **897** |

Source: Company, Centrum Broking

That said we expect each player can add 150-300 stores next three/four years.

**Store addition in top 8 cities**
Domino's: 275
McDonald's: 150
Burger King: 180
KFC: 125
Pizza Hut:120

**Exhibit 39: We expect Domino's to add ~275 stores in top 8 cities over next three years**

| City cluster | Area (Sq.km.) | Number of Restaurants | Average Area Per store (sq.km.) | New store additions | Total stores FY25E | FY25E Average Area Per store (sq.km.) |
|---|---|---|---|---|---|---|
| Delhi NCR | 2,557 | 211 | 12 | 70 | 281 | 9 |
| Greater Mumbai | 1,331 | 182 | 7 | 65 | 247 | 5 |
| Kolkata | 878 | 66 | 13 | 22 | 88 | 10 |
| Chennai | 808 | 73 | 11 | 24 | 97 | 8 |
| Bengaluru | 1,452 | 162 | 9 | 34 | 196 | 7 |
| Ahmedabad | 464 | 34 | 14 | 12 | 46 | 10 |
| Hyderabad | 690 | 72 | 10 | 22 | 94 | 7 |
| Pune | 512 | 77 | 7 | 26 | 103 | 5 |
| **Total** | **6,135** | **877** | **7** | **275** | **1,152** | **5** |
| **Stores in Top 8 cities** | | **57%** | | | **59%** | |

Source: Company, Centrum Broking

The company data suggest Delhi NCR region makes up ~14% store count for Domino's followed by Greater Mumbai including Thane district which contributes 12%. Our interaction with on ground channel partners suggests Domino's generates average revenue of Rs38-40mn, much higher than company average in Delhi region.

**Exhibit 40: We expect McDonald's to add ~150 stores in top 8 cities over next three years (WLDL ~75 stores)**

| City cluster | Area (Sq.km.) | Number of Restaurants | Average Area per store (sq.km.) | New store Additions | Total stores FY25E | FY25E Average Area per store (sq.km.) |
|---|---|---|---|---|---|---|
| Delhi NCR | 2557 | 99 | 26 | 55 | 154 | 17 |
| Greater Mumbai | 1331 | 97 | 14 | 22 | 119 | 11 |
| Kolkata | 878 | 10 | 88 | 20 | 30 | 29 |
| Chennai | 808 | 22 | 37 | 12 | 34 | 24 |
| Bengaluru | 1452 | 59 | 25 | 21 | 80 | 18 |
| Ahmedabad | 464 | 19 | 24 | 3 | 22 | 21 |
| Hyderabad | 690 | 34 | 20 | 8 | 42 | 16 |
| Pune | 512 | 37 | 14 | 9 | 46 | 11 |
| **Total** | **6135** | **377** | **16** | **150** | **527** | **12** |
| **Stores in Top 8 cities** | | **72%** | | | **74%** | |

Source: Company, Centrum Broking

**Exhibit 41: We expect Burger King to add ~180 stores in top 8 cities over next three years**

| City cluster | Area (Sq.km.) | Number of Restaurants | Average Area per store (sq.km.) | New store additions | Total stores FY25E | FY25E Average Area per store (sq.km.) |
|---|---|---|---|---|---|---|
| Delhi NCR | 2,557 | 99 | 26 | 44 | 143 | 18 |
| Greater Mumbai | 1,331 | 69 | 19 | 30 | 99 | 13 |
| Kolkata | 878 | 12 | 73 | 10 | 22 | 40 |
| Chennai | 808 | 18 | 45 | 15 | 33 | 24 |
| Bengaluru | 1,452 | 34 | 43 | 38 | 72 | 20 |
| Ahmedabad | 464 | 24 | 19 | 12 | 36 | 13 |
| Hyderabad | 690 | 20 | 35 | 14 | 34 | 20 |
| Pune | 512 | 21 | 24 | 17 | 38 | 13 |
| **Total** | **6,135** | **297** | **21** | **180** | **477** | **13** |
| **Stores in Top 8 cities** | | **69%** | | | **72%** | |

Source: Company, Centrum Broking

It is worth mentioning that burger chains are under-indexed as compared to pizza stores in India. Notably, Burger King in Delhi NCR region has matched McDonald's store count by capitalizing on tussle between McDonald's Company and its erstwhile master Franchisee in the North (Connaught Plaza Restaurants). Notably, MMG group has been appointed as master Franchisee partner since 2020 for this region, expected to open 150-180 stores in next three years.

**Exhibit 42: We expect KFC to add 125 stores in top 8 cities over next three years**

| City cluster | Area (Sq.km.) | Number of Restaurants | Average Area Per store (sq.km.) | New store additions | Total stores FY25E | FY25E Average Area Per store (sq.km.) |
|---|---|---|---|---|---|---|
| Delhi NCR | 2,557 | 69 | 37 | 38 | 107 | 24 |
| Greater Mumbai | 1,331 | 24 | 55 | 16 | 40 | 33 |
| Kolkata | 878 | 23 | 38 | 7 | 30 | 29 |
| Chennai | 808 | 21 | 38 | 8 | 29 | 28 |
| Bengaluru | 1,452 | 58 | 25 | 22 | 80 | 18 |
| Ahmedabad | 464 | 6 | 77 | 6 | 12 | 39 |
| Hyderabad | 690 | 39 | 18 | 14 | 53 | 13 |
| Pune | 512 | 16 | 32 | 14 | 30 | 17 |
| **Total** | **6,135** | **256** | **24** | **125** | **381** | **16** |
| **Stores in Top 8 cities** | | **52%** | | | **55%** | |

Source: Company, Centrum Broking

**Exhibit 43: We expect Pizza Hut to add 120 stores in top 8 cities over next three years**

| City cluster | Area (Sq.km.) | Number of Restaurants | Average Area Per store (sq.km.) | New store additions | Total stores FY25E | FY25E Average Area Per store (sq.km.) |
|---|---|---|---|---|---|---|
| Delhi NCR | 2557 | 88 | 29 | 34 | 122 | 21 |
| Greater Mumbai | 1331 | 37 | 36 | 24 | 61 | 22 |
| Kolkata | 878 | 12 | 73 | 7 | 19 | 46 |
| Chennai | 808 | 22 | 37 | 8 | 30 | 27 |
| Bengaluru | 1452 | 61 | 24 | 17 | 78 | 19 |
| Ahmedabad | 464 | 10 | 46 | 6 | 16 | 29 |
| Hyderabad | 690 | 35 | 20 | 12 | 47 | 15 |
| Pune | 512 | 28 | 18 | 12 | 40 | 13 |
| **Total** | **6135** | **293** | **21** | **120** | **413** | **15** |
| **Stores in Top 8 cities** | | **60%** | | | **63%** | |

Source: Company, Centrum Broking

We note, Domino's revenues are ~4x that of Pizza Hut in top 8 cities. Interestingly, Domino's draws ~80% revenue contribution from top 8 cities while Pizza Hut stands at ~22%. As per Industry data Domino's enjoy highest market share in Delhi region and lowest in Hyderabad.

**Exhibit 44: Domino's enjoys highest market share in Delhi NCR Pizza QSRs**

| City Cluster | Domino's | Pizza Hut |
|---|---|---|
| Delhi NCR | 84 | 16 |
| Bengaluru | 84 | 16 |
| Kolkata | 83 | 17 |
| Greater Mumbai | 82 | 18 |
| Pune | 82 | 18 |
| Ahmedabad | 82 | 18 |
| Chennai | 80 | 20 |
| Hyderabad | 70 | 30 |

Source: Company, Centrum Broking

## Top 50 cities other than metros entering in high growth phase

Our analysis indicates there are several cities with 100k+ population which hold consumption potential given their wallet share and purchasing power due to progressing aspirations and lifestyles. Remarkably, few cities deliver better unit economics and throughput as compared to stores located in top 8 cities. Few promising cities we would like to list are Goa, Ludhiana, Mohali, Lucknow, Bhopal, Coimbatore, etc. Moreover, our interaction with industry experts suggests that there are several cities in Tamil Nadu and Kerala that enjoy higher per capita income and healthy purchasing power, though they are yet to emerge as big markets for western QSR, particularly for burger and pizza chains due to higher preference for local food specialities and choices. We note quite a few cities in northeast such as Aizawl, Guwahati, Imphal, and Shillong have shown good promise in the recent past. Therefore, we expect western QSRs, especially burger chains would expand their footprint in these cities quickly.

## We estimate gradual store expansion beyond top 50 cities

Past performance delivered by QSR companies' shows that the pace of geographic footprint expansion (beyond 100 cities) has been uncertain for western QSRs with the only exception for Domino's, partly due to the following reasons…

- Unfavourable economics: Low revenue potential, higher logistics costs, higher salience of low-ticket-value or low-margin products which get longer store payback period. Domino's is the clear winner due to an edge in these markets as its store capex remains in the range of Rs12-14mn, while it runs in the range of Rs18-20mn for brands like KFC and Rs27-30mn for burger chains. We noticed, high gross margins and huge distribution footprint make a store viable despite unit sales of Rs15-20mn per annum, whereas burger chains stay away from this market if they earn less than Rs25-30mn per annum revenue.
- Unexploited prospects in the Top 75 cities make it less fascinating to look beyond these markets. We have confidence in the expansion of geographical footprint which is going to be very gradual, particularly for all QSRs other than Domino's. Notably, there are many tourist circuits/towns that have the potential to support 2-3 QSR stores and since Domino's has perfected unit economics this will be a big opportunity for them.

**Exhibit 45: We expect gradual store expansion beyond top 50 cities except top 8 cities**

| City cluster | FY25E Population (mn) | Addressable Market (%) | Addressable Population (mn) | No of Store FY25E Domino's | McD | Burger King | KFC | Pizza Hut |
|---|---|---|---|---|---|---|---|---|
| Surat | 6.5 | 50 | 3.3 | 20 | 13 | 6 | 8 | 8 |
| Jaipur | 4.7 | 60 | 2.8 | 16 | 7 | 8 | 4 | 10 |
| Nagpur | 4.4 | 60 | 2.6 | 18 | 5 | 3 | 8 | 9 |
| Lucknow | 4.1 | 55 | 2.3 | 30 | 10 | 13 | 12 | 18 |
| Coimbatore | 3.6 | 57 | 2.1 | 14 | 5 | 4 | 12 | 10 |
| Ernakulum | 3.1 | 60 | 1.9 | 12 | 5 | 5 | 12 | 9 |
| Kanpur | 4.1 | 45 | 1.8 | 12 | 4 | 5 | 6 | 6 |
| Ludhiana | 2.8 | 65 | 1.8 | 14 | 5 | 8 | 12 | 9 |
| Indore | 3.3 | 55 | 1.8 | 14 | 8 | 3 | 5 | 9 |
| Nasik | 3.8 | 45 | 1.7 | 14 | 3 | 3 | 3 | 4 |
| Thrissur | 2.8 | 57 | 1.6 | 4 | 2 | 2 | 4 | 2 |
| Vadodara | 2.8 | 55 | 1.5 | 15 | 13 | 5 | 6 | 7 |
| Rajkot | 3.0 | 50 | 1.5 | 8 | 3 | 2 | 1 | 4 |
| Bhopal | 2.8 | 52 | 1.5 | 15 | 4 | 5 | 9 | 7 |
| Bardhhaman | 4.1 | 35 | 1.4 | 5 | 2 | 2 | 2 | 2 |
| Visakhapatnam | 2.8 | 50 | 1.4 | 9 | 2 | 3 | 8 | 11 |
| Kozhikode | 2.7 | 50 | 1.4 | 4 | 1 | 1 | 4 | 5 |
| Trivandrum | 2.4 | 55 | 1.3 | 6 | 2 | 2 | 7 | 7 |
| Madurai | 2.6 | 50 | 1.3 | 4 | 1 | 1 | 4 | 1 |
| Patna | 3.4 | 35 | 1.2 | 22 | 4 | 5 | 12 | 7 |
| Amritsar | 1.9 | 60 | 1.1 | 10 | 4 | 6 | 8 | 9 |
| Vijayawada | 2.3 | 45 | 1.0 | 6 | 2 | 2 | 7 | 6 |
| Agra | 2.8 | 35 | 1.0 | 9 | 3 | 2 | 2 | 7 |
| Chandigarh | 1.4 | 67 | 1.0 | 14 | 7 | 6 | 9 | 14 |
| Jalandhar | 1.6 | 62 | 1.0 | 12 | 4 | 7 | 8 | 4 |
| Guwahati | 1.5 | 60 | 0.9 | 12 | 3 | 5 | 10 | 10 |
| Puducherry | 1.7 | 50 | 0.9 | 4 | 1 | 1 | 5 | 5 |
| Vellore | 2.4 | 35 | 0.8 | 5 | 1 | 1 | 2 | 1 |
| Mangalore | 1.4 | 60 | 0.8 | 9 | 3 | 2 | 5 | 7 |
| Goa | 1.2 | 67 | 0.8 | 15 | 4 | 4 | 9 | 6 |
| Kolhapur | 1.5 | 55 | 0.8 | 6 | 3 | 1 | 1 | 2 |
| Dehradun | 1.3 | 62 | 0.8 | 9 | 2 | 4 | 8 | 9 |
| Guntur | 2.3 | 35 | 0.8 | 2 | 1 | 1 | 4 | 1 |
| Bhubaneswar | 1.5 | 52 | 0.8 | 12 | 3 | 6 | 8 | 8 |
| Jamshedpur | 1.7 | 45 | 0.8 | 7 | 1 | 3 | 3 | 4 |
| Ranchi | 1.8 | 40 | 0.7 | 7 | 2 | 3 | 3 | 4 |
| Raipur | 2.0 | 35 | 0.7 | 11 | 3 | 3 | 5 | 5 |
| Mysore | 1.5 | 45 | 0.7 | 15 | 4 | 3 | 7 | 6 |
| Kota | 1.5 | 45 | 0.7 | 5 | 2 | 2 | 1 | 2 |
| Gwalior | 1.7 | 40 | 0.7 | 5 | 1 | 2 | 1 | 3 |
| Mohali | 0.8 | 67 | 0.5 | 14 | 4 | 8 | 7 | 15 |
| Gandhinagar | 0.4 | 50 | 0.2 | 5 | 3 | 2 | 8 | 2 |
| **Total** | **105.8** | | **53.6** | **450** | **160** | **160** | **260** | **275** |

Source: Company, Centrum Broking

**Exhibit 46: Comparison of city wise store network for QSR players**

| | FY22E | | FY25E | |
|---|---|---|---|---|
| | **No of cities** | **No of stores** | **No of cities** | **No of stores** |
| Domino's | 8 | 877 | 8 | 1,152 |
| McDonald's | 8 | 377 | 8 | 527 |
| Burger King | 8 | 297 | 8 | 180 |
| KFC | 8 | 256 | 8 | 381 |
| Pizza Hut | 8 | 293 | 8 | 413 |
| | | | | |
| Domino's | 50 | 1375 | 50 | 1,775 |
| McDonald's | 50 | 435 | 50 | 580 |
| Burger King | 50 | 289 | 50 | 485 |
| KFC | 45 | 240 | 50 | 465 |
| Pizza Hut | 48 | 290 | 50 | 455 |
| **Total** | | | | |
| Domino's | 295 | 1545 | 315 | 1,975 |
| McDonald's | 90 | 465 | 110 | 630 |
| Burger King | 57 | 320 | 100 | 550 |
| KFC | 77 | 435 | 100 | 816 |
| Pizza Hut | 105 | 476 | 125 | 760 |

Source: Company, Centrum Broking

## Consumer behaviour

Thanks to pandemic which marked/altered two structural changes in the consumer behaviour:

- Augmented adoption of food delivery platforms and rise in ordering-in habits across demographics and urban and semi-urban markets
- Broad-based acceptance of delivery fees (willingness to pay for convenience)

We expect the former to drive the expansion of the overall food services market and some permanent shift from dine-in to delivery segment. While the latter has improved the commercials/economics of food delivery platforms, largely for Domino's (which introduced delivery fees during Covid).

## Larger focus on value meals

Indian consumers, notwithstanding their economic class and the type of city they live in, are eating out and ordering-in more, at an average of six to seven times per month per household. This is primarily to experiment, socialize and unwind over food consumption. Indian consumers, though willing to spend more on experiential eating, are cost-conscious and look for value for money when ordering in. Due to less inclination on consumer expenditure on non-essential goods, consumer focus after the COVID-19 pandemic will be on purchasing low-cost meals, and moving away from the need for experiential eating. As people tend to move away from experiential eating, QSR brands are expected to benefit from this because of their quick service and value meals. Due to work from home arrangements and reduced availability of domestic help, a larger segment of millennials is compelled to order-in or take away meals at their convenience, thus, demanding high speed of service.

Additionally, demand for freshly cooked and prepared meals have increased to avoid foodborne diseases and aid immunity during COVID-19. Due to the demand for quality, consistency and trust, internationally known establishments in the organized sector, meaning QSRs such as McDonald's and KFC, are in higher demand than the domestic unorganized food services providers.

## Cloud kitchens

Our research indicates that cloud kitchens started to gain traction in 2015. During the COVID-19 pandemic, 'cloud only' food service brands and businesses increased in popularity. The concurrent rise of food aggregators also supported this growth. However, as per industry experts, it is estimated that 70% of cloud kitchens will go out of business in their first year of business, due to below listed issues…

- Lack of physical brand connect with the customer. Since customers have not witnessed any physical cue for these brands, they face the challenge of visualizing such brands in the realm of digital space. This lack of connect propels the customer to seek transactional cues to make purchase decision and ends up choosing one among many.
- Low entry barriers such as lack of quality checks and ease of listing for digital reach has caused a number of "non-serious" or "experimenting" players to venture into this space, creating a crowded ecosystem with high mortality rate.
- Cloud kitchens are losing real estate advantage outside of Tier-I cities. Eating out in Tier II cities and beyond is still largely a value sensitive aspirational demand driven by occasions that require venturing out of homes, limiting the current potential of cloud-only brands in such cities.

We saw explosion of cloud kitchens (internet only restaurant brands) over the past 2-3 years as the food delivery market registered 7-8x growth with gross order value (GOV) of US$4.0bn over previous three years. More importantly, these players thrived on aggregator's ecosystem and customer connect coupled with subsidized delivery costs and discounts/promotions. The rise in delivery costs and lower discounting by aggregators has now impacted the value proposition of some cloud kitchen brands and also put stress on operating economics. We note, quality and consistency coupled with weak brand recall weighed higher on revenue impact. Moreover, very few cloud kitchens have managed to scale up due to weak funding or access to capital. We reckon, Rebel Foods is the largest cloud kitchen which has displayed successful scale up in recent times. However, we believe it has a long way to go to perfect its unit economics and store metrics.

Though QSR industry faces indirect competition from aggregators on private label food brands, we don't expect major threat from them. However, we also note, Swiggy showcased its primary objective to address gaps in supply of cuisines and it does not directly compete with western QSRs. Further, Swiggy also operates 'Swiggy Access' providing kitchen infrastructure to restaurants on a revenue share basis in 20-22 cities. Swiggy also operates a few private labels, such as, 'Breakfast Express', 'Goodness Kitchen', 'Homely', 'The Bowl Company' using 30 odd cloud kitchens in three cities – Bengaluru, Chennai and Hyderabad. Our channel checks indicate counting on success of 'The Bowl Company' Swiggy may step up further investments.

## Normalised restaurant supply

Our recent interactions with aggregators indicate, as normalcy returned, increased consumer mobility/activities have pushed the recovery of restaurant supply, which had dropped by 10-15% during Covid period. However, we believe Covid impacted permanent closure of about 10-15% of restaurant supply. Moreover, lower competition from unorganised segment bodes well for organised QSRs.

## Optimised cost structure and store economics

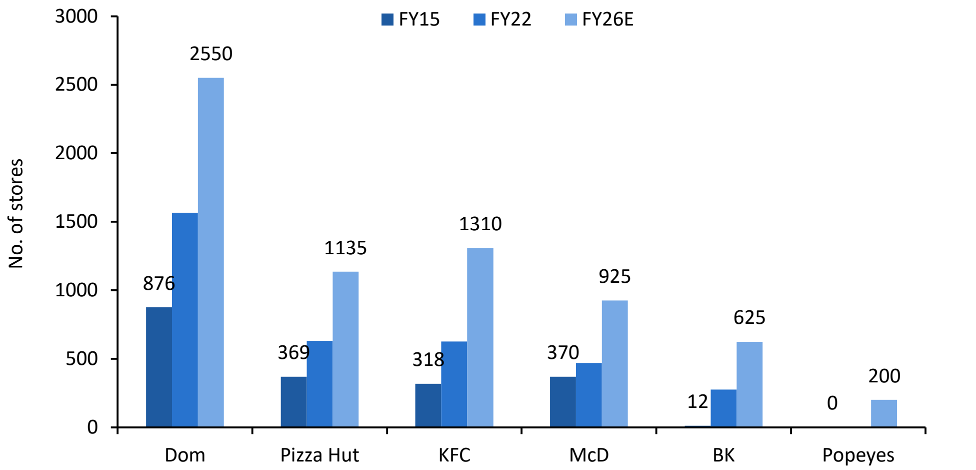
Prolonged disruptions from the pandemic forced most QSR players to revisit all cost structures and adopt variable costs extensively to optimize store economics. In this event, many QSRs opted for, (1) rental renegotiations, (2) shut down underperforming stores, (3) variable pay for employees, (4) differential pricing for online and in-store menu, and (5) charged for delivery orders to cover take rates charged by aggregators. In addition, few experimented with smaller store formats to optimize rental costs and capex per store. We believe few of these initiatives would have permeant effect on improved store economics.

## QSRs stepped up store expansion

We observed over FY17-20 period there was a rapid evolution of food delivery ecosystem, though western QSRs recorded moderate growth in store networks expansion during the same period. Banking on improved consumer connect and viable economics 'cost to serve' through aggregators, the western QSRs saw big opportunity and employed aggressive store expansion strategy. This was win-win for both - food delivery aggregators who have developed the market and QSRs that can plug and play a role in bridging supply gaps. We expect most of the western QSR players to double the store count in next 3-5 years.

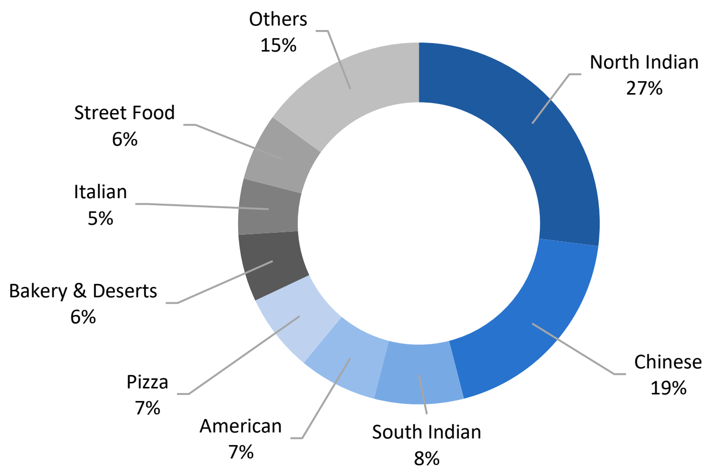
Given these tailwinds from structural changes in the QSR industry we expect western QSR players to step up the pace of store expansion further.

**Exhibit 47: We expect western QSRs to add ~3,000+ stores over next 5 years**




Source: Companies, Centrum Broking

**Exhibit 48: Market share of cuisines in food delivery (%)**




Source: Industry, BK DRHP

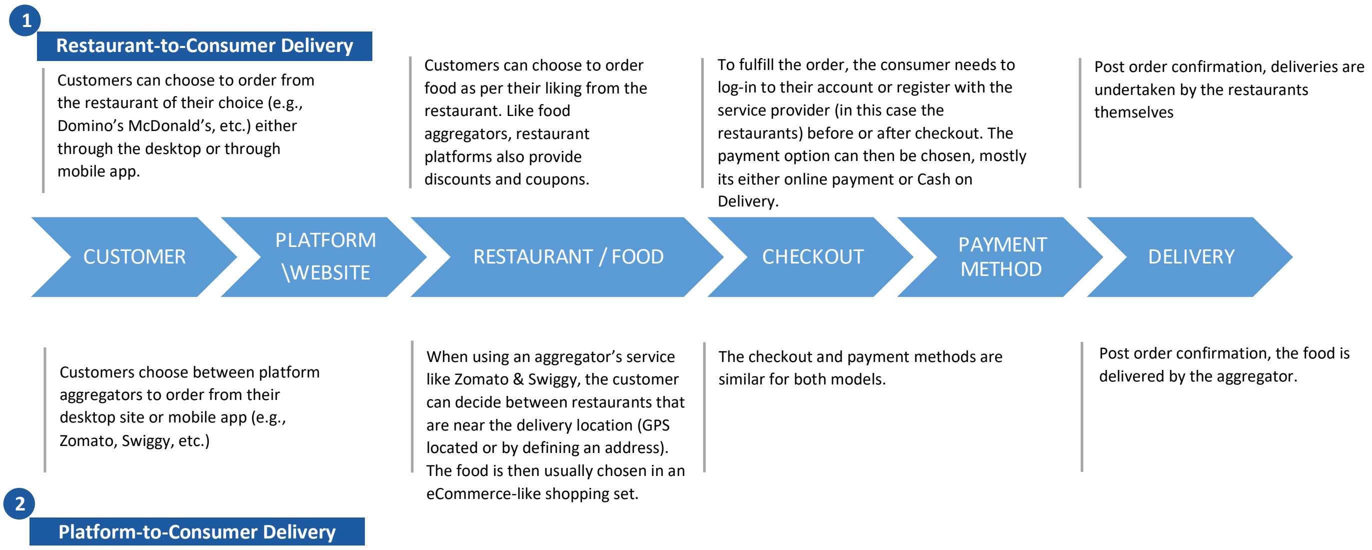
## Growth of online food delivery and food tech

The rise of digital technology, with increased penetration of internet and smartphone use are driving major changes in the online delivery market in India, allowing online food delivery platforms to capture market by offering a wide range of food products. That said, in FY20, Jubilant Foodworks reported a growth of 10% in delivery and 55% in takeaways as compared to previous year. However, sales through dine-in were cut by 84% during the same period. Similarly, during the same period McDonalds saw 65% growth. Demand for online delivery is significantly driven by the tech platforms such as Zomato and Swiggy, which offer discounts to increase the order volume. This has actually helped QSR companies to increase their reach and has had a positive impact on their sales. However, discounts offered by these platforms are putting stress on the overall profitability of the QSR companies in our view. During the COVID-19 pandemic, aggregator platforms such as

Zomato and Swiggy played an important role in delivering food and keeping the food services industry afloat.

In recent years, we saw growth in food delivery as consumer preferences shifted towards safe and secure contactless delivery using tech platforms. We note the Restaurant-to-Consumer Delivery segment includes the delivery of meals carried out directly by the restaurants. The order may be made via platforms or directly through a restaurant website or apps. On the other hand, the Platform-to-Consumer Delivery segment focuses on online delivery services that provide customers with meals from partner restaurants that do not necessarily have to offer food delivery themselves. In this case, the platforms (e.g., Zomato, Swiggy, etc.) handle the delivery process.

**Exhibit 49: Different business model for online delivery in India**



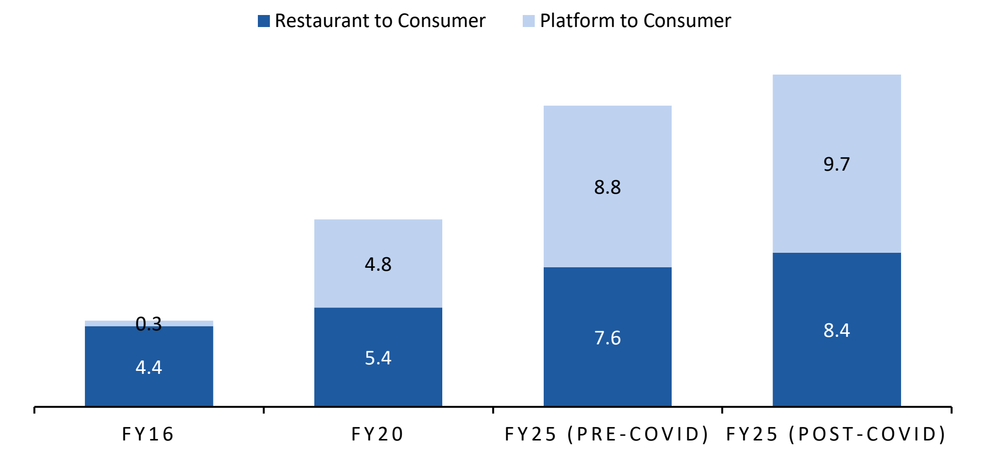

Source: Industry, BK DRHP

The overall delivery market in India is expected to grow at a CAGR of 12.2% to reach US$18.1bn by FY25E from US$10.2bn in FY20, higher from US$4.7bn in FY16, signifying a CAGR of 21.4% between FY16-20 period.

P2C delivery platform to grow CAGR 15.1% to US$9.7bn by FY25E
R2C platform to grow CAGR 9.2% to US$ 8.4bn by FY25E

Platform-to-Consumer Delivery segment has shown the strongest growth for both delivery business models, and as per industry estimates it grew at a CAGR of 100% between FY16-20, a trend that is expected to continue at a CAGR of 15.1% to reach US$9.7bn by FY25E from US$4.8bn in FY20. Moreover, prior to the COVID-19 pandemic, the growth of the Platform-to-Consumer Delivery segment between FY20-25 was estimated to be 13%, but the projected growth rate has been revised upwards to 15.1% following the pandemic primarily due to consumers' preference for food delivery over dine-in during this period. Similarly, prior to the COVID-19 pandemic, the growth of Restaurant-to-Consumer Delivery segment between FY20-25 was estimated to be 7.0%, but the projected growth rate was increased to 9.2% following the pandemic, which is primarily attributable to the restaurants' increased focus on hygienic and safe delivery, which motivated a lot of consumers to order directly from restaurants through their websites and/or apps.

**Exhibit 50: Online delivery split between restaurant to consumer and platforms (US$bn)**



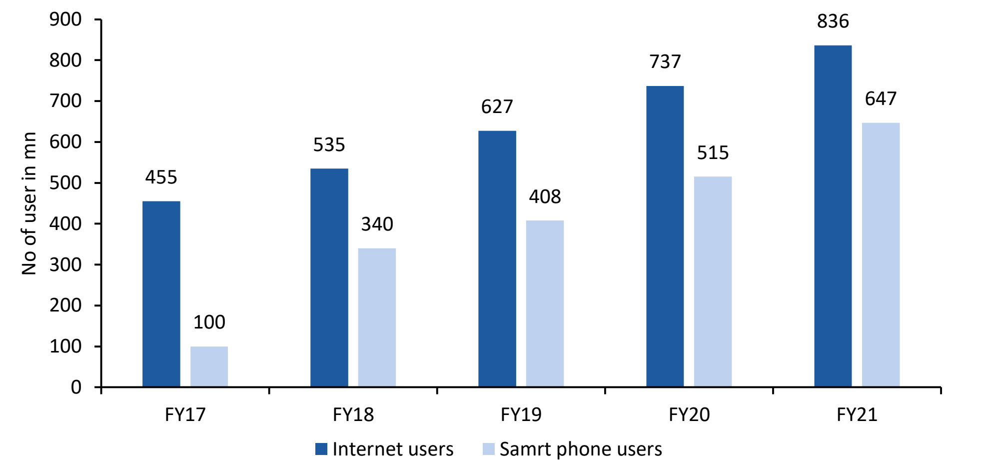

Source: Industry, BK DRHP

Increased usage of payment wallet also driving QSR delivery sales

In addition to factors such as busy lifestyle and increase of disposable income, a rise in the use of smart phones and higher internet penetration in India are expected to continue to drive growth in the Indian food services market. Internet in India had a reach of over 535mn users in FY18. Similarly, smartphone penetration is growing at a comparable pace, with an estimated 340mn users in FY18. Internet penetration and increased smartphone usage paired with demonetization implemented in Nov'16 boosted an increase in digital payments. Digital wallets like Paytm, Mobikwik and PhonePe fuelled the growth of digital transactions across different sectors. The rise of digital commerce, innovation in payments, real time payment and mobile point of sale have contributed to growth of digital payment across the food services market. According to a study by ASSOCHAM-PWC India, digital payments in India will more than double to reach US$135.2bn by FY23E from US$64.8bn in FY19.

**Exhibit 51: Internet & Smart phone users trend**

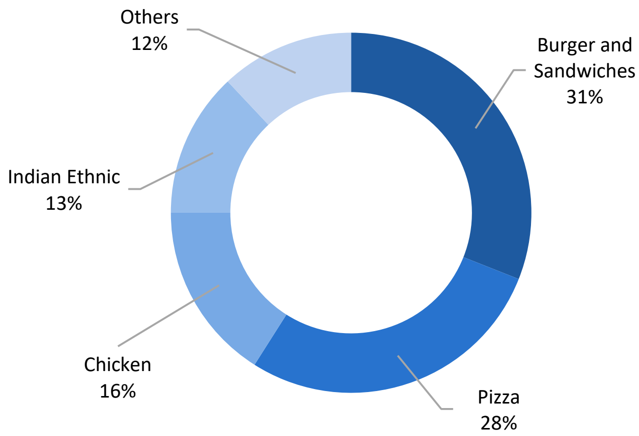
India Internet users at 836mn, while Smart phone users at 647mn driving online ordering sales




Source: Industry, BK DRHP

The impact of technology in the food services market is not limited to a shift in the online delivery business models, but has driven the emergence of new businesses such as restaurant discovery platforms (directories, business reviews and opinions available through online platforms), cloud-based kitchens (delivery-only kitchens that focus their offering on a health-aware, younger, more sophisticated population providing better quality meals at affordable prices, without the need to pay high rental and capital expenditures required for dine-in restaurants) and online table reservation (platforms that allow users to book tables in restaurants online).

**Exhibit 52: Market share by sub-segments in chain QSR (%)**




Source: Industry, BK DRHP

**Domino's emerged the most consistent QSR player on all the parameters**

The historical performance indicates, Domino's India has emerged as the most consistent QSR player on all parameters led by – (1) dominant leadership – top of mind consumer recall for pizza category, (2) value-for-money positioning – sustaining product quality, (3) digital prowess – delivery led model, and (4) smart store economics.

We note, Domino's incurs per store capex of Rs11-12mn, delivering gross margins of +72% with consistent store-level EBITDA margin. Such attractive commercials help it generate smart store-payback period of ~2 years with Rs30mn revenue per store per annum. Nonetheless, other leading QSRs operate at a lower operating matrix and achieve store-payback period of more than 3 years. Such smart store-paybacks actually aid Domino's to deploy funding for, (1) opening more stores, entering smaller cities, and (2) add new stores in existing markets (split store).

In addition to its core advantage, Domino's being the pioneer in online ordering (OLO) and food delivery it has immensely benefited capturing consumer mind share. Moreover, Domino's controls delivery market with its own infrastructure resulting in faster break-even for new restaurants. We reckon, delivery focused smaller restaurants warrant lower capex and that too works in favour of Domino's.

### Exhibit 53: Domino's emerged the most consistent QSR player on all the parameters

| | Dominos | McDonald | Pizza Hut | Subway | KFC | BBQ Nation | Burger King | Rebel Foods | Starbucks | Fresh menu |
|---|---|---|---|---|---|---|---|---|---|---|
| Entry in India | 1996 | 1996 | 1996 | 2001 | 2004 | 2006 | 2014 | 2011 | 2012 | 2014 |
| Business Model | Master Franchisee | Master Franchisee | Multiple Franchisee | Micro Franchisee | Multiple Franchisee | CDR | Master Franchisee | Owned | Joint Venture | Owned |
| Format | QSR | QSR | CDR/QSR | QSR | QSR | Own+ Franchisee | QSR | Cloud Kitchen | Café | Cloud Kitchen |
| No of cities present | 337 | 47 | 174 | 153 | 208 | 86 | 60 | 75 | 55 | 5 |
| No of stores | 1621 | 326 | 632 | 603 | 627 | 174 | 315 | 455 | 271 | 44 |
| Average Order Value(Rs) | 500-550 | 550-600 | 550-650 | 250-300 | 400-450 | 3300-3800 | 450-550 | 300-400 | 450-500 | 300-400 |
| Gross margin (%) | 78-79 | 65-66 | 74-75 | 67-68 | 67-68 | 65-66 | 64-65 | 49-50 | 67-68 | 55-56 |
| Ad-spends as % of sales | 5.0-6.0 | 5.5-6.5 | 4.5-5.5 | 4.5-5.0 | 6.0-7.0 | 1.2-1.6 | 5.1-5.6 | 20.0-21.0 | 3.5-4.5 | 9.5-10.5 |
| Royalty (% of sales) | 3-4 | 4-5 | 7-8 | 7-8 | 7-8 | NA | 4-5 | NA | 6-7 | NA |
| Unit store EBITDA margin (%) | 21-23 | 15-17 | 16-18 | 20-22 | 14-16 | 19-21 | 15-16 | 10-12 | 14-16 | 10-12 |
| Capex for new store (Rsmn) | 18-21 | 32-35 | 13-16 | 6-9 | 17-20 | 29-32 | 27-30 | 6-9 | 18-21 | 5-8 |
| Avg Store size (sq.ft.) | 1200-1400 | 3000-3200 | 1300-1500 | 750-950 | 1600-1800 | 4600-4800 | 1200-1400 | 600-800 | 1500-1700 | 500-700 |
| Annual sales/store (Rsmn) | 28-31 | 55-58 | 23-26 | 13-16 | 42-45 | 45-48 | 40-43 | 17-20 | 33-36 | 27-30 |
| Food:Beverage ratio | 95:5 | 67:33 | 90:10 | 95:5 | 85:15 | 90:10 | 80:20 | 95:5 | 20:80 | 95:5 |
| SSG - FY19-22 | 6.0-6.3 | 12.7-13.0 | 3.7-4.0 | NA | 13.5-13.8 | 5.0-5.3 | 13.9-14.2 | NA | NA | NA |
| Rent as % of sales | 9-11 | 8-10 | 9-11 | 20-21 | 13-15 | 9-11 | 12-14 | 4-5 | 20-21 | 4-5 |
| Store Gross Fixed Assets turn (x) | 2.7 | 1.5 | 1.5 | 2.1 | 2.4 | 2.2 | 1.4 | 2.6 | 1.9 | 4.9 |
| Sale/sq.ft (Rs per year) | 21000 | 16000 | 11000 | 20000 | 22000 | 9300 | 23000 | 27500 | 15000 | 30000 |
| Store level payback (year) | 2.0 | 4.5 | 5.5 | 4.0 | 3.0 | 2.7 | 5.5 | 4.0 | 5.0 | 2.3 |
| Delivery+Takeaway as % of sales | 70-75 | 35-40 | 55-60 | 35-40 | 30-35 | 10-15 | 55-60 | 100 | 20-25 | 100 |
| Employee cost as % of sales | 17-19 | 15-17 | 12-14 | 20-21 | 10-12 | 21-22 | 16-18 | 25-26 | 17-18 | 25-26 |
| Store level ROIC (%) | 40-45 | 15-20 | 20-25 | 20-25 | 30-35 | 30-35 | 15-20 | 20-25 | 18-22 | 40-45 |

Source: Company, Centrum Broking

### Exhibit 54: Domino's scores better matrix over Burger QSRs

| | Dominos | McDonald | Burger King | Starbucks | KFC | Pizza Hut | Subway |
|---|---|---|---|---|---|---|---|
| Average daily sales (ADS) per store (Rsmn) | 0.082 | 0.142 | 0.110 | 0.093 | 0.110 | 0.055 | 0.041 |
| Annual sales per store (Rsmn) | 30 | 50 | 36 | 34 | 40 | 20 | 15 |
| Sales per sq.Ft. (Rs per year) | 22690 | 19877 | 23000 | 26667 | 24856 | 14429 | 19647 |
| | | | | | | | |
| Store-level EBITDA margin (%) ex-Ind-AS 116 | 21-23 | 15-17 | 15-16 | 14-16 | 14-16 | 16-18 | 20-22 |
| Store-level fixed cost (as % of total costs) | 40 | 40 | 45 | 53 | 24 | 47 | na |
| | | | | | | | |
| Average store size (sq.ft.) | 1200-1400 | 3000-3200 | 1200-1400 | 1500-1700 | 1600-1800 | 1300-1500 | 750-950 |
| Capex per store (Rsmn) | 18-21 | 32-35 | 27-30 | 18-21 | 17-20 | 13-16 | 6-9 |
| Gross fixed asset turnover (x) | 2.7 | 1.5 | 1.4 | 1.9 | 2.4 | 1.5 | 2.1 |
| | | | | | | | |
| Store-payback (years) | 2.00 | 4.5 | 5.5 | 5 | 3 | 5.5 | 4 |
| Store-level ROIC (%) | 45 | 20 | 17 | 20 | 33 | 22 | 23 |

Source: Centrum Broking

Competition in Chicken QSR to rise

# Competitive landscape

- Key players in Indian QSR market
- QSR players stepping up store expansion
- Burgers and Sandwiches have grown at a faster rate
- Rebel Foods has won exclusive rights to launch 250 Wendy's stores in India

## Snapshot of key players

## Jubilant Foodworks

Incorporated in 1995, Jubilant FoodWorks Limited (JFL) is part of the Jubilant Bhartia Group and is India's largest food service company. The company holds the master franchise rights for three international brands, Domino's Pizza, Dunkin' Donuts and Popeyes addressing three different food market segments. The company launched its first home grown brand – Hong's Kitchen in Chinese cuisine segment. The Company also entered into the exciting world of Biryanis with the launch of "Ekdum!". It offers the widest range of Biryanis curated from various parts of India using authentic ingredients along with extensive range of Kebabs, Curries, Breads, Desserts and Beverages. The company currently operates more than 1,814 outlets for Domino's Pizza, Dunkin' Donuts and Hong's Kitchen and is a market leader in pizza segment. The company has more than 30,000 brand ambassadors committed to deliver value to its customers. As of Dec'22 JUBI operate 1760 Domino's stores in India covering 387 cities. In Dec'22 the company reported MAU at 11.3% with 97.7% share of on-long-ordering. In FY22 Dominos' India reported revenue of Rs42.7bn with EBITDA margin of 25.5% with ADS at Rs78.7mn. JUBI also operates in own home grown brands such as Hong's Kitchen and EkDum! biryani operating 4 and 15 stores in NCR region respectively. JUBI also operate 28 Dunkin outlets in the country. In addition, JUBI holds international operation under Domino's brand in Sri Lanka and Bangladesh operating 35 and 9 store respectively.

**Exhibit 55: Key financials and metrics of Jubilant Foodworks FY18-22**

| | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|---|
| Revenue (Rsmn) | 30,064 | 35,306 | 38,858 | 32,688 | 43,311 |
| YoY (%) | 18.1 | 17.4 | 10.1 | (15.9) | 32.5 |
| EBITDA (Rsmn) | 4,724 | 6,077 | 8,771 | 7,665 | 11,046 |
| YoY (%) | 91.6 | 28.7 | 44.3 | (12.6) | 44.1 |
| PAT (Rmn) | 2,324 | 3,307 | 3,203 | 2,336 | 4,448 |
| YoY (%) | 192.6 | 42.3 | (3.2) | (27.0) | 90.4 |
| | | | | | |
| CFO (Rsmn) | 4,151 | 4,339 | 7,320 | 7,470 | 9,250 |
| Capex (Rsmn) | 1,113 | 1,581 | 2,817 | 2,365 | 4,425 |
| FCF (Rsmn) | 630 | -120 | 6,344 | 1,327 | 3,505 |
| | | | | | |
| Gross Fixed Assets (Rsmn) | 10,383 | 11,561 | 36,871 | 37,929 | 46,040 |
| Net Fixed Assets (Rsmn) | 7,448 | 7,638 | 21,515 | 20,924 | 26,688 |
| Equity (Rsmn) | 9,677 | 12,596 | 11,220 | 14,971 | 21,035 |
| Net Debt (Rsmn) | (3,897) | (6,699) | 8,343 | 8,511 | 11,257 |
| | | | | | |
| Gross Profit Margin (%) | 77.8 | 77.8 | 76.8 | 79.5 | 78.8 |
| Store Margin (%) | 20.7 | 22.2 | 27.1 | 27.9 | 29.8 |
| EBITDA (%) | 17.2 | 17.2 | 22.6 | 23.4 | 25.5 |
| EBIT (%) | 12.9 | 12.9 | 13.7 | 12.2 | 16.7 |

Source: Company, Centrum Broking, Store & EBITDA post IND AS

## Westlife Foodworld

Incorporated in 1995, Westlife Foodworld Limited owns and runs a chain of restaurants in Western and Southern India through Hardcastle Restaurants Pvt. Ltd., its fully owned subsidiary. Through this subsidiary, the company is a master franchisee of McDonald's Corporation, USA. Currently, it operates 341 restaurants and 288 McCafé outlets across the southern and western states. Over the years, McDonald's has extended its service from dine-in to Drive-thru, On-The-Go and McDelivery (online ordering through the app and website), widening its Omni-channel convenience and accessibility. It also has four brand extensions – McCafé, McBreakfast, McDelivery, and Dessert Kiosks.

**Exhibit 56: Key financials and metrics of Westlife Foodworld FY18-22**

| | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|---|
| Revenue (Rsmn) | 11,349 | 14,016 | 15,473 | 9,856 | 15,760 |
| YoY (%) | 21.9 | 23.5 | 10.4 | (36.3) | 59.9 |
| EBITDA (Rsmn) | 774 | 1,190 | 2,140 | 469 | 1,892 |
| YoY (%) | 64.6 | 53.8 | 79.8 | (78.1) | 303.2 |
| PAT (Rsmn) | 129 | 237 | (69) | (990) | (13) |
| YoY (%) | (206.4) | 84.2 | (129.3) | 1328.5 | (98.7) |
| | | | | | |
| CFO (Rsmn) | 1,312 | 963 | 2,655 | 1,839 | 2,323 |
| Capex (Rsmn) | 930 | 1,296 | 1,740 | 895 | 1,534 |
| FCF (Rsmn) | 298 | (330) | 829 | (53) | 652 |
| | | | | | |
| Gross Fixed Assets (Rsmn) | 9,261 | 10,314 | 16,619 | 15,996 | 17,272 |
| Net Fixed Assets (Rsmn) | 5,539 | 5,952 | 14,080 | 12,843 | 13,623 |
| Equity (Rsmn) | 5,111 | 5,519 | 5,463 | 4,510 | 4,309 |
| Net Debt (Rsmn) | 1,726 | 2,247 | 9,630 | 9,571 | 10,313 |
| | | | | | |
| Gross Profit Margin (%) | 62.6 | 63.5 | 65.2 | 64.7 | 65.4 |
| Store Margin (%) | 12.5 | 14.0 | 19.1 | 12.7 | 18.0 |
| EBITDA (%) | 6.8 | 8.5 | 13.8 | 4.8 | 12.0 |
| EBIT (%) | 2.5 | 3.9 | 5.8 | -4.9 | 5.1 |

Source: Company, Centrum Broking, Store & EBITDA post IND AS

## Restaurant Brands Asia

Incorporated in 2013, Restaurant Brands Asia Limited (RBA) is one of the emerging and fastest-growing QSR players in India. The company holds the master franchise rights for Burger King in India & Indonesia, world's second largest fast-food burger brand globally by total number of restaurants. Burger king serves diverse range of burgers and other food items. It also operates BK Café that primarily serve coffees, shakes and other beverages. Further, it has Popeyes brand rights to cater Indonesia market which has similar demographic characteristic like India. The company currently operates 379 outlets for Burger King along with 72 BK Cafes in India whereas in Indonesia it has 179 Burger King stores along with 3 Popeyes.

**Exhibit 57: Key financials and metrics of RBA FY18-22**

| | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|---|
| Revenue (Rsmn) | 3,771 | 6,309 | 8,383 | 4,926 | 9,396 |
| YoY (%) | 64.4 | 67.3 | 33.0 | (41.2) | 90.9 |
| EBITDA (Rsmn) | 81 | 790 | 1,040 | 150 | 902 |
| YoY (%) | (308.9) | 872.0 | 31.7 | (85.6) | 501.7 |
| PAT (Rsmn) | (822) | (383) | (722) | (1,662) | (930) |
| YoY (%) | 14.5 | (53.4) | 88.7 | 130.1 | (44.0) |
| | | | | | |
| CFO (Rsmn) | 480 | 991 | 1,277 | 618 | 1,514 |
| Capex (Rsmn) | (1,816) | (2,924) | (3,878) | (589) | (2,882) |
| FCF (Rsmn) | (482) | (1,500) | (2,481) | (1,027) | (15,265) |
| | | | | | |
| Gross Fixed Assets (Rsmn) | 3,080 | 4,609 | 6,521 | 6,814 | 19,359 |
| Net Fixed Assets (Rsmn) | 2,490 | 3,634 | 4,988 | 4,725 | 16,565 |
| Equity (Rsmn) | 2,871 | 2,496 | 2,754 | 6,735 | 19,503 |
| Net Debt (Rsmn) | 3,626 | 5,580 | 7,682 | 3,812 | 6,058 |
| | | | | | |
| Gross Profit Margin (%) | 62.0 | 63.6 | 64.2 | 64.5 | 65.8 |
| Store Margin (%) | 8.0 | 18.8 | 17.9 | 13.4 | 16.2 |
| EBITDA (%) | 2.1 | 12.5 | 12.4 | 3.0 | 9.6 |
| EBIT (%) | 6.3 | 15.4 | 16.2 | 20.2 | 13.0 |

Source: Company, Centrum Broking, Store & EBITDA post IND AS

## YUM!

Yum! Brands which owns KFC, Pizza Hut and Taco Bell has managed its mark in India since 1996. The company has the Franchisee rights split for its brands KFC and Pizza Hut in India between two leading companies, namely Devyani International and Sapphire Foods. At broad level (1) Devyani and Sapphire have Franchisee rights for the KFC brand and Pizza Hut dine-in, in a ratio of 55:45 in terms of market opportunity, (2) Devyani has Franchisee rights for Pizza Hut delivery format for about 90% of India, and (3) Taco Bell Franchisee rights is awarded exclusively to Burman Hospitality. On an aggregate basis, at the end of Q3FY23, KFC holds 786 stores with system sales of about Rs32bn (MAT basis) and Pizza Hut, with 757 stores recorded system sales of Rs12bn (MAT basis).

Unit level economics— (1) KFC India – average revenue per store of ~Rs40mn with store-level EBITDA margins in the range of 18-20% and per store capex of about Rs17mn, and (2) Pizza Hut India – average revenue per store of ~Rs20mn, store-level EBITDA margin of about ~18% and per store capex of Rs9-12mn for Pizza Hut delivery/dine-in, in India.

## Devyani International

An associate company of RJ Group based out of Gurugram, Devyani International (DIL), is the largest Franchisee of Yum Brands in India (Pizza Hut and KFC) and it has Franchisee rights of Costa Coffee in India. DIL holds Franchisee rights of (1) KFC brand for Karnataka, Kerala, AP, Telangana, NCR region (excluding Delhi), few cities in UP, West Bengal, North East states, Odisha, Bihar, Jharkhand, Rajasthan, Goa, Himachal Pradesh and J&K, (2) Pizza Hut delivery format for all states except Tamil Nadu and Goa and (3) Pizza Hut dine-in format for North India and East India, (4) Costa Coffee for whole of India, and (5) Pizza Hut rights in Nepal and KFC for Nepal and Nigeria. Furthermore, Devyani also owns and operates other foods businesses under own brands such as Vaango (south Indian cuisine) and food courts. Devyani registered Rs20.8bn revenues in FY22.

**Exhibit 58: Key financials and metrics of Devyani International FY19-22**

| | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|
| Revenue (Rsmn) | 13,106 | 15,164 | 11,348 | 20,840 |
| YoY (%) | | 15.7 | (25.2) | 83.6 |
| EBITDA (Rsmn) | 2,789 | 2,555 | 2,345 | 4,762 |
| YoY (%) | | (8.4) | (8.2) | 103.0 |
| PAT (Rsmn) | (826) | (1,521) | (609P | 1,759 |
| YoY (%) | | 84.1 | (59.9) | (388.8) |
| | | | | |
| CFO (Rsmn) | 2,778 | 3,007 | 2,396 | 4,506 |
| Capex (Rsmn) | (1,407) | (988) | (1,329) | (2,930) |
| FCF (Rsmn) | 1,101 | 2,116 | (1,175) | 753 |
| | | | | |
| Gross Fixed Assets (Rsmn) | 7,233 | 9,625 | 12,718 | 16,419 |
| Net Fixed Assets (Rsmn) | 5,204 | 5,364 | 6,162 | 7,649 |
| Equity (Rsmn) | (1,764) | (2,953) | (16) | 5,658 |
| Net Debt (Rsmn) | 16,078 | 17,028 | 12,124 | 11,968 |
| | | | | |
| Gross Profit Margin (%) | 70.3 | 69.6 | 69.6 | 71.2 |
| Store Margin (%) | 27.6 | 24.2 | 26.4 | 26.5 |
| EBITDA (%) | 21.3 | 16.9 | 20.7 | 22.8 |
| EBIT (%) | -8.1 | -10.9 | -12.1 | 3.8 |

Source: Company, Centrum Broking, Store & EBITDA post IND AS

## Sapphire Foods

Sapphire Foods was established in 2015 by a consortium of private equity firms and acquired ~250 KFC and Pizza Hut restaurants across India and Sri Lanka from Yum! Brands. Samara Capital being primarily largest owner, followed by Goldman Sachs, CX Partners and Edelweiss Group are other investors in the company. As per company's DRHP, Sapphire Foods raised ~Rs6.8bn as equity and Rs2.25bn as compulsorily convertible preference shares since its inception.

Sapphire holds exclusive Franchisee rights of (1) KFC brand for most parts of North India (Delhi, Punjab, parts of UP & Haryana, and Uttrakhand), West India (Maharashtra, Gujarat, Madhya Pradesh and Chhattisgarh) and Tamil Nadu, and (2) Pizza Hut dine-in format for West and South India. At an aggregate level, Sapphire has exclusive Franchisee rights for KFC and Pizza Hut dine-in format for about 45% of India in terms of market opportunity.

We note that Sapphire has exclusive rights to establish, own and operate Pizza Hut dine-in formats in West and South India whereas as Devyani International has exclusive rights to establish, own and operate Pizza Hut delivery formats in the same markets. We note that a dine-in format restaurant can also conduct delivery and a delivery format store can cater to dine-in demand with some restrictions (Pizza Hut delivery store can't have dine-in capacity of more than 35-40 seats and cannot provide table services or cutlery).

As on Q3FY23, Sapphire operated 325 KFC restaurants and 274 Pizza Hut outlets in India. The company also operates about 114 Pizza Hut and 9 Taco Bell outlets in Sri Lanka and two outlets (KFC/PH one each) in Maldives through its subsidiaries. Sapphire Foods registered Rs17bn revenues in FY22.

**Exhibit 59: Key financials and metrics of Sapphire Foods FY19-22**

| | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|
| Revenue (Rsmn) | 11,938 | 13,404 | 10,196 | 17,216 |
| YoY (%) | | 12.3 | (23.9) | 68.8 |
| EBITDA (Rsmn) | 1,460 | 1,856 | 1,244 | 3,050 |
| YoY (%) | | 27.1 | (33.0) | 145.2 |
| PAT (Rsmn) | (694) | (1,592) | (999) | 460 |
| YoY (%) | | 129.4 | (37.3) | (146.0) |
| | | | | |
| CFO (Rsmn) | 5,982 | (1,860) | 2,045 | 2,805 |
| Capex (Rsmn) | (16,407) | (3,262) | (3,166) | (5,211) |
| FCF (Rsmn) | (10,426) | (5,276) | (1,233) | (3,664) |
| | | | | |
| Gross Fixed Assets (Rsmn) | 14,860 | 16,209 | 17,283 | 22,799 |
| Net Fixed Assets (Rsmn) | 12,050 | 11,609 | 10,844 | 14,224 |
| Equity (Rsmn) | 3,585 | 4,742 | 4,271 | 9,436 |
| Net Debt (Rsmn) | 3,826 | 5,225 | 4,925 | 4,562 |
| | | | | |
| Gross Profit Margin (%) | 66.9 | 67.8 | 69.6 | 69.3 |
| Store Margin (%) | 20.2 | 20.8 | 21.6 | 25.9 |
| EBITDA (%) | 12.2 | 13.8 | 12.2 | 17.7 |
| EBIT (%) | (0.7) | (0.4) | (8.3) | 5.3 |

Source: Company, Centrum Broking, Store & EBITDA post IND AS

## La Pino’z – upcoming pizza brand

Established in 2011, Mr. Sanam Kapoor opened his very first Pizzeria in his hometown in Chandigarh. There are many pizza brands but it caught up the consumer’s mind share and made La Pino’z special is the concept of making fresh Pizza on demand within stipulated time. Today La Pino’z has 500+ stores spread across 170 odd cities in the country.

La Pino’z family has flourished over the decade since Mr. Kapoor left his job just to end up giving people one more favourite food to love. La Pino’z takes care of all the little details that make a difference i.e., from making the hand-tossed dough, daily fresh sauces, healthy toppings made with fresh veggies, quality meats and cheeses. La Pino’z takes care of all the little details that make the difference between something you like and something that’s worthy of being called your favourite.

As per customer reviews – “Today, La Pino’z is about much more than just pizzas. From freshly sautéed pasta & freshly baked garlic bread to mocktails and, desserts, it offers a wide range (22+) of options which can delight first timers. All this, combined with the warm, inviting ambience and friendly service at all time that will lead to endless conversations, laughter and memories that you'll cherish forever”.

As per industry experts La Pino’z was successful due to, (1) reasonable product and cost, (2) better quality perception developed by the customers, and (3) trained chefs to prepare food order which maintained product consistency. That said customer reviews indicate the average cost for two people at the restaurant is not more than Rs500.

Recently, La Pino’z went into brand infringement tussle with another Franchisee A.R. Impex who partnered with La Milano.

McDonald's has revived partnership in north with MMG group expect to challenge Burger King

## Connaught Plaza Restaurants (CPRL) — McDonald's master Franchisee for North and East

Established in 1995 as a joint venture between McDonald's Corp. and Mr. Vikram Bakshi, Connaught Plaza Restaurants (CPRL) was appointed as master Franchisee for McDonald's in North and East India. CPRL went into controversy with McDonald's, and as an outcome the master Franchisee agreement was terminated; it purchased 50% stake from Mr. Bakshi in the JV. McDonald's then appointed Mr. Sanjeev Agrawal (promoter MMG group) as the new developmental licensee for North and East India. Currently, McDonald's operates ~180 restaurants in the North and East India.

Post the takeover by MMG group, CPRL has attempted to revive the business. CPRL fast-tracked its delivery in the Covid period using WhatsApp based McDelivery service and also build volumes in drive-thru and delivery channels. We gather, it put efforts to build back customer footfalls using menu innovation such as McNuggets with peri-peri seasoning, Shake-Shake fries, Big Hug Burger with double patty variants and Masala Chai. We note CPRL also undertook plans to modernize the restaurants and deploy technology to drive convenience using a strategy i.e., (1) augment store expansion, (2) restructure and modernization of existing restaurants, (3) build menu innovation pace, and (4) invest significantly to improve brand positioning in the designated markets.

As per MrSanjeev Agrawal, Chairman of MMG group, is looking for revival of McDonald's brand in North and East by investing Rs4-6bn over next three years. To its existing employee base of ~6000 people it expects significant addition of ~1500 by end of Dec'23. As on date it operates 170 stores. Recently it added two McDonald's store in Vaishnodevi (Katra and Tarakot) with "No-garlic-No-onion' a unique vegetarian offering. On Dec 12. 2023 McDonald's marked its entry in Assam with fist flagship store located Guwahati with store size of 6700 sq.ft. Interestingly our channel checks indicate with revival of McDonald's brand in North and East the MMG group adopted lower pricing strategy to regain brand leadership.

**Exhibit 60: Key financials and metrics of CPRL FY18-22**

| | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|---|
| Revenue (Rsmn) | 6,477 | 7,879 | 6,846 | 5,357 | 8,440 |
| YoY (%) | (9.2) | 21.7 | (13.1) | (21.7) | 57.5 |
| EBITDA (Rsmn) | 290 | 636 | (1,136 | 632 | 1,148 |
| YoY (%) | 188.6 | 119.3 | (278.8) | (155.6) | 81.6 |
| PAT (Rsmn) | (61) | 309 | (1,355) | 505 | 1,321 |
| YoY (%) | (83.4) | (604.9) | (538.4) | (137.3) | 161.4 |
| | | | | | |
| CFO (Rsmn) | 284 | 765 | (1,283) | 338 | 1,137 |
| Capex (Rsmn) | 27 | 17 | 218 | 282 | 484 |
| FCF (Rsmn) | 257 | 747 | (1,501) | 56 | 653 |
| | | | | | |
| Gross Fixed Assets (Rsmn) | 3,558 | 3,486 | 3,590 | 3,518 | 3,998 |
| Net Fixed Assets (Rsmn) | 1,325 | 1,115 | 1,312 | 1,137 | 1,489 |
| Equity (Rsmn) | (1,410) | (1,101) | (345) | (1,261) | (2,582) |
| Net Debt (Rsmn) | 1,276 | 649 | (217) | (1,002) | (924) |
| | | | | | |
| EBITDA (%) | 4.4 | 8.0 | (16.6) | 11.8 | 13.6 |
| PAT (%) | (0.9) | 3.9 | (19.7) | 9.4 | 15.6 |

Source: MCA, Centrum Broking

## Rebel Foods

**Largest player in cloud kitchen with brands Oven Story, Mandarin Oak & Behrouz**

**Rebel foods has won franchisee right for Wendy's recently**

Rebel Foods has won franchisee right with Wendy's

In its vision document, Rebel Foods charted its positioning to be world's largest internet restaurant company operating ~3,000 internet restaurants supported by ~400 odd cloud kitchens across 6 countries globally. Rebel operates multiple food brands spread out across cuisines Mandarin Oak (Chinese), Sweet Truth (Desserts), Firangi Bake (Bakery), Oven Story (Pizza), Lunch Box (Meals), Behrouz (Biryani), and Bakery (Firangi Bake). Rebel Foods recorded revenues of Rs9.0bn in FY22 from Rs4.1bn in FY21 on the back of key brands – Faasos followed by Behrouz Biryani and Oven Story.

As per company website, Rebel started as a pure restaurant, diversified towards the cloud kitchen model in 2015. It raised US$20mn from Sequoia, Runet and Lightbox ventures. We note the Cloud Kitchen model empowered Rebel with an ability to operate multiple brands from the same kitchen. Further, it could set up kitchens with limited outlay for rental which can be located in reasonably low-rental areas and also lower overhead. Further, its kitchen capex was limited to Rs7-8mn, in our view.

Our interaction with industry experts indicate Rebel Foods has fast paced and installed usage of digital technology in the cloud kitchens by, (1) Automating work processes which dispenses ingredients as per the specifications of the item to be cooked and automatically tosses the food, (2) Visual AI and machines to detect size, weight, appearance and temperature of the prepared orders to accept/reject based on deviation from the norm, (3) Robotic smart-fryer than can control the temperature of the frying oil and frying time for different items, and (4) QR code on packaging, which can be scanned by the customer to get order details. As per company website, the company has achieved 90% demand forecasting accuracy at Kitchen level which has helped optimize inventory and reduce wastage.

The experts also said, to counter the competition and cut the risk of excessive discounting Rebel Foods used a flanker brand strategy. One visible example – Rebel used second discount brand Biryani Life to its premium offering core brand Behroz Biryani to counter low-priced competition. Moreover, Rebel Foods plans to diversify into ready-to-cook kits, meats, and packaged snacks. Recently it partnered with Travis Kalanik owned City Storage Systems to launch operations in London.

Over last five years Rebel Foods expanded its operation in overseas markets such as Indonesia, UAE and UK. Company has introduced global brands such as Banzai (Japanese) in Indonesia, 500 Calorie Project (Health Food) and Sawa (Lebanese) in UAE to meet local taste and preferences. We note, it has extended few local brands such as Behrouz (Briyani), Mandarin Oak (Chinese), Oven Story (Pizza), Sweet Truth (Desserts) and Fassos (Wraps) in international markets. That said, Rebel intends to open ~800 cloud kitchens (including about 250-300 kitchens overseas across Indonesia and UAE) and to support its growth plans it secured funding of US$76.0mn in Jul'20, totalling its total fund raise since inception to US$340.0mn.

We also note Rebel Foods has identified ~30 cuisines but offers only 12 categories at this time, it intends to scale up its Franchisee in Cuisines such as premium north Indian, south Indian, Indian sweets, sandwiches and ice creams, where Rebel Foods does not have a presence, will be the top aim for the company and are "important to have" for its growth.

Our interaction with industry experts suggests Rebel is presently operating ~200+ cloud kitchens in India. However, its unit economics are still in the evolution phase as it lacks to deliver comparable industry gross margins, lower EBITDA margins due to investment cycle, resulted out of sub optimal revenues. Therefore, we believe, even though Rebel has been successful player in terms of cloud kitchens and continues to attract funding, its relative performance has been weaker as compared to market potentials.

We believe Rebel offers disruptive competition to existing players in the western QSR industry if it manages to revive its old brands such as Papa John's Pizza, Little Ceasars Pizza, etc., or launch new mass brands to counter fast growing chicken category.

**Exhibit 61: Key financials and metrics of Rebel Foods FY18-22**

| | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|---|
| Revenue (Rsmn) | 1,491 | 3,104 | 5,799 | 4,366 | 9,071 |
| YoY (%) | 67.3 | 108.2 | 86.8 | (24.7) | 107.7 |
| EBITDA (Rsmn) | (651) | (1,177) | (3,790) | (2,311) | (4,087) |
| YoY (%) | nm | nm | nm | nm | nm |
| PAT (Rsmn) | (744) | (1,306) | (4,539) | (3,641) | (5,645) |
| YoY (%) | nm | nm | nm | nm | nm |
| | | | | | |
| CFO (Rsmn) | (524) | (988) | (1,895) | (2,445) | (3,654) |
| Capex (Rsmn) | 122 | 431 | 1,137 | 364 | 1,065 |
| FCF (Rsmn) | (646) | (1,419) | (3,032) | (2,810) | (4,719) |
| | | | | | |
| Gross Fixed Assets (Rsmn) | 455 | 785 | 3,682 | 3,953 | 5,453 |
| Net Fixed Assets (Rsmn) | 211 | 484 | 3,207 | 2,807 | 3,358 |
| Equity (Rsmn) | 200 | 1,477 | 4,624 | 7,087 | 14,854 |
| Net Debt (Rsmn) | 164.9 | (642.5) | (1,983.9) | (4787.9) | (1,465.6) |
| | | | | | |
| EBITDA (%) | (43.6) | (37.9) | (65.3) | (52.9) | -45.0 |
| PAT (%) | (49.9) | (42.0) | (78.2) | (83.4) | -62.2 |

Source: MCA, Centrum Broking

### Entry of Wendy's in India

In early March'23 Wendy's has signed its exclusive master Franchise agreement with Rebel Foods taking its relationship to the next level. Wendy's signed its partnership more than two years back to operate the company's delivery-only stores, also known as cloud kitchen in India. Earlier, Sierra Nevada Restaurants, headed by Jasper Reid, had Wendy's in India in 2015 who has exited the partnership.

Despite India being high growth strategic market for top 5 brands, Wendy's had small presence with just 90 stores spread across 19 cities as compared to McDonald's, Domino's, KFC and pizza Hut. Our interaction with industry experts indicate Rebel Foods has acquired license to exclusively develop cloud kitchens in India for Wendy's and now it plans to scale up restaurant operation with 250+ facilities over next 5-7 years.

As per Sagar Kochhar, Co-founder, Rebel Foods, "There is no better company than Wendy's to collaborate with to win this market. With this collaboration, we will be the only cloud kitchen player in India to scale a large global QSR brand through the development of traditional restaurants and cloud kitchens in a super-fast and capex-light manner, driven by technology and a unique business model."

Our ground research indicate Wendy's is more popular for its products such as, The Baconator, Classic Chocolate Frosty, Jr. Bacon Cheese Burger, Apple Pecan Chicken salad, Spicy Chicken sandwich, Homestyle Chicken sandwich, Grilled Chicken sandwich etc.

**Exhibit 62: Wendy's partnership with Rebel Foods eyeing to expand 250 stores**


Source: Company, Centrum Broking

## Starbucks India

Starbucks, another US company formed a 50:50 JV with Tata Consumer which operates 311 stores across 38 cities as on date. Interestingly, with improved footfalls revenue trajectory has gradually improved and the JV has turned EBITDA positive. We note sales recovery was primarily driven by non-metro cities and delivery channel. We expect Starbucks to emerge stronger player on account of closure of Café Coffee Day as it has scaled down its operations to ~650 cafes. Further, Starbucks has been aggressively opening smaller format stores with greater salience of takeaway and delivery sales which can result in significant cost savings on rent and other expenses. In addition, the company has focused on expanding its menu using celebrity chefs.

We expect even Starbucks to offer key competition to national QSR players as it intends to add 60-70 stores per year over the next few years and operating leverage to kick gross margin expansion.

**Exhibit 63: Key financials and metrics of Starbucks India FY18-22**

| | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|---|
| Revenue (Rsmn) | 3,455 | 4,478 | 5,397 | 4,174 | 6,703 |
| YoY (%) | 26.9 | 29.6 | 20.5 | (22.6) | 60.5 |
| EBITDA (Rsmn) | 13 | (58) | 709 | 436 | 1,069 |
| YoY (%) | nm | nm | nm | 39.0 | 145.0 |
| PAT (Rsmn) | (307) | 291 | (1,027) | (1,335) | (949) |
| YoY (%) | nm | nm | nm | nm | nm |
| | | | | | |
| CFO (Rsmn) | 143 | (301) | 902 | (205) | 743 |
| Capex (Rsmn) | 506 | 701 | 1,139 | 857 | 1,123 |
| FCF (Rsmn) | (363) | (1,002) | (237) | (1,062) | (387) |
| | | | | | |
| Gross Fixed Assets (Rsmn) | 2,528 | 3,255 | 8,247 | 9,532 | 11,620 |
| Net Fixed Assets (Rsmn) | 1,704 | 2,044 | 6,614 | 7,354 | 8,777 |
| Equity (Rsmn) | 1,823 | 2,828 | 2,338 | 2,953 | 3,726 |
| Net Debt (Rsmn) | (53) | 54 | 37 | (51) | (367) |
| | | | | | |
| EBITDA (%) | 0.3 | (1.2) | 13.1 | 10.4 | 15.9 |
| PAT (%) | (8.8) | 6.5 | (19.0) | (31.9) | (14.1) |

Source: MCA, Centrum Broking

## Subway India

Subway, an American multinational fast food restaurant company, specialises in submarine sandwich (subs), wraps, salads and drinks. Subway was founded by Fred DeLua and Peter Buck in 1965 as Pete's Super Submarines in Bridgeport, Connecticut. After several attempts the company was renamed as Subway in 1972 and started Franchisee operation journey in 1974. Subway serves an array of topping choices, allowing the customers to choose which toppings are included in the sandwich. Subway captured consumer confidence with its slogan 'Eat Fresh' which truly indicates the ingredients which are used in the sandwich are fresh. Today Subway is the world's largest made-to-order sandwich restaurant chain with ~40,000 restaurants across 100+ countries under the Franchisee route.

In India, the first Subway restaurant was set up in 2001 at Saket, New Delhi, by an Indian Franchisee partner and today it holds ~603 restaurants across 103 cities. Today Maharashtra being its largest store network with ~100 stores leads lions share to the revenues followed by Punjab (75) and Delhi/ Gujarat at 60 each. More importantly, as per industry experts, the company is well-grounded and incorporates customer suggestions and feedback to improve product experience and restaurant services. Notably, its success as a company provides constant support through training and business mentorship. As per its partner Ranjit Talwar, Country Head, Subway India, "The easy-to-follow structures and systems the company has developed over the years have made the brand accessible to entrepreneurial aspirants of varied backgrounds. Although, prior experience in the restaurant segment is not a pre-requisite to becoming a Franchiseee; attributes like leadership, management and operations experience in general, are preferred".

In Nov'22, Subway announced its master Franchiseee partnership with Everstone Group in India. As per media reports, the company is eyeing a massive expansion in India and neighbouring countries such as Sri Lanka and Bangladesh. The company said it will open more than 2000 new stores in India, Sri Lanka and Bangladesh in next ten years, terming as "the largest ever Franchisee agreement in QSR history".

Everstone Capital has won franchisee right for expanding Subway stores in India

In a press briefing the company said "Everstone, with expertise in growing and building brands in India and South Asia, will lead Subway on an ambitious growth trajectory, with a commitment to more than triple the number of restaurants in 10 years from the nearly 700 locations that exist today". We note Everstone Group has the master Franchiseee of Burger King India, Burger King Indonesia, and Domino's Indonesia, amongst other investments in this space. The new restaurants — as well as upgrades to existing locations — will adopt the company's new, modern, and inviting "fresh forward" design and meet the needs of today's consumer with comfortable guest indoor dining spaces as well as numerous delivery and order-ahead options, with a strong digital-first strategy.

**Exhibit 64: Subway menu spread**


Source: Company, Centrum Broking

**Exhibit 65: Key financials and metrics of Subway India FY18-22**

| | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|---|
| Revenue (Rsmn) | 799 | 961 | 1,062 | 712 | 1,063 |
| YoY (% | 13.7 | 20.3 | 10.4 | (32.9) | 49.4 |
| EBITDA (Rsmn) | 7 | 9 | (36) | (164) | (141) |
| YoY (%) | (125.0) | 19.2 | (509.2) | 361.5 | (13.9) |
| PAT (Rsmn) | 4 | 14 | (30) | (21) | (154) |
| YoY (%) | (114.6) | 234.1 | (316.1) | (30.7) | 651.2 |
| | | | | | |
| Gross Fixed Assets (Rsmn) | 3 | 4 | 5 | 5 | 83 |
| Net Fixed Assets (Rsmn) | 2 | 2 | 2 | 1 | 78 |
| Equity (Rsmn) | 33 | 46 | 17 | (4) | (158) |
| Net Debt (Rsmn) | 4,023 | 533 | 211 | 487 | 103 |
| | | | | | |
| EBITDA (%) | 0.9 | 0.9 | (3.3) | (23.0) | (13.3) |
| PAT (%) | 0.5 | 1.4 | (2.8) | (2.9) | (14.5) |

Source: MCA, Centrum Broking

## Biryani by Kilo (BBK) – Prominent Biryani QSR brand

Biryani by Kilo is one of prominent and upcoming premium Biryani QSR brands with ~100+ outlets reaching in ~50 cities. As per industry estimates, Biryani market is pegged at US$4bn while BBK is primarily a delivery brand with ~90% of revenue from the delivery channel. Over the medium term, the company aims to set up ~175 outlets across India and ~50 outlets overseas, targeting to achieve Rs10bn in revenues. We note contrasting to its peers, Biryani by Kilo has adopted a dispersed model where each Biryani order is cooked separately at each restaurant. Such measures guarantee a superior customer experience in terms of food quality resulting in 40-50% repeat customers. Industry experts in the Franchisee network indicate, BBK with solid unit economics delivers a payback period of ~6 months on the back of considerably lower capex per new store at ~Rs4mn. Further, we note each BBK outlet delivers 80-90 orders per day with average order value of Rs900.

As per experts, each established outlet with 2-2.5 years of operation delivers 65% gross margins at a revenue run rate of ~Rs3.0mn per month resulting in ~30% store EBITDA margin. Rental accounts for 6% of sales, while employee costs stand at ~18% at the store level. Its financials indicate that blended store-level EBITDA margin stood at ~24% and BBK has achieved EBITDA breakeven recently.

As per the founder of the company "All our kitchens are company-owned as we do not want to compromise on the quality. Moving forward also we plan to keep it that way. We will have one dine-in restaurant in each of the towns and cities where we establish our presence. We are in talks with some of the F&B companies in Middle East and Far East countries to establish our presence there".

**Exhibit 66: Key financials and metrics of Sky Gate Hospitality FY18-22**

| | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|---|
| Revenue (Rsmn) | 124 | 291 | 523 | 657 | 1,351 |
| YoY (%) | 201.8 | 135.4 | 79.7 | 25.6 | 105.7 |
| EBITDA (Rsmn) | (136) | (53) | (194) | (120) | (356) |
| YoY (%) | nm | nm | nm | nm | nm |
| PAT (Rsmn) | (144) | (65) | (225) | (157) | (426) |
| YoY (%) | nm | nm | nm | nm | nm |
| CFO (Rsmn) | | | | (110) | (338) |
| Capex (Rsmn) | | | | 48 | 198 |
| FCF (Rsmn) | | | | (158) | (536) |
| Gross Fixed Assets (Rsmn) | 28 | 73 | 154 | 281 | 490 |
| Net Fixed Assets (Rsmn) | 28 | 74 | 169 | 196 | 342 |
| Equity (Rsmn) | 65 | 37 | 120 | 299 | 1,767 |
| Net Debt (Rsmn) | (45) | 10 | (25) | (167) | (1515) |
| EBITDA (%) | (10.4) | (18.2) | (37.1) | (18.3) | (26.3) |
| PAT (%) | (16.9) | (22.1) | (43.0) | (23.8) | (31.5) |

Source: MCA, Centrum Broking

## Competitive Landscape – players stepping up store expansion

We note as pandemic settled, most of the players in food delivery stepped up delivery fees, nonetheless aggregators cut discounting. This paved way for value proposition for western QSRs compared to restaurants and cloud kitchens that thrived on aggregator's supply chain efficiencies and ever increasing consumer connect. While this was true, over the past 3-4 years, we witnessed explosion of cloud kitchens in the metros and semi-metros. We expect this trend can potentially reverse on account of, (a) weak/low brand recall, (b) issues with quality and consistency, (c) established QSRs are now more poised of driving growth in delivery ecosystem as they have edge over smaller out-fits, and (d) cloud kitchen brands could struggle without aggregator subsidies and access to capital.

Thus, we believe, overall, competitive intensity should ease even as we expect top 6 QSR brands to add +2,200 stores over the next five years versus ~1,000 stores opened in the last five years.

### Evolution of competitive landscape within QSR

The chain QSR sub-segment in India is dominated by western QSR brands that have evolved over the past three decades. We reckon, the space is dominated by burgers and sandwiches (~31% market share) followed by pizza (~28% share), and chicken (~16% share). The balance 25% share in the chain QSR sub-segment is split between small national and regional companies offering Indian ethnic, Chinese and other cuisines.

**Exhibit 67: Phases of evolution of organised chain food services market India**


Source: Industry

**Exhibit 68: Four phases of QSR evolution in India**

| Phase I (1991-2001) | Phase II (2001-2010) | Phase III (2010-2020) | Phase IV (2020 onwards) |
|---|---|---|---|
| High focus on Metros and mini-metros | Thin penetration in Tier I & II cities | Penetration in newer segments (travel, education, medical) and increased reach in Tier I & II cities | Focus on customer acquisition, new channels |
| Ownership/Franchisee Model and management contracts | Continuation of Franchisee model & JVs | Emphasis on contracts more centered around revenue sharing | Digital breakthrough |
| Funded by personnel capital and conventional means | Partnerships/JVs with related business interest, initiation of PE funding | Expansion under brands & emergence of new brands/concept, PE driving expansion | Focus on customer experience |
| Customer acquisition, sustainable revenue growth | New opportunity areas with focus on CRM, expansion & extended capacity building | Customer engagement, format diversification & product enhancement | Menu innovation |

Source: Industry

**Exhibit 69: Competitive landscape and positioning by leading QSR and cloud kitchen brands in India**

| Food service players | Revenues | Key sub-categories in QSR space | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY22 (Rsbn) | Pizza | Burger | Chicken | Sandwiches | Coffee | Chinese | Biryani | Rice Bowl |
| Jubilant: Domino's, Dunkin, Hong's Kitchen, Ekdum, Popeyes | 43.3 | Market leader | Potential entry | New entry | | Weak potential | Strong potential | New entry | |
| McDonald's | 24.2 | | Market leader | Gaining traction | | Gaining traction | | | Potential |
| KFC | 32.5 | | Weak | Market leader | | | | | |
| Burger King | 9.4 | | Successful challenger | Potential | | Successful rival | | | Potential |
| Pizza Hut | 9.0 | Distant No 2 | | | | | | | |
| Subway | 1.1 | | | | Market leader | | | | |
| Starbucks | 6.7 | | | | | Market leader | | | |
| Rebel Foods (India) | 9.0 | Challenger | Potential entry | | | | Weak | Leader in cloud kitchen | Weak challenger |
| Biryani by Kilo | 1.4 | | | | | | | Successful challenger | |
| WoW! | Na | | | | | | | Leader in cloud kitchen | |
| Costa Coffee | 0.04 | | | | | Weak rival | | | |

Source: Industry

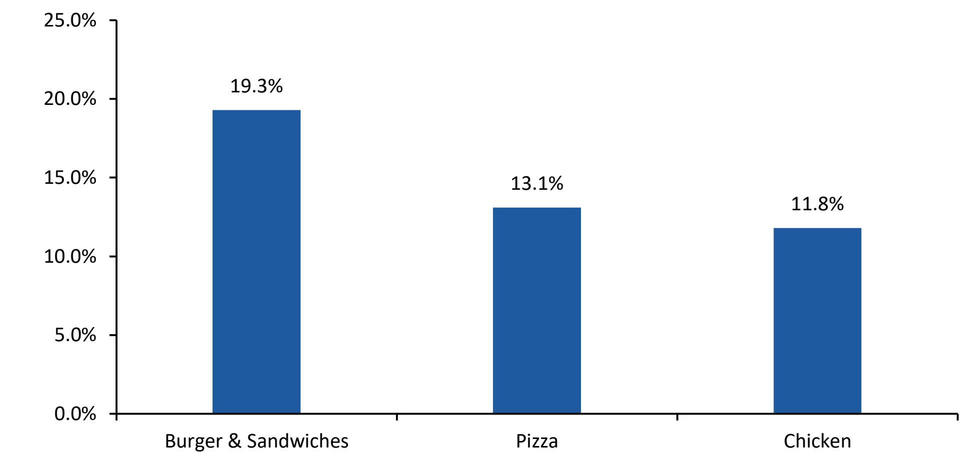
## Burgers and sandwiches have grown at a faster rate vs. other sub-segments

We reckon, another interesting trend seen over the past five years has been the changes in consumer preferences. Within the chain QSR segments, pizzas and chicken-based formats posted a 12-13% CAGR over FY15-20 period while burgers and sandwiches grew at a faster clutch at 19% over the same period. We believe the trend shift could also be on account of increased penetration of burger & sandwich-based QSRs in India.

Burger and Sandwiches grew CAGR 19.3% over FY15-20

That said, QSR is the most preferred choice among millennial consumers (aged 15-34 years). This target group with the highest eat-out frequency in the country always remains discerning in nature. In urban cities, there is an increasing tendency among Indian population of eating out without any need for a special occasion. Eating out is increasingly seen as part of a shopping experience or a leisure outing. This trend is particularly strong among millennial consumers (aged 15-34 years). In FY20, millennial consumers ate out approximately twice per month and ordered in approximately once per month. Interestingly, the population above 35 years of age also eats out thrice over a period of two months. Higher eat-out frequency amongst millennials augurs well for Food Services players in the country.

**Exhibit 70: Burger and sandwiches grew at a CAGR of 19.3% between FY15-20**




Source: Industry, BK DRHP

# YUM! Brands in India

**A mixed bag with a strong turnaround visible over the last 5-6 years**

We note the resurgence of Yum! Brands in India will be driven by following and it could surpass industry growth over next 3-4 years.

- Yum! chose KFC and Pizza Hut brands to encash on rising demand opportunity for western QSRs in India
- The company's growth ambitions are driven through its recently listed Franchisees namely Devyani International and Sapphire Foods
- To fast-track store expansion Yum! offers incentives which are linked to store additions
- Upsurge in ordering-in habits cutting competitive intensity in the delivery network
- Optimized cost structure with Omni-channel strategy

## YUM! Brands global turnaround journey

### History of YUM! International in India

**Exhibit 71: The turnaround story – YUM! Brands International**

**1997-2013**
**International expansion**
• Spin-off from PepsiCo

**2014**
**Global Realignment**
• Brand-focused teams
• Align on global brand positioning

❖ **2016**
**China Spin-off**
• Creating two powerful, independent, focused growth companies

❖ **2017-2019**
**Transformation of YUM!**
• More focused. more Franchiseed. more efficient

Source: Company, Centrum Broking

Yum! Brands Inc., one of the world's largest restaurant companies based in Louisville, Kentucky, operated more than 34,000 restaurants across 100 odd countries. We note in 2006, Yum! generated more than US$9.5bn revenues which included sales and Franchisee fees. But in 2007, subdued performance in its US division forced Yum! to re-look at its business. Changing consumer tastes with increasing awareness towards health and obesity problems affected Yum!'s performance in the US. To turnaround its US business, it decided to follow McDonald's business model. It decided to introduce new products like beverages and breakfast meals and also expanded value menus to offer healthier products under KFC, Pizza Hut and Taco portfolio.

## Chicken QSR has higher acceptance in Asian countries as compared to Burgers

In the fast-food chains globally, KFC ranked no.2 with its operation spread across 150 countries with ~25,000+ stores. With US and China holding significant share of revenues, it also generates strong revenues in Asian countries. Yum! (parent) stated its objective to expand its store count by 2.5x led by improving store economics in the emerging countries such as India. Interestingly, world over KFC and McDonald's have higher penetration acceptance as compared to US and Europe which has higher demand for Burger QSRs. That said, in the US KFC and Popeyes put-together operate ~8,000 restaurants against 15,000 operated by McDonald's.

## US consumers shifting from Chicken QSRs to sandwiches where KFC has trailed

Even though KFC is the market leader in the US with largest number of outlets, it faced strong competition from Popeyes and Chick-Fil-A with half of its store count. Subsequently, over last 3-4 years the chicken QSR category in the US has seen a major demand shift to chicken sandwich. We note Popeyes launched its chicken sandwich in May'19 which became instant success driving average revenues per store for Popeyes from US$1.4mn to US$1.8mn.

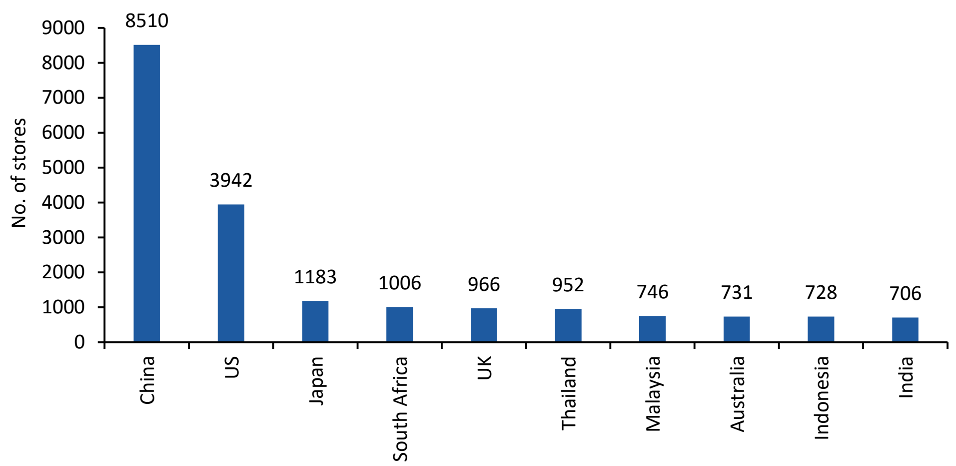
Considering this trend quite a few other chicken and burger QSR players expanded their chicken sandwich product portfolio. With this launch, as per past earnings call hosted by the management, Popeyes market share in chicken sandwich segment increased from 5% in Dec'18 to 30% in Jan'20. On the other hand, in burger, Chick-Fil-A remained market leader with ~45% market share, followed by Popeyes with ~17% and McDonald's with ~16%. We believe Popeyes expanded its market share at the cost of McDonald's, while KFC has not been able to capture the trend where consumer preference shifted to chicken sandwich.

Further, KFC also witnessed shift in market share, rather lost 15-20% due to shift in preference in favour of sandwich, weak advertising to recruit millennial consumers and frequent price changes (inflation in chicken prices) to maintain price-value equation.

## Where does Yum! India stand against its operation in other countries

Despite having a large non-vegetarian population, KFC India is still trailing at no. 10 in terms of store count. However, this trend is improving.

**Exhibit 72: KFC – Store count in top 10 countries**




Source: Centrum Broking (as on Jun'22)

## China success was built around menu localisation

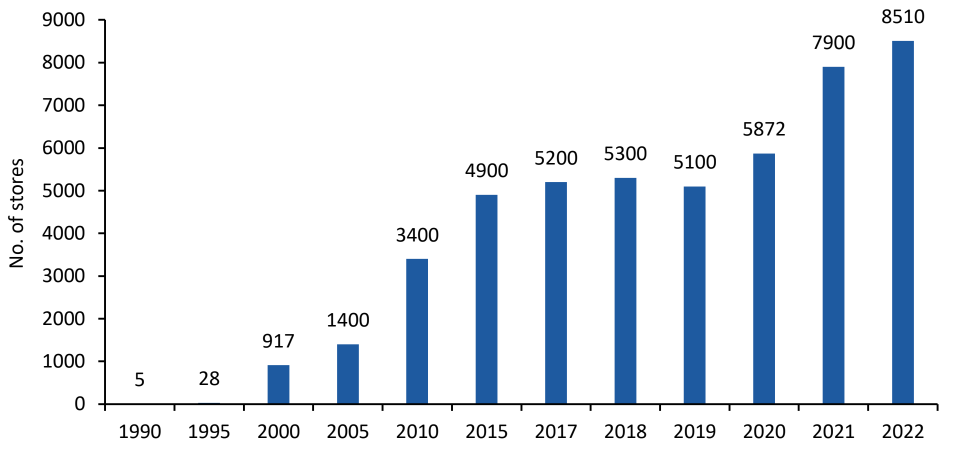
China KFC stores at 8510 in FY22

KFC launched its first store in China in 1987 and as on date it operates ~8,200 stores spread across 1,600 odd cities. Our findings indicate KFC enjoyed its maiden entry as first western QSR brand to enter in China with Franchisee model. While it had teething issues, it was a critical growth driver for the company. We note few accomplishments for KFC – (1) chicken as staple diet for Chinese consumers, (2) KFC appointed local managers who knew the market structure and execution to run the operation, (3) fast-track innovation by tweaking the menu suiting to local taste and preferences, and (4) build its own supply chain locally.

Despite intrinsic benefits for KFC in China, the brand saw tepid initial traction given Chinese consumer's unfamiliarity and followership for western QSRs. To pilot this learning KFC could open only 5 outlets till 1990, expanding to 28 by end of 1994. KFC struggled for almost a decade, however the brand gained recognition post 1997 and grew from 100 stores to 2,000 outlets in 2007, simply to put 20x.

We note, key success driver for Yum! in China was a strong brand focus and localisation of menu as KFC chose to offer wide variety of local dishes such as rice porridge (congee), Dragon Twister and egg tarts. Further, in 2010 it introduced rice bowl as Chinese consumers eat rice as a staple food.

**Exhibit 73: KFC – Store growth in China**

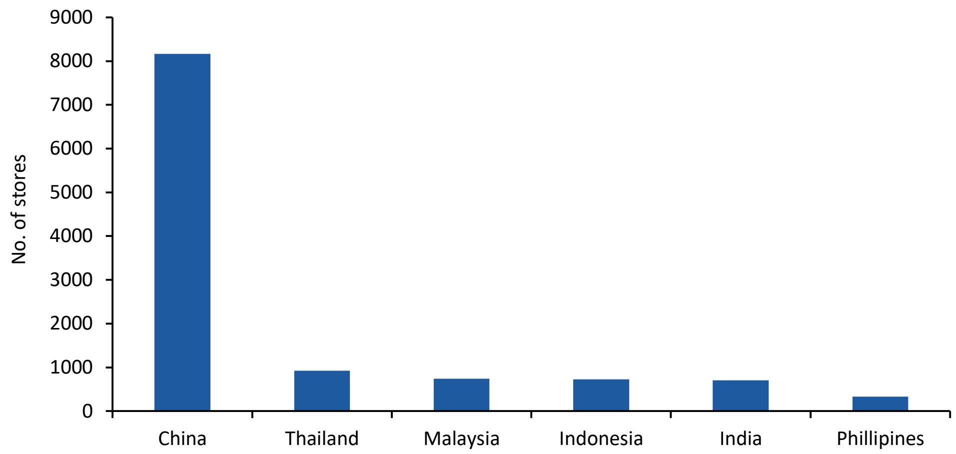



Source: Company, Centrum Broking

# Yum! Brands success in Asia

Our research indicates that in most of the Asian countries where animal protein consumption is high, KFC is the market leader. Therefore, we believe Yum! Brands Franchisee, KFC, is successful in most of South-east Asian countries with market leadership with highest number of stores in China.

**Exhibit 74: KFC remains market leader in Asian countries**




Source: Company, Centrum Broking

## Increase in per capita income drives animal protein consumption

Increase in per capita income drives higher animal protein consumption

Industry reports point out, there are many food choice drivers, but budget constraints drive consumer food habit prominently. It is well documented that income affects dietary changes, however the effect of income differs among developed and developing countries. We note, low-income countries spend a greater portion of their budget on food and are more responsive to income change than middle- and high-income countries. Furthermore, low-income countries spend a more significant portion of their budget on staple food products, such as cereals, and when income increases, greater budget adjustments are made to higher-value food items such as dairy and meat. In general, as income increases, the tendency to move up in the food chain is quite visible from the economic development of a particular country. Historically, a close relationship between income and meat consumption has been observed – as a country becomes richer, meat consumption increases. In developing countries, as income rises above the poverty line, people eat more animal products at a faster rate than in developed countries. More recently, we saw such trend in most of the Asian countries and in fact, an inverted U-shaped relationship between meat consumption and income indicates that average meat consumption reaches a maximum and then declines at a certain level of income.

To our knowledge, we find that per capita income and urbanization rates are the two most important drivers of total meat consumption per capita; religion is also a significant variable. In comparison, income per capita and natural endowment factors are major drivers of ruminant meat consumption per capita.

Moreover, we believe population growth is a major driver of increased demand, and OECD report estimated growth of 15% in global meat consumption by 2031, compared to the base period 2022. Similar to population growth, factors of meat consumption are complex including income, prices, demographics, urbanisation, traditions and religious beliefs. Nevertheless, there are factors such environmental, ethical/animal welfare and health concerns also that weigh on consumption. The past decades have witnessed considerable changes in the impact of each of these factors across a broad array of countries and regions.

That said, economic growth is an important driver of meat consumption as it enables the purchase of meat, which is typically a more expensive source of calories and proteins. It is also accompanied by other structural changes such as greater urbanisation, higher labour participation, and away-from-home food service expenditures that additionally encourage

Low income group spend more on carbohydrate staple food and less on animal protein

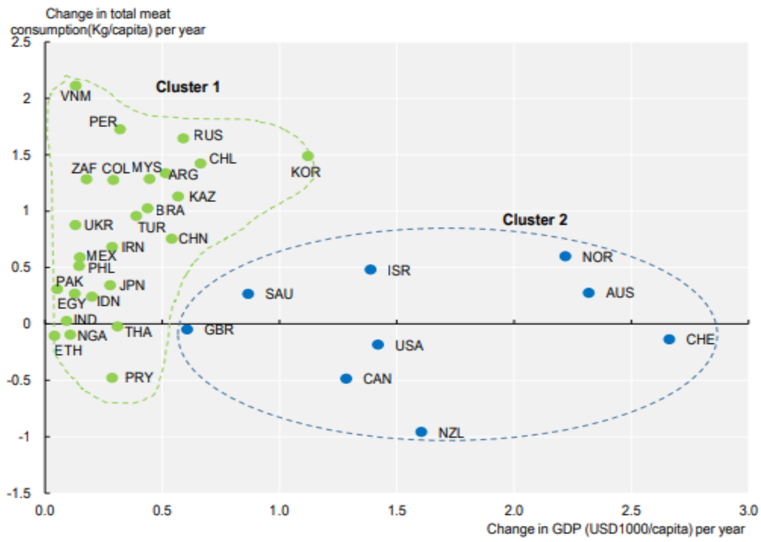
higher meat purchases. However, the response of consumption to income growth is demonstrably higher at lower incomes, and less so at higher incomes where consumption is largely saturated, and consumers may be more sensitive to environmental, and ethical/animal welfare and health concerns.

The empirical evidence on consumer behaviour suggests that increases in income in low-income countries, where the share of food expenditure represents a high share of all expenditure, stimulate a higher consumption of lower valued foods, particularly carbohydrates. Beyond a certain threshold, higher valued foods such as animal proteins are preferred. For meat proteins, the evidence suggests that the shift towards higher shares of meat protein in the diet have increased the most for upper middle-income countries, particularly China. However, after 2015 it appears that the dietary shift towards increasing amount of meat proteins as a share of total protein intake has slowed. These trends are not anticipated to change much over the next decade. Higher incomes may induce higher per capita protein consumption (including eating away from home), but not necessarily a higher share of meat protein in diets.

## Countries grouped into two clusters

Cluster 1 - one in which increases in GDP per capita matches increases in meat consumption
Cluster 2 - one of nine countries in which there is no association between per capita change in GDP and meat consumption

**Exhibit 75: Change in Gross Domestic Product and change in meat consumption**




Source: OECD FAO report 2022

Note: Scatter plot of change in nominal GDP per capita per year and change in meat consumption per capita per year. Circles indicate country clusters

**Exhibit 76: Change in Gross Domestic Product and change in meat consumption**

| | Per capita income (USD$) | | | Animal protein consumption per capita (kg) | | Poultry consumption per capita (kg) | | No of KFC stores | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Country** | **2016** | **2021** | **CAGR (%)** | **2016** | **2021** | **2016** | **2021** | **2016** | **2021** | **CAGR (%)** |
| China | 8094 | 12556 | 9 | 49.2 | 45.2 | 11.9 | 14.0 | 5224 | 8168 | 9 |
| Indonesia | 3563 | 4292 | 4 | 11.2 | 11.7 | 7.9 | 8.1 | 567 | 726 | 5 |
| Malaysia | 9818 | 11371 | 3 | 62.1 | 61.6 | 50.2 | 49.7 | 666 | 740 | 2 |
| Philippines | 3074 | 3549 | 3 | 31.0 | 32.6 | 12.5 | 14.0 | 283 | 330 | 3 |
| Thailand | 5993 | 7233 | 4 | 20.4 | 19.2 | 8.9 | 9.0 | 600 | 926 | 9 |
| India | 1733 | 2277 | 6 | 3.4 | 3.7 | 2.3 | 2.6 | 310 | 662 | 16 |

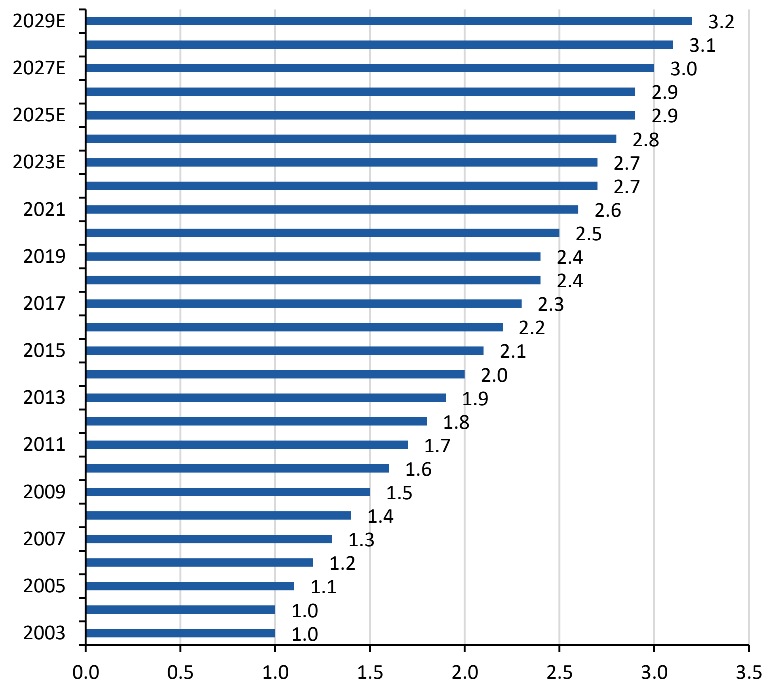
Source: YUM!, OECD FAO report 2021

Poultry consumption in India is still at lowest levels

## Poultry to account for more than half of the global growth in meat production

As per OECD 2022 report, over the coming decade, global meat production is expected to increase by 15%, due to an increase in the number of animals and improved productivity per animal. Higher fertility rates and a faster, more efficient weight gain are assumed to be achieved through more intense feeding, improved genetics, and better herd management. The report indicates, poultry meat is projected to increase by 16% (21 mmt) over the next ten years, accounting for 45% of global growth in meat production, given expected sustained profitability as a result of growing demand and favourable meat-to-feed price ratios compared to other non-ruminants and to ruminants. The Asia Pacific region is expected to account for about half of the global poultry meat production growth, with China contributing 15%. The report further states that the United States will account for 8% of the global poultry meat production growth, due to intensification of production, whereas Brazil will account for 5%, from flock expansions and increased output per animal. In Europe, poultry meat production is expected to grow by only 4% as no expansion of the flock is foreseen, and output per animal will remain high.

**Exhibit 77: Poultry consumption is still lower in India compared to Asian countries**




Source: OECD FAO 2021

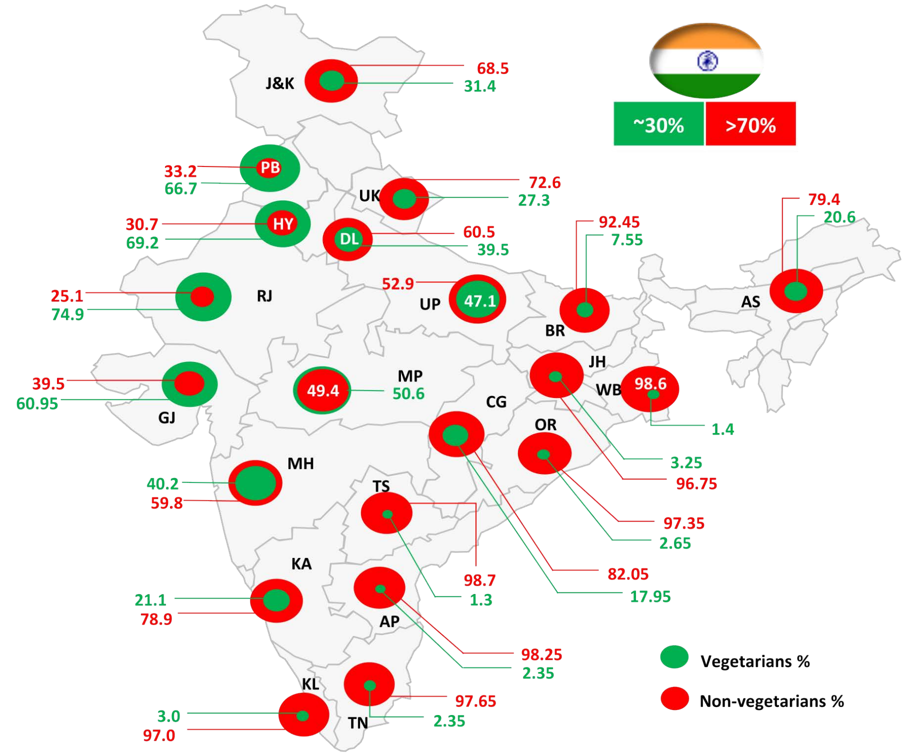
## Increasing non-vegetarian population of India

According to data released by Government of India in 2014, it was estimated that 72% of males and 71% of females aged 15 years old and above were non-vegetarian. In states such as Kerala and Tamil Nadu, a very large share of the population (95%) is non-vegetarian. In some states such as Rajasthan, Punjab and Haryana, only 25% to 30% of the population are non-vegetarian. The rise in the non-vegetarian population and increased consumption of protein in the form of meat such as chicken in India creates additional opportunities for 'out-of-home' poultry meat and fish consumption.

That's said, we expect poultry meat consumption to rise in India exponentially.

India holds Non-veg population at 70%

**Exhibit 78: Higher non-vegetarian population to drive chicken consumption**




Source: GOI sample survey 2014

71% females in India aged 15+ years are non-vegetarian

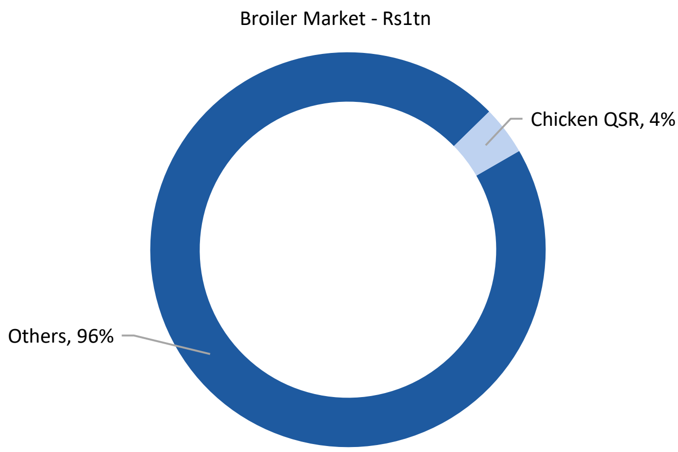
## Industry estimate suggests Chicken QSR holds ~4% of chicken consumption in India

Our deep interaction with industry experts indicates that in India, the non-vegetarian consumption patterns are predominantly driven by religious philosophies and socio-economic surroundings. That said, at a broad level, 65-70% of Indians consume non-vegetarian food, at least occasionally.

As per industry body, Indian Council of Food and Agriculture estimates, the overall Indian Poultry market size in 2016 was pegged at ~Rs1tn of which urban markets account for ~80%. Traditional channel-retail outlets (live-bird market) make up 90% of sales in overall chicken consumption basket. This denotes the non-traditional chicken consumption including chicken QSR in urban market is pegged at Rs80bn.

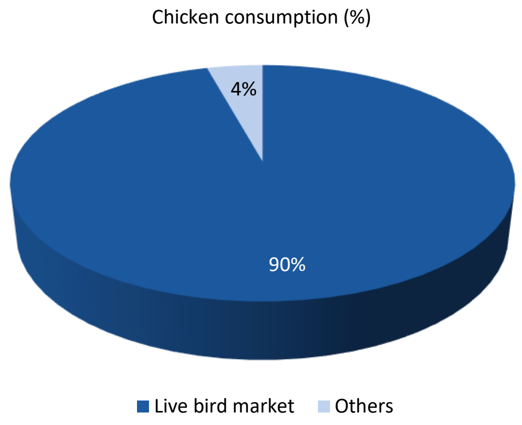
Our back-of-the-envelope calculation suggest if we assume Indian chicken QSR market size at Rs35bn and KFC India market share is 80% (~Rs27bn revenues) it implies that in the overall chicken consumption, Indian Chicken QSR contributes ~4%.

**Exhibit 79: Chicken QSR segment forms 4% share in overall broiler market**




Source: Company, Centrum Broking

**Exhibit 80: Chicken consumption unorganised (live bird) market accounts for 90%**




Source: Company, Centrum Broking

## Progression of KFC India transpired in four phases

Counting on its experience in China and affinity of Indian consumers for chicken menu preference, Yum! marked its entry in 1995 with KFC brand, indeed it was the first western QSR brand to foray in the country. Whilst Domino's entered at the same time, followed by entry of McDonald's in 1996. We track its journey in four phases.

**Exhibit 81: Yum India entry**

| Year | History of KFC stores in India |
|---|---|
| 1995 | KFC marked its entry in Bangalore, India, but was forced to exit within a short period |
| 1999 | KFC returned to India in1999 with a new destination in Bangalore |
| 2004. | Till 2004, KFC operated only restaurant in Bangalore, targeting entering in new cities |
| 2009 | Opened 50 restaurants and announced to expand it to 100+ stores in near term |
| 2015 | Yum! Brand operated by other Franchiseees split into multiple Franchiseees of KFC & PH into three units: (1) Ravi Jaipuria-owned .... Corp. 300 restaurants, (2) 100-150 restaurants run directly with Yum! Restaurants, and (3) 300 with the new entity Sapphire Foods. |
| 2018 | Devyani Interactional acquired 13 KFC restaurants in Kerala and Goa |
| 2019 | Devyani acquired 61 KFC restaurants across Karnataka, Telangana & Andhra Pradesh |
| 2021 | KFC marked the 25,000th store globally and it was launched in Hyderabad |

| Year | History of Pizza Hut stores in India |
|---|---|
| 1996 | Pizza Hut made its entry into India as a dine-in restaurant in Bangalore, a first international restaurant chain to pioneer this category |
| 2004 | PH opened 35 standalone outlets across 24 cities in India & announced plans to expand to 130 by 2005 |
| 2008 | PH launched PHD (Pizza Hut Delivery), a sub-brand for delivery in Bangalore on a trial basis |
| 2011 | PH operated 35 standalone PHD outlets and 145 Pizza Hut casual dine-in restaurants in 2011; Target to set up 300 standalone PHD outlets by 2015 aiming sales of $100mn |
| 2016 | Rolled out fast-casual delco (FCD) stores — smaller unit size more suited for delivery in Tier II markets |
| 2017 | Launched its new pen-kitchen store in Ghaziabad marking the brand's first open-format- Kitchen store |
| 2018 | Expanded fast-casual delco (FCD) concept to over 53 FCDs |
| 2020 | Cut store size from 2,500+ sq. ft. in2015, to 1,200 or lower in2020 |
| 2020 | The number of large size - 'concept' stores reduced to expand QSR footprint |

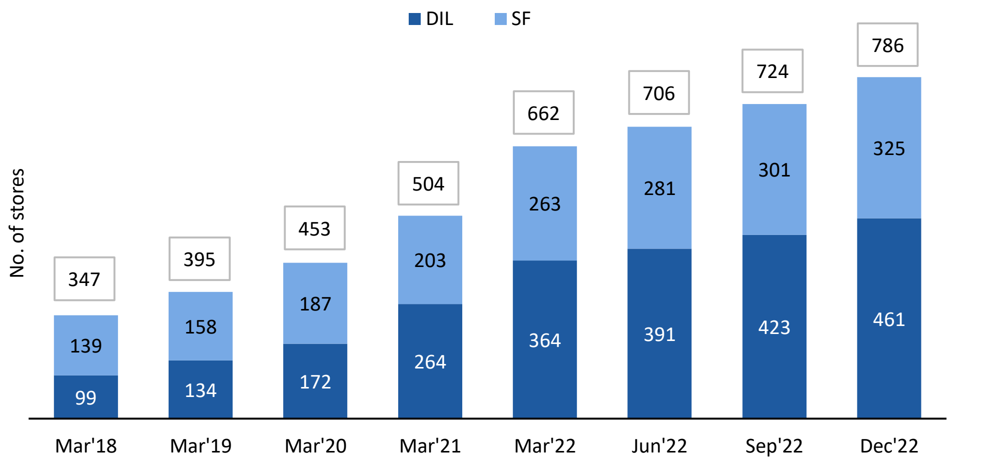
Source: Company, Centrum Broking

## KFC's journey of four phases

KFC stores grew CAGR 19% over FY19-FY22

- **Initial hick-ups:** Post the approval from the Government of India in 1995, KFC opened its first outlet in Bangalore. Moreover, to its surprise it faced lot of disapprovals with allegations of usage of pork fat for drying and high quantities of monosodium glutamate (MSD). Based on this controversy, KFC finally abandoned the market and exited India.
- **Re-entered in 1999:** In its second attempt KFC revisited its strategy to enter India. This time KFC opened just one outlet in Bangalore and maintained its learning till 2004. Based on its confidence, Yum! Brands aligned its interests with Devyani International and issued a letter of intent to DIL to open KFC outlets in Kolkata.
- **Experimenting target group:** During this period (almost a decade), Yum experimented with target segment choosing young adult population in top 7 metros in the country. We noticed, that the company designed its stores with good ambience using flat-panel TVs offering free seating area for large groups driving social atmosphere.
- **Menu localization:** Knowing local taste and preference for vegetarian food (~30% population is vegetarian) KFC first time in the world offered a range of vegetarian menu option for Indian consumers with Paneer-Zinger, Veg. Twister, along with Veg Strips, Veg. Rockin Burger, Potato Krisper Burger and Veg. Rice Bowl.
- Further, we also note Yum! has meaningfully invested globally to drive consumer experience using technology. However, in India it is yet to build scale and develop capabilities for digital ordering and delivery. With fast pace of store network expansion, we expect Yum to allocate more investments towards tech platforms in building competencies for digital ordering and delivery, in-store experience, and robust supply chain with accurate forecasting.
- The initial pace of store expansion was bit slower, however, over last 5 years we witnessed KFC India expanded its store network at a CAGR of ~19%.

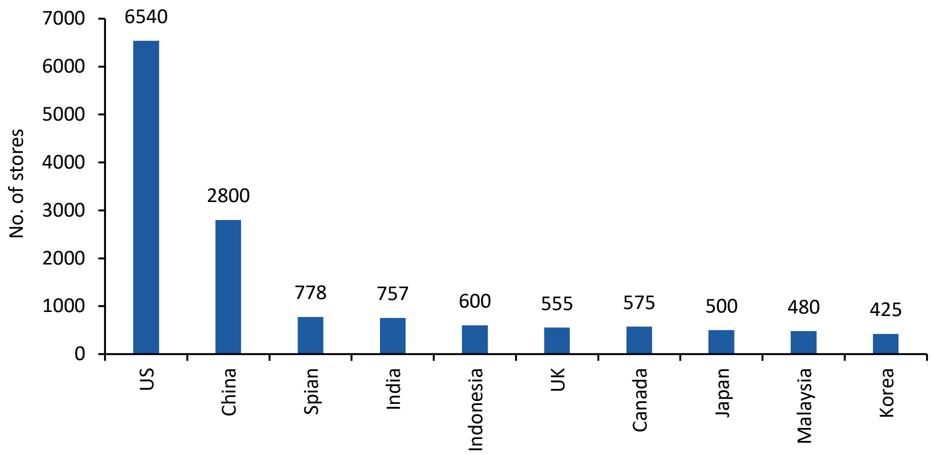
**Exhibit 82: KFC India stores grew at 19% CAGR over FY18-22 period**




Source: Company, Centrum Broking

On the other side Pizza Hut India ranked 4th in global index, it still trails Jubilant in the pizza category.

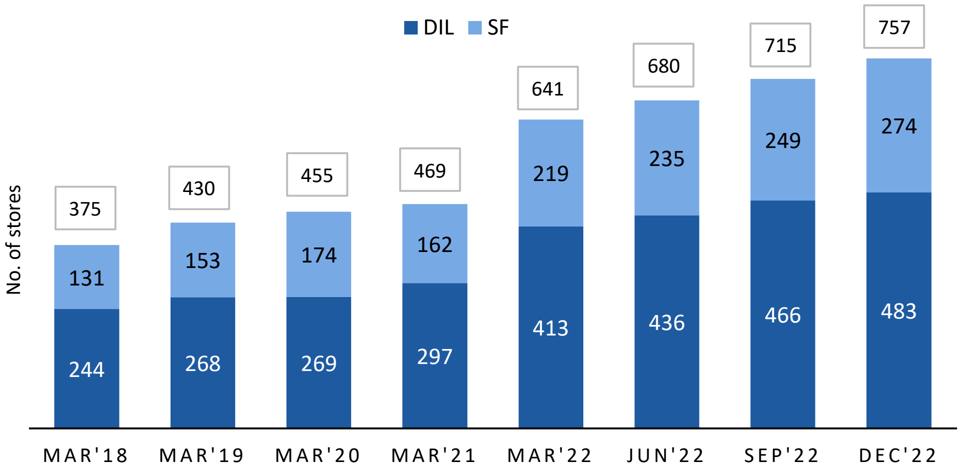
**Exhibit 83: Pizza Hut – Store count in top 10 countries**




Source: Company, Centrum Broking (as on Dec'22)

However, over last 5 years PH India expanded its store network at a CAGR ~16%.

**Exhibit 84: PH India stores grew at CAGR of 16% over FY18-22 period**




Source: Company, Centrum Broking

Given Yum! (Devyani + Sapphire) stores are under-indexed to Jubilant, we expect them to grow faster than Jubilant and WLDL in next three years

**Exhibit 85: Store addition for top QSR players in India**

| Year | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|---|---|
| Net store addition | | | | | | | |
| Domino's | 93 | 108 | 25 | 207 | 245 | 246 | 222 |
| Yum India | | | | | | | |
| DIL | 35 | 38 | 92 | 100 | 108 | 108 | 99 |
| SF | 19 | 29 | 16 | 60 | 80 | 70 | 65 |
| KFC India | 54 | 67 | 108 | 160 | 188 | 178 | 164 |
| DIL | 24 | 1 | 28 | 116 | 78 | 73 | 68 |
| SF | 30 | 21 | -12 | 57 | 68 | 52 | 55 |
| Pizza Hut India | 54 | 22 | 16 | 173 | 136 | 125 | 123 |
| Yum India | 108 | 89 | 124 | 333 | 324 | 303 | 287 |
| | | | | | | | |
| Burger King | 58 | 71 | 5 | 50 | 75 | 80 | 75 |
| | | | | | | | |
| Westlife Foodworld | 19 | 23 | -14 | 21 | 40 | 48 | 55 |
| Connaught Plaza/MMG Group | 0 | 0 | 0 | 0 | 30 | 30 | 30 |
| McDonald's | 19 | 23 | -14 | 21 | 70 | 78 | 75 |
| **End of year store count** | | | | | | | |
| Domino5's | 1,227 | 1,335 | 1,360 | 1,567 | 1,812 | 2,058 | 2,280 |
| DIL | 134 | 172 | 264 | 364 | 472 | 580 | 679 |
| SF | 158 | 187 | 203 | 263 | 343 | 413 | 478 |
| KFC India | 292 | 359 | 467 | 627 | 815 | 993 | 1,157 |
| DIL | 268 | 269 | 297 | 413 | 491 | 564 | 632 |
| SF | 153 | 174 | 162 | 219 | 287 | 339 | 394 |
| Pizza Hut India | 421 | 443 | 459 | 632 | 778 | 903 | 1,026 |
| Yum India | 713 | 802 | 926 | 1,259 | 1,593 | 1,896 | 2,183 |
| | | | | | | | |
| Burger King | 181 | 252 | 257 | 307 | 390 | 470 | 545 |
| | | | | | | | |
| Westlife Food World | 296 | 319 | 305 | 326 | 366 | 414 | 469 |
| Connaught Plaza/MMG Group | 150 | 150 | 150 | 150 | 180 | 210 | 240 |
| McDonald's | 446 | 469 | 455 | 476 | 546 | 624 | 709 |
| **Store growth (%)** | | | | | | | |
| Domino's | 8 | 9 | 2 | 15 | 15 | 11 | 14 |
| DIL | 35 | 28 | 53 | 38 | 26 | 19 | 25 |
| SF | 14 | 18 | 9 | 30 | 25 | 18 | 23 |
| KFC India | 21 | 23 | 30 | 34 | 26 | 18 | 24 |
| DIL | 10 | 0 | 10 | 39 | 24 | 16 | 7 |
| SF | 24 | 14 | -7 | 35 | 27 | 22 | 16 |
| Pizza Hut India | 15 | 5 | 4 | 38 | 25 | 18 | 10 |
| Yum India | 18 | 12 | 15 | 36 | 25 | 18 | 17 |
| Burger King | 47 | 39 | 2 | 19 | 24 | 21 | 18 |
| Westlife Food World | 7 | 8 | -4 | 7 | 11 | 12 | 16 |
| Connaught Plaza/MMG Group | 0 | 0 | 0 | 0 | 20 | 17 | 14 |
| McDonald's | | 5 | -3 | 5 | 14 | 13 | 15 |

Source: Company, Centrum Broking

Our interaction with industry experts indicates that Yum! works closely with both Franchisees driving core business values. Further, we gather that the core committee consists of representatives from Yum! Brands, Devyani and Sapphire Foods which decides on the issues pertaining to the front connect and engagement with the consumers.

## Menu and product innovation

We note Yum! works on strong fundamentals "QSR is all about scale", hence we believe any innovation has to be scalable on a Pan-India basis and fit into omni-channel strategy.

In addition, our interaction with DIL and SF management indicates that the joint committee focuses on five core principles before passing any new innovation/product i.e., (1) it can't be region specific product based on consumer insights, (2) should not require any major

Yum! Brands spend ~5% on advertising

new capex, (3) should not require any new supply-chain, (4) should not create any complexity to process the same in the kitchen, and (5) fit into Omni-channel offerings.

Moreover, we believe all the innovations are launched with an aim to drive margins in the medium term. However, we saw 'Flavour-fun-Pizza' appears to be margin dilute but we hope it would gain higher ADS and operating leverage would improve margins for Pizza Hut portfolio.

### Advertising campaigns and consumer promotions executed by Yum!

Indian consumers who are very cost conscious find appeal in combos and value meals that provide them with a discount ranging from 12-25%. Such combos and value meals allow companies in the QSR space to increase ticket size. Few examples include, McSaver from McDonald's, KFC's Favourite and Box meals, Subway's combos, 'Stay at Home' Combos by PH, etc.

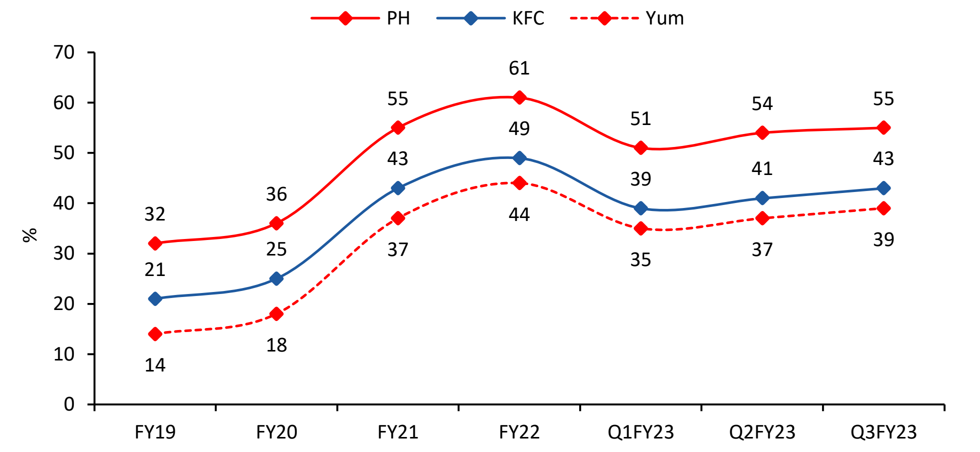
Both Yum Franchisees are required to pay charges of ~6% of sales as royalty to Yum!. Further, Yum! spends ~5% of sales pool on marketing activities and ~1% on store-level consumer promotions periodically.

### Association with aggregators

We note both KFC and PH are largest brands in 3rd party aggregators' platforms such as Swiggy and Zomato. To our best understanding, the review with aggregators occur using customer data/AI every quarter developing growth plan for the business jointly.

That said, we believe despite higher delivery contribution from aggregators the discussion on take rates with the core committee occurs once in a year and there is no special treatment given by Yum! To any explicit channel.

**Exhibit 86: High dependence on 3rd party aggregators**




Source: Company, Centrum Broking

### Pricing

We reckon Yum! follows similar price for each of its product run in the respective stores by both the Franchisees across India. Further, the core committee is also responsible for deciding pricing of products and combos offered in stores across both the formats (KFC and PH).

### KFC India: On solid traction, riding on under-penetration

The second largest QSR brand KFC enjoys strong brand equity followed by unit economics. Though, the brand predominantly caters to~70% of non-vegetarian population in India, given its under-penetration, we expect KFC holds significant growth opportunity as it commands only ~2.5% share of chicken consumption. Despite rising competition in the chicken QSR segment from Popeyes (Jubilant) and McDonald's, we expect KFC to add ~450 stores over FY22-25E.

## Both YUM! Franchisees Sapphire and Devyani have equal opportunity

Both Franchisees of Yum! Brands DI and SF hold equal opportunity

We assume there is no overlap of territorial rights in operating KFC stores, hence we believe both Franchisee partners have almost equal opportunity ahead to grow network of stores in the country.

## Operating regions of Sapphire and Devyani

We note, Yum! Brands follows a dual Franchisee arrangement in India, similar to McDonald's and various global Franchisees of Yum! Brands. Sapphire Foods and Devyani International are two Franchisees for Yum! Brands in India. Unlike McDonalds, where there is a very clear-cut division of North and South India awarded to Westlife Foodworld and North and East India to MMG group now, division of regions between both the Franchisees of Yum Brands is not very consolidated in a particular region. We show the division of regions between both the Franchisees for both the brands in the table below.

Devyani International and Sapphire Foods have rights to operate KFC outlets in specific markets as shown in the below exhibit. Most of DIL's KFC territories have a higher proportion of non-vegetarian population compared to Sapphire's. DIL's KFC market accounts for ~50% of India's population, ~59% of India's non-vegetarian population and ~46% of India's GDP. As per our estimates, these states account for 57-58% of the Chicken QSR market opportunity in India. Balance 42-43% market opportunity is in states for which Sapphire Foods has Franchisee rights.

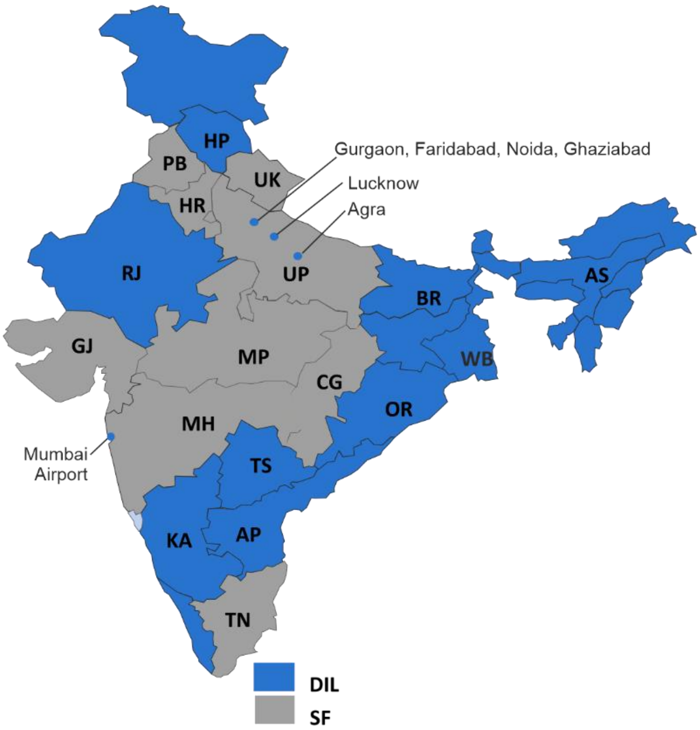
**Exhibit 87: Regional split between Devyani International and Sapphire Foods**

| | **KFC** |
|---|---|
| **Devyani International** | **Sapphire Foods** |
| Andhra Pradesh | Chhattisgarh |
| Bihar | Delhi |
| Delhi NCR (ex. Delhi) | Gujarat |
| Goa | Haryana |
| Himachal Pradesh | Madhya Pradesh |
| Jammu & Kashmir | Maharashtra |
| Jharkhand | Puducherry |
| Karnataka | Punjab |
| Kerala | Tamil Nadu |
| North-East | Uttar Pradesh (partially) |
| Odisha | Uttrakhand |
| Rajasthan | |
| Telangana | |
| Uttar Pradesh (partially) | |
| West Bengal | |

Source: Company, Centrum Broking

From the above table, we can draw that Yum! Brands is clear that the distinction between the states within both the Franchisees is not concentrated in a particular region and are not essentially adjacent to each other unlike we find in case of McDonalds. However, we are certain the synergies in the supply chain due to operation spread in a particular region is limited to state level as most of the supplies of raw materials are regional and sourced locally. Therefore, such a division of states does not reduce the competitiveness of both the Franchisees as compared to other QSR players in our view.

**Exhibit 88: KFC regional split between DIL and SF**




Source: Company, Centrum Broking

Adjusting for both, state GDP and non-veg population, we reckon the market opportunity is broadly similar for both the players: Devyani with ~53% of GDP of non-veg population and Sapphire having ~47% of GDP of non-veg population.

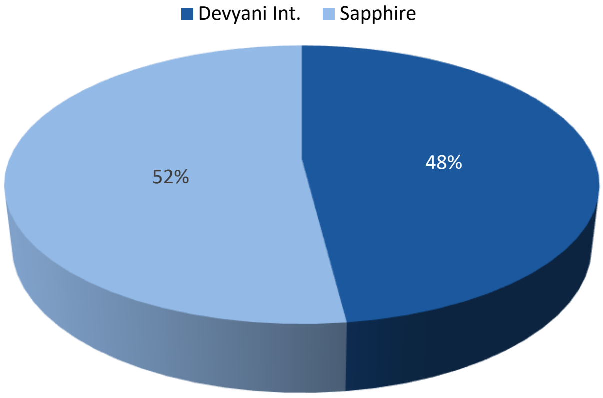
**Exhibit 89: State GDP and non-veg population share for Devyani: Sapphire – 53:47**

| State | FY19 GDP (Rsbn) | Non-veg pop. | GDP of non-veg Pop. | SF presence |
|---|---|---|---|---|
| Maharashtra | 26,328 | 60 | 15,744 | Y |
| Uttar Pradesh | 16,682 | 53 | 8,825 | 50% |
| Tamil Nadu | 16,302 | 98 | 15,919 | Y |
| Karnataka | 15,444 | 79 | 12,185 | |
| Gujarat | 15,029 | 39 | 5,869 | Y |
| West Bengal | 10,899 | 99 | 10,746 | |
| Rajasthan | 9,426 | 25 | 2,366 | |
| AP+ Telangana | 8,630 | 99 | 8,501 | |
| Madhya Pradesh | 8,096 | 49 | 3,999 | Y |
| Kerala | 7,817 | 97 | 7,582 | |
| Delhi | 7,749 | 61 | 4,688 | Y |
| Haryana | 7,342 | 31 | 2,258 | 50% |
| Bihar | 5,304 | 92 | 4,904 | |
| Punjab | 5,264 | 33 | 1,750 | Y |
| Odisha | 4,922 | 97 | 4,792 | |
| Chhattisgarh | 3,041 | 82 | 2,495 | Y |
| Jharkhand | 2,972 | 97 | 2,875 | |
| Uttrakhand | 2,459 | 73 | 1,786 | Y |
| Himachal Pradesh | 1,538 | 73 | 1,117 | |
| Jammu & Kashmir | 1,560 | 69 | 1,069 | |
| Goa | 732 | 79 | 581 | |
| North East | 5,272 | 79 | 4,186 | |

Source: Company, Centrum Broking

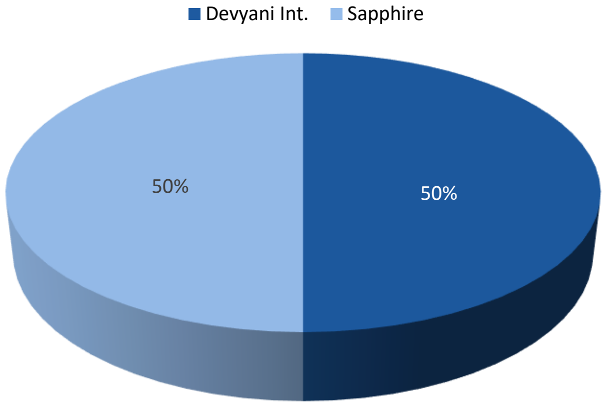
(Northeast territories include Assam, Tripura, Meghalaya, Arunachal Pradesh, Manipur, Mizoram, Nagaland and Sikkim, Non-veg population (%) of North-East and Goa is assumed to be similar to Assam and HP to be similar to Uttarakhand. Partial presence in Uttar Pradesh and Haryana assumed to be 50%)

**Exhibit 90: State GDP distribution (FY21) - Devyani: Sapphire – 52:48**



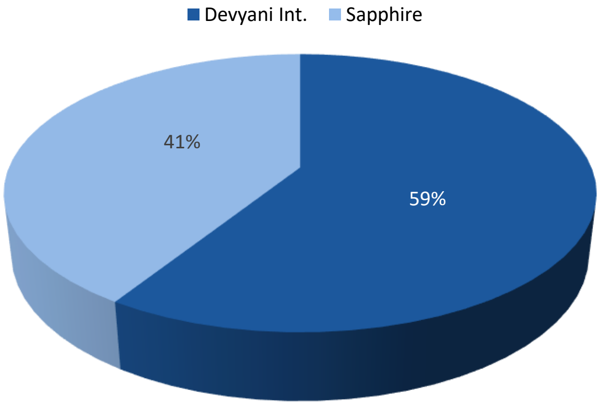

Source: Company, Centrum Broking

**Exhibit 91: % of population split opportunity - Devyani: Sapphire – 50:50**




Source: Company, Centrum Broking

**Exhibit 92: % of population non-veg opportunity - Devyani: Sapphire – 59:41**




Source: Company, Centrum Broking

Given these opportunities, we believe there is huge potential to increase KFC stores across all regions of the country relative to its respective non-vegetarian population. Our analysis indicates Kerala state has higher number of KFC stores compared to Domino's. We expect, given the dominant non-veg population in other southern states, there is enough potential to increase pace of store expansion for KFC Franchisee in next few years.

Moreover, we notice in comparison to non-veg population for Domino's, even though % of non-veg population in western part of the country is lesser than the All-India average, there exists a large prospect to open more KFC stores in each of these states in our view.

Non-veg population opportunity for DIL: SF in the ratio 59:41%

### Exhibit 93: % of population non-veg opportunity Devyani: Sapphire – 59:41

| State/UT | KFC | Dominos | KFC/Dominos | Non-veg Pop. (%) |
|---|---|---|---|---|
| Delhi | 48 | 132 | 0.4 | 61 |
| Haryana | 28 | 98 | 0.3 | 31 |
| HP | 2 | 13 | 0.2 | 73 |
| J & K | 6 | 9 | 0.7 | 69 |
| Punjab | 36 | 70 | 0.5 | 33 |
| Rajasthan | 8 | 50 | 0.2 | 25 |
| UP | 51 | 140 | 0.4 | 53 |
| Uttrakhand | 10 | 21 | 0.5 | 73 |
| **North** | **189** | **533** | **0.4** | **47** |
| | | | | |
| Chhattisgarh | 8 | 22 | 0.4 | 82 |
| Goa | 6 | 17 | 0.4 | 65 |
| Gujarat | 17 | 96 | 0.2 | 40 |
| Madhya Pradesh | 11 | 51 | 0.2 | 49 |
| Maharashtra | 72 | 299 | 0.2 | 60 |
| **West** | **114** | **463** | **0.2** | **55** |
| | | | | |
| Bihar | 13 | 30 | 0.4 | 92 |
| Jharkhand | 5 | 21 | 0.2 | 97 |
| Odisha | 11 | 20 | 0.6 | 97 |
| West Bengal | 48 | 102 | 0.5 | 99 |
| **East** | **77** | **173** | **0.4** | **96** |
| | | | | |
| Assam | 14 | 26 | 0.5 | 79 |
| Arunachal P | 3 | 2 | 1.5 | na |
| Manipur | 2 | 1 | 2.0 | na |
| Meghalaya | 2 | 2 | 1.0 | na |
| Mizoram | 4 | 2 | 2.0 | na |
| Nagaland | 3 | 3 | 1.0 | na |
| Sikkim | 1 | 3 | 0.3 | na |
| **North-East** | **29** | **39** | **0.7** | **79** |
| | | | | |
| AP-Telangana | 94 | 113 | 0.8 | 98 |
| Karnataka | 95 | 224 | 0.4 | 79 |
| Kerala | 49 | 29 | 1.7 | 97 |
| Tamil Nadu | 77 | 127 | 0.6 | 96 |
| **South** | **315** | **493** | **0.6** | **94** |
| | | | | |
| **All India** | **724** | **1701** | **0.4** | **71** |

Source: Company, Centrum Broking

That said, we believe major strategy for KFC is to adopt city additions as it is still under-indexed in top 8 cities which derive ~80% of revenues for the food services industry.

Average stores count in top 6 cities match with KFC and Domino's

**Exhibit 94: KFC stores are under-indexed to Domino's**

| | KFC | | Domino's | | KFC Vs Domino's |
|---|---|---|---|---|---|
| Top cities | No of Stores | Store (%) | No of Stores | Store (%) | |
| Delhi NCR | 91 | 13 | 235 | 14 | 0.4 |
| Bengaluru | 67 | 9 | 183 | 11 | 0.4 |
| Mumbai | 34 | 5 | 167 | 10 | 0.2 |
| Hyderabad | 49 | 7 | 82 | 5 | 0.6 |
| Pune | 19 | 3 | 84 | 5 | 0.2 |
| Chennai | 27 | 4 | 79 | 5 | 0.3 |
| Kolkata | 26 | 4 | 64 | 4 | 0.4 |
| Ahmedabad | 6 | 1 | 39 | 2 | 0.2 |
| **Top 8 cities** | **319** | **44** | **933** | **55** | **0.3** |
| **Total Stores** | **724** | | **1701** | | **0.4** |

Source: Company, Centrum Broking

However, our deep analysis suggests that the pace of growth would escalate in the near future. KFC/ Domino's have 6/18 cities with ~10 stores each, while KFC is present only in 194 cities with 1-5 stores as compared to Domino's operations in 249 cities. That said, we expect large growth opportunity for KFC.

**Exhibit 95: KFC store count match Domino's in next 6 cities and bottom 200 cities**

| | KFC | Domino's | | KFC | Domino's |
|---|---|---|---|---|---|
| No of cities | 6 | 18 | No of cities | 194 | 249 |
| No of stores | 59 | 165 | No of stores | 307 | 386 |
| Average | 9.8 | 9.2 | Average | 1.6 | 1.6 |

Source: Company, Centrum Broking

## Menu and product innovation (localization) key driver for KFC India

We note KFC's strong brand equity has led to plentiful similar brands to copy similar offerings across metro and mini metros under chicken menu. Notably, KFC offers an extensive range of product offerings ranging from fried chicken, burgers, rice bowls, combos, desserts and beverages. While fried chicken accounts for 80%+ of KFC sales, the brand also delivers few vegetarian options such as veg Burgers. KFC price points range from Rs109 for Regular chicken popcorn to ~Rs750 for family combo packs.

KFC holds strong brand equity which attracts local players in many regions to copy brand imagery offering chicken QSR menu similar to KFC.

**Exhibit 96: Regional players offer similar products in chicken menu**


Source: Company, Centrum Broking

KFC offers the extensive menu options in the chicken segment to consumers in the QSR segment and establishes high pricing power in volatile inflationary environment. Further, we reckon over past four years KFC focuses on localisation of local menu suiting the Indian palette. In addition, we like its price laddering strategy within chicken space to upgrade consumers from value-for-money to premium products.

**Exhibit 97: Price laddering strategy adopted by KFC India**

**Veg Zinger Burger – Rs179/-**

- Single serve
- Signature veg burger with crispy patties, veggies & a tangy sauce

**Classic Zinger Burger – Rs189/-**

- Single serve
- Signature burger made with a crunchy chicken fillet, veggies & a delicious mayo sauce

**All Chicken Box – Rs189/-**

- Single serve
- A Box with your favourites! Get 1 pc Hot & Crispy, 2 Hot Wings & 1 Chicken Strip at a deal price


**Classic Chicken Biryani Bucket – Rs229/-**

- Single serve
- Hyderabadi style Biryani rice served with 1 pc Hot & Crispy & Spicy Gravy

**Bucket for two – Rs599/-**

- Serve 2-3 people
- 10 Peri Peri chicken strips & 1 Dynamite Spicy Mayo Sauce Bottle (200gm)

**Combo – The Allu Arjun Combo – Rs448/-**

- Serve 2 people

Try Allus fav - 1 Hot & Crispy Chicken,1 Smoky Red, Reg Popcorn, Spicy Fries & 1 Dip 20gm


Source: Company, Centrum Broking

**Exhibit 98: Innovation at the core – new products**

**Veg Patty Maggie Bowl – Rs149/-**

- Single serve
- Combo of crispy Veg Patty & a bowl of hot & delicious Maggi


**Chicken Popcorn Maggie Bowl – Rs179/-**

- Single serve
- Match made in KFC - crunchy Chicken Popcorn with a bowl of hot & delicious Maggi


**Chizza – Rs299/-**

- Single serve
- Crunchy chicken topped with cheese, spicy sauce, veggies & herbs. All-chicken-no-crust pizza!

**Solo Feast – Rs399/-**

- Single serve
- Treat of 1 Hot & Crispy, 2 Strips, 2 Wings, 1 Bun, 1 Dip (20gm) & 1 Pepsi 500ml

**Chizza & Fries Combo – Rs448/-**

- Serves 2 people
- Delicious combo of Chizza, Medium Fries & Pepsi PET

**Smoky Grilled Biryani Combo – Rs740/-**

- Serves 2-3 people
- Large Biryani rice with 2 Smoky Red, 2 Gravies, Med Popcorn & 1 Pepsi 500ml


**Friendship Bucket with Nashville Sauce – Rs879/-**

- Serves 3-4 person
- 3 Hot & Crispy, 3 Wings, 3 Strips, Large Popcorn &1 Nashville Bottle (225gm)

**Peri Peri 10 Leg pc & 4 Dips – Rs925/-**

- Serves 3-4 people
- Leg before any wicket! Save 27% on 10 Peri Peri Leg Pieces & 4 Dips (20 gm each)


Source: Company, Centrum Broking

KFC demonstrates higher pricing power in India

**Exhibit 99: Past innovations worked for KFC India**


Source: Company, Centrum Broking

## KFC demonstrates high pricing power offering widest menu to consumers

**Exhibit 100: KFC India product menu – Indicative price Dec'22**

| Product | Mar'22 | Dec'22 | Increase | Product | Mar'22 | Dec'22 | Increase |
|---|---|---|---|---|---|---|---|
| **Snacks** | | | | **Rice Bowls/Biryani Buckets** | | | |
| Regular Chicken Popcorn | 109 | 115 | 5.5 | Veg Rice Bowl | 150 | 189 | 26.0 |
| 1 pc Hot & Crispy Chicken | 110 | 115 | 4.5 | Popcorn Rice Bowl | 159 | 230 | 44.7 |
| 1 pc Smoky Red Chicken | 110 | 125 | 13.6 | Smoky Red Rice Bowl | 180 | 230 | 27.8 |
| Large Fries | 115 | 119 | 3.5 | Smoky Grilled Biryani Bucket (Large) | 419 | 475 | 13.4 |
| Veg Patty (2 pc) | 140 | 155 | 10.7 | Classic Chicken Biryani Bucket (Large) | 419 | 475 | 13.4 |
| Medium Chicken Popcorn | 150 | 165 | 10.0 | Rice Duo Meal | 419 | 475 | 13.4 |
| Boneless Chicken Strips (3pc) | 150 | 165 | 10.0 | | | | |
| Hot Chicken Wings (4 pc) | 158 | 165 | 4.4 | **Bucket Meals** | | | |
| Chicken & Fries Bucket | 199 | 299 | 50.3 | 5 pc Smoky Red Chicken | 429 | 655 | 52.7 |
| Hot & Crispy Chicken (2 pc) | 219 | 230 | 5.0 | Chick & Share | 449 | 449 | 0.0 |
| Smoky Red Chicken (2 pc) | 219 | 249 | 13.7 | Mingles Bucket Meal | 459 | 573 | 24.8 |
| Large Chicken Popcorn | 229 | 229 | 0.0 | Bucket for Two | 599 | 744 | 24.2 |
| Boneless Chicken Strips (6 pc) | 229 | 259 | 13.1 | Big 8 | 610 | 1008 | 65.2 |
| Large Popcorn with Fries (medium) | 299 | 319 | 6.7 | Ultimate Savings Bucket | 699 | 1094 | 56.5 |
| Mingles Bucket | 309 | 339 | 9.7 | 8 pc Hot & Spicy Chicken | 699 | 968 | 38.5 |
| Hot & Crispy Chicken (4 pc) | 399 | 429 | 7.5 | 6 pc Hot & Spicy | 699 | 726 | 3.9 |
| Chicken n fries Solo Combo | 399 | 419 | 5.0 | Big 12 | 729 | 1046 | 43.5 |
| Chicken n Strips Solo Combo | 399 | 419 | 5.0 | | | | |
| Super Snacker Combo | 450 | 499 | 10.9 | **Dips, Beverages & Desserts** | | | |
| Chick n Wings Combo | 450 | 499 | 10.9 | Tandoori Masala Dip | 25 | 29 | 16.0 |
| **Burgers** | | | | Pack of 2 Dips | 59 | 57 | -3.4 |
| 2 Veg Krisper | 138 | 158 | 14.5 | Medium Fries | 95 | 99 | 4.2 |
| Veg Zinger | 160 | 179 | 11.9 | Pack of 4 Dips | 99 | 110 | 11.1 |
| Classic Zinger | 170 | 189 | 11.2 | Pepsi PET | 60 | 57 | -5.0 |
| Tandoori Zinger | 180 | 199 | 10.6 | Pespi Can 330ml | 60 | 57 | -5.0 |
| 2 Chicken Krisper | 219 | 229 | 4.6 | 7-Up can 330ml | 60 | 57 | -5.0 |
| Tandoori Zinger Box | 299 | 313 | 4.7 | Pepsi Black Can | 60 | 57 | -5.0 |
| Veg Zinger Box | 299 | 313 | 4.7 | Mirinda Can | 60 | 57 | -5.0 |
| Classic Zinger Box | 299 | 313 | 4.7 | Choco Mud Pie | 119 | 129 | 8.4 |
| Mixed Zinger | 309 | 349 | 12.9 | Coffee Mousse Cake | 119 | 219 | 84.0 |
| Buddy Meal | 460 | 499 | 8.5 | | | | |
| Chicken+Krispers Combo | 499 | 519 | 4.0 | | | | |

Source: Company, Centrum Broking

# Competition in chicken QSR to heat up

Popeyes could end up with fierce competition to KFC

- Popeyes new challenger to KFC
- McDonald's launched fried chicken in South India
- Even regional players become more active

In the recent past we note, multiple QSR brands that have established elsewhere in the world are now eyeing the chicken segment. The entry by multiple players could expand chicken QSR market in our view. Further, historically, the competitive setting of western QSRs has further strengthened the overall food services segment driven by…

- Shutting of local unorganized, standalone and cloud kitchen establishments
- Marginal discounting on aggregator platforms impacting business for cloud kitchens
- Augmented consumer preference (post Covid) for trusted brands due to safe quality and delivery.

Therefore, we believe, the competitive intensity within the western QSR category is on the rise, more importantly in the chicken QSR segment.

We expect, the recent entry of Popeyes in South could emerge as a challenger brand to KFC in the medium term. In addition, Burger QSRs such as McDonald's (Westlife Foodworld) has introduced fried chicken menu in select stores in south expecting fried chicken to contribute Rs5-6mn+ adding to ADS (10% of overall ADS). As per our recent interaction with the management, early indicators are very encouraging. Though the management also confirmed that it's curated fried chicken menu have been successful in select Asian markets such as Malaysia.

Similarly, Burger King has also launched select products in this category. With rising popularity of Chicken QSR, even domestic players made their entry into this space. In the recent attempt, domestic brand Wow! Momo has launched Wow! Chicken brand offering a wider variety chicken menu with option of fried, grilled, and tandoor variety. We note Wow! Chicken is also planning to offer burgers with starting price point of Rs69 soon.

## History of Popeyes

Popeyes was founded in 1972 in New Orleans, Louisiana, US by Alvin Charles Copeland. It was launched under the name 'Chicken on the Run', which promised consumer a very fast service wherein the company committed that customer would get their chicken along with their change.

A few months of weaker than expected performance, MrCopeland reopened the restaurants with re-branding as "Popeyes Mighty Good Chicken" with spicy, New Orleans style chicken, Further the same re-branded again in 1975 to "Popeyes Famous Fried Chicken."

Come 1976, in addition to its own restaurant it opened the first Franchisee store in Louisiana. The success story continued and 1985 the company opened its 500$^{th}$ restaurant in Landover, Maryland to become the number three QSR player in the US. Further, in 1989, Popeyes acquired Church Fried Chicken Inc. (Church Chicken), which was the second-largest fried chicken chain in the US. Popeyes filed for bankruptcy in 1991 and Americas Favorite Chicken Company (AFC Enterprises Inc.) was formed as the new parent housing Popeyes and Church Chicken brands. That said, AFC sold Church Chicken in 2004 to strengthen and focus on Popeyes and in 2008 it reinvented itself as "Popeyes Louisiana Kitchen" (PLK) based on its long-standing roots in Louisiana.

We note, in Mar'17, Restaurant Brands International (RBI) acquired PLK for US $1.80bn. As on date PLK is present in 25+ countries and is further expanding in many other geographies. Popeyes is the third largest chicken QSR brand with global system sales of US$5.0bn (versus US$26bn for KFC and US$12bn for Chick-fil-A). In the US, Popeyes has gained market share from other Chicken QSR players (incl. KFC) over the past 2-3 years on the back of its extremely successful launch of its chicken sandwich (Aug 2019).

Popeyes now owned by Restaurant Brands International

PLK reported system-wide sales of USD5.5bn in CY21 vs. USD5.1bn in CY20. Its five-year revenue CAGR over CY16-21 stood at 10.9%.

We note total number of stores in CY21 have increased to 3,705 from 2,688 in CY16 at a CAGR of 6.6%. Further, at the end of CY21, revenue per store was reported at US$1.5mn vs. US$1.2mn in CY16. The company data suggests, post the acquisition by RBI, the pace of store addition accelerated, except in CY20 due to Covid disruptions.

**Exhibit 101: PLK's operating matrix before acquisition by RBA**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 3-yr CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| System sales (US$ mn) | 1730 | 1740 | 1772 | 1862 | 1985 | 2253 | 2438 | 2737 | 3061 | 3287 | 13.4 |
| Sales Growth (%) | 0.3 | 0.6 | 1.8 | 5.1 | 6.6 | 13.5 | 8.2 | 12.3 | 11.8 | 7.4 | |
| Store count end-of-year | 1905 | 1922 | 1943 | 1977 | 2035 | 2104 | 2225 | 2379 | 2549 | 2688 | 8.5 |
| Store Growth (%) | 1.4 | 0.9 | 1.1 | 1.7 | 2.9 | 3.4 | 5.8 | 6.9 | 7.1 | 5.5 | |
| sales per store (US$ mn) | 0.91 | 0.91 | 0.91 | 0.94 | 0.98 | 1.07 | 1.10 | 1.15 | 1.20 | 1.22 | 4.5 |

Source: Company, Centrum Broking

**Exhibit 102: Operating performance of PLK post-acquisition by RBA**

| | 2017 | 2018 | 2019 | 2020 | 2021 | 3-yr CAGR |
|---|---|---|---|---|---|---|
| System sales (US$ mn) | 3512 | 3732 | 4397 | 5143 | 5519 | 13.9 |
| Sales Growth (%) | 5.1 | 8.9 | 17.8 | 17.0 | 7.3 | |
| Store count end-of-year | 2892 | 3102 | 3316 | 3451 | 3705 | 6.1 |
| Store Growth (%) | 7.6 | 7.3 | 6.9 | 4.1 | 7.4 | |
| sales per store (US$ mn) | 1.21 | 1.20 | 1.33 | 1.49 | 1.49 | 7.4 |

Source: Company, Centrum Broking

**Exhibit 103: Pace of store addition has increased post-acquisition by RBA**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Store count end-of-year | 1905 | 1922 | 1943 | 1977 | 2035 | 2104 | 2225 | 2379 | 2549 | 2688 | 2892 | 3102 | 3316 | 3451 | 3705 |
| Sales growth | 0.3 | 0.6 | 1.8 | 5.1 | 6.6 | 13.5 | 8.2 | 12.3 | 11.8 | 7.4 | 5.1 | 8.9 | 17.8 | 17.0 | 7.3 |

Source: Company, Centrum Broking

**Exhibit 104: Five-year store addition for KFC stood at 5.5% vs. PLK at 6.6%**

| KFC | 2017 | 2018 | 2019 | 2020 | 2021 | | Popeyes | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Store count end-of-year | 21487 | 22621 | 24104 | 25005 | 26934 | | Store count end-of-year | 2892 | 3102 | 3316 | 3151 | 3705 |
| Growth (%) | 4.3 | 5.3 | 6.6 | 3.7 | 7.7 | | Growth (%) | 7.6 | 7.3 | 6.9 | 4.1 | 7.4 |

Source: Company, Centrum Broking

We found, when compared with KFC, store additions for PLK have reported faster additions. The 5-year CAGR for KFC was 5.5% as compared to PLK at 6.6%. Further, our research indicates, average store size of PLK is 1,600-3,500 sq.ft., against 1,400-1,500 sq.ft. ruled by KFC India.

Our ground research suggests, Popeyes has received mixed customer feedback based on reviews on Zomato app. However, there has been a steady improvement with customer reviews with higher rating for many of the recent reviews. As per customer feedback, (1) Popeyes fried chicken offers good value-for-money as compared to KFC's in terms of product quality and pricing, (2) happy customers rate Chicken Popcorn and Wings better, and (3) improvement needed for Burgers to match local taste.

## Entry of Global QSR players in India – Popeyes

In 2022, Restaurant Brands International (RBI) awarded Franchisee rights for Popeyes brands for India to Jubilant Foodworks. With the launch of first outlet in Bangalore, in one-year JUBI has expanded its presence to Chennai now. Given JUBI's strong execution track-record, and acceptance of fried chicken as a food in India, Popeyes can be a significant challenger to KFC over the medium term in our view. Notably, Chicken QSR is a high growth low penetration category, we need to be watchful how JUBI localizes the brand menu to compete against a strong incumbent - KFC.

Even McDonald's also jumped to grab rising Chicken QSR opportunity in the South with Fried chicken

**Exhibit 105: Entry of Popeyes and partnering with Jubilant Foodworks to fire Chicken QSR**


Source: Company, Centrum Broking

As per the management of JUBI, "Fried chicken is a very large category in India and almost a huge white space given that there is only one entrenched player ruling at this time". Our analysis suggests, Popeyes could potentially scale up to 250-300 stores over the next five years while KFC can potentially scale up to 1,250-1,300 stores in the same period. The management further alluded "We received very enthusiastic response and we are confident that Popeyes will help us with another profitable, sizable and scalable business. Sales significantly ahead of our expectations".

## McDonald's launched fried chicken in South India

As per the management of Westlife Foodworld (McDonald's) market size for chicken in South India is ~Rs50bn opportunity expecting similar potential in West too. Further, in 2020, the company launched Fried Chicken offerings in South India expecting its ADS to rise by Rs5.0mn incrementally. As on Apr'22 it rolled out chicken menu across 170 stores in south. We note, recently it has introduced the same in 8-10 stores in Mumbai region. The management confirmed "We are seeing very-very good traction in south India which is giving us the confidence to go a bit more aggressive including in Tier-2 and Tier-3 cities soon".

**Exhibit 106: Westlife Foodworld launched fried chicken in South India**


Source: Company, Centrum Broking

## Desi brand Wow! Momo venturing into fried chicken category

Wow! Momo, a branded Chinese cuisine QSR brand was established in 2008. As on date it operates +375 stores in ~25 odd cities with 90%+ market share in the organised Momo QSR category. The company offers steamed as well as fried momos, burgers and deserts to its customers. We note the company has been growing 50%+ YoY with ~Rs3.0bn revenues in FY22.

The company adheres to asset-light model with outlets operating from cloud kitchen, kiosks, high street locations, malls, food courts, and tech parks. We gather it incurs significantly low capex of Rs3mn driving strong unit economics for the company.

Wow Momos could be potential competition

Wow! Momo, in 2022, raised fresh investment in Series-D round at a valuation of $270 million or Rs21.3bn, post allotment. The company's valuation grew more than 60% in the past year as it was valued at $165-170 million in Series-C round.

After its successful venture with Wow! Momo, the management aims to tap into organised chicken QSR segment which is estimated to reach ~Rs50.0bn by 2025 indicating to offer choice to consumers as there is no tough competition to KFC in India. The company has launched Wow! Chicken. It opened its first off-line store at Acropolis Mall, Kolkata last year in Jan'22. The management shared the vision to open ~100 mid-sized outlets across top cities in the country in next few years.

We note, Wow! Chicken offers products starting at a price of as low as Rs69/- and it plans to expand its menu. It expects to launch veg chicken nuggets, a plant-based protein, to give vegetarian consumer a taste of non-veg soon.

**Exhibit 107: Wow! Chicken expanding its offerings**


Source: Company, Centrum Broking

## Comparison of delivery economics and dine-in orders

We reckon, on the face of it, the delivery orders are margin dilutive as compared to dine-in orders as the QSR players are expected to share 18-20% commission to aggregator for picking up order and delivery. This extra cost is partly offset by higher online prices and restaurant handling/packaging charges. We note consumer discounts/promotions are largely sponsored or shared by payment wallets, credit card issuers or aggregator platforms. Further, discounts or promotions offered by restaurants are rare and may form part of accounted A&P spends. We believe the price gap between margins of delivery and dine-in orders is a function of (1) allocation of fixed and semi variable costs, and (2) delivery order could recruit new customers or deliver incremental revenues or upgrade consumer shift from delivery to dine-in business.

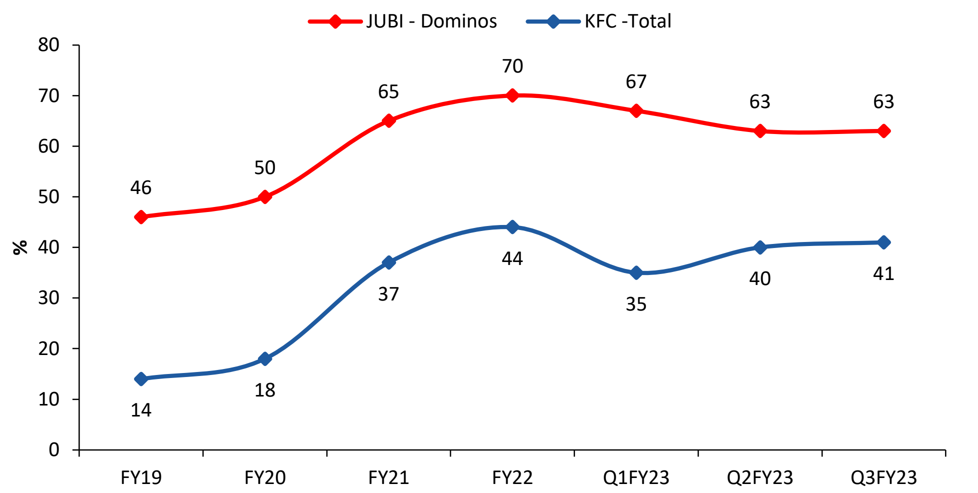
We expect delivery saliency likely to remain the driver for growth & SSSG for KFC over the short to medium term; delivery saliency remained equal to Domino's on per store basis.

### Exhibit 108: Orders received from aggregator platform are margin dilutive

| Unit economics | Dine-in | Delivery | | Blended total |
|---|---|---|---|---|
| (Rs/order) | Take-away | Aggregators | Own-app | |
| Saliency (%) | 63.0 | 33.5 | 3.5 | 100 |
| Average order value | 500 | 550 | 527 | 518 |
| COGS | 164 | 170 | 170 | 166 |
| Gross profit | 336 | 380.3 | 356.8 | 352 |
| Gross margin (%) | 67.2 | 69.1 | 67.8 | 67.9 |
| **Variable expenses** | | | | |
| Commission expenses | | 99 | | 32 |
| Take-rate charged (%) | | 18.0 | | 6.2 |
| Delivery charges | | | 65 | 2.3 |
| | | | | |
| Royalty | 35 | 38.5 | 36.9 | 36.2 |
| As a % of sales (%) | 7.0 | 7.0 | 7.0 | 7.0 |
| | | | | |
| A&P spends | 25.0 | 27.5 | 26.3 | 26 |
| As a % of sales (%) | 5.0 | 5.0 | 5.0 | 5.0 |
| | | | | |
| **Fixed/semi-variable expense** | | | | |
| Usage of Kitchen facility | 26.4 | 26.4 | 26.4 | 26.4 |
| Usage of Dine-in facility | 43.6 | | | 27 |
| Rent | 70 | 26.4 | 26.4 | 54 |
| As a % of sales (%) | 14.0 | 4.8 | 5.0 | 10.4 |
| | | | | |
| Employee expenses | 40.5 | 29.2 | 29.2 | 36 |
| As a % of sales (%) | 8.1 | 5.3 | 5.5 | 7.0 |
| | | | | |
| Other costs | 58.5 | 49.0 | 49.0 | 55.0 |
| As a % of sales (%) | 11.7 | 8.9 | 9.3 | 10.6 |
| | | | | |
| EBITDA | 107.0 | 110.8 | 124.0 | 110.0 |
| **EBITDA margin (%)** | **21.4** | **20.1** | **23.5** | **21.2** |

Source: Company, Centrum Broking (1. Delivery AOV is higher due to handling charge, 2. Delivery COGS is higher due to additional packaging charges, 3. Orders received form own app are delivered by own employees or third-party service provider)

### Exhibit 109: Key growth driver for KFC – Rising sales from Delivery channel




Source: Company, Centrum Broking

# The pizza battle – The tortoise and the hare

- Domino's by far rules the mind of the millennials
- Pizza Hut case for turnaround
- Pizza derives higher sales from home consumption

## Pizza Hut: Case for turnaround story, strong visibility

Yum! Brands second brand Pizza Hut commands second position in Pizza QSR in the country, however the brand has struggled in the past and it is a now on the roll, a perfect turnaround case. We note both DIL and SF have executed quite a few strategies to rejuvenate growth and also drive ADS. Few initiatives we illustrate below:

Improved price-value equation and shift brand positioning from Casual Dining to QSR

- Fast-tracked store expansion narrowing gaps in the store network
- Reduction in store format to ~1,200 sq. ft. to improve payback period to 3-4 years (from 7-8 years earlier)
- Redesigned its menu offerings focusing on portfolio gaps
- Launched Omni-channel strategy in FY17
- Improve consumer experience using technology

Given these initiatives we saw some encouraging outcomes. PH added 189 stores (43% growth) over past two years without any drag on ADS. If these trends continue, we expect meaningful value for both Franchisee partners.

We note driven by this strategy PH's store count/revenue grew CAGR 40%/22% vs. Domino's at 14% over FY20-22E period.

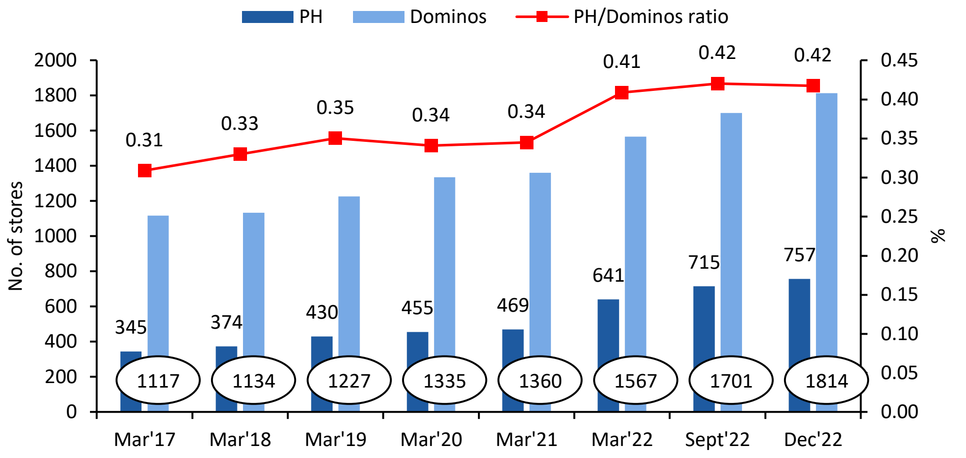
## Despite no. 2 player, Pizza Hut stores spread is under-indexed to Domino's

According to industry experts, food services market holds a potential of Rs2.0tn in top 20 cities. Noting Domino's revenues at ~Rs30bn in the top 20 cities, it commands ~3% market share of organised food services market in our view. Further, in top 20 cities in India, national chain Pizza QSR category is estimated at Rs50bn and Domnio's hold 58% market share.

We reckon, Domino's is the strongest market leader in Pizza QSR in India with 80%+ value market share in top-8 cities if we consider Domino's and Pizza Hut (two players). Further, Pizza Hut is less than 1/4th size of Domino's. The industry data indicates, in top 8 cities, Domino's commands highest market shares in Delhi (85%) and lowest in Hyderabad (~70%). Therefore, we believe there is huge headroom for Pizza Hut to narrow the gap and become a strong no.2 player Pizza QSR category.

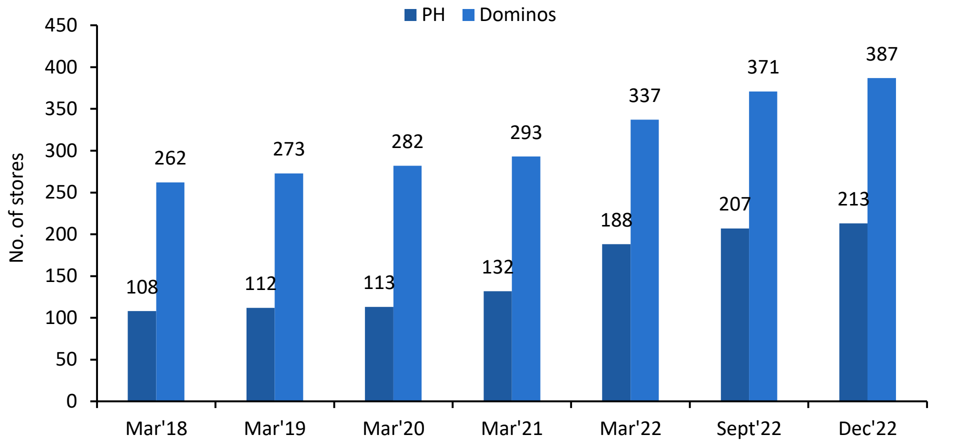
Pizza Hut stores indexed 0.4x to Domino's

**Exhibit 110: PH stores spread is under-indexed to Domino's**




Source: Company, Centrum Broking

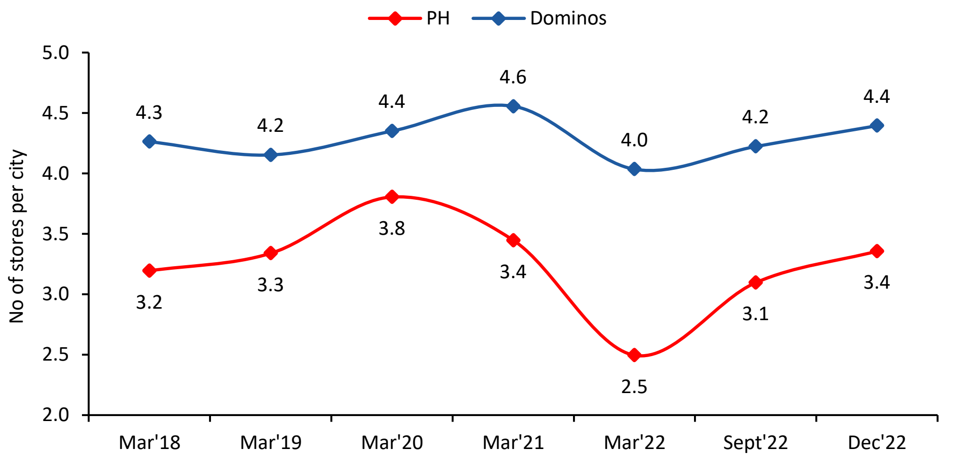
**Exhibit 111: Even the number of cities covered by PH are 50% lower than Domino's**




Source: Company, Centrum Broking

We strongly believe in addition to expanding city coverage there is big scope for improving store density within the existing cities.

**Exhibit 112: No. of stores per city comparison between Domino's and PH**




Source: Company, Centrum Broking

We note, in FY20, Domino's commanded 2.8% market share in the organised food services market, however in the total food services industry in India it holds ~1.3% market share.

**Exhibit 113: Domino's value market shares in top 20 cities in India**

| FY20 | Domino's India | | Food Service market (Rs bn) | | Domino's market share (%) | |
|---|---|---|---|---|---|---|
| | Stores | Sales (Rsbn) | Organised | Total (Rsbn) | Organised | Total Food service |
| Top 20 cities | 897 | 26.7 | 964 | 1994 | 2.8 | 1.3 |

Source: Company, Centrum Broking

**Exhibit 114: Huge potential to increase PH stores across all regions in India**

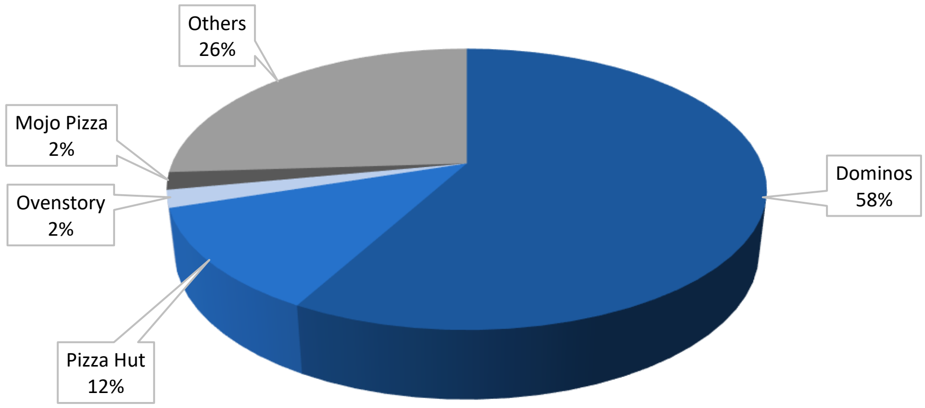
| State/UT | PH | Dominos | PH/Dominos |
|---|---|---|---|
| Delhi | 47 | 132 | 0.4 |
| Haryana | 37 | 98 | 0.4 |
| HP | 5 | 13 | 0.4 |
| J & K | 6 | 9 | 0.7 |
| Punjab | 32 | 70 | 0.5 |
| Rajasthan | 18 | 50 | 0.4 |
| UP | 72 | 140 | 0.5 |
| Uttrakhand | 12 | 21 | 0.6 |
| **North** | **229** | **533** | **0.4** |
| | | | |
| Chhattisgarh | 7 | 22 | 0.3 |
| Goa | 4 | 17 | 0.2 |
| Gujarat | 37 | 96 | 0.4 |
| Madhya Pradesh | 17 | 51 | 0.3 |
| Maharashtra | 106 | 299 | 0.4 |
| **West** | **171** | **463** | **0.4** |
| | | | |
| Bihar | 10 | 30 | 0.3 |
| Jharkhand | 6 | 21 | 0.3 |
| Odisha | 9 | 20 | 0.5 |
| West Bengal | 30 | 102 | 0.3 |
| **East** | **55** | **173** | **0.3** |
| | | | |
| Assam | 9 | 26 | 0.3 |
| Arunachal P | 1 | 2 | 0.5 |
| Manipur | 1 | 1 | 1.0 |
| Meghalaya | 1 | 2 | 0.5 |
| Mizoram | 1 | 2 | 0.5 |
| Nagaland | 1 | 3 | 0.3 |
| Sikkim | 1 | 3 | 0.3 |
| **North-East** | **15** | **39** | **0.4** |
| | | | |
| AP-Telangana | 82 | 113 | 0.7 |
| Karnataka | 97 | 224 | 0.4 |
| Kerala | 29 | 29 | 1.0 |
| Tamil Nadu | 37 | 127 | 0.3 |
| **South** | **245** | **493** | **0.5** |
| | | | |
| **All India** | **715** | **1701** | **0.4** |

Source: Company, Centrum Broking

We note, Domino's by far remains undisputed leader in Pizza QSR category with 58% market share, while Pizza Hut at 12% remains 1/5th that of market leader.

Domino's hold 58% market share, while Pizza Hut at 12%

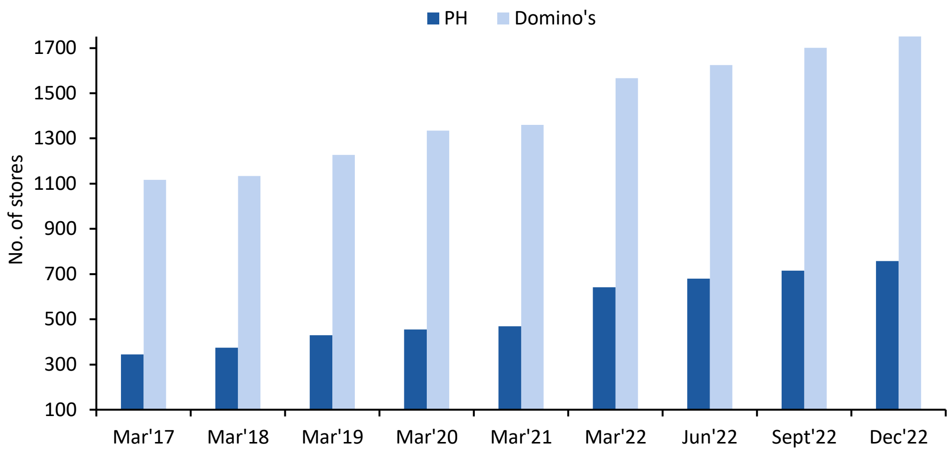
**Exhibit 115: Domino's remains market leader in Pizza QSR category**




Source: Company, Centrum Broking

That said, Pizza Hut, being no. 2 player has huge room for growth compared to Domino's

**Exhibit 116: Significant gaps in store count between Domino's and Pizza Hut**




Source: Company, Centrum Broking

Moreover, there is a substantial gap in the unit economics between Domino's and Pizza Hut driven by difference in revenues per store. We illustrate critical parameters to compare unit economics for Domino's and Pizza Hut.

Significant gaps in unit economics between Domino's and Pizza Hut

**Exhibit 117: Significant gaps in unit economics between Domino's and Pizza Hut**

| | Domino's | Pizza Hut |
|---|---|---|
| India Entry | 1996 | 1996 |
| Business model | Master Franchisee | Multiple Franchisee |
| No of stores as on Dec'22 | 1760 | 757 |
| No of cities as on Dec'22 | 377 | 217 |
| Capex per store (Rsmn) | 12 | 12 |
| Gross fixed asset turn (x) | 2.8 | 1.5 |
| Store size (sq.ft.) | 1200-1400 | 1000-1400 |
| SSSG (%) | 5-7% | 3-5% |
| Average Order Value (Rs) | 480 | 550 |
| Delivery as % of sales | 68 | 55 |
| | | |
| Annual sales/ store (Rsmn) | 32.0 | 17.5 |
| Gross margin (%) | 75.3 | 73.6 |
| Ad-spend (as % of sales) | 5 | 6 |
| Royalty (as % of sales ex GST) | 4 | 6.3 |
| Store rent (as % of sales) | 9.5-10 | 12.5-13.5 |
| Store employee cost (as % of sales) | 15.5 | 10 |
| Store EBITDA margin (%) | 23 | 15 |
| Store EBITDA (Rsmn) | 7.5 | 2.8 |
| EBITDA margin post Corp o/heads (%) | 18.5 | 10 |
| | | |
| Store payback post tax (years) | 2 | 5 |
| Store ROIC (%) | 49 | 20 |

Source: Company, Centrum Broking (We estimate revenue/ EBITDA, Capex and ROIC (post tax) for new store once it stabilizes. We estimate EBITDA margin Pre IND-AS 116)

## Fundamental growth drivers for Pizza Hut

We reckon Domino's enjoys first-mover advantage in India which empowered it to become market leader given its, (1) strong brand equity, (2) value positioning, and (3) perfected unit economics (important driver to achieve faster breakeven even in smaller towns). However, Pizza Hut meaningfully lags Domino's in terms of store spread and unit economics. Therefore, we believe Pizza Hut holds good prospects to improve unit economics by ramping up revenue per store and extract efficiencies. Notably, the key reason for inferior revenue per store commanded by Pizza Hut (~Rs18mn/year) is due to product menu, price-value equation and lower delivery saliency. However, in recent past PH has taken few steps to improve brand positioning and turnaround the business model.

### Developing new products to fill gaps

Our interaction with industry experts indicates that Pizza Hut produces comparable or little better quality products, as it prepares fresh dough (pizza base) in the restaurants against Domino's, which is prepared in the commissary and supplied to its restaurants. In addition, Pizza Hut's packing appears to be more premium, and hence consumers perceive Pizza Hut to be premium priced. One distinction between Pizza Hut's traditional 'Pan Crust' pizza against Domino's hand tossed pizza are actually two different types of Pizza based on actual preparations. However, customers like hand tossed pizza more.

### What Is a Pan Pizza?

Pan pizza is baked on a cast-iron skillet or a cake pan, which yields a thick-crust pizza. Chicago-style pizza, also known as deep-dish pizza, and Detroit-style pizza are made using a cast-iron pan. Another type of pan pizza, Sicilian pizza, is baked on a rectangular sheet tray.

### What Is a Hand-Tossed Pizza?

A hand-tossed pizza is a pizza where the dough is stretched by tossing it in the air. After hand tossing, you bake the pizza on a slab in a hot oven. This technique yields a thin crust pizza, such as the New York-style pizza, Brooklyn-style pizza, and traditional Italian Neapolitan pizza.

**Pan-Crust Pizza by PH and Thin crust Pizza by Domino's**

Source: Company, Centrum Broking

That said, PH has identified the gaps and launched San Francisco (SFO) crust that is crispier and light. We believe even SFO style crust is premium Pizza, yet PH has priced it similar to Pan-Crust pizza. In competition to PH, Domino's launched Gourmet-Pizza recently. According to industry experts PH lacks revenue per store due to gap in Pizza Mania variant offered by Domino's, yet PH's Pizza Maxx commands miniscule contribution in our view. We believe Pizza Mania being margin dilutive, PH has deliberately avoided to launch Pizza Mania variant till date. Moreover, looking at consumer fanfare (recruitment pack) and love for Pizza Mania, Yum! May revisit and launch this product.

As on date, Pizza Hut charges 15-17% price premium to Domino's. Pizza Hut's pricing for veg pizza range starts at Rs149 and goes to Rs369, while non-veg pizza starts at Rs229.

**Pizza Mania by Domino's and Cheese Maxx by Pizza Hut**


Source: Company, Centrum Broking

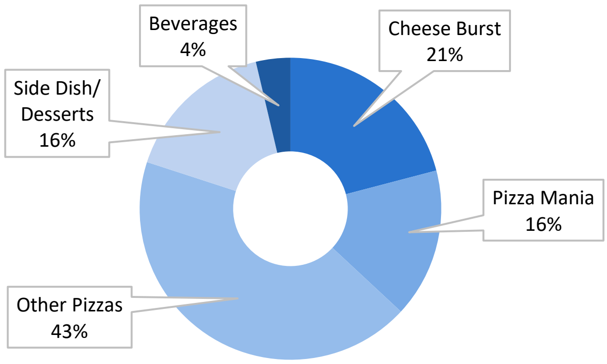
Another example, PH has offered Cheese Maxx against Domino's Cheese burst, which is fairly successful product and also liked by consumers. Though Cheese Maxx hold negligible revenue contribution to overall sales. PH recently launched a new product, Momo Pizzas which has gained good traction in our view.

**New products launched by Pizza Hut – Momo Mia Pizza and San Francisco Pizza**



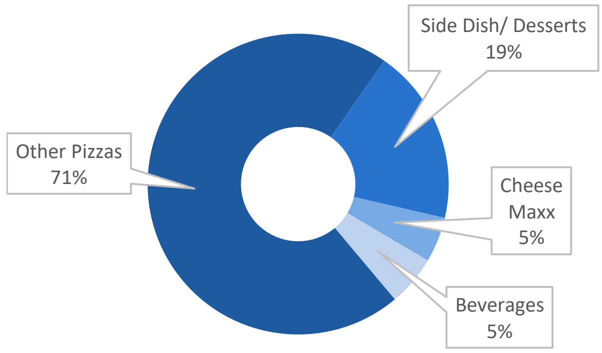
Source: Company, Centrum Broking

**Exhibit 118: Domino's revenue driven by Cheese Burst**




Source: Company Data, Centrum Broking

**Exhibit 119: Pizza Hut revenue mix**




Source: Company Data, Centrum Broking

## Improving price-value equation

Historically, Pizza Hut carried price premium in comparison to Domino's. We note PH charged ~15% premium for orders serviced through delivery. Further, during Covid period Domino's announced delivery fees in Jun'20. It further executed three rounds of price changes to the tune of 11-12%, yet PH took only one price change of ~3% in Mar'22. Consequently, as on date the price gap between Domino's and PH has tapered and it is marginal in case of combo offers. This reduction in price gaps could help PH to gain some market share from Domino's, in our view.

We note PH charges ~10% premium to Domino's on the entry price products, however it offers very competitive price in meal segment.

**Exhibit 120: Price comparison between PH and Domino's**

| | MRP | | % premium/discount | |
|---|---|---|---|---|
| | Single serve | Serving for two | Single serve | Serving for two |
| **Entry price: Veg** | | | | |
| Domino's | 109 | 239 | | |
| Pizza Hut | 129 | 279 | 18 | 17 |
| **Entry price: Non-Veg** | | | | |
| Domino's | 199 | 369 | | |
| Pizza Hut | 209 | 439 | 5 | 19 |
| **Mid-price: Veg** | | | | |
| Domino's | 209 | 379 | | |
| Pizza Hut | 179 | 359 | -14 | -5 |
| **Mid-price: Non-Veg** | | | | |
| Domino's | 309 | 559 | | |
| Pizza Hut | 269 | 519 | -13 | -7 |
| **Premium: Veg** | | | | |
| Domino's | 299 | 549 | | |
| Pizza Hut | 329 | 589 | 10 | 7 |
| **Premium: Non-Veg** | | | | |
| Domino's | 359 | 599 | | |
| Pizza Hut | 369 | 629 | 3 | 5 |
| **Mid-price Meal: Veg** | | | | |
| Domino's | 298 | 578 | | |
| Pizza Hut | 249 | 599 | -16 | 4 |
| **Mid-price Meal: Non-Veg** | | | | |
| Domino's | 490 | 890 | | |
| Pizza Hut | 299 | 599 | -39 | -33 |
| **Premium-price Meal: Veg** | | | | |
| Domino's | 478 | 878 | | |
| Pizza Hut | 349 | 699 | -27 | -20 |
| **Premium-price Meal: Non-Veg** | | | | |
| Domino's | 578 | 958 | | |
| Pizza Hut | 399 | 699 | -31 | -27 |
| **Combo: Veg** | | | | |
| Domino's | | 323 | | |
| Pizza Hut | | 229 | | -29 |
| **Combo: Non-Veg** | | | | |
| Domino's | | 365 | | |
| Pizza Hut | | 299 | | -18 |

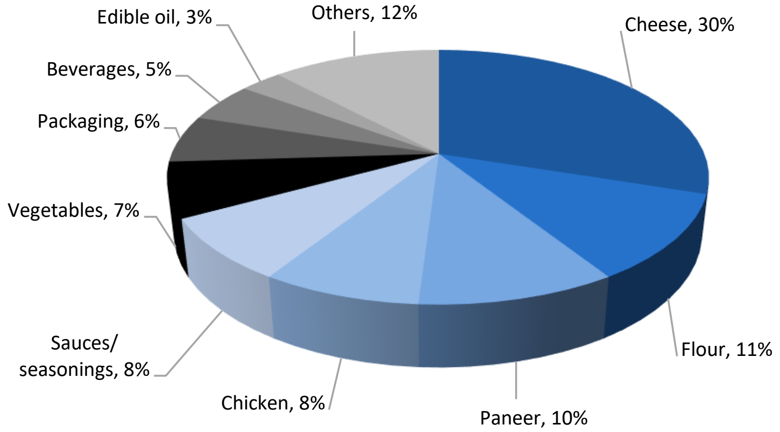
Source: Company, Centrum Broking

## High inflation pushed PH to execute price increases

Throughout last four quarters PH saw ~8% of inflation in key input raw material and packaging material such as dairy (~40% of RM basket), wheat flour (12%), chicken (8%), edible oil (3%) and packaging material (7%). To mitigate inflation impact PH took 8-20% price increases over Mar'22 to Dec'22 periods.

Key RM for Pizza Hut: Cheese 30%, Paneer 10%, Flour 11%, Chicken 8%

**Exhibit 121: RM/PM split for Pizza Hut**




Source: Company, Centrum Broking

**Exhibit 122: PH took average 15% price increase in personal pizza vs. 8% in medium pizza**

| Pizza Hut | March"22 | | Decesmber"22 | | Price change {%)} | |
|---|---|---|---|---|---|---|
| **Supreme Pizza** | **Personal** | **Medium** | **Personal** | **Medium** | **Personal** | **Medium** |
| Veg Exotica | 329 | 569 | 359 | 609 | 9.1 | 7.0 |
| Veggie Supreme | 329 | 569 | 359 | 609 | 9.1 | 7.0 |
| Double Paneer Supreme | 329 | 569 | 359 | 609 | 9.1 | 7.0 |
| Chicken Supreme | 359 | 629 | 409 | 609 | 13.9 | 9.5 |
| Triple Chicken Feast | 359 | 629 | 409 | 609 | 13.9 | 9.5 |
| Chicken Tikka Supreme | 359 | 629 | 409 | 609 | 13.9 | 9.5 |
| Signature Pizza | | | | | | |
| Country Feast | 269 | 529 | 299 | 539 | 1.2 | 1.9 |
| Famers Pick | 269 | 329 | 299 | 339 | 1.2 | 3.0 |
| Tandoor Paneer | 269 | 529 | 299 | 539 | 11.1 | 1.9 |
| Veggie Lover | 269 | 529 | 299 | 539 | 11.2 | 1.9 |
| Chicken Pepper Crunch | 329 | 569 | 359 | 609 | 9.1 | 7.0 |
| Chicken Tikka | 329 | 569 | 359 | 669 | 9.1 | 7.0 |
| Malai Chicken Tikka | 329 | 569 | 359 | 609 | 9.1 | 7.0 |
| Delight Pizza | | | | | | |
| Double Cheese | 199 | 419 | 249 | 459 | 4.1 | 9.5 |
| Spiced Paneer | 199 | 419 | 249 | 459 | 4.1 | 9.5 |
| Veggie Feast | 199 | 419 | 249 | 459 | 4.1 | 9.5 |
| Veggie Tandoori | 199 | 419 | 249 | 459 | 4.1 | 9.5 |
| Chicken & Com | 269 | 529 | 299 | 569 | 11.2 | 7.6 |
| Double Chicken Sausage | 269 | 329 | 299 | 339 | 11.2 | 3.0 |
| Favourite Pizza | | | | | | |
| Com & Cheese | 149 | 359 | 199 | 389 | 33.6 | 8.4 |
| Tandoor Onion | 149 | 359 | 199 | 389 | 33.6 | 8.4 |
| Classic Pizza | | | | | | |
| Margherita | 139 | 279 | 139 | 289 | 7.8 | 3.6 |
| Chicken Sausage | 199 | 419 | 239 | 459 | 20.1 | 9.5 |
| MOMO MIA. | | | | | | |
| Momo Mia Pizza - Veg | 269 | 449 | 329 | 549 | 22.3 | 22.3 |
| Momo Mia Pizza - Non-Veg | 299 | 499 | 359 | 599 | 20.1 | 20.0 |

Source: Company, Centrum Broking

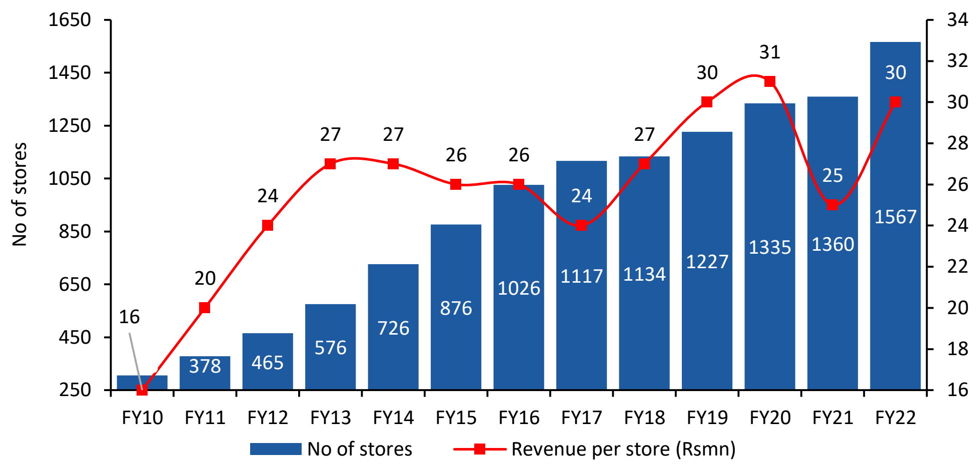
Domino's command revenue per store per year at ~Rs30mn

## Increase in store density to improve delivery time and generate higher ADS

Starting FY22, Pizza Hut has fast-tracked its store addition pace. Company data suggests both Franchisee of Yum! Brands added ~170 stores in FY22 against 90 stores added in FY15-21 period. Interestingly, in 9MFY23, PH added 86 stores (total 757). That said, Domino's store count increased from 241 stores in FY09 to 726 in FY14, resulting in average revenue per store improving from Rs12.0mn to Rs27.0mn in the same period. Moreover, ADS movement indicates that new stores are scaling up well unlike the attempt made previously. We expect improving store spread would enable PH to: (1) strengthen brand equity, (2) spend % to sales to drop, despite absolute increase in spends, and (3) improve delivery time.

The following data indicates, Domino's reported constant increase in store throughput as store density across the country increased over the years.

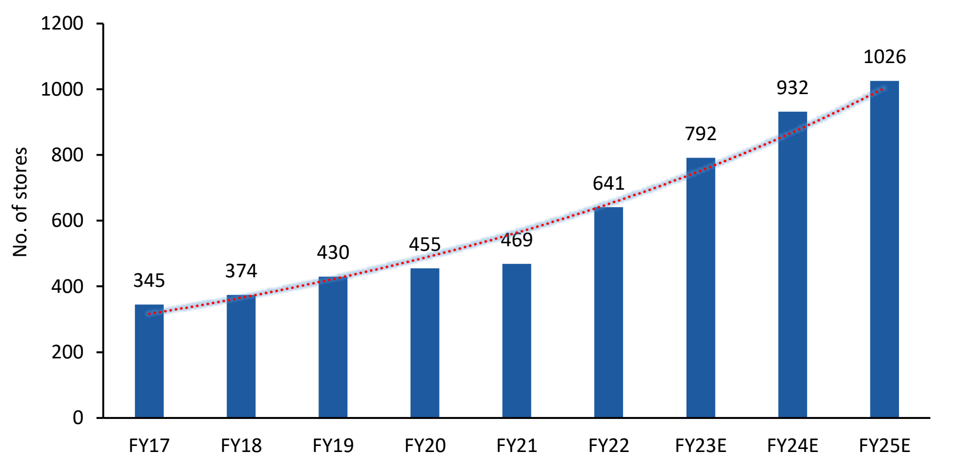
**Exhibit 123: Domino's store count and average revenue per store (Rsmn)**




Source: Company, Centrum Broking

Similarly, we expect PH (both Franchisees together) store count to grow at a CAGR of ~17.0% during FY22-25E period. Therefore, we anticipate PH to narrow the ADS gap with Domino's during this period.

**Exhibit 124: PH store count to increase CAGR 17.0% over FY22-25E**




Source: Company, Centrum Broking

We note in the past PH operated with store size 2,500-3000 sq.ft. The large format stores impacted the store throughput. To correct this, FY18 onwards PH cut its store size by ~45% and launched new stores with smaller size of ~1,200 sq.ft. Despite reduction in store size the actual performance delivered by PH indicated there was no reduction in ADS.

**Exhibit 125: Legacy store (2,500-3,000 sq.ft.) led payback period of 7-8 years**

| | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 |
|---|---|---|---|---|---|---|---|---|---|
| Revenue (Rsmn) | | 10.0 | 12.0 | 14.6 | 18.3 | 20.5 | 230.0 | 25.7 | 28.3 |
| Growth (%) | | | 20.0 | 22.0 | 14.6 | 12.0 | 12.0 | 12.0 | 10.0 |
| Dine in (%) | | 60.0 | 85.0 | 85.0 | 85.0 | 85.0 | 85.0 | 85.0 | 85.0 |
| Delivery (%) | | 40.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 |
| EBITDA (Rsmn) | | 0.6 | LO | L8 | 2.6 | 3.3 | 4..1 | 5.1 | 5.1 |
| Store EBITDA (%) | | 6.0 | 8.0 | 12.0 | 14..0 | 16.0 | 18.0 | 20.0 | 18.0 |
| Initial Investment (Rsmn) | -25 | | | | | | | | |
| Store RoCE (%) | | 2.0 | 4..0 | 7.0 | 10.0 | 13.0 | 16.0 | 20.0 | 22.0 |

Source: Company, Centrum Broking

**Exhibit 126: Revised store format (~1,200 sq.ft.) led to reduction in payback period 4-5 years**

| | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|---|
| Revenue (Rsmn) | | 12.0 | 15.0 | 18.8 | 22.4 | 25.2 |
| Growth (%) | | | 25.0 | 25.0 | 20 | 12.0 |
| Dine in (%) | | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 |
| Delivery (%) | | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 |
| EBITDA (Rsmn) | | 1.2 | 2.3 | 3.4 | 4.5 | 4.5 |
| Store EBITDA (%) | | 10.0 | 15.0 | 18.0 | 20 | 20.0 |
| Initial Investment (Rsmn) | -12 | | | | | |
| Store RoCE (%) | | 10.0 | 20.0 | 30.0 | 36.0 | 40.0 |

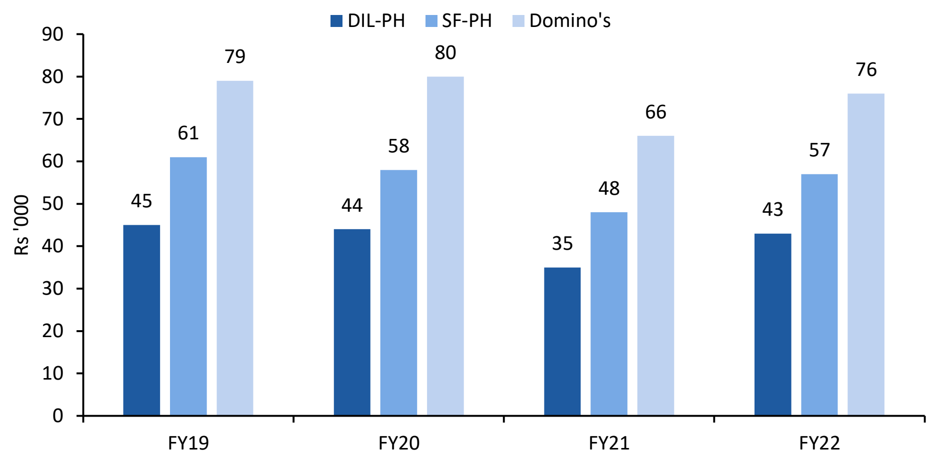
Source: Company, Centrum Broking

**Exhibit 127: Despite reduction in store size ADS remained healthy**

| | FY19 | FY22 | 3QFY23 |
|---|---|---|---|
| ADS (Rs'000) | 61 | 57 | 62 |
| Store EBITDA Margin (% | 7.5 | 13.3 | 14.5 |

Source: Company, Centrum Broking

**Exhibit 128: PH to narrow gap with Domino's in terms of ADS (Rs'000)**




Source: Company, Centrum Broking

## Leveraging technology to improve delivery time

Domino's showcased digital prowess in capturing technology providing stand-out experience to end consumers. While Pizza Hut lacks on this count, Domino's has further cut its delivery time from 30 minutes to 20 minutes. We note ~60% of delivery orders in top cities are delivered in 20 minutes by Domino's against ~70 minutes taken by PH.

Our interaction with Franchisee partners suggests, Yum! is now formulating a strategy leveraging technology and working with food aggregators to provide better delivery experience. We reckon, Zomato and Swiggy are largest partners for food delivery for Yum! India. Hence, Yum! is working closely with them to improve delivery time (both ETA displayed to customers while placing order and actual delivery time). Our research indicates

Pizza Hut to add 468 store totaling 1100 in FY25E

that last year Yum! Brands acquired three technology firms namely, Tictuk Technologies, Kvantum and Dragontail platforms. We expect consolidation of these companies would help Pizza Hut to, (1) augment entire value chain from food preparation-to-order delivery process, (2) boost Omni-channel ordering capabilities, and (3) supplement data-driven AI to aid marketing decisions. We note, Dragontail platform to integrate back-end kitchen operations with aggregator platforms starting from food preparation (baking of Pizza) to order completion and ready to deliver just-in-time before pick-up. Nonetheless, this would ensure food remains hot and fresh when it is delivered. Our field trips indicate that orders for Yum! India gets prioritized over other restaurants in event conflicts (demand for delivery executives in an area exceeds supply).

## We expect Pizza Hut to add ~468 stores, totalling to ~1,100 in FY25E

Based on top four drivers identified by us above, with improved execution we expect pace of growth to pick up significantly for PH. Past performance indicates, over FY15-21 period, PH added only 87 stores totalling to 459. However, post Covid favourable macro (rising delivery demand) coupled with attractive incentive structure offered by Yum! both Franchisees fast-tracked store expansion. That said, in FY22, PH added 173 stores totalling to 632 stores, 38% increase in store count. Moreover, despite huge store addition, FY22 performance indicates PH maintained ADS (pre-Covid) levels. Counting on this learning, we expect PH to add ~4,68 stores in next three years.

**Exhibit 129: We expect PH (DIL+SF) to add 468 stores over FY22-25E**

| Store addition | FY21 | FY22 | 9MFY23 | FY23E | FY25E | Net store addition FY22-25E |
|---|---|---|---|---|---|---|
| Devyani | 297 | 413 | 483 | 498 | 711 | 298 |
| Sapphire Foods | 162 | 219 | 274 | 289 | 389 | 170 |
| **Total Pizza Hut** | **459** | **632** | **757** | **787** | **1100** | **468** |
| | | | | | | |
| **Domino's** | **1360** | **1540** | **1760** | **1785** | **2150** | 610 |

Source: Company, Centrum Broking

## We estimate Pizza Hut market opportunity split between DIL:SF at 65:35

As per our understanding DIL has been awarded Franchisee rights for PH, (1) Dine-in and delivery formats for the North and East India territories, and (2) Omni-channel, as well as dine-in without cutlery/table service (take away and delivery) for restricted capacity of 35-40 seats for South and West except Tamil Nadu.

On the other hand, Sapphire holds Franchisee rights for PH's dine-in format (with cutlery and table service) including delivery and takeaway for South and West regions.

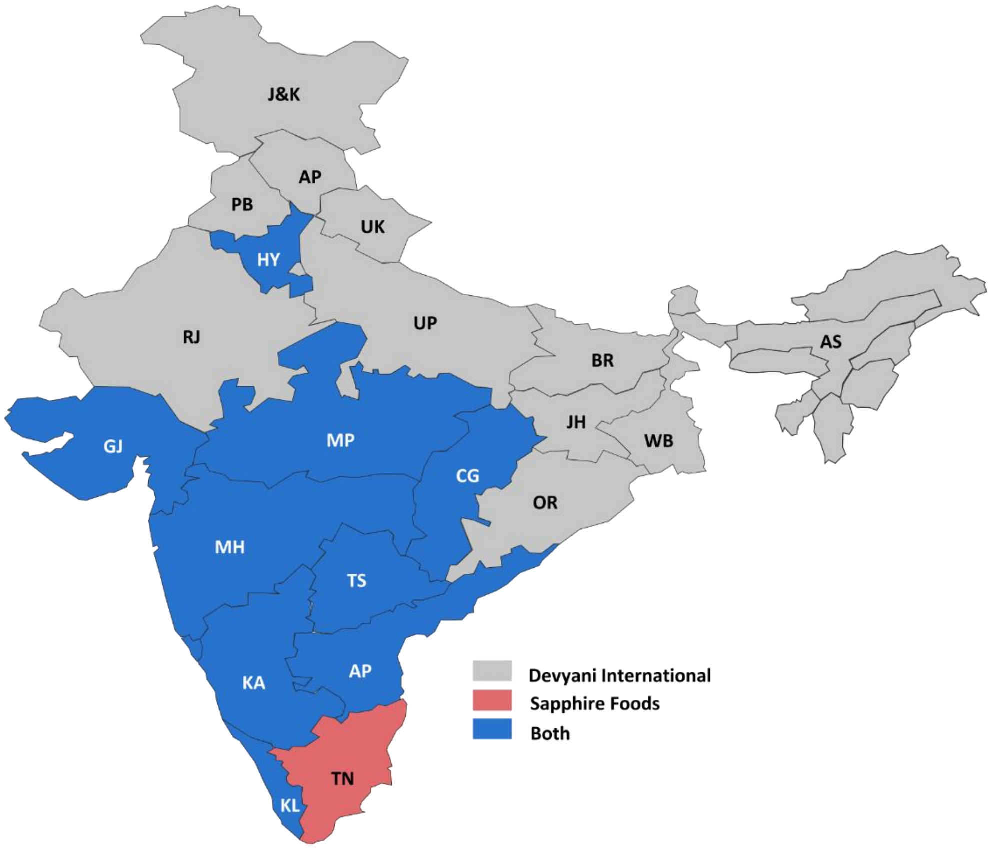
That said, in reality DIL and SF both enjoy growth prospects in South and West (except TN) territories, while North and East rights are exclusive to DIL. TN rights are exclusive to SF. Given these settings we expect DIL to open 298 new stores, while SF to add 170 stores (total 468) end FY25E.

**Exhibit 130: We expect Devyani-Sapphire network share to remain at ~65:35**

| Store addition | FY21 | FY22 | 9MFY23 | FY23E | FY25E |
|---|---|---|---|---|---|
| Devyani | 297 | 413 | 483 | 498 | 711 |
| Sapphire Foods | 162 | 219 | 274 | 289 | 389 |
| **Total Pizza Hut** | **459** | **632** | **757** | **787** | **1100** |
| | | | | | |
| Devyani share (%) | 65 | 65 | 64 | 63 | 65 |
| Sapphire share (%) | 35 | 35 | 36 | 37 | 35 |

Source: Company, Centrum Broking

**Exhibit 131: DIL and SF territorial rights for PH**




Source: Company, Centrum Broking

## Yum! Franchisees Devyani and Sapphire to recognise long term potential in India

Our in-depth understanding indicates Devyani and Sapphire would realize market potential for KFC in the ratio of 55:45, while it stands at 65:35 for PH.

**Exhibit 132: We expect Devyani-Sapphire network share to remain at ~65:35**

| | FY22 | | | 9MFY23 | | |
|---|---|---|---|---|---|---|
| | Devyani | Sapphire | SF/DIL share (%) | Devyani | Sapphire | SF/DIL share (%) |
| **KFC India** | | | | | | |
| No of store (at year-end) | 364 | 263 | 72 | 461 | 325 | 70 |
| Revenue (Rsmn) | 12189 | 10349 | 85 | 13275 | 10838 | 82 |
| Avg. Revenue/store (Rsmn/yr) | 46.2 | 51.0 | 110 | 45.3 | 51.9 | 114 |
| Gross profit (Rsmn) | 8444 | 7079 | 84 | 9050 | 7207 | 80 |
| Gross margin (%) | 69.3 | 68.4 | | 68.2 | 66.5 | |
| Store EBITDA (Rsmn) | 2602 | 2018 | 78 | 2808 | 2113 | 75 |
| Store EBITDA margin (%) | 21.3 | 19.5 | | 21.2 | 19.5 | |
| **Channel mix** | | | | | | |
| Dine-in | 56 | 34 | | 64 | 45 | |
| Delivery | 44 | 66 | | 36 | 55 | |
| **Pizza Hut India** | | | | | | |
| No of store (at year end) | 413 | 219 | 53 | 483 | 274 | 57 |
| Revenue (Rsmn) | 5318 | 3710 | 70 | 5300 | 3993 | 75 |
| Avg. Revenue/store (Rsmn/yr) | 17.9 | 22.9 | 128 | 13.6 | 21.2 | 157 |
| Gross profit (Rsmn) | 4021 | 2538 | 63 | 3960 | 2987 | 75 |
| Gross margin (%) | 75.6 | 68.4 | | 74.7 | 74.8 | |
| Store EBITDA (Rsmn) | 865 | 497 | 57 | 855 | 587 | 69 |
| Store EBITDA margin (%) | 16.3 | 13.4 | | 16.1 | 14.7 | |
| **Channel mix** | | | | | | |
| Dine-in | 37 | 26 | | 45 | 35 | |
| Delivery | 63 | 74 | | 55 | 65 | |
| **Costa Coffee** | | | | | | |
| No of store (at year-end) | 55 | | | 103 | | |
| Revenue (Rsmn) | 411 | | | 688 | | |
| Avg. Revenue/store (Rsmn/yr) | 8.2 | | | 13.8 | | |
| Gross profit (Rsmn) | 330 | | | 546 | | |
| Gross margin (%) | 80.3 | | | 79.4 | | |
| Store EBITDA (Rsmn) | 125 | | | 174 | | |
| Store EBITDA margin (%) | 30.4 | | | 25.3 | | |
| **International/ Others** | | | | | | |
| No of store (at the year-end) | 106 | 97 | | 130 | 114 | |
| Revenue (Rsmn) | 2922 | 3157 | | 3164 | 2049 | |
| Gross profit (Rsmn) | 1345 | 2058 | | 1203 | 1170 | |
| Gross margin (%) | 46.0 | 65.2 | | 38.0 | 57.1 | |
| Store EBITDA (Rsmn) | 554 | 704 | | 420 | 307 | |
| Store EBITDA margin (%) | 19.0 | 22.3 | | 13.3 | 15.0 | |
| **Consolidated** | | | | | | |
| No of store (at year-end) | 938 | 579 | 62 | 1177 | 713 | 61 |
| Revenue (Rsmn) | 20840 | 17216 | 83 | 22427 | 16978 | 76 |
| Company EBIDA | 2995 | 1808 | 60 | 3434 | 3313 | 96 |
| Company EBIDA margin (%) | 14.4 | 10.5 | | 15.3 | 19.5 | |

Source: Company, Centrum Broking

In our valuation assumption, we assign premium to Devyani on account (1) larger share of India market opportunity (KFC & PH), (2) consistency in superior profitability matrix, (3) new growth engine with option value for Costa Coffee, and (4) in-house efforts to develop own brands.

Over FY16-22 QSR revenues grew CAGR 14.4%

**Exhibit 133: QSR has performed better than leading consumption categories in FY16-22**

| Revenue (Rsmn) | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | CAGR |
|---|---|---|---|---|---|---|---|---|
| **Alcobev** | | | | | | | | |
| United Breweries | 48,331 | 47,292 | 56,190 | 64,754 | 65,092 | 42,430 | 58,380 | **3.2%** |
| **Apparel** | | | | | | | | |
| Trent | 15,893 | 18,124 | 21,575 | 26,302 | 34,860 | 25,930 | 44,980 | **18.9%** |
| Page Industries | 17,960 | 21,290 | 25,510 | 28,520 | 29,460 | 28,330 | 38,860 | **13.7%** |
| **FMCG** | | | | | | | | |
| Britannia | 76,516 | 83,115 | 92,059 | 103,895 | 108,206 | 121,137 | 131,690 | **9.5%** |
| Dabur | 54,122 | 53,578 | 55,523 | 61,895 | 62,257 | 70,889 | 81,795 | **7.1%** |
| Hindustan Unilever | 321,860 | 331,620 | 355,450 | 393,100 | 397,830 | 470,280 | 524,465 | **8.5%** |
| **Footwear** | | | | | | | | |
| Metro | 8,031 | 9,074 | 10,749 | 12,171 | 12,852 | 8,005 | 13,435 | **9.0%** |
| **Jewellery** | | | | | | | | |
| Titan | 112,759 | 132,608 | 161,198 | 197,785 | 210,520 | 216,440 | 287,990 | **16.9%** |
| **Paint** | | | | | | | | |
| Asian Paints | 142,715 | 150,620 | 168,246 | 193,415 | 202,113 | 217,128 | 291,013 | **12.6%** |
| **QSR** | | | | | | | | |
| Jubilant Foodworks | 24,380 | 25,834 | 30,184 | 35,631 | 39,273 | 32,688 | 43,311 | **10.1%** |
| Westlife Foodworld | 8,334 | 9,308 | 11,349 | 14,020 | 15,478 | 9,856 | 15,760 | **11.2%** |
| Devyani Inter. | 10,124 | 10,475 | 11,106 | 13,106 | 15,164 | 11,348 | 20,840 | **12.8%** |
| Sapphire | 3,287 | 7,852 | 9,572 | 11,938 | 13,404 | 10,196 | 17,216 | **31.8%** |
| RBA (Burger King) | 1,386 | 2,283 | 3,752 | 6,286 | 8,412 | 4,926 | 9,396 | **37.6%** |
| **QSR Total** | **47,511** | **55,752** | **65,963** | **80,981** | **91,731** | **69,015** | **106,523** | **14.4%** |

Source: Company, Centrum Broking

We also tried to comprehend here, over FY16-22 period top 5 QSR players reported revenue CAGR of 14.4%, with Burger King clocking highest growth at 37.6%. In comparison to QSR Page Ind/ Trent grew highest at 13.7%/18.9%, while United Breweries (alcobev) saw lowest growth of 3.2%. Therefore we believe despite QSR falls in discretionary spends the business models are clocking decent growth.

**Exhibit 134: QSR Comp. Data**

| | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| **Store network** | | | | | | | |
| **Domino's India** | **1227** | **1335** | **1360** | **1567** | **1807** | **2007** | **2280** |
| | | | | | | | |
| DIL | 134 | 172 | 264 | 364 | 459 | 544 | 679 |
| SF | 158 | 187 | 203 | 263 | 328 | 388 | 478 |
| **KFC India** | **292** | **359** | **467** | **627** | **787** | **932** | **1157** |
| | | | | | | | |
| DIL | 268 | 269 | 297 | 413 | 513 | 593 | 632 |
| SF | 153 | 174 | 162 | 219 | 279 | 339 | 394 |
| **Pizza Hut India** | **421** | **443** | **459** | **632** | **792** | **932** | **1026** |
| | | | | | | | |
| **Burger King India** | **181** | **252** | **257** | **307** | **382** | **462** | **545** |
| | | | | | | | |
| WLDL | 295 | 319 | 305 | 326 | 366 | 414 | 469 |
| CPRL/MMG | 150 | 150 | 150 | 150 | 180 | 220 | 270 |
| **McDonald's India** | **445** | **469** | **455** | **476** | **546** | **634** | **739** |
| | | | | | | | |
| Store growth (%) | | | | | | | |
| Domino's India | 8.1 | 8.8 | 1.9 | 15.2 | 15.3 | 11.1 | 13.6 |
| KFC India | 21.2 | 22.9 | 30.1 | 34.3 | 25.5 | 18.4 | 24.1 |
| Pizza Hut India | 15.2 | 5.2 | 3.6 | 37.7 | 25.3 | 17.7 | 10.1 |
| Burger King India | 47.3 | 39.2 | 2.0 | 19.5 | 24.4 | 20.9 | 18.0 |
| McDonald's India | 7.3 | 5.4 | -3.0 | 4.6 | 14.7 | 16.1 | 16.6 |

| | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| **Revenue (Rsmn)** | | | | | | | |
| **Domino's India** | **35,631** | **39,273** | **33,119** | **43,961** | **51,892** | **59,152** | **68,539** |
| | | | | | | | |
| DIL | 4,641 | 6,091 | 6,443 | 12,189 | 17,781 | 22,894 | 26,848 |
| SF | 6,584 | 7,753 | 5,897 | 10,349 | 14,821 | 17,539 | 20,145 |
| **KFC India** | **11,225** | **13,844** | **12,340** | **22,538** | **32,602** | **40,433** | **46,993** |
| | | | | | | | |
| DIL | 4,233 | 4,174 | 2,879 | 5,318 | 7,220 | 8,684 | 10,039 |
| SF | 3,071 | 3,343 | 2,217 | 3,710 | 5,255 | 6,915 | 8,312 |
| **Pizza Hut India** | **7,304** | **7,517** | **5,096** | **9,028** | **12,475** | **15,598** | **18,350** |
| | | | | | | | |
| **Burger King India** | **6,286** | **8,353** | **4,892** | **9,374** | **14,949** | **19,057** | **23,713** |
| | | | | | | | |
| WLDL | 13,887 | 15,383 | 9,753 | 15,561 | 23,032 | 26,611 | 31,495 |
| CPRL/MMG | 7,826 | 6,846 | 5,357 | 8,440 | 9,031 | 9,663 | 10,339 |
| **McDonald's India** | **21,713** | **22,229** | **15,110** | **24,001** | **32,063** | **36,274** | **41,834** |
| | | | | | | | |
| **Revenue growth (%)** | | | | | | | |
| Domino's India | 8.1 | 10.2 | -15.7 | 32.7 | 18.0 | 14.0 | 15.9 |
| KFC India | 21.2 | 23.3 | -10.9 | 82.6 | 44.7 | 24.0 | 16.2 |
| Pizza Hut India | 15.2 | 2.9 | -32.2 | 77.2 | 38.2 | 25.0 | 17.6 |
| Burger King India | 47.3 | 32.9 | -41.4 | 91.6 | 59.5 | 27.5 | 24.4 |
| McDonald's India | 7.3 | 2.4 | -32.0 | 58.8 | 33.6 | 13.1 | 15.3 |

Source: Company, Centrum Broking

# Appendix

## Industry background

- India's organised food services market to grow at CAGR of ~10.5% to Rs1,684bn over FY20-25E
- Organised segment chains to grow at CAGR 13%
- Shift from unorganised to organised segment in Food Services Industry

Our comprehensive study of India's Food Services sector, and its consumer and consumption pattern unearthed three significant developments viz., (1) consumers are craving for more options such as western QSRs, (2) changing consumer habits – simplicity of ordering and delivery through time efficient digital platforms, and (3) easing of competition from local outfits - augmenting the pace of store expansion in non-metros. Though QSRs have used recent crisis to optimise cost structures, they are capturing market share from the unorganised players. Therefore, we believe gradual shift is underway and the trend appears to be playing out for western QSR players. Millennials are shaping up demand which too is favouring the shift towards organised segment in our view.

The QSR sector is considered key growth engine of the Indian economy. Yet in India it gained gradual acceptance post the entry of Domino's and McDonald's, ~25 years before. We expect India's organised food services market to grow at CAGR ~10.5% to Rs1,684bn over FY20-25E capturing ~46% market share from current 40%. There exists vast potential to grow within organised segment chains at CAGR 13%, making up 12% market share of food service market to Rs383bn. That said, growth in total addressable market (TAM) driven by: (1) targeting millennials, (2) consumer centric palate and choices suiting the Indian population, (3) focusing on time efficient online delivery, and (4) strategic pricing and promotions offering value proposition. Due to established brand acceptance, top 5 global QSR chains have already garnered ~50% market share with high concentration in top 25 cities. Nonetheless, the brand reputation helps smoother entry in Tier 2-3 markets providing huge runway for growth in our view. Concurrently, food delivery applications, such as Zomato and Swiggy and many more are expected to play an even more prominent role as pandemic amplified their role in the ecosystem.

## India food services market

India' food services market has gained success in the past few decades due to ever changing consumption patterns as consumers are craving for more options such as western QSRs influenced by trend shift in eating out. This has not only influenced demand but also the recent pandemic ensured ease of online ordering and time bound delivery coupled with improved quality driving consumer traffic and influencing higher demand for food services industry. Remarkable shift was witnessed from unorganised players, as the country saw store opening from McDonald's, Domino's, and subsequently followed by Subway, Haldiram's, KFC, Taco Bell, and Burger King, etc.

The Indian food services market is categorized into organised and unorganised based on three characteristics accounting transparency, organised operations (with quality control and sourcing norms), and outlet penetration. However, food services store that do not follow these parameters are termed as unorganised, primarily roadside vendors, small eateries, street stalls and dhaba. Further, the organised segment is sub-segmented as chain restaurants (have more than three branches across the country) and standalone restaurants. The organised segments are further divided into six sub-segments as follows based on average price charged per person, service quality and speed, and product offering.

- **Cafes:** Cafes with Rs9bn market size include coffee bars and parlours, and chai bars/lounges. They are mostly casual restaurants with primary focus on serving beverages and complementary food to those beverages. Key brands—Starbucks, Costa Coffee, Café Coffee Day, Chaayos and Chai Point, etc.
- **Quick service restaurants (QSR)**: QSR with Rs336bn market size focus on speed of service, affordability and convenience. It includes the dine-in/takeaway/delivery

options to end consumer. Key brands — McDonald's, Domino's, KFC, Burger King, Subway, Haldiram's, Taco Bell, Bikanervala, Wow! Momo, etc.

- **Frozen desserts (FD/IC):** FD/IC, a Rs43bn market size are generally small kiosks or outlets of ice cream brands, which have been extended to dine-in concept of frozen yogurt and ice cream brands. Key brands — Naturals Ice cream, Baskin Robbins, Kwality Walls, Havmor, etc.
- **Casual dining restaurants (CDR)**: CDR, a Rs885bn market, offer moderately or mass priced food menu in a setting focused on affordable dining with limited services. Essentially, this segment connects the gap between fast food and fine dining restaurants. Key brands — Copper Chimney, Barbeque Nation, Pizza Hut, etc.
- **Fine dining restaurants (FDR)**: FDR, a Rs29bn market, full service with good quality ambience and service with specialty or specific type of cuisines. They typically command high average sales per person. Key brands – Oliver Bar, Moti Mahal, Peshwari, Masala Library, Punjab Grill, etc.
- **Pub, bar, club and lounge (PBCL)**: The PBCL segment with a market size of Rs176bn focuses mainly on serving alcohol and related beverages and includes night clubs and sports bars. Key brands — TGI Fridays, The Beer Café, The Bar Stock Exchange, etc.

**Exhibit 135: We estimate Indian Food Services market to grow at CAGR 7.2%, while organised food services to grow at CAGR 10.5% over FY20-25E**

**Food service market (Rs4,257bn)**
CAGR (FY15-20): 8%
CAGR (FY20-25E): 7.2%

Restaurants in Hotels (Rs117bn)
CAGR FY15-20: 8%
CAGR FY20-25E: 6%
Market share - FY20: 3%

Chain market (Rs383bn)
CAGR FY15-20: 17%
CAGR FY20-25E: 13%
Market share FY20: 8%
Market share FY25E: 12%

Standalone (Licensed) market (Rs1,184bn)
CAGR FY15-20: 12%
CAGR FY20-25E: 10%
Market share: FY20: 27%
Market share: FY25E: 31%

Unorganised market (Rs2,573bn)
CAGR FY15-20: 6%
CAGR FY20-25E: 5%
Market share - FY20: 62%

| Segment | Size (Rs bn) | CAGR FY15-20 (%) | Market share (%) FY15 | MKT share (%) FY20 |
|---|---|---|---|---|
| Café | 25 | 7 | 11 | 7 |
| QSR | 180 | 19 | 44 | 46 |
| IC/FD | 21 | 15 | 6 | 5 |
| CDR | 129 | 19 | 31 | 34 |
| FDR | 6 | 2 | 3 | 2 |
| PBCL | 23 | 23 | 5 | 6 |

| Segment | Size (Rs bn) | CAGR FY15-20 (%) | Market share (%) FY15 | MKT share (%) FY20 |
|---|---|---|---|---|
| Cafe | 72 | 7 | 8 | 6 |
| QSR | 156 | 14 | 12 | 13 |
| IC/FD | 22 | 7 | 2 | 2 |
| CDR | 757 | 13 | 60 | 63 |
| FDR | 23 | 4 | 3 | 2 |
| PBCL | 153 | 9 | 15 | 13 |

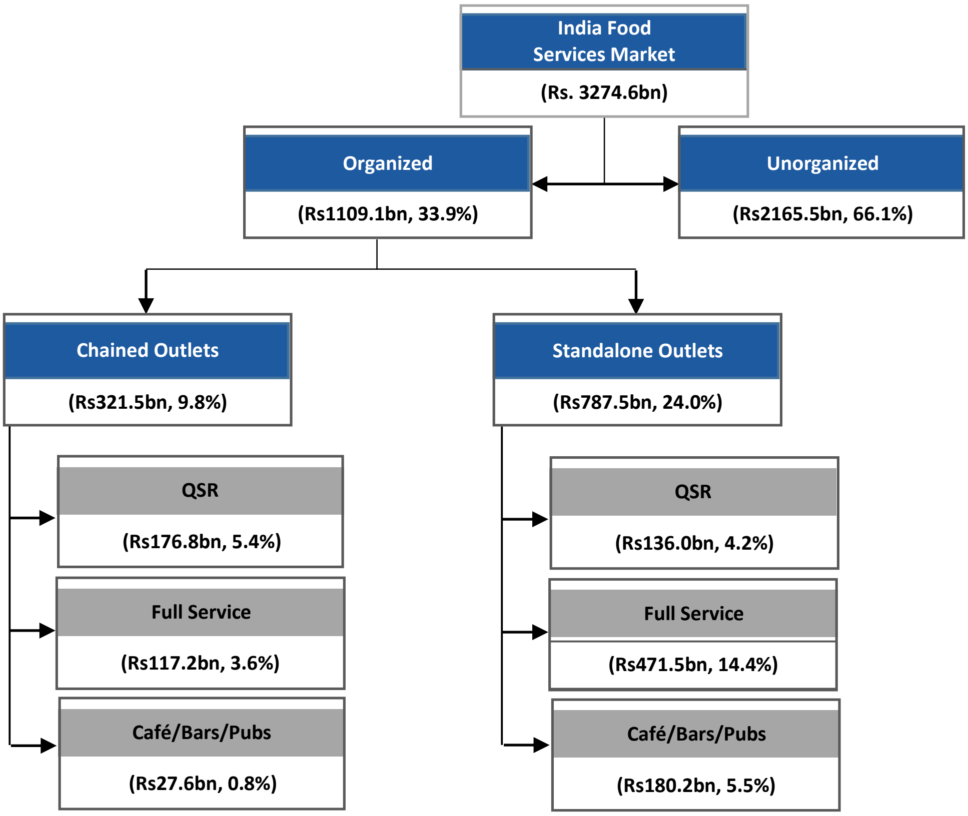
Source: Technopak

**Exhibit 136: Segment growth**

| Segment Growth | FY10-15 CAGR | FY15-20 CAGR |
|---|---|---|
| Unorganized Segment | 7% | 5% |
| Organized Standalone restaurants | 13% | 13% |
| Standalone QSR | na | 1% |
| Chain Restaurants | 21% | 18% |
| Chain QSR | 20% | 19% |
| Restaurants in Hotels | 10% | 8% |
| Total Food Service Industry | 9% | 8% |

Source: Technopak

**Exhibit 137: Euro Monitor estimated India Food Service market at Rs3,275bn in CY21 of which only 34% is organised**




Source: Euromonitor, Note: Chained street kiosks included under chained cafes and self-service cafeterias are included under standalone cafe

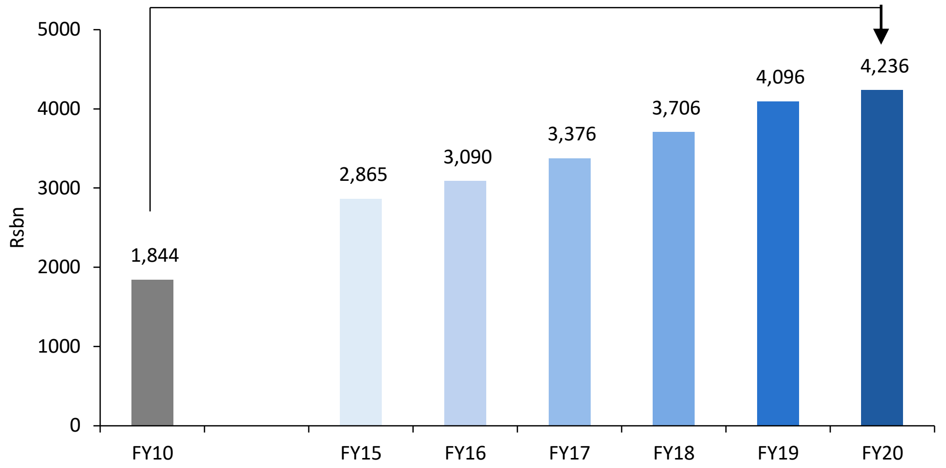
According to Euro Monitor, the Indian Food Services market was valued at USD 45.0bn in 2021, rebounding sharply from the low of USD 32.0bn encountered in 2020. However, it remains below the pre-pandemic level of USD 58.0bn registered in 2019.

### Trends witnessed during pandemic crisis

An increase in the pace of penetration. During the pandemic, the preference to stay indoors eventually accelerated the consumers shift towards online food ordering. It has helped make non-home food much more acceptable outside special occasions, especially in the smaller towns.

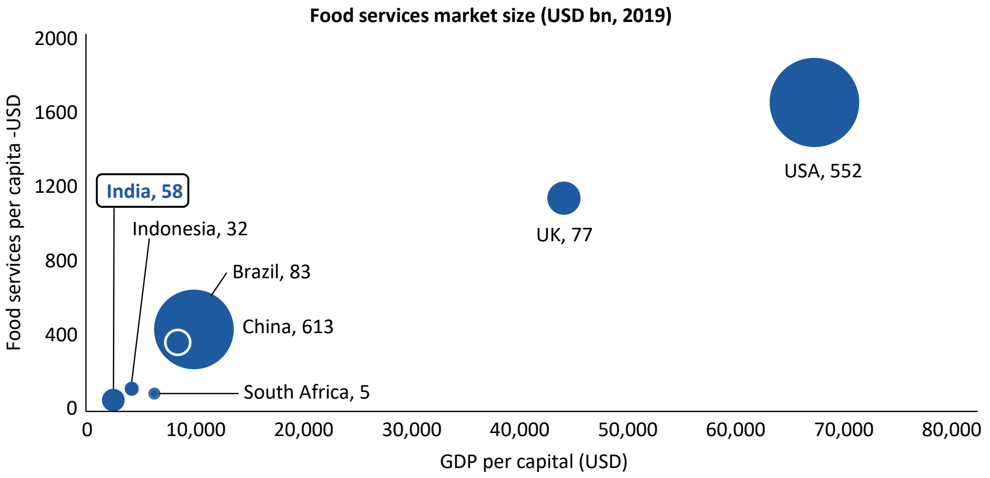
- While Dine-In and On-Premise consumption will recover gradually, the companies expect the Delivery and Takeaway channel adoption to remain elevated.
- Technology and Digital will touch all parts of the business – both customer-facing and back-end – and will become an increasingly important source of competitive advantage. Consumers will be category-agnostic when it comes to service expectations.
- Within the categories, there will be an accelerated structural shift in favour of the organized sector and within that the big, established, and credible brands will be preferred. Consumers are increasingly choosing the reassurance and safety aspects of trusted brands.

**Exhibit 138: Technopak estimated India Food Services market grew CAGR 9% pre-Covid**




Source: Technopak

**Exhibit 139: Comparison with Global peers**




Source: Technopak

**Exhibit 140: Indian food services market size**

| Food service market (Rsbn) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | 2030E | CAGR 2015-20 | CAGR 2020-25E | CAGR 2020-30E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total | 2,865 | 3,090 | 3,376 | 3,706 | 4,096 | 4,257 | 3,155 | 4,480 | 4,966 | 5,486 | 6,037 | 9,448 | 8.2 | 7.2 | 8.3 |
| Unorganized | 1,950 | 2,076 | 2,225 | 2,381 | 2,535 | 2,573 | 1,853 | 2,723 | 2,900 | 3,082 | 3,265 | 4,237 | 5.7 | 4.9 | 5.1 |
| Organized market | 915 | 1,014 | 1,151 | 1,325 | 1,561 | 1,684 | 1,302 | 1,757 | 2,066 | 2,404 | 2,772 | 5,211 | 13.0 | 10.5 | 12.0 |
| Standalone stores | 660 | 722 | 820 | 935 | 1,096 | 1,184 | 911 | 1,212 | 1,418 | 1,652 | 1,900 | 3,462 | 12.4 | 9.9 | 11.3 |
| Chain outlets | 175 | 204 | 236 | 285 | 350 | 383 | 312 | 425 | 516 | 609 | 716 | 1,516 | 17.0 | 13.3 | 14.7 |
| Restaurants in Hotels | 80 | 88 | 95 | 105 | 115 | 117 | 79 | 119 | 131 | 143 | 156 | 233 | 7.9 | 5.9 | 7.1 |

**Food service market Growth (%)**

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | 2030E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Unorganized | 6.3 | 6.5 | 7.2 | 7.0 | 6.5 | 1.5 | -28.0 | 47.0 | 6.5 | 6.3 | 5.9 | 5.0 |
| Organized market | 10.2 | 10.8 | 13.5 | 15.1 | 17.8 | 7.9 | -22.7 | 34.9 | 17.6 | 16.4 | 15.3 | 12.3 |
| Standalone stores | 9.1 | 9.4 | 13.6 | 14.0 | 17.2 | 8.0 | -23.1 | 33.0 | 17.0 | 16.5 | 15.0 | 11.3 |
| Chain outlets | 16.7 | 16.6 | 15.7 | 20.8 | 22.8 | 9.4 | -18.5 | 36.2 | 21.4 | 18.0 | 17.6 | 15.5 |
| Restaurants in Hotels | 6.7 | 10.0 | 8.0 | 10.5 | 9.5 | 1.7 | -32.5 | 50.6 | 10.1 | 9.2 | 9.1 | 8.2 |

Source: Technopak, Industry

**Exhibit 141: Organised Chain food services market (Rsbn)**

| Year | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| QSRs | 91 | 105 | 130 | 162 | 180 |
| Café | 18 | 19 | 21 | 24 | 25 |
| Frozen desserts | 12 | 13 | 15 | 19 | 21 |
| Casual dining | 67 | 81 | 98 | 118 | 129 |
| Fine dining | 5 | 6 | 6 | 6 | 6.4 |
| Pubs, Bars, Lounges | 11 | 12 | 15 | 21 | 23 |
| **Total** | **204** | **236** | **285** | **350** | **384.4** |
| **Growth (%)** | | | | | |
| QSRs | | 15.4 | 23.8 | 24.6 | 11.1 |
| Café | | 5.6 | 10.5 | 14.3 | 4.2 |
| Frozen desserts | | 8.3 | 15.4 | 26.7 | 10.5 |
| Casual dining | | 20.9 | 21.0 | 20.4 | 9.3 |
| Fine dining | | 20.0 | 0.0 | 0.0 | 6.7 |
| Pubs, Bars, Lounges | | 9.1 | 25.0 | 40.0 | 9.5 |

Source: Technopak, Industry

**Exhibit 142: Market share of various organised chain food services (%)**

| Year | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| QSRs | 44.6 | 44.5 | 45.6 | 46.3 | 46.8 |
| Café | 8.8 | 8.1 | 7.4 | 6.9 | 6.5 |
| Frozen desserts | 5.9 | 5.5 | 5.3 | 5.4 | 5.5 |
| Casual dining | 32.8 | 34.3 | 34.4 | 33.7 | 33.6 |
| Fine dining | 2.5 | 2.5 | 2.1 | 1.7 | 1.7 |
| Pubs, Bars, Lounges | 5.4 | 5.1 | 5.3 | 6.0 | 6.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

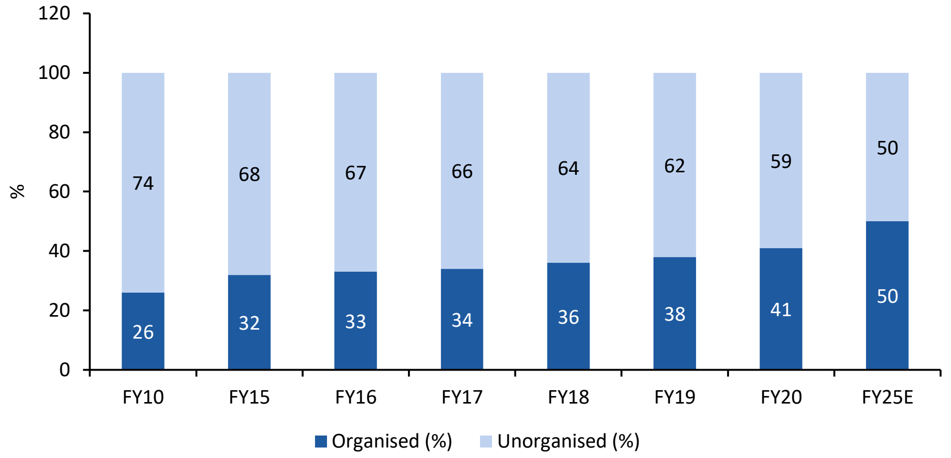
Source: Technopak

## We expect organized food services market to grow at CAGR 10.5% over FY20-25E

We expect India's Food Services market to grow at a CAGR of 7.2% from Rs4.3trn in FY20 to Rs6.1trn by FY25E. Within the food services market, we expect the organized market to grow at 10.5% CAGR to Rs2.8tn and the organized chain market to grow at CAGR of 13.3% to Rs716.0bn. Further, within the organized chain segment, QSR chains to grow faster. We list down few key drivers for strong industry growth as under. Further, it is worth to be noted that rapid urbanisation and rising number of commercial spaces for consumers (recreation) to have a quick bite amid their work or shopping schedules played an important role in the growth of quick-service-restaurants. Stimulatingly, busier lifestyles, and less time for (cooking), eating habits have made QSR channels more relevant for working population including women.

## Shift from unorganized to organized segment in Food Services Industry

**Exhibit 143: Industry split between Organized and Unorganized**




Source: Sapphire DRHP

## Café and CDR

Café and CDR were typically known for the dine-in experience and generally did not offer delivery or takeaway services, so they were not very adaptive to the safety measures and social distancing imposed by the government and formulated the new ways of serving customers in response to COVID-19. As the situation demanded, they have also begun to offer delivery services. Café and CDR have also been recovering from the impacts of COVID-19, albeit relatively slowly.

## PBCL and Fine Dining

PBCL and fine dining restaurants were significantly impacted by COVID-19 disruptions as most of them stayed closed till the end of July 2020 and in some parts of the country till October 2020. Moreover, even after they re-opened, customers have been hesitant to visit given ongoing concerns.

## Cloud Kitchens and Food Delivery Platforms

Cloud Kitchens and food delivery platforms, such as Zomato and Swiggy, played an important role during the lockdown to serving consumer needs. By the end of October 2020, Zomato and Swiggy have both recovered to nearly 100% of their pre-COVID-19 levels of sales.

## Unorganized Segment

The unorganized segment, primarily includes dhabas, roadside small eateries, hawkers and street vendors/stalls within the food services market was most significantly impacted by COVID-19 as consumer mobility remained stagnant. Therefore, this segment was last to demonstrate recovery in sales primarily due to consumers' concerns over hygiene and food safety, and small business owners are less likely to have sufficient working capital to sustain them through the business downturn.

CENTRUM

# Jubiliant Foodworks

## Efficiency rules; margin concerns persist

**Initiating Coverage**

India I QSR

20 March, 2023

Institutional Research

**BUY**

Price: Rs428

Target Price: Rs555

Forecast return: 30%

**Jubilant Foodworks (JUBI) will continue to build extensively on its four moats i.e., (1) value-for-money proposition, (2) delivery expertise, (3) supply chain efficiencies, and (4) technology supremacy garnering 20.0% market share in the organized industry. Over FY13-22, JUBI delivered Revenue/EBITDA/PAT CAGR at 14.9%/19.3%/24.6%. As India market offers large opportunity for QSR segment, JUBI is well placed to fast-track store expansion powered by favorable macro factors and improved economics. Though rising competition and high inflation cycle pose concerns, JUBI's investments in new brands Popeyes, Hong's Kitchen and Ekdum! coupled with DP Eurasia offer excellent optionality. We believe JUBI holds the potential to transition in multi-brands QSR with its deep understanding on consumer preferences and unmatched store network. We reckon JUBI's success pivots on its capability to enrich organizational competences. We initiate BUY with TP of Rs555; (DCF for India business: Rs542 and other businesses: EV/EBITDA 5x Rs13); implied EV/EBITDA 16.6x FY25E Post –INDAS.**

### Well placed to step up Domino's store expansion; split stores to pause SSSG

The structural changes altered by consumer behavior led to massive shift in market construct in favor of organized QSR players. With revitalized outlook driven by current environment i.e., (1) consolidation of cloud kitchen, (2) augmented digital adoption and ordering-in behavior, and (3) lower discounting by aggregators, JUBI improved unit economics (cost savings + delivery fees). That said, JUBI is in a sweet spot to fast-track store network in new markets and add more stores in key cities to close penetration gaps supporting 20-min delivery as efficiency rules. Our city-wide store assumption indicates Domino's could add 713 stores in next three years. However, such aggression could weigh high on SSSG (our est. 3.0%) in the short term.

### Domino's competitive advantage – customer engagement, super app, unit economics

Domino's enjoys distinctive competitive advantages driven by (1) value-for-money proposition, (2) 20/30-mins delivery promise, (3) superior unit economics that supports and empower entry in new cities, and (4) super-app driving growth in monthly-active-users (MAU) and on-line-ordering (OLO). Due to lower scale and size, copying this strategy becomes unviable for its peers yet high delivery salience cuts Domino's dependence on aggregator's platform. While Dine-in and On-premise consumption will return, there is growing evidence of incremental occasions and consumer habits in favor which will sustain going ahead. Further, menu innovation and Cheesy rewards program to drive ordering-in traffic for JUBI in our view.

### Multiple brand portfolio – Popeyes to add substantial value in next 3-4 years

JUBI, in its rejuvenated approach to drive growth through portfolio expansion is tapping into high growth chicken QSR segment through Popeyes (207 stores) and capturing discerning consumers catering large market opportunity in Indian Chinese and Biryani segment through Hong's Kitchen and Ekdum! (54 stores). Though perfecting product-menu, quality and consumer preferences takes time JUBI is developing solid unit operating model (Dunkin Donuts is struggling to get established till date). Further, investments in DP Eurasia support its aspiration to become multi-country operator, the success pivots on its capability to enrich organizational competencies such as talent retention, tech superiority and nurturing mindset.

### Valuation and risks

We initiate BUY with TP of Rs555; (India Business DCF-based: Rs542; other business EV/EBITDA 5x: Rs13); implied EV/EBITDA 16.6x FY25E Post – INDAS. With strong growth aspirations to become multi-brand, and multi-country player we expect JUBI to emerge strong player with steady operational performance. Despite JUBI trades 30% discount to its 10-year avg. EV/EBITDA as on date, the gap could minimize in our view. Risks: irrational competition, rise in royalty rate.

## Financial and valuation summary

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Revenues | 32,688 | 43,311 | 51,892 | 59,152 | 68,539 |
| EBITDA | 7,665 | 11,046 | 12,041 | 14,261 | 17,148 |
| EBITDA margin (%) | 23.4 | 25.5 | 23.2 | 24.1 | 25.0 |
| Adj. Net profit | 2,336 | 4,448 | 4,505 | 5,862 | 6,995 |
| Adj. EPS (Rs) | 3.5 | 6.7 | 6.8 | 8.9 | 10.6 |
| EPS growth (%) | (27.0) | 90.4 | 1.2 | 30.1 | 19.3 |
| PE (x) | 120.8 | 63.5 | 62.7 | 48.2 | 40.4 |
| EV/EBITDA (x) | 38.0 | 26.7 | 24.4 | 20.3 | 16.6 |
| PBV (x) | 18.9 | 13.4 | 11.6 | 9.8 | 8.3 |
| RoE (%) | 17.8 | 24.7 | 19.9 | 22.1 | 22.2 |
| RoCE (%) | 12.7 | 16.9 | 14.4 | 16.6 | 17.5 |

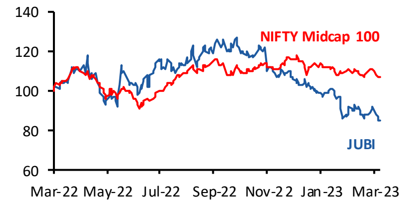
Source: Company, Centrum Broking

### Market Data

| | |
|---|---|
| Bloomberg: | JUBI IN |
| 52 week H/L: | 652/419 |
| Market cap: | Rs280.7bn |
| Shares Outstanding: | 659.8mn |
| Free float: | 54.4% |
| Avg. daily vol. 3mth: | 2,132,552 |

Source: Bloomberg

### JUBI relative to Nifty Midcap 100




Source: Bloomberg

### Shareholding pattern

| | Dec-22 | Sep-22 | Jun-22 | Mar-22 |
|---|---|---|---|---|
| Promoter | 41.9 | 41.9 | 41.9 | 41.9 |
| FIIs | 26.8 | 28.7 | 29.8 | 31.9 |
| DIIs | 20.9 | 19.9 | 17.3 | 15.7 |
| Public/other | 10.4 | 9.5 | 10.9 | 10.5 |

Source: BSE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QSR

# Thesis Snapshot

## Centrum vs. consensus

| YE Mar (Rs mn) | Centrum FY23E | Consensus FY23E | Variance (%) | Centrum FY24E | Consensus FY24E | Variance (%) |
|---|---|---|---|---|---|---|
| Revenue | 51,892 | 51,575 | 0.6 | 59,152 | 60,946 | (2.9) |
| EBITDA | 12,041 | 11,933 | 0.9 | 14,261 | 14,814 | (3.7) |
| EBITDA margin % | 23.2 | 23.1 | 7bp | 24.1 | 24.3 | (20bp) |
| Adj. PAT | 4,505 | 4,385 | 2.7 | 5,862 | 5,911 | (0.8) |
| Diluted EPS (Rs) | 6.8 | 6.8 | (0.1) | 8.9 | 8.7 | 1.8 |

Source: Bloomberg, Centrum Broking

## Jubiliant Foodworks versus NIFTY Midcap 100

| | 1m | 6m | 1 year |
|---|---|---|---|
| JUBI IN | (6.4) | (31.7) | (16.5) |
| NIFTY Midcap 100 | (1.8) | (4.5) | 3.8 |

Source: Bloomberg, NSE

## Key assumptions

| YE Mar | FY23E | FY24E |
|---|---|---|
| No. of store (Total) | 1,894 | 2,223 |
| SSSG | 2.7 | 3.0 |
| Gross Margin% | 75.8 | 76.6 |
| Store Margin (%) (Pre-INDAS) | 20.2 | 21.2 |
| Store Margin (%) (Post-INDAS) | 27.4 | 28.2 |
| EBITDA (%) (Pre-INDAS) | 16.0 | 17.1 |
| EBITDA (%) (Post-INDAS) | 23.2 | 24.1 |

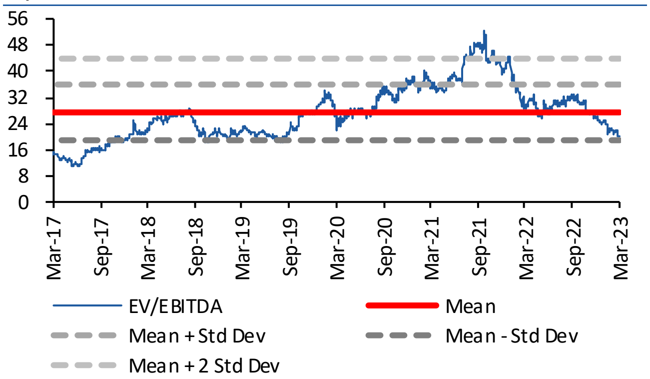
Source: Centrum Broking

## Valuations

We initiate BUY with TP of Rs555; (India Business DCF-based: Rs542; other business EV/EBITDA: Rs13); implied EV/EBITDA 16.6x FY25E Post – INDAS. With strong growth aspirations to become multi-brand, and multi-country player we expect JUBI to emerge strong player with steady operational performance. Despite JUBI trades 30% discount to its 10-year avg. EV/EBITDA as on date, the gap could minimize in our view. Risks: irrational competition, rise in royalty rate.

| Valuations | Rs/share |
|---|---|
| SOTP-based target price (Rs) | 555 |
| WACC (%) | 12.2 |
| Terminal growth (%) | 5.0 |
| India Business DCF-based | 542 |
| International (Bangladesh + Srilanka) | 3 |
| DP Eurasia | 6 |
| BBQ | 4 |

**EV/EBITDA mean and standard deviation**




Source: Bloomberg

## Peer comparison

| Company | Mkt Cap | CAGR (FY23-25E) | | | EV/EBITDA(x) Pre-INDAS | | | EV/EBITDA (x) - Post | | | RoE(%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (Rs Bn) | Sales | EBITDA | EPS | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| **Jubilant Foods** | **282.4** | **14.9** | **19.3** | **24.6** | **35.4** | **29.2** | **23.8** | **24.4** | **20.3** | **16.6** | **19.9** | **22.1** | **22.2** |
| Devyani International | 174.7 | 22.1 | 23.4 | 15.1 | 37.9 | 27.4 | 21.9 | 23.7 | 18.1 | 14.8 | 32.0 | 28.9 | 24.0 |
| Westlife Foodworld | 106.8 | 16.9 | 20.4 | 33.2 | 39.3 | 32.4 | 26.4 | 30.0 | 25.0 | 20.5 | 24.0 | 25.4 | 26.7 |
| Sapphire Foods | 75.9 | 19.1 | 20.6 | 21.2 | 26.1 | 20.1 | 16.0 | 16.3 | 12.6 | 10.2 | 11.1 | 12.2 | 12.8 |
| RBA | 46.0 | 25.9 | 45.8 | NA | 126.7 | 50.9 | 35.2 | 33.7 | 21.2 | 15.9 | -3.0 | -1.4 | 0.1 |

Source: Company, Centrum Broking

# Well placed to step up store network

## JUBI offers long runway for growth driven by

- Structural changes altered by consumer behaviour leading the shift in market construct
- Revitalized macro – consolidation of cloud kitchen and augmented digital adoption and ordering-in behaviour
- Our analysis suggests Domino's to add 713 restaurants over next 3-4 years
- Multiple levers to manage SSSG also led by lower discounting by aggregators

The structural changes altered by consumer behaviour led to massive shift in market construct in favour of organized QSR players. With revitalized outlook driven by current environment such as (1) consolidation of cloud kitchens, (2) augmented digital adoption and ordering-in behaviour, and (3) lower discounting by aggregators, JUBI improved unit economics (cost savings + delivery fees). That said, JUBI is in a sweet spot to fast-track store network in new markets and add more stores in key cities to close penetration gaps supporting 20-min delivery. Our city-wide store assumption indicates Domino's India hold lot of potential to add stores by FY25E. However, such aggression could weigh high on SSSG (our est. 3.0%) in short term.

JUBI is well placed to fast-track its pace of store expansion for Domino's driven by favourable external environment and improved unit economics. That said, its strategy to be determined by entry into new markets (new cities) and adding more stores in the existing markets to close improve delivery efficiency (20-mins). Our city-wide store estimates that potentially Domino's may add ~713 stores over FY23-25E taking store to count ~2,280.

We note JUBI has built a strong business model with over 55% market share (market size Rs56bn) and become most successful QSR chain since last two decades. Moreover, globally, Domino's achieved success through this strategy however we believe opening new store in same markets may lead to some cannibalisation from existing stores. Our analysis of JUBI's performance in the decade indicate JUBI reported double digit same-store-sales growth except FY14-17 period. Moreover, emergence of online aggregators such as Swiggy and Zomato improved customer engagement with more options for value-for-money.

## JUBI could open ~713 new Domino's stores over FY23-25E

Store addition speed is driven by availability of capital, competitive landscape and market opportunity

As per our best understanding, the store addition speed for any QSR player is driven by availability of capital (balance sheet strength), competitive landscape and market opportunity for sustainable growth balancing profitability at a reasonable level. We note JUBI meets all these parameters, also, the recent crisis (pandemic) has given legs to improvement in profitability led by introduction of delivery fee and extracting cost benefits from savings through supply-chain rejig. Further, lowering competitive intensity (lower discounting by platforms) and permanent closure of some restaurant supply (cloud kitchens), could provide an opportunity to augment store additions. We expect JUBI to add 2.3x Domino's stores over FY23-25E period compared 309 in FY17-20 taking the total store count to ~2,280 by FY2025E.

We expect Domino's could add ~275 stores in top 8 cities taking store count to 1,152.

**Exhibit 144: We expect Domino's to add ~275 stores in top 8 cities over FY23-25E**

| City cluster | Area (Sq.km.) | Number of Restaurants | Average Area Per store (sq.km.) | New store additions | Total stores FY25E | FY25E Average Area Per store (sq.km.) |
|---|---|---|---|---|---|---|
| Delhi NCR | 2,557 | 211 | 12 | 70 | 281 | 9 |
| Greater Mumbai | 1,331 | 182 | 7 | 65 | 247 | 5 |
| Kolkata | 878 | 66 | 13 | 22 | 88 | 10 |
| Chennai | 808 | 73 | 11 | 24 | 97 | 8 |
| Bengaluru | 1,452 | 162 | 9 | 34 | 196 | 7 |
| Ahmedabad | 464 | 34 | 14 | 12 | 46 | 10 |
| Hyderabad | 690 | 72 | 10 | 22 | 94 | 7 |
| Pune | 512 | 77 | 7 | 26 | 103 | 5 |
| **Total** | **6,135** | **877** | **7** | **275** | **1,152** | **5** |
| **Stores in Top 8 cities** | | **57%** | | | **59%** | |

Source: Company, Centrum Broking

The company data suggests that Delhi NCR region makes up ~14% store count for Domino's followed by Greater Mumbai including Thane district which contribute 12%. Our interaction with on ground channel partners suggests Domino's generates average revenue of Rs38-40mn, much higher than company average in Delhi region.

Delhi NCR region makes up ~14% store count for Domino's and we expect JUBI to add 275 stores in top 8 cities

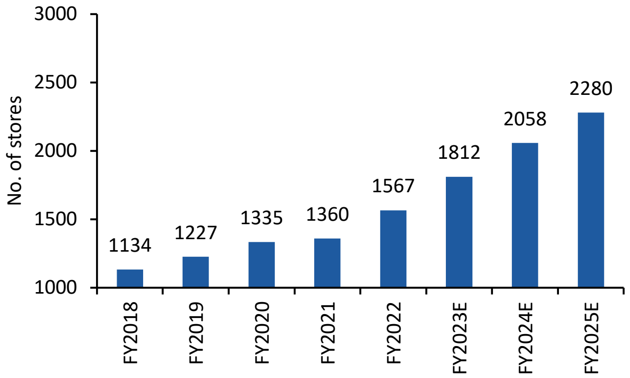
Our analysis indicates there are several cities with 100k+ population that hold consumption potential given their wallet share and purchasing power due to progressing aspirations and lifestyles. Remarkably, few cities deliver better unit economics and throughput as compared to stores located in top 8 cities. Few promising cities we would like to list are Goa, Ludhiana, Mohali, Lucknow, Bhopal, Coimbatore, etc. Moreover, our interaction with industry experts suggests that there are several cities in Tamil Nadu and Kerala that enjoy higher per capita income and healthy purchasing power, though they are yet to emerge as big markets for western QSR, particularly for burger and pizza chains due higher preference for local food specialities. We note quite a few cities in up northeast such as Aizwal, Guwahati, Dibrugarh, Imphal, Silchar and Shillong have shown good promise in the recent past. Therefore, we expect western QSRs especially burger chains would expand their footprint in these cities quickly.

**Exhibit 145: We see gradual store expansion beyond top 50 cities except top 8 cities**

| City cluster | FY25E Population (mn) | Addressable Market (%) | Addressable Population (mn) | Domino's |
|---|---|---|---|---|
| Surat | 6.5 | 50 | 3.3 | 20 |
| Jaipur | 4.7 | 60 | 2.8 | 16 |
| Nagpur | 4.4 | 60 | 2.6 | 18 |
| Lucknow | 4.1 | 55 | 2.3 | 30 |
| Coimbatore | 3.6 | 57 | 2.1 | 14 |
| Ernakulum | 3.1 | 60 | 1.9 | 12 |
| Kanpur | 4.1 | 45 | 1.8 | 12 |
| Ludhiana | 2.8 | 65 | 1.8 | 14 |
| Indore | 3.3 | 55 | 1.8 | 14 |
| Nasik | 3.8 | 45 | 1.7 | 14 |
| Thrissur | 2.8 | 57 | 1.6 | 4 |
| Vadodara | 2.8 | 55 | 1.5 | 15 |
| Rajkot | 3.0 | 50 | 1.5 | 8 |
| Bhopal | 2.8 | 52 | 1.5 | 14 |
| Bardhhaman | 4.1 | 35 | 1.4 | 5 |
| Visakhapatnam | 2.8 | 50 | 1.4 | 9 |
| Kozhikode | 2.7 | 50 | 1.4 | 4 |
| Trivandrum | 2.4 | 55 | 1.3 | 6 |
| Madurai | 2.6 | 50 | 1.3 | 4 |
| Patna | 3.4 | 35 | 1.2 | 22 |
| Amritsar | 1.9 | 60 | 1.1 | 9 |
| Vijayawada | 2.3 | 45 | 1.0 | 6 |
| Agra | 2.8 | 35 | 1.0 | 9 |
| Chandigarh | 1.4 | 67 | 1.0 | 12 |
| Jalandhar | 1.6 | 62 | 1.0 | 11 |
| Guwahati | 1.5 | 60 | 0.9 | 11 |
| Puducherry | 1.7 | 50 | 0.9 | 4 |
| Vellore | 2.4 | 35 | 0.8 | 5 |
| Mangalore | 1.4 | 60 | 0.8 | 9 |
| Goa | 1.2 | 67 | 0.8 | 14 |
| Kolhapur | 1.5 | 55 | 0.8 | 6 |
| Dehradun | 1.3 | 62 | 0.8 | 9 |
| Guntur | 2.3 | 35 | 0.8 | 2 |
| Bhubaneswar | 1.5 | 52 | 0.8 | 12 |
| Jamshedpur | 1.7 | 45 | 0.8 | 7 |
| Ranchi | 1.8 | 40 | 0.7 | 7 |
| Raipur | 2.0 | 35 | 0.7 | 11 |
| Mysore | 1.5 | 45 | 0.7 | 12 |
| Kota | 1.5 | 45 | 0.7 | 5 |
| Gwalior | 1.7 | 40 | 0.7 | 5 |
| Mohali | 0.8 | 67 | 0.5 | 12 |
| Gandhinagar | 0.4 | 50 | 0.2 | 5 |
| **Total** | **105.8** | | **53.6** | **438** |

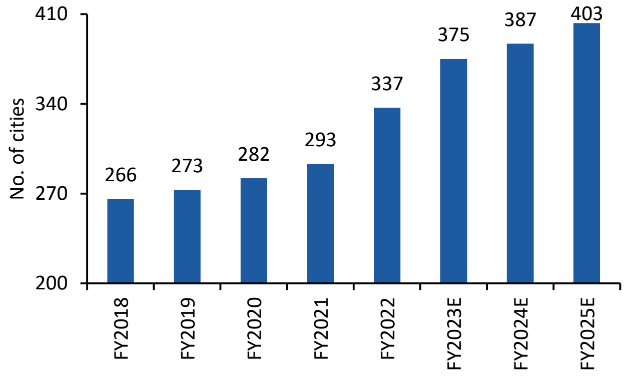
Source: Company, Centrum Broking

**Exhibit 146: Store expansion to reach at 3,000 stores in FY27E**




Source: Company, Centrum Broking

**Exhibit 147: City covered by Domino's – larger opportunity**




Source: Company, Centrum Broking

## Store addition in the existing markets may put pause on SSSG

We estimate SSSG would be 3% in short term on the back of aggressive stock expansion

Domino's worldwide strategy i.e., the addition of more stores in the existing markets leads to (1) protecting its business against aggregators, (2) improve customer satisfaction levels and bettering customer service by lowering delivery time, (3) cut in cost to serve by lowering distance per delivered order resulting in improved unit economics, and (4) managing strong balance between the growth vs. profitability.

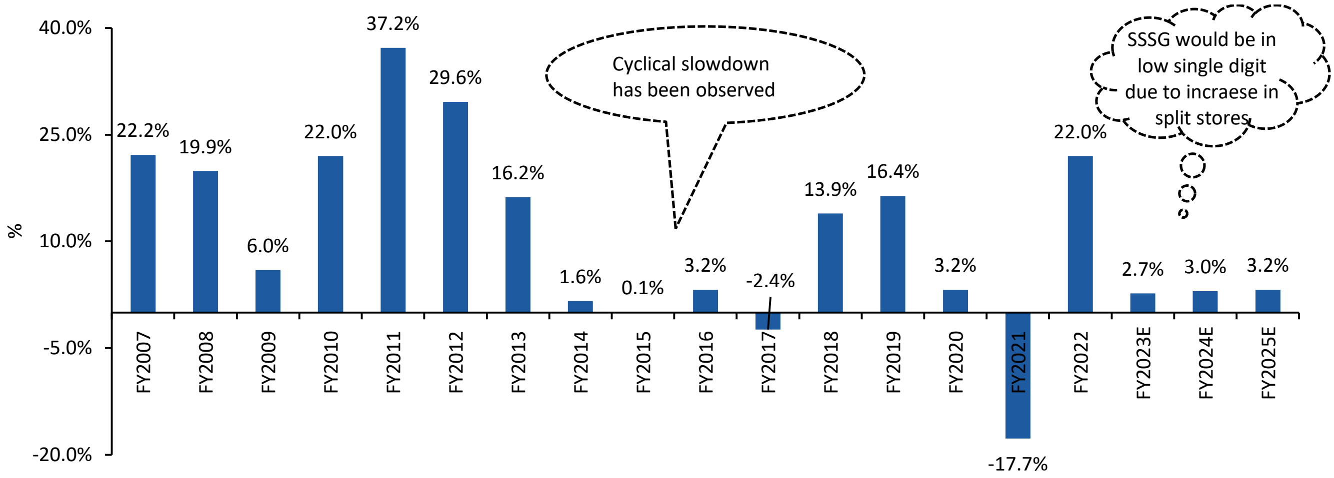
While addition of new stores in the existing markets may result in short term pains due to some cannibalization in revenues, it actually helps to gain market share in our view. That said, improved customer experience and competitive positioning realized on account of shorter response time by cutting average delivery times could also influence ordering-in traffic in our view.

## Details on the Fortressing strategy illustrated in JUBI's Annual report

Split stores numbers have increased rapidly on the back of Fortressing strategy

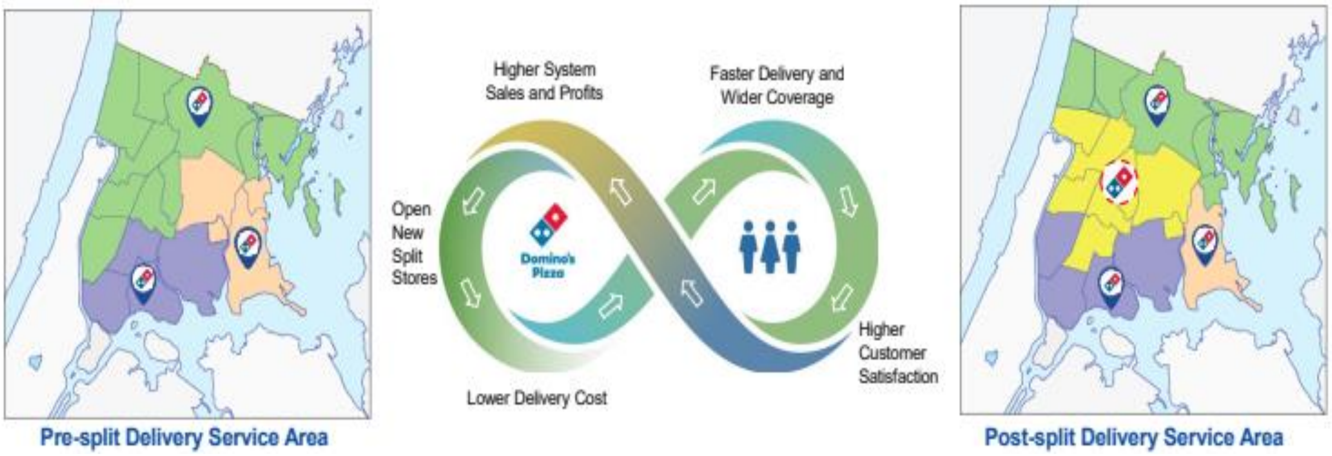
- JUBI sets, the mother store and the new store in its area (the split store) together have meaningfully higher revenue and EBITDA, and significantly improved customer experience and delivery time.
- This has directly transformed into a substantial increase in sales numbers. It further helps JUBI to create a virtuous cycle as operating costs go down, the logistics cost and therefore the supply chain costs decrease. In a nutshell, fortressing strategy is able to generate a stronger.
    - Revenue growth
    - EBITDA growth
    - Customer experience
- Generate higher efficiencies with lower costs
- The number of split stores being opened during FY22 has increased significantly to 90 from 5 opened in FY18. Management believes that Like for Like (LFL) growth, which is the same-store-sales-growth (SSSG) of non-split stores, is a more relevant comparator for the business as the company intends to continue executing its fortressing strategy. Domino's reported India LFL growth at 26.4% in FY22.

**Exhibit 148: SSSG has dropped due to split stores, rising competitive intensity and aggregator platforms**




Source: Company, Centrum Broking

**Exhibit 149: Pre-split vs. post-split delivery service area – Significant success observed globally**




Source: Company

## How Domino's could manage SSSG?

In our understanding, to deliver sustainable and profitable growth we track most important deliverable by any QSR player i.e. same-store-sales-growth or SSSG. This critical parameter captures performance of the company based on its competition positioning, and customer retention (reordering) coupled by store execution capabilities and service provided reflecting in unit economics. We believe strong SSSG also end up in better sweating of assets.

We believe that Domino's is better equipped to deliver sustainable SSSG given its pole position led by (1) value-for-money positioning, holding the pricing power intact, (2) improved delivery experience (20-mins delivery), (3) portfolio innovation, (4) late night deliveries, and (5) introduction of loyalty program (Cheesy rewards).

### Solid intervention on menu innovation to keep value-for-money positioning

JUBI made successful product intervention in past

In the past JUBI made successful product interventions by introducing multiple choices for discerning consumers in the core pizza category as well as add-ons such as desserts and beverages. Notably, not every launch is accepted by consumers well, few failed to gain consumer traction in the past such as Chef's Wonder Pizzas, Burger Pizza. Moreover, to capture increased consumer traction and preference for plant-protein products globally JUBI launched 'The Unthinkable Pizza'. However, our interaction with channel experts indicate it had very limited success.

### Domino's made numerous new product interventions in FY22

Domino's believes that catering to the enormously diverse consumer food palette is the key to scaling up and offering superior value to consumers. Domino's India offers 40+ pizzas, 30+ sides, desserts and beverages.

In this journey it does meticulous planning based on consumer trends and food habits. Based on such inputs Domino's launched following new products.

- Fortifying Cheese and Chicken credentials with a range of overloaded pizzas
- Introduced a range of Cheese pizzas – Cheesilicious. It has four times more cheese than a normal pizza
- Introduced a range of Chicken pizzas – Chicken Lovers Range
- Platform extension for the two most popular categories
  - Garlic Bread and Lava Cake
  - Launched a range of two new Stuffed Garlic Breads, the Paneer Tikka Stuffed Garlic Bread and the Chicken Pepperoni Stuffed Garlic Bread
  - Launched Red Velvet Lavalicious to offer incremental choice within the Desserts menu.

**Exhibit 150: Continued product innovation would be the key drivers for success**

| | Core Menu | Sides/Beverages |
|---|---|---|
| FY'17 | ● 4 Pizza Mania extremes: (Herby, Spicy, Cheesy and Loaded)<br>● Navratna Pizza combo<br>● Quattro Formaggi Burst Pizza<br>● Choco Pizza | ● Burger Pizza |
| FY'18 | ● Paneer Makhani and Chicken Tikka Pizza | ● Roasted Chicken Wings in Peri-Peri Seasoning & Classic Hot Sauce<br>● Boneless Chicken Wings in Peri-Peri & Lemon Pepper Seasoning<br>● Chicken Meatballs in Peri-Peri Seasoning & Sriracha Sauce |
| FY19 | ● Introduced 'Multigrain Crust'<br>● 5 new international flavours | ● Taco Mexicana<br>● Crinkle Fries<br>● Crunchy Strips<br>● Potato Cheese Shots and<br>● Brownie Fantasy |
| FY'20 | ● Pasta Pizza Range<br>● The Unthinkable Pizza(India's first plant-based protein pizza) | ● New range of Pastas |
| FY22 | ● Overloaded Cheese Pizza Range<br>● Overloaded Chicken Pizza Range | ● Range of two new Stuffed Garlic Breads, the Paneer Tikka Stuffed Garlic Bread and the Chicken Pepperoni Stuffed Garlic Bread<br>● Lavalicious Red Velvet |

Source: Company, Centrum Broking

**Exhibit 151: Recent launches by Dominos**


Source: Company, Centrum Broking

## Strong value-for-money positioning offered by Domino's

JUBI offers value for money strategy by providing Pizza Mania at Rs49

Our on ground channel checks indicate value-for-money positioning has been a key single most differentiator for Domino's pizza in India. And JUBI has continued to build on this positioning in creating unique standing in pizza QSR market in India.

To counter competition and spruce up SSSG in 2018 JUBI launched the Everyday Value (EDV) campaign, which was incredibly successful, marking a shift in core strategy offering heavy discounts on select days to steadily developing consumer traffic by offering attractive pricing. We note the change in strategy led by EDV introduction not only attracted new customers but also increased ordering-in frequency from existing loyal customers. During the launch EDV was applied only for medium-sized pizza targeting small group of 3-4 people paying Rs199 for each pizza. In order to get further trial generations and recruiting new customers JUBI recently introduced Pizza Mania range priced from Rs59 per pizza.

**Exhibit 152: Domino's offers attractive entry point pizza to recruit new customers**


Source: Company, Centrum Broking

## Domino's offers Everyday Value offers with clear focus on attracting new customers

We note driving new customers and footfalls, and price laddering strategy works more effectively. In addition, the EDV proposition for Domino's has helped consumers with affordable prices every day instead of a discount on selective days. As per annual report FY22, JUBI further democratized the EDV proposition by letting consumers choose any pizza irrespective of their price bands to avail the EDV discounts.

## Targeted discounting

We note the company's investments targeted in building a robust CRM tool have helped enhance targeted discounts based on three broad trajectories.

## What is affinity marketing?

Brand affinity is the strongest connection a business can build with its existing clients and customers. It ensures that their consumers remain emotionally connected and invested in the company because they believe that it shares their personal values, making them loyal and committed to the brand. Brand affinity makes a once-in-a-lifetime purchase into a long-lasting transaction with its clients that survives its initial point of sale. Affinity measures how closely two social media profiles match one another. There is a lot of overlap between two profiles if they target similar audiences, talk about similar topics, and have similar interests. These two profiles are therefore highly compatible with one another.

**Discount affinity**: Discount affinity looks into individual behavioural patterns and signals and creates a segment out of customers who are more driven by slashed prices than the average shopper population, called Discount-orientated shoppers. The outcome is a segment which is more likely to convert if discounted products and exciting offers are shown to them.

The main use case for discount affinity is to target the right group of shoppers with "real deal" and clearance types of sales promotions, which consequently help to get rid of excess stock faster.

**Purchase propensity:** Propensity-to-buy products identify customers who are five to fifty times more likely to make their purchase than the average customer. Empirical data reveals what is sold and to whom, what is the sales intensity, and how customers behave before purchasing. The system will run predictors by machine learning algorithms and identify the basic characteristics and extent of their influence on purchase probability. As a result, the company will find out which customers are more likely to buy and what are they like. The company will then scan new customers for desirable characteristics (that is with high affinity to purchase), and then address them with various cross and up sell campaigns. The benefits include increased sales, stronger customer loyalty, reduced communication costs, increased return on investments, and higher conversion rate.

**Responsiveness to discounts:** Sometimes the discount can be justified by volume, such as when a customer is specifically looking for bargain purchase. The companies choose this route if there is no big change in maintaining right balance between cost to serve and profitability per unit quantity sold.

We note the focused discounts and promotions are helping JUBI drive conversions without offering an across-the board discount.

**Exhibit 153: Everyday Value offers by Domino's**

| Pizza variety | Offer for two | Price (Rs) |
|---|---|---|
| Double Cheese, Cheese n Corn, Fresh Veggie, Pepper Barbeque Chicken, Chicken Sausages | Regular | 99 |
| Double Cheese, Cheese n Corn, Fresh Veggie, Pepper Barbeque Chicken, Chicken Sausages | Medium | 199 |
| Deluxe veggie, Veg- Extravaganza, 5 Pepper, Chicken Golden Delight, Chicken Fiesta, Chicken Tikka | Regular | 179 |
| Deluxe veggie, Veg- Extravaganza, 5 Pepper, Chicken Golden Delight, Chicken Fiesta, Chicken Tikka | Medium | 279 |
| Farmhouse, Peppy Paneer, Mexican Green wave, Veggie Paradise, Paneer Makhani, Pepper Barbeque & Onion, Peri-Peri Chicken | Regular | 139 |
| Farmhouse, Peppy Paneer, Mexican Green wave, Veggie Paradise, Paneer Makhani, Pepper Barbeque & Onion, Peri-Peri Chicken | Medium | 249 |
| Non-Veg Supreme, Chicken Dominator | Regular | 219 |
| Non-Veg Supreme, Chicken Dominator | Medium | 399 |

Source: Company, Centrum Broking

**Exhibit 154: Domino's Pizza offer superior value compared to competition**

| | MRP (Rs) | | % premium/discount Domino's | |
|---|---|---|---|---|
| | Single serve | Serving for two | Single serve | Serving for two |
| **Entry price: Veg** | | | | |
| Domino's | 109 | 239 | | |
| Pizza Hut | 129 | 279 | 18 | 17 |
| Oven Story | 169 | 315 | 55 | 32 |
| Mojo's Pizza | 185 | 345 | 70 | 44 |
| La Pino'z | 195 | 355 | 79 | 49 |
| **Entry price: Non-Veg** | | | | |
| Domino's | 199 | 369 | | |
| Pizza Hut | 209 | 439 | 5 | 19 |
| Oven Story | 215 | 415 | 8 | 12 |
| Mojo's Pizza | 215 | 415 | 8 | 12 |
| La Pino'z | 215 | 425 | 8 | 15 |
| **Mid-price: Veg** | | | | |
| Domino's | 209 | 379 | | |
| Pizza Hut | 179 | 359 | -14 | -5 |
| Oven Story | 199 | 389 | -5 | 3 |
| Mojo's Pizza | 215 | 395 | 3 | 4 |
| La Pino'z | 229 | 445 | 10 | 17 |
| **Mid-price: Non-Veg** | | | | |
| Domino's | 309 | 559 | | |
| Pizza Hut | 269 | 519 | -13 | -7 |
| Oven Story | 299 | 529 | -3 | -5 |
| Mojo's Pizza | 315 | 555 | 2 | -1 |
| La Pino'z | 329 | 565 | 6 | 1 |
| **Premium: Veg** | | | | |
| Domino's | 299 | 549 | | |
| Pizza Hut | 329 | 589 | 10 | 7 |
| Oven Story | 289 | 549 | -3 | 0 |
| Mojo's Pizza | 299 | 555 | 0 | 1 |
| La Pino'z | 299 | 569 | 0 | 4 |
| **Premium: Non-Veg** | | | | |
| Domino's | 359 | 599 | | |
| Pizza Hut | 369 | 629 | 3 | 5 |
| Oven Story | Na | 629 | | 5 |
| Mojo's Pizza | 379 | 639 | 6 | 7 |
| La Pino'z | 389 | 665 | 8 | 11 |

Source: Company, Centrum Broking

## Improving customer service

JUBI introduced of 20 minutes' delivery could be the game changer in long run

**Speed of delivering quality service**: The speed of delivering quality service to consumers is a key metric for JUBI. All business decisions are centred on how to further improve this key ask of all consumers. Being a QSR it brings inherent advantages but continuous improvements are implemented in all systems and processes. During FY22, JUBI achieved a remarkable accomplishment of delivering more than 70% of delivery orders in less than 20 minutes. An array of cross-functional projects was implemented to achieve lower delivery time. Concerted efforts were made to reduce the time taken to complete all sub-processes without hampering the output quality. This was supplemented by the deployment of technology, forecasting tools, manpower and efficient training programs.

# Technology focus – digital and data strength

## JUBI offers superior customer engagement through own app

- JUBI has achieved solid foundation adopting advanced tech using machine learning
- JUBI's digital prowess has helped defend its position against aggregator
- JUBI was credited for its customer engagement through own app – on-line-ordering
- Loyalty program driven by data analytics – Cheesy rewards

Digital & Data strength are the core assets for JUBI

JUBI believes that digital and data strength are the most important determinants of business health and realizes that winning in the digital era requires a sustained program of continuous improvements and investments. Further, the Product and Technology team while working in unison helps continually improve not only customer experience across all digital assets but is also working closely to help permeate technology and digital strength across the entire organization. During FY22, JUBI has focused work streams aimed at improving customer experience and making the UI/UX more intuitive and frictionless.

### Augmenting digital and data strength further

JUBI has been by far a strong leader in the food-delivery ecosystem in India. The company introduced phone ordering and home delivery way back in 2001. The first Domino's mobile app was launched in Jan'2013, much before the food aggregator ecosystem gained traction. JUBI was one of the first companies to introduce online ordering in 2011. The share of online ordering (in delivery sales) has increased to ~98% at present from ~30% in 2015. Similarly, mobile ordering as percentage of overall online ordering has increased to ~97% at present from ~25% in 2015.

Domino's mobile app is enabled with features such as advanced ordering, GPS rider tracking for better order visibility, single-page checkout and in-built wallet. The company has also installed dash-boards in restaurants where restaurant managers can see real-time information such as rider score card, delivery time, etc. We note, JUBI has also launched a new chat-bot which can provide delivery status to customers without human interaction. In FY2018, JUBI set up a dedicated digital team in the organization.

Therefore, Domino's is the pioneer in food delivery and online/mobile ordering in India. Technology focus drives efficiencies across store operations, delivery and supply chain ecosystem.

### Pre-order experience

The company has developed one-step on-boarding that helps reduce the number of steps required to on-board a new customer from five to one. This was made possible through substantial reduction in the tasks which were earlier conducted at the user end. This includes SIM number detection, OTP auto-read and location detection. This is currently in pilot mode and will be gradually rolled out to everyone. Further we note, one-step on-boarding is also the first step of JUBI's planned UX overhaul. As per management, targeted interventions to enhance menu discovery and coupon visibility are helping improve conversions. More importantly location tooltip enhancement to help users input the desired address for delivery and reduce instances of bad orders due to incorrect order location has also been implemented.

### Post-order experience

**Number masking**: With an intent to further enhance customer data security, JUBI switched to 100% masking of customer's personal number. In an event when the customer needs to be contacted, the same familiarity and reliability of phone communication remains without the requirement of disclosing the personal number to the rider or the store insider.

**Towards frictionless concern resolution**: As per management, several measures were taken during FY22 to salvage moments of service failure swiftly and help eliminate user concerns around refund status and reduce concerns resolution time are leading to improvement in NPS.

(1) The launch of Automated Concern Resolution System (ACRS) is helping JUBI reduce the turnaround time significantly for resolving customer's concerns. This has been made possible by running real-time system checks for validation and subsequently taking suitable action.

(2) JUBI successfully piloted an industry-first initiative of an instant-refund solution to the source account for failed orders or service delays.

### Analytics and insights used across the company's ecosystem

JUBI realizes that consumer expectations in the digital world are evolving rapidly. Accordingly, the company's focus remains on continuously strengthening the backend technology stack so as to have an agile, modular and scalable architecture that is well structured to help drive discontinuous growth. As per management, efforts are also being made to keep improving system responses on big celebratory days – which witness a sudden surge in traffic – and keep delighting customers in the journey.

While there are several big wins achieved by JUBI on the digital front, there is a deep recognition of investments required to constantly improve all digital offerings and integrate digital assets even in offline channels.

We note, the Analytics and Insights function helps it analyse data streams almost on a real-time basis and get very sharp and actionable insights. As per management, there are four teams under A&I, which develop state-of-the-art data assets, data science capabilities, dashboards and analytics tools and help decision-makers anticipate and respond faster to emerging trends.

- The data engineering team is focused on building a real-time data platform that consolidates, standardizes and enriches data from internal operations and applications, consumer-facing assets and relevant external data that provides fresh insights and differentiation. The data platform enables leaders with real-time decision-making and allied recommendations.
- The Data Science team is building scalable AI/ML solutions that help them understand every customer uniquely, predict customers' future actions and prescribe the Next Best Action that helps in personalizing customer experience across every touchpoint. The team will also build forecasting and scenario planning capabilities that help in loss prevention, resource planning and optimization, which help provide best-in-class service levels to customers and optimize costs for business.
- The Business Intelligence teams develop dashboards to understand the health of the business and internal functions. The team builds diagnostic and analytics tools that help scale analytics across the organization.
- The Strategy and Insights team distils data to find opportunities and emerging trends. This helps the business prioritize efforts, influence strategy and translate insights into actionable recommendations. The customer science engine tracks all customer interactions (orders, browsing behaviour, CRM engagement, NPS scores, feedback, etc.) and is then able to derive rich customer intelligence that helps understand what matters to the customers, how the customer engages, what are customers' latent behaviours and purchase drivers and what are likely future actions.
- The Customer Intelligence tool is then used to provide a meaningful experience to the customer on application and send personalized communications and offers. Today in Domino's app, the customer is shown a personalized menu based on the predicted preferences, which greatly helps reduce order time.

As per our understanding, JUBI operates a tightly run supply chain with 150+ vendors supplying ingredients to restaurants through the eight commissaries/supply chain centres and four distribution centres. The entire supply chain is preserved at sub-zero temperature to ensure product freshness. All commissaries and distribution centres use SAP module, which drives improved procure-to-pay processes and real-time supply chain capabilities.

JUBI operates very efficient and tightly controlled supply chain with 150+ vendors

Further, Domino's run very efficient in-store operations which enables it to deliver orders in less than 30 minutes. On an average, pizza assembly and baking are completed in 7-8 minutes in our views. With the help of tech, Domino's has further cracked to cut delivery time to just 20 minutes in select cities successfully. The management states its ambition to roll out 20-minutes delivery across all key states soon.

### Impressive customer engagement and volume trends on Domino's India app

In our assessment, the pandemic has accelerated digital adoption and online ordering and it reflects in acceleration in JUBI's app downloads data reported on Quarterly reviews. In addition, we note, JUBI has also launched a Hindi version of the mobile app to improve reach and accessibility.

### Digital focus led to three key trends

- Consistent growth in online ordering and mobile app downloads

  JUBI reported steady increase in mobile app downloads and it has witnessed a steady increase in mobile app downloads over many years (check exhibit below). End of Q3FY23 cumulative mobile app downloads have increased to 113.8mn with 9.4mn fresh downloads, highest ever in any quarter for the company.

**Exhibit 155: JUBI delivered consistent growth in online ordering and app downloads**

| | Q3FY18 | Q3FY19 | Q3FY20 | Q3FY21 | Q3FY22 | Q3FY23 |
|---|---|---|---|---|---|---|
| SSSG (%) | 17.8 | 14.6 | 5.9 | (1.7) | 5.0 | (2.4) |
| LFL Growth (%) | 19.0 | 15.2 | 7.2 | (0.2) | 7.5 | 0.3 |
| | | | | | | |
| No of restaurants | 1127 | 1200 | 1325 | 1314 | 1495 | 1760 |
| No of Cities | 265 | 271 | 282 | 285 | 322 | 387 |
| | | | | | | |
| OLO (% of delivery) | 60.0 | 73.0 | 86.8 | 98.2 | 97.6 | 97.7 |
| Mobile ordering (% of online) | 71.0 | 88.0 | 95.0 | 97.5 | 97.4 | 98.3 |
| Mobile app downloads (mn) | 1.2 | 2.4 | 4.1 | 7.4 | 8.2 | 9.4 |
| Cumulative all downloads (mn) | 9.0 | 15.3 | 29.4 | 51.2 | 79.5 | 113.8 |
| MAU (mn) | 1.1 | 2.3 | 4.4 | 6.7 | 9.2 | 11.3 |

Source: Company, Centrum Broking

Further, we note that JUBI's app ratings on Android Play store are also impressive and remained attractive at 4.5.

**Exhibit 156: JUBI delivered consistent growth in online ordering and app downloads**

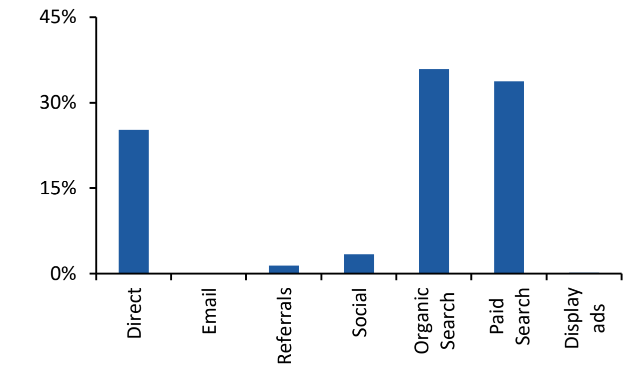
| | Rating | Reviews (mn) | Downloads (mn) |
|---|---|---|---|
| Swiggy | 4.5 | 6.0 | 100 |
| Zomato | 4.5 | 7.5 | 100 |
| Domino's | 4.5 | 0.9 | 50 |
| Burger King India | 4.5 | 0.0 | 1 |
| McDonald's (Westlife) | 4.2 | 0.1 | 5 |
| Myntra | 4.4 | 3.9 | 100 |
| Big Basket | 4.4 | 0.1 | 100 |
| Starbucks India | 4.2 | 0.7 | 10 |
| Oven Story | 4.3 | 0.0 | 1 |
| Mojo's | 4.6 | 0.1 | 1 |
| KFC India | 3.9 | 0.1 | 10 |

Source: Company, Centrum Broking

Monthly Active App users stood at 9mn+ as on Q3FY23

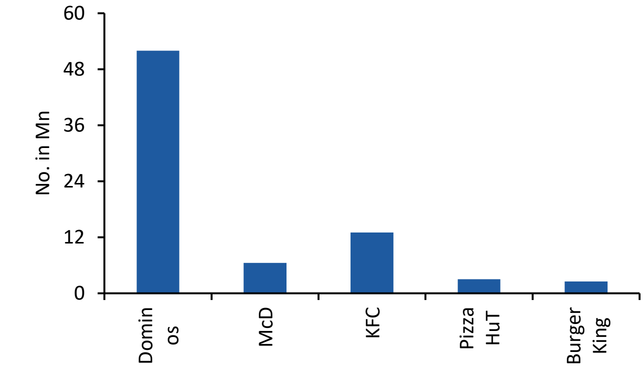
- **Monthly Active Users (MAU) tracking well**: We note JUBI's focus is on ordering frequency. We reckon that Domino's India app continues to register promising customer engagement. As per company data, Monthly Active App users stood at about 9mn+ in Q3FY23 which appears to be healthy, while we note similar trend across Swiggy and Zomato. Further, our interaction with industry experts indicates that monthly transacting users (MTUs) of leading food delivery platforms range between 10-11mn with ordering frequency of 3-5 orders in a month. Our interaction with channel partners suggests Domino's India has seen the same number at ~4mn+ with ordering frequency of about ~1.2 per month.

**Exhibit 157: Organic & paid search covers large channels**



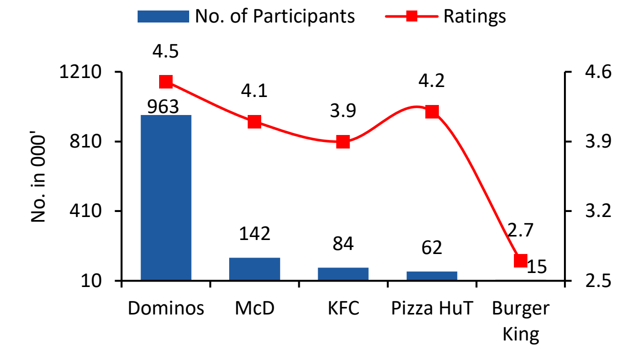

Source: Similarweb.com, Centrum Broking

**Exhibit 158: No. of downloads 4/8x higher than KFC/McD**



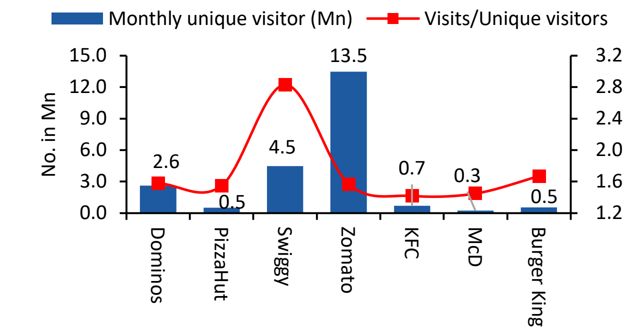

Source: Similarweb.com, Centrum Broking

**Exhibit 159: Highest ratings among QSR players**



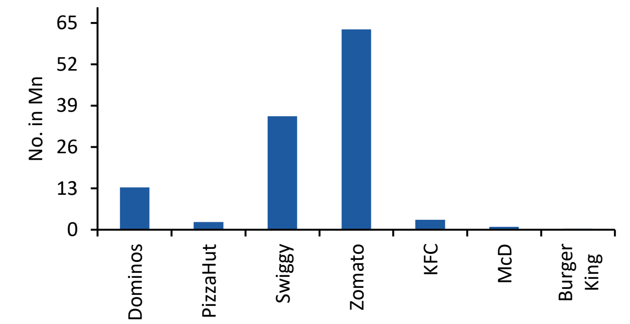

Source: Similarweb.com, Centrum Broking, note- 3 months data end at Jan23

**Exhibit 160: Unique Visitors stands >60% on monthly visitor**



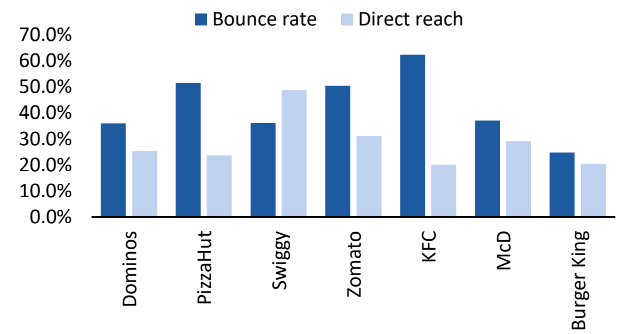

Source: Similarweb.com, Centrum Broking, note- 3 months' data end at Jan23

**Exhibit 161: Dominos stands 3rd position on No. of visitors**




Source: Similarweb.com, Centrum Broking, note- 3 months data end at Jan23

**Exhibit 162: One of the lowest bounce rate in industry**

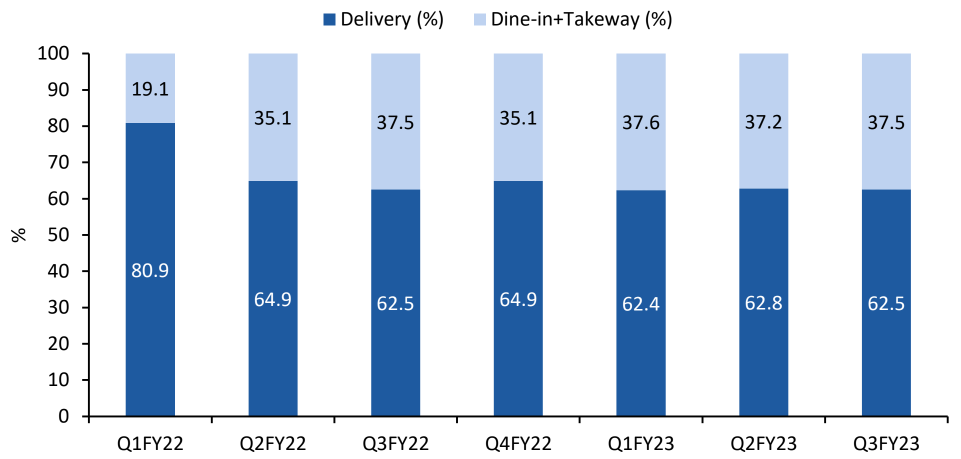



Source: Similarweb.com, Centrum Broking, Note – 3 months data end at Jan23

JUBI's own app delivers 60-65% of delivery sales

- **Growth on own platform faster than aggregators**: Past performance indicates that JUBI's delivery sales contributed 65% to Domino's sales in Dec'20 which has settled around ~63% as on date. This denotes that the shift in revenue mix was partly due to subdued dine-in sales (19.1%), however in subsequent quarters it has reached pre-Covid levels. With strong growth in own app downloads within delivery segment, Domino's is seeing strong traction against aggregator platforms. As per industry data, Domino's India's own app delivers 60- 65% of delivery sales while it could stand at 35-40% for food delivery platforms. JUBI has taken a conscious call to promote engagement on own app as against third party platforms.

**Exhibit 163: Delivery growing on higher base, while Dine-in and Takeaway channels present good opportunity**




Source: Company, Centrum Broking

## Loyalty program driven by data analytics – Cheesy rewards

Our understanding indicates that Domino's India app offers better discounts compared to third party aggregator platforms delivering customer loyalty for the app offering better discounting. To continue this trend Domino's has now launched full scale loyalty program. Taking a cue and examples around the world – Domino's in US, and KFC in China draw a large customer traffic contributing meaningfully to overall sales. Therefore, we expect JUBI to further improve customer engagement with the launch of loyalty program.

JUBI has already made strong investments in data analytics over last few years, it can bank on this opportunity to engage and enhance customer experience through the loyalty initiatives.

In Jul'22 Domino's Pizza, launched the "Cheesy Rewards Loyalty Program". The first-of-its-kind rewards program allows customers to collect 100 points (1 pie) on every order and, after collecting 600 points, it offers the customer the opportunity to get a free pizza. This allows customers to enjoy their favourite Domino's Pizza and get rewarded for their orders from Domino's. Further, Domino's has kept innovation and consumer centricity at the centre of its business to provide the best food experience and become a brand synonymous with pizza in India. As per management the brand values its customers and intends to make every single pizza eating experience not just truly memorable but also rewarding (by offering them free pizza on every 6th order). The Cheesy Rewards Program is meant to reward its customers and provide another reason to love Domino's.

## The Program

- One of the most rewarding initiatives for pizza lovers
- All existing and new users will be eligible to be part of the Cheesy Rewards Loyalty Program by ordering through Domino's app or walk-in to any nearby restaurant
- After every order, a pizza slice shows in the customer's account
- On completing six orders, a complete pizza will reflect in the account, notifying a free pizza

## Domino's – better equipped vs. food aggregators

JUBI has better bargaining power as against food aggregators compared to peers

Considering past records and incremental focus on food tech we believe JUBI holds superior bargaining power as against food aggregators which is equipped by (1) Domino's delivery ecosystem that handles all the delivery orders booked on own app as well as orders that are placed through food delivery platforms, (2) Domino's India is the only QSR that has a data-sharing arrangement with both food delivery platforms. As per our interaction with industry participants other QSRs don't get this benefit, (3) In lieu of this arrangement Domino's pays a nominal commission to food delivery platforms, (4) We believe Swiggy and Zomato contribute 10-15% each to Domino's sales. Consequently, we acknowledge Domino's strong digital capabilities with unmatched delivery coupled with brand positioning places it in a better bargaining position and less reliant on the food delivery platforms.

Domino's app offers discounts ranging from Rs50-80 per order, higher than third party

Our interaction with industry experts suggests, cost of home delivery is comparable for customer orders on Domino's own application versus food aggregator platforms while JUBI pays commission to aggregators separately. That said, as per our understanding, JUBI charges Rs30-35 per delivery handled by them while on the order the restaurant GST is charged at 5% of order value separately. We note food aggregator apps regularly offer discounts and promotions using coupon codes to lure the customer traffic. Moreover, our analysis indicates that Domino's app offers better or rather higher discounts ranging from Rs50-80 per order as compared to food delivery platforms (or aggregators).

We note during Covid disruption consumer traffic moved to online and preferred home delivery, as was seen in higher sales momentum for e-commerce and food aggregators for many categories including discretionary. Banking on this opportunity JUBI introduced delivery fee of Rs20 on orders delivered through its own app. Subsequently, once the incremental delivery charges were accepted by the customers, JUBI, progressively increased it further to Rs30-40 per order.

# Multiple brand portfolio – Popeyes to add substantial value in next 3-4 years

## In addition to Home-grown brands Popeyes to add substantial value in next 3-4 years

- Hong's Kitchen – new venture into Indian Chinese cuisine
- Foray in Biryani – EkDum!
- DP Eurasia long term potential
- Expansion opportunities in Sri Lanka and Bangladesh
- JUBI invested 10.76% stake in Barbeque Nation in Dec'20
- Popeyes – New growth engine

We reckon JUBI realizes the value of the key competencies it has developed over time which has helped build a holistic and highly evolved brand within the pizza segment. These key competencies in our view are (1) operational excellence, (2) integrated supply-chain, and (3) digital and data strength. Even though the management would continue to scale up and improve key competencies they are brand agnostic, and hence in parallel JUBI is building a portfolio of new brands. On one hand we may agree that this is a well thought-of and planned strategy stemming from JUBI's solid understanding of QSR segment and consumer needs in a large market such as India, replicating in bigger markets. On the other hand, except pizza over 10 years it has not been able to fix Dunkin Donuts business.

Popeyes could be a game changer and add significant value in long term

Further, JUBI has immensely benefited through its presence in India over three decades generating adequate insights and depth in consumer behaviour to manage Pizza and Donut category with unparalleled network benefits such as Super-App, procurement/delivery synergies and shielding against competition from brand owners as well as aggregators. However, its success was a mixed bag as Domino's had extraordinary success, except own brands including Dunkin Donut.

JUBI, in its rejuvenated approach, is set to drive growth through portfolio expansion tapping into high growth chicken QSR segment through Popeyes and capturing discerning consumers catering large market opportunity in Indian Chinese and Biryani segment through Hong's Kitchen and Ekdum!. Though perfecting product-menu, quality and consumer preferences takes time, JUBI is developing a solid unit operating model as Dunkin Donuts took time to get established till date. Further investments in DP Eurasia supports its aspiration to become multi-country operator, its success pivots on its capability to enrich organizational competencies such as talent retention, tech superiority and nurturing mind-set.

We are sanguine about JUBI's recent aggression and managing portfolio approach. To become multi-brand, multi-cuisine and multi-country operator JUBI has charted out three prong strategy in our view viz. (1) Nurture own brands such as Hong's Kitchen and Ekdum! Biryani, (2) Restage Dunkin Donut offering as Dunkin Coffee, and (3) Investments in new markets – DP Eurasia.

## Home grown brands

### Hong's Kitchen – new venture into Indian Chinese cuisine

Management has set its focus to get perfect business model for home grown brands

In Mar'19, JUBI ventured into Chinese cuisine segment with the launch of a Chinese fast casual restaurant offering dine-in and delivery facility. This home-grown in-house venture was housed under new brand 'Hong's Kitchen' (HK). Chinese food is the second-largest cuisine consumed outside home in India with large number of organised brands such as Speciality Restaurant's Mainland China, Asia Kitchen, Azure Hospitality-backed Mamagoto, and Yo! China already existing in the market. That apart, stores of local restaurants and street-side vendors sell variations of Chinese meals to Indians. That said, Chinese cuisine has become preferred cuisine in the country with second-largest food consumed when out-of-home. It also provides large market opportunity with promising potential for profitability.

Our interaction with industry experts indicates the key challenge is to achieve product standardization and consistency extremely necessary to build a scalable business model. We have confidence that JUBI is still in the process of optimizing unit-level operations and economics following which store expansion can gather pace.

### Huge market opportunity, yet unorganized sector dynamics push competition

As per our understanding Chinese food recipe market run various formats in India in the organized and unorganized space. In the organized segment, we find standalone multi-cuisine restaurants, specialized Chinese food restaurants, chain restaurants offering Chinese cuisines, while street or road-side vendors are largely unorganized. In addition, many cloud-kitchen restaurants also offer authentic Chinese preparations now. Therefore, fragmented nature of market offers good prospects for organized Chinese QSR players to capture market opportunity.

As per industry estimates, Indian food services market size is estimated at ~Rs4.3tn including organized and unorganized. Within food services, Chinese is one of the largest cuisines possibly contributing 10%+ of market size. Though real estimate of the market size is not available, through our interactions with industry participants we gather food with Chinese recipes and formats form Rs45-50bn market in the country. Due to higher scale of demand potential in the top 10 metros and semi-metro towns they attract higher listing fees on aggregator’s platforms such as Swiggy and Zomato which generates 20-25% of their revenues in our view.

### Vast difference in process standardization for making a Pizza vs Chinese preparation

Further, we believe unlike Domino’s where process of making a pizza is standardized which may not require specific skills other than following steps for assembling a pizza, Chinese food processed in the Hong’s Kitchen is cooked fresh every time (other than already boiled rice and noodles). We note it may require culinary skills, the chef needs to be trained in using wok (Chinese pan), tossing at a particular temperature (cooking process) and addition of ingredients at the right intervals. Moreover, for cooking good Chinese food customization at the place of dining/delivery is required, and hence manufacturing process can be clubbed under three steps, (1) training for chefs to provide consistency in food preparation/ quality, (2) training for live cooking at the restaurants, and (3) balance between what to cook at live station and at the commissary.

### Perfecting unit economics may be tricky

As per industry experts, Hong’s Kitchen would demand lower capex than Domino’s, and it charges slight premium to standalone stores, hence we believe Hong’s would provide comparable gross margin profile as standalone stores generate 65-70% gross margin in our analysis. More importantly, JUBI can draw on many synergies such as (1) sourcing efficiencies which are achieved through Domino’s value chain, (2) offer additional choices for desserts and beverages to maximize ticket size, and (3) provide side dishes and complementary menu choices. However, the other overheads such as employee costs, marketing spends and take rates charges for aggregator may cut store EBITDA margin in our view. Therefore, we believe JUBI is trying to fix the unit economics and design entire ecosystem right from sourcing to delivery before it scales it up.

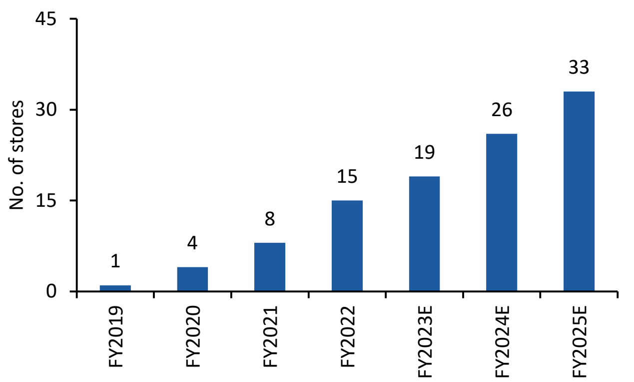
Currently JUBI operates ~18 restaurants in the NCR region. Given JUBI’s deep understanding and experience in scaling up store network we expect gradual store expansion could be seen in next 4-5 years post perfecting store model and unit dynamics by the company.

### Challenges faced by Chinese cuisine business model

- Competitive Intensity: Chinese cuisine market is largely unorganized and also led by very competitive pricing. Winning consumer trust for authentic food (recipe) vs. charging premium or discount to existing premium Chinese and Thai cuisine chain restaurants could be tough. Limited success is achieved by regional brands such as Wow Momos, etc. Further, premium Chinese cuisine restaurants have seen limited success given right balance between menu choices, pricing strategy and consumer trust.

- Product standardization: Chinese cuisine preparation typically takes longer time to cook as compared to pizza. Given this, there is limited scope for product standardization as every meal is served hot. However, industry experts indicate to reduce human intervention, Rebel Foods and few others are making investments in process automation to simplify and succeed in product standardization maintaining consistency in quality using robotics.
- Skill set: Cooking at times needs lot of attention to details such as cooking temperature, addition of ingredients at right intervals and maintaining texture. Given this maintaining consistency every time is dependent on manpower and its skills to provide similar quality each time. Hence, many Chinese restaurants in the country such as Specialty Restaurant (Mainland China), Oriental Cuisine, Wow China, Golden Dragon could not scale up beyond 10-15 restaurants in the country due to very high attrition of manpower who can cook authentic food.

**Exhibit 164: Hong’s Kitchen store count**




Source: Company, Centrum Broking

**Exhibit 165: Hong’s Kitchen offers various menu**

| Bestsellers | Rs. | Incredible 99 menu |
|---|---|---|
| Chilli Paneer | 249 | Veg momos |
| Chilli Chicken | 289 | Honey chili potato |
| Classic Chicken Momos | 119 | Veg spring rolls |
| Cheese spring rolls | 169 | Chocolate brownie |
| Veg Manchurian | 289 | Choco Bao |
| Garlic Noodles | 129 | |
| Kung pao chicken | 419 | |

Source: Company, Centrum Broking

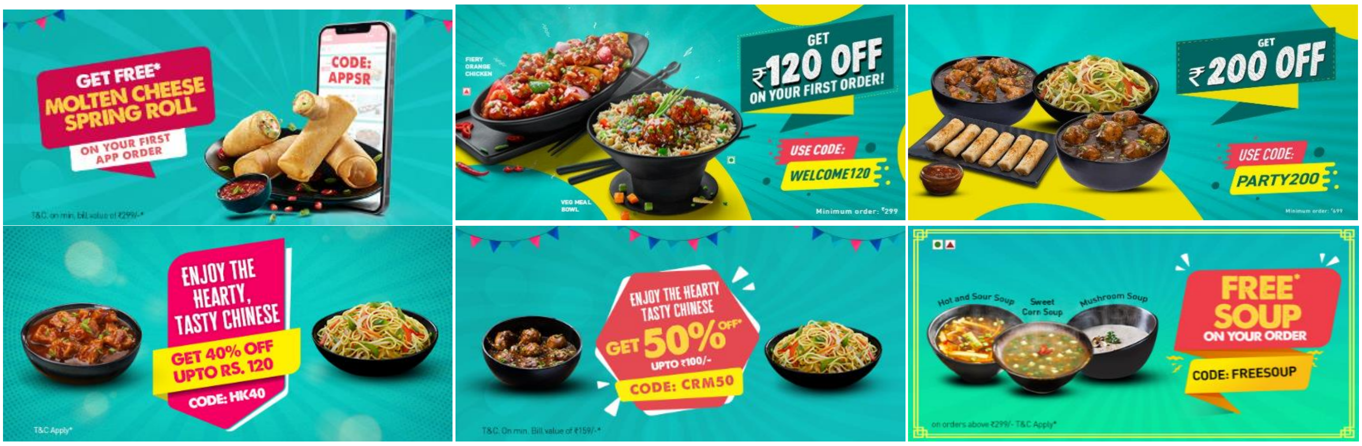
**Exhibit 166: Hong’s Kitchen offers competitive price in Delhi NCR region (Prices per unit in Rs)**

| Restaurants | Cheese spring rolls | Chilli Paneer | Chilli Chicken | Classic Chicken Momos | Veg Manchurian | Garlic Noodles | Egg Fried rice |
|---|---|---|---|---|---|---|---|
| Hong's Kitchen | 169 | 249 | 289 | 119 | 289 | 129 | 119 |
| China Box | NA | 290 | 320 | 195 | 255 | 210 | 235 |
| Yo China | 229 | 219 | 329 | 219 | 299 | 219 | 229 |
| Chinese Wok | 209 | 309 | 199 | 149 | 179 | 199 | 159 |
| Chowman | 210 | 235 | 290 | 165 | 199 | 190 | 210 |
| Mainland china | NA | 585 | 625 | 515 | NA | 495 | 495 |
| Asia Kitchen | NA | NA | 525 | 425 | NA | 395 | 425 |

Source: Company, Centrum Broking

In addition, we note to attract customers HK reviews the product menu periodically and accordingly Hong’s also offers coupons to attract new customers.

**Exhibit 167: Offers run by Hong’s Kitchen in Delhi NCR region**




Source: Company, Centrum Broking

## Foray in Biryani – EkDum!

In Dec'20 JUBI entered into the Biryani category under the brand Ekdum! We like this venture given very large addressable market in the country, simplified bulk cooking process, restaurant operations and standardized food preparation. Further, it complements JUBI's delivery expertise with attractive unit economics. Though post launch of Ekdum! we encountered with Covid disruption, therefore we expect JUBI's attempt to expand its offering through Ekdum! format would be gradual and could show up in next3-5 years.

### Drivers for Ekdum!

- Indians and their love for biryani need no introduction. Every region has its own special version of the dish, speaking at length about the locals and their palate. India consumes various types of biryanis such as, Luckhnowi biryani, Hyderabadi biryani, Kolkata biryani and many more.
- We note even delivery platforms/aggregators indicate biryani is ranked as the top no 1 ordered food in the country. In FY22, Zomato said it served 186 biryani orders every single minute, while Swiggy delivered 137 per minute while pizza stood at no2 ordered food on their app.
- Popularity of biryani on delivery platforms is mainly driven by, (1) nutritious meal which can be ordered during lunch and dinner time at an affordable price point, (2) food preparation time is low as biryani is pre-cooked in bulk, (3) retains taste, warmth and texture during the delivery till it is served to the end customer, (4) better economics driven by high average order value, and (5) ease of delivery.
- Biryani food signifies a large market opportunity and as per industry report it provides overall market size of ~Rs300bn, however it is largely unorganized. The organized market is estimated at 10% or Rs30bn.
- Like pizza we believe cooking biryani is bit easier as compared to Chinese food as it followed simple processes. Though cooking process needs supervision but the cooking method is procedural with pre-set list of ingredients (pre-boiled rice and marinated chicken) and cooking time. We believe this step can be standardized at the commissary and final cooking can be done at the restaurant or place of consumption kiosks.
- Our interaction with industry experts indicates in case of bulk cooking of biryani the taste is retained along with warmness (cooked in large vessels) and food texture.
- We believe JUBI can crack this business given its ability to predict demand accurately for each store to maintain freshness of food and reduce wastage.
- As per our understanding gross margin for Ekdum! are comparable to that of Domino's pizza. Our analysis indicates biryani players generate 65-70% gross margin. However, JUBI can ramp up gross margins by adding side dishes, beverages and desserts.

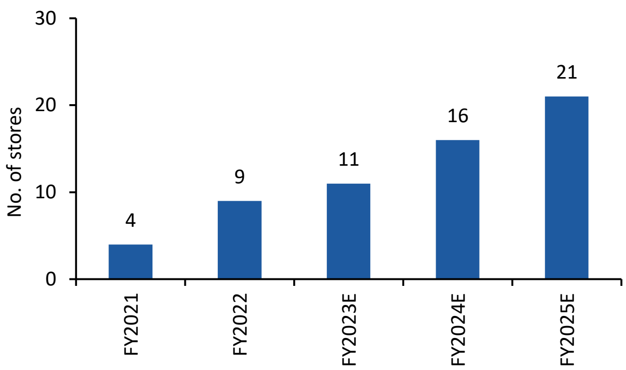
### Challenges faced by Biryani players

- Ekdum! faces stiff local competition from branded chain restaurants such as Hyderabad's Paradise, Charcoal Eats, Biryani Blues, Biryani by Kilo, Ammi's Biryani, etc. We note most players follow bulk-cooking model. Though Ekdum! Biryani is priced ~40% lower compared to other players, consumer rating does not reflect its followership.
- Biryani market is dominated by unorganized segment contributing 85-90% revenues. Given that affordability remains key challenge for JUBI.
- Maintaining product quality depends on good sourcing quality of ingredient, cooking process and demand forecast (at times over weekends stock runs outs).
- EkDum! offers an extensive menu which may be difficult to manage with large scale of operation in our view.

**Exhibit 168: Domino's offers attractive entry price to recruit new customers**


Source: Company, Centrum Broking

**Exhibit 169: Ekdum! store count**




Source: Company, Centrum Broking

**Exhibit 170: Biryani menu of Ekdum! (Prices per unit)**

| Bestsellers | Rs. |
|---|---|
| Hyderabadi Chicken Biryani | 299 |
| Kolkata Chicken Biryani | 329 |
| Lucknow Chicken Biryani | 299 |
| Dindigul Chicken Biryani | 299 |
| Dilli-6 Chicken Biryani | 329 |
| Punjabi Paner Makhani | 319 |
| Kadai Chicken | 389 |

Source: Company, Centrum Broking

**Exhibit 171: It offers competitive price in Delhi NCR region (Prices in Rs/per unit)**

| Restaurants | Hyderabadi Chicken Biryani | Kolkata Chicken Biryani | Lucknow Chicken Biryani | Dindigul Chicken Biryani | Dilli-6 Chicken Biryani | Punjabi Panner Makhani | Kadai Chicken |
|---|---|---|---|---|---|---|---|
| Ekdum! | 299 | 329 | 299 | 299 | 329 | 319 | 389 |
| Behrouz | 379 | NA | NA | NA | NA | 299 | NA |
| Biryani by kilo | 499 | 839 | 499 | NA | NA | NA | NA |
| Biryani Queen | 350 | NA | NA | NA | NA | NA | NA |
| Bikkgane Biryani | 319 | 299 | 299 | NA | NA | 199 | 249 |
| Karim's | 495 | NA | NA | NA | NA | 395 | 325 |
| Biryani Blues | 359 | NA | 359 | NA | NA | NA | NA |

Source: Company, Centrum Broking

## DP Eurasia

JUBI has strategic investment in DP Eurasia

In Sept'21, JUBI acquired 32.81% stake in DP Eurasia (DPEU LN) from the existing PE investor in the business for a cash consideration of GBP24.8mn (Rs2.52bn). Subsequently, till date JUBI has raised its stake in the company at 49.04%. DPEU is the fifth largest master franchisee of Domino's globally, with exclusive rights of Domino's brand in Turkey, Russia, Azerbaijan and Georgia. As per our understanding, for the DPEU acquisition JUBI paid ~52 pence per share reflecting into valuation of ~1X EV/sales based on CY19. We note DPEU is a professionally run company and Aslan Saranga, founding CEO holds ~5% stake in the company. As per company filing DPEU's master franchise agreement is valid until 2030/32 with an option to renew agreement for another 15 years.

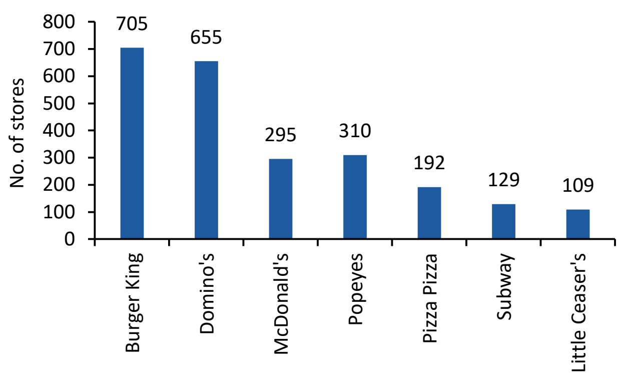
DPEU together with its subsidiaries (the 'Group") offer pizza delivery and takeaway/eat-in facilities at its 859 stores as at Dec'22 spread across four countries (655 in Turkey, 159 in Russia, 10 in Azerbaijan and 6 in Georgia). DPEU follows a mixed store model with both corporate (owned) and franchised stores. There are 89 corporate stores and 566 franchised stores in Turkey as of Dec'22. As per company website, corporate stores are typically owned in high density markets (with better economics) while franchised stores allow rapid network expansion in remote and new areas. Company reports indicate share of corporate stores in Turkey has declined steadily from 26% in CY18 to 14% in CY22 given the weak macroeconomic environment in the country. In Russia, there are 96 franchised stores and 63 corporate stores as of Dec'22.

**Exhibit 172: Since Sept'21 JUBI steadily increased stake ion DP Eurasia**

| Date | No of shares End of period | Price paid per share (GBP) |
|---|---|---|
| Sept 30, 2021 | 47779188 | 95p |
| Nov 1, 2021 | 57943732 | 95p |
| Mar 31, 2021 | 58540790 | 95p |
| Apr 1, 2022 | 61453267 | 95p |
| Jul 18, 2022 | 65166676 | 56p |
| Oct 4, 2022 | 71413939 | 45p |

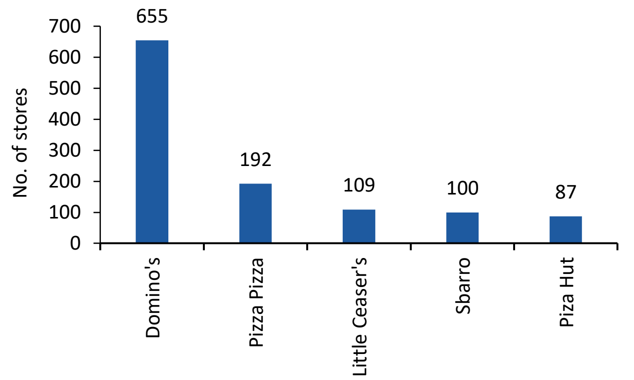
Source: Company, Centrum Broking

**Exhibit 173: Domino's ranked no. 2 player in Turkey**




Source: Company, Centrum Broking, data as on Dec,22

**Exhibit 174: Domino's store 3.5x that of no. 2 player**

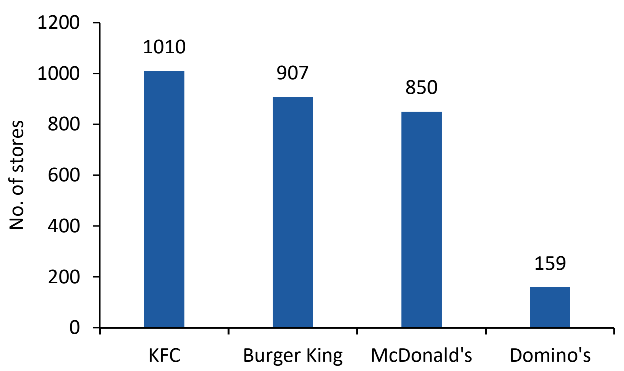



Source: Company, Centrum Broking

**Domino's under indexed in Russia**

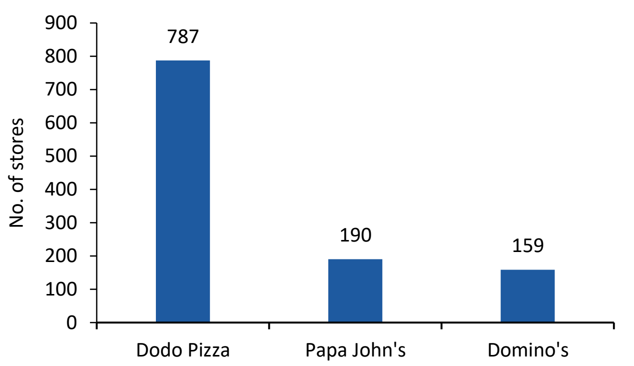
Though DPEU has identified Russia as a key growth market, its store count is under indexed till date. However, the industry data indicates there are many Pizza chains growing rapidly led by high preference for delivery and better economics. As per DPEU management, it is looking for expanding store count to 1,500 in the medium to long term at a run rate of 50-60 per year. We note Dodo Pizza leads the store count and dominates the market. In the recent earnings call, DPEU management said it has big plans and ambitions to revive Russia business as it has put a new team in place and expects to turnaround the operations.

**Exhibit 175: Domino's has small operation in Russia**




Source: Company, Centrum Broking

**Exhibit 176: In Russia Domino's remains no. 3 player**




Source: Company, Centrum Broking

As per company's recent earnings call, to turnaround and revive the Russia operation, DP Eurasia has implemented a multi-pronged strategy – (1) new management team in place, (2) focus on enhancement of product portfolio, service levels, technology, (3) build brand trust using new marketing strategy with celebrity endorsements, (4) cluster-based pricing, and customer engagement using value-for-price advertisements, (5) fortressing strategy, (6) increase presence on aggregator platforms, and (7) cost-savings initiatives.

We gather, DP Eurasia follows a centralized supply and procurement model owning and operating seven commissaries (four in Turkey and three in Russia) which manufacture pizza dough and supply to network stores. JUBI's management clarified this is pure financial investment and it will not be involved in operations but will support DPEU drive structural improvements through periodical thought process engagements. Though DPEU is a market leader in pizza in Turkey with healthy profitability, Russia offers growth and margin expansion opportunity.

The management of DP Eurasia has guided 900 stores (store potential) in Turkey (including Azerbaijan and Georgia) in the medium-to-long term and it is targeting 25-30 new store additions per year. Franchise stores are expected to be the primary drivers of new store openings. LFL same-store sales growth is targeted at high-single digit over the medium term.

**Strategic pillars for growth in DP Eurasia**

**Focus on innovation and online ordering to drive like-for-like growth:** As the online channel becomes more prominent in the company's sales mix and continues to drive like-for-like growth, the ordering channel strategy is focused on development of proprietary online ordering platforms for delivery and takeaway. The online delivery system sales as a percentage of delivery system sales have reached 80%, with Russia exceeding 90% last year.

**Store network growth**: DPEU plans to capitalise on its strong market position in its existing markets, where it believes there is significant capacity for further Domino's Pizza store locations. It intends to open new corporate and franchised stores, including "splits" of existing stores where demand supports further profitable growth. DPEU evaluates its store locations from the perspective of potential sales, level of competition, number of households and GDP per capita. By pursuing its "castle" strategy, the company is able to rapidly roll out clusters of complementary corporate and franchised stores, establishing greater area coverage, fulfilling its 30-minute delivery.

**Leveraging scale advantage to further improve profitability**: DPEU believes that the operating leverage in its business in Turkey can create further value as the store and online footprint continues to increase. The nationwide scale of company's operations reinforces brand awareness, making Domino's Pizza a household name in Turkish fast food, thereby further driving sales and the system stores' contribution to company's national advertising initiatives. In Russia, DPEU expects to extract similar value from the operating leverage as the franchise grows.

**Potential for further international and brand expansion**: DPEU's current focus is on the development of the business in its current markets, the Group may consider acquiring other master franchise licences and expanding to territories currently unpenetrated by the Domino's system as well as expanding with new brands in its existing markets. Such international or brand expansion is a discretionary strategy that the Group will consider and pursue on an opportunistic basis should valuations prove attractive.

### Key financials for DP Eurasia (year-end December)

**Exhibit 177: Key Financials for DP Eurasia (in local currency TRY)**

| | CY16 | CY17 | CY18 | CY19 | CY20 | CY21 | CY22E |
|---|---|---|---|---|---|---|---|
| **System Sales (TRY mn)** | | | | | | | |
| Turkey | 571 | 654 | 736 | 846 | 1069 | 1704 | 2933 |
| Russia | 76 | 205 | 374 | 503 | 472 | 629 | 1120 |
| Group –Total | 647 | 860 | 1125 | 1370 | 1570 | 2385 | 4211 |
| | | | | | | | |
| **System sales growth (%)** | | | | | | | |
| Turkey | | 15 | 13 | 15 | 26 | 59 | 72 |
| Russia | | 170 | 82 | 34 | -6 | 33 | 78 |
| Group –Total | | 33 | 31 | 22 | 15 | 52 | 77 |
| | | | | | | | |
| **Group - Delivery system sales (%)** | | | | | | | |
| Store – offline | 41 | 40 | 37 | 28 | 24 | 22 | 17 |
| Company own –Online | 45 | 44 | 47 | 49 | 41 | 32 | 36 |
| Aggregator | 14 | 16 | 16 | 23 | 35 | 46 | 47 |
| | | | | | | | |
| **SSSG (%)** | | | | | | | |
| Turkey | 7.0 | 10 | 9.3 | 13.1 | 26.0 | 50.4 | 63.5 |
| Russia | 41.6 | 28.9 | 16.0 | 0.7 | -12.6 | 9.6 | -9.8 |
| Group -Total | 16.6 | 11.9 | 10.3 | 10.7 | 17.4 | 39.8 | 46.2 |
| | | | | | | | |
| **Revenues (Try mn)** | | | | | | | |
| Turkey | 373 | 426 | 485 | 559 | 673 | 1032 | 1854 |
| Russia | 78 | 207 | 372 | 421 | 345 | 465 | 861 |
| Group -Total | 451 | 633 | 857 | 980 | 1018 | 1497 | 2715 |
| | | | | | | | |
| **Corporate revenues (Try mn)** | | | | | | | |
| Turkey | 175 | 183 | 204 | 211 | 220 | 283 | 481 |
| Russia | 75 | 187 | 278 | 284 | 240 | 301 | 536 |
| Group -Total | 250 | 370 | 482 | 495 | 460 | 584 | 1017 |
| | | | | | | | |
| **Franchise revenues (Try mn)** | | | | | | | |
| Turkey | 181 | 218 | 257 | 315 | 424 | 683 | 1175 |
| Russia | 3 | 8 | 44 | 91 | 98 | 141 | 235 |
| Group -Total | 184 | 226 | 301 | 406 | 522 | 824 | 1410 |
| | | | | | | | |
| **Adjusted EBITDA (Try mn)** | | | | | | | |
| Turkey | 72 | 81 | 97 | 109 | 140 | 202 | 366 |
| Russia | 3 | 11 | 24 | 25 | 23 | 23 | 27 |
| Group –Total | 75 | 92 | 121 | 134 | 163 | 225 | 393 |
| | | | | | | | |
| **EBITDA margin (%)** | | | | | | | |
| Turkey | 19.3 | 19.0 | 20.0 | 19.5 | 20.8 | 19.6 | 19.7 |
| Russia | 3.8 | 5.3 | 6.5 | 5.9 | 6.7 | 4.9 | 3.1 |
| Group –Total | 16.6 | 14.5 | 14.1 | 13.7 | 16.0 | 15.0 | 14.5 |

Source: Company, Centrum Broking

## Expansion opportunities in Sri Lanka and Bangladesh

JUBI entered in Sri Lanka market in 2011 and currently holds 47 Domino's restaurants spread across 28 cities. Sri Lanka has a population of ~22.2mn with a GDP per capita of US$4,000, however recent crisis put consumption under stress. Further, we expect gradual store expansion given limited market potential and high competitive intensity led by Pizza Hut. Pizza Hut entered in Sri Lanka market in 1993 and as on date Sapphire Foods operates ~97 stores in the country with annual revenues of Rs3.0bn.

We expect curated growth in Sri Lanka & Bangladesh market

JUBI entered Bangladesh market in 2019 through a joint venture with the Golden Harvest group (51% JV) and currently operates 13 Domino's restaurants. We note, JV partner Golden Harvest has diversified interests in QSR, food, dairy, and logistics operations and it has built first cold chain network in the country. Bangladesh has a population of ~170mn with a per capita GDP of US$2,500. While the pizza category is relatively underdeveloped in the country with an estimated market size of ~Rs10bn, we expect JUBI to build store network of 25-30 Domino's stores gradually. We note branded pizza players hold 20-25 store network largely in main city of Dhaka. Pizza Inn was the market leader who started operations in 2008, and was the largest pizza chain, whilst around 2014-2015 Pizza Hut and Sbarro entered the Bangladesh market.

While these markets provide exciting opportunity, the Pizza category is underpenetrated and there is a room for JUBI to grow the category both in terms of getting new users and also driving frequency. Further, JUBI is also building digital ecosystem in these markets. Once these efforts are completed, we expect JUBI may expand operations in Sri Lanka and Bangladesh gradually.

## Dunkin' Donuts – No signs of scale or profitability yet

Jubilant entered into a partnership with Dunkin' Donuts in FY11 and launched its first outlet in April 2012. JUBI appeared to be more confident of replicating the success story of Domino's and displayed its aspiration to open 100 odd Dunkin' Donuts outlets over the next five years, however it faced challenges as it failed to achieve minimum expectation on profitability even after five years of operations. Moreover, with much rejig in operation, only in FY19 it was able to break even led by closure of 61 unprofitable stores in 13 cities, as on FY21, JUBI had only 24 Dunkin outlets operational spread across eight cities vs. a peak store count in FY16 with 71 outlets in 23 cities. Therefore, we believe scaling up of global brands and cuisine in India is difficult despite success in the international market given India's food preferences and price affordability, which are materially different from western countries.

### Issues around success of Dunkin' Donuts in India

Our interaction with industry experts indicates the success of Dunkin' Donuts was limited due to:

- Premium pricing: Dunkin' Donuts, since launched, adopted premium pricing which could have been the issue. Therefore, it had limited opportunity and demand in top metros.
- Lack of variety: Dunkin' menu is limited to primarily donuts, burgers and beverages, resulting in a lack of variety. As a result, their customers spend relatively large amounts of money at their competitors' locations, such as Costa Coffee or Krispy Kreme.
- Store size: Dunkin' store size did not deliver the returns as per expectation, primarily sales throughput was lower. However, the company has now charted out new format with low-capex, small kiosk-based models, serving a combination of beverages, donuts and simple food with faster payback due to low rent and size 100-200 sq.ft.
- Delivery option: In general restaurants will have to focus on their delivery capacities and add value with initiatives such as special takeout-only menus. Further, contactless delivery, will be the way to go. That said, Dunkin provided higher seating capacity at restaurants that paves way for re-designing the store matrix.

- Macro trend: Since inception Dunkin also faced the value-proposition coupled with affordability, as in the Indian context it did not fit in the consumer choice for snacking menu or even in the breakfast menu.

### JUBI acquired 10.76% stake in Barbeque Nation in Dec’20

JUBI made Strategic investment in Barbeque Nation in Dec for Rs920mn

JUBI announced acquisition of 10.76% stake in Barbeque Nation (BBQN) on Dec 31, 2020 for total consideration of Rs920mn. We note, the deal with Barbeque Nation was pegged at an enterprise value of ~Rs10 bn (1.4x of EV/sales on FY19). As per company, Barbeque Nation is one of the leading casual dining chains in India; Barbeque Nation pioneered the concept of “over the table barbeque” live grills embedded in dining tables – allowing guests to grill their own barbecue’s right at their tables. Barbeque Nation was founded in 2006 with the concept of 'all you can eat'. The company currently owns and operates around 200 outlets in India, 4 outlets in UAE, 1 outlet in Malaysia and Oman each. It presented first time the concept of live grilled food and kebabs to the Indian market. As on date, the company operates 192 BBQN restaurants across 82 cities and 14 Toscano restaurants and 6 BBQ Nation International outlets. As on Dec’22, the company reported 83% contribution from Dine-in and 17% from the delivery channel. With 2-year CAGR revenue/EBITDA at 30.8%/27.0%, in Q3FY23 company reported gross margin/EBITDA margins at 66.7%/ 18.9%.

As per our understanding, Barbeque Nation incurs a capex of Rs25-30mn per store, with annual revenue run rate of Rs55-60mn per store, and asset turn of 2-2.5x driven by ~50% repeat customers. Company data indicates weekday/Lunch contributes ~55%/45% of its revenues.

In Mar’21 Barbeque Nation through Initial Public Offer raised Rs3.3bn at a valuation of ~2.9x of FY19 revenues. Thus, it indicates JUBI’s investment in Barbeque Nation is profitable and delivered 2x returns on the investments made in Dec’20. Current it holds 9.37% stake in BBQ.

### Popeyes – New growth engine

In Mar’21, JUBI won exclusive franchise rights for Popeyes brand in India, Bangladesh, Nepal and Bhutan from Restaurant Brand International (parent). We note Popeyes is a leading Chicken QSR brand with ~3,700 stores globally. We expect JUBI would now pursue this opportunity and tap into the fast-growing, under-penetrated chicken QSR market which is dominated by KFC. JUBI intends to open 250-300 Popeyes restaurants by FY2027E.

Third largest player in Chicken QSR: Founded in 1972, Popeyes is the third-largest player in Chicken QSR segment now controlled by Restaurant Brands International. Popeyes menu comprises fried chicken, fried shrimp and its signature chicken sandwich. Company data indicates Popeyes average sales per unit (AUV) is about ~50% higher than that of KFC.

Pace of demand rising for Chicken QSR: We note chicken QSR segment in the recent time has shown strong consumer preferences, however it is presently dominated by KFC. Our analysis indicates size of chicken QSR in India albeit lower than that of pizza/burger, given rising non-veg population in the country, makes opportune time for JUBI to invest. We note given reasonably limited competition, high growth and under-penetrated category, Popeyes could be a good challenger brand. As of date, KFC (DIL+Sapphire) hold ~786 stores with Rs30-32bn revenue run rate.

**Exhibit 178: In Mar’21 JUBI announced exclusive master franchise agreement with PLK APAC Pte. (Restaurant Brands Int.)**

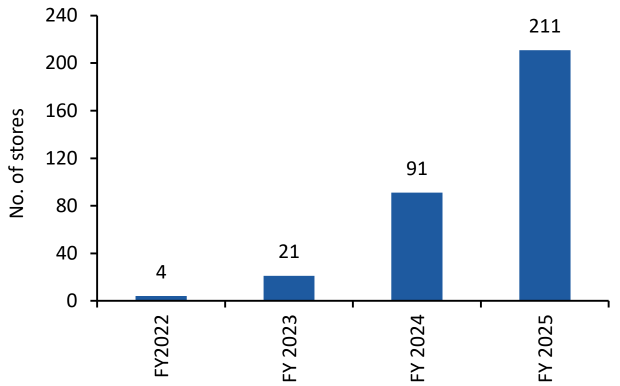

Source: Company, Centrum Broking

We expect Popeyes store would reach up to 250 by FY26E

Building global scale: Post acquisition by Restaurant Brand international, the new owner charted out an aggressive global expansion strategy for Popeyes also led by early success found post launch of chicken sandwich. Company data and media reports indicate that the chicken sandwich launched by Popeyes in Aug'19 saw solid demand making them one of the most successful product launches in the history of QSR industry. Counting on this achievement Popeyes reported sales growth of ~30% YoY and therefore decided to expand its footprint in Mexico, South Asia, China, and the UK.

JUBI's aspiration to roll out ~280 stores: With more than two years' study on pilot in Bengaluru, we expect JUBI would have fine-tuned store economics, and hence, we expect scale up of 250 stores by FY26E. Considering Restaurant Brands International's master franchise agreements with Burger King, we saw strong aggression from the parent (RBI) for store opening in India so far. Therefore, we consider Popeyes could show up as a strong competition to KFC, rather can create stiff competition. KFC delivered revenues per store ~Rs40 mn/year with EBITDA margin of about 18-20% and asset turn of 2-2.5X, resulting in RoCE of 30-35%. That said Domino's comparable metrics are better; therefore, we expect JUBI should deliver industry bench-mark pay-back.

**Exhibit 179: Popeyes store count**




Source: Company, Centrum Broking

**Exhibit 180: Menu of Popeyes**

| Bestsellers | Rs. | Combos | Rs. |
|---|---|---|---|
| Chicken Sandwich | 189 | Chicken Sandwich plus Wings | 379 |
| Chill Grilled Chicken | 409 | Chicken Sandwich plus Popcorn | 369 |
| Cajun Chicken Tenders | 189 | Chicken Sandwich | 318 |
| Chicken Wrap | 199 | Chicken Wrap | 319 |
| Signature chicken | 419 | Veg Wrap | 308 |
| Veg Burger | 109 | Classic veg burger | 228 |
| Cajun Veg Burger | 169 | Cajun veg burger | 288 |

Source: Company, Centrum Broking

**Exhibit 181: Popeyes provides competitive prices (Price Rs/unit)**

| Meals | Popeyes | KFC | McD |
|---|---|---|---|
| Chicken Sandwich | 189 | 190 | 185 |
| Chill Grilled Chicken | 409 | 499 | 475 |
| Cajun Chicken Tenders | 189 | NA | NA |
| Chicken Wrap | 199 | 195 | 220 |
| Signature chicken/Peri Peri | 419 | 628 | NA |
| Veg Burger | 109 | 158 | 145 |
| Cajun Veg Burger | 169 | NA | NA |

Source: Company, Centrum Broking

**Popeyes store launched in Chennai**

The flagship entry of Popeyes was marked in India with the opening of its first restaurant in Bengaluru, followed by rapid expansion to 12 restaurants across the city in less than a year. On January 20, 2023 Popeyes launched its maiden store in Chennai at the Phoenix Marketcity mall. In Chennai, Popeyes offers signature Chicken Sandwich, which was one of the most successful product launches in quick service restaurant history when it was released in the USA in August 2019.

Sameer Khetarpal, CEO and MD of Jubilant FoodWorks Limited, said, "Consumers across the world love the Louisiana-style Cajun flavours of Popeyes. As a company, we are focused on bringing the finest taste of our brands, building it and expanding it to multiple cities. We offer consumers a chance to enjoy the unique blend of spices and Cajun flavoured fried chicken. Our launch in Chennai with the first store is a testament to that commitment of the larger strategy."

**Exhibit 182: Popeyes Chennai launch**


Source: Company, Centrum Broking

# Jubi has strengthened Senior Management team

We are sanguine on JUBI's renewed aggression and portfolio approach. Further, to support these initiatives JUBI has strengthened organization capabilities by investment in talent, technology and processes to make this transition agile. The recent data indicates that JUBI has hired new senior management team i.e., CEO, Chief Business Officer, CFO, CMO, Business heads for Dunkin' and Popeyes in past three years. We note JUBI is professionally run business whereby the promoter has no executive role to play in the day-to-day operations. However, numerous changes in the senior leadership team may remain a concern in the short term in our view Despite JUBI's attempt towards building capabilities by broadening its management team and bandwidth, majority of the recent hiring is from non-QSR backgrounds and therefore their ability to drive profitable growth for newly formed ventures will be a key area to watch out for.

**Exhibit 183: Over last two years JUBI has revamped its senior management team**

| Name | Date of Joining | Designation | Past experience |
|---|---|---|---|
| Sameer Khetrapal | Sept'22 | Chief Executive Officer | Mr. Sameer Khetarpal, was appointed as MD and CEO in Sept'22. He has served in numerous senior leadership roles during his 25+ years career in sectors like e-commerce and management consulting. |
| Sameer Batra | Mar 09,2023 | Chief Business Officer | Mr. Batra holds an Engineering Degree from University of Pune and Masters in Business Administration from Goa Institute of Management. He has over 22 years of rich experience in building businesses in the consumer space with a special focus on Pricing, Large scale P&L Management, leading and building teams and more recently running Digital businesses. |
| Ashish Goenka | Feb 17, 2021 | Chief Financial Officer | Mr. Ashish Goenka was appointed as CFO in Feb'21. Ashish holds 19-years of experience in finance and strategy roles with FMCG and Telecom Industry. |
| Sandeep Anand | Jan 07, 2021 | Chief Marketing Officer | Mr. Sandeep Anand was appointed as Chief Marketing officer in Jan'21. Sandeep holds over 18-years work experience and in his previous roles, Sandeep was Chief Marketing Officer at GSK Consumer, Zydus and Zomato. |
| Vaneet Singla | June 11, 2021 | Chief Product Officer | Mr. Vaneet Singla was appointed as Chief Product Officer in Jun'21. Vaneet holds over 16-years of experience in FMCG and tech platforms such as WheelSeye, MakeMytrip. Practo, Hubzu in the product management space. |
| Gaurav Pande | Mar 1, 2021 | EVP, Business Head Popeyes | Mr. Gaurav Pande was appointed as EVP and Business Head for Popeyes business in Mar'21. Gaurav holds over 19-years' experience with Unilever handling various categories in BPC, foods refreshment and Life essentials. |
| Ekhlaque Ahmad Bari | Aug 9, 2021 | Chief Information Officer | Mr. Ekhlaque Bari was appointed as Chief Information Officer in Aug'21. He holds 25-years' experience working with top companies such as Fullerton, Maxlife Insurance, HT Media, SBI Cards, GE Capital handling senior roles in technology development and analytics. |
| Chitrank Goel | Aug 11, 2021 | EVP, Emerging Business | Mr. Chitrank Goel was appointed as EVP for emerging business including Dunkin. Chitrank spent over 18 years with HUL handling senior leadership roles in marketing and sales managing foods and refreshment categories internationally. |
| Amer Hussain | Sept 1, 2021 | SVO - Supply Chain | Mr. Amer Hussain was appointed as SVP, Supply Chain in Sept'21. He holds 18-years work experience working with Hindustan Coca-Cola handling senior roles in strategic planning, supply chain and factory management. |

Source: Company, Centrum Broking

# Financials

- **Expect revenue/EBITDA/PAT CAGR of 14.9%/19.3%/24.6% over FY23-25E**
- **Gross margin to remain range bound – expect 120bp improvement**

We estimate revenue/EBITDA/PAT CAGR over FY23-25E of 14.9%/ 19.3%/24.6% led by (1) addition of 713 stores under Domino's India by FY25E, (2) 211 store to be added under Popeyes format by FY25E, (3) 55 store additions in Sri Lanka and Bangladesh, (4) 30 stores under Home-grown brands, (5) SSSG of 3.2% exit FY25E, and (6) 120bp expansion in EBITDA margin (Post-INDAS) from 9MFY23 to FY25E driven by operating leverage.

## Gross margin to remain range bound – expect 120bp improvement

We expect Gross margin to remain range bound at 77% over next 2 years

We expect JUBI's gross margin to remain range bound at 77.0% over FY2023-25E period. Despite rising inflation especially in milk and cheese could get offset from falling palm oil prices, hence we expect margin to remain steady and may not improve substantially. Further we narrate few drivers for gross margin in the near term such as (1) operating leverage driven by scale and efficiencies, (2) slightly higher gross margins in Popeyes portfolio, (3) mix change towards premium products, and (4) further price increases.

In addition, we note JUBI also holds favourable master franchise agreement, which is one of the key reasons for better score economics and corporate profitability. Industry analysis indicate JUBI enjoys royalty rate of 3.5% for the Domino's business vs. 5-7% paid by other QSR players to their parent. Further, Domino's pays less store opening fees or license fee per store (Rs0.5mn) vs. Rs2.0-5.0mn paid by peers.

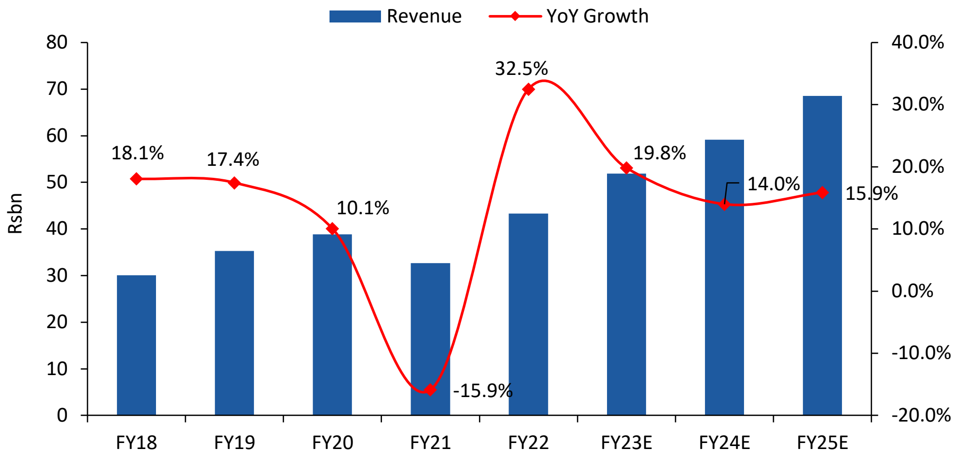
**Exhibit 184: Royalty rate**

| Brands | Domino's | McDonald's | KFC | Pizza Hut | Burger King | Costa |
|---|---|---|---|---|---|---|
| Royalty rate | No significant change in last 10 years: ~3.5% (including GST) | Current rate: ~4.6% (including GST). Royalty rate is expected to increase to 9.4% (8%+18% GST) from FY27 | 6.3% of revenues | 6.3% of revenues | Rate ranges from 3% (2.5% + 18% GST) to 5.9% (5% + 18% GST) depending on the opening date of the restaurant | 6% of revenues |
| Advertisement Contribution | No information | No information | Paid 6% of revenues - 5% contribution to Yum! And 1% (of gross revenues) spent on marketing and local or store-based promotions | Paid 6% of revenues - 5% contribution to Yum! and 1% (of gross revenues) spent on marketing and local or store-based promotions | Spend min. 5% of sales (+18% GST) from Company owned Burger King Restaurants on marketing and advertising | Spend a sum at least 2% of gross revenue |
| Store opening Fees | ~`0.5mn per store | ~`2mn per store | USD53,400 for stores opened in 2021 (subject to US CPI index), Renewal fee (every 10 years) is 50% of the existing initial fees (for stores opened in 2021 it was USD26,700 subject to US CPI index) | USD26,700 for new stores and renewal fee (every 10 years) of USD13,350 | USD15,000 increasing to USD35,000 from CY18 through year 2022 and remaining at USD35,000 for all periods thereafter | GBP500 to open new Costa Coffee store |

Source: Company, Centrum Broking

## Assumptions

**Exhibit 185: Revenue CAGR 14.9% FY23-25E**




Source: Company, Centrum Broking

### Segmental assumptions

**Exhibit 186: Domino's India**

| | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| **Dominos** | | | | | | | |
| Store | 1227 | 1335 | 1360 | 1567 | 1812 | 2058 | 2280 |
| SSG (%) | 16.4 | 3.2 | -17.7 | 22 | 2.7 | 3.0 | 3.2 |
| Sales (Rsmn) | 35,002 | 38,501 | 32,333 | 42,722 | 50,654 | 55,151 | 59,997 |
| ADS (000') | 78.2 | 79.0 | 65.1 | 78.7 | 86.2 | 87.9 | 89.7 |

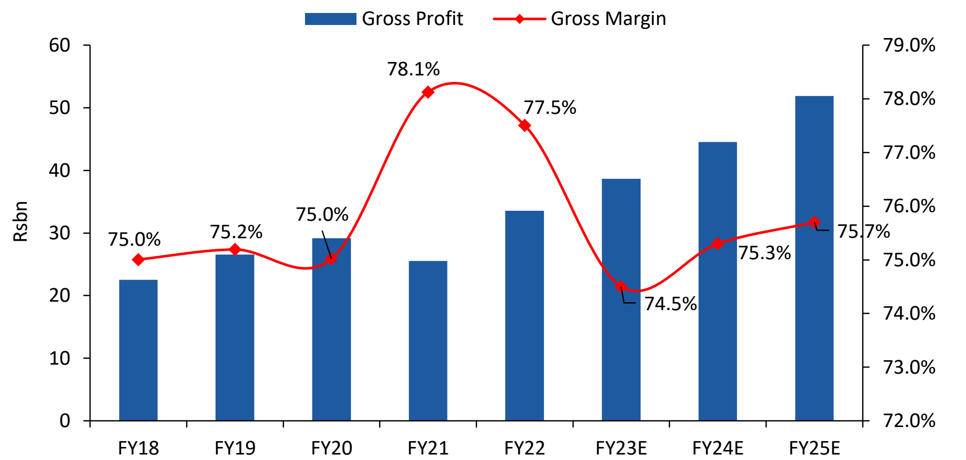
Source: Company, Centrum Broking

**Exhibit 187: Other segments store count**

| | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| Popeyes | - | - | - | 4 | 21 | 91 | 211 |
| Dunkin | 31 | 34 | 24 | 28 | 31 | 32 | 33 |
| Ekdum | - | - | 4 | 9 | 11 | 16 | 21 |
| Hong's Kitchen | 1 | 4 | 8 | 15 | 19 | 26 | 33 |
| Srilanka | 22 | 21 | 26 | 35 | 52 | 62 | 70 |
| Bangladesh | 1 | 3 | 5 | 9 | 14 | 19 | 24 |

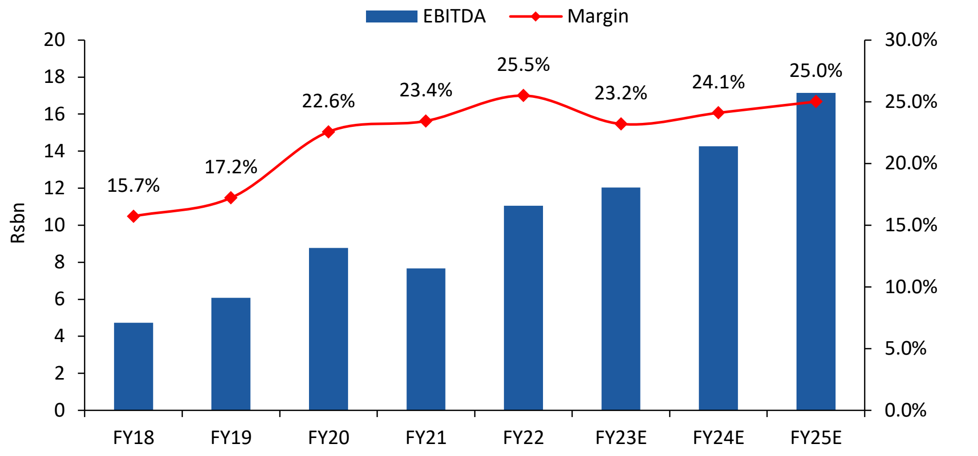
Source: Company, Centrum Broking

**Exhibit 188: Expect Gross Profit CAGR of 15.8% FY23-25E**



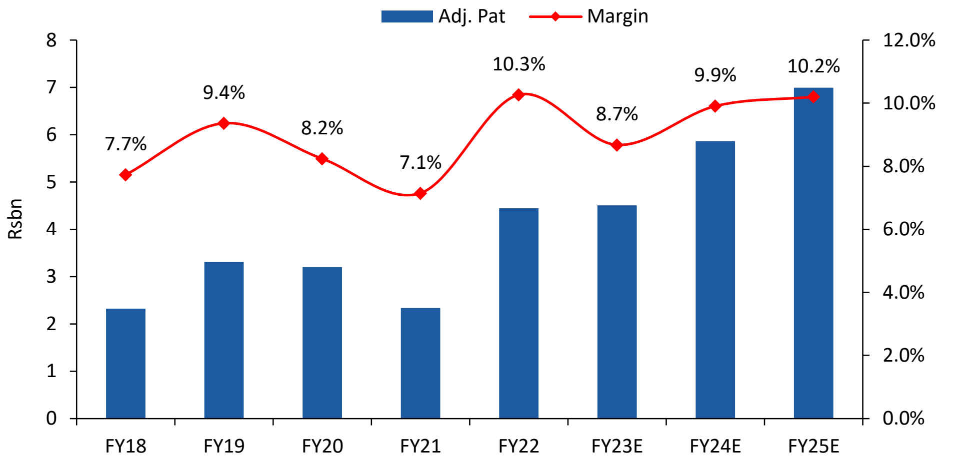

Source: Company, Centrum Broking

**Exhibit 189: Expect EBITDA CAGR of 19.3% FY23-25E; EBITDA margin of 25% (Post INDAS)**




Source: Company, Centrum Broking

**Exhibit 190: Expect PAT CAGR 24.6% FY23-25E; Adj. PAT Margin 10.2%**




Source: Company, Centrum Broking

# Valuations are reasonable; look for growth

- **Valuations are reasonable**
- **Moderating performance impacts earnings visibility**

## Valuations are reasonable but there is lot of promise

We estimate revenue/EBITDA CAGR over FY23-25E of 14.9/19.3% led by (1) Domino's store addition of 713 to reach 2,280 by Mar'25E, (2) Popeyes store count to reach 211 by FY25E, (3) SSSG for Domino's at 3.0%, and (4) increase in volumes and price/mix, and EBITDA margin to improve gradually at ~25.0% (post INDAS). On the home grown brands (Ekdum! And Hong's Kitchen) we estimate gradual scale up. We consider JUBI's recent investments made in DP Eurasia and Barbeque Nation as strategic and we value these businesses on EV/Sales basis. We initiate coverage on JUBI with BUY rating and TP of Rs555; (Domino's India: DCF-based Rs542; International business: MCap/sales Rs3; Other business: EV/EBITDA 5x Rs10); implied EV/EBITDA 16.6x FY25E Post-INDAS. With strong growth aspirations to become multi-brand, and multi-country player we expect JUBI to emerge strong player with steady operational performance. Despite JUBI trading at 30% discount to its 10-year average EV/EBITDA as on date, the gap could minimize in our view.

**Exhibit 191: SOTP Valuation Summary**

| SOTP | Basis | Assumption | | Price |
|---|---|---|---|---|
| Jubilant - Standalone | DCF | WACC (%) | 12.2 | 542 |
| | | Terminal Growth (%) | 5.0 | |
| International | M.Cap to Sales | X | 1 | 3 |
| DP Eurasia | EV/EBITDA | X | 5 | 6 |
| BBQ | | | 8 | 4 |
| **Total Value/Share** | | | | **555** |

Source: Company, Centrum Broking

**Exhibit 192: DP Eurasia (49.04% stake) Valuation**

| | FY23E | FY24E | FY25E |
|---|---|---|---|
| DP Eurasia Sales (Rsmn) | 10,800 | 12,757 | 15,000 |
| EBITDA | 1,548 | 2,009 | 2,455 |
| EV/EBITDA(x) | | | 5.0 |
| EV | | | 12,275 |
| Net Debt | | | 3,730 |
| Market Cap | | | 8,545 |
| Investment value | | | 4,191 |
| No. of share | | | 660 |
| **Price per Share** | | | **6** |

Source: Company, Centrum Broking, Bloomberg consensus

**Exhibit 193: BBQ (9.37% stake) Valuation**

| | FY23E | FY24E | FY25E |
|---|---|---|---|
| BBQ Sales (Rs. Mn) | 12,700 | 15,700 | 18,900 |
| EBITDA | 2,507 | 3,391 | 4,133 |
| EV/EBITDA(x) | | | 8.0 |
| EV | | | 27,971 |
| Net Debt | | | 3,240 |
| Market Cap | | | 29,824 |
| Investment Value | | | 2,795 |
| No. of share | | | 660 |
| **Price per Share** | | | **4** |

Source: Company, Centrum Broking, Bloomberg consensus

### Exhibit 194: International (Sri Lanka + Bangladesh) Valuation

| | FY23E | FY24E | FY25E |
|---|---|---|---|
| Sales (Rs. Mn) | 1,049 | 1,457 | 1,869 |
| M. Cap to Sales(x) | | | 1.0 |
| M. Cap | | | 1,870 |
| No. of share | | | 660 |
| **Price per Share** | | | **3** |

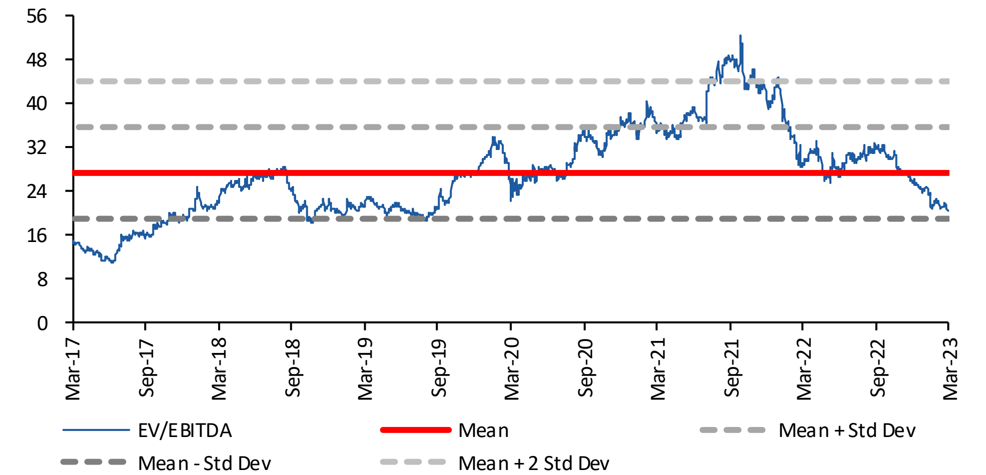
Source: Company, Centrum Broking

### Exhibit 195: Jubilant Foods India DCF

| | FY23E | FY24E | FY25E | FY26E | FY27E | FY28E | FY29E | FY30E | FY31E | FY32E | FY33E | FY34E | FY35E | FY36E | FY37E | FY38E | FY39E | FY40E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 51,892 | 59,152 | 68,539 | 76,764 | 84,441 | 92,885 | 104,031 | 116,515 | 130,496 | 143,546 | 157,900 | 173,691 | 191,060 | 210,166 | 231,182 | 243,897 | 257,311 | 271,464 |
| EBIT | 7,387 | 9,238 | 11,186 | 12,682 | 14,119 | 15,716 | 18,018 | 20,414 | 23,124 | 25,724 | 28,928 | 32,168 | 35,767 | 39,764 | 44,202 | 47,121 | 50,228 | 53,533 |
| Depreciation | 4,655 | 5,023 | 5,962 | 6,678 | 7,346 | 8,080 | 9,050 | 10,369 | 12,005 | 13,492 | 14,999 | 16,499 | 18,149 | 19,964 | 21,960 | 23,412 | 24,957 | 27,144 |
| Tax | (1,542) | (1,933) | (2,332) | (2,612) | (2,442) | (2,283) | (2,173) | (2,069) | (2,202) | (2,301) | (2,404) | (2,512) | (2,625) | (2,599) | (2,716) | (2,722) | (2,728) | (2,734) |
| Capex | (7,148) | (6,356) | (6,470) | (4,606) | (5,066) | (4,644) | (5,202) | (4,661) | (5,220) | (5,742) | (6,316) | (5,211) | (5,732) | (4,203) | (4,624) | (4,878) | (5,146) | (5,429) |
| Change in WC | 2,051 | 1,780 | 1,966 | 2,202 | 2,422 | 2,664 | 3,432 | 4,420 | 5,693 | 6,262 | 6,888 | 7,577 | 8,335 | 9,168 | 10,085 | 10,640 | 11,225 | 11,843 |
| FCFF | 5,403 | 7,752 | 10,312 | 14,344 | 16,378 | 19,533 | 23,125 | 28,473 | 33,400 | 37,435 | 42,095 | 48,521 | 53,894 | 62,094 | 68,908 | 73,573 | 78,535 | 84,356 |
| Disc. Factor | 1.0 | 0.9 | 0.8 | 0.7 | 0.6 | 0.6 | 0.5 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 |
| Disc. FCFF | 5,379 | 6,876 | 8,153 | 10,107 | 10,286 | 10,930 | 11,533 | 12,656 | 13,232 | 13,214 | 13,243 | 13,604 | 13,468 | 13,825 | 13,674 | 13,013 | 12,380 | 11,848 |
| Sum of Disc. FCFF | 195,572 | | | | | | | | | | | | | | | | | |
| Disc. TV | 172,779 | | | | | | | | | | | | | | | | | |
| EV | 368,351 | | | | | | | | | | | | | | | | | |
| Net debt | 10,649 | | | | | | | | | | | | | | | | | |
| Equity Value | 357,702 | | | | | | | | | | | | | | | | | |
| Shares O/S | 660 | | | | | | | | | | | | | | | | | |
| **Value Per share** | **542** | | | | | | | | | | | | | | | | | |

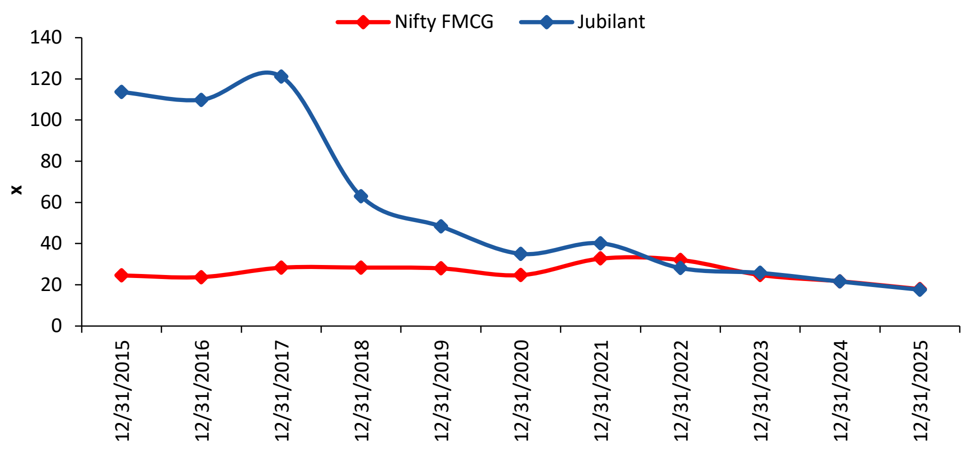
Source: Company, Centrum Broking

### Exhibit 196: One year forward EV/EBITDA (adjusted post IND-AS 116)



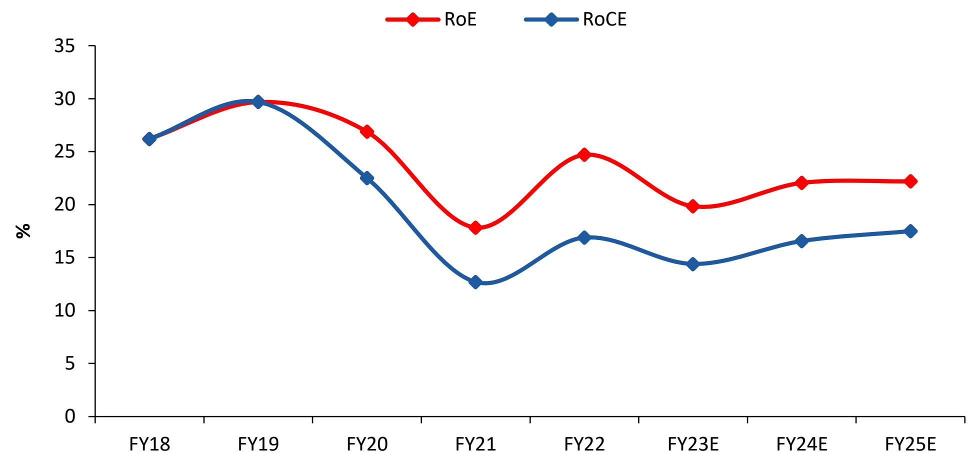

Source: Company, Centrum Broking

**Exhibit 197: JUBI EV/EBITDA valuation to FMCG index**




Source: Bloomberg, Centrum Research

**Exhibit 198: Return Ratios – RoE & RoCE**



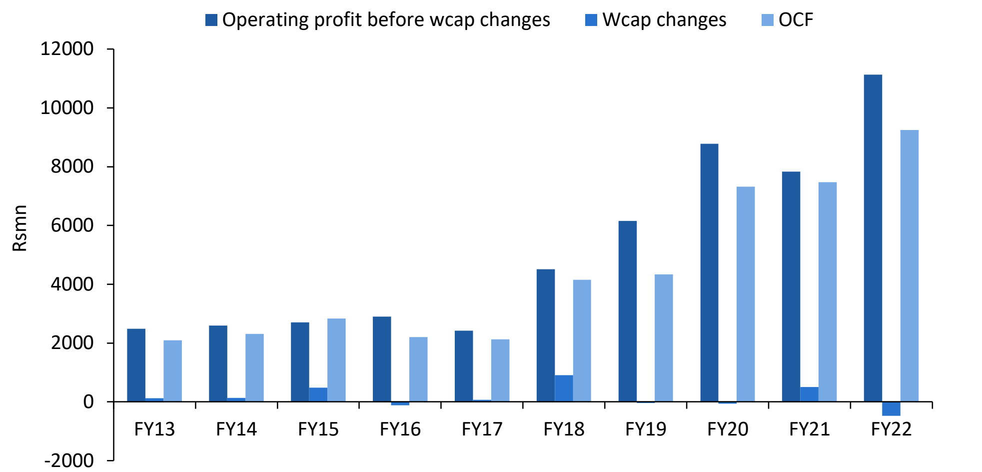

Source: Company, Centrum Broking

# Analysis of 10-year cash-flows

JUBI is only QSR who has been generating free cash flow in last 10 years

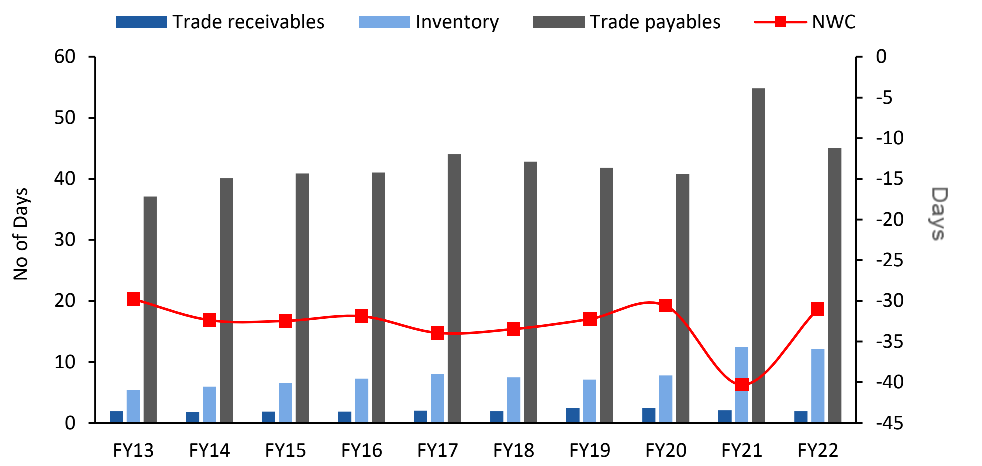
Our 10-year cash-flow analysis indicate, Jubilant has delivered revenue/PBT CAGR of 15.6%/15.3% over the last decade. Operating profits have expanded consistently, with operating margin increasing from 17.4% in FY13 to 25.5% in FY22. Cumulative profit before working capital has reached to Rs51.5bn (tax paid: Rs9.0bn) and cash flow from operating activities has been steady at Rs44.1bn. On an aggregate, OCF/EBITDA has remained at 86.0% till FY22 whereas FCF/OCF stood at 46.0%. Cumulative capex has been Rs23.6bn and FCF delivered by JUBI is at Rs20.5bn, as the company has been continuously focusing and investing heavily in store expansion. Overall, JUBI has delivered healthy return ratios over the decade.

**Exhibit 199: Generated consistent positive cash flow from operations**



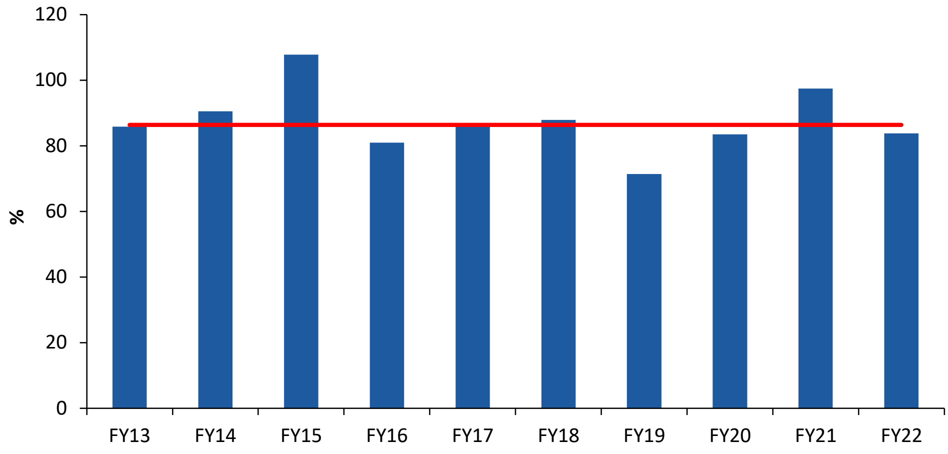

Source: Company, Centrum Broking

**Exhibit 200: Working capital cycle by-and-large steady over the decade**



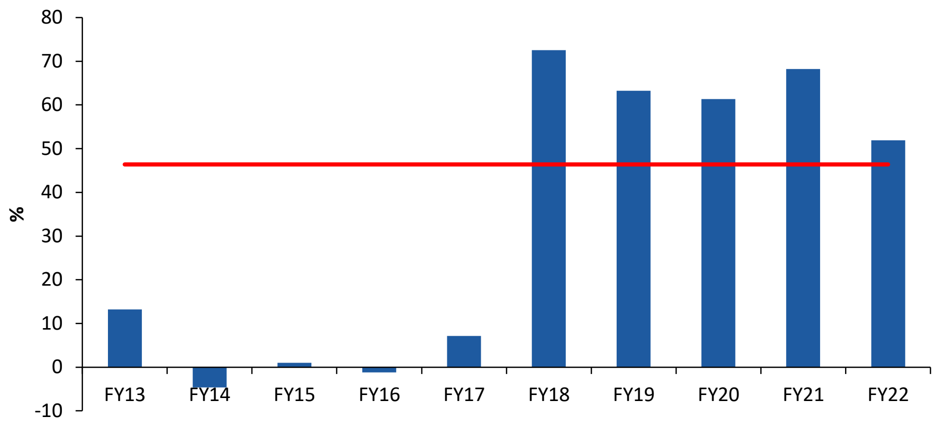

Source: Company, Centrum Broking

### Exhibit 201: EBITDA to OCF conversion of 86% over 10 years




Source: Company, Centrum Broking

### Exhibit 202: OCF to FCF conversion over 10 years




Source: Company, Centrum Broking

### Exhibit 203: Leverage has been low consistently; Return ratios have been steady

| | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY13-22 average |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Debt/Equity | -0.3 | -0.2 | 0.0 | 0.0 | 0.0 | -0.1 | -0.4 | 0.8 | 0.6 | 0.6 | 0.1 |
| Net Debt/EBITDA | -0.5 | -0.4 | -0.1 | -0.1 | -0.1 | -0.3 | -0.8 | 1.0 | 1.2 | 1.1 | 0.1 |
| RoCE pre-tax | 46.7 | 31.5 | 25.5 | 18.9 | 12.7 | 32.8 | 37.1 | 28.1 | 15.9 | 21.1 | 27.0 |
| RoCE | 37.3 | 25.2 | 20.4 | 15.1 | 10.1 | 26.2 | 29.7 | 22.5 | 12.7 | 16.9 | 21.6 |
| RoIC (pre-tax) | 54.4 | 53.3 | 27.2 | 18.2 | 11.5 | 33.5 | 46.5 | 35.0 | 17.0 | 23.6 | 32.0 |
| RoE | 37.3 | 25.2 | 20.4 | 15.1 | 10.1 | 26.2 | 29.7 | 26.9 | 17.8 | 24.7 | 23.4 |

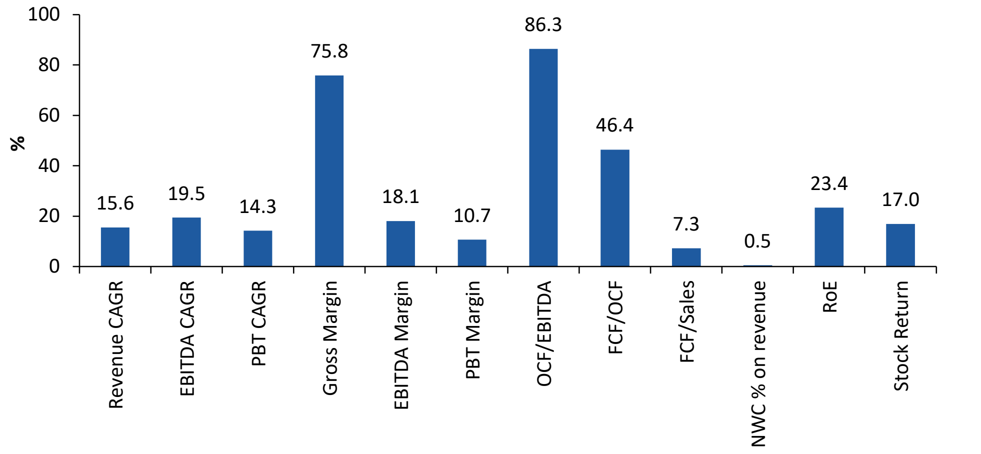
Source: Company, Centrum Broking

### Exhibit 204: DuPont Analysis

| | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY13-22 avg |
|---|---|---|---|---|---|---|---|---|---|---|---|
| PAT/PBT | 0.70 | 0.67 | 0.72 | 0.67 | 0.72 | 0.69 | 0.66 | 0.73 | 0.76 | 0.75 | 0.71 |
| Revenue/average total assets | 3.75 | 3.40 | 3.37 | 3.39 | 3.25 | 3.39 | 3.17 | 1.99 | 1.17 | 1.27 | 2.81 |
| Average total assets/Average NW | 1.02 | 1.01 | 1.02 | 1.01 | 1.00 | 1.00 | 1.00 | 1.64 | 2.14 | 1.89 | 1.27 |
| PBT/EBITDA | 0.81 | 0.74 | 0.65 | 0.58 | 0.45 | 0.72 | 0.83 | 0.50 | 0.40 | 0.53 | 0.62 |
| EBITDA/Revenue | 0.17 | 0.15 | 0.13 | 0.11 | 0.10 | 0.16 | 0.17 | 0.23 | 0.23 | 0.26 | 0.17 |
| RoE | 37.3 | 25.2 | 20.4 | 15.1 | 10.1 | 26.2 | 29.7 | 26.9 | 17.8 | 24.7 | 23.4 |

Source: Company, Centrum Broking

**Exhibit 205: Price movement vs. Financials**




Source: Company, Centrum Broking

**Exhibit 206: Effective FCF utilization**

| Rsmn | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|---|---|---|---|---|---|
| FCF (a) | 277 | -108 | 28 | -27 | 152 | 3,011 | 2,743 | 4,492 | 5,099 | 4,804 |
| FCF yield | 0% | 0% | 0% | 0% | 0% | 1% | 1% | 2% | 2% | 2% |
| Dividend + Buyback (b) | 0 | 0 | 0 | 198 | 198 | 198 | 398 | 1,750 | 0 | 792 |
| Distribution of FCF (b/a) | 0% | 0% | 0% | -737% | 130% | 7% | 14% | 39% | 0% | 16% |
| Cash & equivalents*/Capital employed | 30.1% | 20.8% | 4.7% | 4.1% | 3.9% | 13.1% | 38.8% | 57.0% | 34.6% | 25.7% |

Source: Company, Centrum Broking *including liquid investments

# Risks to our call

- **Faster than expected scale up of new cuisines formats:** Based on past track records (Dunkin) we have measured scalability for the new cuisines formats such as Ekdum!, Hong's Kitchen and Popeyes. In addition, we expect there will be gradual shift in profitability. Considering JUBI's solid understanding in supply chain capabilities and increased management bandwidth if it achieves faster growth and profitability, it may alter our assumptions.
- **Pace of store addition:** We expect JUBI to add ~310-320 stores every year. However, within splitting of stores in the existing locations and increasing eating out frequency/habits in non-metro and tier-2/tier-3 towns further pick up in pace of store expansion could influence earnings positively.
- **Sharp improvement in margin profile:** Over past few quarters, JUBI's gross margins are under pressure, though palm oil corrected sharply, the management has been flagging rising input RM, especially milk and cheese. However, the management has undertaken many supply-chain cost containment efforts. Even though predicting direct impact of these initiatives could be materially different, we believe there is sensitivity to our margin assumptions.
- **Lower discounting and promotions:** Recently JUBI had announced Cheesy Reward Program to increase consumer traffic nationally. Any material change in such efforts may influence revenue growth and margins.
- **Abrupt competition in Chicken and Pizza segment:** We note most of the leading players have undertaken aggressive store expansion targets in both Chicken and pizza categories. In order to garner faster revenue, we consider material increase in competition from national as well as local players could impact its revenues.
- **Senior management team:** JUBI recently saw complete revamp in its senior management team, though most of the positions are now filed. We reckon, JUBI is a professionally run business whereby the promoter has no executive role to play in the day-to-day operations. However, numerous changes in the senior leadership team may pose concerns in the short term.

# Company profile

Incorporated in 1995, Jubilant Foodworks Limited (JFL) is part of the Jubilant Bhartia Group and is India's largest food service company. The company holds the master franchise rights for three international brands, Domino's Pizza, Dunkin' Donuts and Popeyes addressing three different food market segments. The company launched its first home-grown brand – Hong's Kitchen in Chinese cuisine segment. The Company also entered into the exciting world of Biryanis with the launch of "Ekdum!". It offers the widest range of Biryanis curated from various parts of India using authentic ingredients along with extensive range of Kebabs, Curries, Breads, Desserts and Beverages. The company currently operates more than 1,814 outlets for Domino's Pizza, Dunkin' Donuts and Hong's Kitchen and is a market leader in pizza segment. The company has more than 30,000 brand ambassadors committed to deliver value to its customers.

## Management

**Exhibit 207: Key management personnel**

| | | |
|---|---|---|
| **Mr. Shyam S. Bhartia** | Chairman & Director | Mr. Shyam Bhartia, was appointed as Chairman and founder Director in Mar'95. He holds a bachelor's degree in commerce from St. Xavier's College, Calcutta University. He is also a fellow member of the ICWAI. Mr. Bhartia has experience in the pharmaceuticals and specialty chemicals, food, oil and gas, aerospace and IT sectors. |
| **Mr. Hari S. Bhartia** | Co- Chairman & Director | Mr. Hari Bhartia, was appointed as Chairman and founder Director in Mar'95. He holds a bachelor's degree in chemical engineering from the Indian Institute of Technology, Delhi. Mr. Bhartia has interests in the Pharma, Life Sciences & Healthcare, Oil & Gas (Exploration & Production), Agri & Performance Polymers, Food & Retail and Consulting Services in Aerospace and Oilfield Services. |
| **Mr. Sameer Khetrapal** | Chief Executive Officer | Mr. Sameer Khetarpal, was appointed as MD and CEO in Sept'22. He has served in numerous senior leadership roles during his 25+ years career in sectors like e-commerce and management consulting. |
| **Mr. Ashish Goenka** | Chief Financial Officer | Mr. Ashish Goenka was appointed as CFO in Feb'21. Ashish holds 19-years of experience in finance and strategy roles with FMCG and Telecom Industry. |
| **Ms. Vaneet Singla** | EVP & Chief Product Officer | Mr. Vaneet Singla was appointed from Jun'21. He is the EVP & Chief Product Officer and Key Managerial Personnel of the Company. He is a qualified B. Tech (NIT) and MBA. He has 16 years of experience and was pervious employed with Wheels Eye. |
| **Mr. Sameer Batra** | Chief Business Officer | Mr. Batra holds an Engineering Degree from University of Pune and Masters in Business Administration from Goa Institute of Management. He has over 22 years of rich experience in building businesses in the consumer space with a special focus on Pricing, Large scale P&L Management, leading and building teams and more recently running Digital businesses. |
| **Ms. Amit Maheshwari** | Head of Operation | He is the SVP Head Operations, Domino's India. He has joined the company from August 1, 2018. He is a qualified BA (MDS University) and HM (IH Lucknow). He has 25-years of experience and was previously employed with Godrej Nature Basket. |

Source: Company

## &L

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| **Revenues** | **32,688** | **43,311** | **51,892** | **59,152** | **68,539** |
| Operating Expense | 7,261 | 10,195 | 13,801 | 15,433 | 17,944 |
| Employee cost | 7,357 | 7,514 | 8,873 | 9,937 | 11,309 |
| Others | 10,405 | 14,556 | 17,176 | 19,520 | 22,138 |
| **EBITDA** | **7,665** | **11,046** | **12,041** | **14,261** | **17,148** |
| Depreciation & Amortisation | 3,672 | 3,830 | 4,655 | 5,023 | 5,962 |
| **EBIT** | **3,993** | **7,216** | **7,387** | **9,238** | **11,186** |
| Interest expenses | 1,606 | 1,730 | 1,752 | 1,943 | 2,139 |
| Other income | 704 | 407 | 412 | 501 | 280 |
| **PBT** | **3,091** | **5,893** | **6,047** | **7,796** | **9,327** |
| Taxes | 754 | 1,444 | 1,542 | 1,933 | 2,332 |
| Effective tax rate (%) | 24.4 | 24.5 | 25.5 | 24.8 | 25.0 |
| **PAT** | **2,336** | **4,448** | **4,505** | **5,862** | **6,995** |
| Minority/Associates | 0 | 0 | 0 | 0 | 0 |
| **Recurring PAT** | **2,336** | **4,448** | **4,505** | **5,862** | **6,995** |
| Extraordinary items | 0 | 73 | 0 | 0 | 0 |
| **Reported PAT** | **2,336** | **4,522** | **4,505** | **5,862** | **6,995** |

## Ratios

| YE Mar | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| **Growth (%)** | | | | | |
| Revenue | (15.9) | 32.5 | 19.8 | 14.0 | 15.9 |
| EBITDA | (12.6) | 44.1 | 9.0 | 18.4 | 20.2 |
| Adj. EPS | (27.0) | 90.4 | 1.2 | 30.1 | 19.3 |
| **Margins (%)** | | | | | |
| Gross | 78.1 | 77.5 | 74.5 | 75.3 | 75.7 |
| EBITDA | 23.4 | 25.5 | 23.2 | 24.1 | 25.0 |
| EBIT | 12.2 | 16.7 | 14.2 | 15.6 | 16.3 |
| Adjusted PAT | 7.1 | 10.4 | 8.7 | 9.9 | 10.2 |
| **Returns (%)** | | | | | |
| ROE | 17.8 | 24.7 | 19.9 | 22.1 | 22.2 |
| ROCE | 12.7 | 16.9 | 14.4 | 16.6 | 17.5 |
| ROIC | 13.6 | 18.9 | 15.9 | 19.1 | 22.7 |
| **Turnover (days)** | | | | | |
| Gross block turnover ratio (x) | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 |
| Debtors | 2 | 2 | 2 | 2 | 2 |
| Inventory | 57 | 54 | 45 | 46 | 46 |
| Creditors | 251 | 200 | 162 | 177 | 188 |
| Net working capital | (4) | 3 | (9) | 6 | 20 |
| **Solvency (x)** | | | | | |
| Net debt-equity | 0.6 | 0.6 | 0.5 | 0.3 | 0.1 |
| Interest coverage ratio | 4.8 | 6.4 | 6.9 | 7.3 | 8.0 |
| Net debt/EBITDA | 1.2 | 1.1 | 1.0 | 0.5 | 0.2 |
| **Per share (Rs)** | | | | | |
| Adjusted EPS | 3.5 | 6.7 | 6.8 | 8.9 | 10.6 |
| BVPS | 22.7 | 31.9 | 36.9 | 43.6 | 51.8 |
| CEPS | 9.1 | 12.6 | 13.9 | 16.5 | 19.6 |
| DPS | 6.0 | 1.2 | 1.5 | 1.8 | 2.0 |
| Dividend payout (%) | 169.4 | 17.5 | 22.0 | 20.3 | 18.9 |
| **Valuation (x)** | | | | | |
| P/E | 120.8 | 63.5 | 62.7 | 48.2 | 40.4 |
| P/BV | 18.9 | 13.4 | 11.6 | 9.8 | 8.3 |
| EV/EBITDA | 38.0 | 26.7 | 24.4 | 20.3 | 16.6 |
| Dividend yield (%) | 1.4 | 0.3 | 0.4 | 0.4 | 0.5 |

Source: Company, Centrum Broking

## Balance sheet

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Equity share capital | 1,320 | 1,320 | 1,320 | 1,320 | 1,320 |
| Reserves & surplus | 13,652 | 19,715 | 23,032 | 27,469 | 32,881 |
| Shareholders fund | 14,971 | 21,035 | 24,352 | 28,789 | 34,201 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Total debt | 14,500 | 17,653 | 17,653 | 17,653 | 17,653 |
| Non Current Liabilities | 5 | 5 | 5 | 5 | 5 |
| Def tax liab. (net) | 0 | 0 | 0 | 0 | 0 |
| **Total liabilities** | **29,476** | **38,693** | **42,010** | **46,447** | **51,859** |
| Gross block | 37,929 | 46,040 | 53,147 | 59,419 | 65,778 |
| Less: acc. Depreciation | (17,249) | (19,740) | (24,394) | (29,417) | (35,380) |
| Net block | 20,680 | 26,300 | 28,753 | 30,001 | 30,398 |
| Capital WIP | 244 | 388 | 369 | 387 | 426 |
| Net fixed assets | 21,301 | 27,285 | 29,778 | 31,111 | 31,619 |
| Non Current Assets | 2,425 | 1,538 | 1,606 | 1,686 | 1,777 |
| Investments | 6,139 | 9,544 | 11,843 | 12,705 | 14,722 |
| Inventories | 1,305 | 1,570 | 1,706 | 1,945 | 2,253 |
| Sundry debtors | 179 | 268 | 284 | 292 | 357 |
| Cash & Cash Equivalents | 5,175 | 5,400 | 5,908 | 9,850 | 14,612 |
| Loans & advances | 839 | 1,410 | 1,338 | 1,367 | 1,430 |
| Other current assets | 653 | 738 | 812 | 820 | 828 |
| Trade payables | 5,333 | 5,353 | 6,398 | 7,779 | 9,389 |
| Other current liab. | 2,744 | 3,265 | 4,421 | 5,098 | 5,895 |
| Provisions | 462 | 442 | 447 | 451 | 456 |
| Net current assets | (388) | 326 | (1,217) | 945 | 3,741 |
| **Total assets** | **29,476** | **38,693** | **42,010** | **46,447** | **51,859** |

## Cashflow

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Profit Before Tax | 3,091 | 5,820 | 6,047 | 7,796 | 9,327 |
| Depreciation & Amortisation | 3,672 | 3,830 | 4,655 | 5,023 | 5,962 |
| Net Interest | 1,201 | 1,443 | 1,340 | 1,442 | 1,859 |
| Net Change – WC | 500 | (474) | 2,051 | 1,780 | 1,966 |
| Direct taxes | (865) | (1,405) | (1,542) | (1,933) | (2,332) |
| **Net cash from operations** | **7,470** | **9,250** | **12,550** | **14,108** | **16,782** |
| Capital expenditure | (2,365) | (4,425) | (7,148) | (6,356) | (6,470) |
| Acquisitions, net | 0 | 0 | 0 | 0 | 0 |
| Investments | (533) | (689) | (2,299) | (863) | (2,016) |
| Others | (3,245) | (631) | 343 | 422 | 189 |
| **Net cash from investing** | **(6,143)** | **(5,746)** | **(9,103)** | **(6,797)** | **(8,298)** |
| **FCF** | **1,327** | **3,505** | **3,448** | **7,311** | **8,484** |
| Issue of share capital | 0 | 0 | 0 | 0 | 0 |
| Increase/(decrease) in debt | 0 | 0 | 0 | 0 | 0 |
| Dividend paid | 0 | (792) | (1,188) | (1,425) | (1,584) |
| Interest paid | (2,803) | (3,050) | (1,752) | (1,943) | (2,139) |
| Others | 0 | 0 | 0 | 0 | 0 |
| **Net cash from financing** | **(2,803)** | **(3,842)** | **(2,939)** | **(3,369)** | **(3,722)** |
| Net change in Cash | (1,476) | (337) | 508 | 3,942 | 4,762 |

Source: Company, Centrum Broking

CENTRUM

# Devyani International

## Fully valued; look for margin of safety

**Devyani International Limited (DIL) is one of the leading franchisees of Yum! Brands and has emerged as the fastest growing QSRs in India with 1,047 stores including KFC, Pizza Hut (PH) and Costa Coffee as on 3QFY23. Over past few years, DIL has shown remarkable turnaround in its businesses. We expect growth momentum to continue led by, (1) faster penetration of KFC and Pizza Hut stores driven by the incentive program of Yum!, (2) strong operating parameters, and (3) sharper execution. Notwithstanding the current demand conditions, the management has guided for 250-300 new stores indicating higher KFC stores vs. PH. We estimate revenue/EBITDA/PAT CAGR of 22.1%/23.4%/15.1% over FY23-25E. Further, despite higher ADS and FCF growth, DIL delivers industry leading return ratios, however it commands premium valuation. Given low margin of safety we initiate coverage on DIL with Reduce rating and DCF-based TP of Rs145 (implying 14.8x FY25E EV/EBITDA Post-INDAS).**

### DIL is the largest franchisee of Yum! with 461 KFC and 483 PH stores with 59%/64% share

Devyani International (DIL) is the largest Yum! Brands franchisee in India operating 1,047 stores (KFC: 461, PH: 483 and Costa Coffee: 103) across 227 cities as on Dec'22. In addition, DIL also operates 36 KFC and 21 KFC/PH outlets in Nigeria and Nepal. We note the structural changes altered by consumer behavior led to massive shift in market construct in favor of organized QSR players. DIL's EBITDA margins (Post-INDAS) has improved 510bps from 16.9% in FY20 to 22.0% in Dec'22 driven by (1) rationalizing underperforming stores, (2) stringent cost measures, and (3) focus on small format stores to improve unit economics. We expect such measure would continue, however believe limited room for margin expansion from here.

### We expect 727 new stores addition taking total store count to 1,665 by FY25E

Our in-depth analysis and store growth metrics indicate that the strong incentive program led by Yum! For store opening and rising opportunity in Chicken QSR segment, DIL would fast-track KFC store expansion moving up from 364 in FY22 to 679 in FY25E. While we believe Pizza Hut has lot of potential to transpire as challenger brand to Domino's, it holds inherent challenges such as product gaps and pricing premium and most importantly delivery efficiencies, though it is improving. We expect DIL to add ~219 PH stores by FY25E. Further, Costa Coffee business is in its evolution stage driven by crowding of competition, hence we have built in moderate growth in store addition, while we expect calibrated store expansion in in-house brands and international territories could see slower pace of growth. We expect store addition of 727.

### We expect revenue/ EBITDA/PAT CAGR of 22.1%/ 23.4%/15.1% over FY23-25E

In past four years DIL has shown remarkable improvement in its India performance, with sharp improvement its execution capabilities. Hence, we have projected revenue/EBITDA/ PAT CAGR of 22.1%/23.4%/15.1% over FY23-25E. Considering faster store growth and limited room for margin expansion in PH we expect despite rising product contribution margins due to higher corporate overheads its EBITDA margins to be capped at 18.0% whereas KFC margin would increase by 80bp to reach 28.8% in FY25E (Post-INDAS).

### Valuation and risks

We reckon strong management capabilities reflected in smart turnaround of DIL's overall performance. However, incremental competition in Chicken QSR and regulated growth in PH business holds our view. We consider valuations are stretched and may not sustain hence look for margin of safety. We initiate coverage on DIL with Reduce rating and DCF-based target price of Rs145 (implying 14.8 FY25E EV/EBITDA post-INDAS). Key risks: irrational competition from QSR players (Pizza Hut), slower than expected demand recovery led by high food inflation.

## Financial and valuation summary

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Revenues | 11,351 | 20,842 | 30,098 | 38,092 | 44,870 |
| EBITDA | 2,345 | 4,762 | 6,638 | 8,482 | 10,104 |
| EBITDA margin (%) | 20.7 | 22.8 | 22.1 | 22.3 | 22.5 |
| Adj. Net profit | (531) | 1,772 | 2,611 | 3,200 | 3,459 |
| Adj. EPS (Rs) | (0.5) | 1.5 | 2.2 | 2.7 | 2.9 |
| EPS growth (%) | (65.1) | nm | 45.0 | 22.5 | 8.1 |
| PE (x) | nm | 97.7 | 66.9 | 54.6 | 50.5 |
| 5EV/EBITDA (x) | 69.5 | 33.7 | 23.7 | 18.1 | 14.8 |
| PBV (x) | 140.2 | 25.0 | 18.4 | 13.8 | 10.8 |
| RoE (%) | 141.1 | 44.3 | 32.0 | 28.9 | 24.0 |
| RoCE (%) | 20.8 | 33.3 | 39.8 | 35.7 | 29.9 |

Source: Company, Centrum Broking

Institutional Research

**Initiating Coverage**

India I QSR

20 March, 2023

## REDUCE

Price: Rs145

Target Price: Rs145

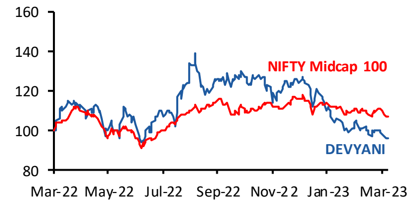
Forecast return: 0%

**Market Data**

| | |
|---|---|
| Bloomberg: | DEVYANI IN |
| 52 week H/L: | 215/141 |
| Market cap: | Rs175.1bn |
| Shares Outstanding: | 1205mn |
| Free float: | 31.4% |
| Avg. daily vol. 3mth: | 1,581,319 |

Source: Bloomberg

**DEVYANI relative to Nifty Midcap 100**




Source: Bloomberg

**Shareholding pattern**

| | Dec-22 | Sep-22 | Jun-22 | Mar-22 |
|---|---|---|---|---|
| Promoter | 62.8 | 62.8 | 62.8 | 62.8 |
| FIIs | 8.8 | 8.3 | 6.9 | 6.9 |
| DIIs | 7.9 | 7.5 | 6.3 | 5.8 |
| Public/other | 20.5 | 21.4 | 24.1 | 24.5 |

Source: BSE

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QSR

# Thesis Snapshot

## Centrum vs. consensus

| YE Mar (Rs mn) | Centrum FY23E | Consensus FY23E | Variance (%) | Centrum FY24E | Consensus FY24E | Variance (%) |
|---|---|---|---|---|---|---|
| Revenue | 30,097 | 30,254 | (0.5) | 38,092 | 39,192 | (2.8) |
| EBITDA | 6,638 | 6,864 | (3.3) | 8,482 | 9,101 | (6.8) |
| EBITDA margin % | 22.1 | 22.7 | (63bp) | 22.3 | 23.2 | (95bp) |
| Adj. PAT | 2,611 | 2,572 | 1.5 | 3,200 | 3,346 | (4.4) |
| Diluted EPS (Rs) | 2.2 | 2.2 | 0.6 | 2.7 | 2.8 | (5.2) |

Source: Bloomberg, Centrum Broking

## Devyani International versus NIFTY Midcap 100

| | 1m | 6m | 1 year |
|---|---|---|---|
| DEVYANI IN | (5.9) | (25.2) | (9.7) |
| NIFTY Midcap 100 | (1.8) | (4.5) | 3.8 |

Source: Bloomberg, NSE

## Key assumptions

| YE Mar | FY23E | FY24E |
|---|---|---|
| No. of store | 1,197 | 1,440 |
| Gross Margin% | 70.3 | 70.3 |
| Store Margin (%) (Pre-INDAS) | 18.8 | 19.8 |
| Store Margin (%) (Post-INDAS) | 25.6 | 26.8 |
| EBITDA (%) (Pre-INDAS) | 13.8 | 14.7 |
| EBITDA (%) (Post-INDAS) | 22.1 | 22.3 |

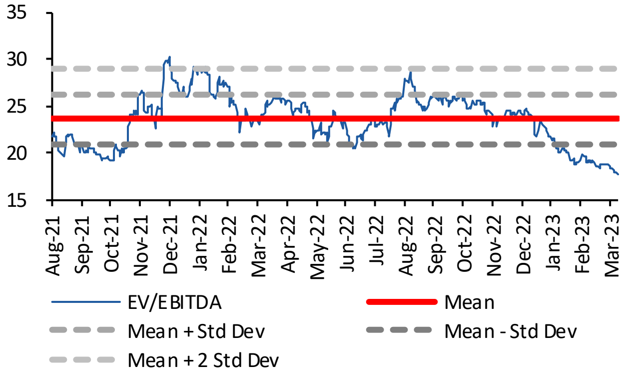
Source: Centrum Broking

## Valuations

We reckon strong management capabilities reflected in smart turnaround of DIL's overall performance. However, incremental competition in Chicken QSR and regulated growth in PH business holds our view. We consider valuations are stretched and may not sustain hence look for margin of safety. We initiate coverage on DIL with Reduce rating and DCF-based target price of Rs145 (implying 14.8 FY25E EV/EBITDA Post-INDAS). Key risks: irrational competition from QSR players (Pizza Hut), slower than expected demand recovery led by high food inflation.

| Valuations | Rs/share |
|---|---|
| DCF-based target price (Rs) | 145 |
| WACC (%) | 12.5 |
| Terminal growth (%) | 5.5 |

**EV/EBITDA mean and standard deviation**




Source: Bloomberg

## Peer comparison

| Company | Mkt Cap | CAGR (FY23-25E) | | | EV/EBITDA(x) Pre-INDAS | | | EV/EBITDA (x) - Post | | | RoE(%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (Rs Bn) | Sales | EBITDA | EPS | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Jubilant Foods | 282.4 | 14.9 | 19.3 | 24.6 | 35.4 | 29.2 | 23.8 | 24.4 | 20.3 | 16.6 | 19.9 | 22.1 | 22.2 |
| **Devyani International** | **174.7** | **22.1** | **23.4** | **15.1** | **37.9** | **27.4** | **21.9** | **23.7** | **18.1** | **14.8** | **32.0** | **28.9** | **24.0** |
| Westlife Foodworld | 106.8 | 16.9 | 20.4 | 33.2 | 39.3 | 32.4 | 26.4 | 30.0 | 25.0 | 20.5 | 24.0 | 25.4 | 26.7 |
| Sapphire Foods | 75.9 | 19.1 | 20.6 | 21.2 | 26.1 | 20.1 | 16.0 | 16.3 | 12.6 | 10.2 | 11.1 | 12.2 | 12.8 |
| RBA | 46.0 | 25.9 | 45.8 | NA | 126.7 | 50.9 | 35.2 | 33.7 | 21.2 | 15.9 | -3.0 | -1.4 | 0.1 |

Source: Company, Centrum Broking

# Devyani International is largest franchisee of Yum! Brands

## DIL is largest Yum! Brands franchisee with 1,047 stores in India

- Structural changes altered by consumer behaviour leading the shift in market construct
- DIL holds 61% Yum! Stores in India
- KFC performed well, yet Pizza hut turnaround is visible
- Costa Coffee scale up underway

Devyani International (DIL) is the largest Yum! Brands franchisee in India operating 1,047 stores (KFC: 461, PH: 483 and Costa Coffee: 103) across 227 cities as on Dec'22. In addition, DIL also operates 36 KFC and 21 KFC/PH outlets in Nigeria and Nepal. We note the structural changes altered by consumer behaviour led to massive shift in market construct in favour of organized QSR players. DIL's key strengths include (1) Long and strong connection with Yum! (Parent) creating win-win relationship, (2) strong execution and cost control focus, (3) portfolio of well recognized brands such as KFC. Pizza Hut, and Costa Coffee, (4) experienced senior management team. Therefore, DIL is well positioned to be the fastest growing QSR in India in our view.

**History of DIL in India**

Devyani International is RJ Corp's (Ravi Jaipuria Group) company, that has demonstrated long standing relationship with an MNC such as Pepsi whose franchisee operation under Varun Beverages (RJ group's company) expanded steadily in India. Over years, Varun Beverages has become Pan-India bottlers for Pepsi. Therefore, we believe, DIL management holds strong capability in nurturing and forging strong relationships with MNC food companies.

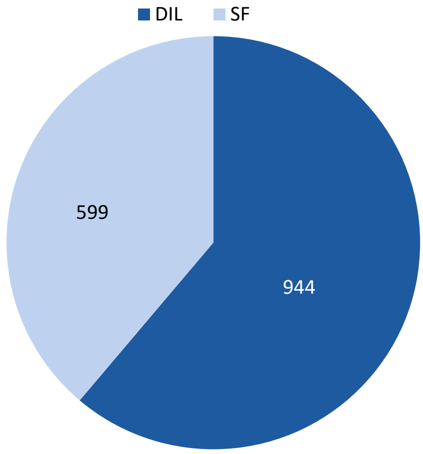
As per company's DRHP, DIL signed a development and franchise agreement with Yum! in 1996. DIL enjoys strong relationship with Yum! Brands dated back to 1997, when it opened its first Pizza Hut outlet in Jaipur. Through acquisition of stores by DIL, Yum! also holds 4.8% stake in the company as on date. As on Dec'22, DIL operates 61% or (461 KFC and 483 PH stores) of Yum! stores in the country. DIL as on date is largest among the two franchisees in terms of store count.

**Exhibit 208: DIL history in India**

| Year | DIL's journey in India |
|---|---|
| 1996 | DIL signed a development agreement and franchise agreement for Pizza Hut in North India |
| 2001 | Acquired stores located in East India and also acquired Specialty Restaurants Private Limited |
| 2004 | DIL signed a franchise agreement for KFC with Yum! and for Costa Coffee with Whitbread |
| 2009 | Opened first KFC in Nepal and in Nigeria |
| 2012 | DIL launched its own brand Vaango in South Indian cuisine |
| 2014 | DIL acquired PHD outlets from Yum! in West & South India and Temasek invested in DIL to acquire 15.38%. equity |
| 2019 | DIL acquired 61 KFC outlets from Yum! Brands in the states of Karnataka, AP & Telangana which led to equity infusion by Yum! to the extent of 4.76% |
| 2020 | Acquired 9 KFC outlets |
| 2021 | Further acquired 21 KFC outlets |

Source: Company, Centrum Broking

**Exhibit 209: DIL holds 61% of Yum! stores in India (KFC+PH)**




Source: Company, Centrum Broking

We note DIL has three key strengths i.e., (1) solid management team with execution skills for its deployed strategy, (2) portfolio of well-known brands, and (3) sharp focus on cost control to deliver profitability.

DIL promotor hold strong background handling franchise based operating model

As on Dec'22, DIL operates 1,047 stores under focus brands in India namely 461 under KFC, 483 under Pizza Hut and 103 under Costa Coffee format. DIL also operates 36 KFC stores in Nigeria and 21 KFC/Pizza Hut stores in Nepal. In addition, DIL runs its own brands such as Vaango (South India cuisine) and Food Street in India. Core Brands, which include KFC, Pizza Hut and Costa Coffee outlets in India, contributed 86% to revenues and 84% to brand contribution EBITDA.

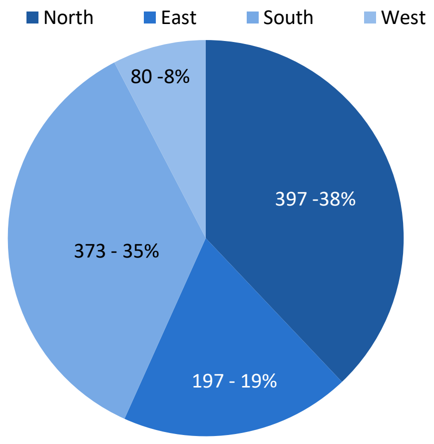
**Exhibit 210: Key operational metrics for DIL**

| | 2019 | 2020 | 2021 | 2022 | 9MFY23 |
|---|---|---|---|---|---|
| **SSSG (%)** | | | | | |
| KFC | 4.7 | 3.2 | (33.7) | 49.4 | 21.8 |
| Pizza Hut | 4.7 | (3.7) | (30.3) | 45.4 | 6.7 |
| Costa Coffee | 2.7 | (4.4) | (61.6) | 95.2 | 62.0 |
| | | | | | |
| **No of Stores** | | | | | |
| KFC | 134 | 172 | 264 | 364 | 461 |
| Pizza Hut | 268 | 269 | 297 | 413 | 483 |
| Costa Coffee | 67 | 63 | 44 | 55 | 103 |
| Total Core Brands | 469 | 504 | 605 | 832 | 1047 |
| | | | | | |
| **Revenue (Rsmn)** | | | | | |
| KFC | 4,641 | 6,091 | 6,443 | 12,189 | 13,275 |
| Pizza Hut | 4,233 | 4,174 | 2,879 | 5,318 | 5,300 |
| Costa Coffee | 902 | 820 | 214 | 411 | 688 |
| Total Core Brands | 9,776 | 11,085 | 9,536 | 17,918 | 19,263 |
| | | | | | |
| **Gross margin (%)** | | | | | |
| KFC | 66.0 | 64.8 | 67.7 | 69.3 | 68.2 |
| Pizza Hut | 74.0 | 74.9 | 74.2 | 75.6 | 74.7 |
| Costa Coffee | 76.9 | 77.4 | 78.5 | 80.4 | 79.4 |
| Total Core Brands | 70.5 | 69.5 | 69.9 | 71.4 | 70.2 |
| | | | | | |
| **Brand Contribution margin (%)** | | | | | |
| KFC | 18.4 | 16.0 | 18.3 | 21.3 | 21.2 |
| Pizza Hut | 15.5 | 10.5 | 12.9 | 16.3 | 16.1 |
| Costa Coffee | 20.2 | 21.2 | 15.5 | 30.4 | 25.3 |
| Total Core Brands | 17.3 | 14.3 | 16.6 | 20.0 | 19.4 |

Source: Company, Centrum Broking

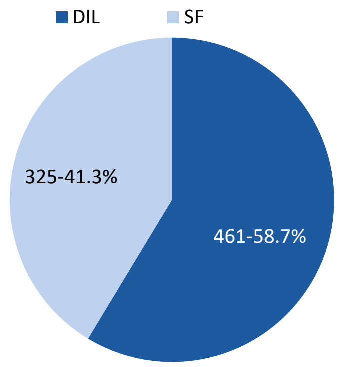
DIL holds higher regional concentration in North with 38% of stores, followed by South (35%), East (19%) and West (8%). We note presence in West for DIL is lower as the rights in this territory was awarded to other Yum! franchisee, Sapphire Foods. We also note nearly half of DIL's stores are concentrated in top 5 metros, Delhi-NCR (18%), Bengaluru (12%), Hyderabad (8%) and Kolkata (6%).

**Exhibit 211: DIL's Geographical Presence**



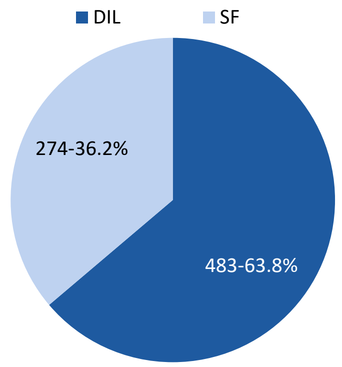

Source: Company, Centrum Broking

**Exhibit 212: DIL holds 58.7% of KFC as on Dec'22**




Source: Centrum Broking, Company Data

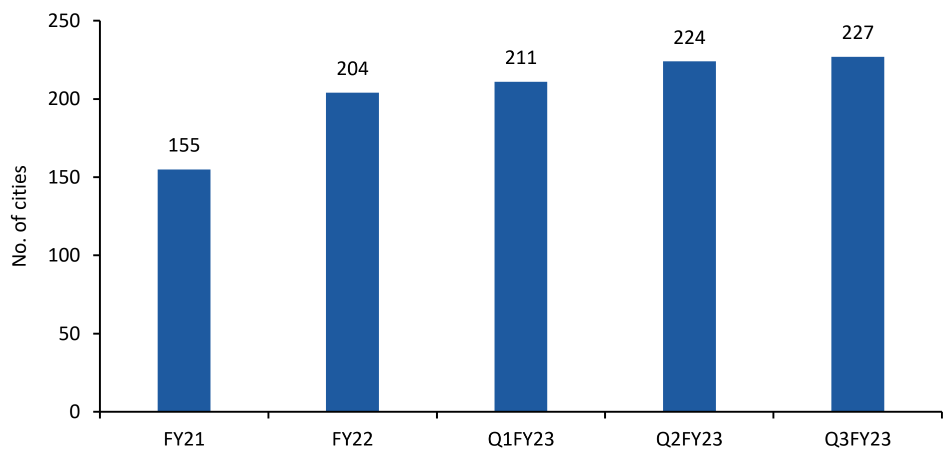
**Exhibit 213: DIL holds 63.8% of PH as on Dec'22**




Source: Centrum Broking, Company Data

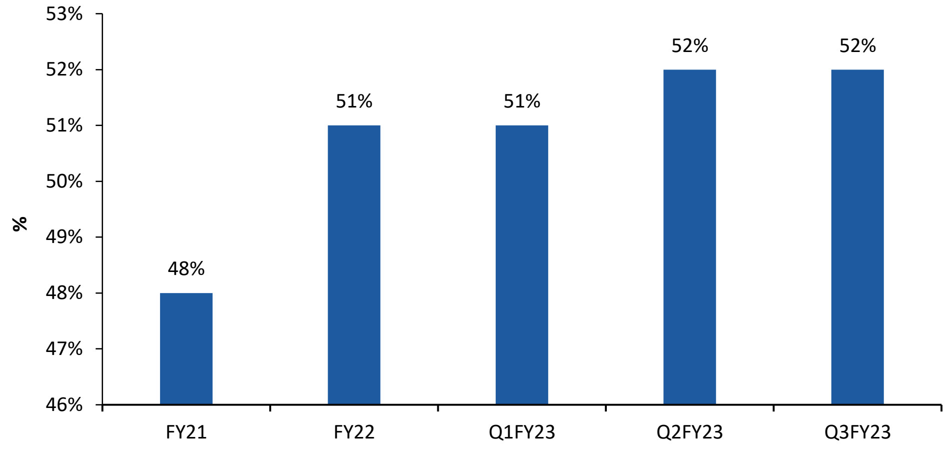
Over the last four years, DIL has steadily increased its city coverage and more importantly it still continues to open ~52% of new stores in the non-metro areas.

**Exhibit 214: DIL has improved its city coverage steadily over last four years**




Source: Company, Centrum Broking

**Exhibit 215: DIL maintained store split at ~52% in non-metro markets**



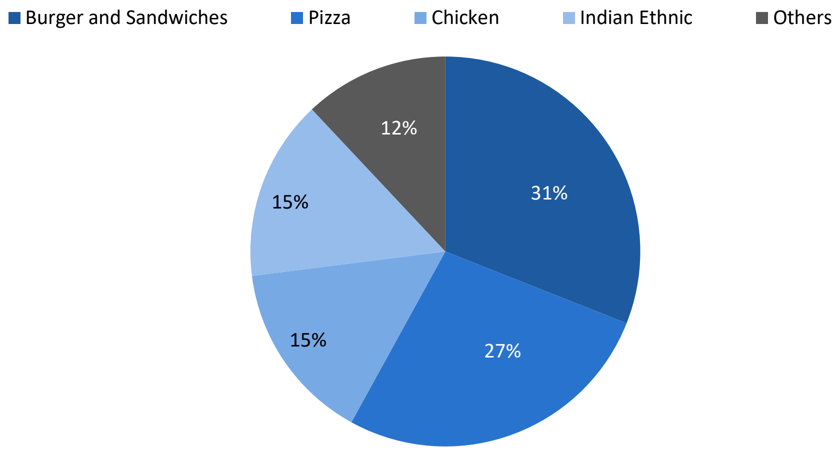

Source: Company, Centrum Broking

## KFC India on strong footing

KFC has reduced store size to get better store margin

Though first KFC store started in India in Bengaluru in 1995, DIL opened the first franchisee KFC outlet in 2005 in Kolkata. As of December 2022, the company operated 461 KFC stores in the country. Notably, KFC's menu driven by fried chicken accounted for two-third of its revenues, while burger is second largest item on the menu with 18-20% share of revenues in our view. We found, DIL functions with driving two KFC store formats such as, a larger format store with 2,500-3,000 sq. ft. size, which is largely focused on dine-in, and slightly smaller stores to cater to delivery and take-away orders with limited seating space. Further, off late the company is focused on opening smaller outlets ranging from 1,500-1,700 sq. ft. to improve throughput in our view. Though store opening agreements between DIL and Yum! Brands are valid for 10 years from the time of opening of the store, majority of KFC stores are located in high street locations in the urban markets including business hubs, shopping malls and food courts. Further, we locate KFC stores at high traffics locations such as airports and highway drive-through locations.

**Exhibit 216: In the QSR product split Chicken forms ~15% contribution**




Source: Company, Centrum Broking

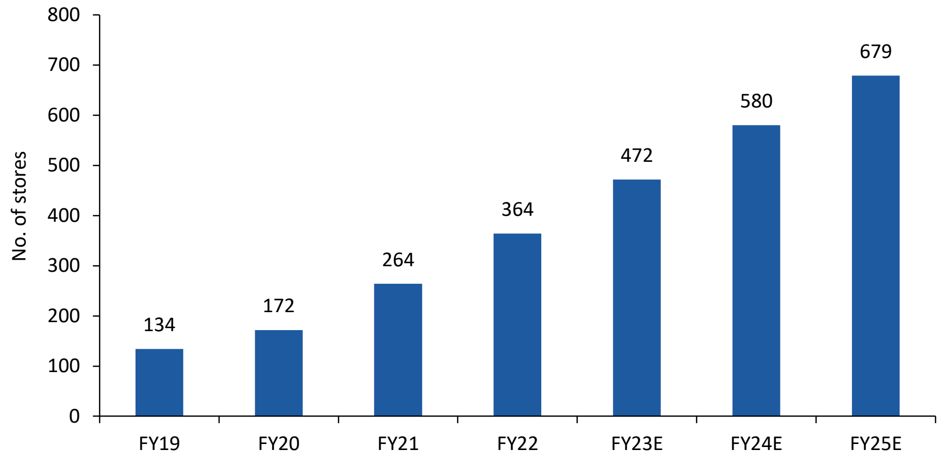
To get fair degree of understanding on DIL's business we tabulate key performance metrics of KFC format.

### Exhibit 217: KFC key performance indicators

| | FY19 | FY20 | FY21 | FY22 | 9MFY23 |
|---|---|---|---|---|---|
| No of stores | 134 | 172 | 264 | 364 | 461 |
| No of Cities | 57 | 76 | 97 | 117 | 134 |
| SSSG (%) | 4.7 | 3.2 | (33.7) | 49.4 | 21.8 |
| Revenues (Rsmn) | 4,641 | 6,091 | 6,443 | 12,189 | 13,275 |
| Average Daily Sales (Rs'000) | 114 | 117 | 100 | 113 | 121 |
| Average Daily Transactions | 284 | 286 | 197 | 189 | 202 |
| Average Transaction size (Rs) | 401 | 409 | 508 | 497 | 494 |
| Brand Contribution Margin (%) | 18.4 | 16.0 | 18.3 | 21.3 | 21.2 |

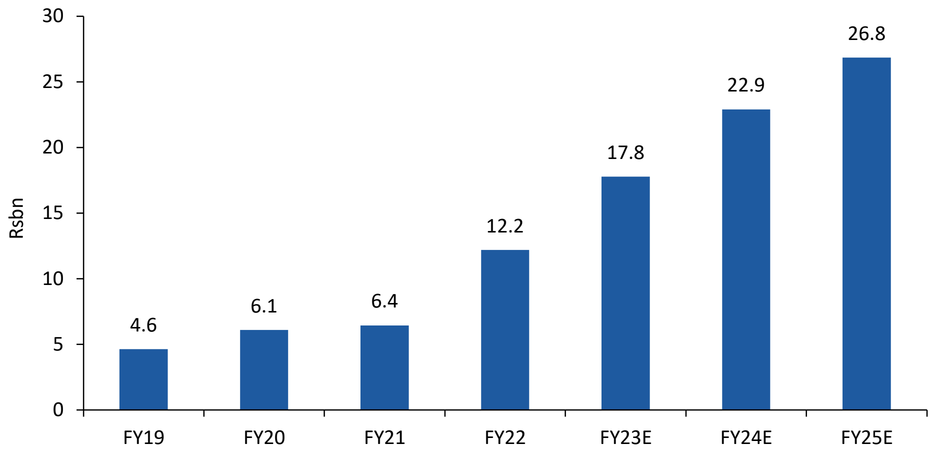
Source: Company, Centrum Broking

### Exhibit 218: KFC stores trend – 315 stores would add b/w FY23-25E



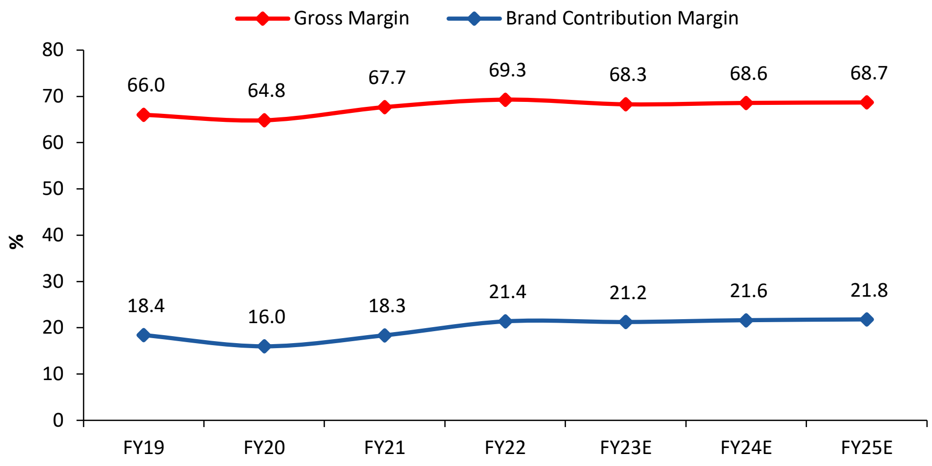

Source: Company, Centrum Broking

### Exhibit 219: KFC revenue expected to grow CAGR 22.9% in FY23-25E




Source: Company, Centrum Broking

**Exhibit 220: KFC's Gross/Contribution margin would grow 40bp/80bp over FY23-25E**

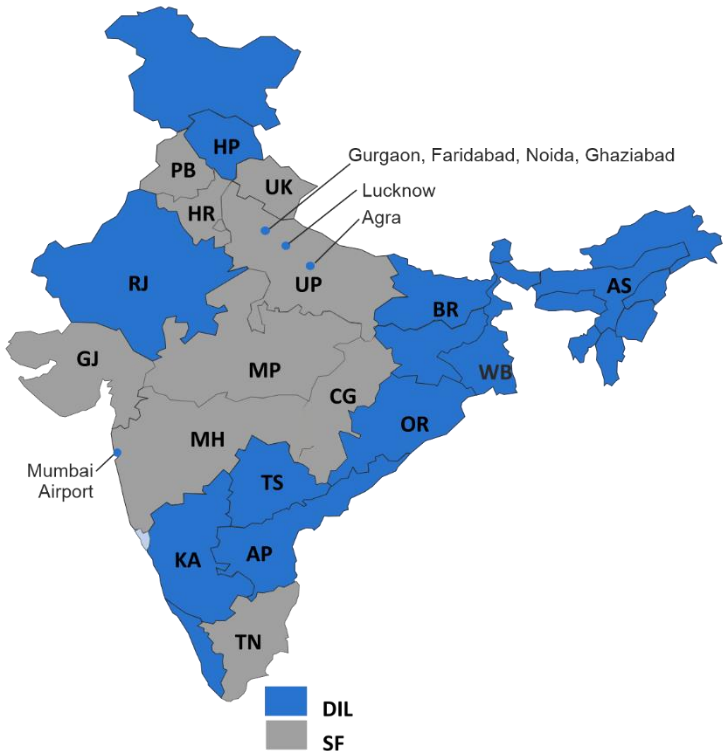



Source: Company, Centrum Broking

No overlap of territories between Sapphire and Devyani for KFC

As per our understanding, in case of the KFC format, there is a clear demarcation of territories between the two franchisees, namely DIL and Sapphire. However, in the cities where DIL operates KFC stores, it is the only franchisee to operate such stores except in specified locations (airports, railway stations, etc.). DIL has the right to open stores in states in South India and East India, along with some states in North India (Rajasthan, J&K, Himachal Pradesh) and a few cities in Delhi NCR and Uttar Pradesh. Bengaluru, Hyderabad, Kolkata and certain areas of Delhi NCR constitute the biggest markets for DIL in the KFC format.

**Exhibit 221: KFC regional split between DIL and SF**




Source: Company, Centrum Broking

## Pizza Hut India – work in progress

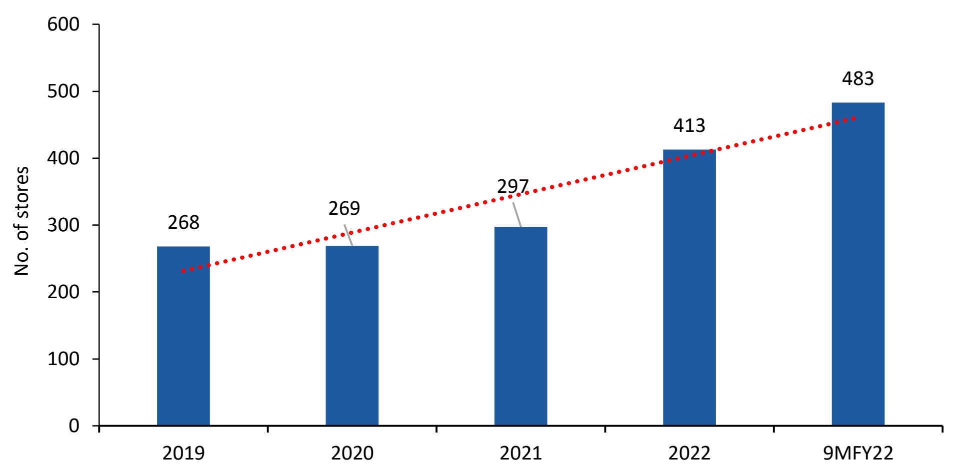
Even though KFC has been a steady performer in DIL's portfolio, Pizza Hut (PH) has trailed somewhat in the past, especially when it comes to its unit economics in comparison to its larger peer set such as Domino's run by Jubilant Food works. Historical data suggests store expansion in PH format has been quite modest (CAGR ~10.5% over FY18-22) and DIL cut few stores to redesigning and pivoting around a smaller store format, with a higher focus on delivery. However, off late we pick up there are signs of a reversal, led by self-help measures taken by the company. These include an augmented focus on the delivery format vs. dine-in, drop-in store size, shutting of unprofitable stores, product innovations and re-alignment of the format's cost structures to recover profitability. We expect these efforts to be largely structural and could sustain going forward. With store economics getting stronger, focus will be back on network expansion which has lagged vs. peers in the past.

Despite similar time entry with Dominos didn't create any major impact in Pizza market

Though the first Pizza Hut store started in Bengaluru in 1996, as per company's DRHP, DIL opened the first franchise Pizza Hut outlet in India in 1997. As of December 2022, DIL operates 483 Pizza Hut outlets in the country. We note that Yum! Brands runs two parallel formats under Pizza Hut, and rights for operating these formats is divided between the two: (1) Dine-in format, essentially a larger format or Omni-channel restaurants with capacity of 50-100 seats covers that offer table service and cutlery to dine-in customers, and (2) delivery format, holding slightly smaller size store format also called as Omni-channel stores with capacity of 20-40 seats that have a dine-in area but do not offer table service or cutlery to dine-in consumers. We note DIL has been allowed both delivery and dine-in format rights for North and East India and it has delivery format rights for South and West India with the exception of Tamil Nadu.

However, we understand that a representative PH or PH delivery (PHD) store has a specified radius within which, competing store, from other franchisee cannot be set up, which also restricts DIL's stores across the country.

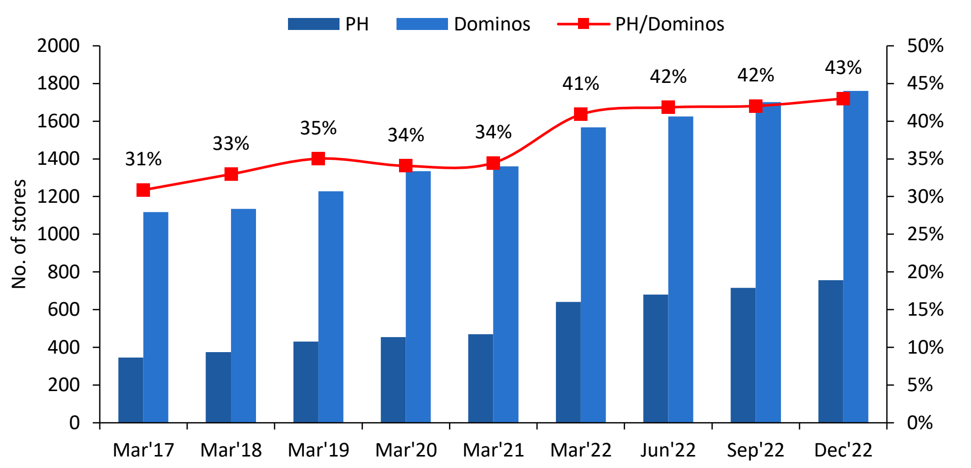
**Exhibit 222: Pizza Hut store addition by DIL**




Source: Company, Centrum Broking

Lower presence in top 8 cities compare to Dominos

**Exhibit 223: Significant gaps in store count between Domino's and Pizza Hut**



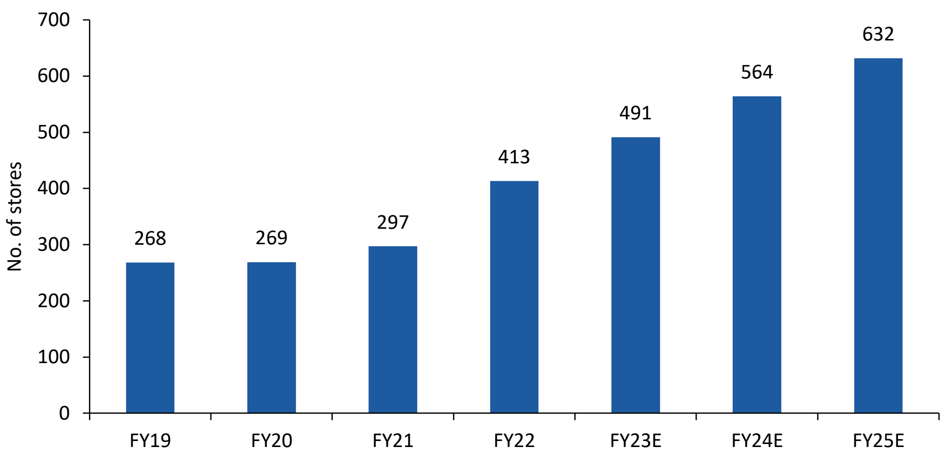

Source: Company, Centrum Broking

**Exhibit 224: Key performance indicators for Pizza Hut**

| | FY19 | FY20 | FY21 | FY22 | 9MFY23 |
|---|---|---|---|---|---|
| No of stores | 268 | 269 | 297 | 413 | 483 |
| No of Cities | 83 | 82 | 100 | 109 | 121 |
| SSSG (%) | 4.7 | (3.7) | (30.3) | 45.4 | 6.7 |
| Revenues (Rsmn) | 4,233 | 4,124 | 2,879 | 5,318 | 5,299 |
| Average Daily Sales (Rs'000) | 43 | 44 | 35 | 43 | 44 |
| Average Daily Transactions | 94 | 94 | 66 | 84 | 87 |
| Average Transaction size (Rs) | 476 | 467 | 530 | 550 | 565 |
| Brand Contribution Margin (%) | 15.5 | 10.5 | 12.9 | 16.3 | 16.1 |

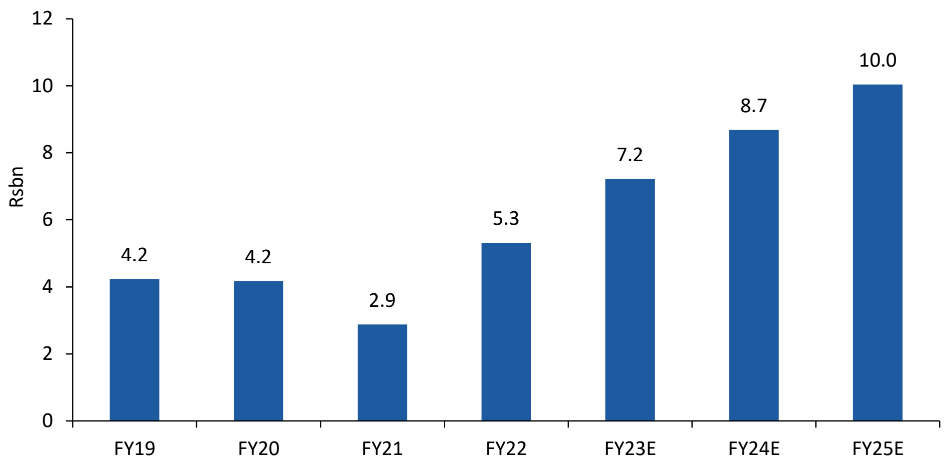
Source: Company, Centrum Broking

**Exhibit 225: Pizza Hut stores trend – 219 stores would add b/w FY23-25E**



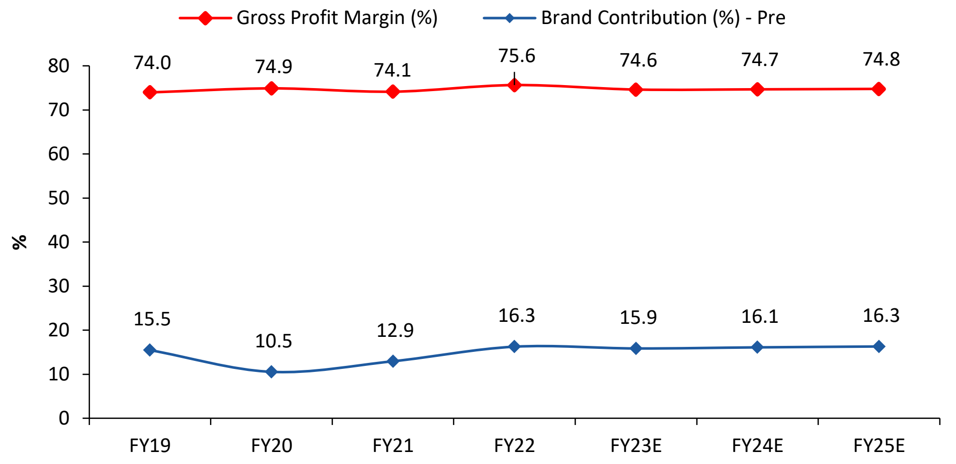

Source: Company, Centrum Broking

**Exhibit 226: PH revenue to grow CAGR 17.9% over FY23-25E**



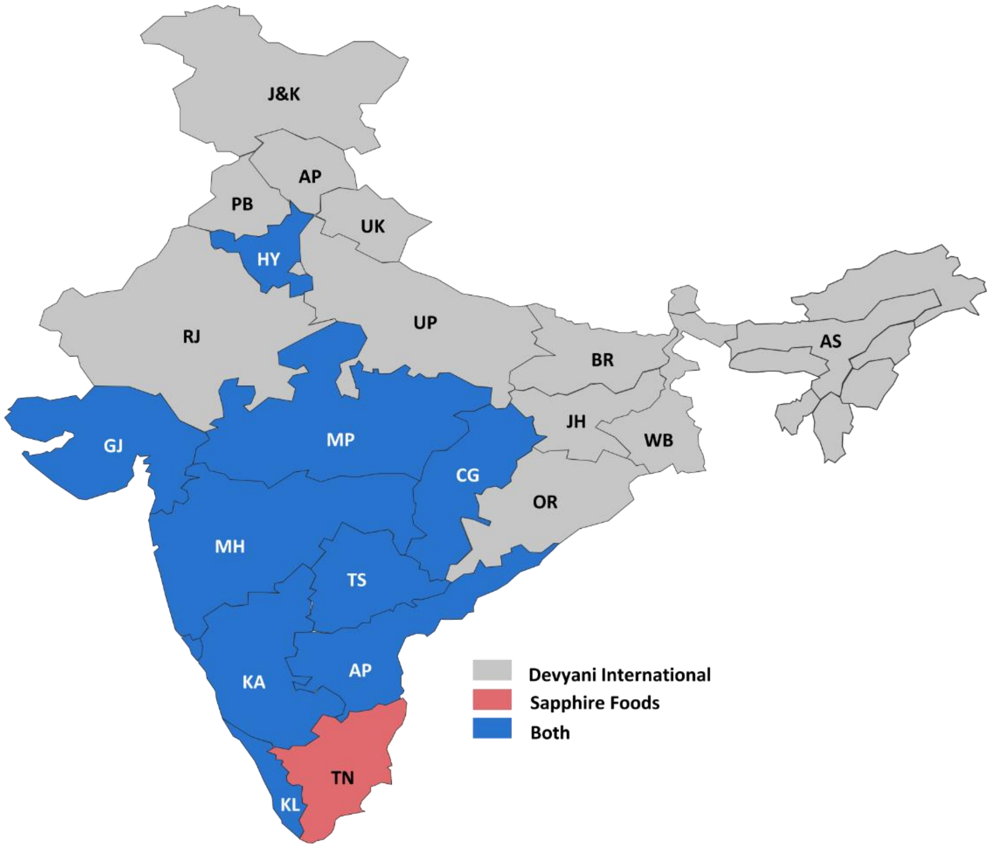

Source: Company, Centrum Broking

**Exhibit 227: PH's Gross/Contribution margin would grow 20bp/40bp over FY23-25E**




Source: Company, Centrum Broking

**Exhibit 228: DIL and SF territorial rights for Pizza Hut**




Source: Company, Centrum Broking

## Costa Coffee – hold lot of promise

Big market opportunity with higher gross margins business

DIL started first Costa Coffee store in 2005 and as of December 2022, the company operated 103 stores spread across 25 cities in India as per our estimate. As per DIL's DRHP, Costa Coffee's global business was acquired by the Coca-Cola Company in 2018 from Whitbread PLC. Hence, we note, the renewal of DIL's Costa's development agreement was prominently stayed with DIL. However, Coca-Cola entered into a revised development agreement with DIL for Costa business in August 2021, confirming its capability and DIL's competencies. Further, we note the terms of the renewed agreement and developmental rights with fees are parallel to the previous agreement, also confirmed by DIL's management. DIL has appointed a new CEO for this business, given that the new team is in place, management expects to open around 25-30 (6-7 stores per quarter) Costa Coffee stores, yet at a slower pace over next two three years.

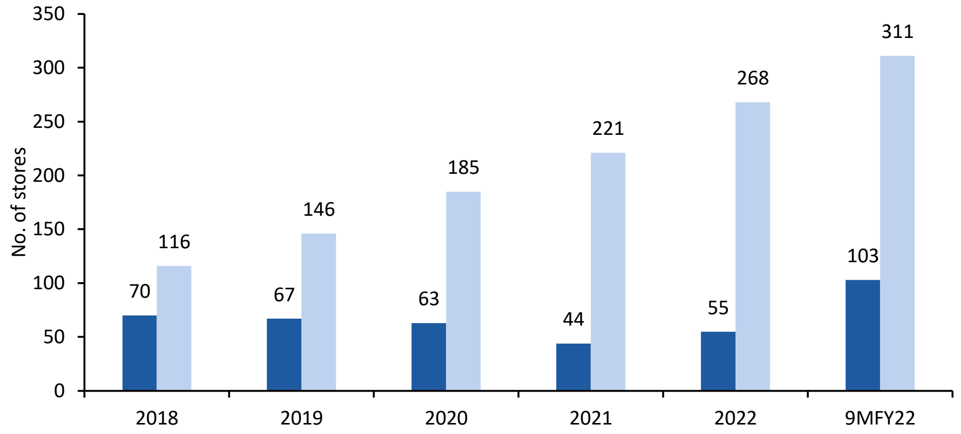
Revised agreement with Coca Cola for Costa Coffee effective August 2021.

- Non-refundable Development Fees: GBP50,000 charged towards development fee on execution of the Costa IDA
- Service Fees: Monthly fee calculated as 6% of gross network revenue (excluding taxes)
- Marketing Fees: 2% of gross network revenue to be spent on advertising and promoting Costa business in India

Costa Coffee has been an under-performing format in DIL's portfolio, however the company has done substantial store closures over the last three-four years. We note, in FY21, DIL cut stores by almost 30%, while on the other side Starbucks augmented store network faster (~2x in 3 years).

We note, the Costa Coffee brand operates under two formats i.e., (1) full sized store located in high-street locations and malls, and (2) branded kiosks located at airports, hospitals and food courts. Branded kiosks/small format stores constitute 75-80% of all existing outlets, yet we believe DIL is likely to maintain this ratio going forward. The positioning and pricing of Costa Coffee is similar to that of Starbucks, albeit lower. In contrast where Starbucks is looking for opening large format stores, we expect DIL will continue to focus on smaller sized stores. We reckon, Costa Coffee caters to its customers serving widespread menu with coffee, sandwiches, wraps, Indian snacks, desserts and non-coffee beverages.

**Exhibit 229: Costa Coffee stores grew moderately vs. Starbucks**




Source: Company, Centrum Broking

**Exhibit 230: Costa Coffee key performance indicators**

| | FY19 | FY20 | FY21 | FY22 | 9MFY23 |
|---|---|---|---|---|---|
| No of stores | 67 | 63 | 44 | 55 | 103 |
| No of Cities | 16 | 18 | 17 | 20 | 25 |
| SSSG (%) | 2.7 | (4.4) | (61.6) | 95.2 | 62.0 |
| Revenues (Rsmn) | 902 | 820 | 214 | 411 | 688 |
| Average Daily Sales (Rs'000) | 37 | 37 | 19 | 29 | 35 |
| Average Daily Transactions | 123 | 117 | 58 | 69 | 81 |
| Average Transaction size (Rs) | 304 | 319 | 320 | 358 | 389 |
| Brand Contribution Margin (%) | 20.2 | 21.2 | 15.5 | 30.4 | 25.3 |

Source: Company, Centrum Broking

## Future growth strategy for Costa Coffee

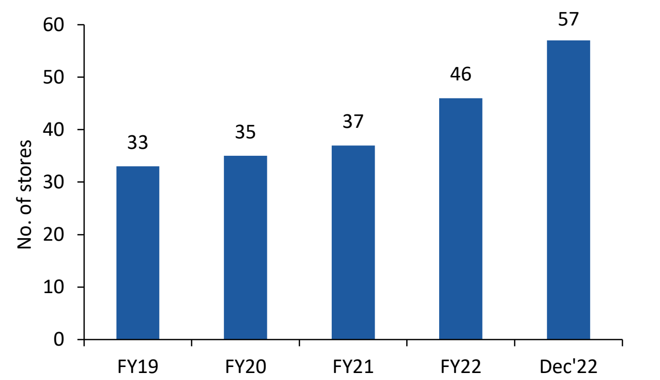
Under the new leadership team, we believe DIL has charted out its growth plans for developing Costa Coffee business in India.

- Build strong product portfolio with whole range of drinks and refreshers to increase footfall
- Work on app for Costa Coffee
- Open more flagship stores to improve brand visibility
- Work towards improving margin profile

## International Business

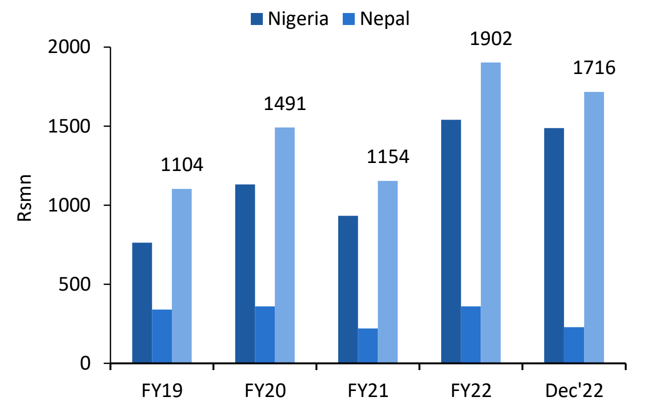
Beyond India business DIL also operates in international markets such as Nepal and Nigeria on a non-exclusive franchisee basis. As of Dec'22, DIL operates 36 stores under KFC brand in Nigeria, while it operates 21 stores in Nepal for KFC and Pizza Hut. In FY22, international business registered composite revenues of Rs1.9bn, while in 9MFY23 the same stood at Rs1.8bn. However, international business saw slight uptick in ADS from Rs1,32,000 in Q1FY22 to Rs1,34,000 in Q3FY23. We note Nigeria's per capita chicken consumption is high while KFC's performance in constant currency remains strong. Further, as per management since India provides a large opportunity, company may not expand these territories aggressively. Therefore, we have built gradual store expansion limiting to not more than 8-10 stores per year.

**Exhibit 231: Store addition in International Business (Nigeria + Nepal)**




Source: Centrum Broking, Company Data

**Exhibit 232: International Business revenue trend**




Source: Centrum Broking, Company Data

## Home grown brands – not a major focus area at this time

Slow paced store expansion for Vaango

DIL also functions with a portfolio of own brands such as south Indian format, Vaango, The Food Street, Ile Bar, AMRELI, Ckrussh Juice Bar, Curry Republic, etc. We note these brands are in various stages of evolution, thus may not move the performance of DIL in our view. However, since they are located at high traffic locations such as airports, food courts it may help DIL to compete with regional outfits. Of this, Vaango, an owned QSR brand focused on South Indian cuisine is the largest format with ~35 outlets and account for over half of the stores in other brands. Further, DIL has closed several stores in these formats. We expect DIL's management to cut losses on these businesses to maintain sustained profitability.

**Exhibit 233: Portfolio of own brands**


Source: Company, Centrum Broking

# Strong execution and cost control focus

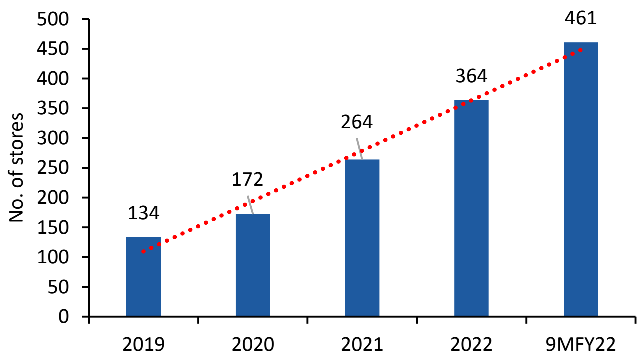
## DIL is shown remarkable improvement in its execution

- Focus on cost control measures extensively
- Impressive improvement in unit economics
- DIL spruced up senior management team

## Strong execution and cost control focus

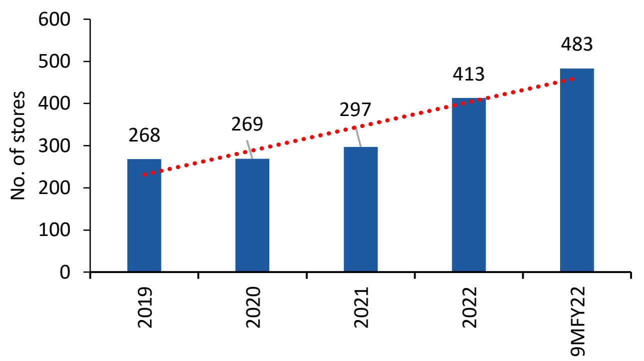
We note over FY19-22 period DIL added 230 KFC stores (total 461) and 134 Pizza Hut stores (total 413). Such strong addition of store during the Covid phase indeed was commendable and DIL also displayed remarkable improvement in unit economics. We therefore credit the management team for its efforts on strong execution, and cost control focus.

**Exhibit 234: Store addition for KFC**




Source: Centrum Broking, Company Data

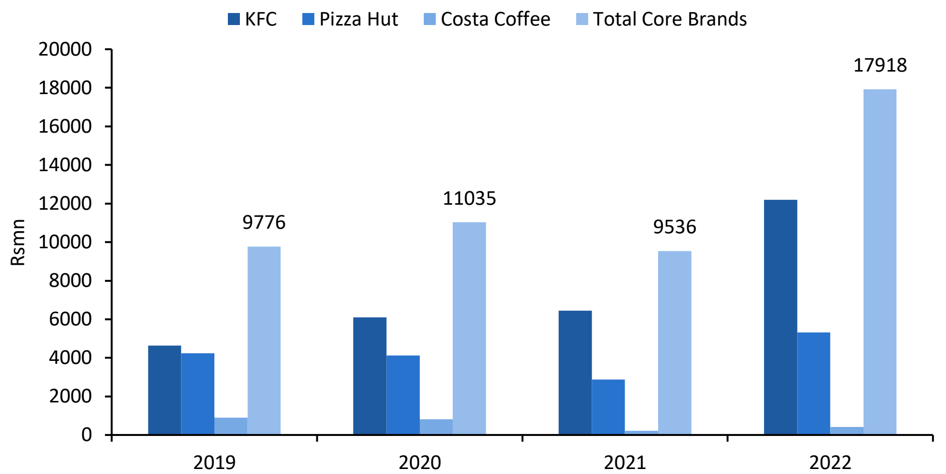
**Exhibit 235: Store addition Pizza Hut**




Source: Centrum Broking, Company Data

This strong store expansion has led to deliver revenue CAGR of 16.7% over FY19-22 period. That said both KFC and Pizza Hut reported strong recovery in ADS post normalisation of Covid pandemic.

**Exhibit 236: Strong revenue momentum (19.9% revenue CAGR) in core business**




Source: Company, Centrum Broking

## Impressive improvement in unit economics

In our view, tight cost control measures helped DIL to increase brand contribution margins across formats as tabulated below. The data indicates that DIL followed three measures, (1) close lower throughput/loss making stores, (2) resize the store - KFC ~1,500 sq.ft. and PH ~1,000 sq.ft. to optimise efficiencies and lower capex, (3) improve delivery saliency, and (4) portfolio premiumisation with select price changes. This has resulted in DIL's EBITDA margin (Pre-INDAS) to improve to 14.4% in FY22, a rise of 610bp. Further, the company divested loss making TWG business to a promoter group entity. We note that KFC/PH registered Pre

-INDAS brand contribution margin of 21.4%/16.3% in FY22. As per the company, it expects the current level of profitability for KFC/PH to sustain.

**Exhibit 237: Brand contribution margin trend**

| Brand Contribution margin (%) | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| KFC | 18.4 | 16.0 | 18.3 | 21.4 |
| Pizza Hut | 15.5 | 10.5 | 12.9 | 16.3 |
| Costa Coffee | 20.2 | 21.2 | 15.5 | 30.3 |
| Total Core Brands | 17.3 | 14.3 | 16.6 | 20.0 |

Source: Company, Centrum Broking

## DIL spruced up senior management team to drive performance culture

We acknowledge DIL's management team for having proficient experience in the restaurant industry. We note that DIL recently hired MrRahul Shinde as CEO of Yum! Brands. Rahul brings around two decades of experience across various roles and projects. In past he was responsible to steward the KFC brand in Asia's largest markets such as Indonesia, Korea and Japan and also few emerging markets such as Myanmar, Mongolia, etc. We believe with Rahul coming on board, DIL would fine tune its profitable growth strategy.

Additionally, DIL's management team is headed by MrVirag Joshi, President and CEO. Virag has been a key strategist in expansion of Pizza Hut, KFC and Costa Coffee outlets from a small base of five restaurants to 600+ stores over the past 19 years. His past experience working with Indian Hotels and Domino's become handy in driving DIL's domestic business. In addition, to other members in the team, MrRajat Luthra, CEO – KFC and MrAmitabh Negi, CEO – Pizza Hut, hold extensive experience in top FMCG, Food & Beverage, and Hospitality industries.

Therefore, we believe DIL has consciously spruced up its capability and build a strong management team over last few years.

# Financials

- **Expect revenue/EBITDA/PAT CAGR of 22.1%/23.4%/15.1% over FY23-25E**
- **Gross margin to remain range bound – expect 20bps improvement**

We estimate revenue/EBITDA/PAT CAGR over FY23-25E of 22.1%/23.4%/15.1% led by (1) 697 store additions under KFC/PH/Costa Coffee format in India by FY25E, (2) 5.6% increase in KFC AUV, and (3) 120bps expansion in EBITDA margin (post-INDAS) in KFC portfolio.

### Expect revenue CAGR of 22.1% over FY23-25E

We estimate revenue growth CAGR of 22.1% over FY23-25E driven by (1) store addition of KFC/PH/Costa Coffee stores 315/219/163, (2) CAGR of 2.5% in own brands, and (3) CAGR of 26.0% for the international business. Further, we expect augmented store increase for KFC format compared to PH as compared to previous trends reported by DIL. This could be driven by (1) strong program run by Yum! Brands, (2) adopting smaller size store formats with better profitability potential, (3) improved saliency for online ordering and delivery scale, and (4) higher demand for trusted brands lead by weaker or rather falling competitive intensity from standalone restaurants. Therefore, we expect DIL would continue to put efforts on cost optimization to improving unit economics using rising Chicken QSR opportunity to fast-track growth.

### Gross margin to remain range bound – expect 20bp improvement

We expect DIL's gross margin to remain range bound at 70.5% over FY2023-25E period. Rising inflation, especially in milk and cheese could get offset from falling palm oil prices, hence we see margins to remain under pressure and may not improve substantially. Further, we narrate few drivers for gross margin in the near term such as (1) operating leverage driven by scale and efficiencies, (2) mix change towards premium products, and (3) further price increases.

Nevertheless, we expect rising competition from Popeyes in chicken QSR may restrict pricing decisions for DIL, hence KFC would operate in tight band, though PH operates at ~75% gross margin and given Yum! has repositioned the brand with pricing actions, further tweaking in product position could put some strain on gross margins in our view. Nonetheless, aggression from Domino's on value position may force PH to rejig product portfolio at the entry price level.  Therefore, we assume there is limited potential for gross margin expansion.

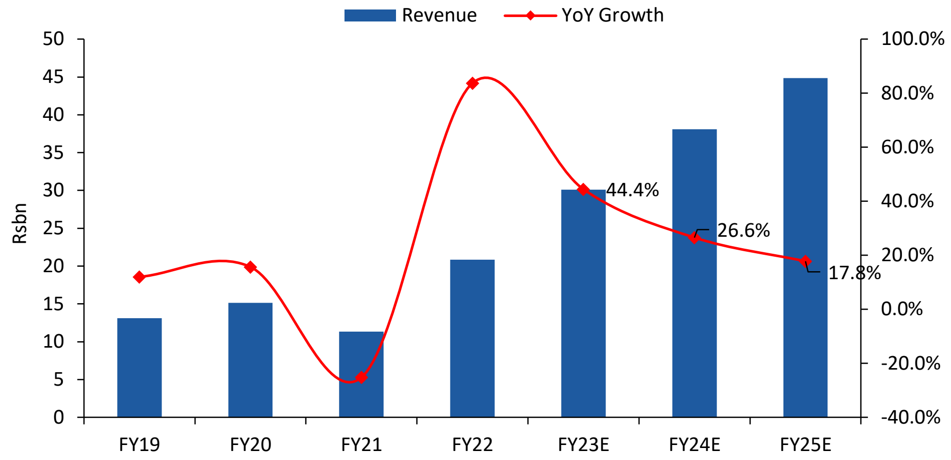
**Exhibit 238: Royalty rate**

| Brands | Domino's | McDonald's | KFC | Pizza Hut | Burger King | Costa |
|---|---|---|---|---|---|---|
| Royalty rate | No significant change in last 10 years: ~3.5% (including GST) | Current rate: ~4.6% (including GST). Royalty rate is expected to increase to 9.4% (8%+18% GST) from FY27E | 6.3% of revenues | 6.3% of revenues | Rate ranges from 3% (2.5% + 18% GST) to 5.9% (5% + 18% GST) depending on the opening date of the restaurant | 6% of revenues |
| Advertisement Contribution | No information | No information | Paid 6% of revenues - 5% contribution to Yum! and 1% (of gross revenues) spent on marketing and local or store-based promotions | Paid 6% of revenues - 5% contribution to Yum! and 1% (of gross revenues) spent on marketing and local or store-based promotions | Spend min. 5% of sales (+18% GST) from company owned Burger King Restaurants on marketing and advertising | Spend a sum at least 2% of gross revenue |
| Store opening Fees | ~`0.5mn per store | ~`2mn per store | USD53,400 for stores opened in 2021 (subject to US CPI index) Renewal fee (every 10 years) is 50% of the existing initial fees (for stores opened in 2021 it was USD26,700 subject to US CPI index) | USD26,700 for new stores and renewal fee (every 10 years) of USD13,350 | USD15,000 increasing to USD35,000 from CY18 through year 2022 and remaining at USD35,000 for all periods thereafter | GBP500 to open new Costa Coffee store |

Source: Company, Centrum Broking

## Key Assumptions

### Exhibit 239: Revenue CAGR 22.1% FY23-25E led by store expansion




Source: Company, Centrum Broking

## Segmental assumptions

### Exhibit 240: KFC

| | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| Store | 134 | 172 | 264 | 364 | 472 | 580 | 679 |
| SSG (%) | 4.7 | 3.2 | (33.7) | 49.4 | 10.0 | 3.4 | 2.7 |
| Sales (Rsmn) | 4,641 | 6,091 | 6,443 | 12,189 | 17,781 | 22,894 | 26,848 |
| AUV (Rsmn) | 34.6 | 35.4 | 24.4 | 33.5 | 37.7 | 39.5 | 39.5 |
| Gross Profit Margin (%) | 66.0 | 64.8 | 67.7 | 69.3 | 68.3 | 68.6 | 68.7 |
| Brand Contribution (%) (Pre-INDAS) | 18.4 | 16.0 | 18.3 | 21.4 | 21.2 | 21.6 | 21.8 |

Source: Company, Centrum Broking

### Exhibit 241: Pizza Hut

| | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| Store | 268 | 269 | 297 | 413 | 491 | 564 | 632 |
| SSG (%) | 4.7 | (3.7) | (30.3) | 45.4 | 8.0 | 4.7 | 3.4 |
| Sales (Rsmn) | 4,233 | 4,174 | 2,879 | 5,318 | 7,220 | 8,684 | 10,039 |
| AUV (Rsmn) | 15.8 | 15.5 | 9.7 | 12.9 | 14.7 | 15.4 | 15.9 |
| Gross Profit Margin (%) | 74.0 | 74.9 | 74.1 | 75.6 | 74.6 | 74.7 | 74.8 |
| Brand Contribution (%) (Pre-INDAS) | 15.5 | 10.5 | 12.9 | 16.3 | 15.9 | 16.1 | 16.3 |

Source: Company, Centrum Broking

### Exhibit 242: Costa Coffee

| | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| Store | 67 | 63 | 44 | 55 | 113 | 167 | 218 |
| SSG (%) | 2.7 | (4.4) | (61.6) | 95.2 | 10.0 | 12.4 | 12.4 |
| Sales (Rsmn) | 902 | 820 | 214 | 411 | 835 | 1,641 | 2,505 |
| AUV (Rsmn) | 13.5 | 13.0 | 4.9 | 7.5 | 7.4 | 9.8 | 11.5 |
| Gross Profit Margin (%) | 76.9 | 77.3 | 78.5 | 80.3 | 79.5 | 79.7 | 79.8 |
| Brand Contribution (%) (Pre-INDAS) | 20.1 | 21.2 | 15.5 | 30.3 | 25.5 | 27.2 | 27.3 |

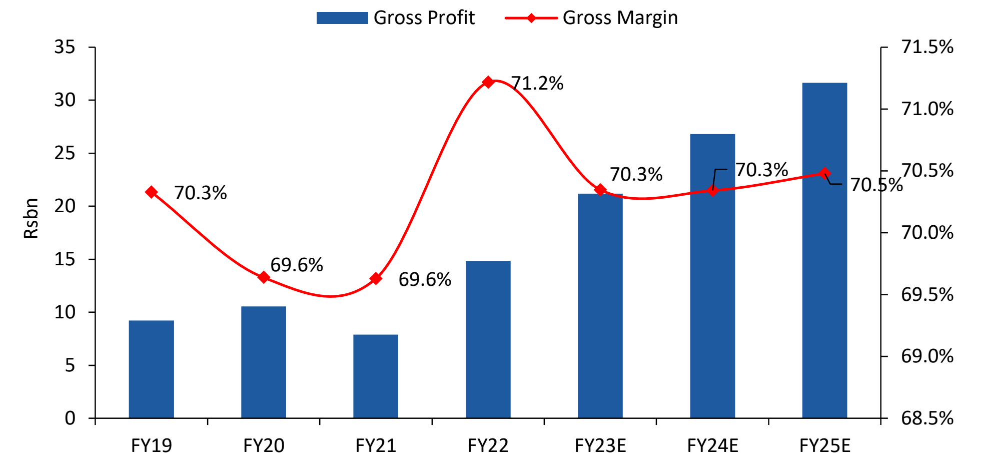
Source: Company, Centrum Broking

### Exhibit 243: In-house brands and International Business

| | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| Store | 97 | 106 | 87 | 106 | 121 | 129 | 136 |
| Sales (Rsmn) | 3,281 | 4,026 | 1,752 | 2,535 | 3,796 | 4,641 | 5,316 |

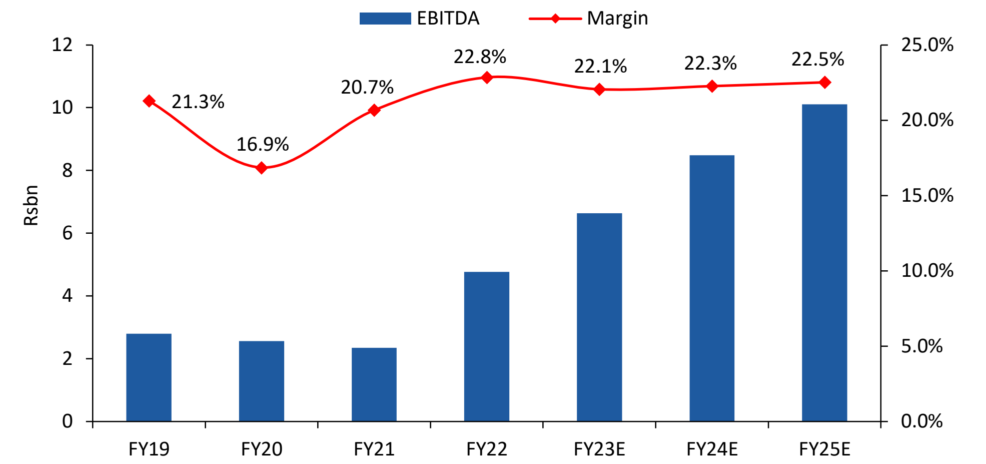
Source: Company, Centrum Broking

**Exhibit 244: Expect Gross Profit CAGR of 22.2% over FY23-25E**



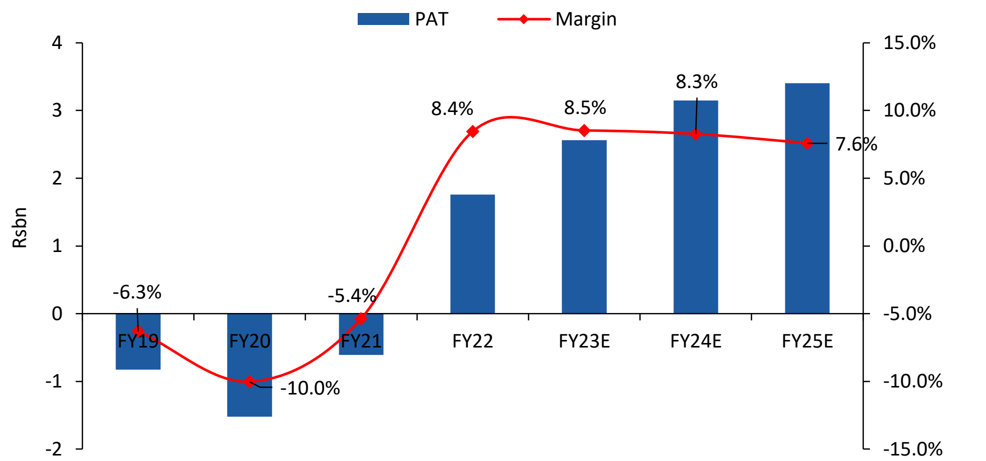

Source: Company, Centrum Broking

**Exhibit 245: Expect EBITDA CAGR of 23.4% over FY23-25E; EBITDA margin of 22.5%**




Source: Company, Centrum Broking

**Exhibit 246: Expect PAT CAGR of 15.1% over FY23-25E**




Source: Company, Centrum Broking

# Valuations priced-in; look for safety

- **Valuations are fully priced in**
- **Return ratios to moderate with higher scale of store opening**

## Valuations are priced in

Devyani gets 35-40% premium on Sapphire valuation on the back 300-320bp higher Pre-INDAS margin

We estimate revenue/EBITDA/PAT CAGR over FY23-25E of 22.1%/23.4%/15.1% led by (1) 697 store additions under KFC/PH/Costa Coffee format in India by FY25E, (2) 5.6% increase in KFC AUV, and (3) 120bp expansion in EBITDA margin (post-INDAS) in KFC portfolio. However, we expect gradual scale up in the international portfolio. Despite high spend on cumulative store capex of Rs12.0bn we expect structural improvement adopted by the company to expand profitability to reflect in cumulative FCF to reach Rs12.1bn from FY23-25E. We initiate coverage on DIL with Reduce rating and DCF-based target price of Rs145 (implying 14.8 FY25E EV/EBITDA Post-INDAS).

Strong support from Yum! Brands for store opening a key driver for valuations.

**Exhibit 247: DCF Valuation**

| SOTP | Basis | Assumption | | Price (Rs) |
|---|---|---|---|---|
| Devyani – Consol. | DCF | WACC (%) | 12.5 | 145 |
| | | Terminal Growth (%) | 5.5 | |

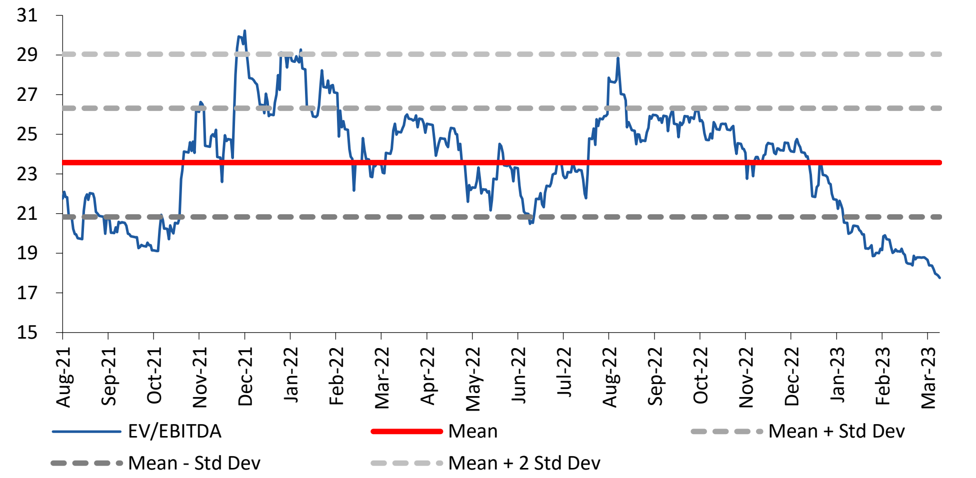
Source: Company, Centrum Broking

**Exhibit 248: Devyani International – DCF assumptions**

| | FY23E | FY24E | FY25E | FY26E | FY27E | FY28E | FY29E | FY30E | FY31E | FY32E | FY33E | FY34E | FY35E | FY36E | FY37E | FY38E | FY39E | FY40E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 30,097 | 38,092 | 44,870 | 51,601 | 58,825 | 66,472 | 74,449 | 83,383 | 93,389 | 104,595 | 117,147 | 126,518 | 136,640 | 147,571 | 159,377 | 172,127 | 185,897 | 198,910 |
| EBIT | 3,976 | 4,955 | 5,568 | 6,615 | 7,835 | 9,206 | 10,726 | 12,511 | 14,657 | 17,145 | 20,089 | 22,440 | 25,034 | 27,919 | 31,084 | 34,577 | 38,407 | 42,116 |
| Depreciation | 2,662 | 3,526 | 4,536 | 5,108 | 5,646 | 6,160 | 6,634 | 7,099 | 7,493 | 7,871 | 8,164 | 8,453 | 8,740 | 9,000 | 9,266 | 9,517 | 9,773 | 10,033 |
| Tax | (350) | (555) | (851) | (1,323) | (1,567) | (1,841) | (2,145) | (2,502) | (2,931) | (3,429) | (4,018) | (4,488) | (5,007) | (5,584) | (6,217) | (6,915) | (7,681) | (8,423) |
| Capex | (4,242) | (3,900) | (3,923) | (4,783) | (4,642) | (4,516) | (3,946) | (3,875) | (3,280) | (3,157) | (2,438) | (2,405) | (2,393) | (2,168) | (2,217) | (2,095) | (2,128) | (2,171) |
| Change in WC | 366 | (128) | (317) | (365) | (416) | (470) | (527) | (590) | (660) | (740) | (829) | (895) | (966) | (626) | (406) | (263) | (170) | (109) |
| FCFF | 2,412 | 3,898 | 5,012 | 5,251 | 6,856 | 8,539 | 10,742 | 12,643 | 15,278 | 17,690 | 20,968 | 23,104 | 25,408 | 28,540 | 31,510 | 34,821 | 38,200 | 41,446 |
| Disc. Factor | 0.99 | 0.88 | 0.79 | 0.70 | 0.62 | 0.55 | 0.49 | 0.44 | 0.39 | 0.34 | 0.31 | 0.27 | 0.24 | 0.21 | 0.19 | 0.17 | 0.15 | 0.13 |
| Disc. FCFF | 2,401 | 3,448 | 3,941 | 3,670 | 4,259 | 4,714 | 5,271 | 5,515 | 5,924 | 6,095 | 6,422 | 6,290 | 6,148 | 6,137 | 6,023 | 5,916 | 5,769 | 5,562 |
| Sum of Disc. FCFF | 87,944 | | | | | | | | | | | | | | | | | |
| Disc. TV | 83,826 | | | | | | | | | | | | | | | | | |
| EV | 171,770 | | | | | | | | | | | | | | | | | |
| Net Debt | (2,430) | | | | | | | | | | | | | | | | | |
| **Equity Value** | **174,200** | | | | | | | | | | | | | | | | | |
| Shares O/S | 1,204.7 | | | | | | | | | | | | | | | | | |
| Value per share | **145** | | | | | | | | | | | | | | | | | |

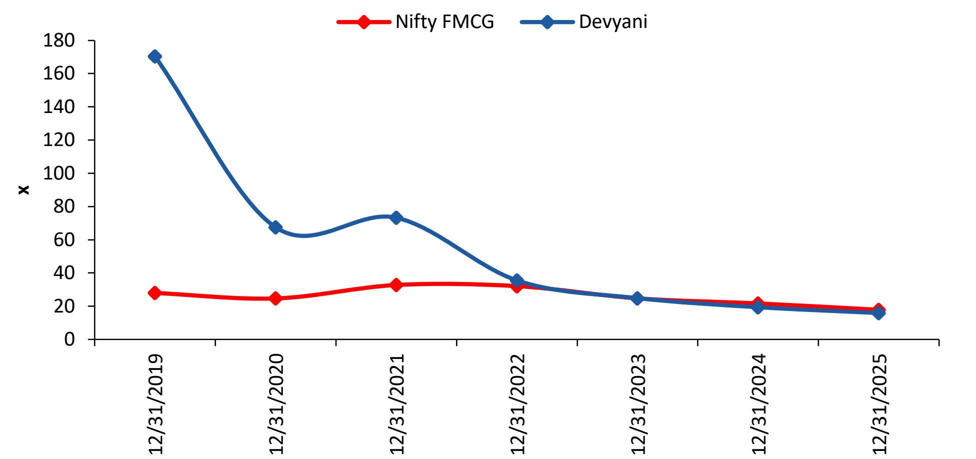
Source: Company, Centrum Broking

**Exhibit 249: One year forward EV/EBITDA (adjusted post IND-AS 116)**



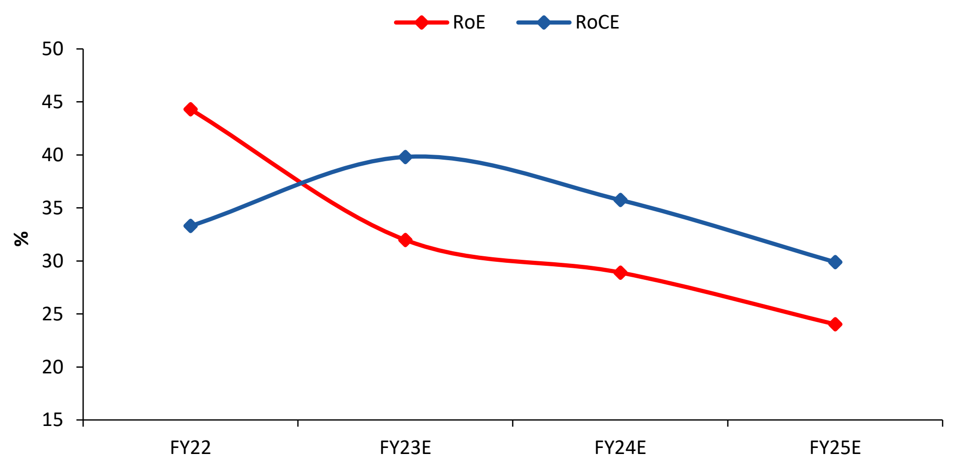

Source: Company, Centrum Broking

**Exhibit 250: Devyani EV/EBITDA valuation to FMCG index**




Source: Bloomberg, Centrum Research

**Exhibit 251: Return Ratios RoE & RoCE**




Source: Company, Centrum Broking

# Risks to our call

- **Unwavering inflation**: Though palm oil prices have corrected sharply, it has corrected from peak level given unfavourable currency and hence, it may remain inflationary. In addition, rising milk and cheese prices could pose concerns. Hence, most ingredients are driven by demand and supply dynamics. Further, QSR industry is highly labour intensive and it faces regular issues around wage hikes. Given these parameters company needs to balance between price increases and volume growth hence it may put risk on margins.
- **Change in consumer preferences for QSR**: In the current scenario when food inflation is rising, there seems to be lower demand for discretionary spends given pressure on wallet share faced by the end consumers. Hence, any change in economic conditions, food habits, or approval for QSRs may impact negatively on the company’s performance.
- **Government regulations**: We check rising health related concerns are linked by the consumers to fast-food consumption, especially by the younger generation. Any changes in government regulations towards dietary habits may alter industry demand and Impact Company’s profitability.
- **Over dependence on third party food aggregators**: We note incremental focus on driving delivery channel is key for growth. However, expansion of the delivery ecosystem has led to higher competition from other QSRs and cloud kitchens, and has squeezed store footfalls. Therefore, franchisees need to pay higher commission to food aggregators. Hence, incremental dependence on food aggregators could alter performance.
- **Termination of franchisee agreement**: We note Yum! Brands has laid out clear terms and parameters in franchise agreements which are expected to be adhered to by its partners such as DIL. In exchange of this Yum! supports the partners with store-opening fees/renewal fees, driven by royalty rate. Any potential change or termination of agreement may have significant impact on the business.
- **Abrupt competition in Chicken QSR segment:** We note most of the leading players have undertaken aggressive store expansion targets in both Chicken and pizza categories. In the event to garner faster revenue we consider material increase in completion from national as well as local players could impact its revenues.
- **Senior management team:** DIL recently spruced up its senior management team, which was reflected in recent performance delivered by DIL. We reckon, DIL is professionally run business, whereby the promoter has no executive role to play in the day-to-day operations. However, numerous changes in the senior leadership team may pose concerns in the short term.

# Company profile

Incorporated in 1991, Devyani International Limited (DIL) is a multi-dimensional quick-service restaurant (QSR) player. As the franchise partner of Yum! Brands, DIL operates their iconic brands KFC and Pizza Hut in India as well as in Nigeria and Nepal. It also has franchisee for the Costa Coffee brand in India. Further, DIL has own home grown brands like Vaango and Food Street. It has strong presence across key consumption markets with highest contribution from North (38%) followed by South (35%), East (20%) and West (7%). The company currently operates more than 1,120 outlets for KFC, Pizza Hut, Costa Coffee along with home grown brands across 227 cities.

## Key leadership team and management

**Exhibit 252: Key management personnel**

| | | |
|---|---|---|
| **Mr. Ravi Kant Jaipuria** | Promoter & Chairman | Mr. Ravi Kant Jaipuria is the promoter of the company and has over three decades of experience in conceptualizing, executing, developing and expanding food, beverages and dairy business in South Asia and Africa. He has completed higher secondary education from Delhi Public School, Mathura Road, New Delhi. |
| **Mr. Varun Jaipuria** | Promoter & Non-Executive Director | Mr. Varun Jaipuria, has completed Millfield School, Somerset, England and degree course in international business from the Regent's University, London. He has 13 years of experience in the soft drinks industry and has also completed a program for leadership development at the Harvard Business School. |
| **Mr. Virag Joshi** | President & Chief Executive Officer | Mr. Virag Joshi, holds a diploma course in hotel management and catering from the State Institute of Hotel Management and Catering, Lucknow, Uttar Pradesh. He has been a key strategist in expansion of Pizza Hut, KFC, Costa Coffee outlets from a small base of five restaurants in 2002 to 900 plus outlets in last 19 years. |
| **Mr. Manish Dawar** | Chief Financial Officer | Mr. Manish Dawar holds a bachelor's degree in commerce with honours from the Punjab University and is a Chartered Accountant and a member of the Institute of Company Secretaries of India. He has wide experience in various industry domains and across various geographies in the world. He has worked in various corporate setups including Hindustan Unilever, Reebok India, Reckitt Benckiser, Vedanta and Vodafone. |
| **Ms. Rajat Luthra** | CEO – KFC | Mr. Rajat Luthra has been associated with the company since 2011. Previously, he has been associated with Hindustan Lever Ltd, Barista Coffee Company, Celio, Future Fashion, Domino's Pizza India, Essar Telecom Retail, Quality Inns India, among others. |
| **Ms. Amitabh Negi** | CEO-Pizza Hut | Mr. Negi has been associated with the company since April'16. Previously, he was associated with Specialty Restaurants, Domino's Pizza India, Amalgamated Holdings, Sbarro Restaurants (India), and Yum! Restaurants (India), among others. |

Source: Company

## P&L

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| **Revenues** | **11,351** | **20,842** | **30,098** | **38,092** | **44,870** |
| Operating Expense | 3,447 | 5,998 | 8,925 | 11,298 | 13,246 |
| Employee cost | 867 | 1,938 | 2,397 | 3,081 | 3,612 |
| Others | 4,689 | 8,142 | 12,138 | 15,232 | 17,909 |
| **EBITDA** | **2,345** | **4,762** | **6,638** | **8,482** | **10,104** |
| Depreciation & Amortisation | 2,295 | 2,213 | 2,662 | 3,526 | 4,536 |
| **EBIT** | **51** | **2,548** | **3,976** | **4,955** | **5,568** |
| Interest expenses | 1,495 | 1,270 | 1,347 | 1,459 | 1,555 |
| Other income | 641 | 161 | 285 | 206 | 242 |
| **PBT** | **(803)** | **1,440** | **2,914** | **3,703** | **4,255** |
| Taxes | (11) | (320) | 350 | 555 | 851 |
| Effective tax rate (%) | 1.3 | 22.2 | 12.0 | 15.0 | 20.0 |
| **PAT** | **(793)** | **1,759** | **2,564** | **3,147** | **3,404** |
| Minority/Associates | 261 | 12 | 47 | 52 | 55 |
| **Recurring PAT** | **(531)** | **1,772** | **2,611** | **3,200** | **3,459** |
| Extraordinary items | (21) | (206) | 0 | 0 | 0 |
| **Reported PAT** | **(552)** | **1,565** | **2,611** | **3,200** | **3,459** |

## Ratios

| YE Mar | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| **Growth (%)** | | | | | |
| Revenue | (25.2) | 83.6 | 44.4 | 26.6 | 17.8 |
| EBITDA | (8.2) | 103.0 | 39.4 | 27.8 | 19.1 |
| Adj. EPS | (65.1) | nm | 45.0 | 22.5 | 8.1 |
| **Margins (%)** | | | | | |
| Gross | 69.6 | 71.2 | 70.3 | 70.3 | 70.5 |
| EBITDA | 20.7 | 22.8 | 22.1 | 22.3 | 22.5 |
| EBIT | 0.4 | 12.2 | 13.2 | 13.0 | 12.4 |
| Adjusted PAT | (4.7) | 7.5 | 8.7 | 8.4 | 7.7 |
| **Returns (%)** | | | | | |
| ROE | 141.1 | 44.3 | 32.0 | 28.9 | 24.0 |
| ROCE | 20.8 | 33.3 | 39.8 | 35.7 | 29.9 |
| ROIC | 0.4 | 12.5 | 18.0 | 20.8 | 21.9 |
| **Turnover (days)** | | | | | |
| Gross block turnover ratio (x) | 0.9 | 1.3 | 1.5 | 1.6 | 1.7 |
| Debtors | 5 | 3 | 3 | 3 | 3 |
| Inventory | 71 | 45 | 43 | 45 | 47 |
| Creditors | 172 | 109 | 108 | 121 | 125 |
| Net working capital | (26) | 30 | 55 | 79 | 105 |
| **Solvency (x)** | | | | | |
| Net debt-equity | 4.7 | 0.1 | (0.3) | (0.5) | (0.6) |
| Interest coverage ratio | 1.6 | 3.7 | 4.9 | 5.8 | 6.5 |
| Net debt/EBITDA | 1.4 | 0.2 | (0.4) | (0.7) | (1.0) |
| **Per share (Rs)** | | | | | |
| Adjusted EPS | (0.5) | 1.5 | 2.2 | 2.7 | 2.9 |
| BVPS | 1.0 | 5.8 | 7.9 | 10.5 | 13.4 |
| CEPS | 1.6 | 3.4 | 4.4 | 5.6 | 6.6 |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend payout (%) | nm | 0.0 | 0.0 | 0.0 | 0.0 |
| **Valuation (x)** | | | | | |
| P/E | nm | 97.0 | 66.9 | 54.6 | 50.5 |
| P/BV | 140.2 | 25.0 | 18.4 | 13.8 | 10.8 |
| EV/EBITDA | 69.5 | 33.7 | 23.7 | 18.1 | 14.8 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company, Centrum Broking

## Balance sheet

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Equity share capital | 1,154 | 1,205 | 1,205 | 1,205 | 1,205 |
| Reserves & surplus | (16) | 5,658 | 8,270 | 11,469 | 14,928 |
| Shareholders fund | 1,138 | 6,863 | 9,474 | 12,674 | 16,133 |
| Minority Interest | (419) | (47) | (94) | (147) | (202) |
| Total debt | 3,805 | 1,325 | 1,325 | 1,325 | 1,325 |
| Non Current Liabilities | 8,724 | 11,217 | 13,048 | 14,017 | 14,600 |
| Def tax liab. (net) | 0 | 0 | 0 | 0 | 0 |
| **Total liabilities** | **13,248** | **19,358** | **23,752** | **27,869** | **31,856** |
| Gross block | 12,718 | 16,419 | 19,963 | 23,344 | 26,625 |
| Less: acc. Depreciation | (6,556) | (8,769) | (11,431) | (14,957) | (19,493) |
| Net block | 6,162 | 7,649 | 8,531 | 8,387 | 7,131 |
| Capital WIP | 143 | 68 | 68 | 68 | 68 |
| Net fixed assets | 6,949 | 8,362 | 9,244 | 9,100 | 7,844 |
| Non Current Assets | 6,660 | 8,911 | 9,609 | 10,128 | 10,770 |
| Investments | 456 | 351 | 351 | 351 | 351 |
| Inventories | 622 | 855 | 1,235 | 1,563 | 1,841 |
| Sundry debtors | 169 | 211 | 304 | 385 | 453 |
| Cash & Cash Equivalents | 405 | 574 | 3,755 | 7,369 | 11,651 |
| Loans & advances | 0 | 0 | 0 | 0 | 0 |
| Other current assets | 1,423 | 3,362 | 3,967 | 4,681 | 5,523 |
| Trade payables | 1,619 | 1,964 | 3,298 | 4,174 | 4,917 |
| Other current liab. | 1,565 | 1,043 | 1,126 | 1,217 | 1,314 |
| Provisions | 252 | 261 | 287 | 316 | 347 |
| Net current assets | (818) | 1,734 | 4,548 | 8,291 | 12,890 |
| **Total assets** | **13,248** | **19,358** | **23,752** | **27,869** | **31,856** |

## Cashflow

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Profit Before Tax | (641) | 1,231 | 2,914 | 3,703 | 4,255 |
| Depreciation & Amortisation | 2,357 | 2,213 | 2,662 | 3,526 | 4,536 |
| Net Interest | 1,518 | 1,180 | 1,347 | 1,459 | 1,555 |
| Net Change – WC | 397 | 162 | 366 | (128) | (317) |
| Direct taxes | 5 | (103) | (350) | (555) | (851) |
| **Net cash from operations** | **2,396** | **4,506** | **6,939** | **8,005** | **9,177** |
| Capital expenditure | (1,329) | (2,930) | (4,242) | (3,900) | (3,923) |
| Acquisitions, net | 0 | 0 | 0 | 0 | 0 |
| Investments | 22 | (915) | 0 | 0 | 0 |
| Others | (2,263) | 92 | 0 | 0 | 0 |
| **Net cash from investing** | **(3,570)** | **(3,753)** | **(4,242)** | **(3,900)** | **(3,923)** |
| **FCF** | **(1,175)** | **753** | **2,697** | **4,104** | **5,254** |
| Issue of share capital | 3,476 | 4,486 | 0 | 0 | 0 |
| Increase/(decrease) in debt | (1,564) | (4,923) | 1,830 | 969 | 583 |
| Dividend paid | 0 | 0 | 0 | 0 | 0 |
| Interest paid | (492) | (147) | (1,062) | (1,253) | (1,313) |
| Others | 0 | 0 | 0 | 0 | 0 |
| **Net cash from financing** | **1,420** | **(584)** | **768** | **(284)** | **(730)** |
| Net change in Cash | 245 | 169 | 3,465 | 3,821 | 4,524 |

Source: Company, Centrum Broking

CENTRUM

# Westlife Foodworld

## Powered by cost optimization and Omni-channel

Initiating Coverage

India I QSR

20 March, 2023

Institutional Research

**ADD**

Price: Rs685

Target Price: Rs735

Forecast return: 7%

**Westlife Foodworld (WLDL) is a master franchisee of the McDonald's brand in West and South India with presence in 52 cities operating 341 stores as on Dec'22. Guided by global McDonald's framework, WLDL is transforming itself to become a multi category (burgers, wraps, chicken, desserts & beverages), multi day-part (breakfast-lunch-dinner) and multi-channel (dine-in, delivery, takeaway and drive-thru) company expecting to capture share of Rs200bn TAM. Over last few years, WLDL has shown steady track record of building relevant menu through innovation/localization enhancing its value proposition. Further, McCafé has strong influence on driving customer traffic and ramp-up ADS in driving unit economics. These strategies helped WLDL to report industry leading performance. Through its Vision-2027, management displayed its confidence to deliver healthy growth. We initiate coverage on WLDL with ADD rating and DCF-based TP of Rs735 (implying EV/EBITDA 20.5x FY25E).**

### Unlocking value through store expansion in Rs200bn TAM in India

Westlife Foodworld (WLDL) is a master franchisee of McDonald's brand in West and South operating 341 stores across 52 cities. While McDonald's enjoys strong brand loyalty, WLDL has successfully build its value-for-money proposition winning millennials. Through its Vision-2027 strategy, WLDL is transforming itself to become multi-category (burgers, wraps, chicken, desserts & beverages), multi day-part (breakfast-lunch-dinner) and multi-channel (dine-in, delivery, takeaway and drive-thru) player. WLDL has shown steady track record of menu innovation/localization in commanding clear leadership in burgers category. Moreover, riding on fast growing chicken QSR space it has launched comprehensive chicken portfolio spanning from entry-price to premium segment in south and select markets in the west. Further, ever-increasing base for coffee led by growing affinity of the millennials and Gen-Z, WLDL has built solid business model around McCafé, building customer traffic and ADS in driving unit economics.

### Meals & Omni-channel strategy led by 3D's – Digital, Delivery and Drive-thru

While WLDL's strategy is driven by parents' 'Accelerating the Arches' led by the addition of restaurant development to go alongside the three D's of digital, delivery, and drive-thru, we expect WLDL's growth to be driven by meals and Omni-channel integrating under One McDonald's platform. Our in-depth analysis indicates WLDL to add 143 stores covering 67 cities in West and South regions by FY25E. WLDL has built robust and relevant menu addressing customer eating out occasions, transforming into digitally integrated brand to enable a seamless customer experience across touchpoints.

### Scale leverage to drive margins

Through its One McDonalds's strategy WLDL expects ~40% contribution from off-premise driven by strengthening partnership with aggregator platforms and build key-value proposition for its own app. Further, increased consumer adoption for drive-thru could lead to competitive advantage for WLDL. These efforts would drive AUV in our view. Therefore, value accretive formats and operating leverage to drive EBITDA margin by 100bp by FY25E.

### Valuation doesn't provide margin of safety

We expect WLDL to deliver revenue/EBITDA/PAT CAGR of 16.9%/20.4%/33.2% over FY23-25E. We strongly believe WLDL's multi-category, multi-channel and multi-daypart strategy holds lot of potential to drive volume and SSSG. Except the over-hang on revised royalty rate (Apr'26), yet WLDL could deliver long-term value creation in our view. We initiate coverage on WLDL with ADD rating with DCF-based TP of Rs735 (implying EV/EBITDA of 20.5x FY25E). Key risks to our call prolonged weakness in demand, rising inflation in key RM/PM and severe competition.

## Financial and valuation summary

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Revenues | 9,856 | 15,760 | 23,032 | 26,611 | 31,495 |
| EBITDA | 469 | 1,892 | 3,883 | 4,648 | 5,629 |
| EBITDA margin (%) | 4.8 | 12.0 | 16.9 | 17.5 | 17.9 |
| Adj. Net profit | (1,032) | (13) | 1,276 | 1,721 | 2,264 |
| Adj. EPS (Rs) | (6.8) | (0.1) | 8.2 | 11.0 | 14.5 |
| EPS growth (%) | nm | (98.8) | nm | 34.9 | 31.5 |
| PE (x) | nm | nm | 83.7 | 62.1 | 47.2 |
| EV/EBITDA (x) | 247.6 | 61.8 | 30.0 | 25.0 | 20.5 |
| PBV (x) | 20.8 | 22.4 | 17.1 | 13.8 | 11.0 |
| RoE (%) | (19.5) | (0.3) | 24.0 | 25.4 | 26.7 |
| RoCE (%) | (2.5) | 4.1 | 12.1 | 13.2 | 14.6 |

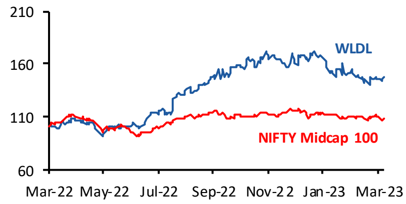
Source: Company, Centrum Broking

**Market Data**

| | |
|---|---|
| Bloomberg: | WLDL IN |
| 52 week H/L: | 816/402 |
| Market cap: | Rs106.4bn |
| Shares Outstanding: | 155.9mn |
| Free float: | 37.5% |
| Avg. daily vol. 3mth: | 203,935 |

Source: Bloomberg

**WLDL relative to Nifty Midcap 100**




Source: Bloomberg

**Shareholding pattern**

| | Dec-22 | Sep-22 | Jun-22 | Mar-22 |
|---|---|---|---|---|
| Promoter | 56.2 | 56.3 | 57.0 | 57.0 |
| FIIs | 10.1 | 9.8 | 9.5 | 9.9 |
| DIIs | 23.7 | 24.1 | 23.3 | 22.8 |
| Public/other | 10.0 | 9.7 | 10.2 | 10.2 |

Source: BSE

QSR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# Thesis Snapshot

## Centrum vs. consensus

| YE Mar (Rs bn) | Centrum FY23E | Consensus FY23E | Variance (%) | Centrum FY24E | Consensus FY24E | Variance (%) |
|---|---|---|---|---|---|---|
| Revenue | 23,032 | 23,014 | 0.1 | 26,611 | 27,051 | (1.6) |
| EBITDA | 3,883 | 3,882 | 0.0 | 4,648 | 4,708 | (1.3) |
| EBITDA margin | 16.9 | 16.9 | (1bp) | 17.5 | 17.4 | 6bp |
| Adj. PAT | 1,276 | 1,250 | 2.1 | 1,721 | 1,689 | 1.9 |
| Diluted EPS (Rs) | 8.2 | 8.0 | 2.0 | 11.0 | 11.0 | 0.6 |

Source: Bloomberg, Centrum Broking

## Westlife Foodworld versus NIFTY Midcap 100

| | 1m | 6m | 1 year |
|---|---|---|---|
| WLDL IN | 1.3 | (4.1) | 48.0 |
| NIFTY Midcap 100 | (1.8) | (4.5) | 3.8 |

Source: Bloomberg, NSE

## Key assumptions

| Y/E Mar | FY23E | FY24E |
|---|---|---|
| Store addition | 366 | 414 |
| SSS Growth | 15.0 | 5.8 |
| Gross Margin % | 65.8 | 65.9 |
| Store Margin (%) (Pre-INDAS) | 18.8 | 19.4 |
| Store Margin (%) (Post-INDAS) | 22.8 | 23.4 |
| EBITDA Margin (%) (Pre-INDAS) | 12.9 | 13.5 |
| EBITDA Margin (%) (Post-INDAS) | 16.9 | 17.5 |

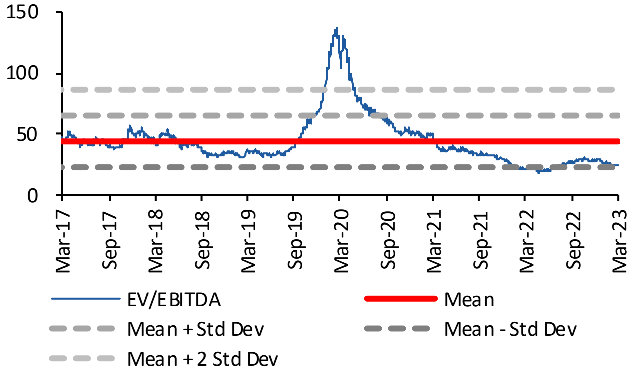
Source: Centrum Broking

## Valuations

We expect WLDL to deliver revenue/EBITDA/PAT CAGR of 16.9%/20.4%/ 33.2% over FY23-25E. We strongly believe WLDL's multi-category, multi-channel and multi-daypart strategy holds lot of potential to drive volume and SSSG. Except the over-hang on revised royalty rate (Apr'26), yet WLDL could deliver long-term value creation in our view. We initiate coverage on WLDL with ADD rating with DCF-based TP of Rs735 (implying EV/EBITDA of 19.9x FY25E). Key risks to our call prolonged weakness in demand, rising inflation in key RM/PM and severe competition.

| Valuations | Rs/share |
|---|---|
| DCF based target price (Rs) | 735 |
| WACC (%) | 10.0 |
| Terminal growth (%) | 5.0 |

**EV/EBITDA mean and standard deviation**




Source: Bloomberg, Centrum Broking

## Peer comparison

| Company | Mkt Cap | CAGR (FY23-25E) | | | EV/EBITDA(x) Pre-INDAS | | | EV/EBITDA (x) - Post | | | RoE(%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (Rs Bn) | Sales | EBITDA | EPS | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Jubilant Foods | 282.4 | 14.9 | 19.3 | 24.6 | 35.4 | 29.2 | 23.8 | 24.4 | 20.3 | 16.6 | 19.9 | 22.1 | 22.2 |
| Devyani International | 174.7 | 22.1 | 23.4 | 15.1 | 37.9 | 27.4 | 21.9 | 23.7 | 18.1 | 14.8 | 32.0 | 28.9 | 24.0 |
| **Westlife Foodworld** | **106.8** | **16.9** | **20.4** | **33.2** | **39.3** | **32.4** | **26.4** | **30.0** | **25.0** | **20.5** | **24.0** | **25.4** | **26.7** |
| Sapphire Foods | 75.9 | 19.1 | 20.6 | 21.2 | 26.1 | 20.1 | 16.0 | 16.3 | 12.6 | 10.2 | 11.1 | 12.2 | 12.8 |
| RBA | 46.0 | 25.9 | 45.8 | NA | 126.7 | 50.9 | 35.2 | 33.7 | 21.2 | 15.9 | -3.0 | -1.4 | 0.1 |

Source: Company, Centrum Broking

# Slow but steady

## Westlife Foodworld market leader in Burger category

- Westlife Foodworld follows robust business strategy
- Right selection of real estate properties
- Track record of successful product innovation and menu localization
- Strong value proposition driving edge over competition
- United supply chain to complement menu innovation built on 'Farm-to-fork' capabilities

Westlife Foodworld (WLDL) is a master franchisee of McDonald's brand in West and South operating 341 stores across 52 cities. While McDonald's enjoys strong brand loyalty, WLDL has successfully build its value-for-money proposition winning millennials. Through its 'Vision-2027' strategy WLDL is transforming itself to become multi-category (burgers, wraps, chicken, desserts & beverages), multi day-part (breakfast-lunch-dinner) and multi-channel (dine-in, delivery, takeaway and drive-thru) player. WLDL has shown steady track record of menu innovation/localization in commanding clear leadership in burgers category. Moreover, riding on fast growing chicken QSR space it has launched comprehensive chicken portfolio spanning from entry-price to premium segment in south and select markets in the west. Further, ever-increasing base for coffee led by growing affinity of the millennials and Gen-Z, WLDL has built solid business model around McCafé driving customer traffic and ADS in driving unit economics.

## Slow but steady

Westlife Foodworld Limited (formerly Westlife Development Limited) was founded on 30 October 30, 1982. Further Hardcastle Restaurants was established as a joint venture between Westlife Development and the McDonald's Corporation in 1995. Hardcastle opened its first McDonald's restaurant in Bandra, Mumbai in 1996, three days after McDonald's other Indian franchisee had opened the first McDonald's outlet in the country in Basant Lok, New Delhi. The joint venture was converted into a master franchise in 2010. MrAmit Jatia, the then Vice Chairman of Hardcastle Restaurants, acquired the McDonald's Corporation's 50% stake in 2012 in Hardcastle Restaurants for an undisclosed amount. Hardcastle was merged into the listed group company Westlife Development, making the former a wholly owned subsidiary of the latter. Westlife Development was listed on the Bombay Stock Exchange on August 27, 2013.

We note, since inception, Weslife Foodworld had slow beginning, but over two decades it has built a solid business on sound foundations. We try to put forth few strengths of its success i.e., (1) right selection of real estate properties, (2) localization of menu suiting Indian taste with value proposition, (3) brand strength, and (4) robust supply chain.

**Strong play on urbanization driven by growing eating out and ordering-in behavior consumer habits**

**(1) Right selection of real estate properties**

Long Lease and lower rent escalation are the key for success of WLDL

One of the most successful drivers for WLDL was right selection of real estate properties with long lease. Notably, in most of new high street locations, McDonald's being an anchor tenant it commands strong say in rentals. McDonald's is typically the port of first call for a mall owner and is able to negotiate a lower rent at high-single-digit revenue share for mall outlets, while peers typically work with a strong minimum guarantee rent and a higher revenue share. Given that WLDL's rental agreements differ from other QSR peers on two counts, WLDL enters 20 years long lease vs. industry average of 9-10 years; moreover, WLDL pays rent escalation of 15% every five years, against the industry practice of rent escalation of 15% every three years. As per our understanding, the above rental structure is applicable to the non-mall outlets as most of the mall stores charge rent based on the variable revenue-linked model. That said, given the higher dine-in focus unlike JUBI, location and access to a restaurant are more important for a McDonald's store. McDonald's stores are also larger as it provides separate kitchen space for veg and non-veg cooking, and focus on dine-in with addition of McCafé.

A representative McDonald's outlet in city has a store area of 2,500-3,000 sq. ft., wherein ~1,000 sq. ft. is allocated to kitchen space and ~200 sq. ft. kept for McCafé operation.

## Superior real estate capabilities to lead the execution

- Build long-term relationships: Renewed leases of 7 marquee stores opened between 1996 and 2002 with same landlord and location
- Create iconic retail centres: Ability to envision and build retail ecosystem around stores thereby creating new landmarks over long-term
- Continuous micro market study: Regular revalidation of retail landscape for all stores through extensive trade area study and robust consumer surveys

**(2) Track-record of successful product innovation and menu localization**

First QSR in the country who started veg menu for customers

Drawing on the strength and learnings from the parent McDonald's, in early days WLDL consciously considered four key characteristics driving QSR demand and habits in India, (1) strong variation in regional taste, however Indian consumers are hungry for western QSRs, (2) majority consumers residing in north and west are vegetarians, (3) Indian consumer largely associate non-veg with Chicken, and (4) significant population does not consume pork and beef. Thus, WLDL established an extensive vegetarian menu suiting the Indian consumers by launching McAloo Tikki Burger price at Rs20 (vegetarian patty made up of potato and peas) in 2004, which remains fastest selling product for the company till date. Further, in an attempt to expand the menu, it launched McVeggie Burgers (similar to McChicken Burger) and also reformed its famous Big Mac/hamburger from the overseas market as Maharaja Mac in India, offering both vegetarian and non-vegetarian options. The company also filled its snacking and breakfast gaps launching McEgg in 2012 for the population that eats only eggs.

Further, McDonald's parent introduced the 'Good Food' platform in 2018 targeting to offer healthier and wholesome menu options to consumers. With these trend settings the company altered its menu offerings, i.e., (1) cut sodium content across fries, nuggets, patties and sauces by 20%, (2) reduced 40% oil content in mayonnaise, which reduced fat content by 25% in certain burgers, (3) launched whole-grain wraps and whole and wheat buns, (4) no artificial colour and preservatives used in patties used in burgers, (5) higher dietary fibre content in McVeggie Burgers with 20-25% increase, and (6) ice-creams are made from milk and with fat-free. To highlight these changes WLDL made strong marketing campaign around McAloo Tikki Burger –a balanced meal with right balance of carbs, protein and fats.

To adopt these changes, WLDL re-engineered in-store operations separating kitchen area for cooking vegetarian products. Further, localisation of the taste and spices in the patty and sauces was done consciously suiting the locals. We note the company uses vegetable oil as a frying medium in India unlike beef tallow used outside the country.

While not all launches were successful, we note apart from the core burgers, in 2018, the company introduced rice bowls, which struggled to make a mark with consumers and the offering was finally withdrawn from the menu.

Therefore, WLDL has successfully drawn its strategy around menu localization meeting portfolio gaps and simultaneously addressing new target groups by launching, (1) extensions of menu to fill day-part McBreakfast and McCafe, (2) Fried Chicken, rice bowl etc., and (3) price laddering to upgrade consumers with Mexican McAloo Tikki, Sesame Bun, etc.

**Exhibit 253: Menu localization – One of the key success factor for McDonald's**


Source: Company, Centrum Broking

### (3) Strong value proposition driving edge over competition

McAloo Tikki Burger priced at Rs58, one of the fastest selling product for McDonald's

McDonald's, worldwide was famous for its value-proposition and even in India it followed the same strategy. We draw on three characteristics of McDonald's value proposition to support demand generation and category development viz., (1) strong entry-level products across vegetarian and non-veg segments in burgers, wraps and sides and consumption of food in different day-parts such as breakfast, lunch and dinner, (2) price laddering driving consumers upgrade with premium offerings, and (3) maintaining pricing-parity with country's affordability index.

When we trace history of WLDL in India, McDonald's focused on family meals with kids at centre of attraction. As the parent through extensive research believed that kids are perceived to be the important decision-makers in leisure activities, the company focused on driving trials establishing strong connect between child and parent and catch them young with product engagement as they would become adult parents in the life journey of product. To work on this trend, McDonald's launched Happy Meal concept, a meal box containing burger and beverage with an attractive toy which actually pushed kids for demand generation and made sure more often visits to the store and increase purchases. We trace in history the Star-Trek Happy Meal was the first to feature designs and toys from a popular franchise. Since then, McDonald's has tied up with various franchises such as Minions and Disney.

**Exhibit 254: Happy meal strategy helped McDonald's to drive trail generation at an early age**

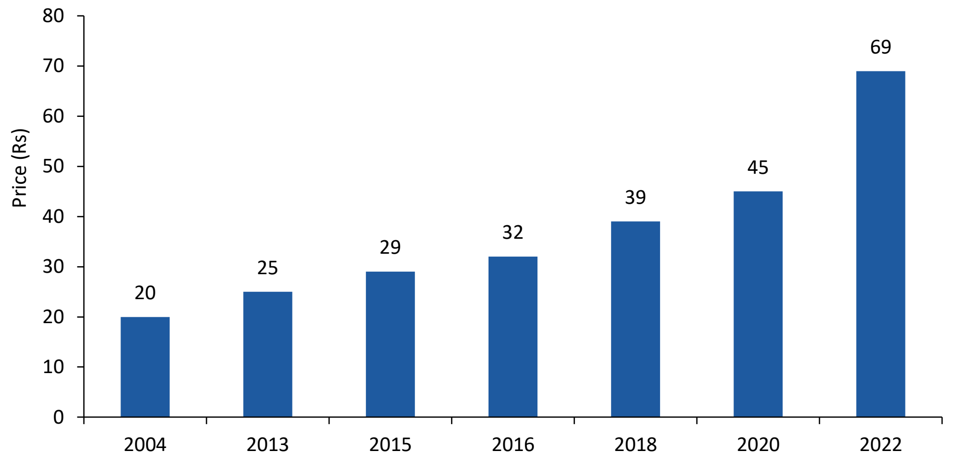

Source: Company, Centrum Broking

Given the Indian culture and India being a price-sensitive market, McDonald's in 1997, revised pricing of its popular products cutting by 30-50%. Hence, McAloo Tikki Burger, a popular entry-level veg burger introduced in 2004 at Rs20 was available at Rs29 until 2015. Similarly, McDonald's continued to offer a few products such as Pizza McPuff, Ice Tea and a small soft serve at Rs20. Further, despite rising food inflation, McDonald's managed to maintain these price-points for many years by inwardly managing cost initiatives such as resizing the product offering and focusing on backward integration to manage costs. In addition, WLDL also increased its focus on value meals and combos.

McDonald's enjoys 75% Gross margin

As discussed, earlier McDonald's parent enjoyed ~75% gross margin, while WLDL trails with ~65%, that indicates though demand generation through a value-proposition is important element in its journey on premiumization, it is yet a play full circle. WLDL, in the past 5-6 years, has put efforts with introduction of McCafé, drawing customer traffic and enhance product mix. Further, WLDL took several initiatives and revised price of McAloo Tikki Burger at a CAGR of 12% over FY16-22, now priced at Rs69.

**Exhibit 255: Price for McAloo Tikki has grown at CAGR of 12% over FY16-22 period**




Source: Company, Centrum Broking

**(4) United supply chain to complement menu innovation built on 'Farm-to-fork' capabilities**

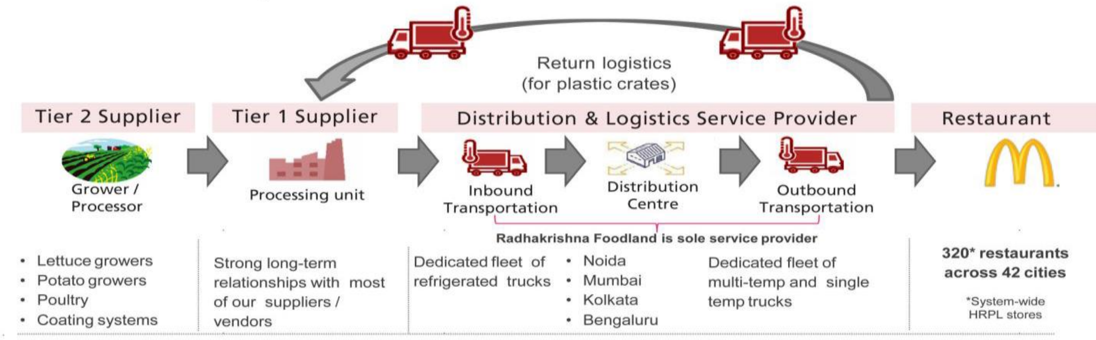
One of the key strengths for McDonald's success lies in its strong supply chain efficiencies. Our research on parent indicates that globally McDonald's put lot of efforts in building supply chain capabilities, adding significant advantage over its peers. These initiatives drive a robust supply chain through, (1) assured yearly contracts with suppliers to manage any inflation in food price, (2) stringent norms for suppliers to maintain product quality at any time, (3) developing strong relationships with local vendors ensuring consistent and cost-efficient supply of raw material, and (4) work closely on 'Farm-to-fork' cold chain network. Our recent interaction with management indicates that WLDL has invested in setting up an end-to-end supply chain since three decades.

To drive these efforts, we note WLDL has taken many initiatives such as (1) Contract farming for Potato, McDonald's has partnered with McCain Foods cultivating high-grade species of potato in Mehsana district in Gujarat following modern techniques supplemented with special seeds and building suitable cold-chain for the storage. To our understanding McDonald's procures largest requirement of potatoes (Santana variety) for making French fries from farmers in Gujarat. Despite fluctuations in market prices, WLDL works on pre-decided prices which are negotiated and mutually agreed every year. (2) Another highly perishable and freshly used ingredient, Lettuce need to be maintained under temperature control. WLDL procure its Lettuce requirement in winter from Nasik region, while it obtains the same from Lahaul Spiti region in summer.

Though managing such integrated-supply-chain is very challenging in a day-to-day operation, it holds inherent advantages with economies of scale, and control over food safety as consistency in product quality derives customer trust. Further, the nature of long-term partnerships helps the company to cut wastages and check costs, yet able to maintain its product quality.

Role of technology to augment consumer experience is an important facet of winning consumer confidence. Today, WLDL implemented the same in the areas of supply-chain management, demand forecasting, inventory management, food delivery, digital marketing and mobile ordering. Under these initiatives, McDonald's India moved up from call centre ordering by launching the mobile app and website for online ordering for the McDelivery platform in 2013-14. Today with incremental focus on dine-in, McDonald's under its initiative 'Experience of the Future' (EOTF) restaurant formats graduated to self-ordering kiosks, gaming pads, digital menu boards, order trackers and air chargers in the store, a complete new experience for its customers. Our store visit indicates EOTF restaurants helped WLDL to achieve robust growth of 6x in sales in past 4-5 years.

**Exhibit 256: Integrated supply-chain is one of winning points for WLDL**

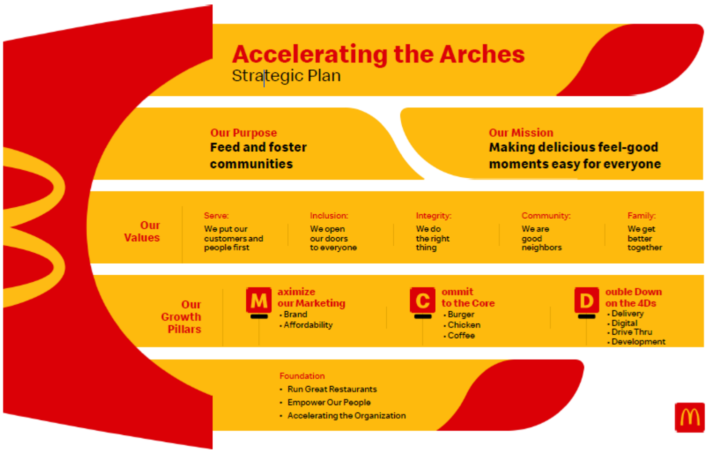



Source: Company, Centrum Broking

# Vision-2027 – Robust Strategy

In its Vision-2027 strategy conclave, WLDL has charted out its growth plans controlled by parents' mission 'Accelerating the Arches' led by the addition of restaurant development to go alongside the three D's of digital, delivery, and drive-thru.

**Exhibit 257: Strategy for Vision-2027**




Source: Company, Centrum Broking

The company in its revised estimates, indicated that there is a very large total addressable market (TAM) opportunity for McDonald's in the Rs3.2tn informal eating out (IEO) market in India. WLDL's current addressable market is about Rs200bn as it targets 66% of the Western Fast Food (49% of QSR industry), which includes desserts, chicken and burgers. The organized Western Fast Food market is expected to grow at about 15% in the next five years.

The Vision-2027 document establishes that Westlife Foodworld would work on 4 strategic pillars for growth.

- **Meals Strategy**: Achieve market leadership in core day-parts through brand relevance led by menu innovation and marketing

  Meals strategy is reinforced and driven by growth in the burger portfolio but also with incremental focus on chicken-based products, particularly in South India. WLDL has made good inroads in deriving quick success over the past two years for the current portfolio in the Chicken segment; the company also emphasized a wide array of products can be brought to India from McDonald's parent. WLDL aspires to build McCafé specifically cold Coffee products and beverages to complement the meals strategy.

- **Omni-channel Strategy:** Integrate various channels and touchpoints to a One McDonald's platform in order to provide consumers a seamless experience

  Omni-channel strategy is distributed under three components, Omni-channel efforts focus on, on-premise, delivery, on-the-go, and 'drive-thru' sales. On-premise strategy is focused on driving the Experience of the Future (EOTF) store. WLDL has already made good progress on this front providing tech led features and ultra-modern looks with self-ordering kiosks that cover 48% of its existing store network. The company targets to take this concept in its 100% stores in the next five years, making the business more efficient. In addition, the company plans to focus higher delivery sales through own app developing own delivery network. Under 'Drive thru' initiative, the stores on highways are currently 20% of WLDL's network and are likely to reach to ~35%. WLDL says this format controls better speed of service, and sales throughput resulting in better ROI.

- **Faster than ever Network Expansion**: Penetrate unserved geographies and fortify existing markets with renewed aggression.

  For faster than ever store expansion, management opined, even within existing stores, McDonald's India has a high growth potential compared to most global markets. Eating out frequency has been far lower in the country than in the rest of the world, but this is changing rapidly. The company's rapid expansion plans will also boost overall sales growth.

- **Lead with performance**: Targeting superior business performance and operating efficiency through execution excellence.

  Cost efficiencies**:** The Company has identified three key areas for Phase-2 of cost optimization program, (1) managing inflation through initiatives beyond pricing actions, (2) cluster-based distribution to unlock supply chain efficiencies and re-aligning store openings to optimize existing distribution infra, and (3) leveraging data analytics to optimize costs across line items.

## Meals and Omni-channel strategy

## Robust menu strategy to drive business growth

- Market leader in snacking coupled with enhanced meal offerings via Burger, chicken & Coffee
- Targeted focus on lunch and dinner dayparts to build meals leadership
- Maximize Marketing while commit to the core portfolio
- Wanted to become market leader in Coffee segment

Meals dayparts present the largest growth opportunity for McDonald's

McDonald's has made product innovations across global as well as Indian markets to meet local taste and consumer preferences. To supplement this initiative, McDonald's made innovations to win Indian consumers such as McVeggie, McAloo Tikki, etc. Further, it separated kitchen area for producing entire vegetarian meal and introduced Gourmet Burger and fried chicken. Recent menu initiatives indicate launch of McCheese Burgers, Kitkat range shakes have witnessed strong response. Further, localised menu (Dosa masala burger, Aloo wrap, etc.) with precision quality at a right price works well for McDonald's India.

**Exhibit 258: Gourmet Burger collection**


Source: Company, Centrum Broking

**Exhibit 259: McCheese Burgers**

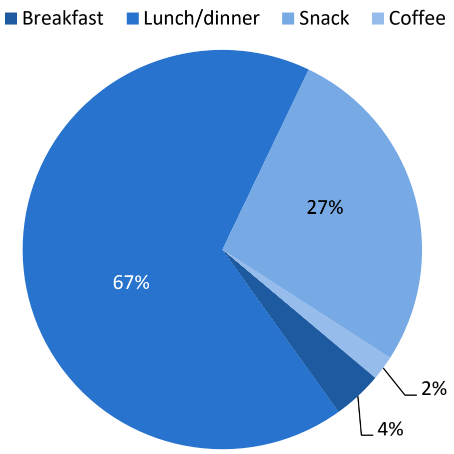
Source: Company, Centrum Broking

**Exhibit 260: Kitkat Shake – New innovation**


Source: Company, Centrum Broking

WLDL has already built menu relevance across consumption occasions and now intends to enhance targeted day-parts (lunch and dinner) by offering Gourmet Burger meals (new range of indulgent, more filling burgers), value-for-money burger (various price points) and chicken-led meals through McSpicy Fried Chicken. On the other hand, it continued leadership in snacking as McDonald's is a preferred snacking choice for Indian consumers. Further, wide menu options driven by taste have helped McDonalds' to control leadership in burgers. Management believes adopting multi meal for various day-parts presents largest growth potential over next 4-5 years where WLDL would focus its energies on ramping up lunch and dinner menu through combos.

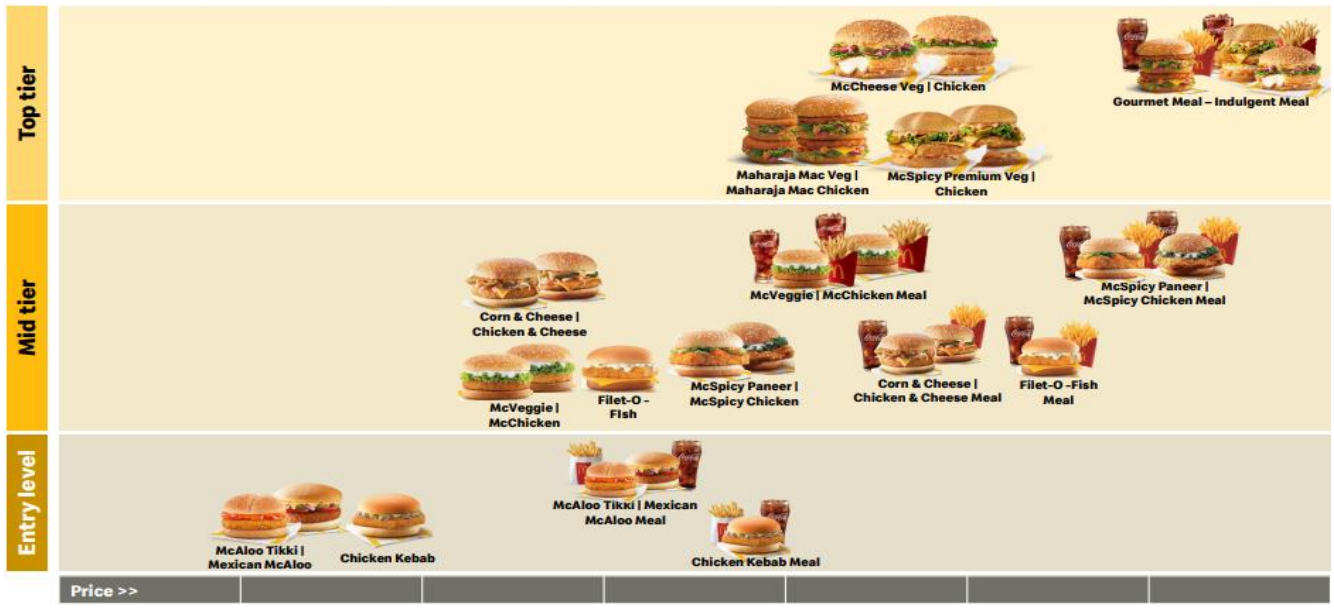
**Exhibit 261: Meal dayparts present the largest growth opportunity**




Source: Company, Centrum Broking

In burgers, McDonald's has built clear leadership by offering products across price points meeting various consumption occasions. Under classic burger it has core burgers which are the bestsellers on the menu while indulgent burgers provide new range of premium burgers which are suited to the flavour trends in the market. Further, it offers pocket friendly burger meals combo by adding sides and beverage products.

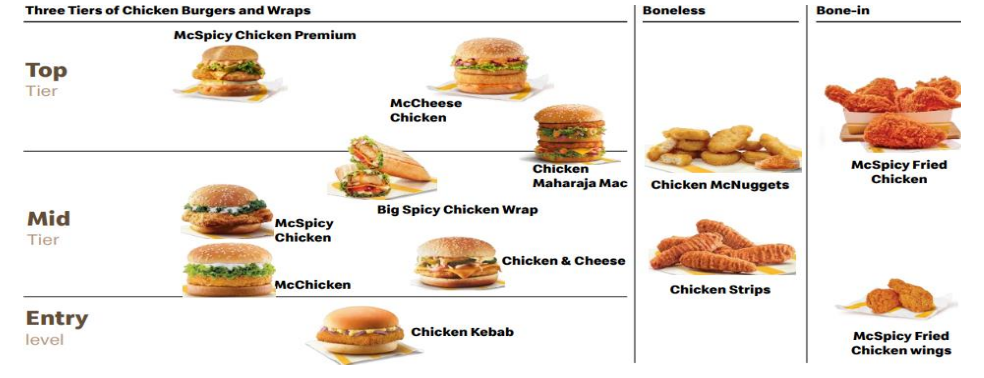
**Exhibit 262: McDonald's burger menu across price points which allow customer acquisition & retention**




Source: Company, Centrum Broking

In Chicken segment, McDonald's commands the market globally with an extensive product offering. WLDL is expected to follow similar strategy by offering comprehensive chicken portfolio which would enable to enhance product relevance in southern region. As per management, 77% of India's population eats meat and 95% of consumers in South India are non-vegetarians. To capitalize on this opportunity, WLDL has developed a comprehensive chicken portfolio – Chicken Kebab in entry level, McSpicy chicken and McChicken for Mid-tier and Mc-Spicy chicken premium in top tier.

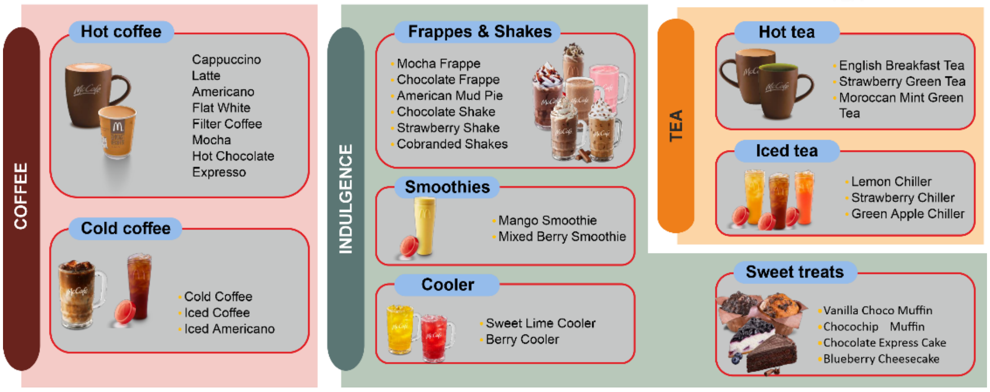
**Exhibit 263: McDonald's chicken portfolio – relevant for southern region**




Source: Company, Centrum Broking

Growing demand for Coffee consumption throws another opportunity for McCafé. Though the data indicates 69% Indian millennials prefer coffee during conversations, the Gen-Z prefer coffee over meeting their on-the-go lifestyle. Being high margin category, management expects to become category leader by recruiting new consumers on the back of higher spends on media to drive consumer awareness highlighting great taste, build credibility and deliver quality coffee. McCafé menu offers hot & cold coffee along with Frappes, Shakes & Tea.

**Exhibit 264: McCafé to offer more options for all taste choices**




Source: Company, Centrum Broking

## Omni-channel strategy - robust model with unified experience

- Plans to integrate various channels and touchpoints (dine-in, delivery, takeaway, Drive-Thru and On-the-go)
- Target Dine-in: Delivery mix would be 60:40
- Management is targeting 100% EOTF stores by 2027
- Fortify partnerships with third party operators

Omni-channel strategy through Dine-in, delivery, takeaway, Drive-Thru and On-the-go

To meet evolving consumer needs and convenience, WLDL intends to cater across touchpoints through Dine-in, Take-away, Drive-Thru, On-the-Go and delivery. WLDL has 341 restaurants across 52 cities where 205 EOTF stores are available, which is 70% of total eligible store base. Besides that, it has 67 Drive-Thru stores (20% restaurants) as on Dec'22.

Management believes, EOTF stores have higher avg. check-in orders via Self-service kiosks and potential to get returns of 30-35%. On the other hand, through Drive-Thru stores management is trying to connect all cities and national highways where delivery promise would be 120 seconds. By looking at the opportunities, management has set target to open 30-35% new stores to be in Drive-Thru and 100% EOTF penetration by 2027.

McDonald's has 22mn+ cumulative app downloads as on Q3FY23

To boost the dine-in space, management offers burgers at different price points along with various combo offers and expects Dine-in mix to be 60% in long term. McDonald's achieved leadership in the food delivery space with an exponential jump of 9x from FY16 numbers and maintained the market share at 30% on 3POs among QSR players. WLDL management said it has adopted two-pronged strategy for growth in delivery channel, (1) with aggregators, and (2) through own app. With strong partnerships with third party operators, it has ramped up its engagement with partners, cut delivery time, while with own app it has focused own delivery fleet. WLDL has also added more delivery hubs to provide robust mobile ordering platform for customers. However, we believe, higher dependency on aggregators platform could be major concern in the long term.

We note, as on Q3FY23, WLDL reported 57% sales contribution from digital channel led by +22mn cumulative apps downloads.

**Exhibit 265: Drive-thru outlets**


Source: Company, Centrum Broking

**Exhibit 266: Experience of the future (EOTF) store**

Source: Company, Centrum Broking

# Unlocking value through store expansion

## Westlife Foodworld – Market leader in Burger category

- Store expansion to be skewed towards Tier-I and Tier-II cities
- WLDL expects to add 250-300 stores in next 5 years
- Company set target of 5-7% SSSG
- McCafé addition driving store footfall and also higher ADS
- 100% penetration in EOTF & McCafé
- McBreakfast work in progress
- Big potential to drive premiumization
- McDelivery, led driving delivery sales profitably

### Store expansion led by opening more McDonald's in Tier-I & Tier-II, while metros to see McCafé ramp up

WLDL runs 341 stores as on date across 52 cities and enjoys strong brand loyalty. While WLDL has successfully build its value-for-money proposition winning millennials through its Visoin-2027 strategy, it is transforming itself to become multi-category (burgers, wraps, chicken, desserts & beverages), multi day-part (breakfast-lunch-dinner) and multi-channel (dine-in, delivery, takeaway and drive thru) player. WLDL has shown steady track record of menu innovation/localization and is commanding clear leadership in burgers category. Moreover, riding on fast growing chicken QSR space, it has launched comprehensive chicken portfolio spanning from entry-price to premium segment in south and select markets in the west. Further, ever-increasing base for coffee led by growing affinity of the millennials and Gen-Z, WLDL has built solid business model around McCafé leading to customer traffic and ADS in driving unit economics.

WLDL follows cluster based expansion model

Our in-depth study for QSR market opportunity in India points to a lot of gaps in the geographical spread for the burger QSRs. We note even WLDL is heavy in terms of its presence in metro and Tier-I and under-indexed in Tier-II markets with limited presence. Thus, in our view, there is enough headroom for WLDL to add ~150 McDonald's stores in the top 30-35 cities in West and South in the medium to long term. The company has strong intensions to double the stores by FY27 with healthy SSSG of 6-8% driven by EOTF and McCafé strategy.

In our understanding, WLDL follows a cluster-based expansion model in six large cities such as Mumbai, Bangalore, Pune, Hyderabad, Chennai and Ahmedabad accounting for ~75% of its stores count. Through its deep planning using market analytics, the company follows detailed processes for selection of each property. There are four categories/types of restaurants opened by WLDL.

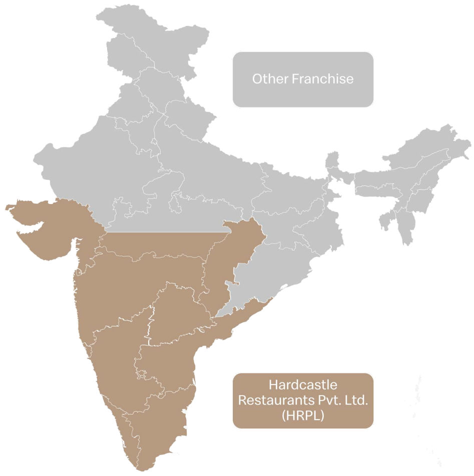
Store in food courts and malls: These restaurants are located in the food courts which consist a front-end counter (ordering and delivery) and a kitchen at the back. The mall stores are also similar in nature and both these types of outlets utilize the common seating area for dine-in and mall restaurants with own pre assigned seating area. We estimate foods courts and mall stores contribute ~32% of WLDL's store network.

Highways and High Street restaurants: These restaurants are large with plenty of indoor seating and essentially include a drive-thru facility (if it's a highway restaurant). These types of restaurants account for ~60% store network.

Transit restaurants: These types of restaurants are located at airports and high traffic transit areas such as bus stations, railway stations, etc., they form ~5% of store network.

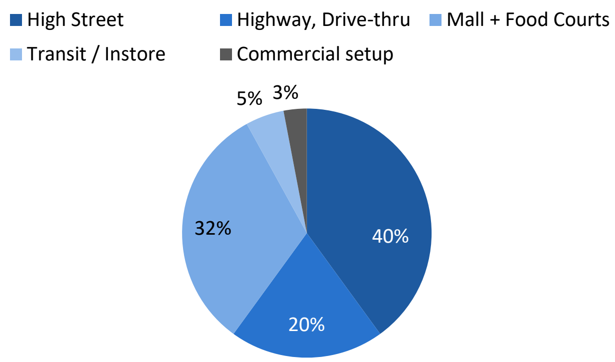
Restaurants in commercial set-up: These types of restaurants are located inside corporate establishments such as IT parks, and business & commercial centres. They make up ~3% of store network for WLDL.

### Exhibit 267: Westlife Geographical Presence




Source: Company, Centrum Broking

### Exhibit 268: McDonald's store network split

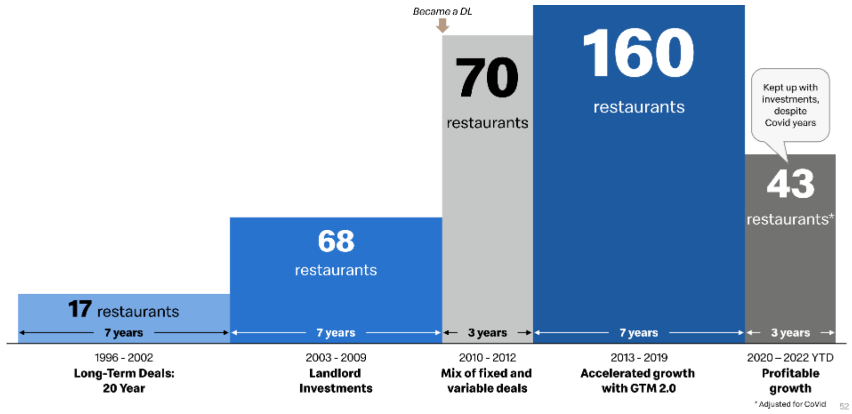



Source: Company, Centrum Broking

Faster than ever Network expansion to continue for WLDL

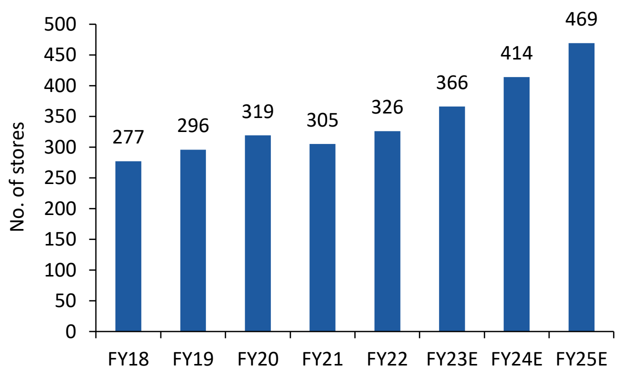
Management, in its Vision-2022 indicated to reach 400-500 stores along with high single digit SSSG, however as on Dec'22, it achieved the store count of 341. Further, through its Vision-2027 aspiration, in order to grab the upcoming opportunities in QSR space, it has guided for adding 250-300 stores over next 5 years for extending market leadership. Overall, we believe, WLDL could achieve the target and reach 580-630 stores in the next 5 years while long term target could be >1,000 in our view.

### Exhibit 269: Steady space of network expansion over the last 25 years



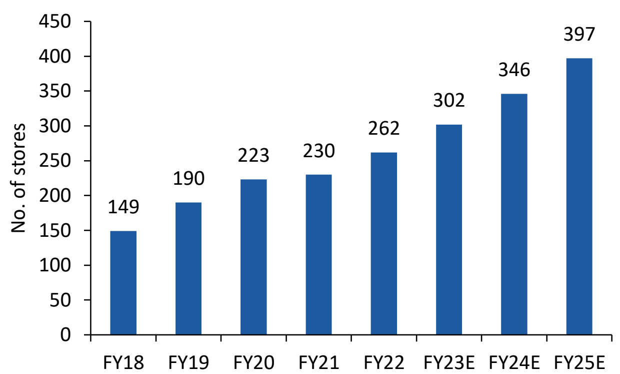

Source: Company, Centrum Broking

### Exhibit 270: Store expansion to reach at 600+ by FY26E




Source: Company, Centrum Broking

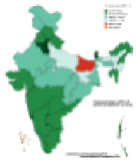
### Exhibit 271: McCafé penetration – larger opportunity




Source: Company, Centrum Broking

In the process of store rollout, we believe superior real estate capabilities would lead the execution process. To start a new store in unserved markets, WLDL has a four-step process in place. Notably, WLDL maintains long-term relationship with landlords which helps to mitigate the cost in long run. We note WLDL has an ability to create retail ecosystem around stores which would give benefit over long term.

**Exhibit 272: Store Process rollout**



**Technical**

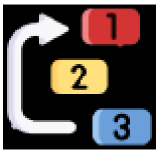
- Identify trade areas by leveraging external data like socio economic metrics (population, urbanization, etc.), competition, 3PO, etc.

**Empirical**

- Correlate the trade areas with internal benchmarks (Overlap, ROI, etc.) and proprietary demand generation data

**Validation**

- Post office validation, real estate planning team along with external real estate experts validate the potential store location sites on field




**Prioritization**

- Prioritization based on business strategy, profitability, real estate deals, supply chain, delivery dark spots, and competition gaps amongst others

Source: Company, Centrum Broking

We believe, right store size with right place would be the game changer for QSR players. Management has identified smaller stores for delivery focused like Drive-thru (20% of restaurants) and standard store for Omni-channel which could be value accretive over long term. Most of the stores have 2-3x longer lease and lower escalations compared to peers and high volume focused store design for all customer touchpoints.

**Exhibit 273: Store format target- value accretive for long term**

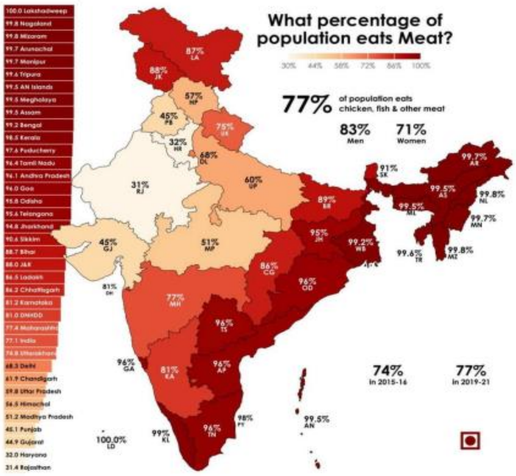
| | **Smaller Store** (Delivery focused) | **Standard Store** (Omni-channel) |
|---|---|---|
| Store size | ~2000 sq.ft. | 3,000-3,500sq.ft. |
| Capex | ~Rs2.0mn | Rs32-40mn |
| Seating Capacity | ~40-50 | 100-120 |
| Avg. Unit Volume | Rs40-50mn | Rs70-80mn |
| Estimated SSSG | 5-7% | 7-9% |
| ROM | High in Short term | High in Long-term |
| ROCE | High in Short term | High in Long-term |

Source: Company, Centrum Broking

Higher scale of new stores in southern region to drive AUV for WLDL

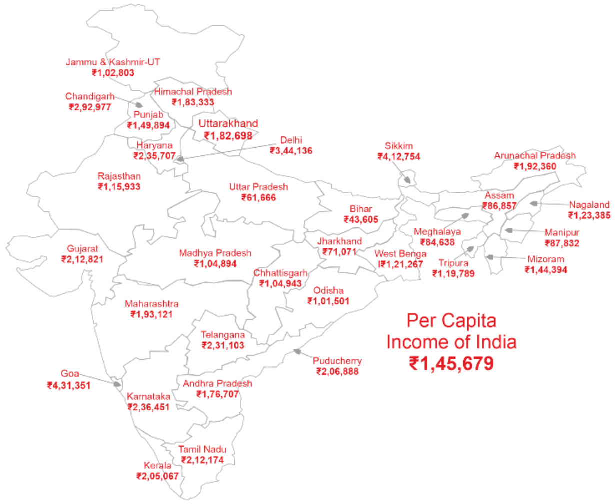
WLDL aims that 60% of new stores are likely to come up in southern region & 50-60% of new stores likely to be emerging towns. Southern region provides higher average unit value (AUV) compared to Pan India on the back of product relevance in chicken category as 95% of consumers are non-veg. They prefer spicy fried chicken (on the bone) where management indicated that chicken product launches in last 5 years helped to boost AUV in South India. Further, southern states have 2x per capita income compared to India average which assumes it could translate in higher per capita consumption for Chicken products. WLDL's management has identified 60-65 new towns in southern region for potential store expansion. Following the trend, even major QSR players are also showing up their aggression for store expansion in southern region especially driving chicken portfolio such as KFC, Popeyes, etc. which could impact SSSG for WLDL in the newly launched stores.

**Exhibit 274: Higher meat consumption – Southern region**



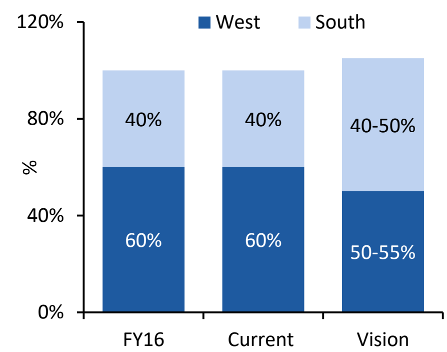

Source: Company, Centrum Broking

**Exhibit 275: Southern states – 2x per capita vs Pan India**



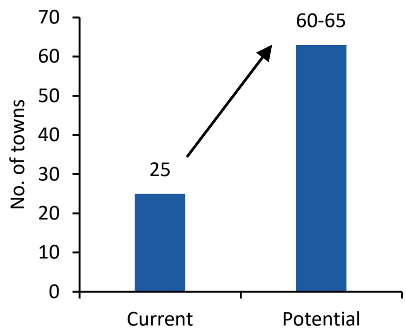

Source: Company, Centrum Broking, Per capita Income as on 20-21

**Exhibit 276: Store split trend**



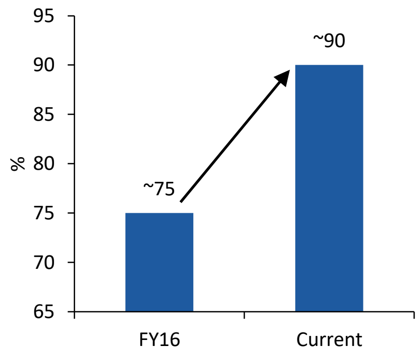

Source: Company, Centrum Broking

**Exhibit 277: South towns potential**




Source: Company, Centrum Broking

**Exhibit 278: AUV Trend: South vs System**




Source: Company, Centrum Broking

As highlighted in the previous section, given the McDonald’s parent strategy ‘Accelerating the Arches’, McDonald’s holds industry leading, though highest average unit volumes (AUV), of ~US$3mn per annum among the leading QSR brands, which was achieved through, (1) strong value positioning and entry-level offering, (2) wide menu offering across burgers, sides, wraps, coffee, desserts and beverages, (3) offering menu choices across day-parts – snacking, breakfast, lunch, dinner, and (4) multi-channel presence through dine-in, delivery and takeaways. Given this thought, WLDL has implemented most of these platforms such as McCafé and McBreakfast in India.

Therefore, we reckon four key drivers for same-store sales growth (SSSG) led by (1) McCafé, (2) McBreakfast, (3) Annual price increase of 3-5%, and (4) Price laddering through premium offerings.

## McCafé winning customers, and driving ADS for WLDL leading to higher SSSG

We trace that WLDL launched McCafé in October 2013 and has expanded it to ~80%+ of restaurant network till date. We note, McCafé, works around premium coffee at affordable price equation coupled with unique relevant food menu options. As per industry estimates, the organized café chain market in India is pegged at US$1.4bn in size, yet growing 13-15% annually. As per our research, today McCafé serves hot and cold beverages including cappuccinos, smoothies, shakes, frappes, iced teas and more with 40+ options. More importantly, McCafé offers hand-crafted and 100% Arabica premium coffee priced competitively. McDonald’s also has 100-hours of training program for its baristas. As a part of Vision-2027, WLDL indicated to penetrate 100% of its outlets with McCafé menu.

**Exhibit 279: McCafé Format**


Source: Company, Centrum Broking

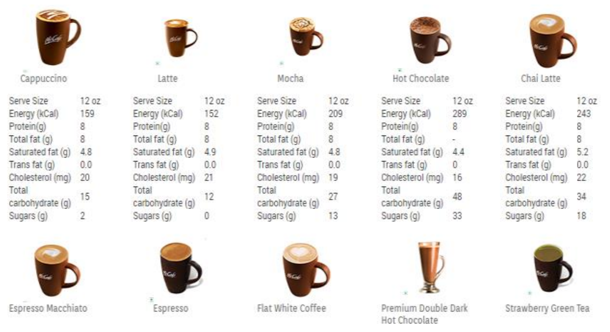
## McCafé format adding immense benefits to McDonald's restaurants

McCafe could add higher AUV in next 2-3 years

- McCafé complements as an add-on to the breakfast menu: McBreakfast and McCafé platforms perfectly complement each other, offering a full portfolio to its consumers. While other cafes lack this combination as they don't have a meaningful foods option. Though we note Starbucks has recently experimented this and hired celebrity chefs to improve its foods offering.
- Guarded against growing competition: Our research indicates McCafé products are priced meaningfully lower compared to Starbucks. McCafé products are priced from Rs167-330 while Starbucks' offerings start from Rs245 onwards. In addition, we believe the closure of Café Coffee Day has helped in easing competition, driving customers to McCafe.
- Enhanced portfolio mix: As per industry experts, McCafé would derive gross margins of 75-78% despite being priced competitively and lower than Starbucks. Therefore, addition of McCafé which follows price laddering strategy drives consumers to move to premium offerings. Thus it helps WLDL to improve its portfolio mix.
- Helps in driving unit economics: In our estimate, with addition of McCafé, WLDL is able to generate 22-25% additional revenue in each McDonald's store. Given McCafé resides in ~200 sq.ft. area with Rs2.5mn spend on capex, it is margin accretive.

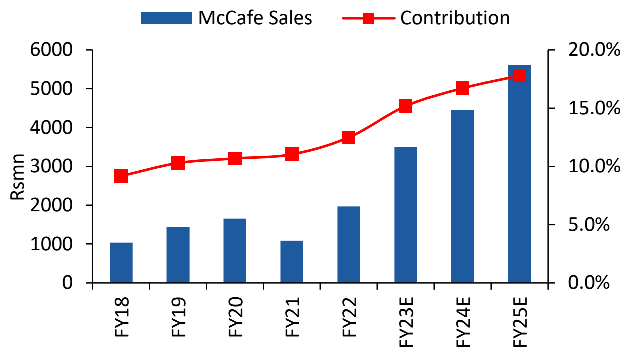
Therefore, we note currently, WLDL has 288 McCafé outlets (84% restaurants), which offers 40+ hot & cold beverages and desserts. This provides an incremental opportunity for WLDL, both in terms of driving additional revenues from Café segment and support margin expansion as overall gross margins of beverages is expected to be higher than food products in India. Further, management accepts McCafé helps driving 20% incremental Avg. sales per store. Though management aspires to launch McCafé format in 100% of its McDonald's stores, we expect revenue contribution to settle in the range of 15-18% from the current level.

**Exhibit 280: McCafé Portfolio**




Source: Company, Centrum Broking

**Exhibit 281: McCafé contribution would hit 18% by FY25**



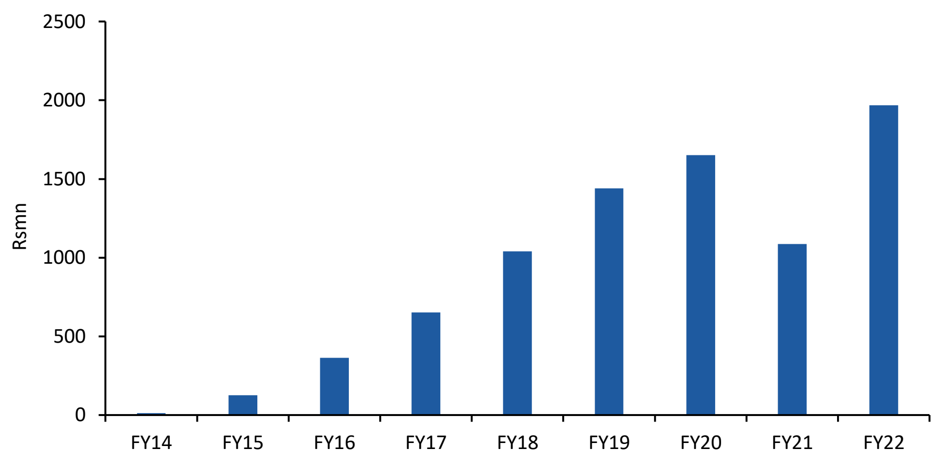

Source: Company, Centrum Broking

**Exhibit 282: Rising contribution from beverages and desserts led by McCafé revenues (Rsmn)**

| (Rsmn) | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|---|---|---|---|---|
| Food | 6,568 | 6,545 | 6,570 | 6,540 | 7,767 | 9,526 | 10,280 | 7,177 | 11,500 |
| Beverages+ Desserts | 764 | 1,053 | 1,667 | 2,649 | 3,489 | 4,361 | 5,104 | 25,76 | 4,061 |
| **Total revenues** | **7,332** | **7,598** | **8,237** | **9,189** | **11,256** | **13,887** | **15,384** | **9,753** | **15,561** |
| | | | | | | | | | |
| **YoY growth (%)** | | | | | | | | | |
| Food | | -0.4 | 0.4 | -0.5 | 18.8 | 22.6 | 7.9 | -30.2 | 60.2 |
| Beverages+ Desserts . | | 37.8 | 58.3 | 58.9 | 31.7 | 25.0 | 17.0 | -49.5 | 57.6 |
| Total revenues | | 3.6 | 8.4 | 11.6 | 22.5 | 23.4 | 10.8 | -36.6 | 59.6 |
| | | | | | | | | | |
| **Contribution (%)** | | | | | | | | | |
| Food | 89.6 | 86.1 | 79.8 | 71.2 | 69.0 | 68.6 | 66.8 | 73.6 | 73.9 |
| Beverages+ Desserts | 10.4 | 13.9 | 20.2 | 28.8 | 31.0 | 31.4 | 33.2 | 26.4 | 26.1 |

Source: Company, Centrum Broking

**Exhibit 283: McCafé revenues grew consistently**




Source: Company, Centrum Broking

## McBreakfast work in progress

Industry experts indicate that the concept of breakfast is a relatively underdeveloped in India given most consumers prefer either eating home-cooked meals or eat breakfast at home. As per our understanding, McDonald's is the only organized QSR player operating in this segment. The company intends to drive footfalls offering in the morning day-part option to support McCafé sales. As the breakfast is consumed early morning, we note these stores start operations as early at 7am, and as on date this option is offered at ~60% of its stores.

**Exhibit 284: McBreakfast Menu**

Source: Company, Centrum Broking

However, industry participants suggest the success in the breakfast format is strongly reliant on, (1) careful selection of menu at each location, (2) certain breakfast items are made with authentic recipes such as south Indian dishes, and (3) eating out breakfast is a habit and to develop this it is dependent on change in consumer behaviour.

Driving consumer behaviour towards breakfast eating: We note convenience and affordability are the most important drivers for adoption of eating breakfast outside. However, this adoption is widely used by the customers in metros (office crowd) who are pressed on time. WLDL is attempting to accelerate the platform acceptance through digital advertising, billboards and regular promotions for breakfast menu.

Menu localization: Despite its launch in 2010, the breakfast platform saw very limited success, yet WLDL re-launched the platform with localized menu in 2017. Under this experiment, WLDL revived the complete menu with Indian and continental offerings such as Dosa Masala Brioche, a burger with a Dosa masala patty and South Indian flavour sauce in addition to egg burgers, scrambled eggs, hot cakes and waffles.

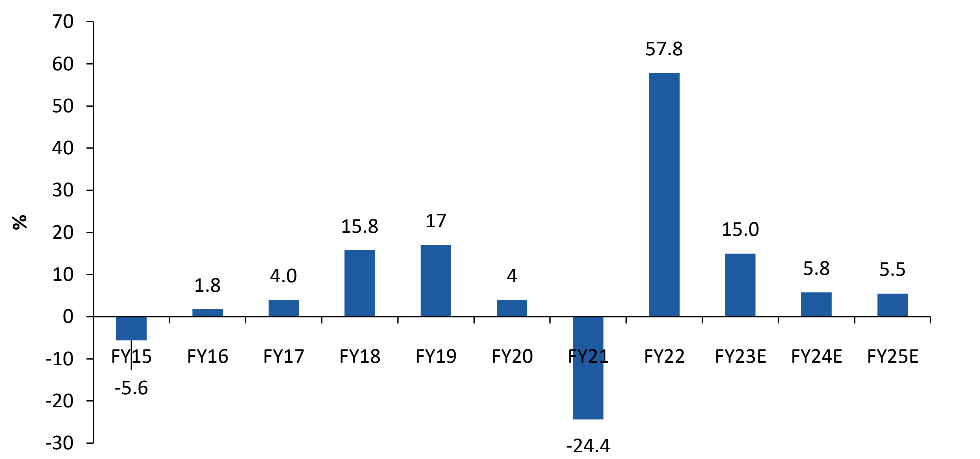
Therefore, we believe McBreakfast concept is still work-in-progress before it shows up in numbers meaningfully.

## Impact of McCafé, McBreakfast on SSSG

Expect high Single-digit SSSG for next 2-3 years

WLDL through these initiatives delivered strong SSSG between FY16-20 period, however in FY21, Covid disruptions derailed its momentum. Nonetheless, in FY22, it has bounced back sharply driven by volume growth and product mix which reflected 57.8% growth in same store numbers. In Vision-2027, WLDL aspires to deliver SSSG of 5-7% in the smaller format store and 7-9% in bigger stores. We expect WLDL could manage to deliver 8-9% overall SSSG on the back of 2-3% price hikes for next 3 years.

**Exhibit 285: SSSG would grow in high single digit by FY25E**




Source: Company, Centrum Broking

McDonald's has entry level & premium burger which helps acquisition & retention of its customers

## Big potential to drive premiumization

Our ground research indicates that WLDL has been working on the market opportunity to upgrade consumers using price laddering strategy and launching premium products. As per our understanding, while WLDL derives 50% sales from entry price burgers, it holds strong value proposition in the premium price segment. We expect WLDL could expand its product portfolio using McDonald's and McCafé format.

**Exhibit 286: Premiumization would drive the market opportunity to upgrade consumers**

| Core menu | Price (Rs) | Premium variant | Price (Rs) | Price premium (%) |
|---|---|---|---|---|
| McAloo Tikki | 49 | Mexican Aloo Tikki | 54 | 10.2 |
| McAloo Double Patty | 71 | Mexican Aloo Tikki Double patty | 85 | 19.7 |
| Fries - Medium | 94 | Mexican Cheese Fries | 122 | 29.8 |

Source: Company, Centrum Broking

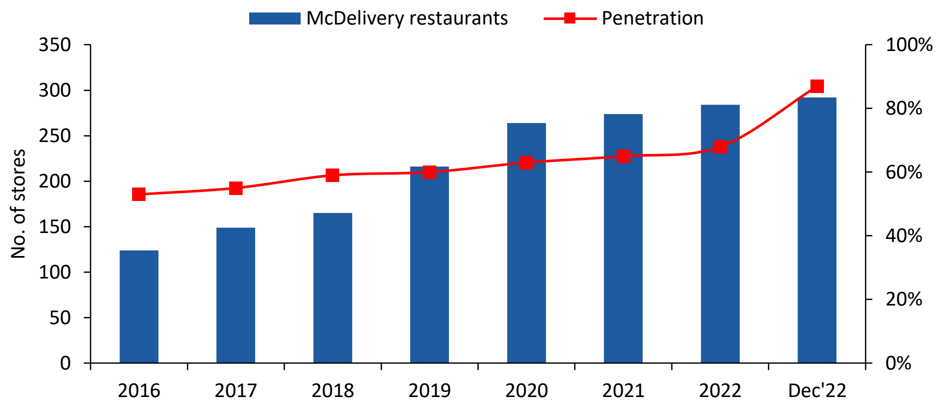
To extend its premium portfolio journey McDonald's introduced collection of Gourmet Burgers, which received solid consumer traction. We note Gourmet Burger is priced at a substantial premium (Rs320) as compared to the core offerings. Though these efforts could lead to attracting new consumers and simultaneously upgrade them the market potential looks to be smaller given the premium pricing as an Indian consumer is very price sensitive. However, we expect 'Gourmet Burger' collection could drive consumer traction and help WLDL to improve sales for delivery channel in our view.

## McDelivery, another leg driving delivery sales

While WLDL started delivery platform McDelivery in 2004 using phone ordering, McDonald's has been a laggard when compared with Domino's scale in the food delivery space. Further, post FY14, the QSR industry witnessed the emergence of delivery channels in a big way led by food aggregators. The opening of delivery channels grew rapidly, and gained consumer attention (especially millennials) for ease of ordering and convenience driven by payment gateways. Even though WLDL took some time to establish its delivery model right, it has shown steady improvement since last five years. We note, WLDL has developed a strong reputation and build partnership with the food aggregator platforms led by (1) high brand recall and followership for McDonald's products – fries and burgers, (2) higher ticket and order value, and (3) quick food preparation. Further, our on ground analysis indicates, McDonald's delivery is faster as compared to the traditional food made by the local restaurants.

In addition, during Covid period, WLDL has also took big leaps by introducing Drive-Thru and on-the-go (OTG) channels to drive store sales. We note these channel reported healthy growth with higher order size. To supplement this initiative, WLDL introduced Drive-Thru VIP club program and started promotional spurts to increase consumer traction. However, the on-the-go platform, which covered ~80% stores, works on simple process where customers use McDelivery app to pre-order the food, which can be delivered to customer on arrival or also can be picked up from a particular restaurant.

**Exhibit 287: Rapid scale up for McDelivery format**




Source: Company, Centrum Broking

**Exhibit 288: McDonald's charges price premium for its delivery orders in the range of 7-9%**

| Segment | Menu | Offline (Rs) | Online (Rs) | Premium |
|---|---|---|---|---|
| Mac Family Meals | Chicken Big Mac with coke and Medium Fries | 359 | 385 | 7.2% |
| | Veg Maharaja Mac with coke and Medium Fries | 359 | 385 | 7.2% |
| | Chicken Maharaja Mac with coke and Medium Fries | 359 | 385 | 7.2% |
| | | | | |
| Cheesy Burger Meals | Triple Cheese veg/chicken meal | 359 | 385 | 7.2% |
| | Mc Cheese Veg/Chicken meal | 359 | 385 | 7.2% |
| | Grilled Chicken & Cheese Meal | 289 | 309 | 6.9% |
| | | | | |
| Spicy Burger & Wrap meals | McSpicy Premium Veg/Non-Veg Meal | 359 | 385 | 7.2% |
| | McSpicy Veg/Non-Veg Meal | 319 | 329 | 3.1% |
| | Big Spicy Paneer Wrap Meal | 349 | 381 | 9.2% |
| | Big Spicy Chicken Wrap Meal | 359 | 385 | 7.2% |
| | | | | |
| Classic Burger Medium Meals | McAloo Tikki Burger | 195 | 205 | 5.1% |
| | McVeggie Burger | 269 | 279 | 3.7% |
| | McChicken Burger | 275 | 305 | 10.9% |
| | Mexican McAloo tikki Burger | 195 | 209 | 7.2% |
| | | | | |
| Others | Chicken Big Mac | 199 | 235 | 18.1% |
| | Maharaja Mac Chicken | 209 | 235 | 12.4% |
| | Maharaja Mac Veg | 199 | 220 | 10.6% |
| | Chicken Wings - 2 | 190 | 190 | 0.0% |
| | | | | |
| McCafe | Cappuccino - S | 159 | 165 | 3.8% |
| | Iced Coffee | 186 | 195 | 4.8% |
| | Strawberry Shake | 166 | 175 | 5.4% |
| | McFlurry Oreo | 86 | 91 | 5.8% |
| | English Breakfast Tea | 149 | 155 | 4.0% |
| | Hot Chocolate | 176 | 179 | 1.7% |
| | Vanilla Chocolate Muffin | 129 | 129 | 0.0% |
| | | | | |
| Frappes | Mocha frappe | 256 | 271 | 5.9% |
| | Chocolate Oreo Frappe | 256 | 271 | 5.9% |
| | Chocolate/Strawberry Shake | 166 | 175 | 5.4% |
| | Cold Classic Coffee | 193 | 209 | 8.3% |
| | Iced Coffee | 186 | 195 | 4.8% |
| | Berry Cooler | 118 | 129 | 9.3% |
| | Lemon Chiller | 170 | 175 | 2.9% |
| | | | | |
| Shakes | Mcflurry Oreo -S | 82 | 91 | 11.0% |
| | Mcflurry Oreo -L | 112 | 129 | 15.2% |
| | Mcflurry Kitkat - S | 94 | 110 | 17.0% |
| | Mcflurry Kitkat - M | 122 | 129 | 5.7% |

Source: Company, Centrum Broking

Our on ground research indicates that McDonald's products are priced higher for delivery platforms than the dine-in format. Except few periodical promotions run during high festive season, McDonald’s does not offer any higher discounting on aggregator platforms such as Swiggy and Zomato.

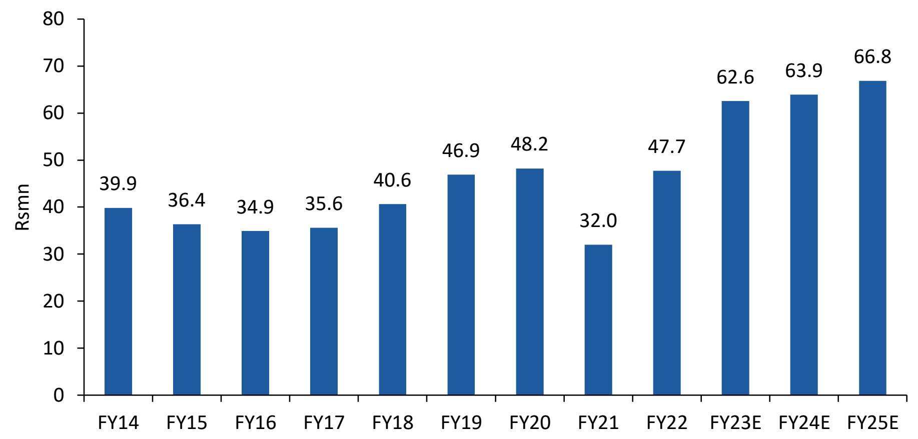
## AUV potential hold for long term

- India AUV stood at $0.8 compared to $1.5 for Asia-pacific and $3 for western countries
- Lower eating out frequency/per week stood at 1.1 times vs. 2-3 times across western world
- Management believes, eating out frequency is going to improve and led by Gen-Z which matches their on-the-go fast lifestyle
- We expect AUV would grow 11.9% CAGR for next 3 years

Last 6 years 80% of incremental AUV came in from Core Burger, Combo & McCafe

WLDL reported steady improvement in its AUV starting from FY16 onwards, however in FY21, Covid disruptions put a break, AUV fell to Rs.32mn/store. Nevertheless, in FY22, it bounced back and reached pre-pandemic levels at Rs47.7mn/store. While in its Vision-2022, aspiration the management had set target to achieve Rs60-63mn/store, it could be met by end FY23 in our view. Further, while in Vision-2027, management has avoided to provide any guidance on AUV, we expect improvement given above initiatives leading to WLDL reporting CAGR of 11.9% over FY23-25E to Rs66.8mn.

**Exhibit 289: AUV would grow 11.9% CAGR by FY25 led by higher eating out frequency along with McCafé expansion**




Source: Company, Centrum Broking

# Scale leverage to drive margin

## Margins to improve through operating leverage

- Management expects operating leverage would help to increase 300-350bp margin expansion by CY27 on the back of higher AUV along with lower SG&A cost
- Further, product mix would help to improve margins by 100-150bp by CY27 followed by 80-100bp increment through managing distribution cost
- Higher royalty (150-200bp) and store gestation (100-120bp) would be the major challenges and offset the margins expansion by 300bp by CY27
- Management has set a target to reach EBITDA margin in the range of 15-17% (pre-INDAS) and 18-20% (post - INDAS) with an improvement of 400bp
- We believe 590bp margin expansion by FY25, second highest margin expansion for next 3 years in QSR industry

Through its One McDonalds's strategy, WLDL expects ~40% contribution from off-premise driven by strengthening partnership with aggregator platforms and build key-value proposition for its own app. Further, increased consumer adoption for drive-thru could lead to competitive advantage for WLDL. These efforts would drive WLDL's AUV in our view. Therefore, value accretive formats and operating leverage to drive gross margin by 80bps.

We expect margin expansion on the back of operating leverage and product mix change

We credit WLDL for meeting its Vision-2022 target, wherein it said to achieve mid-teens EBITDA margin from 6-7% in FY18 to reach 14-15% range in FY22. We note in 9MFY23, WLDL delivered EBITDA margin of 12.8% (post-INDAS) on the back of (1) higher AUV, (2) rising delivery saliency, and (3) McCafé formats reflecting strong operating leverage.

For Vision-2027, WLDL has set target to reach EBITDA margin in the range of 15-17% (pre-INDAS) and 18-20% (post-INDAS) driven by an improvement of 400bp from hereon. As per management, it expects the margin expansion would be led by three prong strategy.

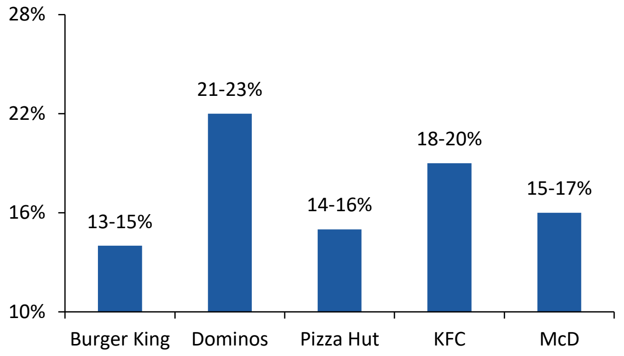
**Operating leverage**: (1) Strong operating leverage on the back of higher AUV, and (2) lower SG&A cost which would help to improve margins by 300-350bp by CY27. Further, WLDL also expects superior product mix would help improve margins by another 100-150bp during the same period. Therefore, scaling up of volumes would have higher impact on margins.

**Scale up of formats**: We consider several initiatives taken by WLDL such as, (1) new innovations to be launched under McCafé format, (2) launch of value combos/bundles to drive premiumization, and (3) further improvement in Gourmet Burgers would support the growth.

**Extracting supply chain efficiencies**: We note cluster base distribution scale up would aid unlocking of supply chain efficiencies which may improve margins further by 80-100bp by CY27.

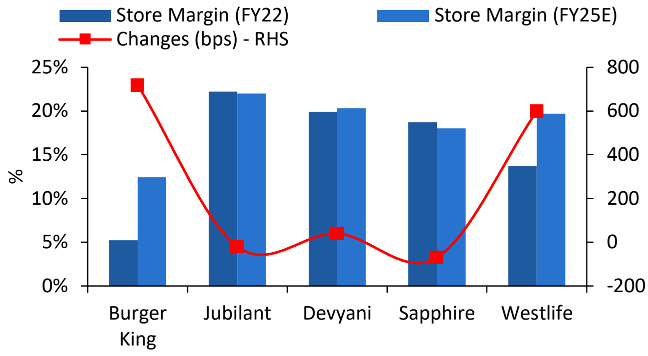
However, WLDL expects its current royalty rate which has moved up from 4% in Mar'22 and remained stable at 5% is likely to increase after March'26. Further, long gestation period for newly opened stores would offset the margins to the extent of 250-300bp, in our view. Hence, we believe it is reasonable to expect that WLDL would deliver EBITDA margins in the range of 15-17% (pre-INDAS) and 18-20% (post-INDAS). We believe 590bp margin expansion to be reported by WLDL by FY25, would be the second highest margin expansion for next 3 years in QSR industry after Restaurant Brands Asia.

**Exhibit 290: McDonald's store margin lower than peers**




Source: Company, Centrum Broking

**Exhibit 291: 2nd Highest store margin expansion by FY25E**




Source: Company, Centrum Broking, Restaurant as on Pre INDAS basis

## Supply Chain familiarisation Visit

We recently visited WLDL's key supplier located in Taloja during its 'Supply-chain familiarisation' visit to understand the supply chain muscle Westlife Foodworld has developed. It has two types of supplier that is Tier 1 &2. In Tier 1, it has Vista Processed Foods, McCain, Dynamix, Coca-Cola etc. whereas Tier 2 supplier supply the raw material to Tier 1.

**Vista Foods**

Vista Processed food is a primary supplier of frozen products (patty, nuggets, McSpicy etc.) for McDonald's Franchisees globally including India. Vista Processed Foods Pvt. Ltd is a part of OSI international, Chicago based long term global supplier 100% owned by the OSI group, one of the largest private companies in United Sates. In fact, OSI was one of the first suppliers of fresh beef patties to McDonald's when it first began serving hamburgers in the 1950s.

We gather, Vista procures chicken from Venky's (located in neighbourhood district) and the it is then processed at Vista's factory in Taloja (mashed, coated, par-fried, chilled and packed). We note large scale production enables: (1) consistent supply of raw material to McDonald's stores across the country; (2) higher cost efficiency – food processing requires heavy capex into factory and equipment (grinders, blenders, chillers, conveyor belt, detection of foreign particles such as bone in the chicken, detection of x-ray machines, etc.); (3) better business economics to support front end stores (superior back-end support enables McDonald's to rapidly scale frontend operation and thereby enjoy operating leverage benefits).

Vista Foods is the primary supplier of frozen products. It has 3 plants in India with a capacity of 50k+MT/year where South plant comprises 52% followed by Taloja (26%) and Punjab plant (22%). While 50% of total capacity is blocked for McDonald's India its utilisation levels stood ~80-85%. It requires 8-9 months to start for a new product and last in 3-4 years' new product launch has increased. It has product line of boneless chicken, bone in chicken, veg patties and other. During the process, chicken starts from inception through X-ray detection machine followed by grinded, blended and sizzled with spices giving shape to final product.

**Radhkrishna Foodland Pvt. Limited**

Frozen food prepared at Vista Foods facility is sent to the distribution centre (DC) handled by Rashkrishna Foodland Limited. (RKFL). RKLF is sole back end 4PL service provider managing entire business supporting both franchisees in India (WLDL & MMG). RKFL has 6 distribution centers and plan to add 2 more in next 6-8 months. Out of 6 DCs operated by RKFL, 4 DCs serve for WestLife Foodworld and 2 DCs serve North & East region under MMG.

We note though, distribution optimisation is relatively more multifaceted and monotonous task (vs production). Moreover, we were quite impressed by RKFL's hi-tech digital capabilities (95% deliveries on-time, 95% capacity utilisation of vehicles) to handle the multiple vendors feeding DC and at the same time delivering high level of customer satisfaction.

We understand that:

(1) It is important to save cost by organizing production and DC close to market, RKFL manages the same by food-miles (distance travelled). RKFL has built large storage of chillers, air-fresh coolers and temperature controlled storages.

(2) RKFL has multi temperature trucks (semi cooled+ chilled) to cater to stores in smaller cities as they may need replenishment once in a week, while Mumbai stores get delivery every day or ones in two days. These efforts earn distribution-cost saving could be done by reducing frequency of supplies.

(3) Each delivery truck of RKFL has inbuilt three compartments: handling frozen (-18 degree Celsius), chilled (1-4 degree Celsius) and tropical (18-22 degree Celsius) products. This helps RKFL to optimise delivery of products required as per demand of respective store/catchment areas.

(4) We have been told that given the shelf life for buns is lower buns are directly supplied from the manufacturer to the stores (RKFL is not involved in this transaction). Hence WLDL `benefits as it is not required to carry inventory.

(5) McDonald's enjoys higher sales realisation and doesn't have to reach closer to customer home, therefore its distribution network is more optimised.

# Financials

- **Expect higher momentum in store expansion**
- **Operating leverage to drive margins**
- **Improved capital efficiency**

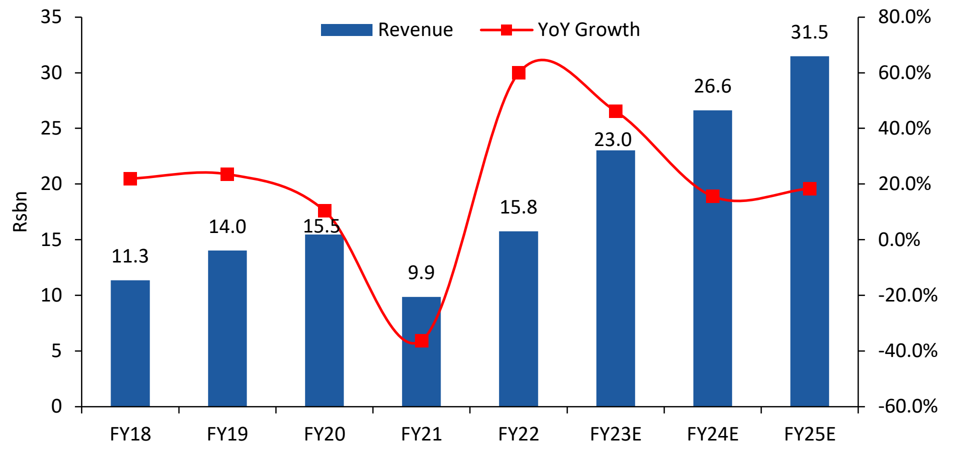
## Expect steady performance over FY23-25E

Over FY19-22, Westlife Foodworld delivered revenue/EBITDA CAGR of 4.0%/16.7%, however Covid disruptions (store closures) derailed its profitability during the same period.

We estimate revenue/EBITDA/PAT CAGR of 16.9/20.4%/33.2% over FY23-25E driven by, (1) 143 stores addition in McDonald's format reaching the store count to 469 by Mar'25E, (2) reaching 8.8% avg. SSSG in FY25E, (3) Higher ADS supported by 100% McCafé penetration, mix change and higher delivery saliency, and (4) increase in volumes supported by Omni-channel & meals strategy to reflect 590bp improvement in EBITDA margin reaching to ~17.9% (Post-INDAS). As per management, it has set a target to improve 300-350bp through operating leverage followed by 100-150bp margin supported by product mix & net pricing and 80-100bp supported by cost savings.

## Assumptions

**Exhibit 292: Revenue CAGR 16.9% over FY23-25E**



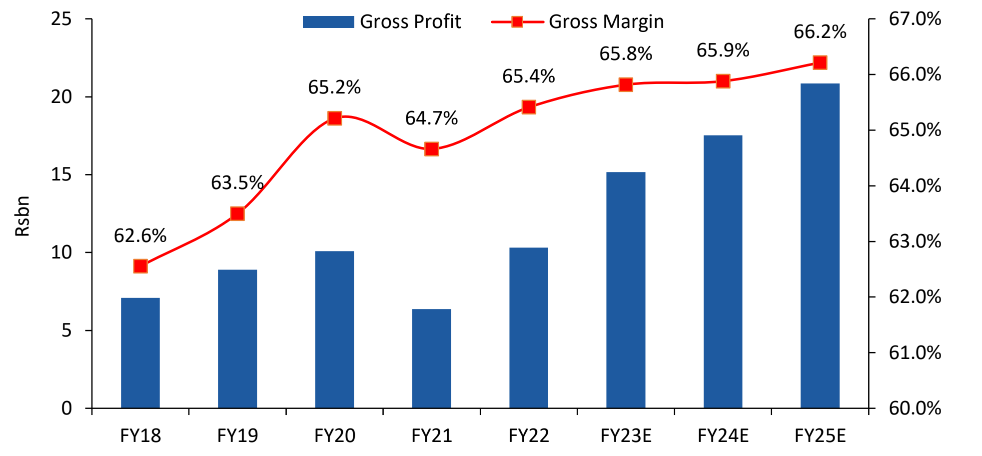

Source: Company, Centrum Broking

**Exhibit 293: Key assumptions**

| | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| Store | 296 | 319 | 305 | 326 | 366 | 414 | 469 |
| SSG (%) | 17.0 | 4.0 | -24.4 | 57.8 | 15.0 | 5.8 | 5.5 |
| Sales (Rsbn) | 14,016 | 15,473 | 9,856 | 15,760 | 23,032 | 26,611 | 31,495 |
| Avg. revenue/store/year (Rsmn) | 46.9 | 48.2 | 32.0 | 47.7 | 62.6 | 63.9 | 66.8 |
| EBITDA (%) (Pre-INDAS) | 8.5 | 8.9 | (1.8) | 7.7 | 12.9 | 13.5 | 13.9 |
| EBITDA (%) (Post-INDAS) | 8.5 | 13.8 | 4.8 | 12.0 | 16.9 | 17.5 | 17.9 |

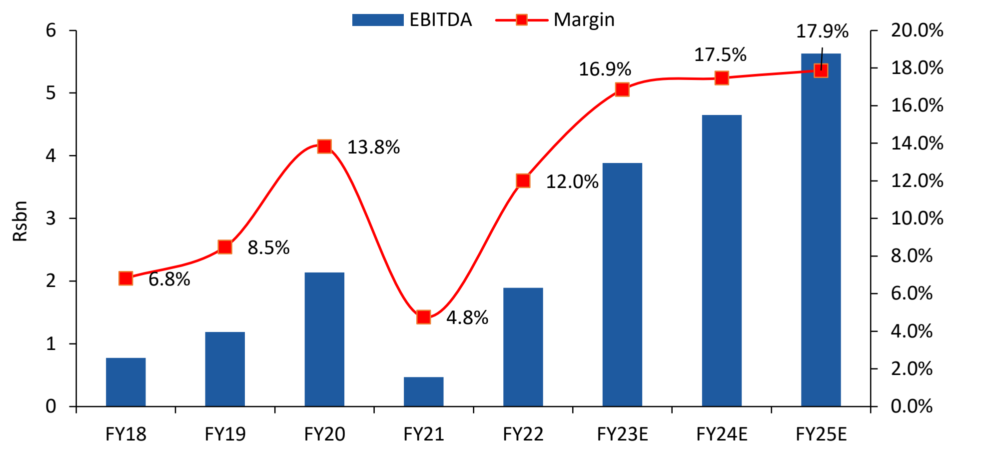
Source: Company, Centrum Broking

**Exhibit 294: Gross Profit CAGR of 17.2% over FY23-25E**



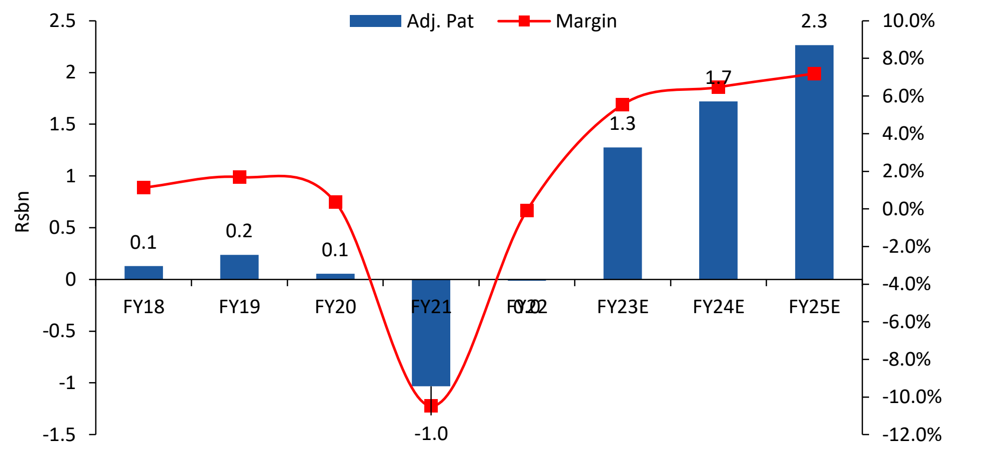

Source: Company, Centrum Broking

**Exhibit 295: EBITDA CAGR of 20.4% over FY23-25E and EBITDA margin of 17.9%**




Source: Company, Centrum Broking

**Exhibit 296: PAT CAGR of 33.2% over FY23-25E**




Source: Company, Centrum Broking

# Valuations

- **Expect higher momentum in store expansion**
- **Operating leverage to drive margins**
- **Improved capital efficiency**
- **Higher valuations supported by improved performance**

## Higher valuations supported by strong performance

We expect Westlife Foodworld to deliver revenue/EBITDA/PAT CAGR of 16.9%/20.4%/ 33.2% over FY23-25E. We strongly believe WLDL's multi-category, multi-channel and multi-day-part strategy holds lot of potential to drive volume and SSSG. Except the over-hang on revised royalty rate (Apr'26), WLDL could deliver long-term value creation in our view. We initiate coverage on WLDL with Hold rating with DCF-based TP of Rs735 (implying EV/EBITDA of 20.5x FY25E).

**Exhibit 297: DCF Valuation**

| DCF | Basis | Assumption | | Price (Rs) |
|---|---|---|---|---|
| WLDL – Consol. | DCF | WACC (%) | 10.0 | 735 |
| | | Terminal Growth (%) | 5.0 | |

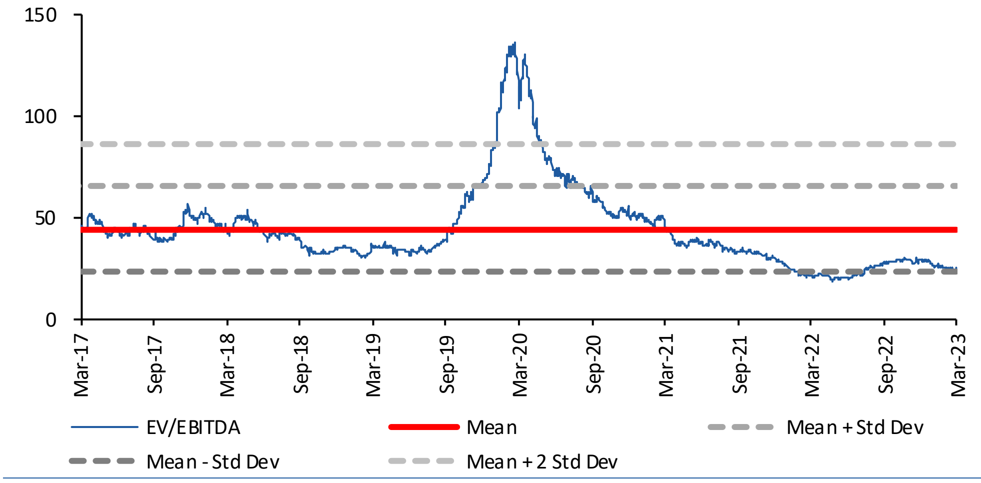
Source: Company, Centrum Broking

**Exhibit 298: Westlife Foodworld DCF assumptions**

| | FY23E | FY24E | FY25E | FY26E | FY27E | FY28E | FY29E | FY30E | FY31E | FY32E | FY33E | FY34E | FY35E | FY36E | FY37E | FY38E | FY39E | FY40E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 23,032 | 26,611 | 31,495 | 37,131 | 42,864 | 49,028 | 55,645 | 61,910 | 68,290 | 71,704 | 75,289 | 79,054 | 84,588 | 90,509 | 96,844 | 103,623 | 110,877 | 116,975 |
| EBIT | 2,356 | 2,917 | 3,653 | 4,316 | 5,002 | 5,863 | 6,722 | 7,579 | 8,469 | 9,875 | 10,444 | 11,045 | 11,903 | 12,826 | 14,402 | 15,514 | 16,711 | 17,747 |
| Depreciation | 1,528 | 1,731 | 1,975 | 2,395 | 2,745 | 3,095 | 3,445 | 3,795 | 4,145 | 3,442 | 3,614 | 3,795 | 4,060 | 4,344 | 4,067 | 4,352 | 4,657 | 4,913 |
| Tax | (360) | (574) | (755) | (857) | (1,038) | (1,263) | (1,488) | (1,711) | (1,942) | (2,039) | (2,141) | (2,248) | (2,406) | (2,574) | (2,754) | (2,947) | (3,153) | (3,327) |
| Capex | (2,181) | (2,729) | (2,921) | (2,619) | (2,300) | (2,328) | (2,356) | (2,387) | (2,419) | (2,868) | (3,012) | (3,320) | (3,553) | (3,620) | (3,874) | (4,145) | (4,435) | (4,679) |
| Change in WC | 687 | 108 | 436 | 265 | 461 | 489 | 539 | 509 | 517 | 215 | 226 | 237 | 254 | 272 | 291 | 311 | 333 | 351 |
| FCFF | 2,030 | 1,454 | 2,389 | 3,500 | 4,869 | 5,856 | 6,862 | 7,785 | 8,771 | 8,624 | 9,131 | 9,508 | 10,258 | 11,248 | 12,132 | 13,085 | 14,112 | 15,005 |
| Disc. Factor | 1.00 | 0.91 | 0.82 | 0.75 | 0.68 | 0.62 | 0.56 | 0.51 | 0.47 | 0.42 | 0.39 | 0.35 | 0.32 | 0.29 | 0.26 | 0.24 | 0.22 | 0.20 |
| Disc. FCFF | 2,022 | 1,317 | 1,968 | 2,623 | 3,319 | 3,629 | 3,868 | 3,991 | 4,090 | 3,656 | 3,521 | 3,335 | 3,272 | 3,262 | 3,200 | 3,139 | 3,079 | 2,977 |
| Sum of Disc. FCFF | 53,291 | | | | | | | | | | | | | | | | | |
| Disc. TV | 63,148 | | | | | | | | | | | | | | | | | |
| EV | 116,439 | | | | | | | | | | | | | | | | | |
| Net Debt | 1,778 | | | | | | | | | | | | | | | | | |
| **Equity Value** | **114,661** | | | | | | | | | | | | | | | | | |
| Shares O/S | 155.9 | | | | | | | | | | | | | | | | | |
| **Value per share** | **735** | | | | | | | | | | | | | | | | | |

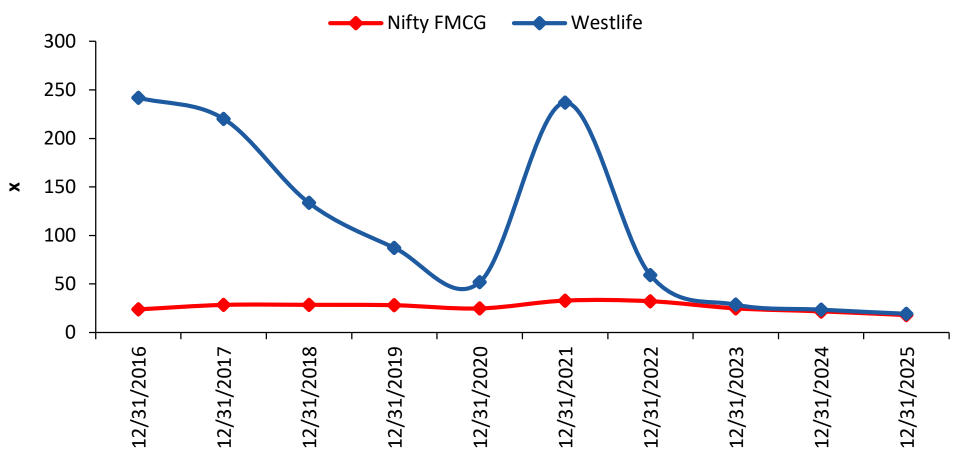
Source: Company, Centrum Broking

**Exhibit 299: One year forward EV/EBITDA (adjusted post INDAS 116)**



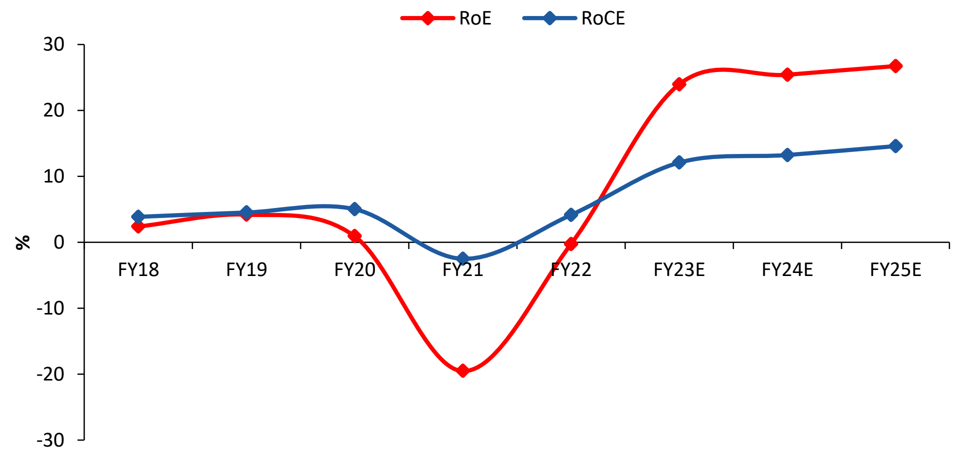

Source: Company, Centrum Broking

**Exhibit 300: EV/EBITDA valuation to FMCG index**




Source: Bloomberg, Centrum Research

**Exhibit 301: Return ratios set to improve**



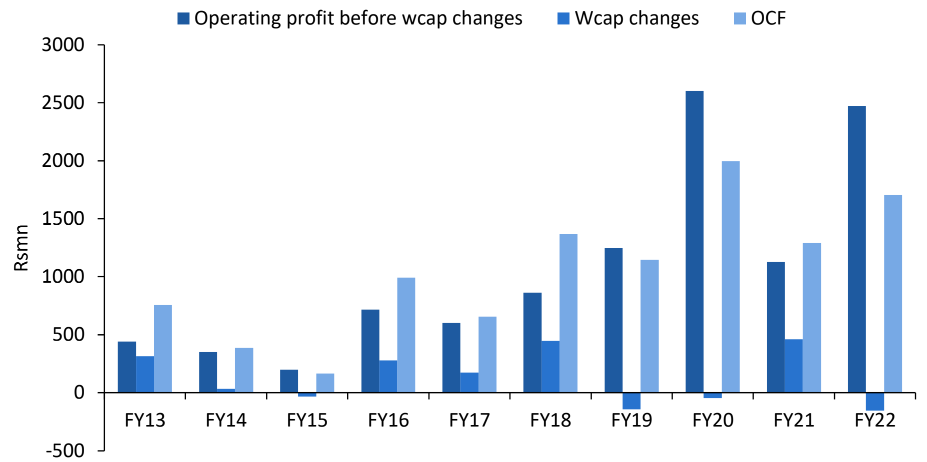

Source: Company, Centrum Broking

# Analysis of 10-year cash flows

Continuous focus on heavy capex reflected negative FCFF in last decade

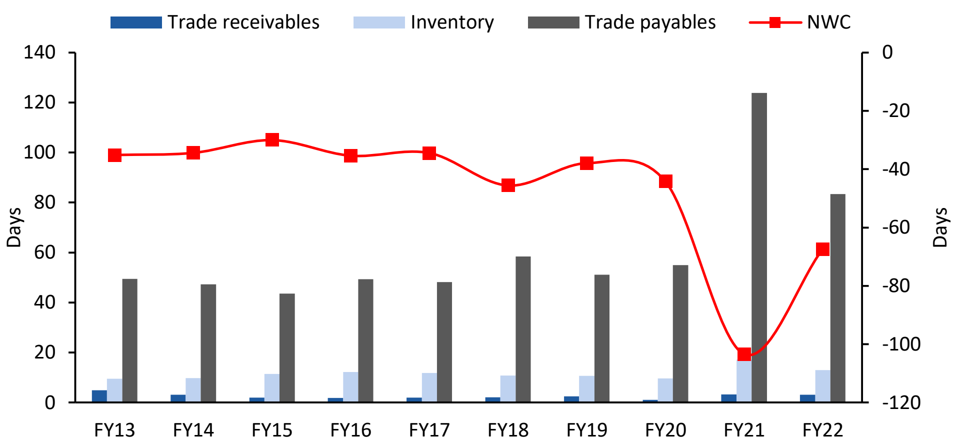
Our analysis of last 10-years cash-flow indicates that Westlife Foodworld has delivered revenue/EBITDA CAGR of 11.2%/11.6%. Operating profits have expanded moderately over these years, with operating margin increasing from 8.4% in FY13 to 12.0% in FY22. Cumulative profit before working capital has reached to Rs10.6bn (tax paid: Rs0.1bn) and cash flow from operating activities has been steady at Rs10.4bn. On an aggregate, OCF/EBITDA has remained at 144% till FY22 whereas FCF/OCF stood negative on the back of lower FCF. Cumulative capex has been Rs12bn which reflected negative FCF as the company continuously focused and invested heavily in store expansion. Overall, Westlife Foodworld has delivered inconsistent return ratios over the decade.

**Exhibit 302: WLDL generated consistent positive cash flow from operations**



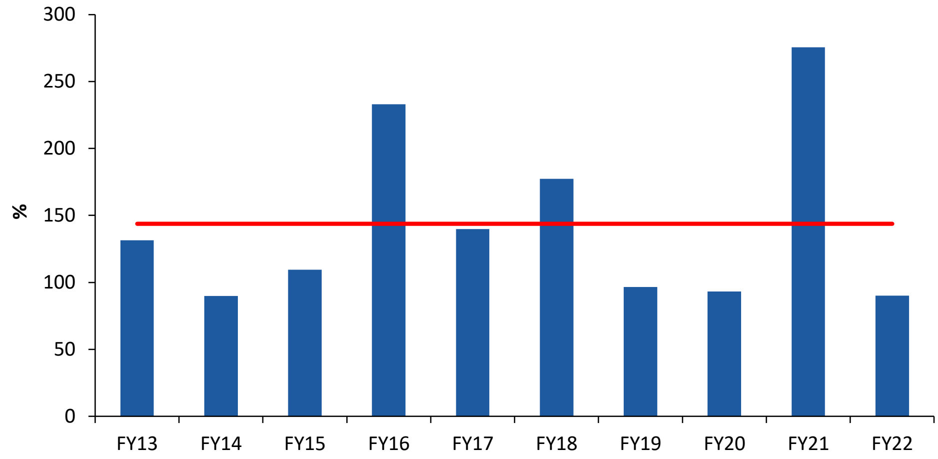

Source: Company, Centrum Broking

**Exhibit 303: Working capital has improved moderately over the decade**



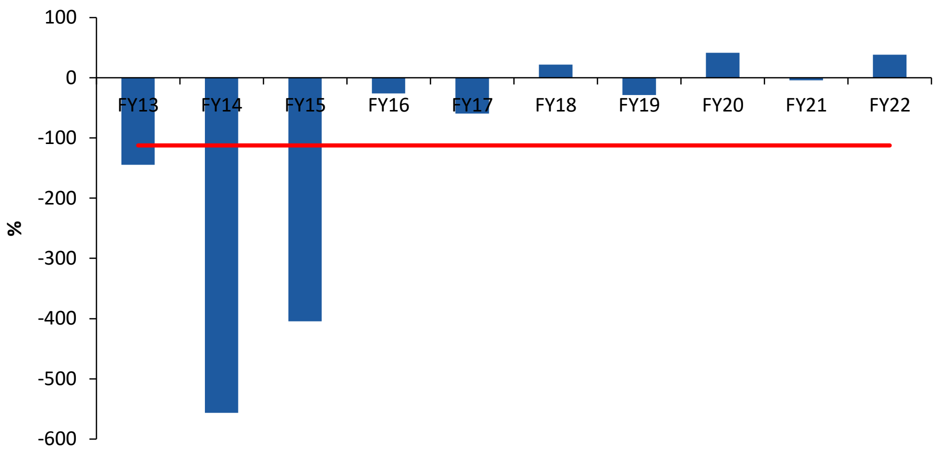

Source: Company, Centrum Broking

**Exhibit 304: EBITDA to OCF conversion healthy at 144% over 10 years**




Source: Company, Centrum Broking

**Exhibit 305: OCF to FCF conversion over 10 years – Negative FCF, yet improved recently**




Source: Company, Centrum Broking

**Exhibit 306: Consistency was the major challenge in last decade**

| | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY13-22 average |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Debt/Equity | 0.0 | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 | 0.4 | 1.7 | 2.0 | 2.2 | 0.8 |
| Net Debt/EBITDA | -0.2 | 1.2 | 8.4 | 3.3 | 3.9 | 2.2 | 1.9 | 4.5 | 20.4 | 5.5 | 5.1 |
| RoCE pre-tax | 20.0 | 0.7 | -3.6 | -1.0 | 0.6 | 4.8 | 5.6 | 6.3 | -3.1 | 5.2 | 3.5 |
| RoCE | 16.0 | 0.6 | -2.9 | -0.8 | 0.5 | 3.9 | 4.5 | 5.0 | -2.5 | 4.1 | 2.8 |
| RoIC (pre-tax) | 8.3 | -0.1 | -6.9 | -2.8 | -3.0 | 1.8 | 4.1 | 5.4 | -6.1 | 3.5 | 0.4 |
| RoE | 9.5 | 0.2 | -5.3 | -3.8 | -2.3 | 2.4 | 4.2 | 0.9 | -19.5 | -0.3 | -1.4 |

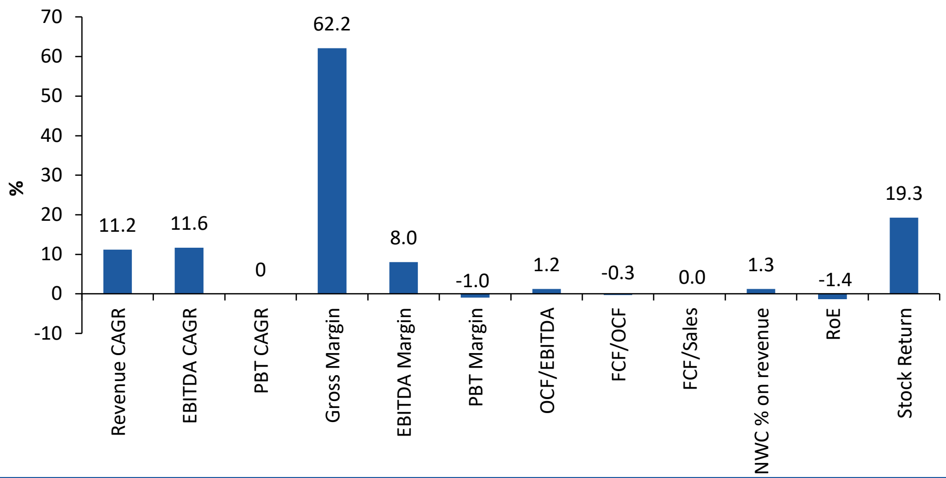
Source: Company, Centrum Broking

**Exhibit 307: DuPont Analysis**

| | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY13-22 avg |
|---|---|---|---|---|---|---|---|---|---|---|---|
| PAT/PBT | 1.0 | 1.5 | 1.0 | 1.0 | 1.0 | 1.0 | 0.6 | 0.7 | 0.8 | 0.8 | 0.9 |
| Revenue/average total assets | 1.5 | 1.2 | 1.0 | 1.0 | 1.1 | 1.3 | 1.4 | 1.1 | 0.6 | 0.9 | 1.1 |
| Average total assets/Average NW | 1.3 | 1.3 | 1.4 | 1.5 | 1.6 | 1.7 | 1.7 | 2.4 | 3.2 | 3.6 | 2.0 |
| PBT/EBITDA | 0.6 | 0.0 | -1.9 | -0.5 | -0.3 | 0.2 | 0.3 | 0.0 | -2.8 | 0.0 | -0.4 |
| EBITDA/Revenue | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 |
| RoE | 9.5 | 0.2 | -5.3 | -3.8 | -2.3 | 2.4 | 4.2 | 0.9 | -19.5 | -0.3 | -1.4 |

Source: Company, Centrum Broking

### Exhibit 308: Price movement vs. Financials




Source: Company, Centrum Broking, PBT CAGR = NA

### Exhibit 309: Effective FCF utilization

| Rsmn | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|---|---|---|---|---|---|
| FCF (a) | -1,092 | -2,156 | -669 | -257 | -389 | 298 | -330 | 829 | -53 | 652 |
| FCF yield | -1% | -2% | -1% | 0% | 0% | 0% | 0% | 1% | 0% | 1% |
| Dividend + Buyback (b) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Distribution of FCF (b/a) | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Cash & equivalents*/Capital employed | 5.9% | 1.9% | 1.1% | 1.0% | 1.0% | 1.5% | 1.1% | 0.4% | 1.6% | 3.5% |

Source: Company, Centrum Broking *including liquid investments

# Risks to our call

- Increase in royalty could be the biggest risk at this time: As per agreement royalty rate was stable for last 8 years at 4%, however increase of 50-75bp is expected per annum from Mar'24 and will reach 8%, which would be highest royalty payment by any QSR chain in India.
- Cut in consumer demand: Though WLDL offers value-for-money products, the demand could decelerate due to, (1) slowdown in the broader economy, (2) heating up competition from other QSR players (specifically chicken QSRs eyeing to catch burger segment), and (3) growth in food delivery channels led by aggregators based on revival of cloud kitchens.
- Changing food norm: Any negative ramification due to food safety and security incidents could have serious implications for the business and the brand reputation. Changes in consumer preferences towards healthier food presents a risk for the QSR industry at large including WLDL.
- Altering consumer acceptance towards healthier options: Most QSR players constantly work on evolving consumer trends led by changing food habits, and preference towards healthy foods (especially by millennials). Though this trend is more visible in urban markets, there are several customers that are now seeking healthy products. Even though WLDL acknowledges this trend, the company made an attempt by (1) launching products by cutting oils, fats and salt on the health platform, and (2) launched 'Good Food' platform with lower sodium content.
- Food and wage inflation: Despite its deep partnership with vendors, WLDL is vulnerable to high food inflation in key inputs such as chicken, wheat, milk, cheese, etc. Given company's focus on value segment, passing higher-than-normal food inflation may at times become more difficult. Further, policy changes announced by the government from time-to-time for the minimum wage standards can result in higher costs linked to in-restaurant employees. This can also impact the store-level margin profile.

# Company Profile

Incorporated in 1995, Westlife Foodworld Limited owns and runs a chain of restaurants in Western and Southern India through Hardcastle Restaurants Pvt. Ltd., its fully owned subsidiary. Through this subsidiary, the company is a master franchisee of McDonald's Corporation, USA. Currently, it operates 341 restaurants and 288 McCafé outlets across the southern and western states. Over the years, McDonald's has extended its service from dine-in to Drive-thru, On-The-Go and McDelivery (online ordering through the app and website), widening its Omni-channel convenience and accessibility. It also has four brand extensions – McCafé, McBreakfast, McDelivery, and Dessert Kiosks.

## Key leadership team and management

**Exhibit 310: Key management personnel**

| | | |
|---|---|---|
| **Mr. B. L Jatia** | Director | Mr. B. L. Jatia has over 45 years of experience in paper, textiles, chemicals, food processing, mining, hospitality, healthcare, investments and finance and retail sectors. He is currently the Managing Director of Hardcastle & Waud Mfg. Co. Ltd. |
| **Mr. Amit Jatia** | Vice- Chairman | Mr. Amit Jatia has over 26 years of experience in the QSR industry. As Vice-Chairman of Westlife Food world Ltd., he has been responsible for all aspects of the establishment and operation of McDonald's restaurants in western and southern India. |
| **Ms. Smita Jatia** | Managing Director | Ms. Smita Jatia comes with two decades of experience in the QSR industry. After graduating from Sydenham College, Mumbai, she took an 18-week executive management program at Harvard Business School, Boston. |
| **Mr. Akshay Jatia** | Chief Strategy Officer | Mr. Akshay Jatia is the Chief Strategy Officer at McDonald's India (West and South) leading Business Strategy, Consumer Technology and Innovation for the company. Akshay joined McDonald's India in 2015 and has worked cross-functionally to understand the nuances of strategy, operations, marketing, IT and synergized them to grow the brand. |
| **Ms. Saurabh Bhudolia** | CFO | Mr. Saurabh Bhudolia was appointed from Jan'23. Prior to joining Westlife Foodworld, MrBhudolia held CFO positions at Lux Industries and Future Group India. He has also worked with organisations such as Tata Steel, Mondelez International and others over last 15 years. |
| **Ms. Saurabh Kalra** | Chief Operating Officer | Mr. Saurabh Kalra has been working with WLDL for over 18 years. He holds a Diploma in Hotel Management & Catering Technology from IHM Ahmedabad, and has completed two PGPMS – Business Management and advanced courses from Welingkar, Mumbai. |

Source: Company

## P&L

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| **Revenues** | **9,856** | **15,760** | **23,032** | **26,611** | **31,495** |
| Operating Expense | 5,634 | 9,687 | 11,664 | 13,566 | 15,809 |
| Employee cost | 1,782 | 2,095 | 2,764 | 3,140 | 3,685 |
| Others | 1,971 | 2,087 | 4,721 | 5,257 | 6,373 |
| **EBITDA** | **469** | **1,892** | **3,883** | **4,648** | **5,629** |
| Depreciation & Amortisation | 1,396 | 1,364 | 1,528 | 1,731 | 1,975 |
| **EBIT** | **(927)** | **528** | **2,356** | **2,917** | **3,653** |
| Interest expenses | 845 | 826 | 858 | 889 | 950 |
| Other income | 447 | 282 | 138 | 266 | 315 |
| **PBT** | **(1,325)** | **(17)** | **1,636** | **2,295** | **3,018** |
| Taxes | (293) | (4) | 360 | 574 | 755 |
| Effective tax rate (%) | 22.1 | 24.1 | 22.0 | 25.0 | 25.0 |
| **PAT** | **(1,032)** | **(13)** | **1,276** | **1,721** | **2,264** |
| Minority/Associates | 0 | 0 | 0 | 0 | 0 |
| **Recurring PAT** | **(1,032)** | **(13)** | **1,276** | **1,721** | **2,264** |
| Extraordinary items | 42 | 0 | 0 | 0 | 0 |
| **Reported PAT** | **(990)** | **(13)** | **1,276** | **1,721** | **2,264** |

## Ratios

| YE Mar | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| **Growth (%)** | | | | | |
| Revenue | (36.6) | 59.6 | 47.1 | 15.6 | 18.4 |
| EBITDA | (78.1) | 303.2 | 105.3 | 19.7 | 21.1 |
| Adj. EPS | nm | (98.8) | nm | 34.9 | 31.5 |
| **Margins (%)** | | | | | |
| Gross | 65.3 | 66.3 | 66.2 | 66.2 | 66.5 |
| EBITDA | 4.8 | 12.0 | 16.9 | 17.5 | 17.9 |
| EBIT | (9.4) | 3.3 | 10.2 | 11.0 | 11.6 |
| Adjusted PAT | (10.5) | (0.1) | 5.5 | 6.5 | 7.2 |
| **Returns (%)** | | | | | |
| ROE | (19.5) | (0.3) | 24.0 | 25.4 | 26.7 |
| ROCE | (2.5) | 4.1 | 12.1 | 13.2 | 14.6 |
| ROIC | (4.9) | 2.8 | 12.2 | 13.7 | 16.0 |
| **Turnover (days)** | | | | | |
| Gross block turnover ratio (x) | 0.6 | 0.9 | 1.2 | 1.2 | 1.2 |
| Debtors | 3 | 3 | 2 | 2 | 2 |
| Inventory | 46 | 34 | 32 | 36 | 35 |
| Creditors | 164 | 120 | 96 | 100 | 96 |
| Net working capital | (47) | (24) | (9) | 3 | 13 |
| **Solvency (x)** | | | | | |
| Net debt-equity | 2.0 | 2.2 | 1.6 | 1.3 | 0.9 |
| Interest coverage ratio | 0.6 | 2.3 | 4.5 | 5.2 | 5.9 |
| Net debt/EBITDA | 20.4 | 5.5 | 2.5 | 2.0 | 1.6 |
| **Per share (Rs)** | | | | | |
| Adjusted EPS | (6.8) | (0.1) | 8.2 | 11.0 | 14.5 |
| BVPS | 31.9 | 29.6 | 38.7 | 48.1 | 60.5 |
| CEPS | 2.4 | 8.7 | 18.0 | 22.1 | 27.2 |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend payout (%) | nm | nm | 0.0 | 0.0 | 0.0 |
| **Valuation (x)** | | | | | |
| P/E | nm | nm | 83.7 | 62.1 | 47.2 |
| P/BV | 21.5 | 23.1 | 17.7 | 14.2 | 11.3 |
| EV/EBITDA | 247.6 | 61.8 | 30.0 | 25.0 | 20.5 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company, Centrum Broking

## Balance sheet

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Equity share capital | 302 | 312 | 312 | 312 | 312 |
| Reserves & surplus | 4,510 | 4,309 | 5,722 | 7,193 | 9,114 |
| Shareholders fund | 4,811 | 4,621 | 6,034 | 7,505 | 9,426 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Total debt | 9,680 | 10,546 | 10,995 | 11,540 | 12,337 |
| Non-Current Liabilities | 237 | 193 | 198 | 204 | 210 |
| Def tax liab. (net) | (510) | (520) | (572) | (629) | (692) |
| **Total liabilities** | **14,218** | **14,839** | **16,655** | **18,620** | **21,281** |
| Gross block | 15,996 | 17,272 | 19,453 | 22,181 | 25,102 |
| Less: acc. Depreciation | (3,153) | (3,649) | (5,177) | (6,908) | (8,883) |
| Net block | 12,843 | 13,623 | 14,276 | 15,274 | 16,219 |
| Capital WIP | 256 | 355 | 366 | 377 | 388 |
| Net fixed assets | 13,099 | 13,978 | 14,642 | 15,651 | 16,608 |
| Non-Current Assets | 397 | 361 | 370 | 379 | 389 |
| Investments | 1,985 | 1,504 | 2,197 | 2,370 | 3,133 |
| Inventories | 465 | 559 | 820 | 948 | 1,122 |
| Sundry debtors | 88 | 133 | 133 | 160 | 198 |
| Cash & Cash Equivalents | 109 | 232 | 1,256 | 2,104 | 3,506 |
| Loans & advances | 507 | 546 | 752 | 831 | 858 |
| Other current assets | 75 | 142 | 207 | 239 | 283 |
| Trade payables | 1,851 | 1,722 | 2,415 | 2,553 | 3,030 |
| Other current liab. | 552 | 760 | 1,111 | 1,284 | 1,520 |
| Provisions | 104 | 134 | 195 | 226 | 267 |
| Net current assets | (1,263) | (1,004) | (554) | 220 | 1,151 |
| **Total assets** | **14,218** | **14,839** | **16,655** | **18,620** | **21,281** |

## Cashflow

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Profit Before Tax | (1,325) | (17) | 1,636 | 2,295 | 3,018 |
| Depreciation & Amortisation | 1,396 | 1,364 | 1,528 | 1,731 | 1,975 |
| Net Interest | 845 | 826 | 858 | 889 | 950 |
| Net Change – WC | 461 | (154) | 687 | 108 | 436 |
| Direct taxes | 293 | 4 | (360) | (574) | (755) |
| **Net cash from operations** | **1,839** | **2,323** | **4,429** | **4,678** | **6,147** |
| Capital expenditure | (895) | (1,534) | (2,192) | (2,740) | (2,932) |
| Acquisitions, net | 0 | 0 | 0 | 0 | 0 |
| Investments | (409) | 480 | (693) | (173) | (763) |
| Others | (588) | (617) | 0 | 0 | 0 |
| **Net cash from investing** | **(1,891)** | **(1,670)** | **(2,884)** | **(2,913)** | **(3,695)** |
| **FCF** | **(53)** | **652** | **1,544** | **1,765** | **2,452** |
| Issue of share capital | 32 | (178) | 136 | 0 | 0 |
| Increase/(decrease) in debt | 315 | (142) | 201 | 221 | 243 |
| Dividend paid | 0 | 0 | 0 | (249) | (343) |
| Interest paid | (845) | (826) | (858) | (889) | (950) |
| Others | 0 | 0 | 0 | 0 | 0 |
| **Net cash from financing** | **(498)** | **(1,146)** | **(520)** | **(917)** | **(1,050)** |
| Net change in Cash | (551) | (493) | 1,024 | 848 | 1,402 |

Source: Company, Centrum Broking

# CENTRUM

# Sapphire Foods

## Well placed to ride on tailwinds in QSR industry

**Initiating Coverage**

**India I QSR**

20 March, 2023

**BUY**

Price: Rs1,195
Target Price: Rs1,455
Forecast return: 22%

Institutional Research

**Sapphire Foods (SF) is the 2nd franchisee of Yum! Brands with territorial rights to operate in India and Maldives for KFC/PH, and in Sri Lanka for PH/Taco Bell. We like SF given growth opportunities in QSR space, strong management team, execution capabilities and prominent valuations. SF operates 325 KFC, and 274 PH stores in India and 114 PH/Taco stores in Sri Lanka. SF has shown remarkable improvement in its performance and we expect SF to emerge as the fastest growing QSR. The growth momentum will be led by, (1) faster opening of KFC/ PH stores driven by Yum!'s incentive program, (2) scope for improving operating parameters, and (3) sharper execution. Notwithstanding the current demand conditions, the management has reiterated its intension of doubling stores count by 550 over next 3-4 years. We estimate revenue/EBITDA/PAT CAGR of 19.1%/20.6%/21.2% over FY23-25E. We initiate coverage on SF with Buy rating and DCF-based TP of Rs1,455 (implying 10.2x FY25E EV/EBITDA Post- INDAS).**

### Well positioned to capture market opportunity in Chicken and Pizza QSR

Sapphire Foods (SF) is the 3rd largest QSR in India operating 599 stores (KFC: 325, PH: 274) as on Dec'22. Further, SF also operates 114 stores in Sri Lanka (PH: 105, Taco Bell: 9). It has rights to operate KFC outlets in Delhi/MAH/TN/UP (excl. Noida/Ghaziabad/Agra/Lucknow), Punjab/ Haryana (excl. Faridabad and Gurugram), GUJ/MP/CCG and UTK. These regions cover ~50% of India's population, ~41% of India's non-vegetarian population and ~56% of India's GDP. SF enjoys rights to open PH stores in West and South (also DIL has rights to open delivery focused stores in all except TN). That said we estimate SF holds larger opportunity to open KFC stores.

### We expect addition of 390 new stores taking total store count in India to 872 by FY25E

Our in-depth analysis and store growth matrix indicates that led by strong incentive program by Yum! for store opening and rising opportunity in Chicken QSR segment, SF would fast-track KFC store expansion and reach 478 stores in FY25E. While we believe PH has lot of potential to transpire as challenger brand to Domino's, it has inherent challenges such as product gaps, pricing premium and most importantly delivery efficiencies, though it is improving. We expect SF to add ~175 PH stores by FY25E (total 394) driven by, (1) rationalizing underperforming stores, (2) stringent cost measures, and (3) focus on small format stores to improve unit economics. We expect such measure would help SF to narrow margin differential with DIL.

### We expect revenue/EBITDA/PAT CAGR of 19.1%/ 20.6%/21.2% over FY23-25E

In past four years SF has shown incredible improvement in its India performance, with sharp improvement in execution capabilities. Hence, we have projected revenue/EBITDA/PAT CAGR of 19.1%/20.6%/21.2% over FY23-25E. SF has already reported higher scale of stores driving operating leverage and reworked unit economics (smaller stores) resulting in margin expansion. Despite rising input prices and limited price increases we expect its adjusted EBITDA margins to be capped at 19.7% in FY25E (Post-INDAS). Further, we expect SF to report FCFF of Rs3.5bn by FY25E in our estimate.

### Valuation and risks

We reckon SF management's capabilities reflected in smart turnaround of its overall performance. However, incremental competition in Chicken QSR and regulated growth in PH business holds our view. We consider valuations are inexpensive and may sustain, and FCF generation to aid improve return profile. We initiate coverage on SF with Buy rating and DCF-based target price of Rs1,455 (implying 10.2x FY25E EV/EBITDA post-INDAS). Key risks: irrational competition from QSR players, slower than expected demand recovery led by high food inflation, and currency headwinds.

## Financial and valuation summary

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Revenues | 10,196 | 17,216 | 23,012 | 28,111 | 32,624 |
| EBITDA | 1,244 | 3,050 | 4,424 | 5,454 | 6,431 |
| EBITDA margin (%) | 12.2 | 17.7 | 19.2 | 19.4 | 19.7 |
| Adj. Net profit | (999) | 460 | 1,183 | 1,464 | 1,738 |
| Adj. EPS (Rs) | (19.3) | 7.7 | 18.6 | 23.0 | 27.3 |
| EPS growth (%) | 49.7 | nm | 141.8 | 23.7 | 18.7 |
| PE (x) | nm | 156.7 | 64.8 | 52.4 | 44.1 |
| EV/EBITDA (x) | 61.1 | 24.3 | 16.3 | 12.6 | 10.2 |
| PBV (x) | 12.9 | 7.1 | 6.7 | 6.0 | 5.3 |
| RoE (%) | (19.9) | 6.2 | 11.1 | 12.2 | 12.8 |
| RoCE (%) | (4.1) | 14.5 | 17.1 | 17.9 | 18.2 |

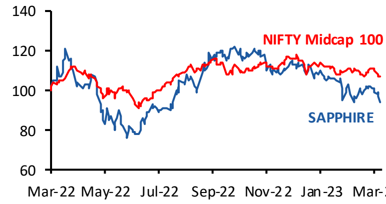
Source: Company, Centrum Broking

### Market Data

| | |
|---|---|
| Bloomberg: | SAPPHIRE IN |
| 52 week H/L: | 1,574/909 |
| Market cap: | Rs75.5bn |
| Shares Outstanding: | 63.5mn |
| Free float: | 36.7% |
| Avg. daily vol. 3mth: | 130,129 |

Source: Bloomberg

### SAPPHIRE relative to Nifty Midcap 100




Source: Bloomberg

### Shareholding pattern

| | Dec-22 | Sep-22 | Jun-22 | Mar-22 |
|---|---|---|---|---|
| Promoter | 44.9 | 51.3 | 51.3 | 51.3 |
| FIIs | 16.5 | 12.6 | 12.6 | 14.3 |
| DIIs | 25.0 | 16.8 | 12.5 | 10.8 |
| Public/other | 13.6 | 19.4 | 23.7 | 23.6 |

Source: BSE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QSR

# Thesis Snapshot

## Centrum vs. consensus

| YE Mar (Rs mn) | Centrum FY23E | Consensus FY23E | Variance (%) | Centrum FY24E | Consensus FY24E | Variance (%) |
|---|---|---|---|---|---|---|
| Revenue | 23,012 | 23,103 | (0.4) | 28,111 | 28,889 | (2.7) |
| EBITDA | 4,424 | 4,464 | (0.9) | 5,454 | 5,763 | (5.4) |
| EBITDA margin % | 19.2 | 19.3 | (10bp) | 19.4 | 19.9 | (55bp) |
| Adj. PAT | 1,183 | 1,245 | (4.9) | 1,464 | 1,581 | (7.4) |
| Diluted EPS (Rs) | 18.6 | 19.6 | (5.1) | 23.0 | 25.0 | (7.7) |

Source: Bloomberg, Centrum Broking

## Sapphire Foods versus NIFTY Midcap 100

| | 1m | 6m | 1 year |
|---|---|---|---|
| SAPPHIRE IN | 2.2 | (17.9) | (6.7) |
| NIFTY Midcap 100 | (1.8) | (4.5) | 3.8 |

Source: Bloomberg, NSE

## .Key assumptions

| YE Mar | FY23E | FY24E |
|---|---|---|
| No. of store | 746 | 883 |
| Gross Margin% | 67.0 | 67.4 |
| Store Margin (%) (Pre-INDAS) | 17.6 | 17.7 |
| Store Margin (%) (Post-INDAS) | 24.8 | 24.9 |
| EBITDA (%) (Pre-INDAS) | 12.0 | 12.2 |
| EBITDA (%) (Post-INDAS) | 19.2 | 19.4 |

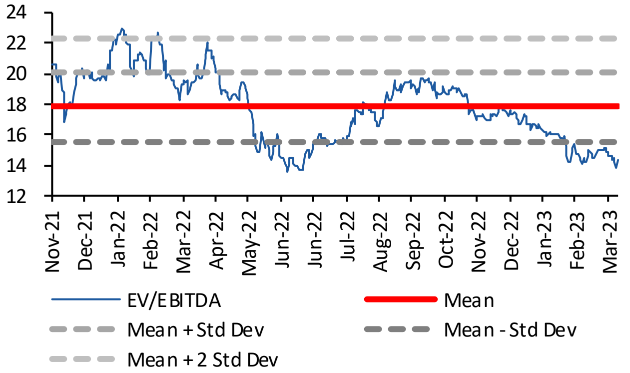
Source: Centrum Broking

## Valuations

We reckon SF management's capabilities reflected in smart turnaround of its overall performance. However, incremental competition in Chicken QSR and regulated growth in PH business holds our view. We consider valuations are inexpensive and may sustain, and FCF generation to aid improve return profile. We initiate coverage on SF with Buy rating and DCF-based target price of Rs1,455 (implying 10.2x FY25E EV/EBITDA post-INDAS). Key risks: irrational competition from QSR players, slower than expected demand recovery led by high food inflation, and currency headwinds.

| Valuations | Rs/share |
|---|---|
| DCF based target price (Rs) | 1,455 |
| WACC (%) | 11.8 |
| Terminal growth (%) | 5.2 |

**EV/EBITDA mean and standard deviation**




Source: Bloomberg

## Peer comparison

| Company | Mkt Cap | CAGR (FY23-25E) | | | EV/EBITDA(x) Pre-INDAS | | | EV/EBITDA (x) - Post | | | RoE(%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (Rs Bn) | Sales | EBITDA | EPS | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Jubilant Foods | 282.4 | 14.9 | 19.3 | 24.6 | 35.4 | 29.2 | 23.8 | 24.4 | 20.3 | 16.6 | 19.9 | 22.1 | 22.2 |
| Devyani International | 174.7 | 22.1 | 23.4 | 15.1 | 37.9 | 27.4 | 21.9 | 23.7 | 18.1 | 14.8 | 32.0 | 28.9 | 24.0 |
| Westlife Foodworld | 106.8 | 16.9 | 20.4 | 33.2 | 39.3 | 32.4 | 26.4 | 30.0 | 25.0 | 20.5 | 24.0 | 25.4 | 26.7 |
| **Sapphire Foods** | **75.9** | **19.1** | **20.6** | **21.2** | **26.1** | **20.1** | **16.0** | **16.3** | **12.6** | **10.2** | **11.1** | **12.2** | **12.8** |
| RBA | 46.0 | 25.9 | 45.8 | NA | 126.7 | 50.9 | 35.2 | 33.7 | 21.2 | 15.9 | -3.0 | -1.4 | 0.1 |

Source: Company, Centrum Broking

# Well place to ride on tailwinds in QSR

## SF is third largest QSR player in India with 599 stores

- Structural changes altered by consumer behaviour leading shift in market construct
- KFC India: On a strong footing
- Pizza Hut operation – Transformed business model
- Pizza Hut, Sri Lanka – Growing and profitable business

Sapphire Foods (SF) is second franchisee of Yum! Brands with territorial rights to operate in India and Maldives for KFC/PH, and in Sri Lanka for PH/Taco Bell. We like SF given growth opportunities in QSR space, strong management team, execution capabilities and prominent valuations. SF operates 325 KFC, and 274 PH stores in India and 114 PH/Taco stores in Sri Lanka. SF has shown remarkable improvement in its performance and we expect SF to emerge as the fastest growing QSR. The growth momentum to be led by, (1) faster penetration of KFC/PH stores driven by Yum!'s incentive program, (2) scope for improving operating parameters, and (3) sharper execution. Notwithstanding the current demand conditions, the management reiterated its intension of doubling stores count adding 550 over next 3-4 years.

### History of Sapphire Foods in India

SF was formed with consolidation and turnaround in multiple franchisees

Yum! Brands entered India by operating its stores for Pizza Hut and KFC by themselves; Devyani, Dodsal and some smaller franchisees in India had a different model as compared to other QSR players. Later, Yum! realised that having small franchisees was inefficient and having a larger franchisee is better. This led to the advancement of Sapphire Foods in 2015, which was a consortium of private equity investors led by Samara Capital at that time. Sapphire Foods started working with Yum! Brands to consolidate their smaller franchisees. However, the stores that were acquired by the company were inefficient. Sapphire Foods has been conducting experiments of various store formats to get the ultimate business model right. We believe Sapphire Foods has been able to get the store model right for both Pizza Hut and KFC in last few years and is in a position to expand stores aggressively.

Yum! Brands follows a dual franchisee model in India, similar to that of McDonald's and various global franchisees of Yum! Brands. Sapphire Foods and Devyani International are two franchisees for Yum! in India. Unlike McDonalds, where there is a very clear cut division of North and South India to Westlife Foodworld and North and East India to another company (MMG), division of regions between both the franchisees of Yum! Brands is not very consolidated in a particular region.

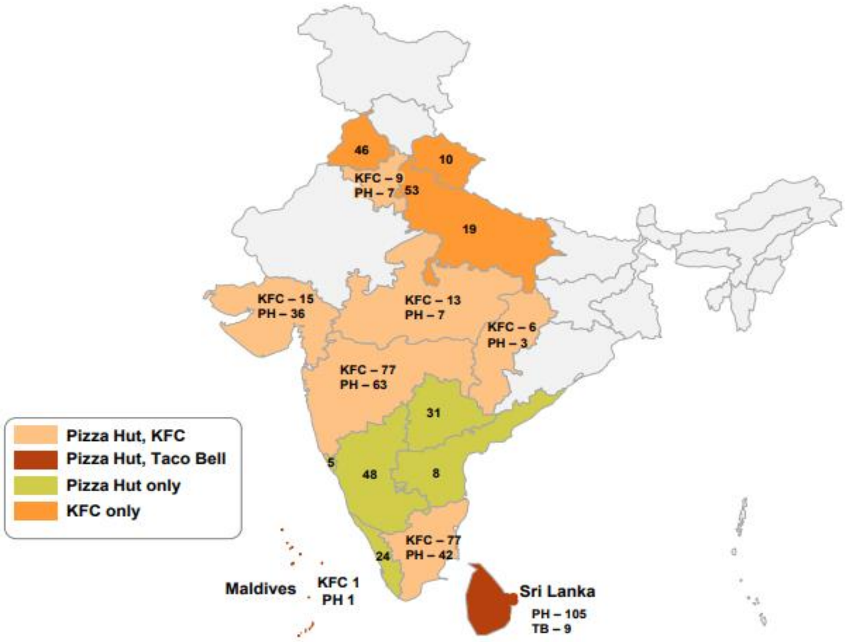
As per company DRHP, Sapphire Foods (SF) was incorporated on November 10, 2009. Further, it was converted to public limited company in Jun'21. The company is predominantly engaged in Yum! Brands International's franchisee business in India and Sri Lanka. In FY22, KFC/Pizza Hut contributed 60% and 22% of revenues, respectively while Sri Lanka formed 17%.

**Exhibit 311: Sapphire Foods journey in India**

| Date | Brand | No of stores | Consideration paid (Rs.mn) | Details |
|---|---|---|---|---|
| April 28, 2015 | NA | NA | 1545 | Pizza Hut, which is owned by Gamma Pizzakraft Lanka (Pvt.) Ltd., a subsidiary of Sapphire Foods, was the first international QSR chain to enter the Sri Lankan market in 1993 |
| July 01, 2015 | PH | NA | 760 | Acquired Sapphire Hospitality & Recreation Private Limited in cash which operates several stores under the brand name of Pizza Hut |
| Oct-15 | KFC | 87 | 1693 | Acquired 87 KFC stores in cash deal from Yum Restaurants India Private Limited |
| July 10, 2016 | KFC | 14 | 155 | Acquired 14 KFC stores in cash deal from Yum Restaurants India Private Limited |
| Mar 21, 2016 | PH | 30 | 256 | Acquired Hansazone Private Limited in cash deal which operated 30 Pizza Hut stores |
| Aug 09, 2016 | KFC | 28 | 305 | Acquired 28 KFC stores in cash deal from A N Traders Private Limited |

Source: Company, Centrum Broking

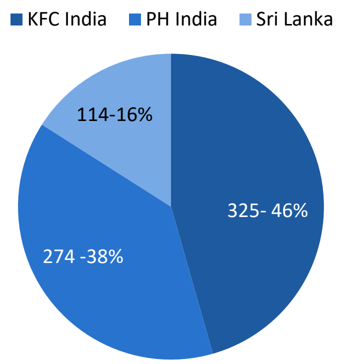
**Exhibit 312: Sapphire Foods' geographical presence in India**




Source: Company, Centrum Broking

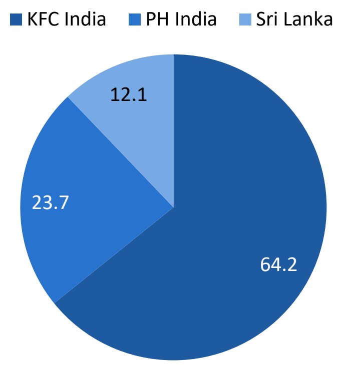
One prominent point to be noted is that even though Devyani International has got the rights to open Pizza Hut Delivery stores in some of the states where Sapphire operates with Pizza Hut stores, it does not restrict SF to open a Pizza Hut store and deliver to consumers from those stores. Further, there is a trading area restriction of ~2km in these regions implying that both the players cannot open and operate a new store within ~2km range of an existing store of the other franchisee. Further, management of Sapphire Foods has been very clear about their strategy that even though they have the rights for Pizza Hut Delivery stores in Goa and Tamil Nadu, they would still be preferring to open a Pizza Hut store with dine-in facility as that provides a better Average Daily Sales (ADS) and store economics due to Omni-channel opportunity.

**Exhibit 313: Sapphire Foods store mix as on Dec'22 (Store, %)**




Source: Company, Centrum Broking

**Exhibit 314: Sapphire Foods revenue mix as on Dec'22 (%)**



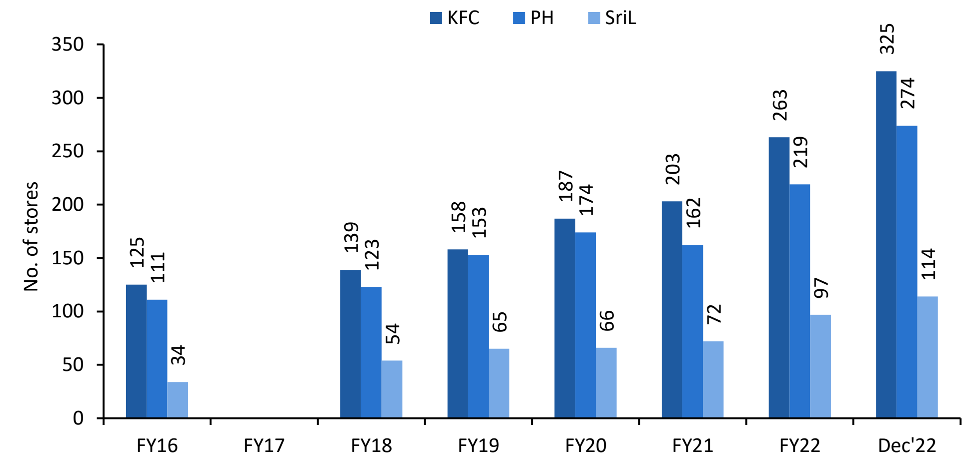

Source: Company, Centrum Broking

As on Dec'22, SF derives KFC store/revenue contribution at 46%/64%, while Pizza Hut at 38%/24% and Sri Lanka at 16%/12%, respectively.

**Faster penetration of stores across KFC and PH format**

Since FY16, SF has added 443 stores organically till Dec'22 (KFC: 200, PH: 163) in India, while in Sri Lanka it added 80 stores in the same period, moving the total store count to 713 (from 270).

**Exhibit 315: Sapphire Foods added 443 stores organically till Dec'22**




Source: Company, Centrum Broking

**Exhibit 316: Key operational metrics for Sapphire Foods**

| | 2019 | 2020 | 2021 | 2022 | 9MFY22 |
|---|---|---|---|---|---|
| **No of Stores** | | | | | |
| KFC | 158 | 187 | 203 | 263 | 325 |
| Pizza Hut | 153 | 174 | 162 | 219 | 274 |
| Sri Lanka+Other | 63 | 64 | 70 | 95 | 105 |
| Others | 2 | 2 | 2 | 2 | 9 |
| Total | 376 | 427 | 437 | 579 | 713 |
| **Revenue (Rs.mn)** | | | | | |
| KFC | 6,584 | 7,753 | 5,897 | 10,349 | 10,838 |
| Pizza Hut | 3,071 | 3,343 | 2,217 | 3,710 | 3,993 |
| Sri Lanka | 1,984 | 2,038 | 1,965 | 2,983 | 2,049 |
| Others | 179 | 162 | 88 | 112 | 98 |
| Total | 11,818 | 13,296 | 10,167 | 17,154 | 16,978 |
| **Average revenue per store (Rs.mn)** | | | | | |
| KFC | 42 | 45 | 30 | 44 | 37 |
| Pizza Hut | 20 | 20 | 13 | 19 | 16 |
| Sri Lanka | 31 | 32 | 29 | 36 | 20 |
| Others | 90 | 81 | 44 | 56 | 18 |
| Total | 31 | 33 | 24 | 34 | 26 |
| **Gross margin (%)** | | | | | |
| KFC | 65.1 | 65.4 | 67.7 | 68.4 | 66.5 |
| Pizza Hut | 73.9 | 76.2 | 76.1 | 75.5 | 74.8 |
| SF Total | 67.6 | 68.3 | 69.9 | 69.6 | 67.4 |
| **Restaurant EBITDA margin (%)** | | | | | |
| KFC | 12.7 | 13.2 | 14.0 | 19.5 | 19.5 |
| Pizza Hut | 7.5 | 7.3 | 5.0 | 11.4 | 14.7 |
| Sri Lanka | 16.0 | 16.2 | 19.5 | 23.2 | 15.0 |
| Others | 5.7 | 4.8 | 3.2 | 0.5 | 0.6 |
| SF Total | 11.8 | 11.9 | 13.0 | 17.6 | 17.8 |
| | | | | | |
| **Adjusted EBITDA (Rs.mn)** | 435 | 662 | 382 | 1614 | 2084 |
| Adjusted EBITDA margin (%) | 3.7 | 5.0 | 3.8 | 9.4 | 12.3 |

Source: Company, Centrum Broking, FY22 PH Restaurant EBITDA Margin adjusted with ESOP

## KFC India: On a strong footing

We reckon, KFC is the largest national player focused primarily on chicken category with a dominant share of ~35% among foodservices chains focusing in QSR segment. While players like McDonald's and Burger King have broader offerings with a focus on burgers, many of them have started focusing on larger chicken category with launch of fried chicken in south India. Our on ground research indicates that in India there are many local/regional players such as Five Star Chicken, ChicKing India, MB Chicken, etc. with restricted scale and size. We believe, KFC is one of the strongest brands in India among all QSR players. One of the important distinctions between local players and KFC which differentiate it with other QSRs is that, all products under KFC brand are prepared fresh at the location of particular store, while many others would use frozen products for cooking. Our interaction with industry participants indicates such difference in taste is well recognised by the end consumers.

Therefore, we believe KFC is in a unique position to drive aspirational demand driven by:

SF is narrowing the gap in margin against DIL on the back of KFC portfolio and omni-channel strategy

- KFC enjoys a strong brand equity and loyalty among Indian consumers, making it well-placed to compete and grow despite rising competition
- KFC offers an extensive menu featuring fried chicken buckets and allied chicken products, grilled chicken, burgers, rice bowls, and beverages
- Its core products made out of fried chicken products, with select herbs and spices, is a unique offering in the Indian QSR industry, although competition is intensifying in this space, given the attractive business opportunity

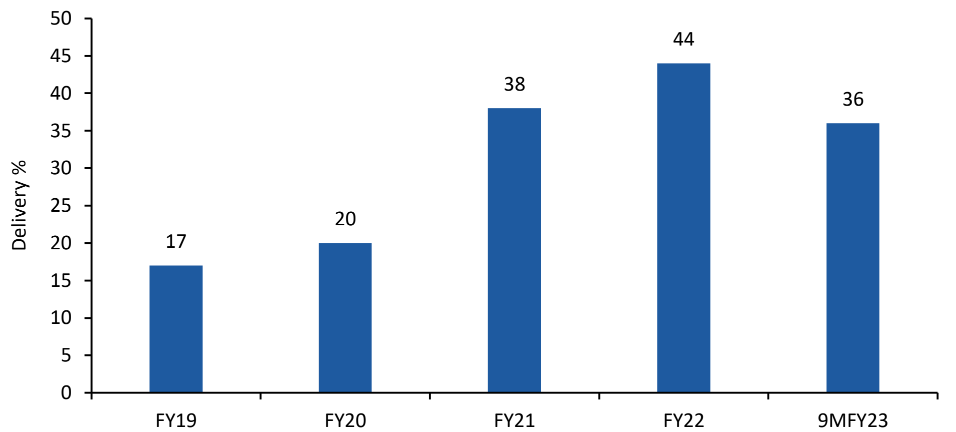
### Improvement in unit economics

We note in recent years; SF has squeezed the restaurant operating model in discussion with Yum! Brands, leading to changes like (1) Introduction and launch of entry-level burgers under KFC and value chicken buckets, (2) Pizza Hut's Every Day Value pizzas and meal combos to increase ticket size and higher transaction volume, (3) Twisted towards an Omni-channel model with scale up of delivery and takeaway channels, (4) Redesigned its store size with lower capex, and (5) Focused on cost savings initiatives through negotiated rentals and variable costs.

### Focus on smaller size Omni-channel stores to drive margin profile

Industry experts say, having additional channels in combination with dine-in is critical for any QSR player. Delivery and take-away are equally vital to drive unit economics. Hence, we saw in last few years, the focus of many QSR players has been to reduce the store size and maintain the similar ADS (Average Daily Sales per store) levels driven by Omni-channel stores (delivery and take-away) making the business model more efficient with better store economics. To deal with this change SF adopted a strategy to grow the channel saliency using (1) reconfigured menu for easy delivery, (2) adopted a hybrid model with third-party delivery aggregators, and (3) using data analytics-based customer relationship management (CRM) program to gather data on orders placed on its own website.

**Exhibit 317: Omni-channel strategy driving delivery saliency for KFC**




Source: Company, Centrum Broking

### Optimized restaurant size

Further, SF followed new metrics by reducing the sizes of its stores, both the customer area and the kitchen area, without impacting revenue capacity. This has led to lower capex, rental, and other operating costs, leading to better profitability and paybacks. We note, with new dynamics, both KFC and PH store sizes were cut by ~40% in FY20-21 from Mar'19 levels without a major impact on ADS. These sizes have been further reduced in the recently opened outlets. The ADS for recent outlets is lower mainly because these are young outlets vs. the rest.

Current KFC store size was cut by 40% as compared to FY19

The average store size of KFC in India was 2,736 sq. ft. in FY19, however, the stores opened in FY20 and FY21 have an average store size of 1,645 sq. ft. which is ~40% lower. This also led to a reduction of capex per store by ~18% from Rs21.0mn per store to Rs17.0mn per store. Despite the reduction in store size, ADS levels were maintained at similar levels driven by delivery sales. Contribution of delivery increased from 17% in FY19 to 44% in FY22. Management expects the store size going forward for KFC to be 1,400-1,500 sq. ft. with capex outlay of Rs17-18mn per store.

**Exhibit 318: Resizing of KFC stores has helped improve unit economics**

| | Mar'19 | Mar'20 | FY22 |
|---|---|---|---|
| Average size of restaurant (sq. ft.) | 2736 | 1645 | 14-1500 |
| Capex per restaurant (Rsmn) | 21 | 20 | 17 |
| ADS (Rs'000) | 125 | 130 | 130 |

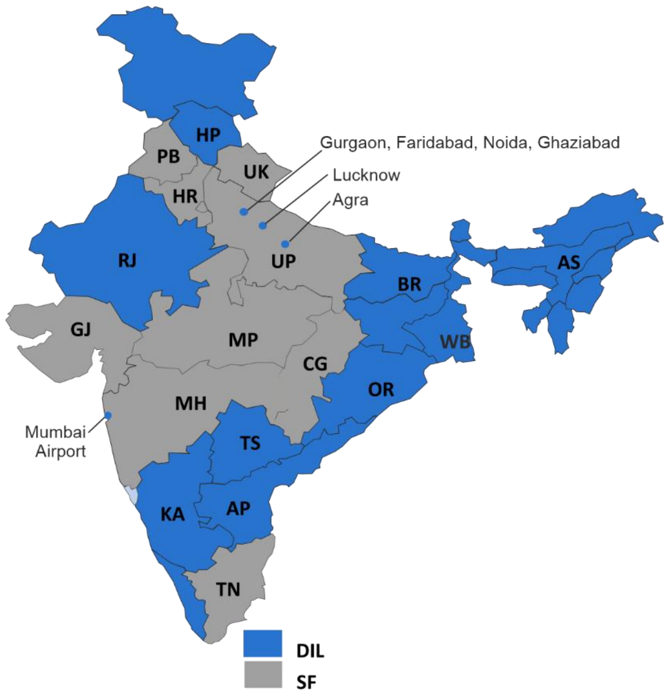
Source: Company, Centrum Broking

**Exhibit 319: KFC key performance indicators**

| | FY19 | FY20 | FY21 | FY22 | 9MFY23 |
|---|---|---|---|---|---|
| No of stores | 158 | 187 | 203 | 263 | 325 |
| No of stores in top 10 cities | 111 | 126 | 135 | 168 | 208 |
| No of Cities | 47 | 55 | 56 | 75 | 87 |
| | | | | | |
| SSSG (%) | 13.9 | 5.4 | -30.0 | 31.0 | 20.0 |
| Average Daily Sales (Rs'000) | 125 | 130 | 106 | 130 | 138 |
| Delivery channel contribution (%) | 16.7 | 19.8 | 38.1 | 44.0 | 36.0 |
| | | | | | |
| Revenues (Rsmn) | 6,584 | 7,753 | 5,897 | 10,349 | 10,838 |
| Gross margin (%) | 65.1 | 65.4 | 67.7 | 68.4 | 66.5 |
| Restaurant EBITDA (Rsmn) | 836 | 1021 | 828 | 2,018 | 2,113 |
| Restaurant EBITDA margin (%) | 12.7 | 13.2 | 14.0 | 19.5 | 19.5 |

Source: Company, Centrum Broking

**Exhibit 320: KFC regional split between DIL and SF**




Source: Company, Centrum Broking

## Pizza Hut operation – Transformed business model

We reckon Pizza Hut's performance was relatively weak as compared to KFC. Industry experts point out this was on account of brand positioning and premium pricing compared to JUBI. While Pizza Hut was positioned as a premium dine-out destination for family we note pizza category inherently enjoys higher contribution from in-home consumption. On the other hand, Domino's, a key competitor in the category, positioned itself as an in-home consumption brand with 3-4x store penetration in the country. As on Dec'22 Yum! Brands holds 757 Pizza Hut stores compared to 1,760 stores held by Domino's in India.

As per management it adopted four prong strategy for complete transformation of PH business.

- Value positioning on par with other QSR brands
- Cost optimization
- Omni-channel smaller format
- Retain product quality and dining experience

Counting on these learnings, SF made efforts to transform the overall brand positioning of Pizza Hut in India. Some of the key changes made by SF were on account of value positioning, wherein in Apr’19 it implemented strategic pricing decision offering Every-Day-Value which was priced at par with other QSR brands (meals for 2 priced for ~Rs400). Further, SF (Yum!) added more products to enhance value proposition.

**Value positioning**

Since Apr’19, Pizza Hut has steadily reworked its entire menu strategy to become much more competitive vs. Domino’s. Under these efforts the company launched Everyday Value Meal, Meal Combos and the launch of sub Rs.100 category Pizzas. In this attempt Yum added launch of Flavour Fun (competing with Domino’s Pizza Mania in sub-Rs.100 segment)

**Exhibit 321: Value positioning – Launch of flavour fun Pizza**

| Entry Price Pizza | Domino's | Pizza Hut |
|---|---|---|
| No of Options | 10 | 12 |
| Veg. Options | 6 | 8 |
| Non-veg. Options | 4 | 4 |
| Price (Rs) | 59-169 | 79-149 |

Source: Company, Centrum Broking

**Exhibit 322: Efforts to revive PH’s value positioning**


Source: Company, Centrum Broking

Higher efforts put in Dine-in business by introducing Flavour Fun Pizzas

We expect focus from Yum! and its franchisees has been in forefront to double the innovation funnel and making PH much easier to get to consumer mind share vs. JUBI, the market leader. To further these initiatives SF also launched few more options at value proposition such as Flavour Fun Pizza.

**Exhibit 323: New products launched by Pizza Hut – Momo Mia Pizza & San Francisco Pizza**


Source: Company, Centrum Broking

In addition, SF augmented its focus on delivery channel supplementing the dine-in sales. One such notable initiative implemented by the management was improving the customer experience through faster delivery of incoming orders. In this attempt SF partnered with top food aggregators forming joint business plans to drive delivery sales. Nonetheless, SF also revamped own app with user friendly platform and pushed strong value offers to improve customer traffic for own delivery channel. Moreover, SF cut its store size by ~39% reducing the capex from Rs20.0mn to Rs14.0mn. This has aided the company to optimize operating costs.

**Cost optimization**

As was done in case of KFC, SF has reduced the sizes of its PH stores, both the customer area and the kitchen area, without impacting revenue capacity. This has led to lower capex, rental, and other operating costs, leading to better profitability and paybacks.

**Exhibit 324: Resizing of PH stores has helped improve unit economics**

| | Mar'19 | Mar'20 | FY22 |
|---|---|---|---|
| Average size of restaurant (sq. ft.) | 2427 | 1480 | 12-1300 |
| Capex per restaurant (Rsmn) | 16 | 14 | 13 |
| ADS (Rs'000) | 61 | 58 | 48 |

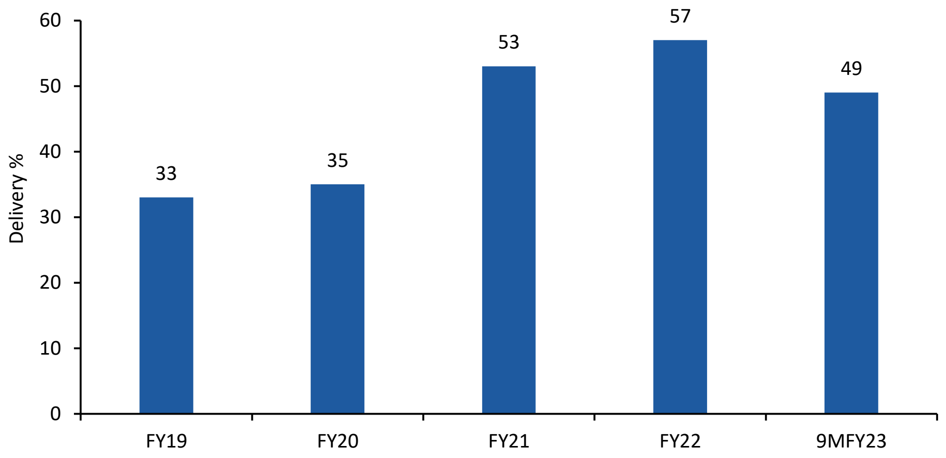
Source: Company, Centrum Broking

**Omni-channel format**

Despite higher ADS compared to DIL, SF has lower margin due to higher opex

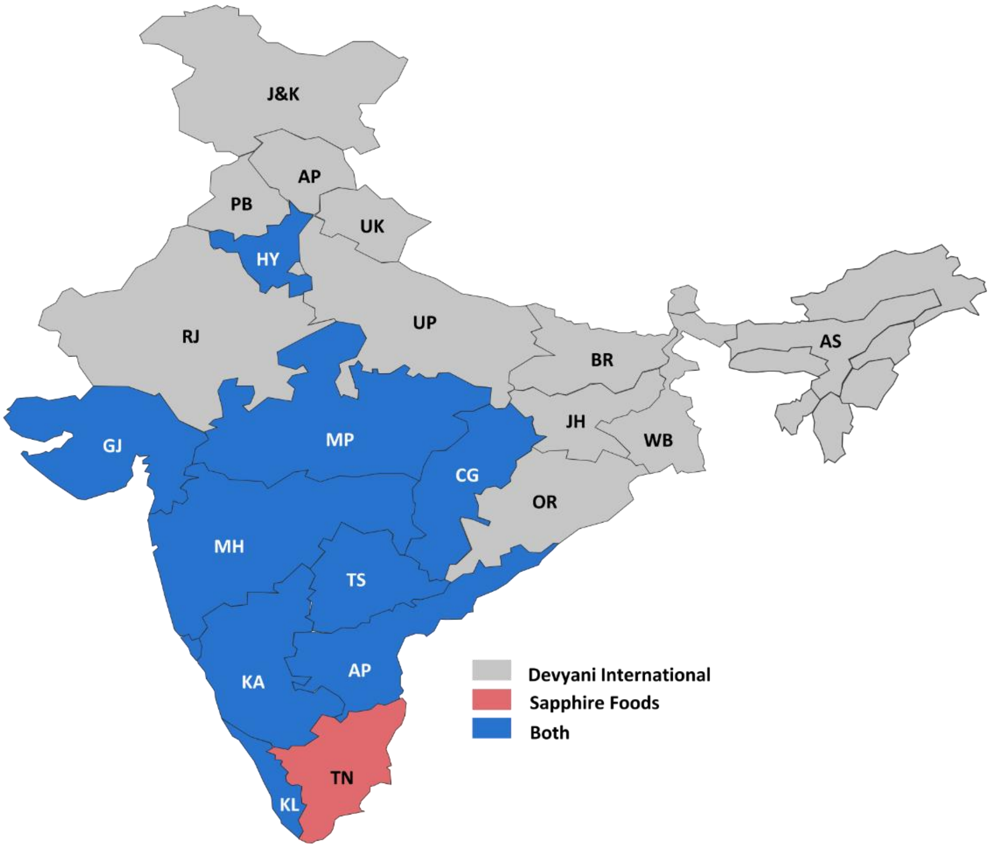
Consequently, we believe new Omni-channel store formats are already delivering restaurant margins on par with DIL at high-teen levels and expect blended margins to improve going forward. While most of the legacy large format stores inherited by SF during the acquisition still continue in similar fashion, SF has converted them to support Omni-channel strategy, we note mature stores under Omni-channel format have started delivering margins as high teens. Therefore, we expect incremental new stores added in smaller size could result in overall blended restaurant margins of PH format to improve considerably.

**Exhibit 325: Omni-channel strategy driving delivery saliency for Pizza Hut**




Source: Company, Centrum Broking

**Exhibit 326: DIL and SF territorial rights for Pizza Hut**




Source: Company, Centrum Broking

**Exhibit 327: PH key performance indicators**

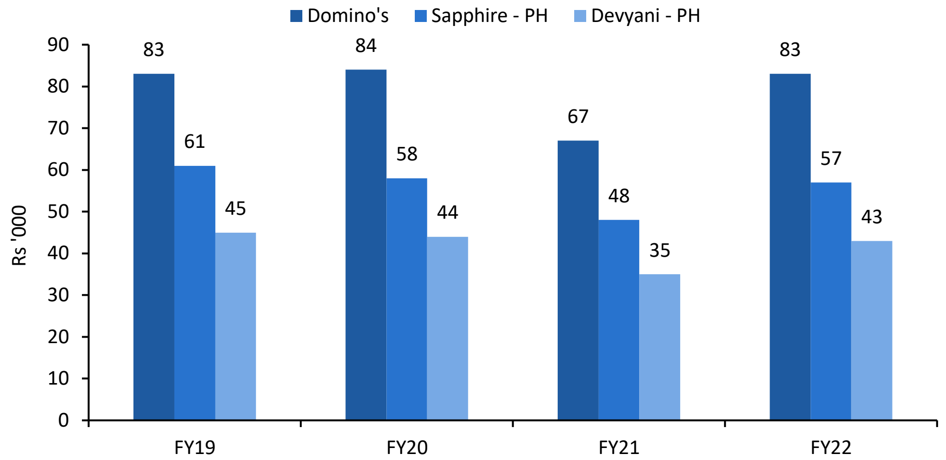
| | FY19 | FY20 | FY21 | FY22 | 9MFY23 |
|---|---|---|---|---|---|
| No of stores | 153 | 174 | 162 | 219 | 274 |
| No of stores in top 10 cities | 127 | 141 | 129 | 171 | 212 |
| No of Cities | 29 | 31 | 32 | 52 | 55 |
| | | | | | |
| SSSG (%) | 5.0 | (5.2) | (35.4) | 42.0 | 18.0 |
| Average Daily Sales (Rs'000) | 61 | 58 | 48 | 57 | 61 |
| Delivery channel contribution (%) | 32.9 | 35.1 | 53.2 | 57.0 | 49.2 |
| | | | | | |
| Revenues (Rsmn) | 3,071 | 3,344 | 2,218 | 3,710 | 3,993 |
| Gross margin (%) | 73.9 | 76.2 | 76.1 | 75.5 | 74.8 |
| Restaurant EBITDA (Rsmn) | 229 | 244 | 111 | 423 | 587 |
| Restaurant EBITDA margin (%) | 7.5 | 7.3 | 5.0 | 11.4 | 14.7 |

Source: Company, Centrum Broking, FY22 PH Restaurant EBITDA Margin adjusted with ESOP

Pizza Hut has narrowed gap with Domino's

Even though PH as a brand is significantly lagging behind the ADS reported by Domino's, we note the gap is narrowing given its strategy reset and pricing decisions. On one hand, PH is augmenting its delivery capacities, while on other side retaining the dine-in edge in our opinion. Thus, in the turnaround journey for PH, store optimization appears to be the key decision. While in reality SF's ADS are higher than DIL, the gap between JUBI is narrowing.

### Exhibit 328: Gap in ADS between Domino's and PH is narrowing




Source: Company, Centrum Broking

Cost efficiency and operating leverage kicked in margin expansion over several quarters

Therefore, these initiatives augur well as channel mix is getting optimized delivering better efficiencies of scale and throughput. While it is true that leading players in the QSR industry in India such as Domino's and McDonald's have increased take-away and delivery services of their own apps Yum! Brands has made significant in roads. We note PH has expanded its saliency on this account activating their own app and takeaway services.

### Exhibit 329: Channels mix for top QSR players in India

| | FY18 | | | | FY19 | | | | FY20 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dine-in (%) | Take-away (%) | Aggregator (%) | Own-app (%) | Dine-in (%) | Take-away (%) | Aggregator (%) | Own-app (%) | Dine-in (%) | Take-away (%) | Aggregator (%) | Own-app (%) |
| Domino's | 42 | 23 | 15 | 20 | 39 | 23 | 15 | 23 | 35 | 25 | 15 | 25 |
| McDonald's | 67 | 15 | 15 | 3 | 65 | 20 | 12 | 3 | 55 | 25 | 15 | 5 |
| Pizza Hut | 46 | 26 | 4 | 24 | 42 | 25 | 11 | 22 | 50 | 16 | 26 | 8 |
| KFC | 59 | 30 | 5 | 6 | 61 | 22 | 12 | 5 | 60 | 20 | 16 | 4 |

Source: Company, Technopak

As on Mar'22 SF has total store count of 482 (KFC: 263 and PH: 219). We note 445 stores are located in two large states such as Maharashtra and Tamil Nadu. Though MAH/TN form 46% of KFC stores, top three markets for Pizza Hut such as MAH/TN/Karnataka make up 60% of PH store count.

### Exhibit 330: KFC & PH store Geographical Split

| State | No of KFC Stores | No of Pizza Hut Stores | Total Stores |
|---|---|---|---|
| Maharashtra | 58 | 55 | 113 |
| Gujarat | 14 | 23 | 37 |
| Madhya Pradesh | 9 | 6 | 15 |
| Chhattisgarh | 5 | 1 | 6 |
| Tamil Nadu | 62 | 35 | 97 |
| Haryana | 5 | 7 | 12 |
| Punjab | 40 | | 40 |
| Delhi | 46 | | 46 |
| Uttar Pradesh | 15 | | 15 |
| Uttrakhand | 9 | | 9 |
| Karnataka | | 41 | 41 |
| Andhra Pradesh | | 8 | 8 |
| Telangana | | 22 | 22 |
| Kerala | | 17 | 17 |
| Goa | | 4 | 4 |
| **Total** | **263** | **219** | **482** |
| Stores in MAH & TN | 120 | 90 | 210 |
| **MAH & TN Store (%)** | **46** | **41** | **44** |

Source: Company, Centrum Broking

## Pizza Hut, Sri Lanka – Growing and profitable Business

As per company, Sapphire Foods is the largest international QSR chain in Sri Lanka and it operates through its subsidiary, Gamma Lanka Pizza Hut. As of Dec'22, SF runs 114 stores. In FY21, its revenue from Pizza Hut restaurants in Sri Lanka comprised ~35% of the total revenue of international QSR chains in Sri Lanka.

We believe moderate growth in Srilanka Business

Our in-depth analysis suggests in recent times though Sri Lanka is facing macro headwinds and currency fluctuations, QSR players have significantly increased the number of outlets. We list key international and domestic players in Sri Lanka market.

**Exhibit 331: Key competition in Sri Lanka**

| Brand | Operated by | No of stores |
|---|---|---|
| Pizza Hut | Gamma Lanka, Subsidiary of SF | 114 |
| KFC | Cargills – Ceylon PLC | 62 |
| Domino's | Jubilant Foodworks | 47 |
| McDonalds | Abans Restaurant Systems | 15 |
| Burger King | Softlogic Restaurants | 23 |

Source: Company, Centrum Broking

**Exhibit 332: Key performance indicators for Sri Lanka**

| | FY19 | FY20 | FY21 | FY22 | 9MFY23 |
|---|---|---|---|---|---|
| No of stores | 63 | 64 | 70 | 95 | 114 |
| No of stores in top 10 cities | 37 | 32 | 36 | 55 | 66 |
| No of Cities | 36 | 42 | 44 | 49 | 50 |
| | | | | | |
| SSSG (%) | 8.0 | (2.0) | (5.0) | 31.0 | 13.0 |
| Average Daily Sales (Rs'000) | 93 | 92 | 94 | 108 | 74 |
| Delivery channel contribution (%) | 38.6 | 38.7 | 54.9 | 56 | 38 |
| | | | | | |
| Revenues (Rsmn) | 1,984 | 2,038 | 1,966 | 2,983 | 2,049 |
| Gross margin (%) | 65.9 | 66.7 | 68.6 | 66.2 | 57.1 |
| Restaurant EBITDA (Rsmn) | 317 | 329 | 384 | 692 | 307.4 |
| Restaurant EBITDA margin (%) | 16.0 | 16.2 | 19.5 | 23.2 | 15.0 |

Source: Company, Centrum Broking

While over the past SF held a profitable and scalable business in Sri Lanka, there exists strong opportunity to expand PH franchise in more number of cities given its proximity to high tourism potential. We expect SF would be focusing on increasing the penetration into smaller cities going forward. However, despite higher pace of store opening we expect its gross margin to be in the range of 55-60% given macro and currency issues.

## Taco Bell

Taco Bell is an American-based chain of fast-food restaurants founded in 1962 by Glen Bell in Downey, California. Taco Bell is a subsidiary of Yum! Brands. Sapphire Foods operate 9 Taco Bell restaurants in Sri Lanka as of Dec'22. Taco Bell specializes in Mexican-inspired food products for multiple dayparts, including breakfast, lunch, snacks and dinner. Taco Bell, in Sri Lanka, has various types of tacos, chalupas, burritos and other related items. Further, given limited presence of Taco Bell outside US, the brand has very limited recall and familiarity among the consumers. In addition, lack of taste for Mexican cuisine in Sri Lanka poses a challenge for the brand to grow going forward.

## Increasing focus on technology

Drawing parallel from JUBI's success to drive growth in the delivery channel, company would require a strong technology back-end infrastructure. We note in this area JUBI has made significant investments over the past several years. While we note in case of SF and DIL the technology piece is handled by Yum!, there are good efforts made on this front by the parent.

Further, globally Yum! has been increasing its focus on technology to gain share for its delivery channel enhancing customer experience. In CY21, Yum! acquired Australia-based Dragontail Systems, an innovator in kitchen order management and delivery technology in all cash deal for AUD93.5mn. We expect this acquisition to help Yum! to build the capability to scale Dragontail's artificial intelligence (AI) kitchen order management and delivery technology globally. We note the acquisition is primarily focused on enhancing delivery systems and improving delivery operations. We reckon, Dragontail's platform is currently deployed across ~1,500 PH Restaurants in over 10 countries. In addition, as per reports in Mar'21, Yum! acquired AI firm Kvantum to assist with its marketing campaign analytics and Tictuk, which develops an Omni channel ordering software that allows consumers to place orders via social media, SMS, email, and other formats.

Using tech platform both KFC and PH mobile apps were re-launched in FY22, with a more consumer-friendly interface and strong exclusive value offers. As per the management, the new apps have witnessed considerable improvement in ratings to 4.5 stars from 2 stars earlier.

## Experienced leadership team to drive Sapphire Foods business

Sapphire Foods hold solid team which is capable in driving sustainable business and balance its performance. We note their in-depth experience has helped SF to improve its performance in the recent past.

**Exhibit 333: Senior leadership team at Sapphire Foods**

| | | |
|---|---|---|
| **Mr. Sanjay Purohit** | Director & Group CEO | Mr. Sanjay Purohit is an IIT, Bangalore alumnus. Before joining Sapphire Foods, he was the Managing Director for Levi Strauss & Co India, and was also associated with Cadbury India Limited, Mobil Peevees Company Limited, Asian Paints (India) Limited, Aristocrat Marketing Limited, International Medical Company, and Goodlass Nerolac Paints Limited. He has over 30 years of experience across consumer product companies. |
| **Mr. Deepak Taluja** | CEO - KFC | Mr. Deepak Taluja has over 24 years of experience in operational functions. Prior to joining Sapphire Foods, he worked at Café Coffee Day, Domino's Pizza India Limited, and Fun Multiplex Private Limited. |
| **Mr. Vikrant Vohra** | CEO – Pizza Hut | Mr. Vikrant Vohra has experience of over 19 years and he was associated with Pune Marriott Hotel and Convention Centre, Park Group Hotels, Hyatt Regency, Yum Restaurants (India) Private Limited, Indian Hotels Co Limited. |
| **Mr. Vijay Lalchand Jain** | Chief Financial Officer | Prior to joining Sapphire in 2018, he was associated with Shoppers Stop Limited, Hypercity Retail (India) Limited, Nicholas Piramal India Limited and Indian Rayon and industries Limited. |
| **Ms. Anshu Khanna** | Senior VP & Head SCM | Prior to this role, he has over 3 decades of experience in the areas of Procurement (Direct, Indirect & Capex), Planning, and Distribution. He has worked across various industry verticals including FMCG, Consumer Durables, QSR, and in organizations like Cadbury India, and Marico. |
| **Ms. Amar Patel** | Chief Technology Officer | In his earlier roles, he was associated with Hewlett-Packard Services UK, Mondelez India Foods Limited, HCL Technologies Limited, The Printers (Mysore) Private Limited and Human Factors International Private Limited. |
| **Ms. Puneet Bhatia** | VP & Head of Business development | Prior to joining Sapphire Foods, he was associated with Pizza Corner India, Domino's Pizza India, Adidas India Marketing Private Limited, Shopper's Stop Limited, Pantaloons retail (India) Limited, etc. |

Source: Company, Centrum Broking

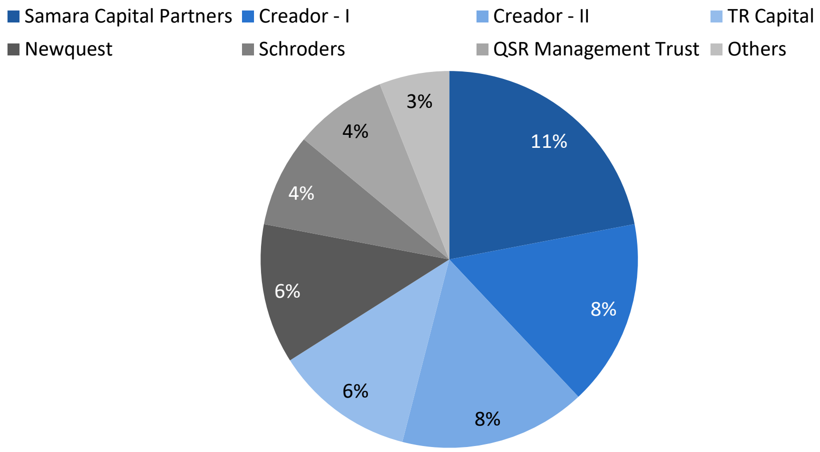
### Ownership in Sapphire Foods

Samara Capital has multiple investment in the consumption space since 2014

Sapphire Foods Mauritius Ltd. is a holding company with multiple investors including Samara Capital, Creador, TR Capital, Newquest, Schroders & others.

As per company's DRHP, Sapphire Foods Mauritius & QSR Mgmt. Trust – promoters of SF have entered into an arrangement with Yum! that 25.1% of equity holdings would be locked for a period of 6 years (from Aug'21). Though technically, remaining 26% of promoter holdings plus 18% of legacy investors can be sold in the markets. Hence, the risk of offloading of equity by the promoter group entity may pose risk for stock price performance in our view.

**Exhibit 334: Ownership of Sapphire Foods Mauritius Limited**




Source: Company, Centrum Broking

## Site selection roll-out procedures

Sapphire Foods has a dedicated business development and projects team comprising 44 employees with an average of ~12 years' experience in similar roles. Its new restaurant roll-out process involves the following three phases:

**Phase 1: Site identification, evaluation and finalisation**

- Site identification: It initially identifies the new restaurant location by engaging real estate agents to scout new locations and undertake a detailed evaluation of each location utilising pre-defined criteria. SF aims to achieve an optimal mix across different types of restaurant formats: High street locations, shopping malls and food courts and drive thrus'.
- Site evaluation: SF's team then conduct a site quality evaluation, which focuses on a number of critical factors, including the trade area quality of the location, which focuses on the demographics of the location and the businesses in the surrounding areas, including the visibility of the location, the presence of competition, the number of households within the location's addressable market, the coverage of food delivery platforms such as Swiggy and Zomato, the location's consumer classification and the presence of corporate and other institutions, footfall generation, accessibility and parking.
- Site finalisation: Once a location is identified and evaluated for roll out, it undertakes initial due diligence of the site, secure a lease for the site and seek to finalise commercial negotiations and documentation swiftly. Each new restaurant location requires the approval of the senior management and Yum!.

**Phase 2: Site development**

The restaurant roll-out process is managed by experienced development teams, dedicated project teams and empanelled contractors through which it deploys the well-defined restaurant's architecture that includes pre-defined design templates and pre-approved standardised equipment in order to achieve roll out efficiently.

**Phase 3: Pre-launch**

Prior to the launch of a new restaurant, SF team undertakes recruitment and training of employees and commence management of the restaurant's supply chain requirements, and subsequently commence restaurant opening communications.

It typically completes restaurant roll-out within 120 to 150 days from site identification to store fit-out for the KFC and Pizza Hut restaurants.

## Franchisee Agreement

Under the Franchisee Arrangement with Sapphire Foods, Yum! Brands has granted the non-exclusive right to use intellectual property, including technology and trademarks, owned by Yum! and its subsidiaries to operate under the KFC, Pizza Hut and Taco Bell brands in the select territories and to avail of related development, promotional and support services from Yum!

**Terms and Conditions**: The term of the Franchisee Arrangement, with respect to a particular restaurant, expires on the 10th anniversary of the grant of rights, which may be renewed for an additional 10-year term if it meets the requirements for renewal. The term of the KFC Development Agreement and Pizza Hut Development Agreement expires on December 31, 2023.

**Royalties and required expenditures**: Sapphire Foods required to pay Yum! a monthly royalty fee of 6.0%-6.3% of its net sales from operation of the restaurants. It is also required to spend 6.0% of net sales (including 1.0% to be spent on Local Store Marketing (LSM)), with respect to the operations in India and 5.0% of net sales with respect to the operations in Sri Lanka and the Maldives, to market, advertise and promote the brands and their products.

**Non-competition Clause**: Sapphire Foods may not, directly or indirectly, have an interest in, or engage in, any business involving the wholesale or retail preparation, marketing or sale of any food products in the territories without Yum!'s prior approval. Yum! may withhold its approval if one or more of the following categories of products individually constitutes more than 20.0% of the food products: (1) pizza products, (2) pizza and pasta products (collectively), (3) ready-to-eat chicken products, (4) Mexican food products and (5) beef burger products, in the territories during the term of the Franchise Arrangement.

**Brand Standards**: Sapphire Foods must maintain specified standards of quality set forth by Yum! The Franchisee Arrangement provides it with a well-defined restaurant operating model covering all aspects of business operations, as well as the flexibility to undertake, with Yum!'s approval, local or regional promotions, thereby meeting Yum's global quality assurance standards. It provides the flexibility to operate and manage in-house supply chain and have direct relationships with the vendor partners who go through Yum!'s stringent approval process. Yum! appoints a third party to conduct an on a periodic basis covering the compliance with food safety, hygiene and operational and brand standards, and conducts unannounced audits from time to time.

**Transfer and Change of Control**: Sapphire Foods required to obtain Yum!'s prior consent in the event that it transfers the rights or obligations under the 'Franchisee Arrangement' to a third party, or of a direct or indirect change in control of the Company.

# Financials

- **Expect revenue/EBITDA/PAT CAGR 19.1%/20.6%/21.2% over FY23-25E**
- **Store addition: KFC: 215 and PH: 175 in India**
- **Expect 51 store additions in Sri Lanka**

## Strong growth in store momentum

We estimate revenue/EBITDA/PAT CAGR over FY23-25E of 19.1%/20.6%/21.2% led by (1) 441 store additions (KFC: 215, PH: 175) in India, (2) we expect 51 store additions in Sri Lanka under PH and Taco Bell format, (3) 5.0% increase in SSSG for next 2 years of KFC format, and (4) 200bp expansion in EBITDA margin (Post-INDAS) in core portfolio. However, we expect gradual scale up in the international portfolio as Sri Lanka started macro-economic recovery and currency tailwinds (near term). We expect support from Yum! Brands such as concessional rate of royalty and waiver on store opening fees to continue.

Further we expect augmented store expansion for KFC format compared to PH as compared to previous trends. This could be driven by (1) strong innovation program run by Yum! Brands, (2) adopting smaller size store formats with better profitability potential, (3) improved saliency for online ordering and delivery scale, and (4) higher demand for trusted brands lead by weaker or rather falling competitive intensity from standalone restaurants. Therefore, we expect SF would continue to put efforts on cost optimization to improving unit economics using rising Chicken QSR opportunity to fast-track growth.

**Gross margin to remain range bound – expect 70bp improvement**

Margin gap with DIL has been narrowing on the back of lower corporate exp.

We expect SF's gross margin to remain range bound at 67.7% over FY2023-25E period. Despite rising inflation especially in milk and cheese could get offset from falling palm oil prices, hence we expect margins to remain under pressure and may not improve substantially. Further we narrate few drivers for gross margin in the near term such as (1) operating leverage driven by scale and efficiencies, (2) mix change towards premium products, (3) further price increases.

Though some of the initiatives taken by SF on cost front are structural in nature, few such as (1) reduction in store size, (2) lower capex per store, (3) operating leverage driven by scale, (4) rising brand contribution margin, and (5) SSSG – volume growth, may drive margin profile for SF in our view.

**Royalty rate**

We note SF pays 6-6.3% of net sales as royalty (about 7-7.5% including GST) to Yum! Brands. As per our understanding, SF's royalty payment as % of sales is higher compared to other QSR players. Restaurant Brands Asia pays royalty of 5% while McDonald's pays royalty of about 4.5% which is expected to increase to ~9.4% from FY2027E, yet Domino's royalty payment rate is at ~3.5% of sales the lowest in the QSR industry.

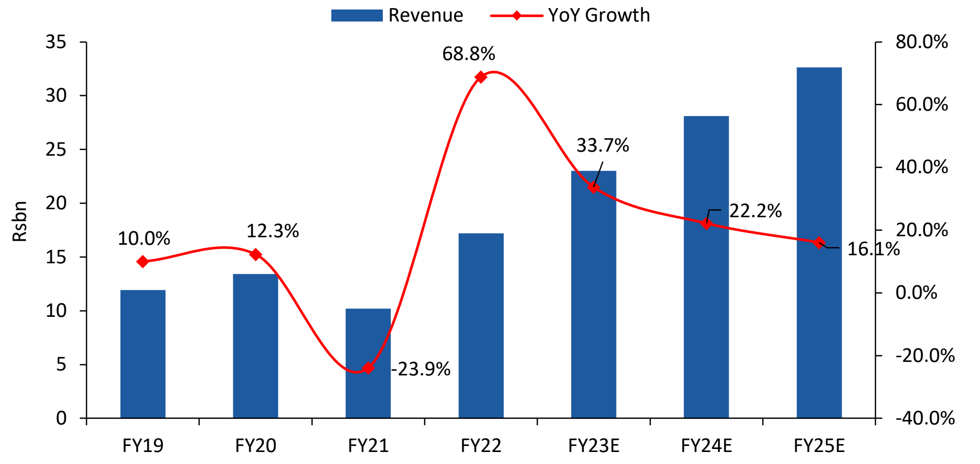
**Exhibit 335: Royalty rate**

| Brands | Domino's | McDonald's | KFC | Pizza Hut | Burger King | Costa |
|---|---|---|---|---|---|---|
| Royalty rate | No significant change in last 10 years: ~3.5% (including GST) | Current rate: ~4.6% (including GST). Royalty rate is expected to increase to 9.4% (8%+18% GST) from FY27 | 6.3% of revenues | 6.3% of revenues | Rate ranges from 3% (2.5% + 18% GST) to 5.9% (5% + 18% GST) depending on the opening date of the restaurant | 6% of revenues |
| Advertisement Contribution | No information | No information | Paid 6% of revenues - 5% contribution to Yum! and 1% (of gross revenues) spent on marketing and local or store-based promotions | Paid 6% of revenues - 5% contribution to Yum! And 1% (of gross revenues) spent on marketing and local or store-based promotions. | Spend min. 5% of sales (+18% GST) from Company owned Burger King Restaurants on marketing and advertising | Spend a sum at least 2% of gross revenue |
| Store opening Fees | ~`0.5mn per store | ~`2mn per store | USD53,400 for stores opened in 2021 (subject to US CPI index) Renewal fee (every 10 years) is 50% of the existing initial fees (for stores opened in 2021 it was USD26,700 subject to US CPI index) | USD26,700 for new stores and renewal fee (every 10 years) of USD13,350 | USD15,000 increasing to USD35,000 from CY18 through year 2022 and remaining at USD35,000 for all periods thereafter | GBP500 to open new Costa Coffee store |

Source: Company, Centrum Broking

## Key Assumptions

### Exhibit 336: Revenue CAGR of 19.1% over FY23-25E driven by store expansion




Source: Company, Centrum Broking

### Segmental assumptions

### Exhibit 337: KFC

| | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| Store | 158 | 187 | 203 | 263 | 343 | 413 | 478 |
| SSG (%) | 13.9 | 5.4 | (30.0) | 31.0 | 30.2 | 5.5 | 4.5 |
| Sales (Rsmn) | 6,584 | 7,753 | 5,897 | 10,349 | 14,821 | 17,539 | 20,145 |
| Gross Profit Margin (%) | 65.1 | 65.4 | 67.9 | 68.4 | 66.6 | 66.9 | 67.1 |
| Brand Contribution (%) (Pre-INDAS) | 12.7 | 13.2 | 14.0 | 19.5 | 19.3 | 19.5 | 20.0 |

Source: Company, Centrum Broking

### Exhibit 338: Pizza Hut

| | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| Store | 153 | 174 | 162 | 219 | 287 | 339 | 394 |
| SSG (%) | 5.0 | (5.2) | (35.4) | 42.0 | 17.0 | 2.0 | 2.0 |
| Sales (Rsmn) | 3,071 | 3,343 | 2,217 | 3,710 | 5,255 | 6,915 | 8,312 |
| Gross Profit Margin (%) | 73.9 | 76.2 | 76.1 | 75.5 | 74.9 | 75.0 | 75.1 |
| Brand Contribution (%) (Pre-INDAS) | 7.5 | 7.3 | 5.0 | 13.4 | 14.5 | 14.7 | 14.8 |

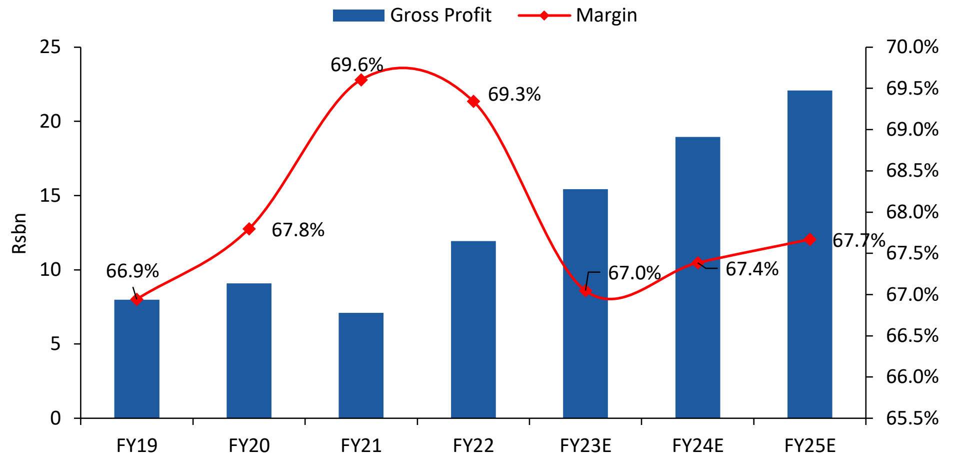
Source: Company, Centrum Broking

### Exhibit 339: Sri Lanka

| | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| Store | 63 | 64 | 70 | 95 | 116 | 131 | 146 |
| SSG (%) | 8.0 | (1.0) | (5.0) | 31.0 | (18.0) | 2.0 | 2.0 |
| Sales (Rsmn) | 1,984 | 2,038 | 1,965 | 2,983 | 2,816 | 3,506 | 4,008 |
| Gross Profit Margin (%) | 65.9 | 66.7 | 68.6 | 66.2 | 57.6 | 57.7 | 57.8 |
| Brand Contribution (%) (Pre-INDAS) | 16.0 | 16.2 | 19.5 | 23.2 | 15.4 | 15.4 | 15.5 |

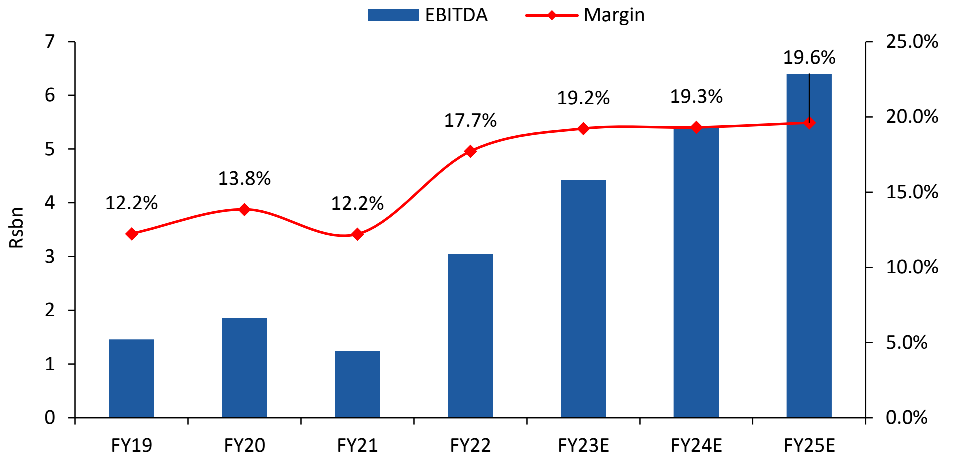
Source: Company, Centrum Broking

**Exhibit 340: Expect Gross Profit CAGR of 19.6% over FY23-25E**



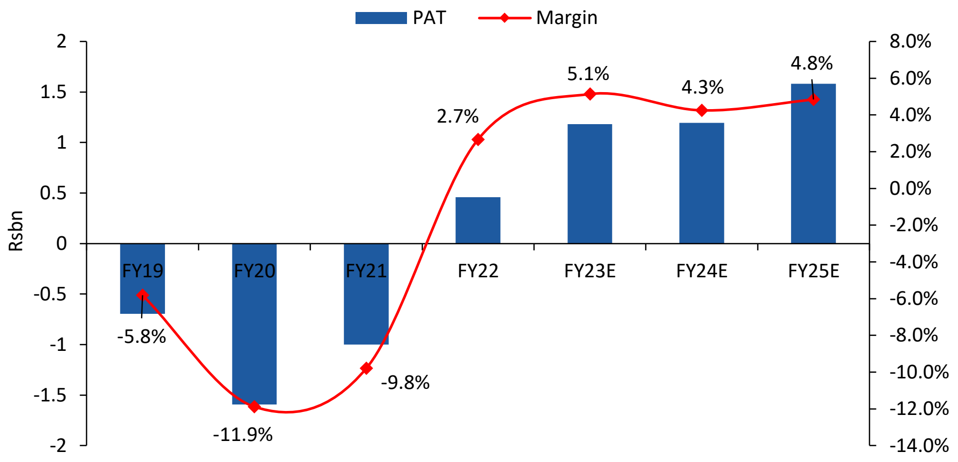

Source: Company, Centrum Broking

**Exhibit 341: Expect EBITDA CAGR of 20.6% over FY23-25E; EBITDA margin of 19.6%**




Source: Company, Centrum Broking

**Exhibit 342: Expect PAT CAGR of 21.2% over FY23-25E**




Source: Company, Centrum Broking

# Valuations and risks

- **Inexpensive valuation**
- **Better performance to impact earnings visibility**

## Valuations are not fully priced in

Lowest EV/EBITDA compared to peers and 30-35% disc to DIL may not justified, going forward

We estimate revenue/EBITDA/PAT CAGR over FY23-25E of 19.1%/20.6%/21.2% led by augmented growth in store expansion taking the store count to 1,018 in FY25E. Despite high spend on cumulative store capex of Rs10.0bn we expect structural improvement adopted by the company to expand profitability will reflect in cumulative FCF to reach Rs7.8bn from FY23-25E. We initiate coverage on Sapphire Foods with Buy rating and DCF-based target price of Rs1,455 (implying 10.2x FY25E EV/EBITDA post-INDAS).

**Exhibit 343: DCF Valuation**

| SOTP | Basis | Assumption | | Price (Rs) |
|---|---|---|---|---|
| Sapphire – Consol. | DCF | WACC (%) | 11.8 | 1455 |
| | | Terminal Growth (%) | 5.2 | |

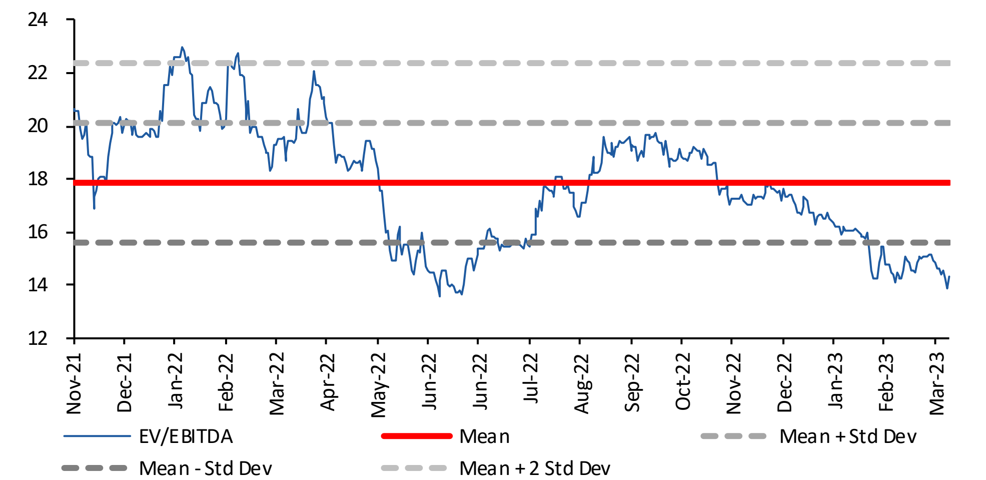
Source: Company, Centrum Broking

**Exhibit 344: Sapphire DCF Summary**

| | FY23E | FY24E | FY25E | FY26E | FY27E | FY28E | FY29E | FY30E | FY31E | FY32E | FY33E | FY34E | FY35E | FY36E | FY37E | FY38E | FY39E | FY40E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 23,012 | 28,111 | 32,624 | 42,465 | 48,746 | 51,477 | 53,720 | 57,690 | 62,306 | 67,290 | 72,673 | 78,487 | 84,766 | 90,700 | 97,049 | 103,842 | 111,111 | 118,889 |
| EBIT | 1,901 | 2,454 | 3,088 | 5,182 | 6,097 | 6,302 | 6,406 | 6,848 | 7,551 | 8,318 | 9,222 | 10,285 | 11,449 | 12,567 | 13,778 | 15,088 | 16,506 | 18,040 |
| Depreciation | 2,523 | 3,000 | 3,343 | 3,231 | 3,609 | 3,999 | 4,398 | 4,813 | 5,105 | 5,417 | 5,685 | 5,971 | 6,277 | 6,581 | 6,905 | 7,251 | 7,619 | 8,011 |
| Tax | (131) | (366) | (579) | (829) | (976) | (1,008) | (1,025) | (1,096) | (1,208) | (1,331) | (1,475) | (1,646) | (1,832) | (2,011) | (2,204) | (2,414) | (2,641) | (2,886) |
| Capex | (4,022) | (3,104) | (3,098) | (4,009) | (3,750) | (3,859) | (3,949) | (4,108) | (2,892) | (3,092) | (2,653) | (2,833) | (3,028) | (3,012) | (3,209) | (3,419) | (3,644) | (3,886) |
| Change in WC | (114) | (392) | (627) | (707) | (663) | (684) | (744) | (809) | (822) | (921) | (1,031) | (1,155) | (1,078) | (1,186) | (1,304) | (717) | (753) | (791) |
| FCFF | 156 | 1,592 | 2,126 | 2,868 | 4,318 | 4,750 | 5,086 | 5,648 | 7,733 | 8,392 | 9,747 | 10,623 | 11,789 | 12,940 | 13,966 | 15,788 | 17,086 | 18,488 |
| Disc. Factor | 1.00 | 0.89 | 0.80 | 0.71 | 0.64 | 0.57 | 0.51 | 0.46 | 0.41 | 0.36 | 0.33 | 0.29 | 0.26 | 0.23 | 0.21 | 0.19 | 0.17 | 0.15 |
| Disc. FCFF | 156 | 1,417 | 1,693 | 2,043 | 2,751 | 2,706 | 2,592 | 2,575 | 3,153 | 3,059 | 3,178 | 3,098 | 3,075 | 3,019 | 2,914 | 2,947 | 2,852 | 2,760 |
| Sum of Disc. FCFF | 43,229 | | | | | | | | | | | | | | | | | |
| Disc. TV | 43,917 | | | | | | | | | | | | | | | | | |
| EV | 87,146 | | | | | | | | | | | | | | | | | |
| Net Debt | (5,299) | | | | | | | | | | | | | | | | | |
| **Equity Value** | **92,445** | | | | | | | | | | | | | | | | | |
| Shares O/S | 63.5 | | | | | | | | | | | | | | | | | |
| **Value per share** | **1,455** | | | | | | | | | | | | | | | | | |

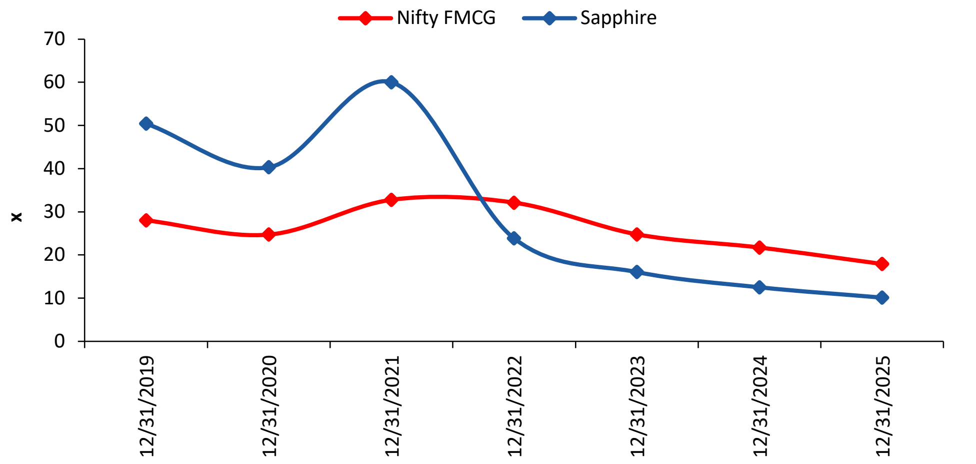
Source: Company, Centrum Broking

**Exhibit 345: One year forward EV/EBITDA (adjusted post -INDAS)**



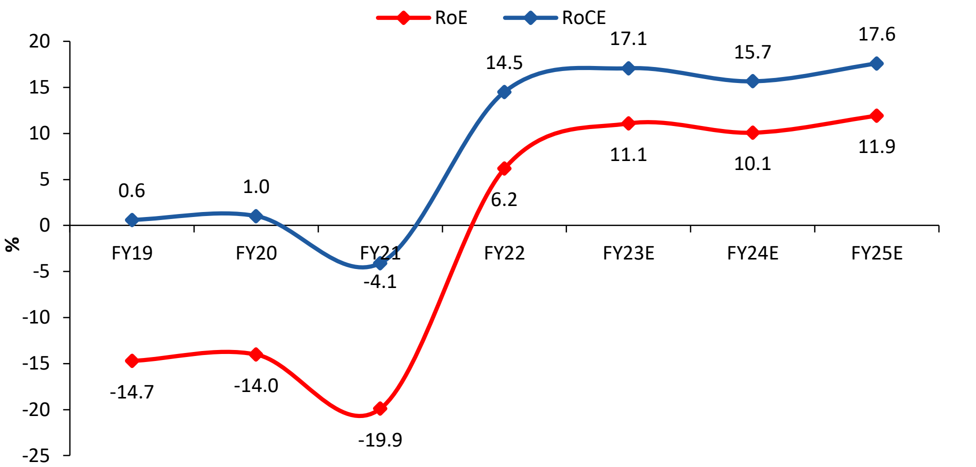

Source: Company, Centrum Broking

**Exhibit 346: Sapphire EV/EBITDA valuation to FMCG index**




Source: Bloomberg, Centrum Research

**Exhibit 347: Return Ratios – RoE & RoCE**




Source: Company, Centrum Broking

# Risks to our call

- **Unwavering inflation**: While palm oil prices have corrected sharply, from peak level and given unfavourable currency it may remain inflationary. In addition, rising milk and cheese prices could pose concerns. Hence, most ingredients are driven by demand and supply dynamics. Further, QSR industry is highly labour intensive and it faces regular issues around wage hikes. Given these parameters company needs to balance between price increases and volume growth, hence it may put risk on margins.
- **Change in consumer preferences for QSR**: In the current scenario when food inflation is rising, there seems to be lower demand for discretionary spends given pressure on wallet share faced by the end consumers. Hence, any change in economic conditions, food habits, or approval for QSRs may impact negatively on the company's performance.
- **Government regulations**: We check rising health related concerns are linked by the consumers to fast-food consumption, especially by the younger generation. Given that any changes in government regulations towards dietary habits may alter industry demand and may impact company's profitability.
- **Over dependence on third party food aggregators**: We note incremental focus on driving delivery channel is key for growth. However, expansion of the delivery ecosystem has led to higher completion from other QSRs and cloud kitchens, and has squeezed store footfalls. Therefore, franchisees need to pay higher commission to food aggregators. Hence, incremental dependence on food aggregators could alter company's performance.
- **Termination of franchisee agreement**: We note Yum! Brands has laid out clear terms and parameters in franchise agreements which are expected to be adhered by its partners such as DIL. In exchange of this Yum! supports the partners with store-opening fees/renewal fees, driven by royalty rate. Any potential change or termination of agreement may have significant impact on the business.
- **Abrupt competition in Chicken QSR segment**: We note most of the leading players have undertaken aggressive store expansion targets in both Chicken and pizza categories. In the event to garner faster revenue we consider material increase in completion from national as well as local players could impact its revenues.
- **Senior management team**: SF's senior management team has been instrumental to drive and turnaround in its business in last few years, though this was reflected in recent performance delivered by the company. We reckon, SF is professionally run business whereby the promoter has no executive role to play in the day to day operations. However, numerous changes in the senior leadership team may pose concern.

# Company profile

Incorporated in 2015, Sapphire Foods Limited (SF) is a multi-dimensional quick-service restaurant (QSR) player. As the franchise partner of Yum! Brands, Sapphire operates their iconic brands KFC and Pizza Hut in India as well as in Sri Lanka and Maldives. The company currently operates 326 KFC, 380 Pizza Hut and 9 Taco Bell restaurants across India, Sri Lanka and Maldives. KFC and Pizza Hut operate in states that cover 56% of GDP and have presence in 5-6 top cities out of 8 (Top 8 cities contribute 87% of the QSR industry). The company is one of the largest and fastest growing restaurants that operates in India. It is promoted by private equity investors that own a 51% stake primarily through Sapphire Foods Mauritius Limited (25.1% is locked-in pursuant to an agreement with Yum India).

## Key Leadership Team and Management

**Exhibit 348: Key management personnel**

| | | |
|---|---|---|
| **Mr. Sanjay Purohit** | Director & Group CEO | Mr. Sanjay Purohit is an IIT, Bangalore alumnus. Before joining Sapphire Foods, he was the Managing Director for Levi Strauss & Co India, and was also associated with Cadbury India Limited, Mobil Peevees Company Limited, Asian Paints (India) Limited, Aristocrat Marketing Limited, International Medical Company, and Goodlass Nerolac Paints Limited. He has over 30 years of experience across consumer product companies. |
| **Mr. Deepak Taluja** | CEO - KFC | Mr. Deepak Taluja has over 24 years of experience in operational functions. Prior to joining Sapphire Foods, he worked at Café Coffee Day, Domino’s Pizza India Limited, and Fun Multiplex Private Limited. |
| **Mr. Vikrant Vohra** | CEO – Pizza Hut | Mr. Vikrant Vohra has experience of over 19 years and he was associated with Pune Marriott Hotel and Convention Centre, Park Group Hotels, Hyatt Regency, Yum Restaurants (India) Private Limited, Indian Hotels Co Limited. |
| **Mr. Vijay Lalchand Jain** | Chief Financial Officer | Prior to joining Sapphire in 2018, he was associated with Shoppers Stop Limited, Hypercity Retail (India) Limited, Nicholas Piramal India Limited and Indian Rayon and industries Limited. |
| **Ms. Anshu Khanna** | Senior VP & Head SCM | Prior to this role, he has over 3 decades of experience in the areas of Procurement (Direct, Indirect & Capex), Planning, and Distribution. He has worked across various industry verticals including FMCG, Consumer Durables, QSR, and in organizations like Cadbury India, and Marico. |
| **Ms. Amar Patel** | Chief Technology Officer | In his earlier roles, he was associated with Hewlett-Packard Services UK, Mondelez India Foods Limited, HCL Technologies Limited, The Printers (Mysore) Private Limited and Human Factors International Private Limited. |
| **Ms. Puneet Bhatia** | VP & Head of Business development | Prior to joining Sapphire Foods, he was associated with Pizza Corner India, Domino’s Pizza India, Adidas India Marketing Private Limited, Shopper’s Stop Limited, Pantaloons retail (India) Limited, etc. |

Source: Company

## P&L

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| **Revenues** | **10,196** | **17,216** | **23,012** | **28,111** | **32,624** |
| Operating Expense | 3,755 | 6,163 | 8,757 | 10,602 | 12,212 |
| Employee cost | 1,956 | 2,740 | 3,003 | 3,664 | 4,470 |
| Others | 3,241 | 5,262 | 6,828 | 8,391 | 9,512 |
| **EBITDA** | **1,244** | **3,050** | **4,424** | **5,454** | **6,431** |
| Depreciation & Amortisation | 2,091 | 2,135 | 2,523 | 3,000 | 3,343 |
| **EBIT** | **(847)** | **915** | **1,901** | **2,454** | **3,088** |
| Interest expenses | 756 | 781 | 814 | 966 | 1,079 |
| Other income | 616 | 380 | 228 | 342 | 308 |
| **PBT** | **(987)** | **514** | **1,315** | **1,830** | **2,317** |
| Taxes | 12 | 54 | 131 | 366 | 579 |
| Effective tax rate (%) | 1.2 | 10.5 | 10.0 | 20.0 | 25.0 |
| **PAT** | **(999)** | **460** | **1,183** | **1,464** | **1,738** |
| Minority/Associates | 0 | 0 | 0 | 0 | 0 |
| **Recurring PAT** | **(999)** | **460** | **1,183** | **1,464** | **1,738** |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| **Reported PAT** | **(999)** | **460** | **1,183** | **1,464** | **1,738** |

## Ratios

| YE Mar | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| **Growth (%)** | | | | | |
| Revenue | (23.9) | 68.8 | 33.7 | 22.2 | 16.1 |
| EBITDA | (33.0) | 145.2 | 45.0 | 23.3 | 17.9 |
| Adj. EPS | 49.7 | nm | 141.8 | 23.7 | 18.7 |
| **Margins (%)** | | | | | |
| Gross | 69.6 | 69.3 | 67.0 | 67.4 | 67.7 |
| EBITDA | 12.2 | 17.7 | 19.2 | 19.4 | 19.7 |
| EBIT | (8.3) | 5.3 | 8.3 | 8.7 | 9.5 |
| Adjusted PAT | (9.8) | 2.7 | 5.1 | 5.2 | 5.3 |
| **Returns (%)** | | | | | |
| ROE | (19.9) | 6.2 | 11.1 | 12.2 | 12.8 |
| ROCE | (4.1) | 14.5 | 17.1 | 17.9 | 18.2 |
| ROIC | (8.2) | 6.7 | 11.6 | 13.4 | 16.5 |
| **Turnover (days)** | | | | | |
| Gross block turnover ratio (x) | 0.6 | 0.8 | 0.9 | 0.9 | 1.0 |
| Debtors | 2 | 2 | 2 | 2 | 2 |
| Inventory | 54 | 39 | 34 | 33 | 35 |
| Creditors | 162 | 119 | 112 | 118 | 122 |
| Net working capital | (39) | 25 | 20 | 49 | 71 |
| **Solvency (x)** | | | | | |
| Net debt-equity | 0.0 | (0.2) | (0.3) | (0.6) | (0.7) |
| Interest coverage ratio | 1.6 | 3.9 | 5.4 | 5.6 | 6.0 |
| Net debt/EBITDA | 0.0 | (0.6) | (0.8) | (1.3) | (1.6) |
| **Per share (Rs)** | | | | | |
| Adjusted EPS | (19.3) | 7.7 | 18.6 | 23.0 | 27.3 |
| BVPS | 92.8 | 168.7 | 177.1 | 200.2 | 227.5 |
| CEPS | 21.1 | 43.5 | 58.3 | 70.3 | 80.0 |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend payout (%) | nm | 0.0 | 0.0 | 0.0 | 0.0 |
| **Valuation (x)** | | | | | |
| P/E | nm | 155.1 | 64.2 | 51.9 | 43.7 |
| P/BV | 12.9 | 7.1 | 6.7 | 6.0 | 5.3 |
| EV/EBITDA | 61.1 | 24.3 | 16.3 | 12.6 | 10.2 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company, Centrum Broking

## Balance sheet

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Equity share capital | 528 | 635 | 635 | 635 | 635 |
| Reserves & surplus | 4,271 | 9,436 | 10,619 | 12,084 | 13,821 |
| Shareholders fund | 4,799 | 10,071 | 11,255 | 12,719 | 14,457 |
| Minority Interest | (12) | (17) | (17) | (17) | (17) |
| Total debt | 520 | 612 | 532 | 452 | 372 |
| Non Current Liabilities | 4,905 | 6,496 | 7,146 | 8,575 | 9,433 |
| Def tax liab. (net) | 107 | 87 | 96 | 106 | 116 |
| **Total liabilities** | **10,319** | **17,250** | **19,012** | **21,835** | **24,361** |
| Gross block | 17,283 | 22,799 | 26,498 | 29,599 | 32,694 |
| Less: acc. Depreciation | (6,440) | (8,575) | (11,098) | (14,098) | (17,441) |
| Net block | 10,844 | 14,224 | 15,400 | 15,501 | 15,253 |
| Capital WIP | 304 | 320 | 323 | 326 | 329 |
| Net fixed assets | 11,148 | 14,224 | 15,723 | 15,827 | 15,583 |
| Non Current Assets | 0 | 314 | 345 | 380 | 418 |
| Investments | 267 | 1,525 | 1,678 | 1,846 | 2,030 |
| Inventories | 474 | 652 | 757 | 924 | 1,073 |
| Sundry debtors | 78 | 141 | 126 | 154 | 179 |
| Cash & Cash Equivalents | 500 | 2,546 | 4,153 | 7,455 | 10,672 |
| Loans & advances | 988 | 2,131 | 1,945 | 2,216 | 2,484 |
| Other current assets | 34 | 107 | 126 | 154 | 179 |
| Trade payables | 1,440 | 1,991 | 2,662 | 3,251 | 3,773 |
| Other current liab. | 1,567 | 2,222 | 2,970 | 3,628 | 4,211 |
| Provisions | 163 | 176 | 209 | 241 | 271 |
| Net current assets | (1,096) | 1,187 | 1,266 | 3,783 | 6,330 |
| **Total assets** | **10,319** | **17,250** | **19,012** | **21,835** | **24,361** |

## Cashflow

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Profit Before Tax | (987) | 514 | 1,315 | 1,830 | 2,317 |
| Depreciation & Amortisation | 2,091 | 2,135 | 2,523 | 3,000 | 3,343 |
| Net Interest | 756 | 781 | 814 | 966 | 1,079 |
| Net Change – WC | 197 | (571) | 1,505 | 760 | 642 |
| Direct taxes | (12) | (54) | (131) | (366) | (579) |
| **Net cash from operations** | **2,045** | **2,805** | **6,026** | **6,190** | **6,801** |
| Capital expenditure | (3,166) | (5,211) | (4,022) | (3,104) | (3,098) |
| Acquisitions, net | 0 | 0 | 0 | 0 | 0 |
| Investments | (112) | (1,258) | (153) | (168) | (185) |
| Others | 0 | 0 | 0 | 0 | 0 |
| **Net cash from investing** | **(3,278)** | **(6,469)** | **(4,174)** | **(3,272)** | **(3,283)** |
| **FCF** | **(1,233)** | **(3,664)** | **1,851** | **2,918** | **3,518** |
| Issue of share capital | 2,669 | 6,399 | 650 | 1,429 | 858 |
| Increase/(decrease) in debt | (71) | 92 | (80) | (80) | (80) |
| Dividend paid | 0 | 0 | 0 | 0 | 0 |
| Interest paid | (756) | (781) | (814) | (966) | (1,079) |
| Others | 0 | 0 | 0 | 0 | 0 |
| **Net cash from financing** | **1,842** | **5,710** | **(244)** | **383** | **(301)** |
| Net change in Cash | 609 | 2,046 | 1,607 | 3,301 | 3,217 |

Source: Company, Centrum Broking

CENTRUM

# Restaurant Brands Asia

## Pricey valuations; wait for better entry price

Initiating Coverage

India I QSR

20 March, 2023

Institutional Research

**SELL**

Price: Rs93

Target Price: Rs86

Forecast return: -8%

**Restaurant Brands Asia (RBA) was late to enter in India, however its aspiration to open 700 stores by Dec'26 drew investors' confidence given competition moved at a slower pace. Though this is commendable, we suspect RBA's margin could remain lower than optimum level compared to existing competition. Nonetheless, our per-unit economics leads us to believe that the format is capable to deliver >15% (pre-INDAS) store-level margins in next 5 years, we are unsure if it could translate into company EBITDA margins beyond 10% (pre-INDAS). Popeyes partnership in Indonesia appears to be promising, managing growth in ADS could be challenging. RBA's performance revolves around, (1) aggressive store expansion, (2) improve ADS, (3) margin expansion led by operating leverage, and (4) capital efficiency. Given its growth aspirations RBA commands higher EV/EBITDA multiple vs. JUBI on pre-IND-AS, we believe premium valuation is unjustified. We initiate coverage with a SELL rating and TP of Rs86 (India Business DCF-based: Rs77 and Indonesia Business M.Cap/Sales 0.5x: Rs9).**

### Proven track record for store expansion capabilities indicates long term prospects

Restaurant Brands Asia (Burger King) has set a target to open 700 stores by Dec'26 (Q3FY23 - 379) which implies ~75-80 stores every year from now. While we do not doubt RBA's ability as it has a solid business development team behind, such rapid store expansion raises questions on execution and management bandwidth to balance profitability. Our detailed analysis of unit economics suggests that a Burger King store in India holds potential to reach >15% (pre-INDAS) EBITDA margins, however we are unsure if it could translate into healthy company EBITDA margins. Further, its attempt to expand menu offerings through BK Café is yet to show up in higher ADS per store. Drawing parallels from McDonald's performance we expect RBA to deliver Rs36.0mn revenue per store per year, however growth in margins will be slower given rising competitive intensity in chicken QSR space. We expect addition of new business Popeyes in Indonesia would deliver calibrated profitability.

### Key differentiator - Burger King provides value proposition to millennials

RBA is positioned as value-focused player attracting millennials (TG 15-40 years), and young and busy professionals. Hence, Burger King follows concentrated strategy which means concentrate on serving many needs of a particular customer group. While this TG has incrementally become more health conscious, they look for cheaper-healthy-food. Hence, the company deliberately and with efforts, ensured a strong presence in value segment starting with Stunner menu priced at Rs50. We believe it will continue to focus on value, while communicating to consumers about its premium range of Whopper and King's Collection. Thus, we like its price-laddering strategy as target customers perceive higher levels to be better in terms of quality/price ratio, because they are offered improved product features or more products for a lower price. This cognitive bias, aligned with the decoy effect, will make customers more willing to pay a larger sum of money.

### Valuation pricey; look for margin of safety

We have built revenue/EBITDA CAGR of 25.9%/45.8% over FY23-25E. Over three years, we expect store EBITDA margin to inch up to 20.9% (+470bps) on post INDAS and RoE/RoCE to inch up 0.1%/3.7% in FY25E. However, given its growth aspirations RBA commands higher EV/EBITDA multiple to JUBI on pre-INDAS, which we believe premium valuation is unfair and doubt on margin of safety. We initiate coverage with a SELL rating and TP of Rs86. (India Business DCF-based: Rs77 & Indonesia Business M.Cap/Sales 0.5x: Rs9) (Implying 15.9x EV/EBIDTA FY25E). Key risks to our call are delays in store expansion plans and increased competitive intensity in north and south markets.

### Financial and valuation summary

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Revenues | 4,926 | 9,396 | 14,949 | 19,058 | 23,713 |
| EBITDA | 150 | 902 | 1,732 | 2,782 | 3,684 |
| EBITDA margin (%) | 3.0 | 9.6 | 11.6 | 14.6 | 15.5 |
| Adj. Net profit | (1,662) | (930) | (577) | (272) | 19 |
| Adj. EPS (Rs) | (5.4) | (2.3) | (1.2) | (0.5) | 0.0 |
| EPS growth (%) | 106.2 | (56.6) | (49.8) | (52.9) | nm |
| PE (x) | nm | nm | nm | nm | 2,439 |
| EV/EBITDA (x) | 385.9 | 65.4 | 33.7 | 21.2 | 15.9 |
| PBV (x) | 4.3 | 1.9 | 2.5 | 2.5 | 2.5 |
| RoE (%) | (35.0) | (7.1) | (3.0) | (1.4) | 0.1 |
| RoCE (%) | (14.7) | (1.9) | 1.4 | 4.8 | 3.7 |

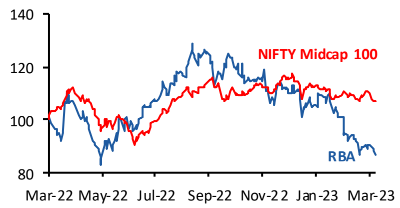
Source: Company, Centrum Broking

### Market Data

| | |
|---|---|
| Bloomberg: | RBA IN |
| 52 week H/L: | 138/87 |
| Market cap: | Rs45.7bn |
| Shares Outstanding: | 494.5mn |
| Free float: | 46.3% |
| Avg. daily vol. 3mth: | 634,850 |

Source: Bloomberg

### RBA relative to Nifty Midcap 100




Source: Bloomberg

### Shareholding pattern

| | Dec-22 | Sep-22 | Jun-22 | Mar-22 |
|---|---|---|---|---|
| Promoter | 40.8 | 40.9 | 40.9 | 41.0 |
| FIIs | 27.8 | 28.2 | 27.1 | 28.8 |
| DIIs | 9.8 | 9.1 | 8.9 | 7.7 |
| Public/other | 21.6 | 21.9 | 23.1 | 22.6 |

Source: BSE

QSR

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# Thesis Snapshot

## Centrum vs. consensus

| YE Mar (Rs mn) | Centrum FY23E | Consensus FY23E | Variance (%) | Centrum FY24E | Consensus FY24E | Variance (%) |
|---|---|---|---|---|---|---|
| Revenue | 14,949 | 15,714 | (4.9) | 19,057 | 19,042 | 0.1 |
| EBITDA | 1,732 | 1,460 | 18.6 | 2,782 | 2,795 | (0.4) |
| EBITDA margin % | 11.6 | 9.3 | 230bp | 14.6 | 14.7 | (8bp) |
| Adj. PAT | (577) | (1234) | (53.3) | (272) | (439.8) | (38.2) |
| Diluted EPS (Rs) | (1.2) | (2.2) | (47.5) | (0.5) | (0.6) | (3.6) |

Source: Bloomberg, Centrum Broking

## Restaurant Brands Asia versus NIFTY Midcap 100

| | 1m | 6m | 1 year |
|---|---|---|---|
| RBA IN | (6.6) | (22.6) | (11.4) |
| NIFTY Midcap 100 | (1.8) | (4.5) | 3.8 |

Source: Bloomberg, NSE

## Key assumptions

| YE Mar | FY23E | FY24E |
|---|---|---|
| No. of store | 390 | 470 |
| SSG | 22 | 10 |
| Gross Margin% | 67.0 | 68.9 |
| Store Margin (%) (Pre-INDAS) | 8.5 | 11.5 |
| Store Margin (%) (Post-INDAS) | 17.0 | 20.0 |
| EBITDA (%) (Pre-INDAS) | 3.1 | 6.1 |
| EBITDA (%) (Post-INDAS) | 11.6 | 14.6 |

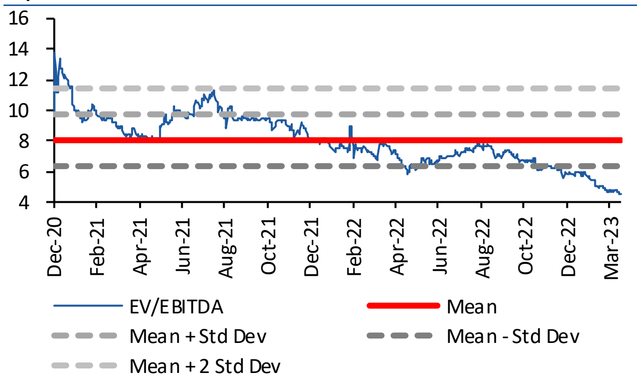
Source: Centrum Broking

## Valuations

We have built revenue/EBITDA CAGR of 25.9%/45.8% over FY23-25E. Over three years, we expect store EBITDA margin to inch up to 20.9% (+470bps) on post-INDAS and RoE/RoCE to inch up 0.1%/3.7% in FY25E. However, given its growth aspirations RBA commands higher EV/EBITDA multiple to JUBI on pre-INDAS, which we believe premium valuation is unfair and doubt on margin of safety. We initiate coverage with a SELL rating and TP of Rs86. (India Business DCF-based: Rs77; Indonesia Business M.Cap/Sales 0.5x: Rs9). Key risks to our call are delays in store expansion plans and increased competitive intensity in north and south markets.

| Valuations | Rs/share |
|---|---|
| SOTP-based target price (Rs) | 86 |
| WACC (%) | 14.3 |
| Terminal growth (%) | 4.5 |
| DCF-based Burger King India (Rs) | 77 |
| Indonesia Business (Rs) | 9 |

EV/EBITDA mean and standard deviation




Source: Bloomberg

## Peer comparison

| Company | Mkt Cap | CAGR (FY23-25E) | | | EV/EBITDA(x) Pre-INDAS | | | EV/EBITDA (x) - Post | | | RoE(%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (Rs Bn) | Sales | EBITDA | EPS | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Jubilant Foods | 282.4 | 14.9 | 19.3 | 24.6 | 35.4 | 29.2 | 23.8 | 24.4 | 20.3 | 16.6 | 19.9 | 22.1 | 22.2 |
| Devyani International | 174.7 | 22.1 | 23.4 | 15.1 | 37.9 | 27.4 | 21.9 | 23.7 | 18.1 | 14.8 | 32.0 | 28.9 | 24.0 |
| Westlife Foodworld | 106.8 | 16.9 | 20.4 | 33.2 | 39.3 | 32.4 | 26.4 | 30.0 | 25.0 | 20.5 | 24.0 | 25.4 | 26.7 |
| Sapphire Foods | 75.9 | 19.1 | 20.6 | 21.2 | 26.1 | 20.1 | 16.0 | 16.3 | 12.6 | 10.2 | 11.1 | 12.2 | 12.8 |
| **RBA** | **46.0** | **25.9** | **45.8** | **NA** | **126.7** | **50.9** | **35.2** | **33.7** | **21.2** | **15.9** | **-3.0** | **-1.4** | **0.1** |

Source: Company, Centrum Broking

# Proven track record for store expansion

## Restaurant Brands Asia holds long term prospects

**Target to open 700 restaurants by Dec'26**

- Pace of store expansion to remain elevated
- Higher proportion of mall stores could drive outperformance in short-to-medium term
- BK Café holds strong potential

Restaurant Brands Asia (Burger King) has set a target to open 700 stores by Dec'26 (Q3FY23 - 379) which implies ~75-80 stores every year from now. While we do not doubt RBA's ability as it has a solid business development team behind, such rapid store expansion raises questions on execution and management bandwidth to balance profitability. Our detailed analysis of unit economics suggests that a Burger King store in India holds potential to reach >15% EBITDA margins on pre-INDAS, however we are unsure if it could translate into healthy company EBITDA margins. Further, its attempt to expand menu offerings through BK Café is yet to show up in higher ADS per store. Drawing parallels from McDonald's performance we expect RBA to deliver Rs36.0mn revenue per store per year, yet slower growth in margins given rising competitive intensity in chicken QSR space. We expect addition of new business Popeyes in Indonesia would deliver calibrated profitability.

Aggressive store expansion to ensure 700 stores by Dec'26

The management of Restaurant Brands Asia has set out an ambitious target to reach 700 stores by Dec'26 from 379 at the end of Q3FY23. This looks forceful especially in the context when most of the QSR players have shown their willingness to double the store count in next 3-4 years. While WLDL has been in operation over 25 years in India (west and south regions) in its recent annual investor forum confirmed that it is targeting to open ~300 stores by 2027 reaching the store count to 580-630 (341 end Dec'22), we argue desperation shown by RBA is bit aggressive. We do not question RBA's capability but the majority of value accretion would pivot on perfect execution of store expansion in our view. Nonetheless, given the high cost of setting up stores, a significant failure in this aspect could lead to cash burn or sometimes delayed cash breakeven and also carry adverse impact on the company's profitability and funding needs.

We analyze these aspects which could help us in defining company's future profitability and funding requirements.

### Pace of store expansion to remain elevated

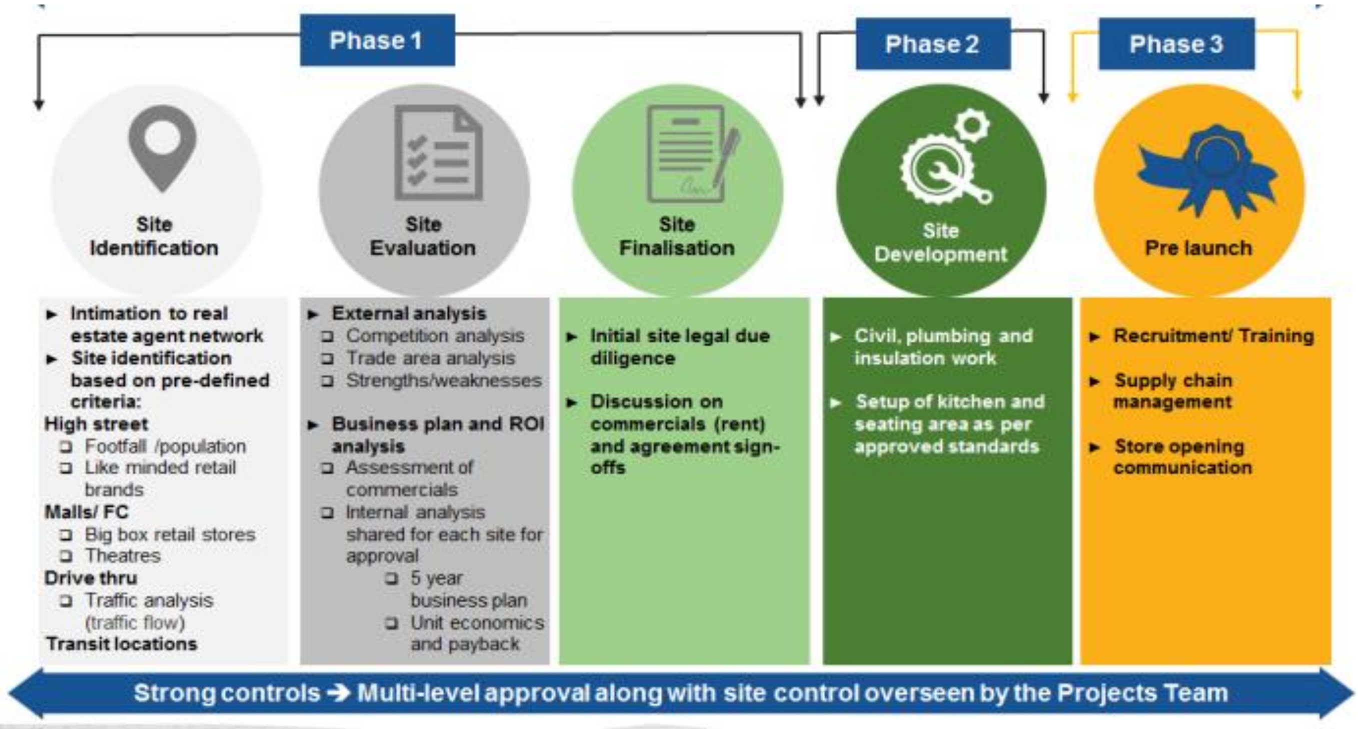
As per company filings, RBA has a clause in its Master Franchise agreement that it is essential for the company to achieve a target of 700 stores in India by Dec'26. While we find this clause to be a little confusing, we have not seen similar clauses with established companies like Jubilant Foodworks, Westlife Foodworld or even with Yum! Brands Franchisee partners. We note given aggressive store expansion target, it could result in some wrong decisions and on account of higher store closure there could be more cost burn and restructuring pains.

Considering McDonald's and KFC as an immediate competition to Burger King, and that both have existed in India for over two decades with current store network at ~535 (McD) and 786 (KFC) stores, we note Burger King will need to really catch-up. Hence, we believe the pace of store expansion for the company to remain elevated. Further, more physical store network registers brand recall and also helps the company to scale up delivery eco-system.

Therefore, we expect the pace of current store expansion target would place Burger King closer to or at par with McDonald's and KFC in next five years. Further, bigger scale of operation would also drive efficiencies of scale and earn better returns on brand investments. Therefore, rapid store expansion could turn out to be the right strategy for Burger King.

More importantly, till date Burger King has added 127 new stores since Q1FY22 and closed13 stores on account of business volatility and decreased footfalls as well as non-fulfillment of obligations by the landlord. That indicates company's business development and operations team hold solid understanding and knowledge of operational dynamics with financial metrics. Thus, historical performance on store openings remains creditable, especially Burger King opened 379 stores till date since FY15.

**Exhibit 349: Robust process for store rollout**




Source: Company, Centrum Broking

RBA follows three stage process for new restaurant openings wherein phase-1 focuses on site identification (location preference like High Street, Shopping Malls and Drive-thru). In Phase-2 it focuses on site development which is managed by experienced development teams and in Phase-3 it mainly work on pre-launch where before launching new restaurant, management recruits employees, and commences supply chain requirements.

Besides this, it is vital to recognise that even McDonald's and KFC would have store networks similar to that of Burger King in next five years, which clearly indicates there should not be any issue around catchment or availability of location for them. Moreover, even WLDL aims to launch 35-40 stores every year in South and West India, hence target set by RBA appears to be reasonable for opening ~40 stores per year. We believe RBA can maintain a fast pace of store expansion over the next 5-7 years without witnessing many store failures.

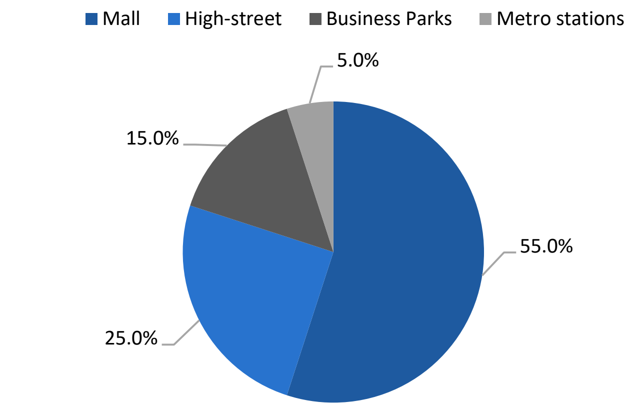
### Higher proportion of mall stores could drive outperformance in short-to-medium term

Higher presence in mall to drive growth in footfalls for Burger King

We note RBA's store performance in India has been disappointing in recent times (Covid period) due to significant impact on dine-in business. Moreover, if we consider the performance to WLDL, we perceive that same-store-sales decline is higher for RBA driven by relatively newer stores profile. We believe RBA's decline was attributable to higher proportion of stores in malls (55% stores located in malls) which were significantly impacted due to several reasons such as longer shutdown of stores, relatively lower footfalls despite opening up of malls gradually, lower pace of movie releases, etc.

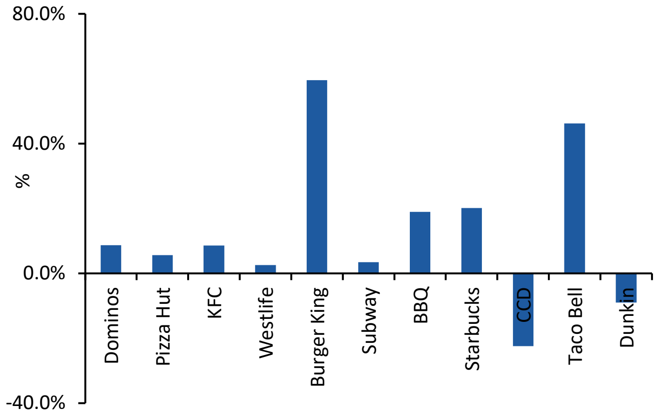
That said, mall stores drive large traffic/footfalls driven by entertainment zones and higher proportion of mall stores levied higher risk to revenues during Covid period.

**Exhibit 350: High Street Malls have bigger pie in portfolio**



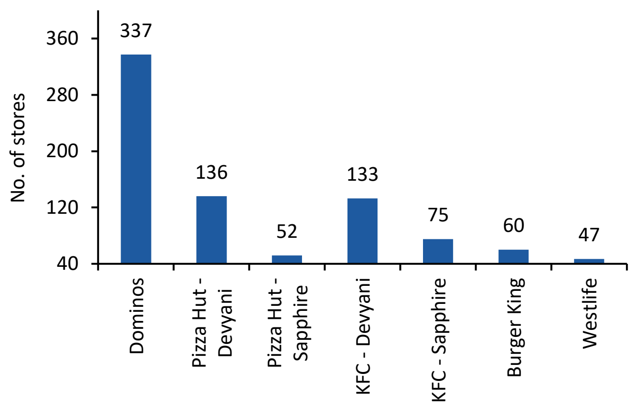

Source: Company, Centrum Broking

**Exhibit 351: Highest store expansion CAGR 58% b/w FY15-22**



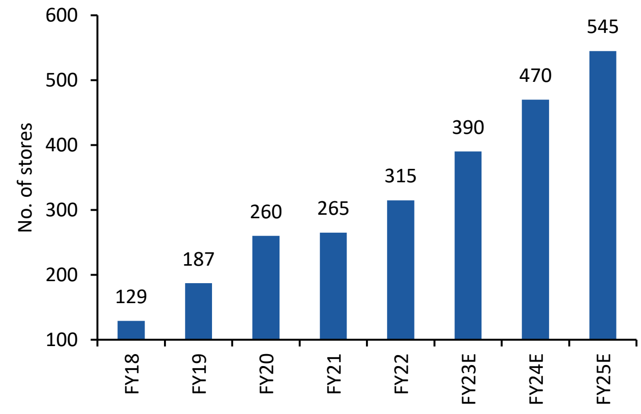

Source: Company, Centrum Broking

**Exhibit 352: Within quick span of time RBA covers 50+ cities**




Source: Company, Centrum Broking

**Exhibit 353: Pace of store expansion to remain elevated**




Source: Company, Centrum Broking

Burger king follows a cluster based approach and continues to use it to achieve an optimal mix across different types of restaurant formats. It has 6 clusters (Punjab & Haryana; NCR, UP & Rajasthan; Gujarat, Mumbai & Pune; Bangalore, Chennai & Kerala; and Kolkata & Odisha;) where north has large number of stores followed by west, south and east. We believe, this approach would help them in supply chain efficiency led by close proximity of restaurants from distribution centres.

# Key Differentiator - Value proposition

## Burger King offers value proposition to millennials

**Price laddering strategy works to attract customers**

- Burger King attracts millennials due to its value proposition
- Burger King follows price laddering strategy – Stunner-Whopper-King's Collection
- Incremental focus on driving Combo sales
- BK Café holds strong potential
- BK Indonesia to grow gradually
- RBA acquired rights to operate Popeyes in Indonesia

Burger King offers lowest price point for entry point Burger

RBA is positioned as value-focused player attracting millennials (TG 15-40 years), and young and busy professionals. Hence, Burger King follows a concentrated strategy which means concentrate on serving many needs of a particular customer group. While this TG has incrementally become more health conscious, they look for cheaper-healthy-food. Hence, the company deliberately and with efforts, ensured a strong presence in value segment starting Stunner priced at Rs50. We believe it will continue to focus on value, while communicating to consumers about its premium range of Whopper and King's Collection. Thus, we like its price-laddering strategy as target customers perceive the higher levels to be better in terms of quality/price ratio, because they are offered improved product features or more products for a lower price. This cognitive bias, aligned with the decoy effect, will make customers more willing to pay a larger sum of money.

Burger King positioned itself as millennials' brand to target its offering for growing millennials population. India is blessed with demographic dividend, with a large population below 35 years of age. In 2022 the median age stood at 28.7 years in India compared to 37 years in China and 38.1 years in the US. The modern consumer market, which includes millennials and generation-Z are well travelled, brand conscious and have power of higher discretionary spending along with less dependency (higher working-age population). In addition, India is the largest urban population in the world after China, with an urban population of 498mn as on FY21 which would reach 675mn by FY35E. Millennials dine out twice in a month on an average and management believe this trend is going to improve including in Tier-2 cities. To connect with the youth target, management used IPL for #Meme premier league and it has been successful and garnered over 15mn reach & impressions. Growing prosperity in non-metropolitan areas is fuelling consumption across categories including QSR along with growing middle class (increase in nuclear family) leading to a boost in discretionary spending.

Indian customers are very cost conscious and have always found appeal in combos as well as value meals with a discount ranging from 10% to 25% which led QSR companies in India to design offers to drive transaction size and ordering frequency. Despite a premium international brand, Burger King has positioned itself as value-for-money brand for Indian customers, which includes across different menu options across day parts like burgers, wraps, beverages, shakes and sides. It always focuses on 'value leadership' strategy which led to offer 'Stunner Menu' and 'King Deals'. In Stunner menu it has burgers and wraps with an attractive price of Rs50, 70 & 90 whereas in King deals it offers Free crispy chicken double patty/peri peri fries/chocolate thick shake with minimum order value of Rs229/329/399, respectively as well as combo offers. Burger King also created a wide entry level menu across burgers, wraps, rice, sides and drinks under Rs100. Further, management has extended offers in their premium 'Whopper' brand (Whopper is priced twice as high as the regular non-vegetarian burgers) like Veg/Chicken Whopper at Rs139/149, respectively to drive footfalls in the restaurants.

**Exhibit 354: Price laddering strategy adopted by Burger King**


Source: Company, Centrum Broking

**Exhibit 355: Stunner menu @Rs50**


Source: Company, Centrum Broking

**Exhibit 356: Stunner menu @Rs70**


Source: Company, Centrum Broking

**Exhibit 357: King Deals – Free products based on billing amount**


Source: Company, Centrum Broking

**Exhibit 358: King Deals – Flat Rs80 off over Rs249**


Source: Company, Centrum Broking

**Exhibit 359: King Deals – Flat 50% off over Rs199**


Source: Company, Centrum Broking

Burger King recently relaunched the King's collection with a range of vegetarian and chicken burgers priced at Rs199. It's based on premium ingredients like soft slab of paneer, real cheese blended with Indian spices and served with new masala bun. The Whopper (priced twice as high as the regular non-vegetarian burgers) is the signature hamburger, seven-layer extra crunchy veg/non-veg grilled and offers gourmet burger experience to Indian guests.

**Exhibit 360: King's collection@Rs199**


Source: Company, Centrum Broking

**Exhibit 361: Twisted Whopper – Newly launched**


Source: Company, Centrum Broking

**Exhibit 362: Burger King provides better combo offers compared to other counterparts**

| Brand | Product | Combo Price (Rs) | Disc. (Rs) |
|---|---|---|---|
| McDonald's (Veg -McAloo Tikki + Medium Cola + Medium fries) | C:58; B:89 & S:109 | 205 | 50 |
| Burger King (King Egg Burger + Cola + Regular Fries) | C:70; B:89 & S:105 | 219 | 45 |
| Jumbo King (Burger +Fries + Coke) | C:119; B:60 & S:99 | 267 | 11 |
| KFC (Chicken Burger + Fries +Coke) | C:190; B:57 & S:120 | 345 | 22 |
| Burger Singh (Veg Snacker + Fries+ Coke) | C:99; B:75 & S:70 | 219 | 25 |

Source: Company, Centrum Broking (C-core product, B- beverage, S- sides)

Besides that, it has wide variety of veg & non-veg in value and premium range which allows customers better options to choose. By looking at the veg culture preference in India, it has separated the cooking and preparation of veg, egg and non-veg meals in kitchens to build trust with customers. Further, we believe Burger King has expertise on flame grilling of various burgers including non-veg Whopper and Chicken Tandoor Grill which are not offered by peers.

**Exhibit 363: Sober Whopper – Newly Launched**


Source: Company, Centrum Broking

**Exhibit 364: Meme premier league – Target millennials**


Source: Company, Centrum Broking

**Exhibit 365: Burger King provides lowest prices – entry point SKUs on core portfolio**

| Brand | Option | Menu | Price (Rs) |
|---|---|---|---|
| Burger King | Veg | Stunner | 50 |
| | Non-Veg | King Egg/Crispy Chicken Burger | 70 |
| | Sides | Medium Fries | 105 |
| | Liquid | Pepsi | 89 |
| KFC | Veg | Veg Zinger | 179 |
| | Non-Veg | Chicken Burger | 190 |
| | Sides | Medium Fries | 99 |
| | Liquid | Pepsi | 57 |
| McD | Veg | Aloo Tikki | 58 |
| | Non-Veg | Chicken Kebab | 105 |
| | Sides | Medium Fries | 109 |
| | Liquid | Coke | 90 |

Source: Company, Centrum Broking

## BK Café hold strong potential

BK Café has potential to increase AUV similar to McDonald's McCafe

In Q4FY22, RBA announced that it expects to tap into high growth Café industry. As per Industry estimates, Café industry is pegged at Rs24.0bn annually. We note BK Café as a concept is similar to that of McCafé (McDonald's Café). This provides an incremental opportunity for RBA both in terms of driving additional revenues from Café segment and support margin expansion as overall gross margins of beverages is expected to be higher than food products in India. Our interaction with industry experts indicates the tea and Coffee retail store segment is expected to grow at a CAGR 15-17% over 2020-25E period. We note increasing the average transaction price will drive future value growth as key players focus on quality and menu innovation, while price is outcome of quality and location of store.

### Scale for BK Café in India, tracking well, earlier than guided

The current track record indicates that RBA is on track to achieve the guidance opening of 75 BK Cafés by Mar'23. Further, it has also introduced sweet and savoury food products along with hot and cold beverages as a part of BK Café. Notably, management has guided the capex of setting up a coffee kiosk within an existing store is low at Rs2.5-3m, and it offers multiple benefits such as driving store overall ADS. More importantly, we note coffee and core products do not cannibalize, rather complement each other raising transaction size. Further, product prices for coffee command premium to the entry-level portfolio, resulting in a better realization for the company. Therefore, we believe introduction of coffee would help company in driving SSSG through both volumes and realization improvement. In addition, as per our understanding, coffee segment derives higher gross margin at 70-75%, thereby being accretive to the company-level gross margin of 65-66%, therefore higher capacity utilisation (especially evening time) would consequently drive operating margin for RBA.

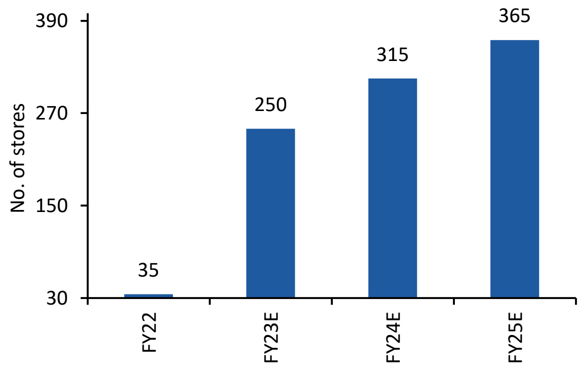
**Exhibit 366: BK Café – Menu (Breakfast Portfolio)**


Source: Company, Centrum Broking

**Exhibit 367: BK Café –Breakfast Portfolio continued…**


Source: Company, Centrum Broking

**Exhibit 368: BK Café – Doubled footprint**




Source: Company, Centrum Broking

**Exhibit 369: BK Café – Marketing campaign to drive footfall**


Source: Company, Centrum Broking

## Case study of McCafé

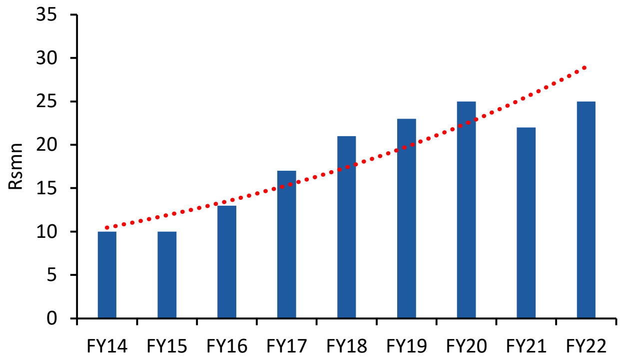
McDonald's enjoys leadership position and is known for a leading global Omni-channel restaurant brand. Under the new strategy which included a refreshed purpose to feed and foster the communities, McDonald's and its franchisees serve around the world, updated values that guide actions and behaviours, and growth pillars that build on McDonald's competitive advantages.

The growth pillars showcased by McDonald's, which are deep rooted in the company's identity, as McDonald's build on its historic strengths and articulated areas of further opportunity. Specifically, the company will animate McDonald's in the following ways:

- Maximize marketing by investing in new, culturally relevant approaches to effectively communicate the story of brand, food and purpose.
- Commit to the core by tapping into customer demand for the familiar and focusing on serving burgers, chicken and coffee.
- Double Down on the 3D's (Digital, Delivery and Drive-Thru) by leveraging competitive strengths and building a powerful digital experience growth engine that provides a fast, easy experience for the customers.

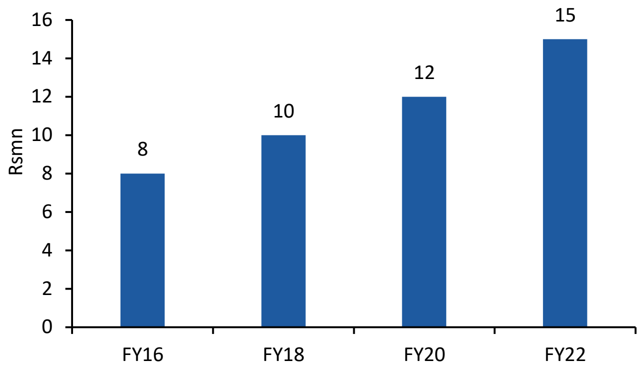
In line with this thought WLDL launched first McCafé in FY14 with similar aspirations to accelerate growth and expand margins. WLDL currently has 288 McCafé covering around 84% of its existing store footprint of 341 stores as on Dec'22. The past data indicates McCafé has been one of the key drivers of growth for per store sales of WLDL. We also note McCafé witnessed strong acceptance from McDonald's existing consumers driving higher contribution and higher growth over the years. McCafé contributes 20-25% of store sales in our view.

**Exhibit 370: McCafe AUV grew 2.5x over 9 years**




Source: Company, Centrum Broking

**Exhibit 371: McCafe AUV doubled from Rs5-8mn in FY16**




Source: Company, Centrum Broking

## Acquisition of BK Indonesia

RBA acquired 83.24% stake in PT Sari Burger Indonesia (Burger King Indonesia, BKI) from QSR Indoburger (66.48%) and PT Mitra Adiperkasa (16.76%). It also infused USD 40.0mn in Burger King Indonesia (BKI), thereby raising its stake to 88.61% (valued at USD 183.0mn). BKI has set a target to add 330 stores by CY26. As of Dec'22, it holds 252 stores in operation. We note the capex is likely to be funded through equity and internal accruals.

India and Indonesia follows similar demographic along with higher non veg population

The strategy for Indonesia is largely driven by (1) recovery in footfalls, (2) store additions, and (3) addition of BK Café. The company targets improvement in post-INDAS EBITDA margin taking it to ~20% in FY24E led by (1) gross margin expansion due to a shift towards chicken products from a portfolio that has much higher proportion lower-margin beef products, (2) BK Café addition, (3) normalization of A&P spends, and (4) cost saving initiatives including synergies with India business.

In Q3FY23, Indonesia businesses reported flat revenues with EBITDA loss (Post-INDAS 116) of IDR34.3bn vs. loss of IDR31.8bn in 2QFY23. Management said despite flat revenues due to the launch of three Popeyes restaurants the loss of IDR12bn was booked. Gross margin contracted sequentially due to higher discounting on value menu ('Gokil') but withdrawal of discounts is expected to recover GM going ahead as per the management.

Company has recently appointed Mr.Sandeep Dey, Brand President of Popeyes Indonesia business, who will now lead both the Indonesia businesses after the exit of Mr. Vaibhav Punj in Dec'22. As per the management, it is confident of pre-INDAS EBITDA break-even in FY2024E.

**BK Indonesia expects to follow a four-pronged strategy led by…**

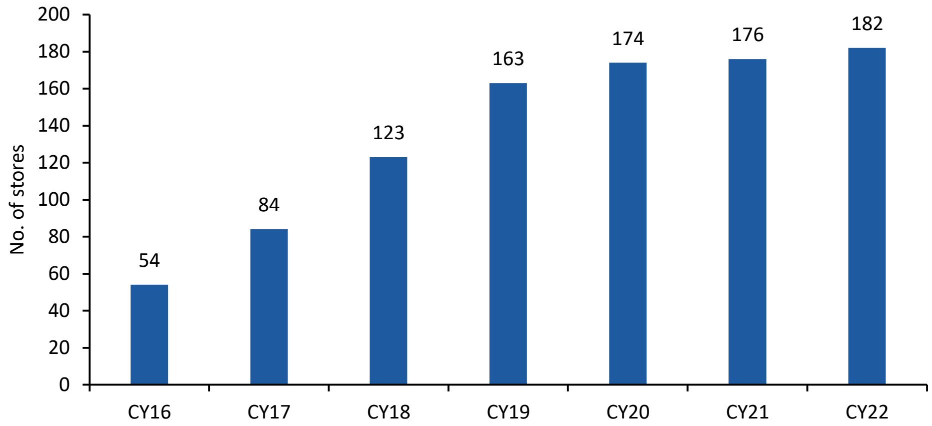
(1) Build whopper franchise by optimizing existing products and new limited-time offerings, products are ready/tested and now moving into the restaurants.

(2) Strengthen chicken salience for BKI which is at 30% versus 60-70% for the industry due to a portfolio gap. Business is now launching spicy bone-in-chicken (BIK) to complement its classic BIK offering (key competitors are selling both these products).

(3) Build the premium layer by launching the King's collection starting April 2023.

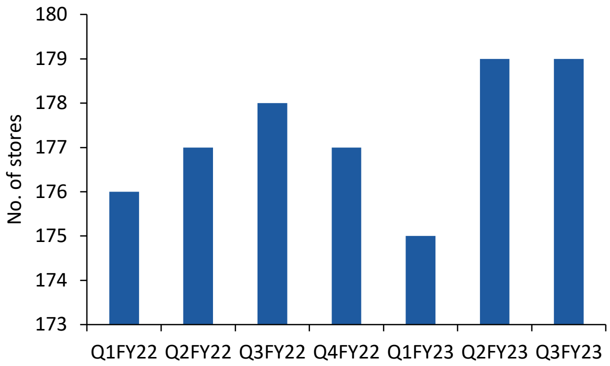
(4) Indonesia's market has considerable focus on Free Standing Drive Thru (FSDT) format stores that have better unit economics rationalizing existing mall store portfolio while improving FSDT mix. Given the subdued ADS performance, the business is unlikely to see any major net store additions in the next 12 months.

**Exhibit 372: BK Indonesia store expansion trend**



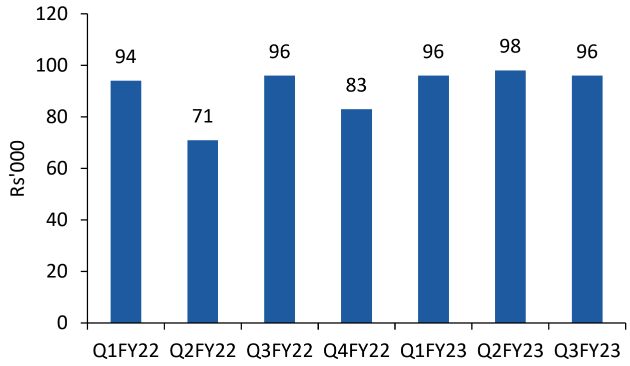

Source: Company, Centrum Broking

**Exhibit 373: BK Indonesia store trend**



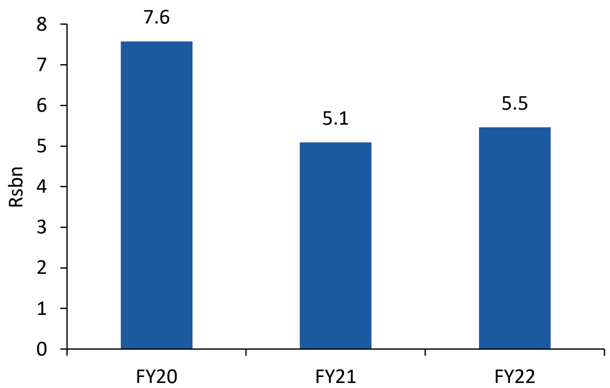

Source: Company, Centrum Broking

**Exhibit 374: BK Indonesia ADS trend**



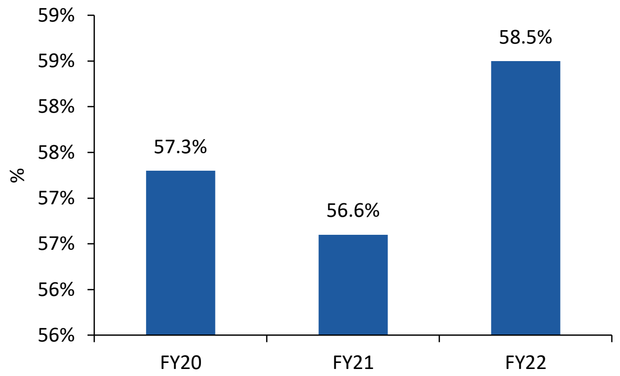

Source: Company, Centrum Broking

**Exhibit 375: BK Indonesia revenue trend**




Source: Company, Centrum Broking

**Exhibit 376: BK Indonesia Gross Margin trend**




Source: Company, Centrum Broking

**Exhibit 377: BK Indonesia key metrics**

| | CY16 | CY17 | CY18 | CY19 | CY20 | CY21 |
|---|---|---|---|---|---|---|
| No of stores | 54 | 84 | 123 | 163 | 174 | 178 |
| Store addition (net) | | 30 | 39 | 40 | 11 | 4 |
| Sales (Rsbn) | 2.1 | 3.2 | 5.0 | 7.5 | 5.8 | 5.5 |
| YoY growth (%) | | 52.4 | 56.3 | 50.0 | -22.7 | -5.2 |
| Sales per store (Rsmn) | 38.9 | 46.7 | 47.8 | 52.4 | 34.3 | 30.9 |
| ADS (Rs'000) | 106.6 | 127.9 | 131.0 | 135.0 | 83.0 | 96.0 |
| Gross profit (Rsbn) | 1.2 | 1.9 | 2.9 | 4.3 | 3.4 | 3.2 |
| Gross margin (%) | 57.1 | 59.4 | 57.3 | 56.6 | 58.5 | 58.5 |
| EBITDA (post-IFRS 16) | 0.15 | 0.30 | 0.55 | 0.89 | 0.35 | 0.25 |
| EBITDA margin (%) | 7.2 | 9.4 | 11.0 | 11.9 | 6.0 | 4.6 |

Source: Company, Centrum Broking

## Popeyes launch in Indonesia

Management targets Day-Parts strategy & chicken based portfolio for Indonesia

On December 29, 2022, Burger King India entered Indonesia market with launch of Popeyes. As per management, this was one of the best launches for Popeyes globally. Further, it sets a global record for strongest opening day for a new country entry with 1k+ transactions. The company launched four stores (December 29-30-31, 2022 and January 2, 2023) and first month average ADS for these four stores was over IDR60.0mn (~Rs328k, >3X that of current BK Indonesia ADS).

We note the company is also piloting few BK + Popeyes stores in Indonesia and seeing positive early results. RBA is planning to open 30 Popeyes stores by March 2024. The company claims core product scores 11% higher than competing products.

**Exhibit 378: Key trends of Burger King Indonesia Business**


Source: Company, Centrum Broking

# Operating leverage led by scale and menu

## Burger King delivers comparable per-store metrics

### We expect 490bp improvement in EBITDA margin

- Revenue per store expected to rise faster
- Gross margins to improve given strong operating leverage
- Store pay-back period to cut to 3-4 years
- Benefits derived from ColdEx to continue

Lowest store EBITDA across peers due to higher opex

RBA's profitability metrics trail the industry leaders, hence it is important to comprehend the store-level profitability. We note maximum investments would be incurred by RBA into opening stores, and this would drive the revenues for the company. However, management indicated with scale of operation, operating leverage should influence margins positively. That said, it is obvious the fast-pace of store expansion may impact EBIT as a new store takes three years to breakeven in our view. Therefore, it is important to look at factors such as per store revenue and store gross margin.

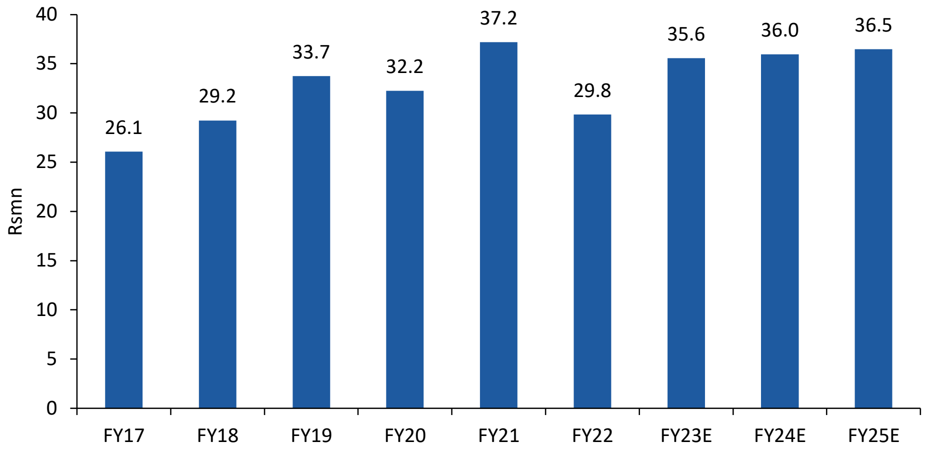
### Revenue per store expected to rise faster

Over the past few years, RBA has put in more efforts to create relevant menu to drive customer footfalls. It follows similar price laddering strategy that of McDonalds' in India i.e., offering entry price products at Rs50 and taking King's menu upwards of Rs300. This is in contrast to its initial foray in India, when most menu offerings were priced higher than Rs100 and then the brand was positioned as premium to McDonald's. The creation of relevant menu offerings has helped the company shape up strong traction with consumers and has significantly increased brand recall.

We note beyond its enhanced offerings (value-for-money), RBA also has strong focus on consumer promotions to garner customer traffic to its stores. Our interaction with store managers indicates that its offer – 2 Veg. burgers priced at Rs69 and non-veg burgers priced at Rs89 saw strong consumer built up enhancing its image as value-burger. Industry experts opine such periodical doses of promotions help brand owners to generate new trials apart from existing impulse consumer base.

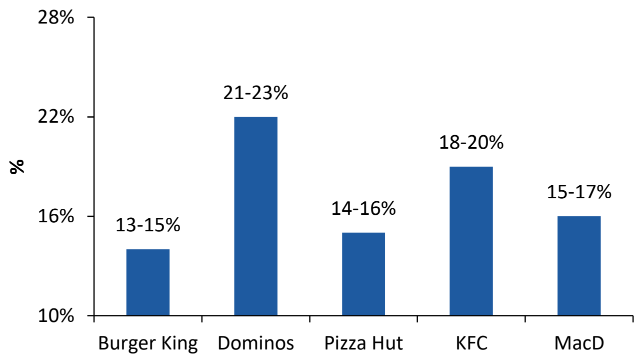
As per management, its grilled offerings could help the company to create menu differentiation compared to existing competitors which largely offer fried menu. Store staff said, Chicken Tandoor grill, which offers a flame grilled experience at a reasonable price has also seen higher consumer traction along with Whopper. Thus, we note RBA could report improved average revenue per store from Rs26.0mn in FY17 to Rs30.0mn in FY22, rather it is comparable with that of WLDL, which reported Rs45-50mn per store annually. While this true, we highlight two stark differences as WLDL in recent past added McCafe format which drives 20-22% store revenues and Burger King Stores are relatively young as compared to McDonald's.

**Exhibit 379: Revenue per store has been on upward trajectory**



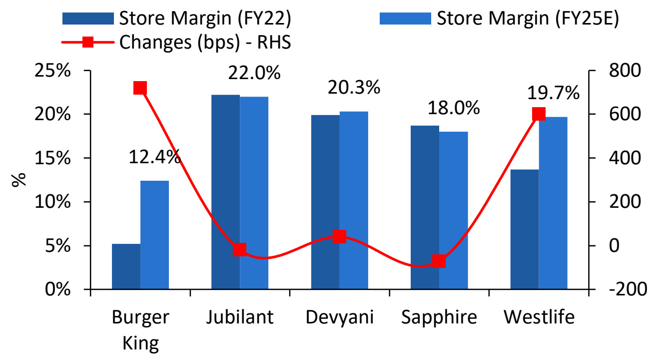

Source: Company, Centrum Broking

**Exhibit 380: BK delivers lowest store margins**




Source: Company, Centrum Broking

**Exhibit 381: Highest store margin expansion by FY25E**




Source: Company, Centrum Broking, EBITDA as on Pre Ind AS116 basis

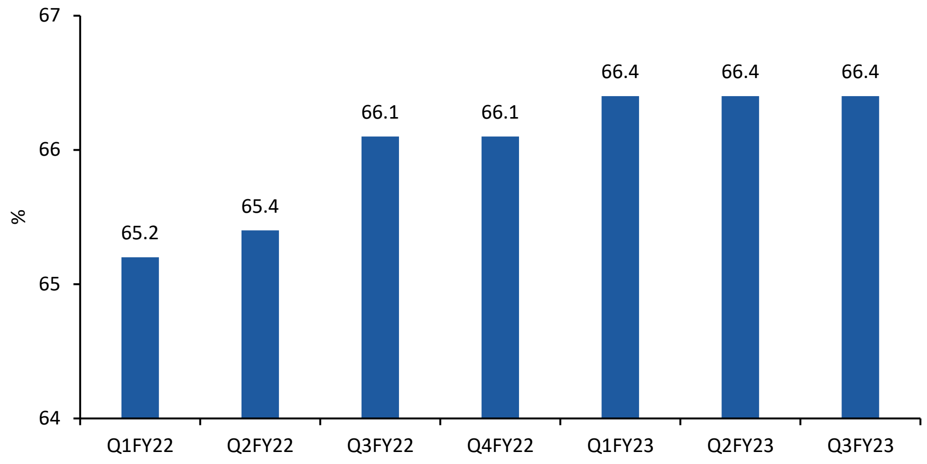
## Gross margin trend

Restaurant Brands Asia's financial data indicates that as the company scales up store expansion, its fixed costs are bloated by expenses incurred on store openings, hence it misrepresents store/profitability. On the other hand, when we look at gross margins, it is purely the function of volume and price stability. RBA has steadily increased gross margins despite its store spread beyond metro and Tier-2 towns largely driven by change in mix led by premium offerings. We checked RBA's gross margins steadily moved up from 59.9% in FY17 to 65.8% in FY22 almost ~590bp improvement in five years. We believe despite higher focus on value segment with lower-price options, RBA has been able to deliver healthy gross margin. That said, counting on price inflation impact of ~5% over last two years coupled with sourcing efficiencies, we expect RBA to maintain pace of gross margin expansion.

We expect 590bp improvement in next 5 years

RBA's management has guided for a gross margin of 66% in FY22 to reach to 68% in FY24E, which was previously based on the foods business (excluding BK Café) However, post introduction of BK Café the gross margins have moved up to ~66%, in line with guidance. Further, despite high commodity inflation, the company has not passed on the burden, that makes us believe there could be a case for increases in future. However, this could pose risk on its gross margin in the near term considering the high volatility in commodity prices to continue.

### Exhibit 382: Gross margin trend on Quarter basis




Source: Company, Centrum Broking

## Store payback period likely to get cut to 3-4 years

Management expects store payback to cut significantly

Though we rely on RBA's per store revenue and gross margin trend to be healthy, our in-depth study indicates that store-level profitability has improved significantly. Our on-ground interaction suggests that a new Burger King store in year-1 reaches to 68-70% of its peak revenue assumptions, while meets or exceeds an optimum level only in year-4. Hence, our implicit assumption indicates Burger King can achieve Rs42-45mn revenue. Therefore, we assume a new store could deliver 10-12% higher than the company average revenue per store. Further, as per our understanding, RBA incurs per store capital expenditure of ~28mn derived by Rs26.0mn actual capex and Rs2.0mn as royalty (estimate 5% rate). However, a large portion of capex is incurred on store equipment, civil and electrical fittings in our view.

### Exhibit 383: Burger King incurs Rs28mn capex per store

| Particulars | Cost (Rs.mn) |
|---|---|
| Equipment costs | 9.4 |
| Leasehold and other costs | 14.9 |
| IT infrastructure cost | 1.5 |
| Franchisee Fees | 2.2 |
| **Total cost** | **28.0** |

Source: Company, Centrum Broking

### Exhibit 384: 79% of Leasehold cost driven by civil and fitment

| Particulars | Cost (Rs.mn) |
|---|---|
| Civil interior, designing and plumbing | 7.8 |
| Electrical and lighting | 4.1 |
| Furniture | 0.6 |
| Signage | 1.3 |
| Pre-operation costs | 1.2 |
| Total cost | 15.0 |
| **Civil and fitment costs (%)** | **79.3** |

Source: Company, Centrum Broking

## Benefits derived from partnership with ColdEx

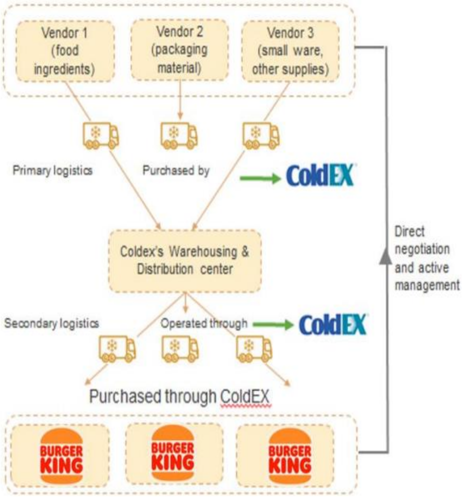
Partnership with ColdEx helps to control working capital

RBA undertook strategic initiative by partnering with ColdEx, that is managing the backend inventory for its distribution partner. Notably, all the product inventory received from the vendors are reflected (sitting) in the books of ColdEx. This helps and ensures an organisation like RBA to put in place checks that the stores do not order any more than what is required. As per management, by synchronising the ERP systems across the chain (stores to ColdEx to vendors), ColdEx has data on the demand patterns at each store and if there is any deviation, they can question the store. Further, ColdEx enjoys 22 days' credit from its vendors in our view.

Therefore, supply chain flexibility has been another driver for RBA to push strong margin performance. At the time of entry into India, RBA always had an option to approach existing vendors to QSR industry, but it could have ended up paying higher vs. current incumbents. Hence, RBA chose to partner with ColdEx rather than setting up most of its supply chain from scratch. RBA partnered with new companies like HyFun Foods (for patties and fries), ColdEx (for distribution), Veeba (for sauces), and in the process ensured strong margins. The master franchise agreement to reach 700 stores by Dec'26 gave the vendors confidence on order growth.

Further, the supply chain arrangement with ColdEx, would help to reduce its working capital requirements since the distributor buys from suppliers and holds the ingredients & packaging materials with itself until it delivers the product to the Burger King restaurants. Besides that, cluster based approach is largely helpful to reduce transport cost (one of the major cost items), which results in lower COGS.

**Exhibit 385: Supply Chain with ColdEx helps better working capital management**




Source: Company, Centrum Broking

## Continued investments in technology to improve customer experience

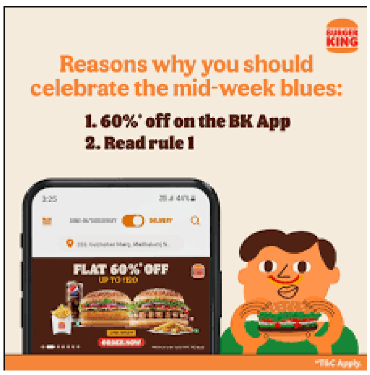
RBA is catching up on its digital journey and working on developing capabilities. Further, RBA re-launched its mobile app in 3QFY21; as per management, the new app was launched with improved features such as lighter size (25% reduction) and faster load time (50% reduction). Since then, RBA has constantly added features to improve customer experience. The notable additions are, (1) live rider tracking, (2) improving delivery efficiencies, (3) analytics stacks, (4) cohort-based campaigns, (5) social media logins, (6) new offer engine, (7) order cancellation, and (8) rider call activation.

Being late entrant in QSR, Burger King has highest exposure on 3rd party app

Under its Omni-channel strategy, RBA reported total app downloads as of Dec'22 at ~5.5mn, however, current number is significantly lower than peers such as Domino's (100mn) and McDonald's (25mn). Nevertheless, we believe this could be because RBA was late to launch in India as well as introduce its app versus competition. Further, in order to enhance customer experience, RBA is building its own delivery fleet for last-mile delivery. We note the current contribution of the app to delivery remains in single digit; the company has set a target to achieve one-third contribution of the orders in the medium term.

We believe RBA would benefit on account of higher contribution from its own app leading to (1) building capability to drive targeted promotions, (2) lower dependence on aggregator's app, (3) improve scope for analytics based on consumer transaction data vs. aggregators, and (4) improve customer engagement.

**Exhibit 386: RBA is building delivery fleet and also improving digital capabilities**


Source: Company, Centrum Broking

Largest shareholder BK Asia PE fund's exit could be the overhang for short term

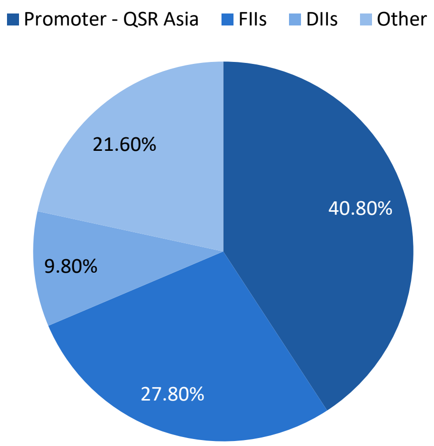
**Ownership in Restaurant Brands Asia**

Everstone capital through its investment vehicle QSR Asia Pte Ltd holds 40.8% stake in Restaurant Brands Asia.

As per company's DRHP, Everstone Capital Partners II, LLC and BK AsiaPac entered into a joint venture and investment agreement dated September 26, 2013 in relation to the setting up of our Promoter and its subsidiaries and to govern the development and operation of new Burger King restaurants in India in the manner set out in the Master Franchise and Development Agreement and the Company Franchise Agreement.

We believe, Everstone Capital may offload the Burger King stake which may pose risk for stock performance in the immediate future our view. However, several PE funds showed interest to buy the stake. Yet this event would have over hang in our view.

**Exhibit 387: Ownership of Sapphire Foods Mauritius Limited**




Source: Company, Centrum Broking

# Financials

- **Expect revenue/EBITDA CAGR of 25.9%/45.8% over FY23-25E**
- **Gross margin to remain range bound – expect 250bp improvement**

We estimate revenue/ EBITDA CAGR over FY23-25E of 25.9%/45.8% led by (1) steady scale of store addition of 545 by FY25E and 700 by Dec'26E, (2) measured growth in ADS India Burger King, (3) curated growth in stores in BK Indonesia, and (4) Popeyes store count to reach 50-55 by FY25E.

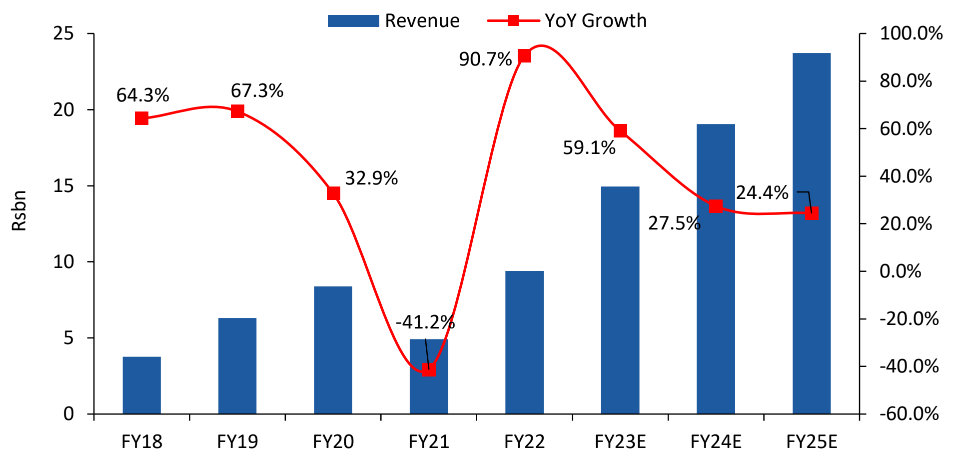
Highest margin expansion in QSR space, going forward

We note RBA is well-placed to deliver strong growth in India business driven by BK Café coupled with rapid scale up in BK India. Further, we acknowledge the efforts put in by RBA to improve delivery and takeaway channel saliency driven by Omni-channel strategy. In addition, we expect once vintage of stores become better, the mature stores should deliver strong growth in ADS.

We expect recent initiatives taken by the management could help deliver better store EBITDA led by (1) recovery in dine-in, (2) addition of BK Café, and (3) cost initiatives. Nonetheless, as more and more stores mature, the declining share of new stores could reduce drag on margins also operating leverage should kick-in. However, we are sanguine on Indonesia business which is likely to witness healthy revenue momentum and margin expansion FY24E onwards.

## Assumptions

**Exhibit 388: Revenue CAGR of 25.9% over FY23-25E**



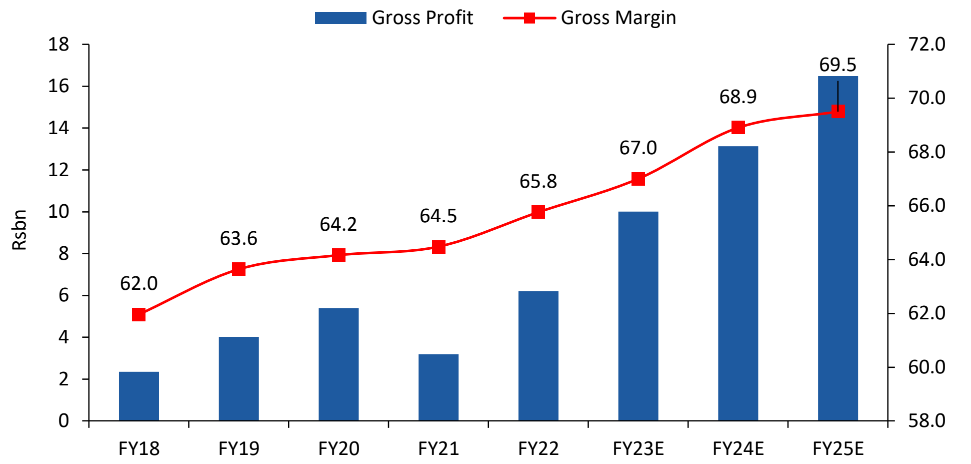

Source: Company, Centrum Broking

**Exhibit 389: Key assumptions**

| India – Burger King | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| Store | 187 | 260 | 265 | 315 | 390 | 470 | 545 |
| SSSG (%) | 29.2 | (0.3) | (48.2) | 70.0 | 22.0 | 10.0 | 9.0 |
| Sales (Rsbn) | 6.3 | 8.4 | 4.9 | 9.4 | 14.9 | 19.1 | 23.7 |
| ADS (000') | 98.0 | 60.0 | 85.0 | 102.2 | 122.6 | 128.8 | 135.2 |
| EBITDA (%) (Pre-INDAS) | 2.4 | 2.4 | (5.6) | (1.4) | 3.1 | 6.1 | 7.0 |
| EBITDA (%) (Post-INDAS) | 12.5 | 12.4 | 3.0 | 9.6 | 11.6 | 14.6 | 15.5 |

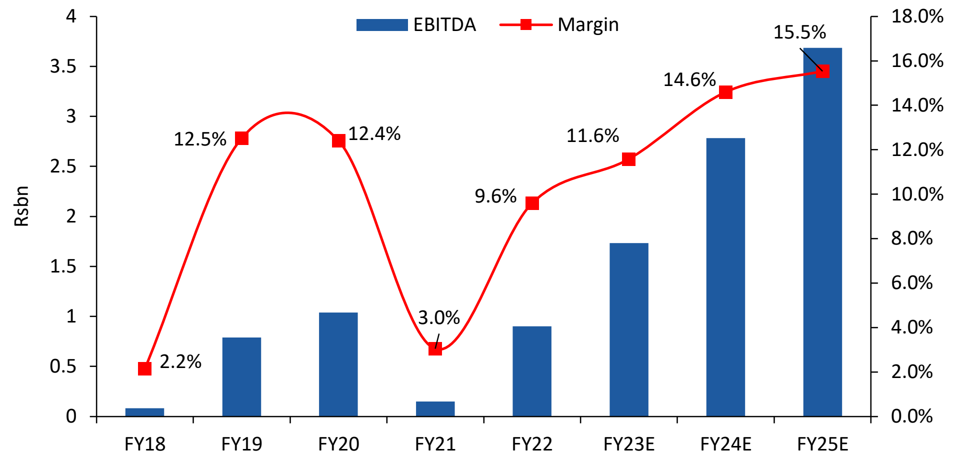
Source: Company, Centrum Broking

**Exhibit 390: Gross Profit CAGR 28.3% FY23-25E**



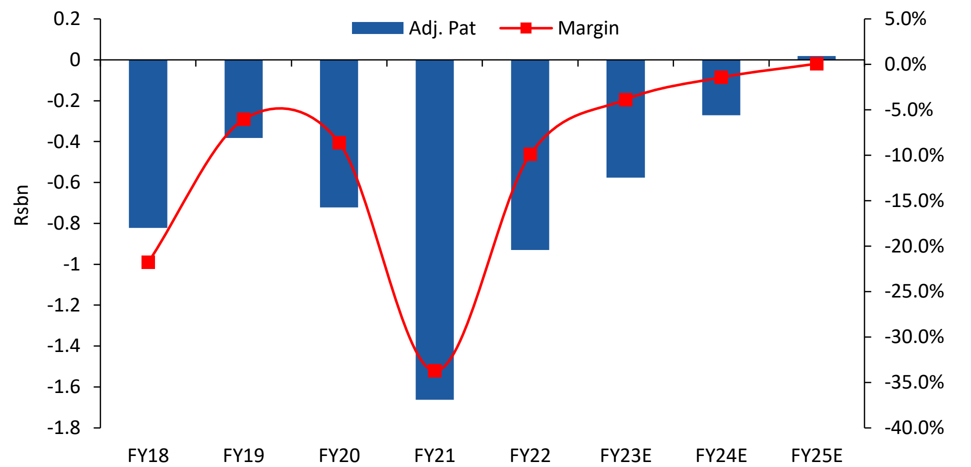

Source: Company, Centrum Broking

**Exhibit 391: EBITDA CAGR 45.8% over FY23-25E and EBITDA margin of 15.5%**




Source: Company, Centrum Broking

**Exhibit 392: PAT would turn positive only by FY25E**




Source: Company, Centrum Broking

# Valuations - dilemma for value hunters

- **Valuations are stretched**
- **Look for better entry price**

## Valuations are expensive but there is lot of promise

Despite lower margin, it trades higher EV/EBITDA (FY25) compared to DIL

We estimate revenue/ EBITDA CAGR over FY23-25E of 25.9%/45.8% led by (1) steady scale of store addition of 545 by FY25E and 700 by Dec'26E, (2) measured growth in ADS India Burger King, (3) curated growth in stores in BK Indonesia, and (4) Popeyes store count to reach 50-55 by FY25E.

We have used DCF valuation for India business and used Market cap to sales multiple for Indonesia. We initiate coverage on Restaurant Brands Asia with Sell rating and TP of Rs86 (implying EV/EBITDA 15.9x FY25E Post INDAS).

**Exhibit 393: SOTP Valuation Summary**

| SOTP | Basis | Assumption | | Price |
|---|---|---|---|---|
| Burger King - Standalone | DCF | WACC (%) | 14.3 | 77 |
| | | Terminal Growth (%) | 4.5 | |
| Indonesia | M.cap/Sales | X | 0.5 | 9 |
| **Total Value/Share** | | | | **86** |

Source: Company, Centrum Broking

**Exhibit 394: Indonesia Valuation**

| | FY23E | FY24E | FY25E |
|---|---|---|---|
| Indonesia Sales (Rsmn) | 6,208 | 7,594 | 8,296 |
| M. Cap to Sales | | | 0.5x |
| M. Cap | | | 4,148 |
| No. of share | | | 494 |
| **Price per Share** | | | **9** |

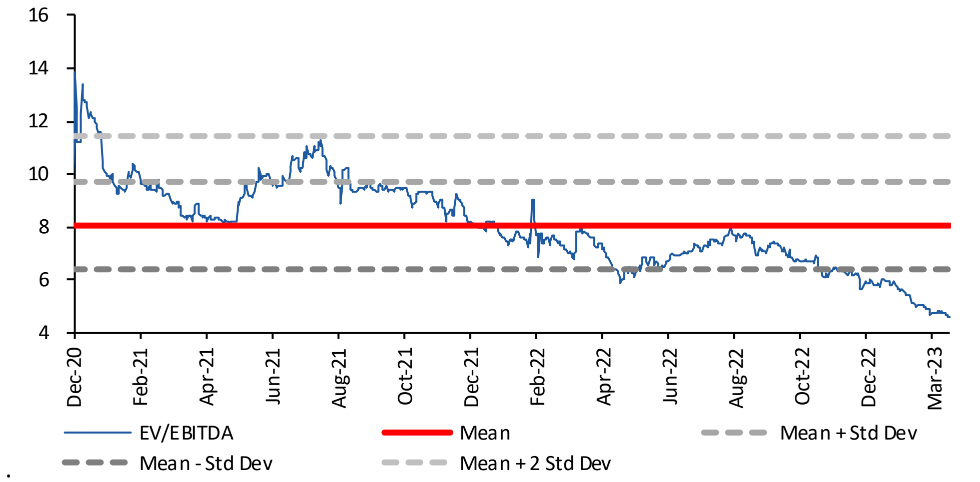
Source: Company, Centrum Broking

**Exhibit 395: RBA DCF assumptions**

| | FY23E | FY24E | FY25E | FY26E | FY27E | FY28E | FY29E | FY30E | FY31E | FY32E | FY33E | FY34E | FY35E | FY36E | FY37E | FY38E | FY39E | FY40E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 14,949 | 19,057 | 23,713 | 23,488 | 27,647 | 32,419 | 37,717 | 43,533 | 46,580 | 49,841 | 53,330 | 57,063 | 60,487 | 64,116 | 67,963 | 72,041 | 76,363 | 80,181 |
| EBIT | 98 | 731 | 1,273 | 1,864 | 2,597 | 3,355 | 4,127 | 5,204 | 5,031 | 5,532 | 6,080 | 6,676 | 7,258 | 7,886 | 8,563 | 9,293 | 10,080 | 10,824 |
| Depreciation | 1,634 | 2,051 | 2,411 | 2,541 | 3,031 | 3,355 | 3,803 | 4,084 | 4,192 | 4,236 | 4,533 | 4,850 | 5,141 | 5,450 | 5,777 | 6,123 | 6,491 | 6,815 |
| Tax | - | - | 20 | 65 | - | 125 | 165 | 612 | 1,006 | 1,106 | 1,216 | 1,335 | 1,452 | 1,577 | 1,713 | 1,859 | 2,016 | 2,165 |
| Capex | (4,026) | (4,174) | (4,275) | (4,948) | (6,695) | (4,415) | (6,149) | (3,838) | (2,795) | (2,990) | (3,200) | (3,424) | (3,629) | (3,847) | (4,078) | (4,322) | (4,582) | (4,811) |
| Change in WC | 115 | 319 | 313 | 395 | 286 | 533 | 566 | 625 | 466 | 498 | 533 | 571 | 605 | 641 | 680 | 720 | 764 | 802 |
| FCFF | (2,179) | (1,072) | (258) | (83) | (781) | 2,953 | 2,513 | 6,687 | 7,900 | 8,383 | 9,162 | 10,009 | 10,827 | 11,708 | 12,655 | 13,673 | 14,769 | 15,796 |
| Disc. Factor | 1.0 | 0.9 | 0.8 | 0.7 | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| Disc. FCFF | (2,169) | (938) | (199) | (56) | (464) | 1,542 | 1,154 | 2,699 | 2,803 | 2,614 | 2,511 | 2,412 | 2,294 | 2,180 | 2,071 | 1,967 | 1,868 | 1,756 |
| Sum of Disc. FCFF | 22,290 | | | | | | | | | | | | | | | | | |
| Disc. TV | 19,840 | | | | | | | | | | | | | | | | | |
| EV | 42,130 | | | | | | | | | | | | | | | | | |
| Net Debt | 3,933 | | | | | | | | | | | | | | | | | |
| **Equity Value** | **38,197** | | | | | | | | | | | | | | | | | |
| Shares O/S | 494 | | | | | | | | | | | | | | | | | |
| **Value per share** | **77** | | | | | | | | | | | | | | | | | |

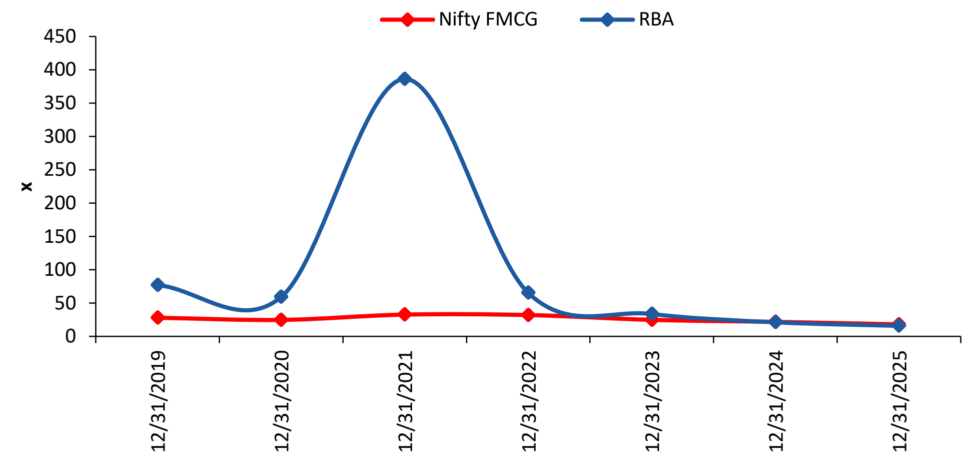
Source: Company, Centrum Broking

**Exhibit 396: One year forward EV/EBITDA (adjusted post IND-AS 116)**



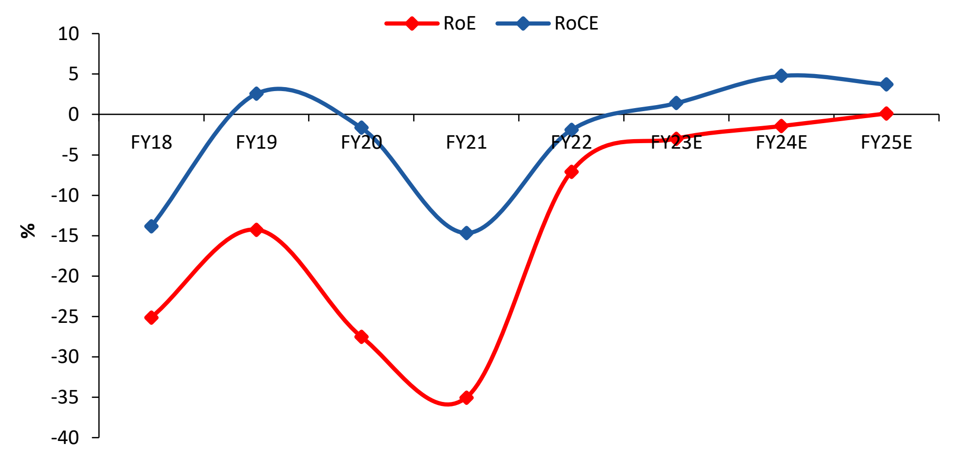

Source: Company, Centrum Broking

**Exhibit 397: RBA EV/EBITDA valuation to FMCG index**




Source: Bloomberg, Centrum Research

**Exhibit 398: Return Ratios**




Source: Company, Centrum Broking

# Risks to our call

- Faster than expected scale up of new stores: Any material changes in store opening guidance in India for two businesses (Burger King and Popeyes) could alter our assumptions.
- Inflation: Sticky inflation could hurt consumer sentiment and spending power and therefore demand could see some pressure in the medium to long term.
- Higher RM prices: Further increase in key commodity costs such as Palm oil and milk may weigh on margins.
- Competition: Any adverse competition from other QSR players in burger and chicken segments.
- Lower than expected growth: Weak scale of Indonesia business (appears to be drag on price) can impact the guidance.

# Company profile

Incorporated in 2013, Restaurant Brands Asia Limited (RBA) is one of the emerging and fastest-growing QSR players in India. The company holds the master franchise rights for Burger King in India & Indonesia, world's second largest fast-food burger brand globally by total number of restaurants. Burger king serves diverse range of burgers and other food items. It also operates BK Café that primarily serve coffees, shakes and other beverages. Further, it has Popeyes brand rights to cater Indonesia market which has similar demographic characteristic like India. The company currently operates 379 outlets for Burger King along with 72 BK Cafes in India whereas in Indonesia it has 179 Burger King stores along with 3 Popeyes.

## Key leadership team and management

**Exhibit 399: Key management personnel**

| | | |
|---|---|---|
| **Mr. Rajeev Varman** | Director & CEO | Mr. Rajeev Varman holds a Bachelor's degree in mechanical engineering from Bangalore University and a Master's degree in business administration from GGU, California. He has over 20 years of experience in the food and beverage industry across multiple continents including countries like Canada, UK, US and India. Having worked with the Tricon/Taco Bell brand, Lal Enterprises Inc., and Burger King Corporation, he has held various leadership positions and cross functional expertise. |
| **Mr. Sumit P. Zaveri** | CFO & CBO | Mr. Sumit P. Zaveri holds a Bachelor's degree in commerce from the University of Bombay and is an associate member of the Institute of Chartered Accountants of India. He also holds a degree from the Institute of Cost and Works Accountants of India. He has 18-years of work experience in finance control, treasury, budgeting and management information systems. |
| **Mr. Kapil Grover** | Chief Marketing Officer – India | Mr. Kapil Grover, who joined Burger King (BK) India as its Chief Digital Officer in November 2020, also takes care of the role of Chief Marketing Officer. He has worked at some of India's biggest brands such as BK India, Domino's India, Yum! Restaurants International! (KFC), Radico Khaitan, and Luxor Writing Instruments. |
| **Mr. Sandeep Dey** | President - Indonesia | Mr. Sandeep Dey was appointed as Brand President in Feb'23. He has been associated with the brand for last 9-years. Ashish holds 25 years of experience in QSR industry with a previous experience at Yum, Dabur, etc. |

Source: Company

## P&L

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| **Revenues** | **4,926** | **9,396** | **14,949** | **19,058** | **23,713** |
| Operating Expense | 2,273 | 4,687 | 7,026 | 8,576 | 10,505 |
| Employee cost | 1,176 | 1,540 | 2,405 | 2,950 | 3,676 |
| Others | 1,346 | 2,308 | 3,786 | 4,750 | 5,849 |
| **EBITDA** | **150** | **902** | **1,732** | **2,782** | **3,684** |
| Depreciation & Amortisation | 1,275 | 1,357 | 1,634 | 2,051 | 2,411 |
| **EBIT** | **(1,126)** | **(455)** | **98** | **731** | **1,273** |
| Interest expenses | 821 | 680 | 850 | 1,186 | 1,427 |
| Other income | 0 | 0 | 0 | 0 | 0 |
| **PBT** | **(1,662)** | **(930)** | **(577)** | **(272)** | **39** |
| Taxes | 0 | 0 | 0 | 0 | 20 |
| Effective tax rate (%) | 0.0 | 0.0 | 0.0 | 0.0 | 51.2 |
| **PAT** | **(1,662)** | **(930)** | **(577)** | **(272)** | **19** |
| Minority/Associates | 0 | 0 | 0 | 0 | 0 |
| **Recurring PAT** | **(1,662)** | **(930)** | **(577)** | **(272)** | **19** |
| Extraordinary items | 77 | 0 | 0 | 0 | 0 |
| **Reported PAT** | **(1,585)** | **(930)** | **(577)** | **(272)** | **19** |

## Ratios

| YE Mar | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| **Growth (%)** | | | | | |
| Revenue | (41.2) | 90.7 | 59.1 | 27.5 | 24.4 |
| EBITDA | (85.6) | 501.7 | 92.1 | 60.6 | 32.4 |
| Adj. EPS | 106.2 | (56.6) | (49.8) | (52.9) | nm |
| **Margins (%)** | | | | | |
| Gross | 64.7 | 66.0 | 67.0 | 68.9 | 69.5 |
| EBITDA | 3.0 | 9.6 | 11.6 | 14.6 | 15.5 |
| EBIT | (22.8) | (4.8) | 0.7 | 3.8 | 5.4 |
| Adjusted PAT | (33.6) | (9.9) | (3.9) | (1.4) | 0.1 |
| **Returns (%)** | | | | | |
| ROE | (35.0) | (7.1) | (3.0) | (1.4) | 0.1 |
| ROCE | (14.7) | (1.9) | 1.4 | 4.8 | 3.7 |
| ROIC | (10.9) | (2.5) | 0.4 | 2.6 | 2.0 |
| **Turnover (days)** | | | | | |
| Gross block turnover ratio (x) | 0.5 | 0.8 | 1.1 | 1.2 | 1.4 |
| Debtors | 3 | 3 | 2 | 2 | 2 |
| Inventory | 20 | 13 | 12 | 12 | 12 |
| Creditors | 203 | 141 | 104 | 100 | 100 |
| Net working capital | 153 | 119 | 59 | 31 | 34 |
| **Solvency (x)** | | | | | |
| Net debt-equity | (0.3) | (0.1) | (0.1) | 0.0 | (0.1) |
| Interest coverage ratio | 0.2 | 1.3 | 2.0 | 2.3 | 2.6 |
| Net debt/EBITDA | (14.4) | (1.2) | (0.9) | (0.3) | (0.4) |
| **Per share (Rs)** | | | | | |
| Adjusted EPS | (5.4) | (2.3) | (1.2) | (0.5) | 0.0 |
| BVPS | 21.7 | 48.7 | 38.3 | 37.8 | 37.8 |
| CEPS | (1.2) | 1.1 | 2.1 | 3.6 | 4.9 |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend payout (%) | nm | nm | nm | nm | 0.0 |
| **Valuation (x)** | | | | | |
| P/E | nm | nm | nm | nm | 2,413.3 |
| P/BV | 4.3 | 1.9 | 2.5 | 2.5 | 2.5 |
| EV/EBITDA | 385.9 | 65.4 | 33.7 | 21.2 | 15.9 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company, Centrum Broking

## Balance sheet

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Equity share capital | 3,830 | 4,927 | 4,944 | 4,944 | 4,944 |
| Reserves & surplus | 2,905 | 14,576 | 13,999 | 13,727 | 13,746 |
| Shareholders fund | 6,735 | 19,503 | 18,943 | 18,671 | 18,690 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Total debt | 0 | 0 | 299 | 381 | 711 |
| Non Current Liabilities | 5,812 | 6,943 | 8,936 | 11,664 | 15,056 |
| Def tax liab. (net) | 0 | 0 | 0 | 0 | 0 |
| **Total liabilities** | **12,546** | **26,446** | **28,178** | **30,717** | **34,458** |
| Gross block | 9,590 | 11,220 | 13,505 | 15,631 | 17,519 |
| Less: acc. Depreciation | 0 | 0 | 0 | 0 | 0 |
| Net block | 9,590 | 11,220 | 13,505 | 15,631 | 17,519 |
| Capital WIP | 301 | 107 | 238 | 260 | 259 |
| Net fixed assets | 10,156 | 11,681 | 14,073 | 16,196 | 18,060 |
| Non Current Assets | 0 | 0 | 0 | 0 | 0 |
| Investments | 329 | 11,690 | 11,674 | 12,880 | 14,193 |
| Inventories | 100 | 135 | 176 | 211 | 258 |
| Sundry debtors | 60 | 92 | 90 | 115 | 143 |
| Cash & Cash Equivalents | 2,161 | 1,063 | 1,840 | 1,255 | 2,032 |
| Loans & advances | 1,243 | 4,023 | 2,823 | 3,105 | 3,415 |
| Other current assets | 233 | 215 | 269 | 287 | 293 |
| Trade payables | 1,140 | 1,358 | 1,454 | 1,785 | 2,163 |
| Other current liab. | 569 | 1,053 | 1,271 | 1,504 | 1,728 |
| Provisions | 27 | 42 | 42 | 44 | 46 |
| Net current assets | 2,062 | 3,074 | 2,431 | 1,640 | 2,204 |
| **Total assets** | **12,546** | **26,446** | **28,178** | **30,717** | **34,458** |

## Cashflow

| YE Mar (Rs mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Profit Before Tax | (1,662) | (930) | (577) | (272) | 39 |
| Depreciation & Amortisation | 1,275 | 1,357 | 1,634 | 2,051 | 2,411 |
| Net Interest | 821 | 680 | 850 | 1,186 | 1,427 |
| Net Change – WC | 232 | 606 | 115 | 319 | 313 |
| Direct taxes | 0 | 0 | 0 | 0 | (20) |
| **Net cash from operations** | **618** | **1,514** | **2,589** | **3,450** | **4,357** |
| Capital expenditure | (589) | (2,882) | (4,026) | (4,174) | (4,275) |
| Acquisitions, net | 0 | 0 | 0 | 0 | 0 |
| Investments | (1,057) | (13,862) | 1,089 | (1,402) | (1,542) |
| Others | 1 | (35) | (64) | (78) | (73) |
| **Net cash from investing** | **(1,645)** | **(16,779)** | **(3,001)** | **(5,653)** | **(5,889)** |
| **FCF** | **(1,027)** | **(15,265)** | **(2,005)** | **(889)** | **(106)** |
| Issue of share capital | 5,719 | 13,698 | 17 | 0 | 0 |
| Increase/(decrease) in debt | (1,990) | 1,148 | 2,022 | 2,805 | 3,736 |
| Dividend paid | 0 | 0 | 0 | 0 | 0 |
| Interest paid | (821) | (680) | (850) | (1,186) | (1,427) |
| Others | 0 | 0 | 0 | 0 | 0 |
| **Net cash from financing** | **2,907** | **14,167** | **1,189** | **1,619** | **2,309** |
| Net change in Cash | 1,880 | (1,098) | 778 | (585) | 777 |

Source: Company, Centrum Broking

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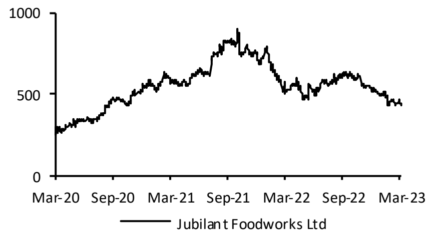
Add – The stock is expected to return 5-15%.

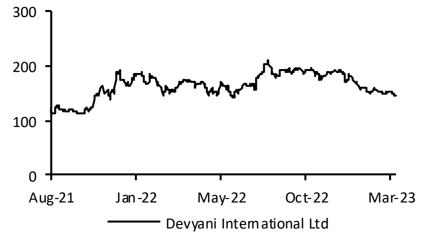
Reduce – The stock is expected to deliver -5-+5% returns.

Sell – The stock is expected to deliver <-5% returns.

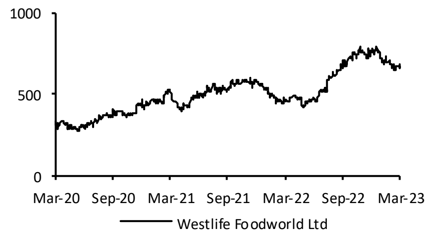
**Jubiliant Foodworks**



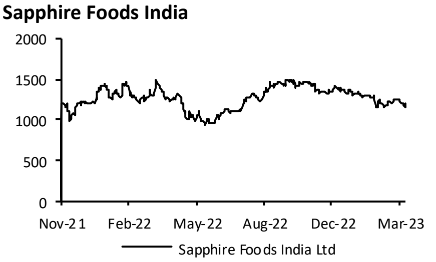

**Devyani International**



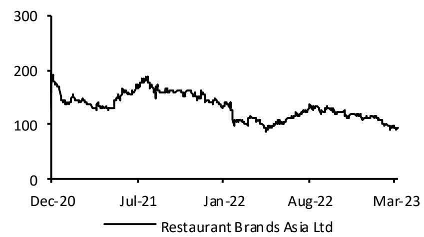

**Westlife Foodworld**




**Sapphire Foods India**




**Restaurant Brands Asia**

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PORTFOLIO MANAGER

SEBI REGN NO.: INP000004383

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SEBI Registration No. INH000001469

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