Quick Service Restaurants

AMBIT
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July 2024

Chicken dinner is the winner

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THEMATIC | **July 18, 2024**

Chicken dinner is the winner

QSRs, beyond the current slowdown, offer a scalable and, importantly, profitable opportunity. Across global benchmarks and bottom-up store potential workings, we see certain brands (especially KFC) having the opportunity to more than double stores by FY30. While aggregators democratized the sector partially (especially delivery), we see brand preference and process complexity as moats that can arrest any market share loss and sustain growth potential of the sector. So we prefer chicken as a category and in that Sapphire Foods (Sapphire) with reasonable valuations for the scalability it presents. Devyani International (DIL), while having similar drivers as Sapphire, does not warrant a premium despite optionalities. Jubilant Foodworks' (JFL) limited scalability of Domino's (hereon) and more importantly lower SSSG profile (vs earlier) make valuations too demanding even after factoring DP Eurasia and Popeyes. We prefer Sapphire (BUY)>DIL (SELL)>JFL (SELL).

Large opportunity, with a temporary pause

Within India's food services (FS) market of ₹4.25tn (FY20, ~2.1% of GDP), the Chain QSR market is just ₹188bn, or 4.4% of the total. After 20% CAGR in FY10-20, highest across categories in FS, the segment should grow at 23% over FY20-25 (Technopak estimate). There's been moderation in the past 6 quarters (average SSSG: -2%) due to: 1) pent-up demand in FY23 and 2) overall slowdown in consumption. But, while we expect demand to improve (gradual pace; 1HFY25E SSSG negative), the larger opportunity of penetration via new customers, cities (~550 cities opportunity, brands ex Dominos ~250 cities) and store addition potential (1.5-2x scalability by FY30E) makes QSR a growth opportunity.

Competitive intensity much higher; focus on process complexity

Aggregators scale up democratized delivery and customer mind share, increasing competition for QSRs As per our framework to asses category moats (centered on process complexity), chicken will have lowest impact from increasing competitive intensity followed by burger and pizza. This is critical as any revival may not reflect in company growth due to share loss.

Cloud kitchens still to figure unit economics; not a long-term threat

While cloud kitchen (CK) companies have scaled up (Top 5 GMV at ~20% of listed QSR chains), especially benefiting from aggregators, we don't see them as relevant competition as the key aspect of customer connect remains missing. This reflects in the scalability (across categories revenue of pure-play CK brands is less than 5% of market leader) and high losses (all major CK-focused companies still loss-making with increasing trend YoY). Visibility of profitability improvement is also unclear as customer acquisition costs are high.

Multiple offerings but not all at a discount

Our DCF framework is built on store potential assessment for key brands. We believe QSRs should trade at a premium to all consumer categories, except jewellery, given growth visibility and lower competitive intensity. We evaluate companies on a six-factor framework to ascertain relative valuation pecking order (Exhibit 71). While JFL ranks highest due to store RoCE, execution and optionality, its FY26 P/E of 74x (adj. for Popeyes and DP Eurasia) vs pre-Covid 5Y/10Y average of 48x/51x with lower growth, SSSG and RoCE makes current valuations demanding. Sapphire's 16%/29% revenue/EBITDA CAGR (FY24-27E) with the highest scalability of KFC (current potential: 810, FY24: 429) and reasonable valuations (21x FY26E EV/EBITDA, JFL: 34x, DIL: 33x) make it our preferred pick in the sector. DIL's proposition is similar to Sapphire but the premium (50%) for perceived execution superiority (not visible in performance) and optionality (KFC Thailand, Costa Coffee) is not warranted.

Key Recommendations

Sapphire Foods India	**BUY**
Target Price: ₹1,876	Upside: 21%
Devyani International	**SELL**
Target Price: ₹149	Downside: (9%)
Jubilant FoodWorks	**SELL**
Target Price: ₹439	Downside: (24%)

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Narrative in charts

Exhibit 1: Chain restaurant and QSR market has grown much faster within the overall food service market and the pace is expected to sustain

CAGR	FY10-15	FY15-20	FY10-20	FY20-25E	FY10-25E
Unorganised mkt	7%	5%	6%	3%	5%
Organised standalone	13%	13%	13%	13%	13%
Chains	21%	18%	20%	20%	20%
Restaurant in-hotel	10%	8%	9%	5%	7%
Total Food services market	**9%**	**8%**	**9%**	**8%**	**8%**
QSR	**29%**	**19%**	**24%**	**23%**	**24%**
Casual Dining	18%	19%	18%	19%	18%
Café	16%	8%	12%	10%	12%
Ice-cream/frozen desserts	15%	16%	15%	17%	16%
PBCL	25%	22%	23%	16%	21%
Fine dining	5%	3%	4%	2%	4%

Source: Technopak research as published in Sapphire Foods DRHP, Ambit Capital research

Exhibit 2: Across brands, India's penetration is much lower even compared to the set of developing countries

Countries	GDP/Capita	GDP PPP Adj	Population	Stores/USD tn of GDP (PPP basis)				
	(USD)	(USD tn)	(mn)	KFC	PH	Dominos	BK	McD
USA	76,330	23.8	333	160	276	288	285	566
Germany	48,718	5.2	84	39	16	78	144	264
Average*				**157**	**114**	**192**	**151**	**433**
China	12,720	29.7	1,412	347	71	85	246	294
Mexico	11,497	2.8	128	191	106	321	156	133
Average*				**415**	**102**	**142**	**142**	**199**
India	2,411	12.1	1,417	**85**	**73**	**159**	**36**	**48**

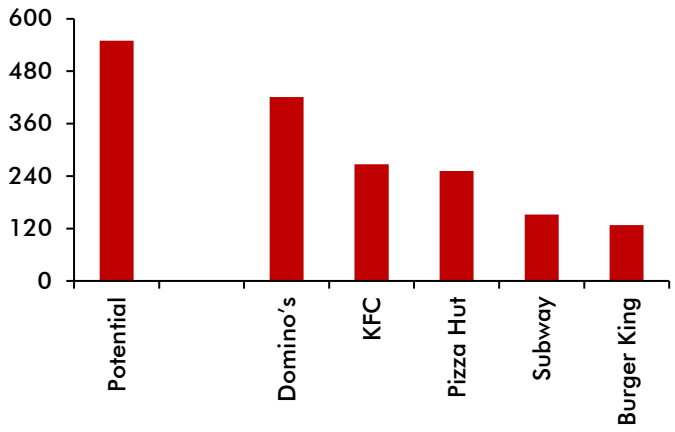
*Source: Company, World Bank, Ambit Capital research,*Data displayed is for key markets, average is for a larger set of countries*

Exhibit 3: We estimate at present there are ~550 towns with a population >0.1mn

Year	2001	2011	2021E
>1 mn	35	53	80
0.1- 1.0mn	358	412	474
Cities (>0.1 mn Population)	393	465	554

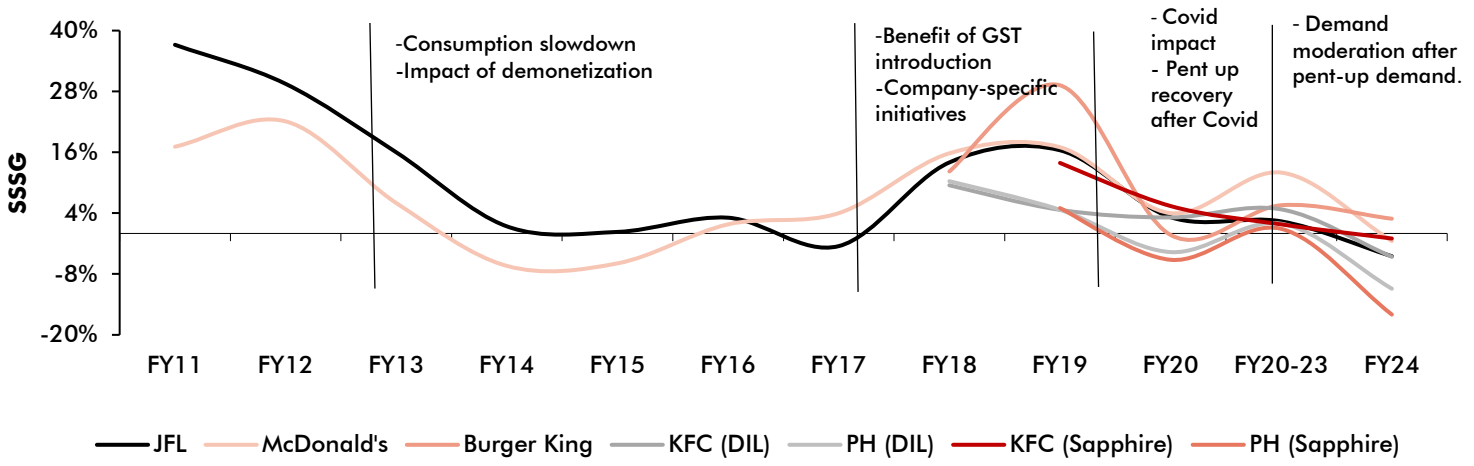
Source: Ministry of Housing & Urban Affairs, Ambit Capital research

Exhibit 4: Excluding Domino's, most QSRs have potential to double city count



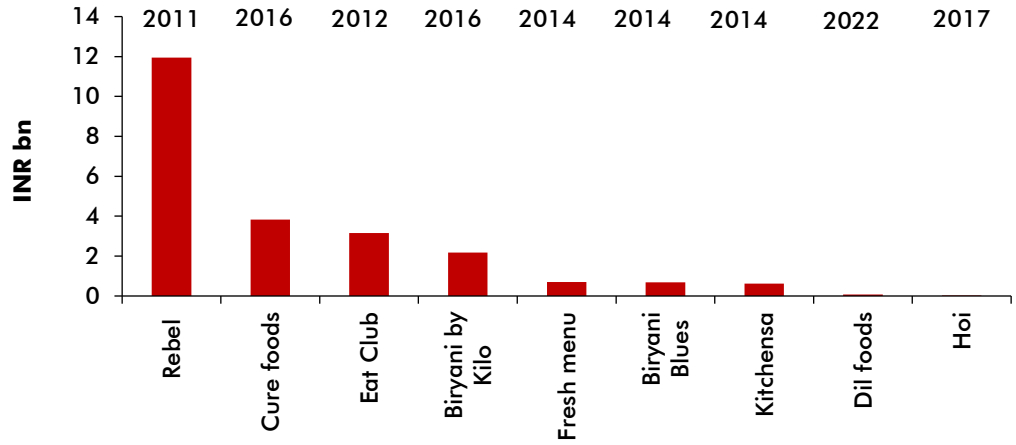
Source: Company, Ambit Capital research

Exhibit 5: Recent moderation a consequence of pent-up demand in FY23 and overall slowdown in consumption



Source: Company, Ambit Capital research

Exhibit 6: Despite decent vintage, no cloud kitchen (ex Rebel) managed to scale up (align year)



Source: Company, Ambit Capital research, Note: Headings to bars refer to year of brand starting

Exhibit 7: The chicken category has the highest entry barriers driven by RM sourcing and process complexity

	RM sourcing	Process Complexity	Delivery salience	Brand Preference	Current competitive intensity	Overall
Global						
Pizza	◑	◑	◔	◕	◑	◑
Burger	◕	◕	◕	◕	◕	◕
Chicken	●	●	◕	◕	●	●
Fusion						
Oriental	◑	◔	◑	◔	◔	◔
Indian						
North Indian	◑	◔	◔	◑	◔	◔
South Indian	◑	◑	●	◔	◔	◑
Biryani	◔	◔	◔	◔	◑	◔

Source: Company, Ambit Capital research, Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak, Note: the scoring is from the perspective of evaluating category entry barriers thus the higher the complexity/difficulty, the higher the score

Exhibit 8: JFL emerges on top of our qualitative framework, DIL and Sapphire are close second and third respectively

Parameters	JFL	WFL	BKI	BBQ	DIL	Sapphire
TAM/Store Potential						
Category (Competitive intensity)						
Store Economics/RoCE						
SSSG outlook (Includes Brand strength)						
Execution						
Optionality						
Overall						

Source: Company, Ambit Capital research, Note: - Strong; - Relatively Strong; - Average; - Relatively weak.

Exhibit 9: Sapphire provides similar growth at a lower multiple

	CMP	TP	% Upside	FY24-27E CAGR			RoCE*	Target EV/E*		Target PE	
				Revenue	EBITDA	PAT**	FY26E	FY26E	FY27E	FY26E	FY27E
Jubilant Foodworks	573	439	-23%	16%	20%	32%	18%	27	22	61	45
Devyani International	163	149	-9%	26%	30%	55%	15%	26	21	85	60
Sapphire Foods	1,555	1,876	21%	16%	29%	62%	15%	25	20	83	54

*Source: Company, Ambit Capital research, *EBITDA and RoCE are Pre IND AS. **PAT for JFL and DIL is adjusted for exceptional items in FY24. JFL estimates are on standalone basis.*

Exhibit 10: Adjusting for KFC Thailand and Popeyes in JFL gives a true picture of core business valuation

	CAGR FY24-27E		EV/E - Post IND AS			EV/E - Pre IND AS		
	Revenue	EBITDA*	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
JFL (S) - Ex Popeyes + DP Eurasia	13%	18%	27	23	20	42	34	29
DIL - Ex KFC Thailand	17%	27%	30	24	19	43	33	26
Sapphire Foods	16%	29%	19	15	12	29	21	17
Median	**16%**	**27%**	**27**	**23**	**19**	**42**	**33**	**26**

Source: Company, Ambit Capital research

Large opportunity, with a minor pause

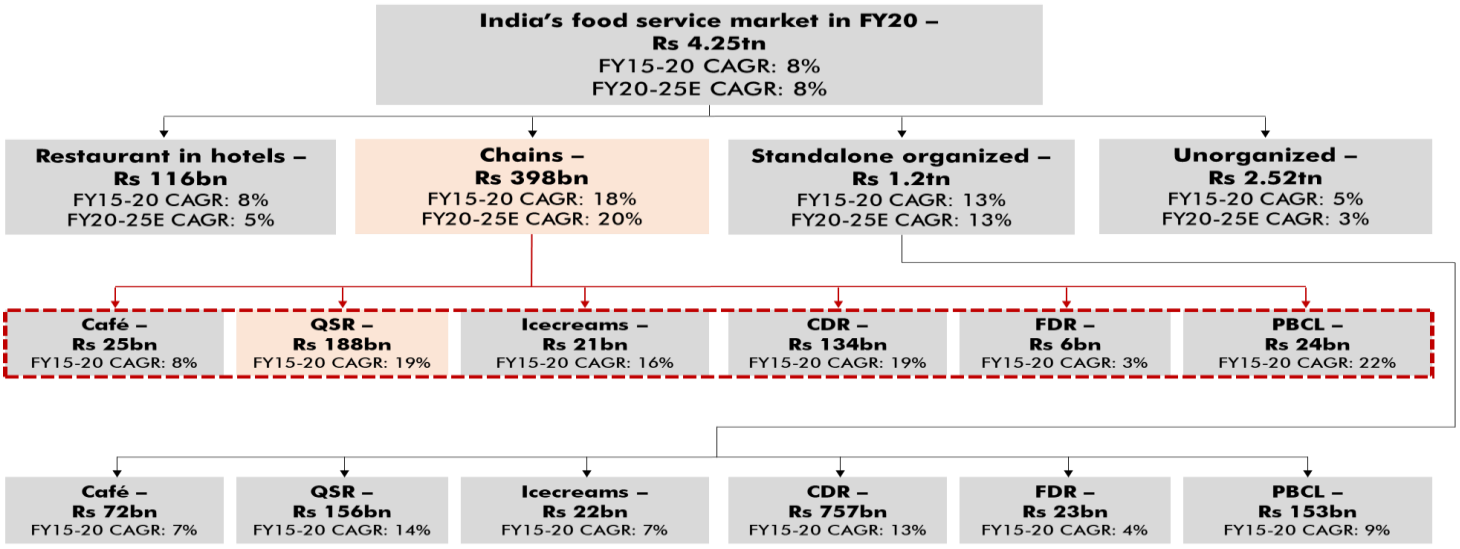
Within India's food services (FS) market of ₹4.25tn (FY20, ~2.1% of GDP), the Chain QSR market is only ₹188bn, or 4.4% of total. After clocking 20% CAGR over FY10-20, highest across categories in the FS space, the segment is expected to grow at 23% over FY20-25 (Technopak estimate). There was a moderation over the last 6 quarters (average SSSG: -2%) due to 1) pent-up demand in FY23 and 2) overall slowdown in consumption. That said, while we expect demand to improve (at a gradual pace; 1HFY25E SSSG negative), the larger opportunity of penetration via new customers, cities (~550 cities opportunity, brands ex Dominos ~250 cities) and store addition potential (1.5-2x scalability potential by FY30E) makes the QSR space a growth opportunity.

Large FS market, but low Chain QSR penetration…

Chain QSR has low penetration of just 4.4%

Even as India's food services market is large at ₹4.25tn as of FY20 (~2.1% of GDP and ~12% of total discretionary spend), over 60% of the market is accounted for by the unorganized sector. Casual dining accounts for 20-25% of the market. In comparison, the Chain QSR market is relatively small at just ₹188bn, or 4.4% of the food services market, though it increased from 1.2% in FY10 and 2.7% in FY15. As per Technopak estimates, this should improve to 8.6% by FY25E, yielding a market of ₹534bn, 2.8x that of FY20, i.e. a 23% CAGR.

Exhibit 11: India's food services market growing at 8% CAGR but penetration of Chains/QSR is low at just 9%/5%



Source: Technopak research as published in Sapphire Foods DRHP, Ambit Capital research

Exhibit 12: However, chain restaurant and QSR market has grown much faster within the overall food service market and the pace is expected to sustain

CAGR	FY10-15	FY15-20	FY10-20	FY20-25E	FY10-25E
Unorganised mkt	7%	5%	6%	3%	5%
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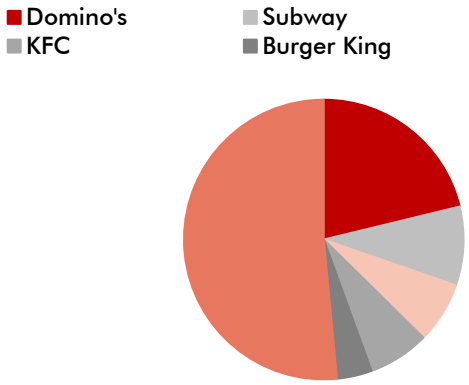
PBCL	25%	22%	23%	16%	21%
Fine dining	5%	3%	4%	2%	4%

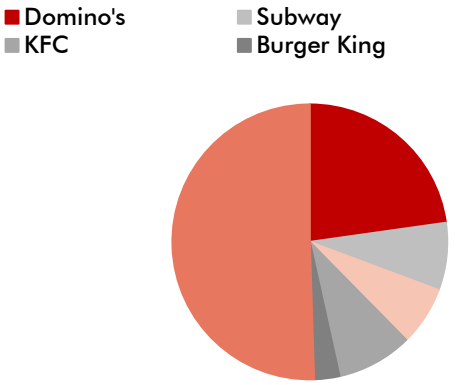
Source: Technopak research as published in Sapphire Foods DRHP, Ambit Capital research

Exhibit 13: International brands account for ~50% of chain QSR outlet count...



Source: Technopak analysis in Burger King RHP, Ambit Capital research

Exhibit 14: ...and ~50% of revenue, with Domino's leading the segment by a significant margin

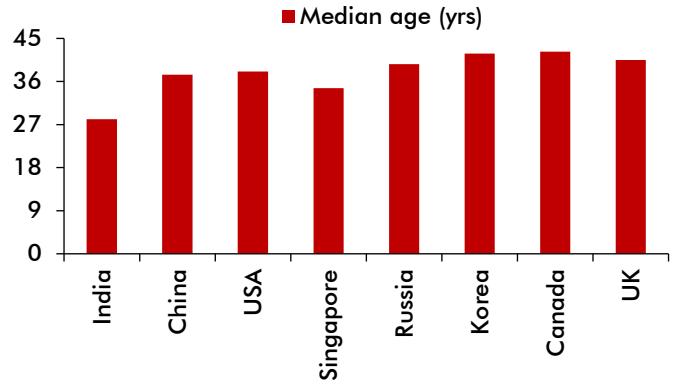


Source: Technopak analysis in Burger King RHP, Ambit Capital research

...offers structural tailwind to aid QSR growth

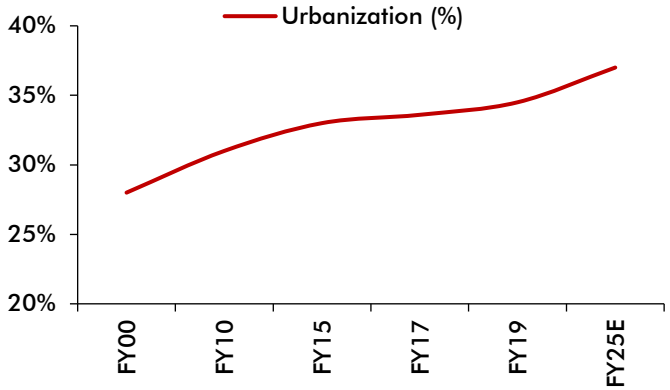
India's Chain QSR market is expected to grow at ~20% per annum rate led by growing urbanization, nuclearization of families, young population etc. Rising share of females in working population leads to higher instances of eating out or ordering at home. Higher disposable income and lifestyle improvement are other contributing factors that will aid in the long-term growth for Chain QSR in India.

Exhibit 15: India has one of the youngest population levels among large markets globally...



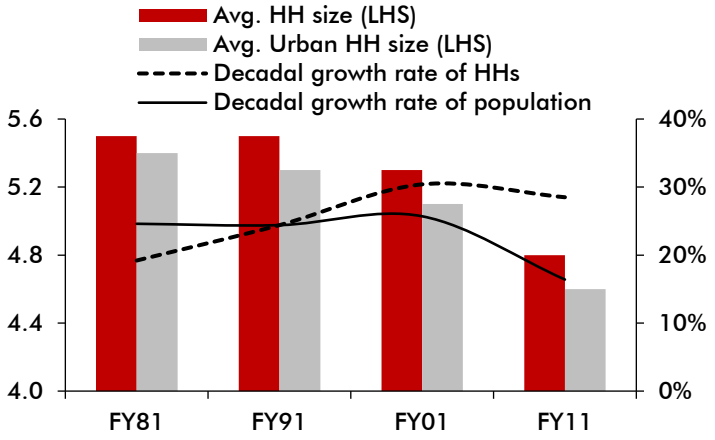
Source: Technopak research as published in Sapphire Foods DRHP

Exhibit 16: ...and is also undergoing rapid urbanization, both of which are beneficial for QSR demand



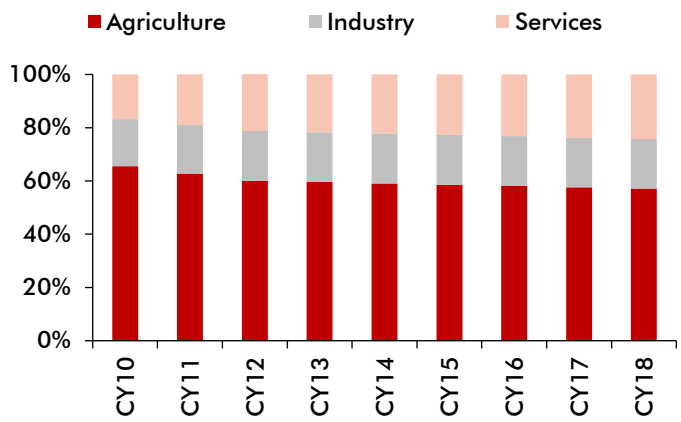
Source: World Bank

Exhibit 17: Shrinking household size leading to household growth outpacing population growth...



Source: World Bank

Exhibit 18: ...while female working population is increasingly opting for service industry



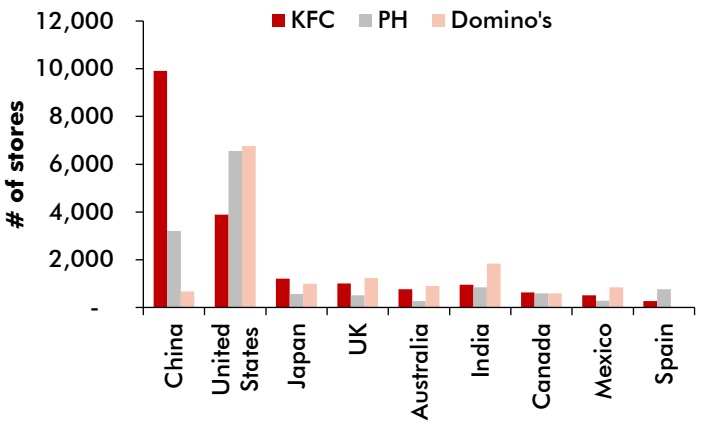
Source: World Bank

Long runway for store addition despite recent surge

India has among the lowest number of Chain QSR stores globally

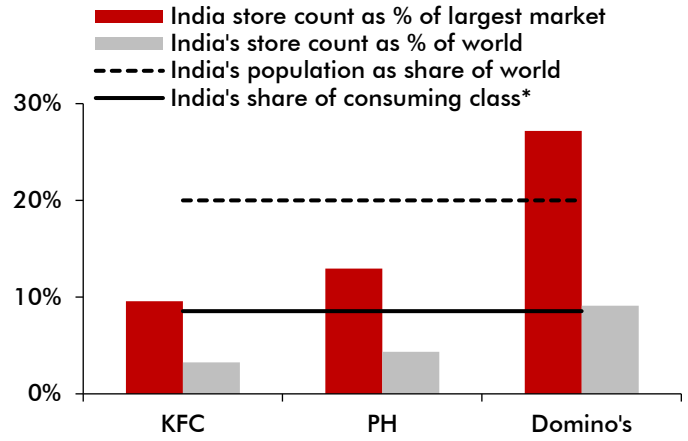
When compared with the largest markets globally for brands such as KFC, Pizza Hut or Domino's, it seems India is just 1-10% of their size in store count, thus offering a huge penetration opportunity. As per World Data Lab, India's consuming population is around 0.35bn as against world consuming population of ~4bn, which is 8.6% of the total. For the purpose of this study, consuming class is defined as population spending greater than US$11/day. Except for Domino's, which scaled up significantly in India (9.4% of global stores), the other major QSR brands, KFC, Pizza Hut, McDonald's and Burger King, are still at 3.5%/4.5%/1.4%/2.3% of the world store count .

Exhibit 19: China leads in KFC store count, while US is the largest market for Domino's and Pizza Hut



Source: Yum! Brands, Domino's, Ambit Capital research

Exhibit 20: India's share of branded QSR stores seem low for all brands except Domino's



Source: Yum Brands, Domino's, Ambit Capital research

On global consumption parameters too, India's penetration remains low

To assess India's current store penetration, we compare the major global QSR brands across a mix of developed/developing economies to get a true sense. We consider the consumption on a PPP basis to negate differences in relative prices. We prefer GDP on a PPP basis over population as it captures the relative purchasing capacity. Based on this, except for Domino's, QSR brands have significant potential to scale up. Under-penetration is highest for KFC followed by BK and then McDonalds.

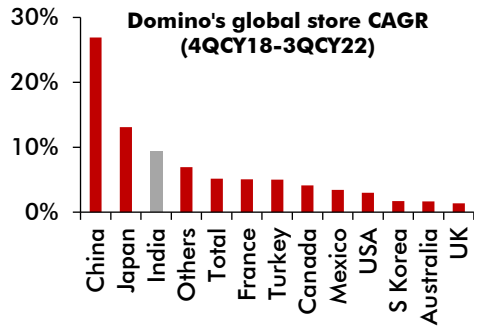
Exhibit 21: Across brands, India's penetration is much lower even compared to the set of developing countries

Countries	GDP/Capita	GDP PPP Adj	Population	Stores/USD tn of GDP (PPP basis)				
	(USD)	(USD tn)	(mn)	KFC	PH	Domino's	BK	McD
USA	76,330	23.8	333	160	276	288	285	566
Germany	48,718	5.2	84	39	16	78	144	264
UK	46,125	3.7	67	271	137	284	151	389
France	40,886	5.6	68	95	36	130	138	417
Japan	34,017	3.7	125	219	106	181	37	531
Average				**157**	**114**	**192**	**151**	**433**
China	12,720	29.7	1,412	347	71	85	246	294
Mexico	11,497	2.8	128	191	106	321	156	133
Turkey	10,675	2.8	85	107	78	250	258	91
Brazil	8,918	3.8	215	50	124	NA	85	155
Thailand	6,910	1.5	72	726	112	26	53	199
Indonesia	4,788	3.7	276	203	166	29	44	84
South Africa	6,767	0.9	60	1,280	57	NA	152	439
Average				**415**	**102**	**142**	**142**	**199**
India	2,411	12.1	1,417	**85**	**73**	**159**	**36**	**48**

Source: Company, World Bank, Ambit Capital research

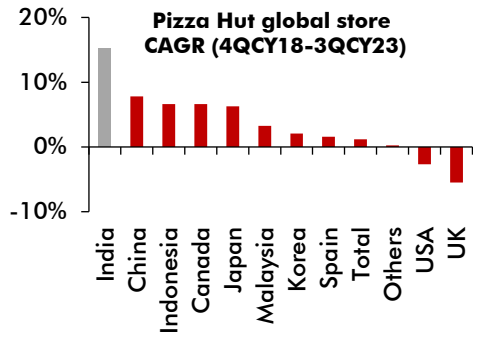
India is adding store count at the fastest rate among all countries except Domino's where China and Japan are faster (but with less than half of India's store count).

Exhibit 22: India is amongst the fastest to add stores...



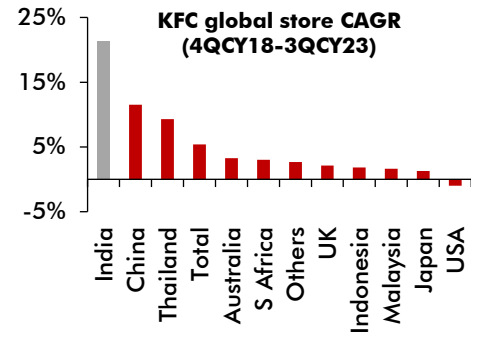
Source: Domino's, Ambit Capital research

Exhibit 23: ...across brands among all countries...



Source: Yum! Brands, Ambit Capital research

Exhibit 24: ...while USA and UK are cutting store count



Source: Yum! Brands, Ambit Capital research

Initial phase driven by metro towns; next leg to go deeper

At present, the Indian organized/chain market is skewed, with the top 8 cities making up ~60%/~90% of the market (FY20). While metros will continue to drive majority of consumption, we expect the share of the top 8 cities to fall as per capita consumption in existing cities improves and QSRs enter new cities. One in-built expectation here is of a democratic income improvement and not one that was skewed, similar to the post-Covid era.

Exhibit 25: Top 8 cities dominate the chain/organized market in India

	Chain	Standalone	Unorganized	Total
Mega Metros	168	321	413	902
Next 6 cities	177	281	397	855
Next 21 cities	33	98	316	447
Rest of India	18	503	1,392	1,913
Total (₹ bn)	**396**	**1,203**	**2,518**	**4,117**

Source: Technopak analysis in Burger King RHP, Market size data is for FY20, Ambit Capital research

Exhibit 26: In the top 8 cities too, Mumbai and Delhi NCR account for more than half the market

City	Type	Chain market (₹ bn)	Organized standalone (₹ bn)	Unorganized (₹ bn)	Total FS market (₹ bn)	Population (mn)
Delhi NCR	Mega Metros	84	158	202	443	28
Mumbai	Mega Metros	84	164	214	462	26
Pune	Mini Metros	26	57	44	127	8
Ahmedabad	Mini Metros	14	24	56	94	8
Bengaluru	Mini Metros	52	79	47	178	11
Hyderabad	Mini Metros	18	45	78	140	10
Chennai	Mini Metros	40	39	73	151	11
Kolkata	Mini Metros	28	38	102	168	18
Jaipur	Tier I	4	19	28	52	4
Lucknow	Tier I	4	6	36	47	4
Surat	Tier I	1	4	23	27	6
Nagpur	Tier I	2	8	44	53	3
Kanpur	Tier I	1	3	20	24	4
Indore	Tier I	2	6	16	24	3
Patna	Tier I	1	2	16	20	2
Chandigarh	Tier I	6	8	7	21	1
Kochi	Tier I	2	5	10	17	3
Coimbatore	Tier I	1	5	10	16	3
Vadodara	Tier I	2	3	11	16	2
Ludhiana	Tier I	1	5	10	15	2
Madurai	Tier I	0	2	10	12	2
Vishakhapatnam	Tier I	1	4	8	13	2
Bhopal	Tier I	1	4	8	14	2
Amritsar	Tier I	1	3	8	12	1
Rajkot	Tier I	1	2	9	11	2
Trivandrum	Tier I	0	3	4	8	1
Nashik	Tier II	1	2	12	14	2
Varanasi	Tier II	0	1	11	13	2
Goa	Tier II	1	5	16	21	1.0*

Source: Technopak Analysis in Burger King RHP, Market size data is for FY20, Ambit Capital research

The initial phase of QSR expansion was focused on the top 8 cities, after which it went to the top 30 cities. However, with higher acceptance, we now see all major QSR brands expanding deeper beyond these 30 cities. Though the productivity/revenue per store would be lower, on a ROCE basis these stores are still significantly profitable and RoCE-accretive given the lower cost base. Our analysis of Domino's India shows that, compared to ~80% store RoCE for mature stores in Metro cities, Tier III and beyond still make 65%+ store RoCE.

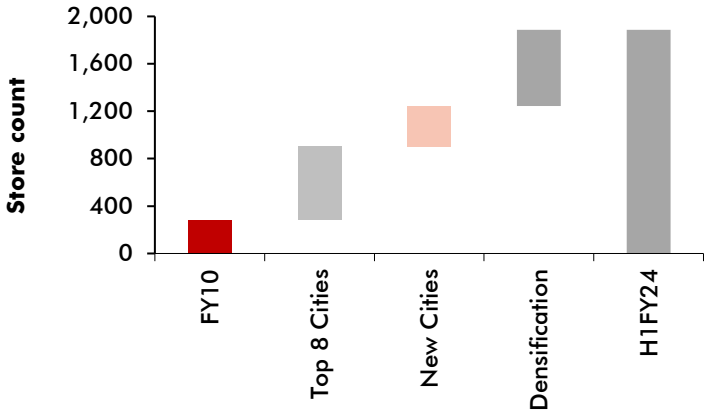
Exhibit 27: JFL's store economics are attractive even in non-metro cities

	Metro	Tier III and Beyond
ADS (₹)	95,000	75,000
Common Size		
Revenue	100	100
Gross Margin	76.0	76.0
Employee	7.8	8.7
Rent	10.4	8.2
Power & Fuel	5.5	5.0
Royalty	4.0	4.0
Marketing	5.0	5.0
Delivery cost	3.9	3.6
Other opex	10.0	10.4
Store EBITDA (%)	**29.4**	**31.2**
Store RoCE (%)	**78.6**	**65.6**

Source: Ambit Capital research

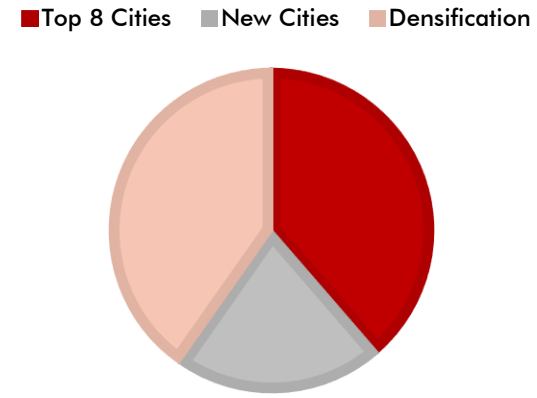
Looking at Domino's evolution over the last decade as a template for other QSRs, we notice that ~60% of Domino's store addition over FY19-24 was in non-metro cities. From a count of 69 cities, it now reaches more than 400 cities.

Exhibit 28: Majority of JFL's expansion after FY10 has been beyond the top 8 cities



Source: Ambit Capital research, Densification refers to adding stores in existing cities beyond the top-8 cities

Exhibit 29: Split of JFL's store expansion over FY10-1HFY24; ~60% addition beyond the top 8 cities



Source: Company, Ambit Capital research

As per Census 2011, there were 465 towns with a population greater than 0.1mn. While data from latest census is awaited, even if we extrapolate historical growth, there are ~550 towns with a population greater than 0.1mn.

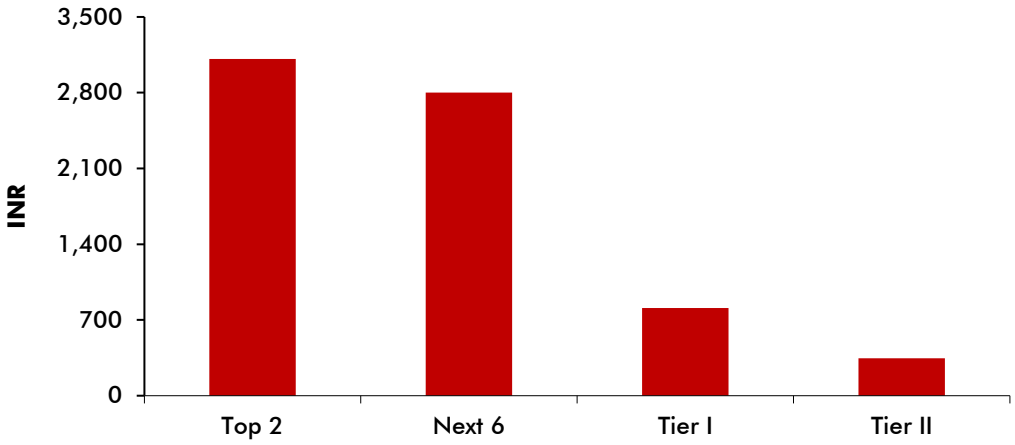
Exhibit 30: We estimate at present there are ~550 towns with a population >0.1mn

Year	2001	2011	2021E
>1mn	35	53	80
0.1-1mn	358	412	474
Cities (>0.1mn Population)	393	465	554

Source: Ministry of Housing & Urban Affairs, Ambit Capital research

Looking at the average chain QSR spend across city tiers, we expect these cities to have a spend of ~₹200 per relevant person.

Exhibit 31: Tier II cities have an average spend of ₹350/annum on chains



Source: Company, Ambit Capital research

Based on these calculations, the market size of chain restaurants in cities with a population of 0.1-1mn is ~₹50mn, which gives the opportunity to open 2-3 QSR outlets (based on their average revenue/store).

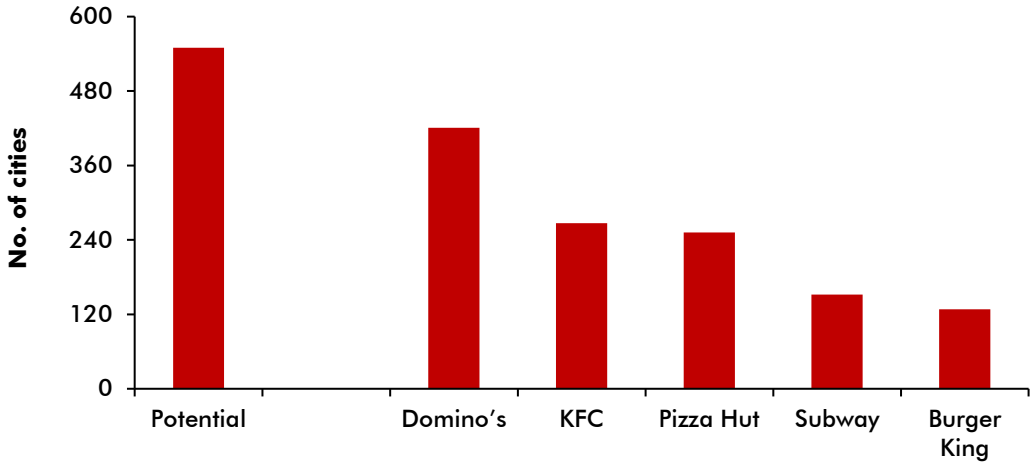
Exhibit 32: Cities with a population of >0.1mn can support 2-3 QSR players

	0.1-1mn	0.01-0.1mn
Total Cities	474	3,744
Average Population/City (mn)	0.55	0.03
Relevant population	42%	20%
Relevant population/City	0.23	0.006
Average Spend/person/Annum (₹)	200	100
Total Estimated Chain size per city (₹ mn)	**46**	**0.6**

Source: Company, Ambit Capital research

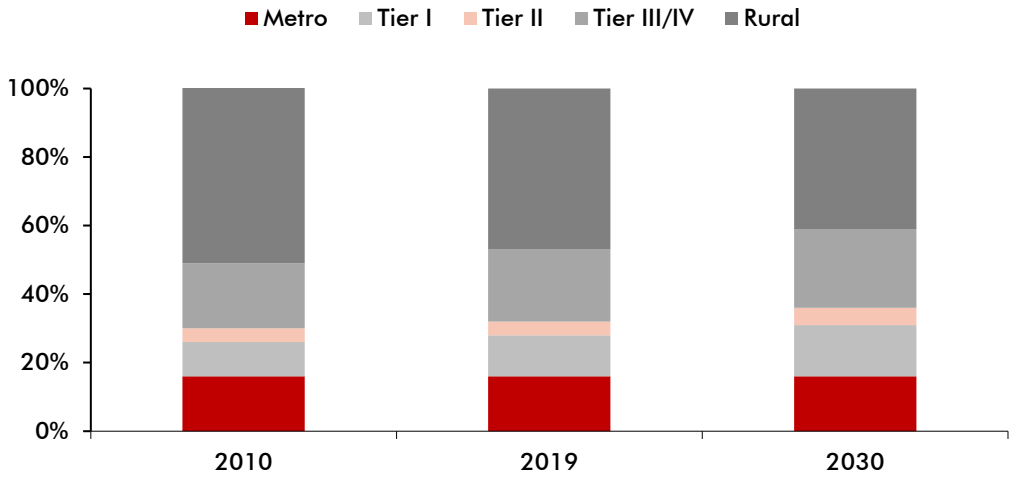
Thus, there is a universe of ~550 cities for QSR brands to expand into. Looking at the current reach for most brands, none of them has reached even 450 cities. Excluding Domino's, most players have the potential to double city count.

Exhibit 33: Excluding Domino's, most QSRs have potential to double store count



Source: Company, Ambit Capital research

Exhibit 34: Income share for Tier I/II/III/IV cities is expected to increase by 10% points over the coming decade



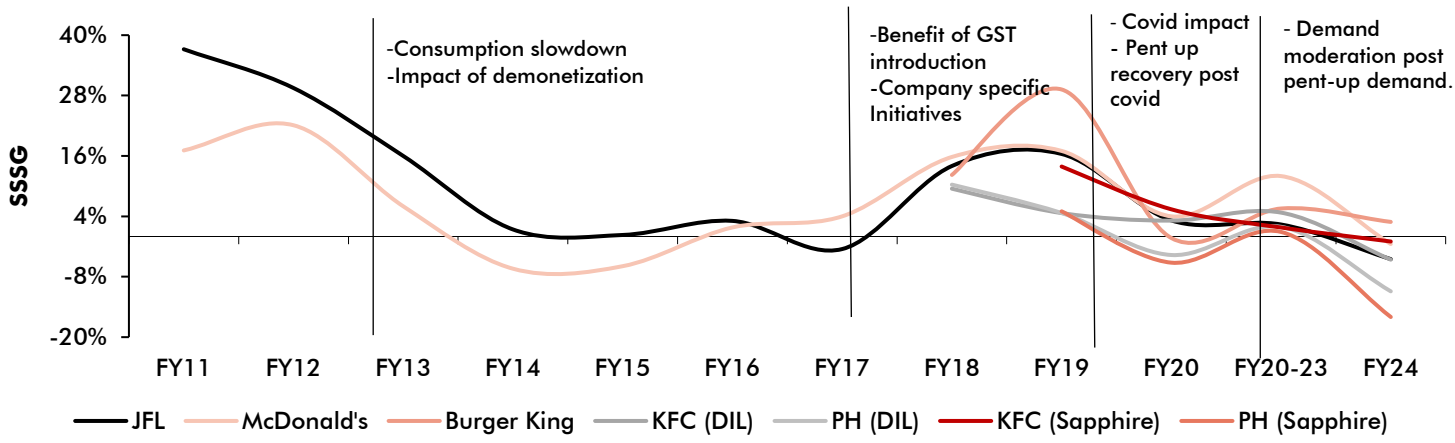
Source: Bain & Co, Ambit Capital research

Longer-term stable SSSG trends; recent slowdown

Multiple phases seen in the SSSG evolution of the sector

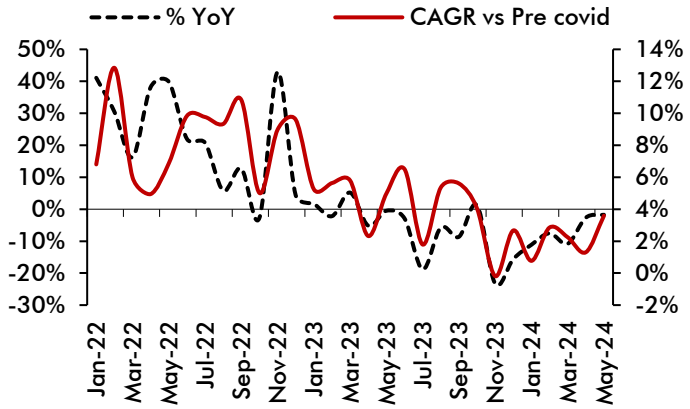
The sector's SSSG has gone through various phases. At the start of the decade, many of the QSRs were still expanding presence and adding new stores, which helped them clock strong SSSG. SSSG in FY16 and FY17 was impacted due to policy reforms (mainly demonetization) and a consumption slowdown across discretionary categories. However, implementation of GST along with company-specific initiatives (WFL's push for McCafe, JFL product launches and changes under Pratik Pota) and an improvement in consumption spurred SSSG of all players in FY18 and FY19. FY20 saw the impact of Covid in 4Q and FY21 and FY22 suffered significant impact due to Covid restrictions at different points in time. FY23 saw a significant jump in demand, a big portion of it revenge/pent-up. We thus look at FY20-23 as one block to normalize the impact. Since 3QFY23, there has been a slowdown as pent-up demand moderated and overall consumption was hit by inflation and normalization of salary hikes and job losses.

Exhibit 35: Recent moderation a consequence of pent-up demand in FY23 and overall slowdown in consumption



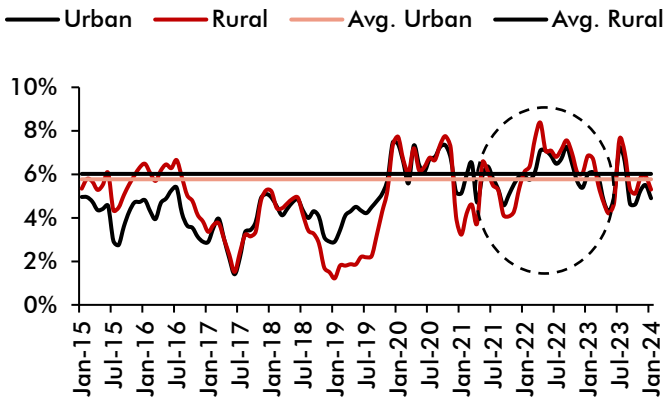
Source: Company, Ambit Capital research

xhibit 36: Naukri Jobspeak index trends mirror overall ıoderation in demand



ɔurce: Company, Ambit Capital research

Exhibit 37: Inflation has remained above RBI's inflation band in FY23

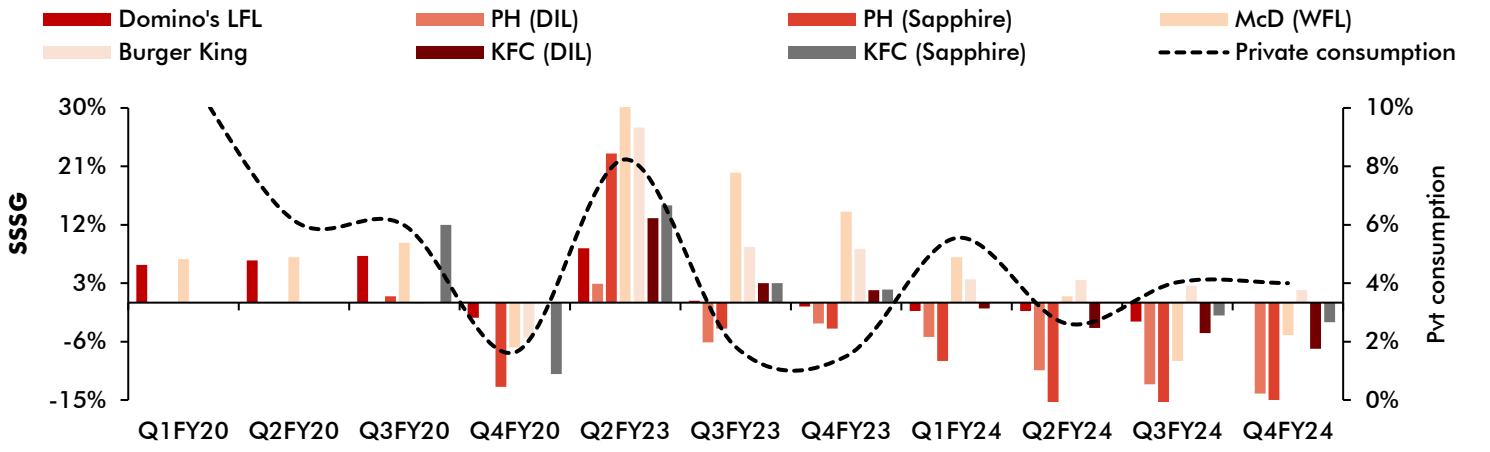


Source: CMIE, Ambit Capital research

Recent consumption slowdown is broad-based

Private consumption has been under pressure on the back of rising inflation and also the high base of FY23. This impacted consumption across categories and not just QSR. SSSG for most QSR companies slowed sharply over the past 4-5 quarters. At the same time, LFL growth for other discretionary consumption categories such as watches and apparel too slowed, suggesting the broad-based nature of this slowdown. Even private consumption data from the government suggests a sharp slowdown after Sep-22.

Exhibit 38: Muted consumption scenario has impacted recovery in QSRs



Source: Company, Ambit Capital research, Note: Not considered periods from 1QFY21 to 1QFY23 due to Covid impact.

Exhibit 39: The slowdown in SSSG is broad-based and seen in other discretionary categories too (ex jewellery)

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Pvt Consumption	11%	6%	6%	2%	18%	8%	2%	1%	6%	3%	4%	4%
QSR Companies												
Domino's LFL	6%	7%	7%	-2%	28%	8%	0%	-1%	-1%	-1%	-3%	0%
DIL - KFC	NA	NA	NA	NA	64%	13%	3%	2%	-1%	-4%	-5%	-7%
Sapphire -KFC	NA	NA	12%	-11%	65%	15%	3%	2%	0%	0%	-2%	-3%
DIL - PH	NA	NA	NA	NA	32%	3%	-6%	-3%	-5%	-10%	-13%	-14%
Sapphire -PH	NA	NA	1%	-13%	47%	23%	-4%	-4%	-9%	-20%	-19%	-15%
McD (WFL)	7%	7%	9%	-7%	97%	40%	20%	14%	7%	1%	-9%	-5%
Burger King	NA	NA	0%	-5%	66%	27%	9%	8%	4%	4%	3%	2%
Barbeque Nation	NA	NA	0%	-17%	182%	23%	-1%	-3%	-8%	-11%	-5%	1%
Retail Companies												
Lifestyle Brands	3%	7%	15%	10%	29%	27%	5%	16%	-3%	-12%	-2%	NA
Pantaloons	4%	10%	5%	-12%	NA	NA	1%	13%	-8%	-15%	3%	1%
Manyavar	NA	NA	NA	NA	105%	4%	-9%	14%	-22%	-18%	-2%	-3%
Metro Brands* (Rev/Sq.ft)					259%	33%	9%	16%	-3%	-2%	-9%	-6%
Tanishq	10%	2%	9%	-9%	195%	9%	9%	19%	22%	22%	10%	14%

Source: Company, Ambit Capital research

...aggressive store additions also partially affected

Despite the consumption slowdown, most QSR brands have been increasing store count at an aggressive rate (FY20-24 average CAGR: 15%) as they look to build presence. In addition, most QSRs have store opening commitments, which limit any moderation in store addition unless approved by global brand owners. Among the listed QSR brands, brands from Yum! (KFC and PH) posted the highest store addition over FY20-24 (23%/18% CAGR) driven by a) revamped store economics and b) funding driven by IPO of both the franchisees (DIL and Sapphire). For other QSRs, expansion growth has been in sync or lower than the earlier phase.

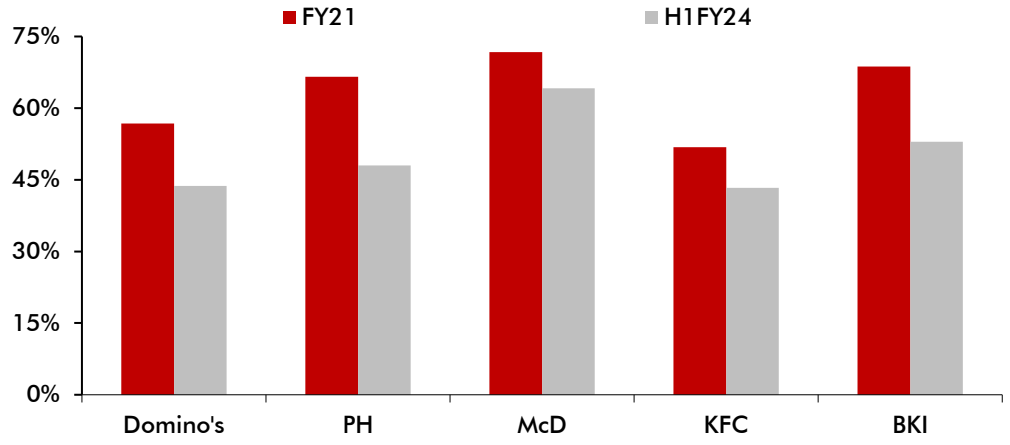
Exhibit 40: Only KFC and PH clocked significant step-up in expansion over FY20-24 compared to earlier phases

	FY11	FY15	FY18	FY20	FY24
Store Count (#)					
Domino's	378	876	1,134	1335	1,995
Subway	248	476	638	671	576
McDonald's*	130	209	277	319	397
KFC	151	352	342	443	1,025
Pizza Hut	NA	278	359	452	886
Burger King	0	12	129	260	455
Store CAGR (%)					
Domino's		23%	9%	9%	11%
Subway		18%	10%	3%	-4%
McDonald's*		13%	10%	7%	6%
KFC		24%	-1%	14%	23%
Pizza Hut		NA	9%	12%	18%
Burger King		NM	121%	42%	15%
SSSG CAGR (%)					
Domino's		11%	5%	10%	1%
Subway		NA	NA	NA	NA
McDonald's*		4%	7%	10%	13%
KFC		NA	NA	4%	2%
Pizza Hut		NA	NA	0%	-1%
Burger King		NA	NA	13%	5%

Source: Company, Ambit Capital research, Only south and west, SSSG data for KFC and PH is for DIL*

Store expansion would have impacted SSSG only to the extent of stores opened in the same city and within that too in a similar catchment area. While data for the same is limited, our sense is that there is some impact but the larger issue is the slowdown rather than store addition as the impact is broad-based across discretionary segments and visible in GDP consumption data too. Also, as per our workings, majority of the expansion was in the non-Top 8 cities, i.e. new markets.

Exhibit 41: Share of top 8 cities (on store count) has reduced across QSRs



Source: Company, Ambit Capital research

Snapshot of key players in the sector

Exhibit 42: Pizza is witnessing most new entrants, while chicken has new entrants yet the challenge is weak currently

	Sales FY23 (₹ bn)	Key QSR categories							
		Pizza	Burger	Chicken	Sandwich	Coffee	Chinese	Biryani	Rice bowl
JUBI: Domino's, Dunkin, Hong's Kitchen and Popeyes	51	Market leader	New foray	New foray		Weak challenger	New entrant	New entrant	
McDonald's	35		Market leader	New entrant		Successful challenger			New entrant
KFC	33		Weak challenger	Market leader					New entrant
Burger King	14		Successful challenger	New entrant		Potential entrant			New entrant
Pizza Hut	12	Distant # 2							
Subway	~10				Market leader				
Starbucks	11					Market leader			
Rebel Foods	~12	Gaining challenger	New foray				Weak challenger	Leader in cloud kitchen	Weak challenger
Eat Club (Box8)	~4	Gaining Challenger		New foray	New foray			Gaining Challenger	Successful challenger
Biryani by Kilo	2							Successful challenger	
WOW!	4			New foray			Leader in cloud kitchen		
Costa Coffee	1					Weak challenger			

Source: Company, VC Edge, Ambit Capital research, Note: For KFC and Pizza Hut taken the total of reported revenues under DIL and Sapphire

Exhibit 43: Comparison of contractual obligations indicate lower royalty payments for Jubilant Foodworks as against the franchisees of Yum!

Company / Brands	Royalty rate	Advertisement Contribution	Store opening fees
Devyani International	KFC and Pizza Hut - 6.3%	KFC and Pizza Hut - 6% (contribute 5% to Yum and spend 1% for localized/ store-based promotion and marketing activities)	KFC –₹4mn (USD53,400) for new stores opened in 2021 (subject to US CPI index) and renewal fee (every 10 years) is 50% of the existing initial fees
	Costa Coffee - 6%	Costa Coffee - 2%	Pizza Hut – ₹2mn (USD26,700) for new stores and renewal fee (every 10 years) of `1mn (USD13,350) Costa Coffee –₹0.05mn (GBP500) per store
Sapphire Foods	KFC, Pizza Hut and Taco Bell - 6% to 6.3%	India - 6% (including 1% to be spent on Local Store Marketing) Sri Lanka and the Maldives - 5%	Data not available but likely to be in-line with Devyani
Jubilant FoodWorks (Domino's)	~3.5% (including GST)	Actual avg ~6% over FY17-21	~ ₹0.5mn per store
Westlife Foodworld (McDonald's)	~4.6% (including GST). Scheduled to increase to 9.4% (8%+18% GST) from FY27	Actual avg ~5.1% over FY17-21	- ₹2mn per store
Burger King	3% to 5.9% (2.5% + 18% GST to 5% + 18% GST) depending on the opening date of the restaurant.	5% (+18% GST)	₹1.1mn (USD15,000) increasing to ₹2.6mn (USD35,000) from CY18 through year 2022 and remaining at ₹2.6mn) USD35,000 for all periods thereafter

Source: Company, Ambit Capital research

Competitive intensity much higher; focus on process complexity

QSRs face competition from 1) regional/new players scaling offline, 2) cloud kitchens and 3) global franchises. The intensity of incremental competition across these formats is different for different categories (pizza - cloud kitchens, burgers and chicken – domestic/regional brands). While aggregators helped QSRs initially by increasing delivery share and thus productivity, competitive intensity increased after aggregator scale-up as delivery channel and discovery were democratized. For QSRs to maintain market share, preparation process and sourcing complexity, brand preference will help mitigate emerging competition especially from cloud kitchen's and regional emerging brands. As per our framework, chicken has the highest barriers to entry followed by burger and then pizza. Maintaining market share will be the key driver in determining which company steps out of a slowdown once consumer sentiment revives and which company/brand continues to lose market share.

Competitive intensity surged driven by aggregators

Exhibit 44: QSRs face competition from three formats

Source: Ambit Capital research

The scale-up of aggregators drove a surge especially in the cloud kitchen segment as prima facie for cloud kitchens scalability was possible without investing in own delivery infrastructure. Both investment in kitchen infrastructure and timelines to scale significantly reduced. While the second order impact was hyper-competition between cloud kitchens, the initial draw of scalability with limited capital requirement led to the surge in cloud kitchens.

Exhibit 45: Pizza category has maximum competition from the cloud kitchen segment

	Pizza	Chicken	Burger
Category leader	Domino's	KFC	McDonald's
Market share	~65%	~75%	~65%
Regional/new players scaling offline	La Pino'z	Al-Baik	Jumbo King
	Chicago Pizza	Big Guys Wingery	Good Flippin
	Laziz Pizza	Chawla's Chicken	Burger Singh
		Chick Blast	Biggies Burger
		Mr Fried Chicken	Burger Company
		Genuine Broaster Chicken	Wat-a-Burger
		Five star Chicken	
		Wow Chicken	
Cloud Kitchen brands	Oven Story		Louis Burger
	Mojo's Pizza		Burger Rama
	Crusto		Nino
	Juno's Pizza		
Global Franchisees	**Pizza Hut**	**Popeyes**	**Burger King**
	US Pizza		Wendy's

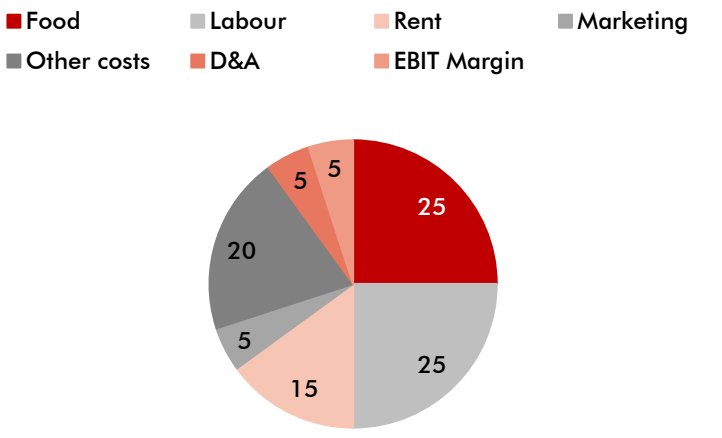
Source: Ambit Capital research, Note: Players in bold are the key competitors in the relevant category

The segment of competition impacting is different across cuisines, i.e. cloud kitchens are a bigger threat in the pizza category whereas domestic offline brands and global franchises are a bigger threat for the burger and chicken categories respectively.

Initially aggregators improved store economics for QSRs

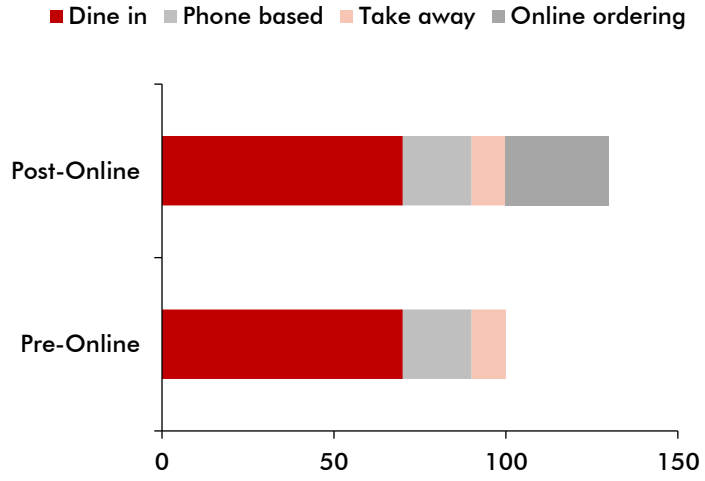
Online partnerships have been a driver for restaurants as they have helped increase overall topline by ~30% via a larger consumer base. With improved kitchen utilization, online partnerships also enabled restaurants to improve their bottomlines, especially considering most costs are fixed (only 25% of restaurant costs are food-related, i.e., variable). FoodTech delivery players have been able to provide value to partner restaurants. Even after factoring in platform commissions (~20%), the incremental business drives higher profitability for the restaurant.

Exhibit 46: Only 25% of food costs are food-related, i.e. variable



Source: Prosus, Ambit Capital research

Exhibit 47: Delivery platforms helped drive incremental business for restaurants



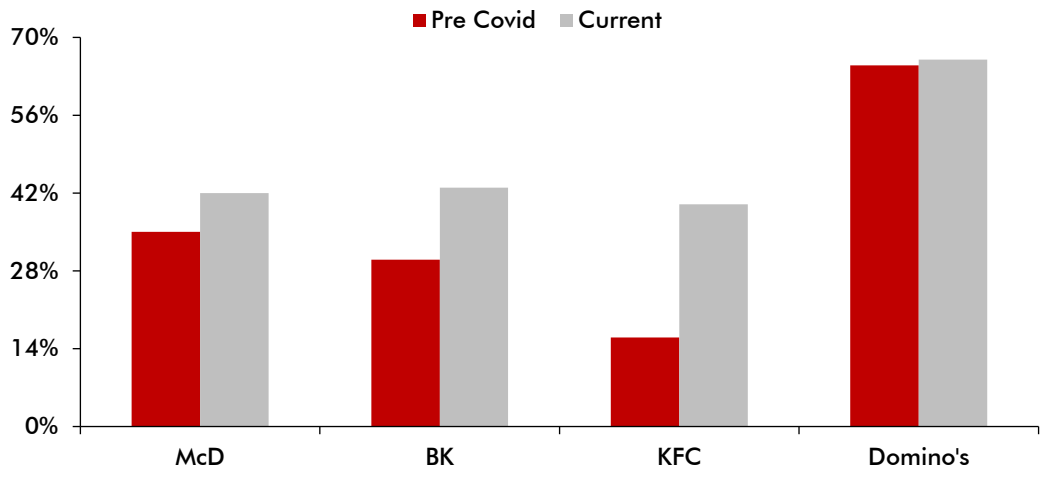
Source: Prosus, Ambit Capital research

Exhibit 48: Even factoring commission too, aggregators improved overall profitability

	₹
Realization Comparison	
Dine in Price	300
Average online mark-up (%)	10%
Price Listed online	330
Packaging charges	30
Total Received by Restaurant	**360**
Aggregator commission (%)	20%
Commission	66
Cost of Packaging (Assumed 70%)	21
Net Restaurant Realization	**273**
Margin Comparison	
Normalized Gross Margin (%)	65%
Normalized Gross Profit (₹) - A	**195**
Online Mark-up	30
Add: Packaging (net)	9
Less: Commission	66
Net Cost of Delivery (₹) - B	**27**
Incremental margin - Delivery (A-B)	168
Incremental margin - Delivery (%)	**56%**

Source: Company, Ambit Capital research

Exhibit 49: Delivery share for all QSRs (ex Domino's) increased vs pre-Covid levels

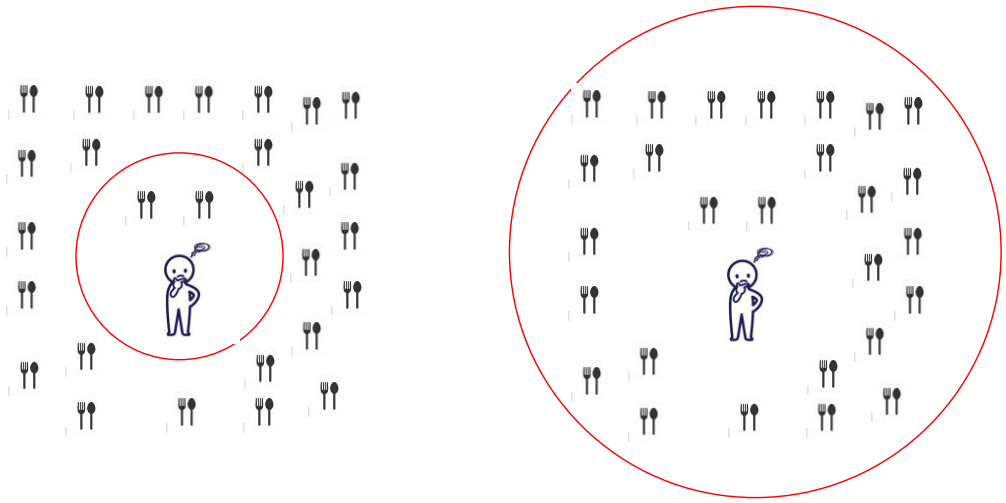


Source: Company, Ambit Capital research

However, aggregators democratized delivery, moderating delivery and choice moats

While aggregators improved unit economics for QSRs, they also democratized delivery which was a moat for many established QSR brands (especially Domino's). Today, given their reach and rider network, restaurants are able to serve a much larger customer segment. Also, the listings increased the search and discovery of restaurants. As a result, this increased competition both from choice and mindshare perspectives. This is especially a concern for delivery-driven business models.

Exhibit 50: Aggregators democratized choice and delivery moats



Source: Ambit Capital research

Focus on process complexity

While aggregators improved unit economics for QSRs, they increased customer options and hence fragmented sales. For QSRs to maintain market share, what will need to stand out is the process complexity/taste uniqueness that will help mitigate emerging competition especially from cloud kitchen's and regional emerging brands. We analyze various cuisines on the following parameters to assess the potential impact of increasing competition.

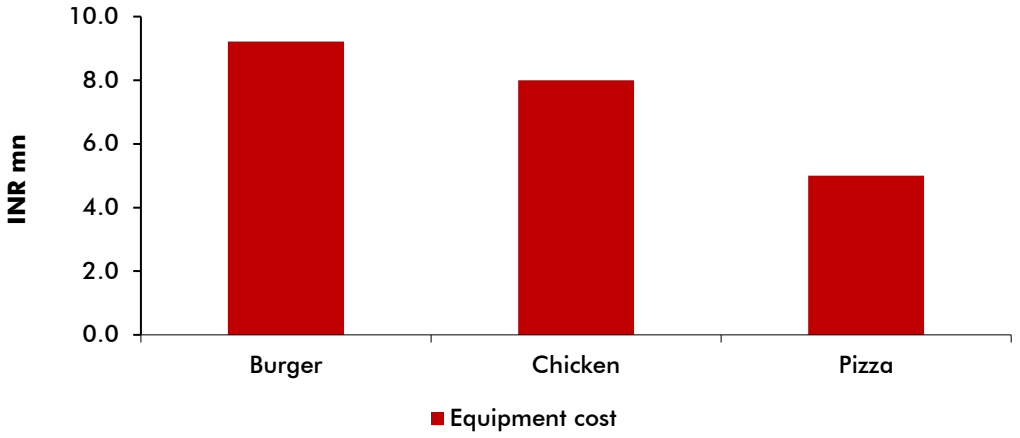
Exhibit 51: The chicken category has the highest entry barriers driven by RM sourcing and process complexity

	RM sourcing	Process Complexity	Delivery salience	Brand Preference	Current competitive intensity	Overall
Global						
Pizza	◑	◑	◔	◕	◑	◑
Burger	◕	◕	◕	◕	◕	◕
Chicken	●	●	◕	◕	●	●
Fusion						
Oriental	◑	◔	◑	◔	◔	◔
Indian						
North Indian	◑	◔	◔	◑	◔	◔
South Indian	◑	◑	●	◔	◔	◑
Biryani	◔	◔	◔	◔	◑	◔

Source: Ambit Capital research, Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak, Note: the scoring is from the perspective of evaluating category entry barriers thus the higher the complexity/difficulty, the higher the score

Even when we compare equipment cost per store, pizza has the lowest capex, which makes setting up easier vs other categories. Also, given in the dine-in preference for chicken and burger, the overall costs are higher.

Exhibit 52: Burger and chicken equipment costs are much higher than pizza



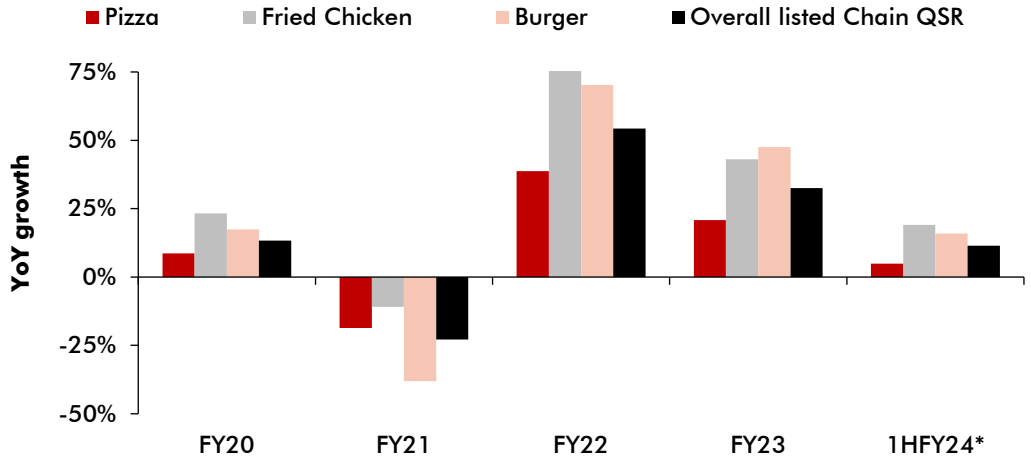
Source: Company, Ambit Capital research, Note: These costs are for established QSR brands. For individual brands, this cost will be lower assuming conditions of certain equipment/manufactures will not be there. However, proportion of investment difference between the cuisines will be the same.

In addition, chicken procurement is a complex process as one needs to tie up with a dependable farm, which can supply consistent quality of similar sizes. Overall, we believe, chicken as a category has natural barriers to scale from cloud kitchens.

Pizza has higher threat than other cuisines

Overall, rising dominance of Zomato and Swiggy impacted Domino's and Pizza Hut more than KFC and McDonald's/Burger King, which are still predominantly dine-in focused brands. Pizza category witnessed the slowest growth at least since FY20 among the listed QSR chains. Over FY19-1HFY24, pizza (Domino's and Pizza Hut) revenue clocked a CAGR of 10%, burger (Westlife - McDonald's and Burger King India) 17% and fried chicken (KFC) 30%. The slow growth of the listed pizza category can be explained by 1) market share loss to mushrooming alternatives such as La Pino'z (see company section for Jubilant Foodworks), 2) category fatigue as pizza was one of the few categories readily available during Covid, especially Domino's, and 3) normalized availability of alternatives cuisines as Covid impact normalized.

Exhibit 53: Pizza witnessed slowest growth among listed QSR chains since FY20 except in FY21 when the fall was moderate

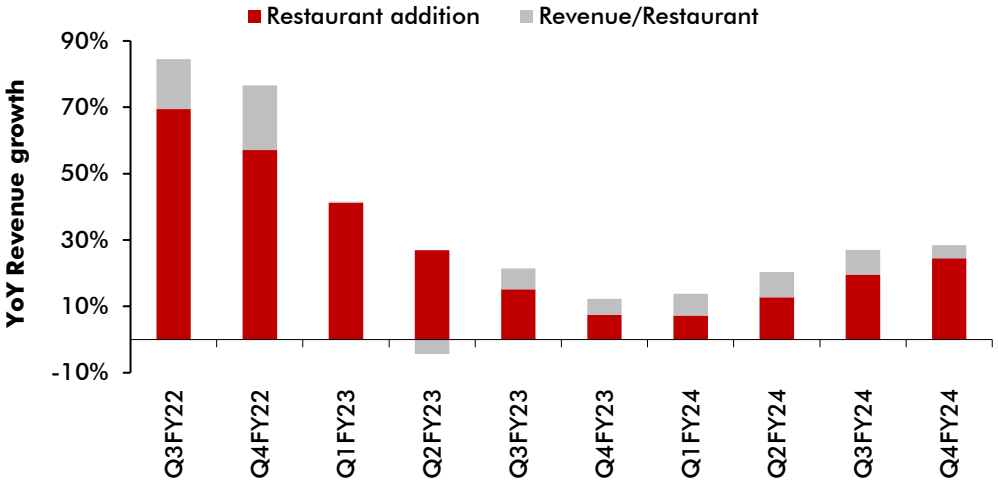


Source: Company, Ambit Capital research. YoY growth for revenue in respective categories for listed QSR chains.

Aggregators' higher growth a combination of network addition and slowdown

As per commentary during Zomato's 2QFY24 concall, QSR contributes single-digit percentage to its business while most of the business on its platform happens through smaller restaurants and a few outlet chains. Thus, the key driver of Zomato's higher growth vs QSRs is aggressive network addition and explains/drives majority of the growth for the business.

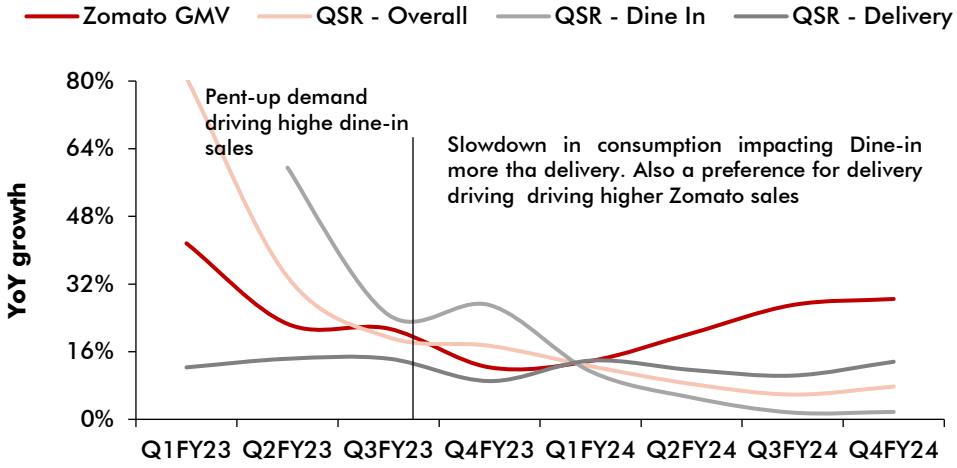
Exhibit 54: Restaurant addition the primary driver of Zomato's GMV growth



Source: Company, Ambit Capital research

In addition, the consumer slowdown has also seen customers prefer delivery over dine-in as dine-in on a per person basis turns out more expensive due to travel involved, higher spend per cover and also limited offers. Thus, slowdown aggravated the shift to delivery, further impacting QSRs This is visible not just in Zomato's growth but also in the divergence in delivery and dine-in sales for QSRs As per Zomato, "a lot of small restaurants, given the lack of growth in their business in the last six to nine months, are spending aggressively on ad sales on the platform to grow right now." Thus, even as QSR growth has slowed, it has been offset by a pick-up in sales from smaller restaurants.

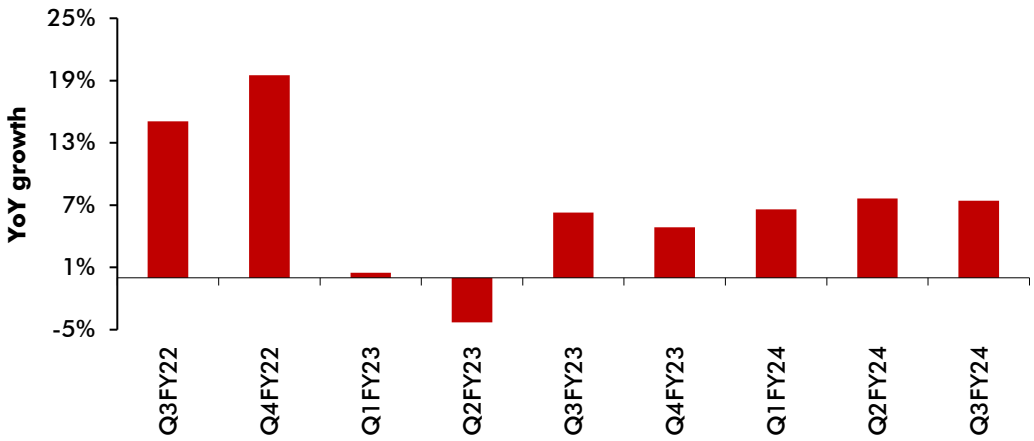
Exhibit 55: Slowdown in consumer sentiment saw customers prefer delivery over dine-in



Source: Company, Ambit Capital research

A similar trend is visible in Zomato's GMV/restaurant, which moderated during the pent-up demand phase of 4QFY22-3QFY23.

Exhibit 56: Zomato's GMV/restaurant moderated after FY22



Source: Company, Ambit Capital research

Cloud kitchens still to figure out unit economics and core proposition

Cloud kitchens got significant funding, especially during CY20/CY21, which helped them expand. It is similar to the D2C wave seen across other consumer segments. While cloud kitchen players such as Rebel Foods and Eatclub witnessed aggressive growth (Top 5 players' GMV already at ~20% of the listed QSR chain market), profitability remains distant. We believe the model has core issue of solving for lower customer acquisition costs (CAC). This flows from a lack of customer connect (driving higher marketing and commissions). The high CAC more than negates any rental savings.

Start-ups in dark/cloud kitchen space raised significant capital in the past few years...

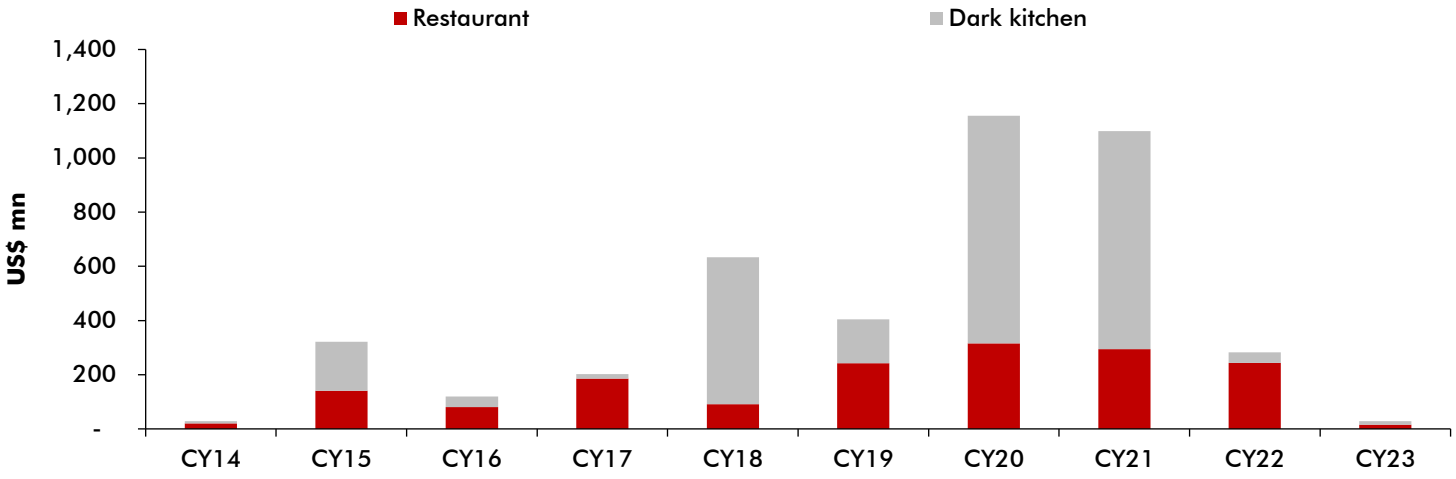
As compared to a decade ago, customers now have an ample number of alternatives available at home due to the aggressive network roll-out by food aggregators as well as cloud kitchens. This has been made possible due to significant capital raised by the cloud kitchen ecosystem over the past decade. Based on VCCEdge data, just the private equity and VC money that poured into identifiable transactions is US$1-2bn.

Exhibit 57: Growth of food aggregators and cloud kitchens is fuelled by PE/VC money

Category	Company	Brand/s	Amount raised over CY14-23 (US$ mn)
Dark kitchen	Rebel Foods	Faasos, Behrouz Biryani, Ovenstory pizza etc.	485
Restaurant/QSR	Impresario Entertainment	Social, Ishaara, BOSS Burger	111
Restaurant/QSR	Sunshine Teahouse	Chaayos	83
Restaurant/QSR	Paradise Food court	Paradise Biryani	75
Restaurant/QSR	Massive Restaurants	Pa ya, Farzi café, Louis Burger, Slyce pizza, Masala Library	62
Dark kitchen	Eatclub brands	Box8, NH1 bowls, Mojo pizza	58
Restaurant/QSR	Mountain Trail Foods	Chai Point	45
Restaurant/QSR	Wow Momo Foods	Momos	40
Dark kitchen	Sky Gate Hospitality	Biryani by Kilo	35
Restaurant/QSR	Degustibus Hospitality	Indigo, Neel, Tote	30
Dark kitchen	Foodvista India	Freshmenu	28
Restaurant/QSR	Foodlink Services	Banquet and restaurant	21
Restaurant/QSR	Azure Hospitality	Mamagoto, Dhaba etc	20
Restaurant/QSR	Maverix Platforms	Canteen Central	20
Restaurant/QSR	Olive Bar and Kitchen	Fine Dining	17
Food aggregator	Carthero Tech	Runnr	14
Restaurant/QSR	British Brewing Company	Bar	14
Restaurant/QSR	Absolute Barbeque	Barbeque	14
Dark kitchen	Eatgood Tech	Hungerbox	14
Restaurant/QSR	The Beer café	Bar	6
Dark kitchen	Good Flippin Foods	Good Flippin Burger	4

Source: VCCEdge, Ambit Capital research.

Exhibit 58: In the food service space, dark kitchens got much higher funding than restaurants

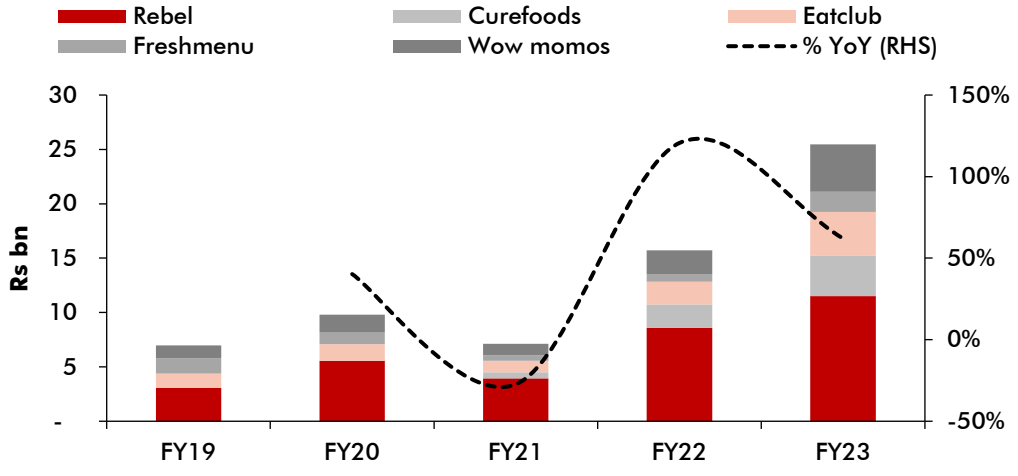


Source: VCCEdge, Ambit Capital research

CKs see high growth but scale still much below QSRs

When the listed chain QSR market registered 17% CAGR over FY19-23, Top 5 branded cloud kitchen players posted 38% CAGR. Rebel Foods (Faasos earlier) and Eatclub (Box8 earlier) are leading the bandwagon, together accounting for ~60% of total GMV of the Top 5 players.

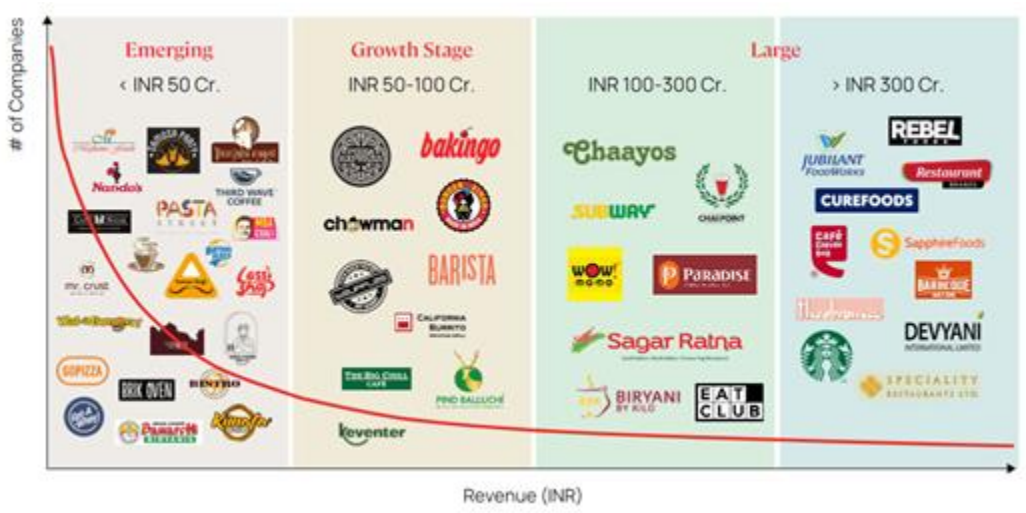
Exhibit 59: Top 5 cloud kitchen companies registered 38% CAGR over FY19-23 and are ~20% the size of listed QSR companies now



Source: Company, Ambit Capital research

Despite the growth and funding, only a few cloud kitchen-focused companies managed to scale up.

Exhibit 60: Very few food service companies have crossed ₹3bn topline



Source: Redseer Consulting

Exhibit 61: Rebel and Eatclub (Box8) lead the branded cloud kitchen model

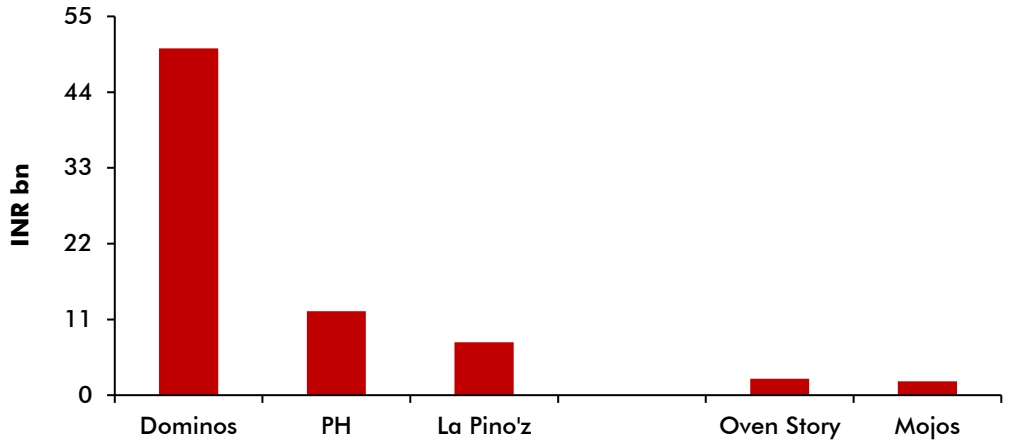
Company	Rebel Foods	Eatclub brands	Curefoods	Freshmenu	Wow Eats
Brands	11 brands under Eatsure – Faasos, Behrouz Biryani, Ovenstory pizza etc	Box8, Mojo Pizza, Itminaan Biryani, NH1 bowls etc.	EatFit, Sbarro, Junos Pizza, Chaat Street, Great Indian Khichdi, Canteen Central etc	Freshmenu	Wow Momos, Wow China!, Wow Chicken
Categories	Pizza, Biryani, Rolls/wraps, coffee, desserts, rice	Pizza, Biryani, Rolls/wraps, desserts, rice	Healthy meals, pizza, biryani, rolls/wraps, desserts, rice	Bowls, thalis, sandwiches, biryani	Momos, Chinese and chicken
Funding	US$527mn	US$40mn in Nov 21	₹9.5bn	US$33mn	
Latest Funding	₹ 750mn in Apr-23 valuing it at ~US$1.4bn	US$72mn+	₹ 3bn in Apr-23	US$7mn in Apr-22	US$9mn in Sep-23 valuing the co at US$340mn
Stores/ Kitchens	~500 cloud kitchens in 75 cities In India and 10 countries	150 cloud kitchen	100 QSR, 200 cloud Kitchens and 40 CDR		620
Revenue	₹ 11.5bn in FY23	~₹ 4bn in FY23	₹ 3.75mn in FY22	₹1.85bn in FY23	₹ 4.35bn in FY23
Loss	₹ 6.56bn in FY23	₹450mn in FY22	₹ 712mn in FY23		₹ 535mn in FY22
Cash burn	-ve CFO of ₹ 8bn over FY20-22 -ve FCF of ₹ 13bn over FY20-22	-ve CFO of ₹2bn	-ve CFO of ₹653mn		
Launched	2011	2012	2020		2008
Locations	75	5 cities incl. Mumbai, Bengaluru and Pune	340 stores in 15-16 cities		
Target	100 cities by end-2023 and IPO in 2 years		75k orders/day, ₹10bn ARR, 50 new stores by year-end		FY24 revenue of ₹ 6.5-7bn

Source: Media articles, Brand websites, Ambit Capital research. 60% of Curefoods stores are in South India

Brand connect missing, fueling discount-driven customer acquisition...

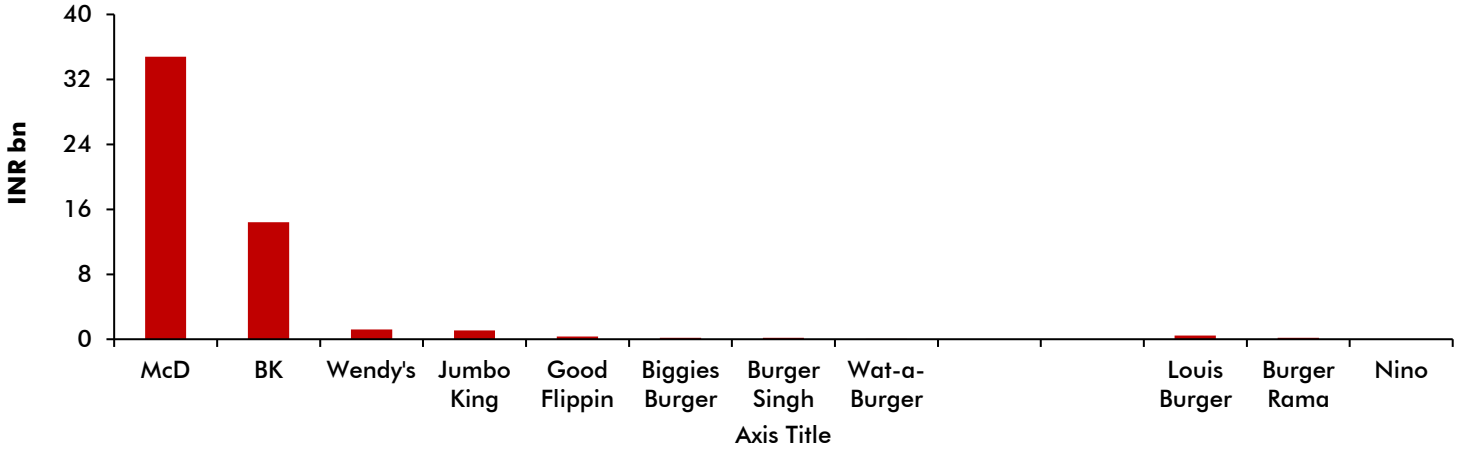
The crux of the delivery-only cloud kitchen model is savings on rental cost for prime locations and offering multiple brands and cuisines under a single roof. This helps them enjoy significant economies of scale vs single-brand QSR players . In an ideal state, initial discount and offer-driven sales which translate into high CAC moderate over time. Gross margins also improve as wastage reduces as demand certainty and sourcing leverage step into the business. While creating multiple brands out of one kitchen has the mathematical benefit of sharing costs across brands, where these cloud kitchens lost out is on creating a brand and customer connect – potentially a fallout of having too many brands.

Exhibit 62: In pizza, a category that has higher salience to delivery, cloud kitchen brands have not scaled up...



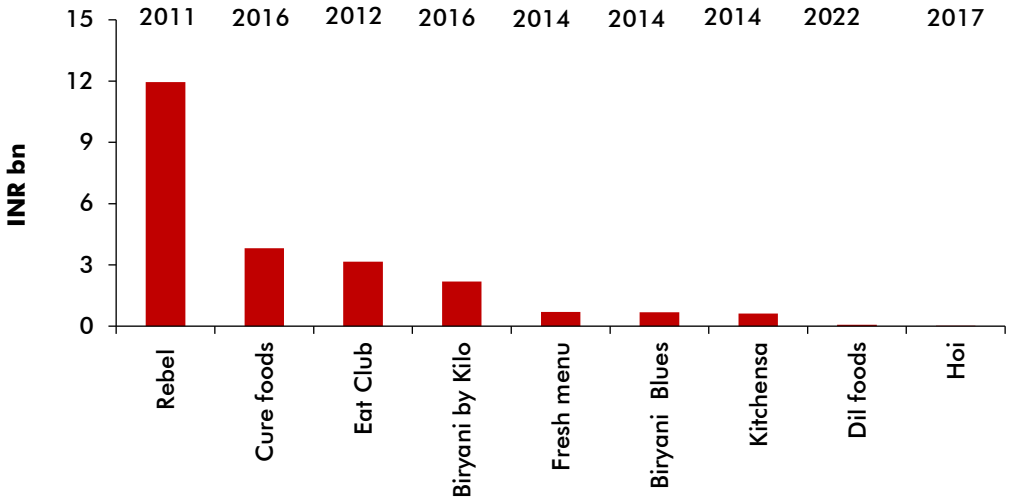
Source: Company, Ambit Capital research

Exhibit 63: ...and it is similar in the burger category



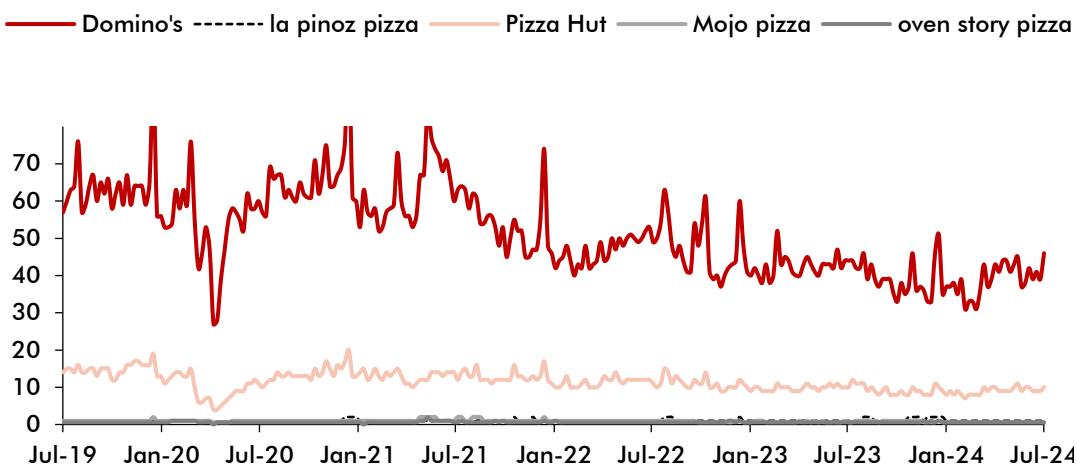
Source: Company, Ambit Capital research

Exhibit 64: Despite decent vintage, no cloud kitchen (ex Rebel) managed to scale up



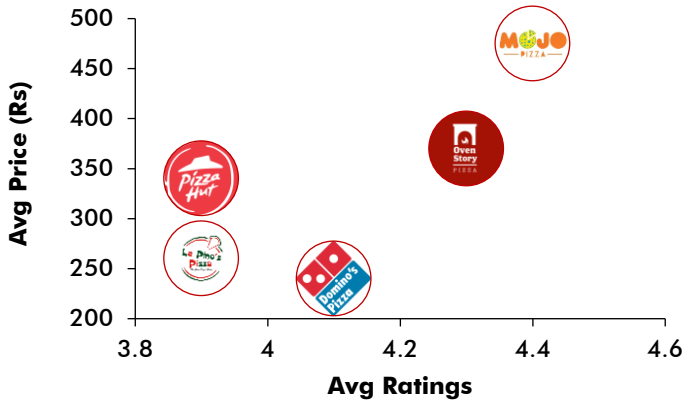
ɔurce: Company, Ambit Capital research, Note: Headings to bars refer to year of brand starting

Exhibit 65: Google search trends stagnant for cloud kitchens for the last 5 years



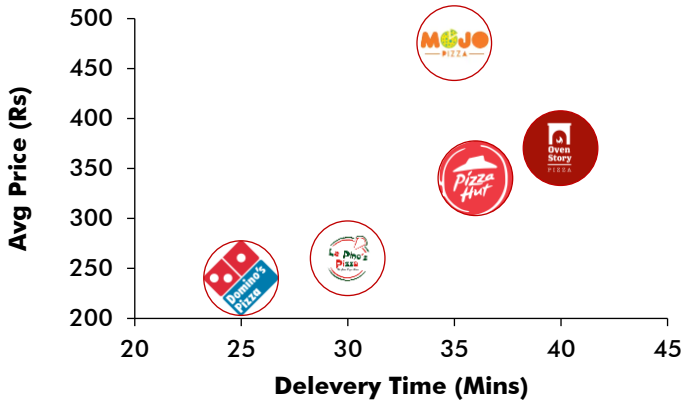
Source: Google

Exhibit 66: Cloud kitchen brands score on taste but are expensive



Source: Zomato, Ambit Capital research

Exhibit 67: Domino's is the most efficient on delivery and provides value for money



Source: Zomato, Ambit Capital research

Most branded cloud kitchen players are currently burning cash as growth plans target customer acquisition through aggressive discounting. Their commission payouts at 14-19% of sales and ad-spends of 10-15% of sales are significantly higher than that of JFL or DIL. Lower operating cost and economies of scale should have reflected in better gross margins for these players. However, in reality, they currently operate at 15-25ppt lower GMs than JUBI/Devyani. All of these are reflective of aggressive pricing strategy, higher discounting and A&P spend to acquire customers.

Exhibit 68: While theoretically great, in reality profitability remains distant

	IDEAL SCALE-UP					Actual
	Y1	Y2	Y3	Y4	Y5	
Orders per day (#)	50	55	60	62	64	30
AOV (₹)	250	263	276	289	304	250
ADS (₹)	12,500	14,438	16,538	17,943	19,448	7,500
Share of Aggregators	90%	80%	70%	60%	50%	90%
Common Size						
Revenue	100%	100%	100%	100%	100%	100%
Gross Margin	60%	61%	62%	63%	64%	58%
Employee	12%	11%	10%	10%	10%	20%
Rent	4%	4%	3%	3%	3%	7%
Power	3%	2%	2%	2%	2%	4%
Commission	23%	20%	18%	15%	13%	23%
Marketing	8%	8%	7%	7%	6%	13%
Other	2%	2%	2%	2%	2%	3%
Store/Kitchen EBITDA	**9%**	**16%**	**22%**	**26%**	**31%**	**-12%**

Source: Ambit Capital research

Exhibit 69: Cloud kitchens' current business model is discount-led, reflected in lower GM and higher commission payouts

₹ mn	Eatclub			Rebel Foods			Jubilant Foodworks			Devyani International		
	FY20	FY21	FY22	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
Revenue	1,530	1,070	2,100	4,060	8,586	11,952	32,689	43,311	50,960	11,348	20,840	29,977
COGS	598	400	830	2,000	4,460	5,775	7,150	9,742	12,272	3,447	5,998	8,986
Advertising and promotion	60	45	280	670	1,880	1,979	2,751	3,020	3,140	662	1,096	1,455
Commission	54	50	130	760	1,420	1,633	1,889	4,229	5,031	1,003	1,964	2,280
Employee expenses	638	400	780	1,950	3,020	4,054	7,357	7,514	8,896	1,543	2,482	3,452
Other expenses	545	375	570	2,310	3,510	4,829	10,748	13,905	17,639	5,240	7,353	10,590
PAT	(354)	(176)	(450)	(3,640)	(5,640)	(6,565)	2,794	4,902	3,982	(547)	1,947	3,214
Pre-tax CFO	73	(438)	(2,000)	(2,440)	(3,650)	NA	4,668	6,196	6,841	964	2,844	4,645
EBITDA	(246)	(77)	(320)	(2,434)	(4,269)	(4,518)	4,864	7,996	7,914	919	2,995	4,348
EBITDAM	(0)	-7%	-15%	-60%	-50%	-38%	15%	18%	16%	8%	14%	15%
RoCE	-191%	-30%	-17%	-40%	-32%	NA	10%	15%	12%	-3%	19%	18%
Gross margin	61%	63%	60%	51%	48%	52%	78%	78%	76%	70%	71%	70%
Commission to sales	4%	5%	6%	19%	17%	14%	6%	10%	10%	9%	9%	8%
Rent/utility to sales	20%	17%	NA	NA	NA	NA	13%	13%	14%	18%	17%	18%
Expense/Sales (₹)	124%	119%	123%	189%	166%	153%	91%	89%	92%	105%	91%	89%

Source: Ace Equity, VCCEdge, Company, Ambit Capital research. Commission payout for Jubilant includes franchisee fee paid to Domino's and freight and delivery expenses. Jubilant and Devyani numbers are pre-IND AS for rent, EBITDA and PAT.

Only pay a fair price for growth

QSRs in India are a growth story and a play on the under-penetration of the category with most brands being in the nascent stage. We believe QSRs should trade at a premium to all consumer categories except jewellery given growth visibility and lower competitive intensity. We evaluate QSR companies on a 6-factor framework to ascertain the valuation pecking order (Exhibit 70). Our DCF framework is built on assessing store potential for each key brand of these companies and assessing the margin profile based on store economics. We initiate Sapphire Foods with BUY and TP of ₹1,876 (25x FY26E EBITDA). However, we initiate Jubilant Foodworks with SELL and TP of ₹439 (27x FY26E EBITDA, 23x only Domino's India) due to limited scale-up potential and moderate SSSG growth. Devyani International is also a SELL TP: ₹149, 29x EV/EBITDA adj. for KFC Thailand) as we see no merit in paying a higher multiple for similar performing metrics as Sapphire.

QSRs in India are a play on the under-penetration of the category and the nascence of most brands, giving long-term growth visibility. Compared to other consumption categories, QSRs score in terms of the category growth with limited competitive intensity and higher barriers to entry. Given the asset-heavy nature of operations, return ratios are lower than other sub-segments. Also, scope for margin expansion beyond operating leverage is limited. We believe QSRs should trade higher than all categories except jewellery.

Exhibit 70: QSRs should trade at a premium to all consumer categories except jewellery

	FMCG	Alcobev	Paints	Jewellery	Footwear	Apparel	Grocery	QSR/Food
Sector/Category Growth								
Overall Size (₹ Trn)	18.4	3.2	0.6	5.6	0.8	5.5	49.5	0.4
Organized share (including Ecom)	65-70%	65-70%	>90%	36%	35%	38%	7.50%	100%
Organized growth rate	8-12%	7-11%	10-12%	13-15%	12-14%	12-14%	16-18%	~20%
Current penetration	High	Medium	Medium	High	High	High	High	Low
Predictability	●	◕	◕	◕	◑	◑	●	◑
Competition								
Competitive intensity	◕	◑	◑	◕	◔	◔	◑	●
Ease of entry	◕	●	◕	◑	◔	◔	◑	◑
Brand salience	◕	◕	◑	◑	◑	◕	◔	●
Returns								
Return profile	●	◑	◕	◑	◕	◕	◔	◑
1Y Forward PE	43	47	41	42	56	66	77	73
1Y Forward EV/EBITDA	31	34	28	32	30	17	50	19

Source: Company, Ambit Capital research, Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak.

We evaluate QSRs on the following framework.

- **TAM:** Potential scalability of each brand from this point in time.
- **Category:** We prefer chicken followed by burger and then pizza. This aspect also factors in the competitive intensity in the category.
- **Core RoCE profile:** The ROCE profile of the format is the building block of the company RoCE and eventually the health of the balance sheet and cash flow profile of the company. Category-wise, we prefer pizza category due to higher store RoCE profile driven by higher delivery share and smaller store sizes.
- **SSSG outlook:** SSSG, in our view and empirically too, is the key driver of near-term valuations. Beyond all these factors, brand strength and certain optionalities (e.g. addition of day parts, café etc.) can drive SSSG. We rate McDonald's as the highest in this attribute given: 1) brand strength, 2) track record of SSSG (FY22-24) and 3) footfall/ADS addition via McCafe.

- **Execution:** A factor of the track record of ***profitably*** scaling up brands and even current margin profile of brands. Jubilant Foodworks, on the back of its scale achieved for Domino's and overall profitability ranks highest in this parameter.
- **Optionality:** Here we assess whether the business created a platform/skill set than can incubate successful brands. We rate DIL the highest as it has two brands, i.e. Costa Coffee and KFC Thailand, which can scale up to be much larger than what we are building in.

Exhibit 71: JFL emerges on top of our qualitative framework, DIL and Sapphire are close second and third respectively

Parameters	JFL	WFL	BKI	BBQ	DIL	Sapphire
TAM/Store Potential	◕	◑	●	◑	◕	◕
Category (Competitive intensity)	◑	◕	◕	◔	◕	●
Store Economics/RoCE	●	◕	◑	◑	◕	◑
SSSG outlook (Includes Brand strength)	◑	●	◕	◔	◕	◕
Execution	●	◕	◑	◔	◕	◕
Optionality	◕	◔	◑	◕	●	◔
Overall	●	◑	◑	◔	●	◕

Source: Company, Ambit Capital research, Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak.

Exhibit 72: Jubilant Foodworks emerges on top of our qualitative framework due to its store economics, execution and optionality. Do not see a major difference in the evaluation for DIL and Sapphire, thus making a case for lower discount

	Jubilant Foodworks	Devyani International	Sapphire Foods
TAM/Store potential	At 1,995 stores already in 413 cities, we believe Domino's has the potential to reach ~3,000 stores in by FY30E. Popeyes being a nascent brand and the only relevant challenger to KFC, has potential to scale up.	Low penetration of KFC in India allows room for growth. As against a count of 596, the brand has current potential of ~850 stores, which we expect it will reach by FY28E. DIL has a higher share of the territory of PH, adds to the scalability evaluation for DIL.	KFC's contribution in Sapphire is much higher. Against a count of 429 stores, we see a potential of ~850 stores, which we expect Sapphire to reach by FY30E.
Optionality	Led by superior cash flow generation, success in Domino's and well-integrated supply chain, JUBI is experimenting across formats/cuisines and has entered international markets. Key optionality for JFL is DP Eurasia, its recent acquisition, whose profitability (~6% PAT margin) is much higher than JFL India.	DIL has the option to enhance the reach of Costa Coffee by opening small kiosk sized stores as against full-fledged stores. DIL recently acquired KFC Thailand, and potential to acquire remaining franchises could be a significant value-add.	Limited optionality for Sapphire.
SSSG outlook	Domino's in its initial years (FY08-14) clocked a 22% SSSG as market was underpenetrated and competition (primarily PH) was weak. Also, Domino's delivery capability was the best across QSRs That changed as aggregators scaled up. With the brand reasonably penetrated and competitive intensity much higher, we expect long-term SSSG to be mid-single digit.	KFC is the category leader in chicken. We are at present building in a 6% CAGR in SSSG from FY26 given the brand strength and chicken adoption. Expectations for PH are lower than Domino's given weak brand positioning.	Expectations for KFC and Sapphire are similar to DIL. For Sri Lanka, we expect SSSG profile to be better than India as Pizza Hut is a dominant and preferred brand in the country.
RoCE profile	Domino's store ROCE is one of the best across QSRs and the best across listed QSRs This is on the back of high productivity (factor of historic market share), high delivery share requiring lower real estate space and moderate kitchen capex. This reflects in the average RoCE for the company too. Popeyes RoCE profile, while decent, is much lower than Domino's.	KFC's store ROCE, after Domino's, is the best across QSRs including Sapphire as capex per store is lower. PH's store RoCE at present is substandard given the issues with the format. We await more clarity on KFC Thailand, DIL's recent acquisition.	Despite similar brands, DIL's store ROCE is lower for KFC due to higher capex per store. At the company level too, DIL's RoCE is better than Sapphire.
Execution	JFL's track record with Domino's on its profitable scale-up and market share gain does place JFL at the top when it comes to evaluating execution capabilities across companies. That said, other than Domino's, JFL has not expanded any other brand.	DIL, together with Sapphire and Yum, has turned around KFC. Other than KFC, all other brands remain sub-par. DIL has a slight edge on execution as it is promoter-run.	Performance is similar to DIL for KFC and PH.
Category	As discussed earlier, our relative preference order is Chicken>Burger>Pizza. As KFC's share of revenues/EBITDA is highest in Sapphire, we rank it the highest, followed by DIL.		

Source: Company, Ambit Capital research

DCF built on store potential and profitability

For the QSRs we cover, we have assessed the store potential for each major brand and built our store assumptions around those. We expect brand margin improvement to be limited over FY24-27E when the pace of store addition is high. We are not building in significant margin improvements for any of the formats except Pizza Hut, for which FY24 was a multi-year low due to a significant market share loss. While we expect it to deliver 19% store margin in FY44E, it is only 300bps higher than its FY22 margin and ~7% points lower than Domino's. For Sapphire's Sri Lanka operations, we build in FY44E brand margins to reach 22%, delivered in FY22, pre economic crisis in the country.

Exhibit 73: Store addition expectation is higher for KFC vs Domino's. Higher margin improvement in PH is primarily a case of low base in FY24.

	FY24	FY27E	FY44E	FY24-27E	FY24-44E
Stores (#)					
Jubilant Foodworks					
Domino's	1,995	2,575	5,825	9%	6%
Popeyes	42	242	1,001	79%	17%
Total stores	59	139	564	33%	12%
Devyani International					
KFC	596	946	2,175	17%	7%
PH	567	737	1,907	9%	6%
Total stores	1,630	2,410	5,924	14%	7%
Sapphire Foods					
KFC	429	639	1,614	14%	7%
PH	319	434	1,159	11%	7%
Total stores	868	1,248	3,326	13%	7%
Store/Brand EBITDA Margin					
Devyani International					
KFC	20%	21%	27%	89bps	769bps
PH	7%	12%	21%	484bps	1334bps
Sapphire Foods					
KFC	20%	21%	26%	80bps	580bps
PH	5%	12%	19%	710bps	1360bps

Source: Company, Ambit Capital research

Exhibit 74: Sapphire Foods FCFF growth is expected to be the highest; DIL's EBITDA growth has inorganic benefit

	Jubilant Foodworks (S)					Devyani International					Sapphire Foods				
	FY24	FY27E	FY44E	FY24-27E	FY24-44E	FY24	FY27E	FY44E	FY24-27E	FY24-44E	FY24	FY27E	FY44E	FY24-27E	FY24-44E
Revenue	53,409	82,988	407,574	16%	11%	35,563	71,136	332,236	26%	12%	25,943	40,057	226,806	16%	11%
EBITDA Pre IND AS	6,743	11,650	94,827	20%	14%	3,807	9,214	73,259	34%	16%	2,717	5,815	51,128	29%	16%
EBITDA Margin	13%	14%	23%			11%	13%	22%			10%	15%	23%		
PAT	2,429	5,725	65,325	33%	18%	681	2,972	37,039	63%	22%	520	2,227	30,817	62%	23%
FCFF*	(2,881)	3,658	63,136	NM	18%	(1,570)	1,926	47,372	NM	21%	(1,316)	1,168	34,107	NM	22%
RoCE (Pre Tax)	16%	20%	29%	412bps	1255bps	11%	18%	19%	696bps	874bps	9%	20%	26%	1069bps	1659bps
ROE	11%	18%	22%	722bps	1040bps	6%	16%	20%	1024bps	1385bps	4%	14%	25%	952bps	2061bps

Source: Company, Ambit Capital research, Note: FCFF CAGR is for FY27-44E

Factoring these expectations, our DCF-based TPs are as shown in the exhibit below. We initiate with a BUY on Sapphire Foods and SELL on Devyani International and Jubilant Foodworks.

Exhibit 75: Sapphire provides similar growth at a lower multiple

	CMP	TP	% Upside	FY24-27E CAGR			RoCE*	Target EV/E*		Target PE	
				Revenue	EBITDA	PAT**	FY26E	FY26E	FY27E	FY26E	FY27E
Jubilant Foodworks	573	439	-23%	16%	20%	32%	18%	27	22	61	45
Devyani International	163	149	-9%	26%	30%	55%	15%	26	21	85	60
Sapphire Foods	1,555	1,876	21%	16%	29%	62%	15%	25	20	83	54

*Source: Company, Ambit Capital research, *EBITDA and RoCE are Pre IND AS. PAT for JFL and DIL is adjusted for exceptional items in FY24. JFL estimates are on standalone basis.*

Both Jubilant Foodworks and Devyani International have the benefit of a new format/acquisition, i.e. Popeyes/KFC Thailand respectively. To get a better sense of current valuations, we adjust for the same.

Exhibit 76: Adjusting for KFC Thailand and Popeyes in JFL gives a true picture of core business valuation

	CAGR FY24-27E		EV/E - Post IND AS			EV/E - Pre IND AS			PE Ratio		
	Revenue	EBITDA*	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
JFL (S) - Ex Popeyes + DP Eurasia	13%	18%	27	23	20	42	34	29	110	74	54
DIL - Ex KFC Thailand	17%	27%	30	24	19	43	33	26	NA	NA	NA
Sapphire Foods	16%	29%	19	15	12	29	21	17	119	60	39
Median	**16%**	**27%**	**27**	**23**	**19**	**42**	**33**	**26**	**114**	**67**	**47**

*Source: Company, Ambit Capital research, *Pre IND AS EBITDA. Note: Valuations based on CMP*

Exhibit 77: Consensus expectations don't reflect DIL's and JFL's valuation adjustments and make DIL optically cheaper

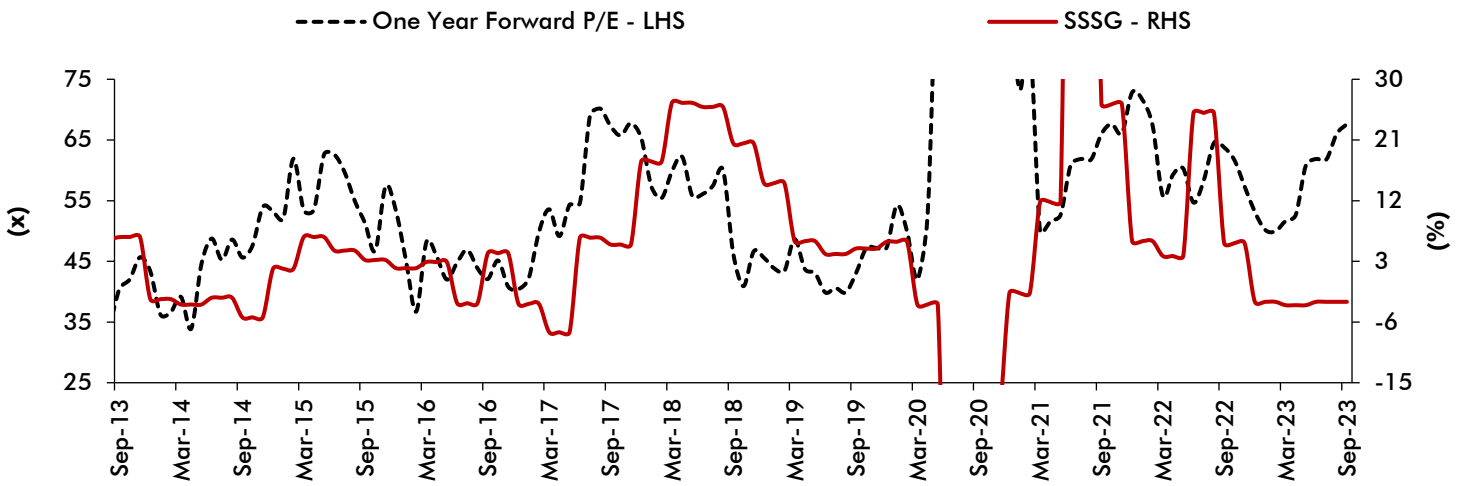
Company Name	M Cap (USD bn)	FY24-27E Sales CAGR (%)	FY24-27E EBITDA CAGR (%)	FY24-27E PAT CAGR (%)	FY24 EBITDA margin (%)	P/E (x)			EV/E (x) - Post IND			EV/E (x) - Pre IND		
						FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
India QSR Franchise														
Jubilant Foodworks Ltd	4.6	18	22	38	20	100	73	62	29	24	21	42	35	29
Devyani International	2.4	24	25	60	18	122	79	60	25	21	18	39	32	27
Westlife Foodworld Ltd	1.6	15	20	49	15	135	79	58	34	27	23	44	33	27
Sapphire Foods India Ltd	1.2	17	21	61	18	109	66	46	20	16	13	30	24	19
Restaurant Brands Asia Ltd	0.7	21	38	NM	10	NM	NM	NM	17	13	9	95	40	21
Barbeque Nation	0.3	13	19	NM	17	208	61	35	11	9	8	20	16	15
Average		**18**	**24**	**52**	**16**	**135**	**72**	**52**	**23**	**18**	**15**	**45**	**30**	**23**
Median		**18**	**21**	**55**	**17**	**122**	**73**	**58**	**23**	**19**	**16**	**41**	**32**	**24**

Source: Company, Ambit Capital research

Similar to other retail formats, SSSG has high impact on valuations

SSSG delivered by QSRs has the highest impact on its relative valuations, similar to other store-based retail formats. This is because of the high operating leverage of the business. A phase of high SSSG growth leads to significant improvement in margins and most importantly RoCE. The relation is visible globally too.

Exhibit 78: JFL's 1-year forward P/E has a high correlation to SSSG performance



Source: Company, Ambit Capital research

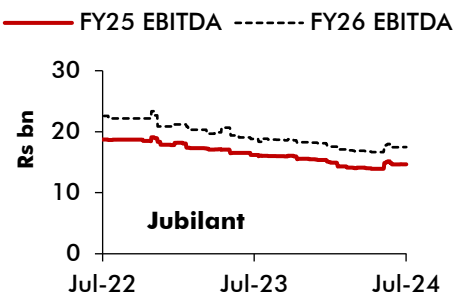
Ambit vs Consensus

Exhibit 79: Our expectations are marginally higher than consensus for Sapphire and lower for DIL and JFL

	FY25E			FY26E			FY27E		
	Ambit	Consensus	vs consensus	Ambit	Consensus	vs consensus	Ambit	Consensus	vs consensus
Jubilant Foodworks									
Revenue	60,991	60,722	0%	71,531	69,697	3%	82,988	79,783	4%
EBITDA	12,597	13,712	-8%	15,455	16,210	-5%	18,654	18,636	0%
EBITDA margin	21%	23%	-193bps	22%	23%	-165bps	22%	23%	-88bps
PAT	2,832	3,258	-13%	4,211	4,526	-7%	5,725	5,626	2%
Devyani International									
Revenue	53,156	52,223	2%	61,631	60,992	1%	71,136	70,638	1%
EBITDA	9,580	9,264	3%	11,820	11,501	3%	14,191	13,669	4%
EBITDA margin	18%	18%	28bps	19%	19%	32bps	20%	19%	60bps
PAT	1,335	1,454	-8%	2,118	2,404	-12%	2,972	3,256	-9%
Sapphire Foods									
Revenue	29,628	30,555	-3%	34,558	36,181	-4%	40,057	41,712	-4%
EBITDA	5,627	5,727	-2%	7,198	7,071	2%	8,843	8,444	5%
EBITDA margin	19%	19%	25bps	21%	20%	129bps	22%	20%	183bps
PAT	734	933	-21%	1,448	1,544	-6%	2,227	1,973	13%

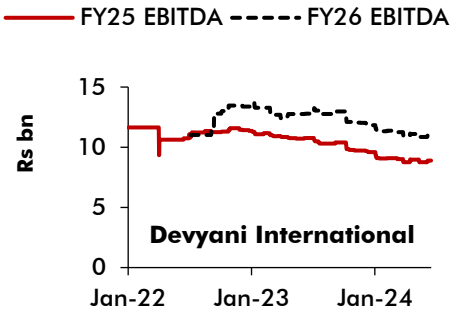
Source: Company, Ambit Capital research

Exhibit 80: The entire sector has seen...



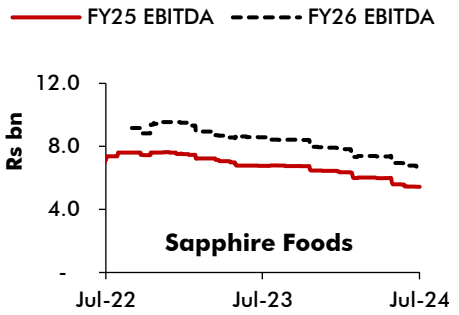
Source: Bloomberg, Ambit Capital research

Exhibit 81: ...cuts in estimates due to...



Source: Bloomberg, Ambit Capital research

Exhibit 82: ...muted consumption pick-up



Source: Bloomberg, Ambit Capital research

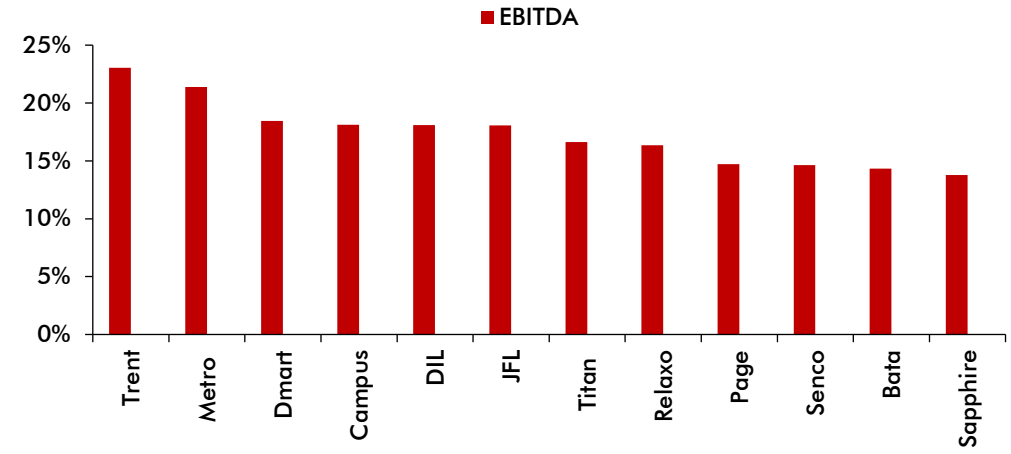
Global QSRs a combination of brand owners and franchises

Globally, there are two models in place for QSRs –1) brand owners and 2) franchise QSRs in other countries, mainly developing ones. Global brand owners have franchised most of their operations, and franchise income is the primary source of revenues. Thus these companies have high FCF, but growth is much lower. Franchise QSRs present an opportunity similar to what could play out in India over the coming decade. For some successful global franchises which have scaled up (KFC in China, Dominos in Australia), it has been a case of sustained earning growth. Indian QSR names are trading at a significant premium to the US brands because of the growth premium, as discussed above. As compared to 20-25x FY25E P/E for US QSR chains, Indian franchisees are trading at 60-75x for the higher growth and longevity of growth.

Valuations versus other discretionary companies

QSR names are comparable to other discretionary names like Trent, Titan, Relaxo and Avenue Supermarts in terms of value proposition, opportunity size, longevity of growth and RoCE. At current valuations, implied EBIT CAGR ask is the highest for Trent, Sapphire and Devyani International. Terminal value contribution to their overall valuation is the highest for Devyani, Avenue and Sapphire. Jubilant Foodworks is at the lower end within these names on both counts.

Exhibit 83: Implied growth rate of EBITDA over FY24-44E as per reverse DCF



Source: Company, Ambit Capital research

Exhibit 84: The entire consumer discretionary space in India trades at premium valuations

Company Name	M Cap (USD bn)	FY24-27E Sales CAGR (%)	FY24-27E EBITDA CAGR (%)	FY24-27E PAT CAGR (%)	FY24 EBITDA margin (%)	P/E (x)				EV/EBITDA (x) - Post IND AS 116			
						FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
Domestic companies													
Grocery													
Avenue Supermart (DMart)	38.5	19	24	27	8.1	127	95	77	63	78	61	50	41
Spencer	0.1	NA	NA	NA	(0.5)	(3)	NA	NA	NA	(123)	NA	NA	NA
Jewellery													
Titan Co Ltd	34.3	19	23	25	11.3	82	65	52	42	57	46	38	30
Kalyan	6.2	28	23	38	7.1	87	58	42	33	42	33	26	23
Senco	0.9	19	20	23	7	41	32	25	22	NA	NA	NA	NA
Innerwear													
Page Industries Ltd	5.3	13	16	18	19.0	78	67	56	48	51	44	37	32
Lux Industries Ltd	0.7	NA	NA	NA	8.4	44	22	17	NA	28	16	12	NA
Dollar Industries Ltd	0.4	NA	NA	NA	10.2	32	24	18	NA	21	16	12	NA
Rupa	0.3	NA	NA	NA	10.1	32	19	15	NA	18	13	11	NA
Apparel Retail													
Trent Ltd	24.0	30	31	24	15.5	136	126	91	72	105	76	58	47
ABFRL	3.9	15	23	(137)	10.5	(45)	(75)	(179)	870	25	19	15	13
Shoppers Stop Ltd	1.1	18	20	60	17.7	121	74	42	29	17	15	12	10
V-Mart Retail Ltd	0.8	15	36	(199)	7.7	(67)	(486)	129	70	37	25	19	15
Branded Apparel													
Vedant Fashions Ltd	3.0	16	17	18	48.1	60	54	45	37	37	34	28	23
GoFashion	0.7	19	13	20	31.9	68	53	40	39	25	20	17	18
TCNS Clothing Co Ltd	0.4	NA	NA	NA	(19.3)	(12)	NA	NA	NA	(22)	NA	NA	NA
Arvind Fashions Ltd	0.8	13	NA	45	12.4	64	48	31	21	15	13	10	NA
Kewal Kiran Clothing Ltd.	0.5	15	18	NA	20.6	27	24	21	NA	21	18	15	13
Footwear													
Relaxo Footwears Ltd	2.5	14	21	27	14.0	102	79	62	50	51	40	33	29
Metro Brands Ltd	4.3	18	19	16	29.7	87	83	67	55	52	44	36	31
Bata India Ltd	2.3	11	18	29	22.6	74	54	44	35	26	23	20	16
Campus Activewear Ltd	1.1	16	25	32	14.2	93	62	49	40	44	33	27	23
Luggage													
V.I.P Industries Ltd.	0.8	14	41	75	8.6	122	44	29	23	38	22	16	14
Safari Industries (India) Ltd.	1.2	18	18	21	17.9	59	51	41	33	37	32	26	22
Average		**17**	**23**	**9**	**14**	**59**	**26**	**37**	**88**	**30**	**31**	**25**	**23**
Median		**16**	**20**	**24**	**12**	**66**	**54**	**42**	**40**	**37**	**25**	**20**	**23**

Source: Company, Ambit Capital research

Exhibit 85: QSRs in India trade at much higher valuation than global peers on expectations of higher growth

Company Name	M Cap (USD bn)	FY24-27E Sales CAGR (%)	FY24-27E EBITDA CAGR (%)	FY24-27E PAT CAGR (%)	FY24 EBITDA margin (%)	P/E (x)			EV/E (x) - Post IND		
						FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Chipotle Mexican Grill Inc	79.2	14	14	20	23	49	41	35	34	28	24
Texas Roadhouse Inc	11.3	10	11	16	12	27	25	22	18	16	15
Haidilao International Holding Ltd	9.9	9	8	11	21	15	13	12	8	7	7
Jollibee Foods Corp	4.4	12	12	18	13	26	21	17	9	8	7
Bloomin' Brands Inc	1.5	2	(4)	1	14	7	7	6	7	7	7
Brinker International Inc	2.8	3	3	14	11	14	13	12	11	10	10
Cheesecake Factory Inc/The	1.9	6	0	17	9	12	11	10	13	12	11
Jack in the Box Inc	1.0	(1)	(8)	7	28	8	7	6	13	12	12
Guangzhou Restaurant Group Co Ltd	1.2	11	21	22	19	14	12	8	9	8	5
BJ's Restaurants Inc	0.9	4	2	26	10	25	21	18	11	10	9
Jiumaojiu International Holdings Ltd	0.7	20	23	23	23	9	7	6	4	3	2
Chuy's Holdings Inc	0.4	7	NA	NA	17	13	12	NA	9	8	NA
Denny's Corp	0.4	NA	NA	NA	15	11	11	NA	9	8	NA
Ajisen China Holdings Ltd	0.1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Shakey's Pizza Asia Ventures Inc	0.3	10	16	14	17	12	11	10	8	7	6
Average		**8**	**8**	**16**	**17**	**17**	**15**	**14**	**12**	**10**	**10**
Median		**9**	**9**	**17**	**16**	**13**	**12**	**11**	**9**	**8**	**8**
Global QSR Brand owners											
McDonald's Corp	183	6	4	6	58	20	19	18	16	16	16
Starbucks Corp	85	7	5	9	22	20	18	16	14	13	11
Yum! Brands Inc	37	8	8	8	36	22	20	18	18	16	15
Restaurant Brands International Inc	34	9	18	4	28	15	13	12	16	15	14
Darden Restaurants Inc	17	5	6	8	16	15	14	13	12	11	10
Domino's Pizza Inc	17	7	7	10	21	30	27	25	22	20	19
Jollibee Foods Corp	4	12	12	18	13	26	21	17	9	8	7
Papa John's International Inc	1	2	3	10	11	18	15	13	11	10	9
Average		**7**	**8**	**9**	**26**	**21**	**19**	**17**	**15**	**14**	**13**
Median		**7**	**6**	**9**	**22**	**20**	**18**	**16**	**15**	**14**	**13**
Global QSR Franchise											
Yum China Holdings Inc	13	9	2	7	18	14	13	11	59	54	50
Domino's Pizza Enterprises Ltd	2	7	15	26	14	23	19	15	12	11	9
Domino's Pizza Group PLC	2	8	9	(2)	20	15	14	13	12	10	10
AmRest Holdings SE	1	8	NA	29	15	18	14	12	6	6	NA
Arcos Dorados Holdings Inc	2.1	9	12	12	11	7	6	5	7	6	5
Collins Foods Ltd	0.7	7	8	20	15	17	14	12	7	7	6
Average		**8**	**9**	**16**	**15**	**16**	**13**	**11**	**17**	**16**	**16**
Median		**8**	**9**	**16**	**15**	**16**	**14**	**12**	**9**	**9**	**9**

Source: Company, Ambit Capital research

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Sapphire Foods India

BUY

INITIATING COVERAGE | **SAPPHIRE IN EQUITY** | **July 18, 2024**

Scalability is the juice in the bite

Sapphire's key proposition is scalability of KFC (our estimate, ~850 stores by FY31 vs 429 in FY24) backed by robust store economics (mature KFC stores clock 40%+ RoCE). This would drive 16%/11% revenue CAGR over FY24-27E/24-44E and RoCE from 9% to 18% over FY24-27E. Competition in chicken QSR is lowest across categories and should remain moderate given process complexity and brand preferences. Another lever is turnaround in Sri Lanka operations where Sapphire has leadership via Pizza Hut and was highly profitable pre-crisis. With Lankan economy improving, profitability would bounce back. DCF-based TP of ₹1,876 (25x FY26E EV/EBITDA pre-IND AS) builds in 16% EBITDA CAGR (FY24-44E) with KFC:Pizza Hut:SL value split of 82:5:13. Key risks: Prolonged demand weakness and competition, especially Popeyes, impacting KFC.

Competitive position: STRONG Changes to this position: NEUTRAL

KFC: Store scalability backed by strong unit economics

Yum, along with DIL and Sapphire, revamped KFC's store economics via 1) right-sizing of stores, 2) improved delivery salience and 3) menu/positioning with a clear chicken focus. This improved store RoCE from ~20% to >40% for the revamped formats. Despite KFC's aggressive store addition over FY21-24 (28% CAGR), potential to expand remains high; our calculations give us an estimate of ~850 stores (429 in FY24) for the format in FY31. Further, among major QSR categories current and potential competitive intensity is lowest in chicken.

Pizza Hut: A patchy journey and now back to square one

Pizza Hut (PH) performance, unlike KFC, remains inconsistent. The brand had multiple pivots. After temporary improvement in FY22-23, FY24 showing was weak (-16% SSSG), reflecting the structural issue of no clear positioning or brand connect. Such a customer mindset pivot will be elongated and hence expectations on market share (stable vs Domino's), SSSG (lower than KFC, Domino's) and margins (~7% points lower than Domino's) are moderate.

Sri Lanka macro recovery to drive performance

Sapphire's Sri Lanka operations were its most profitable segment (22% restaurant EBITDA share in FY22) which was hit (FY24: 10%) by the macro-economic crisis, especially hyperinflation (FY23 CPI: 58%). With the macro-economic situation stabilizing w.r.t. inflation and GDP growth returning, we expect PH, SL's largest QSR chain, to clock pre-crisis profitability.

Valuation attractive relative to growth and TAM

As compared to revenue/pre-IND AS EBITDA CAGR of 16%/29% over FY24-27 (peer avg:15%/23%), Sapphire's FY26E EV/EBITDA of 21x seems ripe for re-rating (peer avg: 33x) driven by execution and consumer demand improvement. Sapphire's valuations have also been lower than peers' due to consistent promoter selling (20% stake in 24 months). With this expected to moderate/cease soon, there will be limited or nil impact ahead.

Key Financials

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	22,656	25,943	29,628	34,558	40,058
EBITDA	4,284	4,613	5,627	7,199	8,843
Profit after tax (adjusted)	2,332	520	734	1,448	2,227
pre-tax RoCE	9.7%	7.2%	8.4%	11.4%	13.8%

Source: Company, Ambit Capital research

Quick Service Restaurants

Recommendation

Mcap (bn):	₹99/US$1.2
6M ADV (mn):	₹257/US$3.1
CMP:	₹1,552
TP (12 Mths):	₹1,876
Upside (%):	21

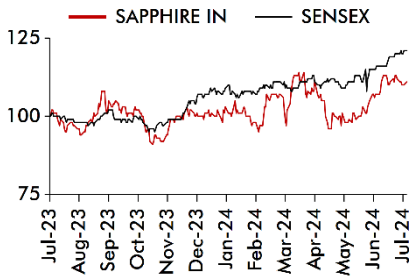
Flags

Accounting:	AMBER
Predictability:	AMBER
Earnings Momentum:	GREEN

Catalysts

- SSSG pick-up across key formats, especially KFC; we expect 6% SSSG in 2HFY25E.
- Robust KFC store addition run-rate; we build in 70 stores in FY25E.

Performance



Source: ICE, Ambit Capital Research

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The Narrative in Charts

Exhibit 1: Sapphire has been expanding the presence of KFC and Pizza Hut brands in India and Sri Lanka

Business Snapshot (FY24)	India		International	Overall
	KFC	Pizza Hut	Sri Lanka & Maldives	SapphireFoods
Outlets (FY24)	429	319	113 PH, 9 TB*, 2 KFC	872
Cities (as of FY23)	90	66	52	NA
Revenue	17,157	5,185	3,397	25,943
Gross margin	68%	76%	62%	
Restaurant EBITDA	3,380	254	465	4,092
Restaurant EBITDA margin %	19.7%	4.9%	13.7%	15.8%
Store level revenue share	66%	20%	13%	
Store level EBITDA share	83%	6%	11%	
FY20-24 store CAGR	23%	16%	17%	20%
FY20-24 revenue CAGR	22%	12%	14%	18%
FY20-24 EBITDA CAGR	35%	1%	9%	27%

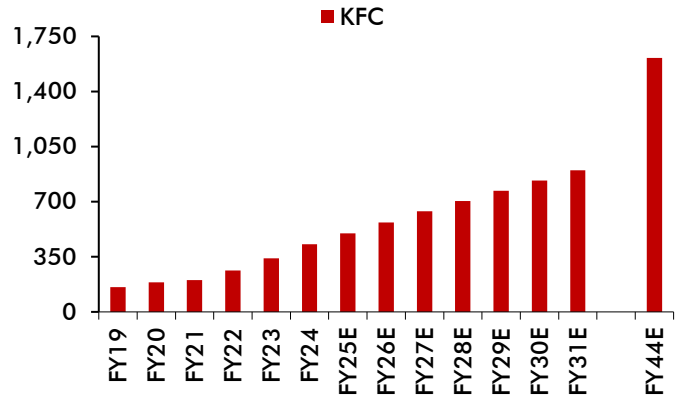
*Source: Company, Ambit Capital research, *Taco Bell*

Exhibit 2: Store economics have significantly improved driven by smaller formats

₹ mn/Store	Existing – 2,500-3,000 Sq. Ft Stores						New Stores – 1,500-2,000 Sq. Ft Stores					
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue		29	38	46	50	54		29	38	46	50	54
Dine In (%)		80	80	80	80	80		65	65	65	65	65
Delivery (%)		20	20	20	20	20		35	35	35	35	35
EBITDA		1.7	5.3	8.1	9.3	10.8		3.4	6.8	10.0	11.4	12.7
Store EBITDA Margin (%)		*5.9*	*14.0*	*17.6*	*18.7*	*19.9*		*11.9*	*18.0*	*21.8*	*22.8*	*23.5*
Total Investment	21						17					
Store RoCE (%)		-2	15	28	34	41		10	30	49	57	64

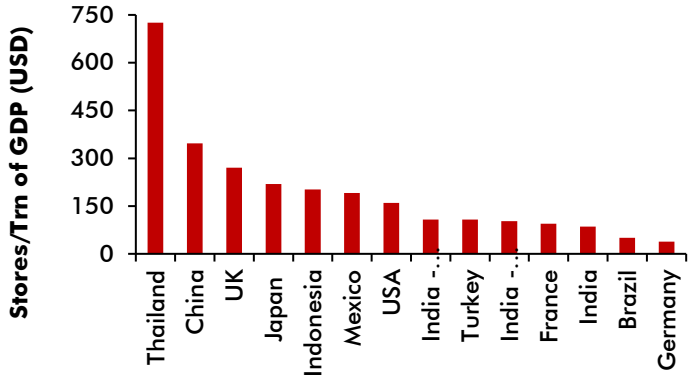
Source: Company, Ambit Capital research

Exhibit 3: Expect Sapphire to reach current potential by FY31E; 7% CAGR over FY24-44E



Source: Company, Ambit Capital research

Exhibit 4: KFC's penetration in FY30/FY36E is expected to improve but will still be below the emerging market average



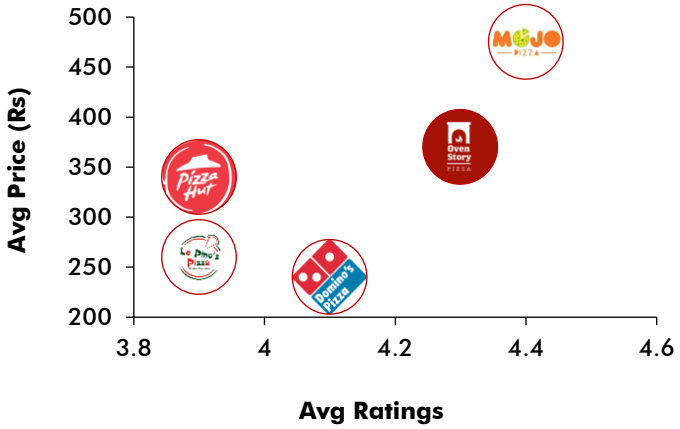
Source: Company, Ambit Capital research

Exhibit 5: Enough depth for market to accommodate growth plans for QSR

₹ bn	FY15	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY15-20	FY20-24E	FY24-27E
KFC - DIL	NA	5	6	6	12	18	20	24	29	34	NA	35%	19%
KFC - Sapphire	NA	7	8	6	10	15	17	20	23	27	NA	22%	16%
KFC - Yum/Other franchisees	NA	7	5	1	1	1	1	1	1	1	NA	-31%	5%
Total KFC	**11**	**18**	**19**	**13**	**24**	**33**	**39**	**45**	**54**	**63**	**12%**	20%	**17%**
Popeyes	0	0	0	0	0	0	1	2	5	8	NA	NA	109%
McDonalds					1	1	2	2	3	3	NA	NA	26%
Others	5	8	9	10	10	11	11	12	12	13	**11%**	5%	5%
Total Market (₹ bn)	**16**	**26**	**28**	**23**	**34**	**45**	**52**	**61**	**73**	**87**	12%	**17%**	**18%**

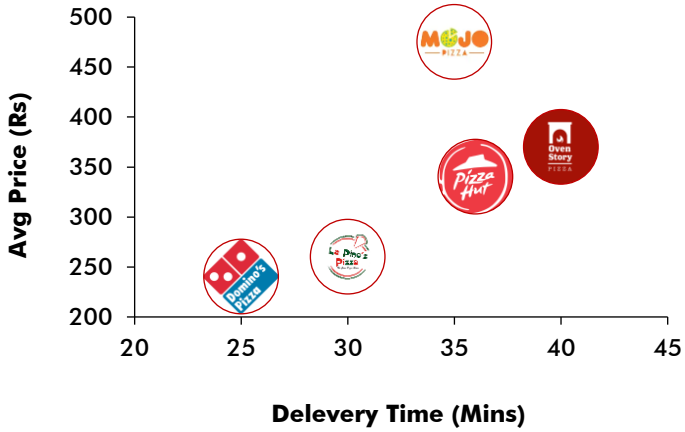
Source: Company, Ambit Capital research

Exhibit 6: Pizza Hut is missing a clear proposition...



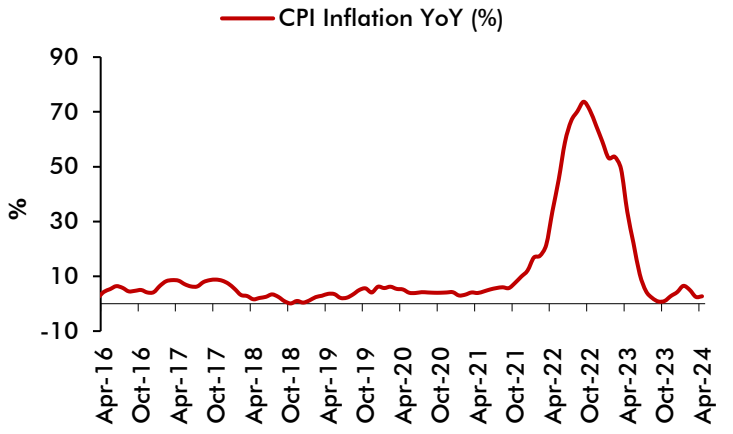
Source: Company, Ambit Capital research

Exhibit 7: ...tops on neither value, taste nor speed



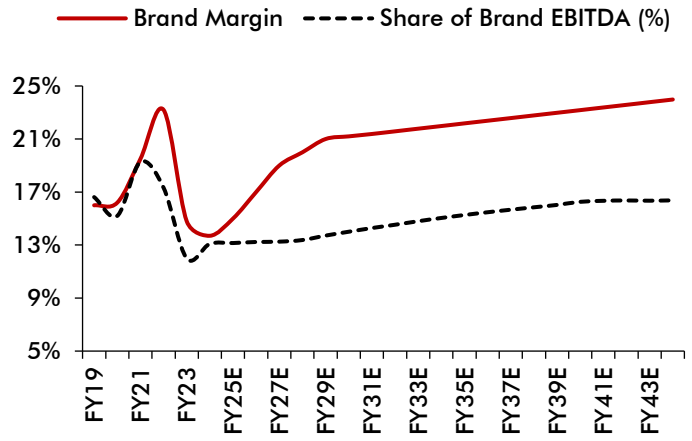
Source: Company, Ambit Capital research

Exhibit 8: Inflation situation in Sri Lanka normalizing



Source: World Bank, Ambit Capital research

Exhibit 9: Brand margin to improve in expectation of the macro recovery. However, still lower than FY22 peak



Source: Company, Ambit Capital research

Store scalability backed by strong unit economics

After acquiring stores and taking over rights from multiple franchisees, Sapphire improved customer experience (store interiors plus menu revamp) and store economics (right-sizing stores with higher delivery share). This reflects in store ROCE improvement from an average of ~23% to >40%. KFC entered India in 1996 but expansion picked up only in the last three years. Even now, at 0.7 stores/million people, KFC is underpenetrated compared to other developing countries. Our store potential analysis at the current per capita puts KFC's potential for Sapphire at 810 stores (FY24: 429). We expect Sapphire to reach this count by FY31 and by FY44 we build in 1,614 stores; i.e. a 7% CAGR over FY24-44. In FY44, too, KFC's penetration per million people will be around 1.2 stores, still lower than global emerging countries average at present. Our preference for KFC also comes from the limited competitive intensity (no pan-India brand ex-Popeyes) and the process complexity in chicken cuisine, which limits competition unlike pizza.

Exhibit 10: Sapphire has been expanding the presence of KFC and Pizza Hut brands in India and Sri Lanka

Business Snapshot (FY24)	India		International	Overall
	KFC	Pizza Hut	Sri Lanka & Maldives	SapphireFoods
Outlets (FY24)	429	319	113 PH, 9 TB*, 2 KFC	872
Cities (as of FY23)	90	66	52	NA
Revenue	17,157	5,185	3,397	25,943
Gross margin	68%	76%	62%	
Restaurant EBITDA	3,380	254	465	4,092
Restaurant EBITDA margin %	19.7%	4.9%	13.7%	15.8%
Store level revenue share	66%	20%	13%	
Store level EBITDA share	83%	6%	11%	
FY20-24 store CAGR	23%	16%	17%	20%
FY20-24 revenue CAGR	22%	12%	14%	18%
FY20-24 EBITDA CAGR	35%	1%	9%	27%

*Source: Company, Ambit Capital research. *Taco Bell*

Exhibit 11: Of the outlets operated by Sapphire Foods, ~245 stores were acquired from various franchisee partners and Yum!

Financial Year	FY16	FY16	FY16	FY16	FY17	FY17	FY17	FY19	Total
Restaurants acquired	87	81	4	NA	14	28	30	1	130 KFC and 115 Pizza Hut
Brand name	KFC	Pizza Hut	Pizza Hut	Pizza Hut	KFC	KFC	Pizza Hut	KFC	
Seller	Yum	Dodsal Hospitality	AVZA Enterprises	Gamma Pizzakraft Overseas	Yum	AN Traders	Hansazone	Drools Foods	
Total consideration (₹ mn)	1,693	760	185	1,545	155	905	0	45	**5,288**

Source: Company, Ambit Capital research

Revamped store economics driven by multiple initiatives

For any successful QSR, having the right store economics is the building block for profitable and sustainable scale-up. Historically, both Yum formats, KFC and PH had issues with their store economics. After acquiring stores and/or taking over the rights from multiple franchisees (see Exhibit 2), the first step Sapphire took (along with DIL, at the behest of Yum!) was to put customer experience along with store economics for the brand right. On the store economics front, key initiatives included 1) right sizing of stores (most important) along with better look and feel, 2) increasing delivery share and 3) focus on optimising costs. All these have driven a significant improvement in profitability.

Before Covid, the average KFC store size was 2,500-3,000 sq.ft. Incremental expansion was focused on stores size of 1,500-2,000 sq.ft. Sapphire also focused on improving footfalls/ADS via entry-level menu introductions (launched in CY21) and various combos.

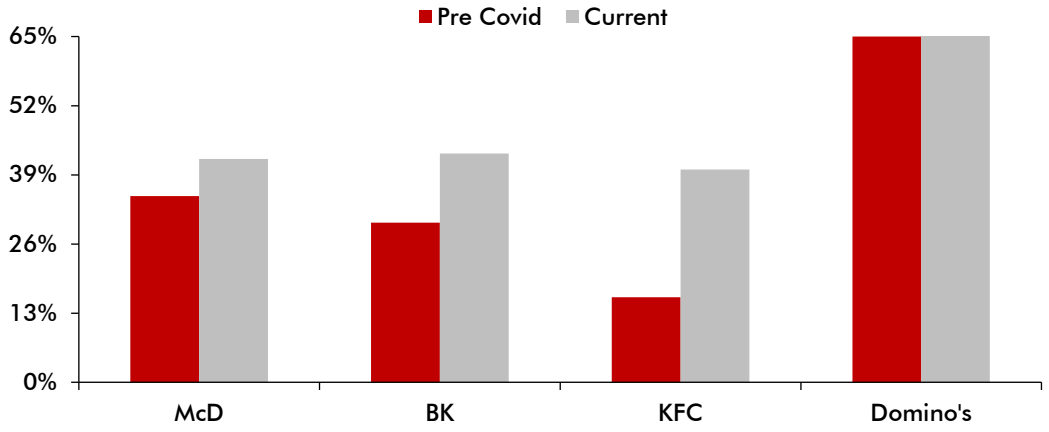
Exhibit 12: KFC store sizes optimized...

Source: Company, Ambit Capital research

Exhibit 13: ...and look and feel improved

Source: Company, Ambit Capital research

Exhibit 14: KFC has seen the highest increase in delivery share vs pre-Covid levels



Source: Company, Ambit Capital research

Thus, despite the reduction in store size, Sapphire maintained the same ADS driven by higher delivery share and increased footfalls through brand/store revamp and value menu launches.

Exhibit 15: Revenue per store increased despite lower store sizes due to higher delivery share and increased footfalls through brand/store revamp and value menu launches

Details (₹ mn, unless specified)	KFC					
	FY19	FY20	FY21	FY22	FY23	FY24
Avg revenue per store	44.3	44.9	30.2	44.4	48.1	44.6
Avg daily transactions per store (₹)	125,210	129,630	106,250	130,000	135,000	125,000
Delivery sales mix	16.7%	19.8%	38.1%	44.0%	36.0%	38.0%
Total No. of Cities where Present	47	55	56	75	90	NA
Stores	**158**	**187**	**203**	**263**	**341**	**429**
Net stores added	**19**	**29**	**16**	**60**	**78**	**88**

Source: Company, Ambit Capital research

Overall, this has brought about a structural change in the return profile with new stores being more return-accretive. The improvement in revenue/sq.ft. (smaller stores same ADS) has primarily been driven by higher delivery share and ~10% improvement in dine-in revenue productivity. The reduction in investment/store is driven by lower fit-out/capex cost given the smaller store size and on localisation of various kitchen equipment.

Exhibit 16: Store economics have significantly improved driven by smaller formats

₹ mn/Store	Existing – 2,500-3,000 Sq. Ft Stores						New Stores – 1,500-2,000 Sq. Ft Stores					
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue		29	38	46	50	54		29	38	46	50	54
Dine In (%)		80	80	80	80	80		65	65	65	65	65
Delivery (%)		20	20	20	20	20		35	35	35	35	35
EBITDA		1.7	5.3	8.1	9.3	10.8		3.4	6.8	10.0	11.4	12.7
Store EBITDA Margin (%)		*5.9*	*14.0*	*17.6*	*18.7*	*19.9*		*11.9*	*18.0*	*21.8*	*22.8*	*23.5*
Total Investment	21						17					
Store RoCE (%)		-2	15	28	34	41		10	30	49	57	64

Source: Company, Ambit Capital research

Exhibit 17: Significant improvement in KFC profitability due to these initiatives

KFC	FY19	FY20	FY21	FY22	FY23	FY24
SSSG	13.9%	5.4%	-30.0%	52.0%	15.0%	-1.0%
Revenue	6,584	7,753	5,897	10,350	14,529	17,157
EBITDA	836	1,021	828	2,015	2,819	3,380
Gross margin	*65.1%*	*65.4%*	*67.9%*	*68.4%*	*66.6%*	*68.2%*
Other expenses as % of Net Sales	*52.4%*	*52.2%*	*53.9%*	*48.9%*	*47.2%*	*48.5%*
EBITDA margin	***12.7%***	***13.2%***	***14.0%***	***19.5%***	***19.4%***	***19.7%***

Source: Company, Ambit Capital research

Since KFC stores have a payback of 1-2 years (vs 3-4 years for Pizza Hut), the expansion of stores can be facilitated by the cash generated from the existing stores and hence can grow at a quicker pace, thereby having the potential to rapidly improve penetration levels in India.

Global benchmarks point to significant scalability potential

Benchmarking KFC's global store count, we notice that India's store penetration remains much lower even when compared to countries with a comparable per capita income. This is primarily driven by a) the overall under penetration of QSR in the country and 2) delayed scale-up of KFC (given internal issues historically), especially compared to Domino's and McDonalds.

Exhibit 18: The penetration level of KFC stores in India is lowest among all major geographies, highlighting the room for KFC to scale up in India

Geography	Number of Stores (Dec'23)	Population (in mn as of 2021)	Stores per mn of Population
China	10,296	1,412	7.3
United States	3,791	332	11.4
Japan	1,229	126	9.8
Thailand	1,098	70	15.7
South Africa	1,001	60	16.7
UK	1,080	67	16.1
India	1,034	1,393	0.7
Australia	780	26	30.0
Malaysia	774	33	23.5
Indonesia	753	276	2.7
Canada	645	38	17.0
Mexico	531	130	4.1
Philippines	382	111	3.4
Poland	360	38	9.5
France	355	68	5.2
Turkey	301	85	3.5
Spain	286	47	6.1
Saudi Arabia	265	35	7.6
Germany	197	83	2.4
Korea	203	52	3.9
Others	4,539		
Total	**29,900**		

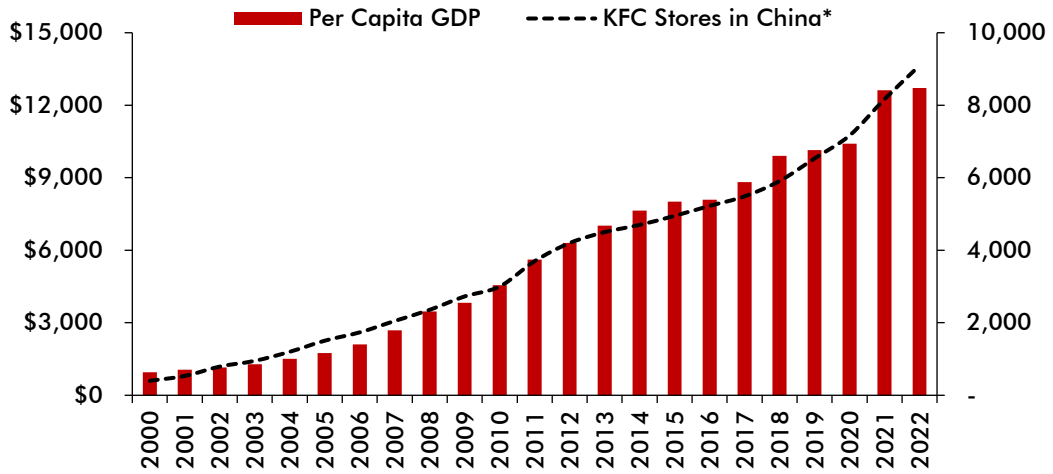
Source: Yum! Brands, Ambit Capital research

Exhibit 19: Comparing KFC's penetration based on GDP (PPP basis) too points to significant scope to expand footprint

Countries	GDP/Capita	GDP PPP Adj	Population	Store Count	Stores/USD tn of GDP (PPP basis)
	(USD)	(USD tn)	(mn)	(#)	KFC
USA	76,330	23.8	333	3,791	160
Germany	48,718	5.2	84	203	39
UK	46,125	3.7	67	1,001	271
France	40,886	3.7	68	355	95
Japan	34,017	5.6	125	1,229	219
Average					**157**
China	12,720	29.7	1,412	10,296	192
Mexico	11,497	2.8	128	531	191
Brazil	8,918	3.8	215	192	50
Thailand	6,910	1.5	72	1,080	726
Indonesia	4,788	3.7	276	753	203
Average					**303**
India	2,411	12.1	1,417	1,034	**85**

Source: Company, Ambit Capital research

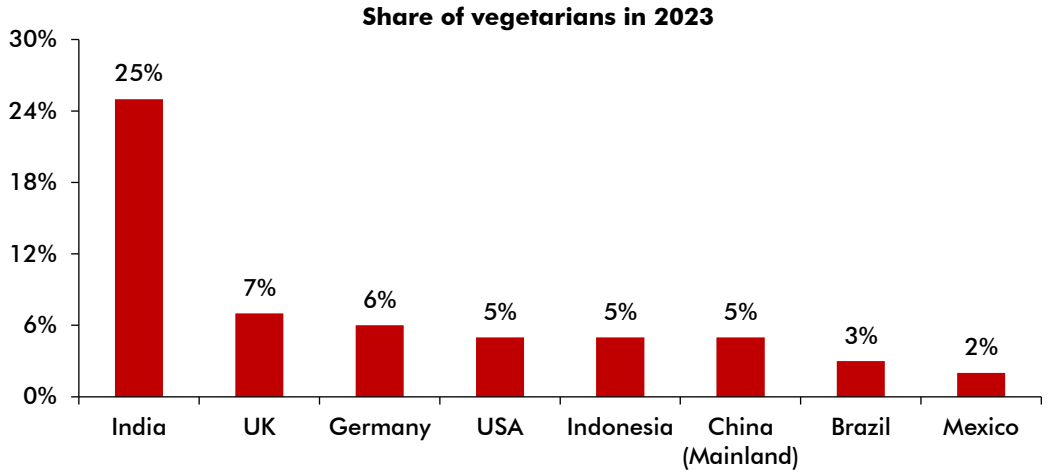
Exhibit 20: China saw a rapid expansion of KFC stores with rising income levels



Source: Company, Ambit Capital research

Demographics of India are such that a replication similar to China is not theoretically possible. While the penetration levels of KFC in India remain low compared to that of other relevant geographies, India is home to the highest share of vegetarian population among them, thereby limiting the overall penetration opportunity.

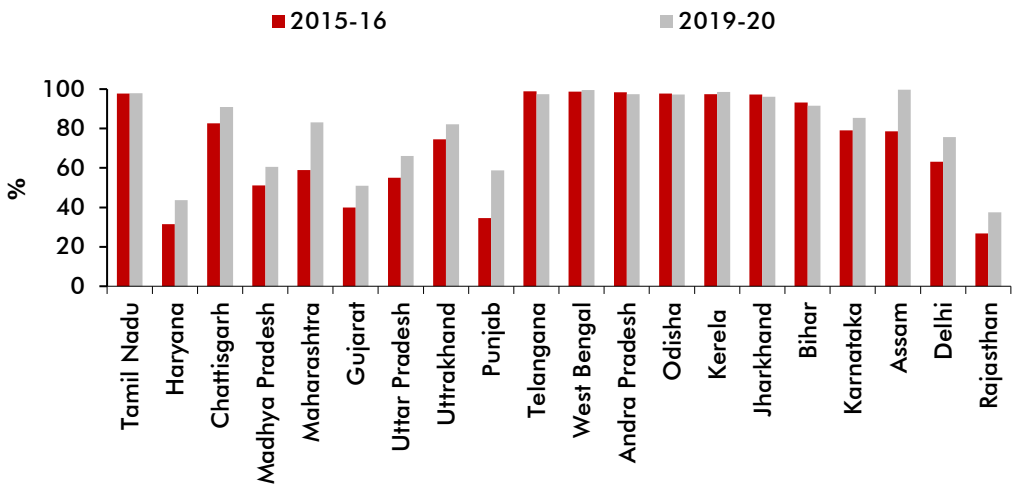
Exhibit 21: India has highest share of vegetarian population among relevant geographies



Source: Statista, Ambit Capital research

However, the share of non-veg population has been increasing, on expected lines of per capita income prosperity. Today more than 70% of the states in population have a share of non-veg population in excess of 90%. Some states like Gujarat will always remain lower given the dietary preferences of the majority community there.

Exhibit 22: Share of non-veg population has been increasing



Source: Company, Ambit Capital research

Sapphire's store opening rights is in higher per capita states

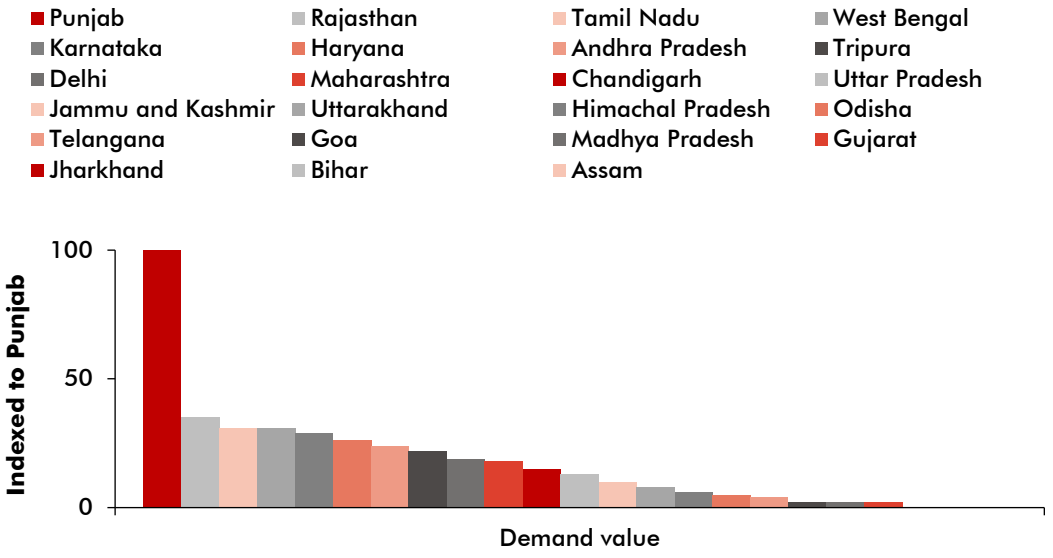
KFC's territories in India are split between DIL and Sapphire (small portion in Hyderabad still with Yum). Sapphire's share of areas to operate in India for KFC are bifurcated as follows. While DIL has a higher share of non-veg population states (AP, Telangana, Kerala and North East), Sapphire has higher per capita income states like Tamil Nadu, Maharashtra, Gujarat and Punjab.

Exhibit 23: KFC store-opening rights indicate a higher share of GDP for Sapphire but a higher share of non-veg population for DIL

Sapphire Foods	GSDP Projected 2023-24 (₹ tn)	Non-Veg Population (%)	Devyani International	GSDP Projected 2023-24 (₹ tn)	Non-Veg Population (%)
Chhattisgarh	5.1	82%	Andhra Pradesh	14.5	99%
Delhi	10.4	61%	Bihar	8.6	92%
Gujarat	25.6	39%	NCR (Ex- Delhi)	15.9	61%
Haryana (Ex-Gurugram & Faridabad)	7.7	31%	Goa	1.0	69%
Madhya Pradesh	13.9	49%	Himachal Pradesh	2.1	73%
Maharashtra	38.8	60%	Jammu & Kashmir	2.3	69%
Puducherry	0.4	98%	Jharkhand	4.2	97%
Punjab	7.2	33%	Karnataka	25.0	79%
Tamil Nadu	28.3	98%	Kerala	11.3	97%
Uttar Pradesh (Ex- Noida, Ghaziabad, Lucknow, Agra)	12.2	53%	North-East	8.4	79%
Uttarakhand	3.3	73%	Odisha	8.7	97%
			Rajasthan	15.7	25%
			Telangana	14.0	99%
			West Bengal	17.2	99%
Total / Blended	**152.9**	**60%**		**148.8**	**81%**

Source: Company, Ambit Capital research

Exhibit 24: State-wise demand for KFC chicken on Zomato indicates Sapphire's territories have higher demand



Source: Zomato, Ambit Capital research

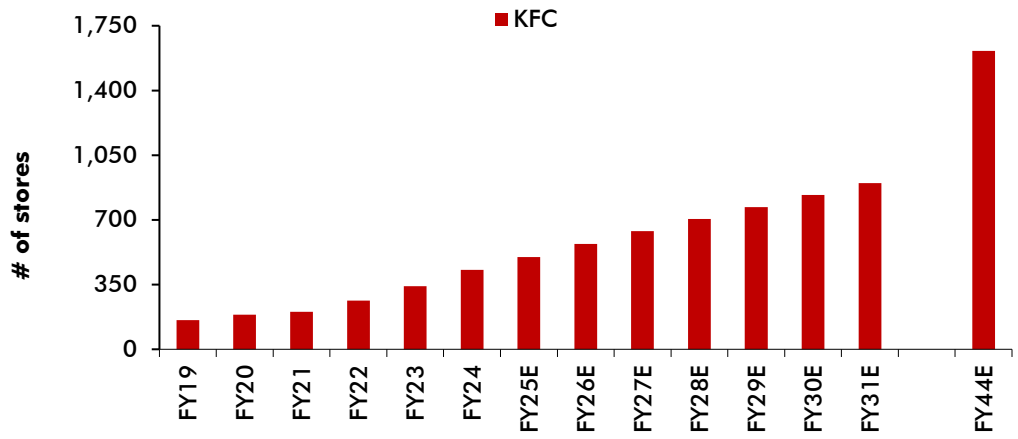
We try estimating KFC's store potential for Sapphire based on KFC's current penetration in Mumbai and Bengaluru (part of DIL's territory). Assuming that current penetration in these cities is ~70% based on GDP per store, we extrapolate the same to compare that with the state's GDP and adjust it for the GDP per capita to factor purchasing power. In addition, we adjust our workings to the share of non-veg population in that state. Using this framework, we come to a working of ~810 stores for KFC (FY24: 429). This store potential is based on current per capita for India. As per capita improves, store potential will also expand at a gradual rate.

Exhibit 25: Sapphire's penetration is only 50% based on current store potential

State	GDP (₹ bn)	Population (mn)	GDP per capita (₹)	% Non Veg	Store potential
Chandigarh	456	1	394,073	59%	3
Chhattisgarh	4,576	32	142,116	91%	19
Delhi	10,438	19	540,777	76%	84
Gujarat	19,371	70	275,151	51%	89
Haryana*	9,942	29	343,990	44%	49
Himachal Pradesh	1,954	8	260,435	64%	11
Madhya Pradesh	13,228	85	155,622	61%	41
Maharashtra#	31,080	125	248,833	83%	211
Puducherry	442	2	268,752	98%	4
Punjab	6,731	31	220,683	59%	29
Sikkim	428	1	649,771	91%	8
Tamil Nadu	23,645	84	282,506	98%	215
Uttar Pradesh^	22,576	232	97,518	66%	24
Uttarakhand	3,026	12	258,648	82%	21
Total					**809**

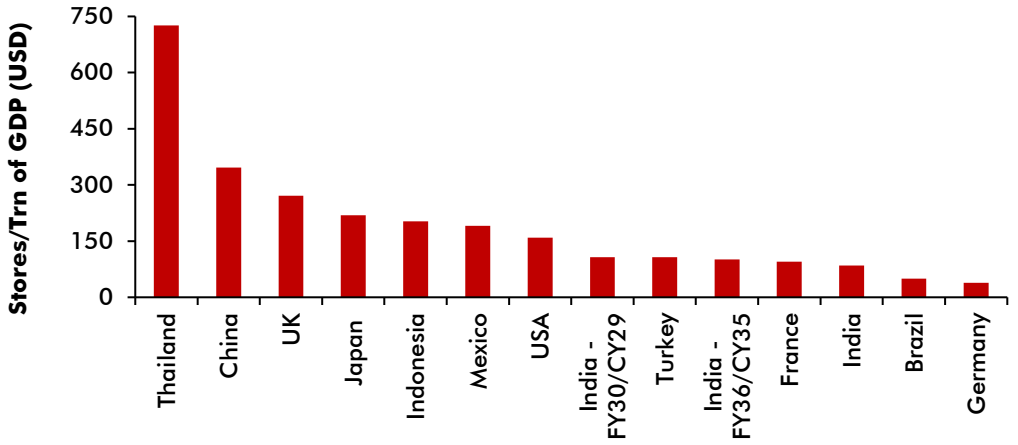
*Source: Company, Ambit Capital research, *DIL has rights to open KFC stores in Gurugram and Faridabad while Sapphire has rights to open KFC stores in rest of the state, #DIL has rights to open KFC outlets at Mumbai airport, ^DIL has rights to open KFC outlets in Noida, Agra, Lucknow and Ghaziabad in UP while Sapphire has rights to open outlets in Rest of the state.*

Exhibit 26: Expect Sapphire to reach current potential by FY31E; 7% CAGR over FY24-44E



Source: Company, Ambit Capital research

Exhibit 27: KFC's penetration in FY30/FY36E (on store/GDP) is expected to improve but will still be below the emerging market average



Source: Company, World Bank, Ambit Capital research

Relevant competition but enough opportunity

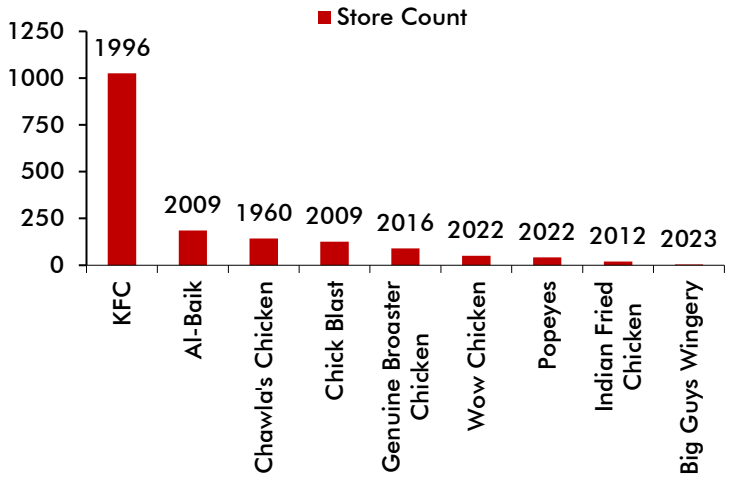
Unlike Pizza Hut, KFC has long enjoyed its position as the undisputed leader in the chicken QSR space with little to no competition until now. Recently, Jubilant Foodworks acquired the franchise of Popeyes (in 2021) and McDonald's (McD) is planning to scale up its chicken offering. While Popeyes is an independent brand focused on chicken, McD is planning to extend its burger franchise to gain a share of the chicken market. However, we don't expect McD to gain significant share due to i) the equity associated with pure chicken focused brands and ii) supply chain and operations for fried chicken are different from burger-based outlets. Globally too burger outlets have had limited success in capturing a significant share of the bone in the chicken market. A related case in point in India is Domino's entry into burgers via Burger Pizza, which did not take off. Also, as per our checks, chicken is more an add-on to the order, i.e. a replacement for a side versus a separate mission for most customers.

Exhibit 28: Domino's entry into burgers via the Burger Pizza failed

Source: Company

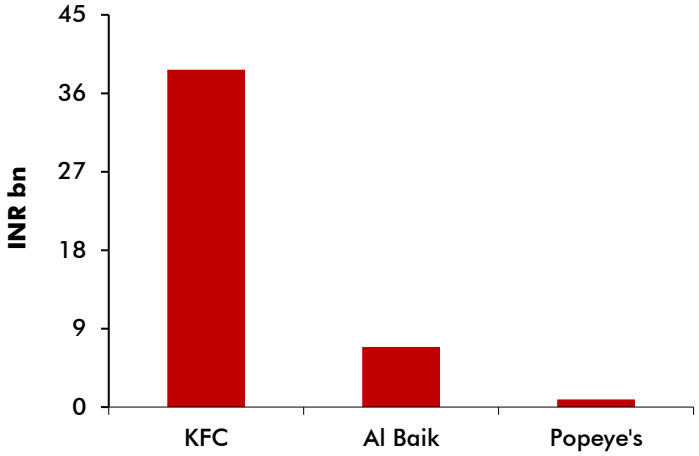
In terms of options other than Popeyes, as highlighted earlier, there are limited players in the market given the process complexity and unlike pizza which has seen multiple cloud kitchens and independent brands start, the influx in fried chicken has been lower. The only other major players at the moment are Al Baik and Wow Chicken!. Some other outlets offering chicken as a specialized cuisine (and not a dish) are Chawla's Chicken, Chick Blask, Big Guys Wingery etc.

Exhibit 29: Other than Al-Baik, none of KFC's competitors have scaled despite being in existence for many years



Source: Company, Press articles, Ambit Capital research, Note: Headings to bars refer to year of brand starting.

Exhibit 30: While Al-Baik has seen significant scale-up recently, KFC is still ~6x of Al-Baik



Source: Company, Press articles, Ambit Capital research

Al-Baik has seen significant scale-up over the last few years. However, the price point at which Al-Baik operates and potentially the customers it serves are very different to KFC and Popeyes. Also, Al-Baik's menu is much wider in terms of offering pizzas and continental chicken offering, setting it in a different category.

Exhibit 31: Al-Baik's offerings are more general and value conscious rather than specialized chicken QSR

	KFC	Popeyes	Al-Baik
Burger	Y	Y	Y
Fried Chicken	Y	Y	Y
Rice Offering	Y	N	Y
Sandwich	N	N	Y
Oriental chicken	N	N	Y
Pizza	N	N	Y

Source: Company, Ambit Capital research

Comparing KFC and Popeyes menu in India, there are some product offering differences with KFC having more SKU's including Biryani. Popeyes is focused on fried chicken and is trying to differentiate via its Cajun flavored taste (unique to Popeyes globally too). There is no major difference in pricing with Jubilant clear that it wants to establish Popeyes for its taste and quality rather than price. The initial set of stores for Popeyes is also larger with a better store experience.

Exhibit 32: KFC menu includes many combos and desserts along with a high number of veg offerings and biryani too

Chicken	Price (Rs)	Rice Bowl	Price (Rs)	Sides	Price (Rs)
Piri Piri Chicken (5 Leg Pc/10 leg pc)	629/925	Classic Chicken Rice Bowl (R/L)	230/475	Fries (M/L)	99/119
Piri Piri Chicken Strips (3/6/10 pc)	179/299/499	Popcorn Chicken Rice Bowl(R/L)	230/475	Chocolate Lava Cake	109
4pc Hot Chicken Wings	179	Smoky Grilled Rice Bowl (R/L)	230/475	Buttered Bun	35
1 pc Smoky red chicken	125	Veg Rice Bowl	199	Coffee Mousse Cake	129
2 Pc Hot & Crispy chicken	230	Plain Rice Bowl	139	Choco Mud Pie	129
Chcken Popcorn (R/M/L)	115/169/249	Veg Rice Box	279	2 pc Veg Patty	155
				Cold Drink (300ml)	57
Value Snackers	**Price (Rs)**				
Single Chicken Roll	119	**Burgers**	**Price (Rs)**	**Combos**	**Price (Rs)**
Popcorn (R/M/L)	115/169/249	Veg Zinger Burger	189	All Chicken Box	189
Chicken Longer Burger & 2 Strips Combo	219	American Classic Zinger Burger	199	Zinger Tandoori Box	313
2 Veg Longer Burger	198	Tandoori Zinger Burger	209	Veg Rice Box	279
2 Veg Roll	229	2 Veg Krisper Burgers	179	Veg Zinger Box	313
		2 Chicken Krisper Burgers	249	Buddy Meal	529
Chicken Rolls	**Price (Rs)**	Mixed Zinger Doubles	369	Classic Biryani Combo	740
Classic Chicken Roll (Single/Double)	119/169	Indian Paneer Zinger Burger	209	Smoky Grilled Biryani Combo	740
2 Classic Chicken Roll (Single/Double)	229/329	Mexican Zinger Pro burger	239	Popcorn Biryani Combo	690
		Carribean Spicy Zinger Burger (Meal)	219 (379)	Big 12	749
Chicken Bucket	**Price (Rs)**			Big 8	685
Hot & Crispy Chicken (2/4/6/8 pc)	230/429/629/769			Family Feast	859
Smoky Red Chicken (1/2/5 pc)	125/249/529				
Chicken & Fries Bucket	299				
Popcorn & Fries Bucket	319				
Mingles Bucket	379				
All in One Bucket	549				
Stay Home Bucket	789				

Source: Company, Ambit Capital research

Exhibit 33: Popeyes menu is leaner and offers fewer varieties of chicken

Chicken Sandwich	Price	Sides	Price	Meals	Price
Bold Chicken Sandwich	209	Cajun Fries (R/M/L)	79/99/129	Classic Veg Burger Meal (M/L)	258/308
Classic Chicken Sandwich	199	Cajun Onion Rings (R/L)	99/159	Cajun Veg Burger Meal (M/L)	358/388
Rice Bowls & Wraps	**Price**				
Zesty Rice Bowl with Grilled Chicken	219	**Veg Burgers & Wraps**	**Price**	**Combos**	**Price**
Zesty Rice Bowl with Chicken Popcorn	209	Classic Veg Burger	109	Chicken Sandwich & Wings (4pc) + Beverage (M)	429
Zesty Rice Bowl with Onion Rings	179	Cajun Veg Burger	189	Chicken Sandwich Combo (M)	348
Zesty Rice Bowl	99	Classic Veg Wrap	199	Chicken Sandwich & Popcorn combo	479
Classic Chicken Wrap	209			Classic Chicken Wrap Combo (M/L)	358/408
Classic Veg Wrap	199			Classic Veg Wrap Combo (M/L)	348/388
		Bevrages	**Price**	Popeye's Chicken Party (11pc)	869
Chicken	**Price**	Cold Drinks (R/M/L)	79/89/99	Love that chicken platter (10pc)	819
Popeyes Signature Chicken (1/2/4/6/8 pc)	109/209/419/629/799	Tangy Mojito/Cola/Orange	99	Famous Louisiana Chicken Combo (8pc)	799
Hot & Messy - Smoky Pepper (1/2/4/6/8 pc)	129/249/499/749/959			Wings Pop Fiesta	349
Hot & Messy - Sweet Chilli (1/2/4/6/8 pc)	129/249/499/749/959			Double Sandwich Combo	699
Sweet Chilli Chicken Wings (2/4/6/8 pc)	99/179/259/329				
Cajun Chicken Popcorn (R/M/L)	99/169/219				
Cajun Chicken Tenders (2/3/5 pc)	139/199/289				
Hot Grilled Chicken (2/4 pc)	209/309				

Source: Company, Ambit Capital research

Availability followed by visibility would be the immediate drivers of market share movements, where KFC has a significant lead. Longer term, menu innovations and taste preferences will drive structural movement in market share. A comparison of the ratings for KFC and Popeyes for store in close vicinity of each other doesn't point to a significant difference in customer preferences (using ratings as a barometer for the same) or price.

Exhibit 34: Ratings don't point to any major customer preference for Popeyes

Koramangala, Bengaluru	Popeyes		KFC	
	Dine In	Delivery	Dine in	Delivery
Rating	3	4.2	4.1	4.1
Average cost for two	450		500	
Ameerpet, Hyderabad	Dine In	Delivery	Dine In	Delivery
Rating	-	4.1	3.9	3.9
Average cost for two	200		500	
Besant Nagar, Chennai	Dine In	Delivery	Dine In	Delivery
Rating	-	3.2	3.2	3.9
Average cost for two	450		500	
Tiger Circle, Manipal	Dine In	Delivery	Dine In	Delivery
Rating	-	4.3	3.9	4.1
Average cost for two	450		450	
Ganapathy Gardens, Coimbatore	Dine In	Delivery	Dine In	Delivery
Rating	-	3.7	3.9	3.8
Average cost for two	300		450	

Source: Zomato, Ambit Capital research

Assuming all players achieve their laid out targets, the implied chicken QSR market CAGR comes to 18% over FY24-27E. While higher than the 13% over FY15-20, we believe this is achievable given the increased penetration of the product into new cities. The construct would be similar to Pizza market where Domino's still commands ~70% market share.

Exhibit 35: Enough depth for market to accommodate growth plans for QSR

₹ bn	FY15	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY15-20	FY20-24E	FY24-27E
KFC - DIL	NA	5	6	6	12	18	20	24	29	34	NA	35%	19%
KFC - Sapphire	NA	7	8	6	10	15	17	20	23	27	NA	22%	16%
KFC - Yum/Other franchisees	NA	7	5	1	1	1	1	1	1	1	NA	-31%	5%
Total KFC	**11**	**18**	**19**	**13**	**24**	**33**	**39**	**45**	**54**	**63**	**12%**	20%	**17%**
Popeyes	0	0	0	0	0	0	1	2	5	8	NA	NA	109%
McDonalds					1	1	2	2	3	3	NA	NA	26%
Others	5	8	9	10	10	11	11	12	12	13	**11%**	5%	5%
Total Market (₹ bn)	**16**	**26**	**28**	**23**	**34**	**45**	**52**	**61**	**73**	**87**	**12%**	**17%**	**18%**

Source: Company, Ambit Capital research

Pizza Hut – Stuck in a deep dish

While KFC managed to transition its format and scale, PH's performance remains inconsistent and the brand has had multiple pivots, including shifting focus to value and delivery – a forte of Domino's. Initiatives to optimize store sizes and reduce spend per cover (Exhibit 37) had a promising outcome – reflecting in the brand margin and SSSG for PH in FY23. However, FY24 performance (-16% SSSG, weakest across QSR) reflects the revival was transitionary and core issue of customer connect and clear brand positioning remains. Added to that, the increasing competitive intensity in the category only aggravated the impact further. Though both DIL and Sapphire are taking initiatives to resurrect the brand, we expect improvement, if any, to be gradual. For PH, while the opportunity size is large, we build in a combined store count for PH (DIL + Sapphire) of 3,100 stores (FY24: 893) and expect only a marginal improvement in relative revenue market share vs Domino's.

Struggle continues to find the right format

PH, despite entering the country at the same time as Domino's (1996-97), has had a very different and difficult journey. The initial focus was on premium dine-in driven pizza experience more aligned towards artisan and premium offerings. The legacy focus came from its global lineage of Pizza Hut. However, the market moved towards delivery-driven value offerings (Domino's core and driven by JFL itself) which impacted the brand's popularity. PH's limited delivery infrastructure further impacted as Domino's invested in building its own delivery network, hence creating a monopoly in that sub-segment of the market (before the advent of aggregators). In addition, a combination of multiple franchises (Versus one for Domino's) and multiple formats (Pizza Hut and Pizza Hut Delivery, launched in 2008) impacted consistency and overall customer experience.

Exhibit 36: While Sapphire has improved the cost structure of PH, the average revenue/store remained flat to negative

Details (₹ mn, unless specified)	Pizza Hut					
	FY19	FY20	FY21	FY22	FY23	FY24
Avg revenue per store	22.3	20.4	13.2	20.8	21.17	16.79
Avg daily transactions per store (₹)	61,250	57,900	48,170	57,000	58,000	46,000
Delivery sales mix	32.5%	34.8%	53.0%	57.0%	50.0%	49.0%
Total No. of Cities where Present	29	31	32	52	66	NA
Number of Stores in Top 10 Cities	127	141	129	149	194	NA
% of stores in top 10 cities	83%	81%	80%	68%	68%	NA
Stores	**153**	**174**	**162**	**219**	**286**	**319**
Net stores added	**30**	**21**	**-12**	**57**	**67**	**33**
SSSG	5.0%	-5.2%	-35.4%	42.0%	12.0%	-16.0%
Revenue	3,071	3,343	2,217	3,709	5,214	5,185
EBITDA	229	244	111	497	691	254
Gross margin	***73.9%***	***76.2%***	***76.1%***	***75.5%***	***74.7%***	***75.6%***
Other expenses as % of Net Sales	*66.4%*	*68.9%*	*71.1%*	*62.1%*	*61.4%*	*70.7%*
EBITDA margin	**7.5%**	**7.3%**	**5.0%**	**13.4%**	**13.3%**	**4.9%**

Source: Company, Ambit Capital research

Recent initiatives did show promise

Over the last 6-7 years, PH has been consciously trying to increase the value quotient of the brand accepting the evolution of the category in the country. In addition, rather than large sized dine-in stores, PH reduced store sizes given the focus on delivery.

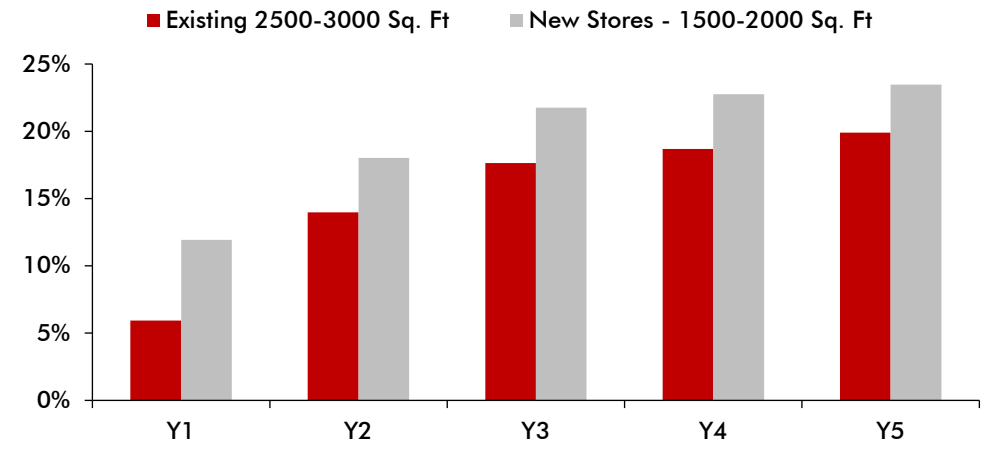
Exhibit 37: PH has pivoted towards a delivery-based value offering

	2015	2018	2020
Size of Stores Opened (in sq.ft.)	2,000-2,200	1,600–1,970	1,200-1,300
Concept stores (% of total)	66%	50%	26%
QSR-based Stores (as % of total)	34%	50%	74%
Sales from Concept Stores (as % of total)	83%	51%	37%
Sales from QSR -based stores (as % of total)	17%	49%	63%

Source: Technopak, Ambit Capital research

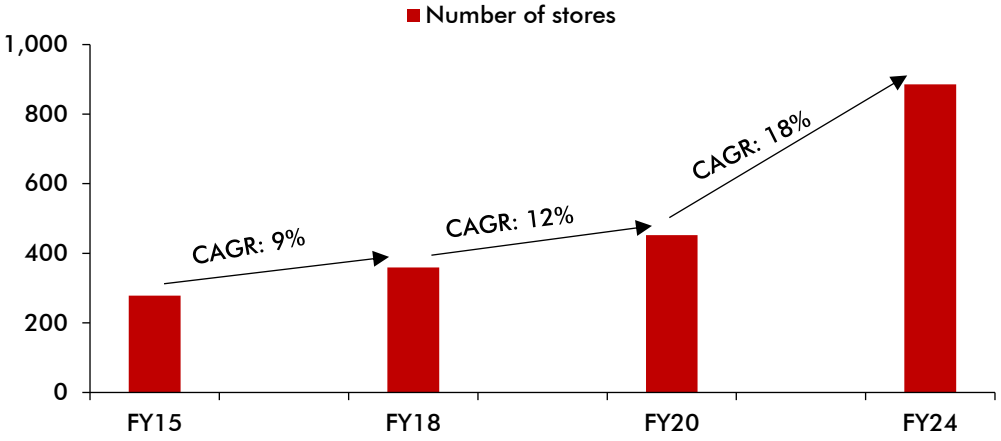
The optimized stores along with higher delivery share saw an improvement in margin profile for the format, similar to KFC.

Exhibit 38: Year-wise store RoCE – new formats have better store economics



Source: Company, Ambit Capital research

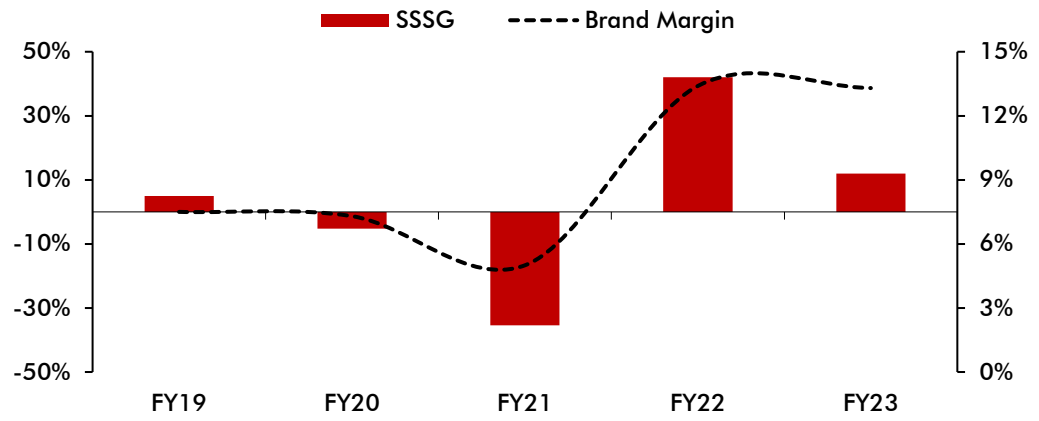
Exhibit 39: With consolidation of multiple franchises, PH saw a return of aggression in store addition



Source: Company, Ambit Capital research

PH had come across as an expensive brand. In partnership with Yum, Sapphire (and DIL) optimized menu pricing in April 2019 and brought in everyday value through meal bundle options. It also launched the Flavour Fun range in Oct-22 (Starting at ₹79) to further improve the value quotient in the brand. The benefit of these initiatives was visible in the SSSG profile and store margin for PH across both DIL and Sapphire.

Exhibit 40: The improved store economics reflected in brand margins too



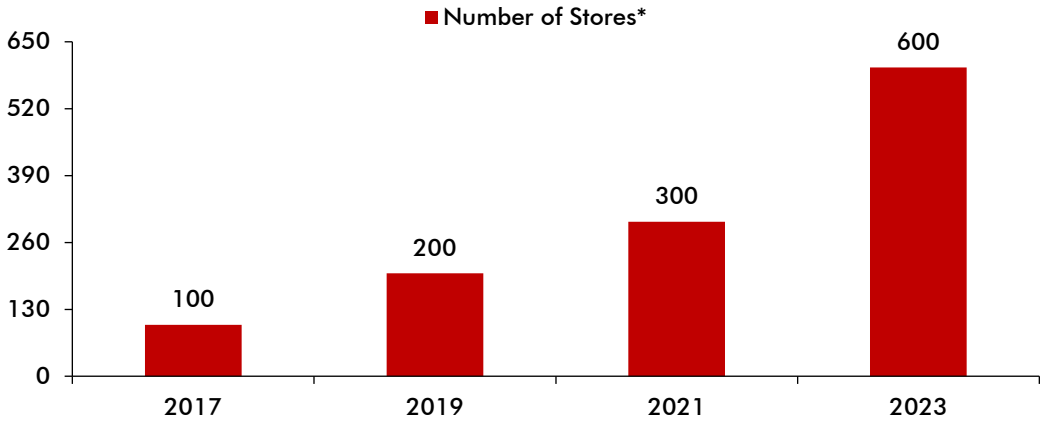
Source: Company, Ambit Capital research

While DIL focused primarily on delivery-based stores (also a function of the rights that DIL acquired), Sapphire focused on onmi stores with a focus also on dine-in. Sapphire inherited the large casual dine-in restaurants of PH.

After the initial promise, it's back to square one

After the improvement in FY23, PH suffered the most across QSR last year. PH, in our opinion, lost market share and specifically La Pino'z scaled up aggressively over CY21-23.

Exhibit 41: La Pino'z increased its presence in India at ~30% CAGR over the past 6 years

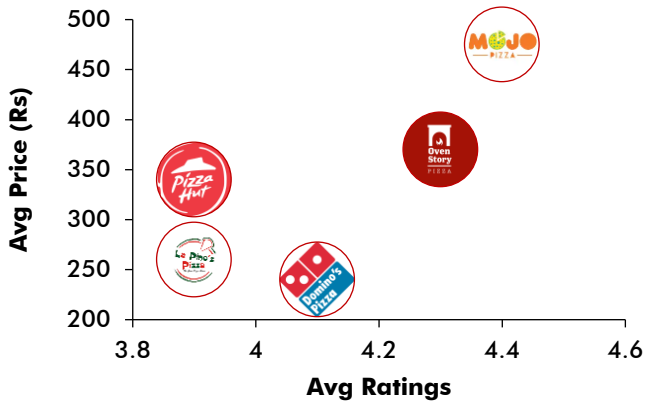


Source: La Pino'z Website, Ambit Capital research

While difficult to quantify, we believe majority of the incremental customers La Pino'z or other brands recruited would have been at the expense of PH. This is a case of weak proposition and weak customer connect. We believe this came about due to:

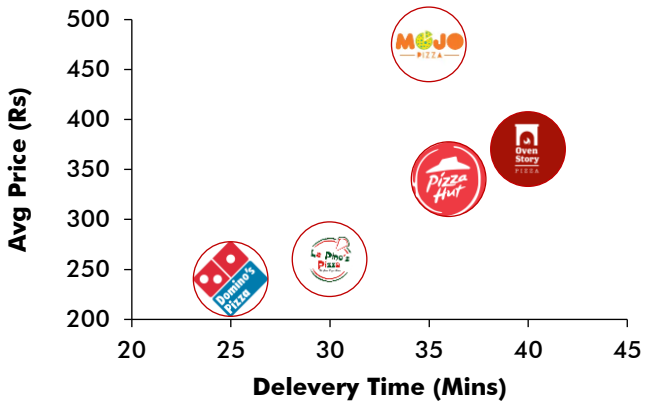
- **The brand moved to discounts/offers over product quality:** If we take aggregator ratings as a proxy, PH has consistently been lower, which is surprising given its focus on product since its entry into India. This points to the product being compromised to match the price.
- **New value-offering launches driving down-trading:** Both DIL and Sapphire have different opinions on the success of the launch of the flavour fun range in Oct-22 (₹79 pizzas) to compete in the value layer with Domino's. As per our checks, there was downtrading and the product had quality issues, which would have impacted customer retention.
- **Lack of a hero product:** PH lacks a hero product, which drives the base business or makes up a key share of the revenues. As a couple of examples - One of the key drivers for Domino's other than its every day value, has been the cheese burst platform. Similarly, for McDonald's the McAloo tikki became synonymous with quick affordable snacking and drove significant customer requirement for the brand.

Exhibit 42: Pizza Hut is missing a clear proposition...



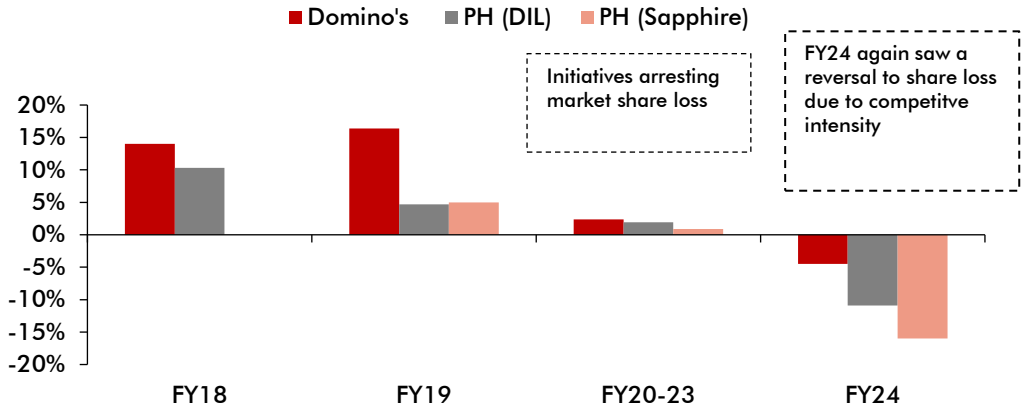
Source: Zomato, Ambit Capital research

Exhibit 43: ...tops on neither value, taste nor speed



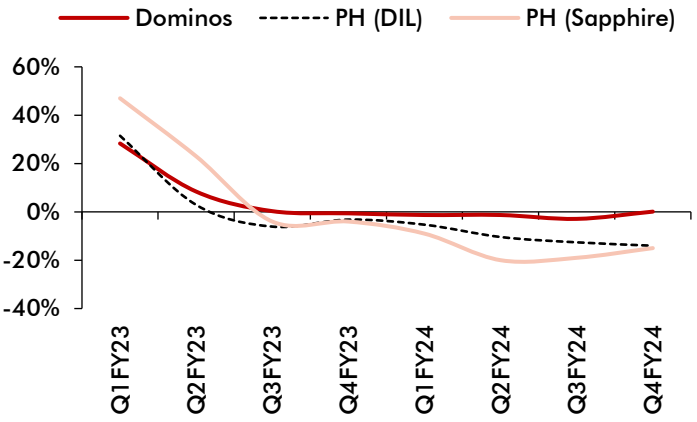
Source: Zomato, Ambit Capital research

Exhibit 44: SSSG - FY20-23 saw a pause in market share loss. However, FY24 has again seen a reversion to earlier trends



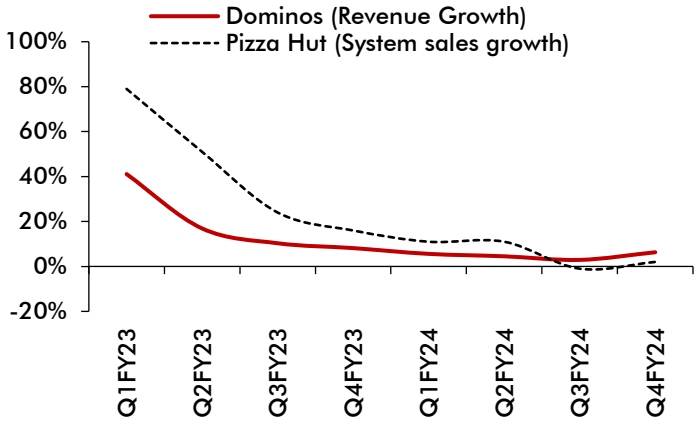
Source: Company, Ambit Capital research

Exhibit 45: Recent moderation not just in SSSG...



Source: Company, Ambit Capital research

Exhibit 46: ...but also on system sales



Source: Company, Ambit Capital research

Long road to recovery; difficult to build much value

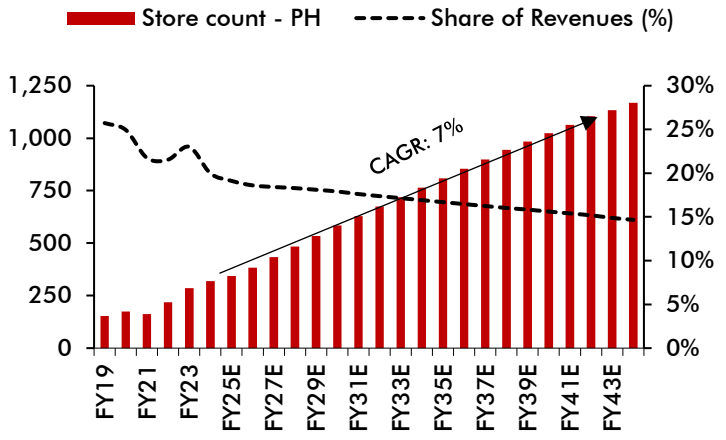
Exhibit 47: To get performance back in place, PH is taking the following initiatives

Action	Implementation
A. Build Brand	
-Product Innovation	Launched Melts, Thin Crust Pizza and revamped Pasta range in Mar-24
-Enhanced marketing investments	Rolled out mass media campaign for Melts
B. Grow Dine In / Home Service:	
- Operations	Dragon Tail (kitchen planning tool) rolled out in 100% restaurants including integration with Aggregators
	Aggregators Customer ratings seeing steady improvement QoQ
- Building Occasions	Lunch day part activation rolled out
	91% of High Street restaurants now open for late night deliveries
C. Real Estate	
	Cautious expansion, ~3-5% Portfolio corrections in next 2 quarters & ~10% Refurbs in 2024

Source: Company, Ambit Capital research

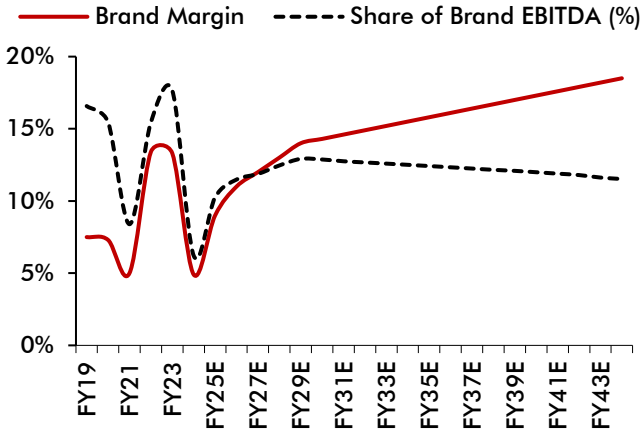
While these are building blocks, the core issue with Pizza Hut in our opinion is about the perception of the brand. For a legacy brand like PH, which has undergone multiple pivots, reestablishing its proposition, especially in the wake of increasing competition, is a tough ask. PH's position in our view is similar to where Bata is in the footwear space – well-known but lacking connect. While there is definitely a possibility of the brand staging a turnaround, what is certain is that it will be gradual. What PH definitely needs to get ahead on is its taste superiority. Evolution of its ratings can be a barometer for the same. We expect the expansion of stores for pizza hut to remain muted in the near term on the back of 4 consecutive quarters of negative SSSG for both Sapphire and DIL adversely affecting profitability. We also believe that the increased competition in the Pizza category will keep demand subdued for Pizza Hut.

Exhibit 48: Building store addition CAGR similar to KFC, but lower SSSG leading to fall in revenue share



Source: Company, Ambit Capital research

Exhibit 49: On brand margin, we build in a gradual improvement given our view of moderate SSSG



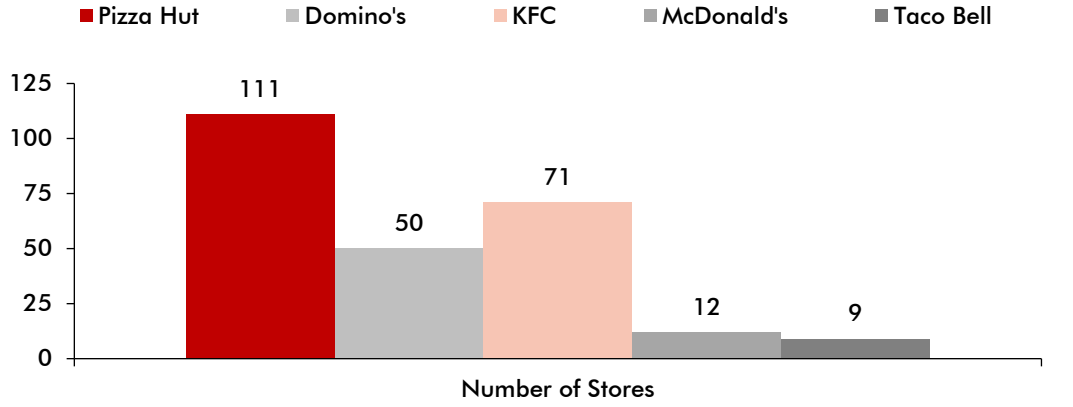
Source: Company, Ambit Capital research

Tide is turning in Sri Lanka

Sapphire is the biggest QSR player in Sri Lanka with 111 PH stores and 9 Taco Bell stores. Sapphire's wide network of stores and own delivery ecosystem of PH in Sri Lanka put it in a position akin to Domino's in India before the rise of food aggregators. Also, Sapphire's Sri Lankan operations clocked the highest margins across its segments. However, the economic crisis, especially the hyperinflation in FY23 (CPI: 58%) impacted demand and margins as company could not take price hikes entirely commensurate with the inflation. In addition, the foreign SLR depreciation impacted its contribution to the business. With the macro-economic situation normalizing – CPI for 4QFY24 down to 4.7% and the country has clocked two consecutive quarters of GDP growth (2QFY24, 3QFY24), we expect profitability and performance for Sapphire's SL operations to bounce back, as PH's dominance in Sri Lanka has only improved after the crisis.

Pizza Hut was the first international QSR chain to enter Sri Lanka in 1993 and at present is the largest QSR brand in the country. Sapphire runs the operations in the country via Gamma Pizzakraft Lanka (Pvt) Ltd. In addition to Pizza Hut (111 Stores), it runs 9 Taco Bell stores. Pizza Hut enjoyed 40% market share in terms of outlet count and 37% by QSR sector revenues in FY23.

Exhibit 50: Pizza Hut has more than doubled the number of stores compared to Domino's in Sri Lanka



Source: Company, Yum!, McDonald's, Ambit Capital research, Note - McDonald's Stores as of Dec'23

Exhibit 51: PH has continued to outperform Domino's and gained further market share

₹ mn	FY21	FY22	FY23
Revenue			
PH	1,965	2,983	2,716
Domino's	296	502	414
PBT			
PH	64	330	210
Domino's	-23	-43	-76
Stores			
PH	68	90	105
Domino's	26	35	48

Source: Company, Ambit Capital research Note: Financials for PH are for Gamma Pizza Lanka which includes Taco Bell

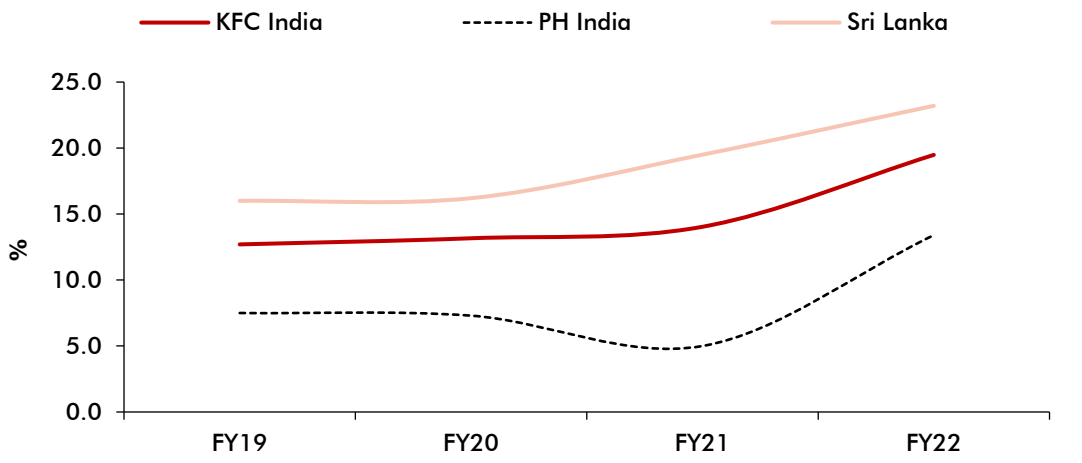
Sri Lanka has historically been a very profitable geography. Before the crisis (FY22), Sapphire's Sri Lanka segment's margins were even higher than KFC India and PH India. Shortages of raw material, disruption in supply of utilities and depreciation of local currency caused inflation to sky-rocket over the FY21-23. To mitigate the inflationary impact, Sapphire increased prices. However, the increase was lower than inflation adversely affecting gross margin and restaurant margins.

Exhibit 52: EBITDA from Sri Lankan operations fell 40% in FY23 but the business was trending upward on all fronts, before the economic crises

Details (₹ mn, unless specified)	Sri Lanka* (incl. Maldives from FY22)					
	FY19	FY20	FY21	FY22	FY23	FY24
Avg revenue per store	**33.6**	**32.1**	**29.3**	**31.71**	**25.74**	**29.48**
Delivery sales mix	38.6%	38.7%	54.9%	56.0%	38.0%	37.0%
Total No. of Cities Where Present	36	42	44	49	52	
Number of Stores in Top 10 Cities	37	32	36	36	37	
% of stores in top 10 cities	59%	50%	51%	38%	32%	
Stores	**63**	**64**	**70**	**95**	**116**	**124**
Net stores added	**8**	**1**	**6**	**25**	**21**	**8**
SSSG (in LKR)	8.0%	-1.0%	1.0%	31.0%	22.0%	2.0%
Revenue	1,984	2,038	1,965	2,983	2,716	3,397
EBITDA	317	330	383	692	402	465
Gross margin	*65.9%*	*66.7%*	*68.6%*	*66.2%*	*58.33%*	*61.6%*
Other expenses as % of Net Sales	*49.9%*	*50.5%*	*49.1%*	*42.8%*	*43.53%*	*47.9%*
EBITDA margin	**16.0%**	**16.2%**	**19.5%**	**23.4%**	**14.8%**	**13.7%**

Source: Company, Ambit Capital research

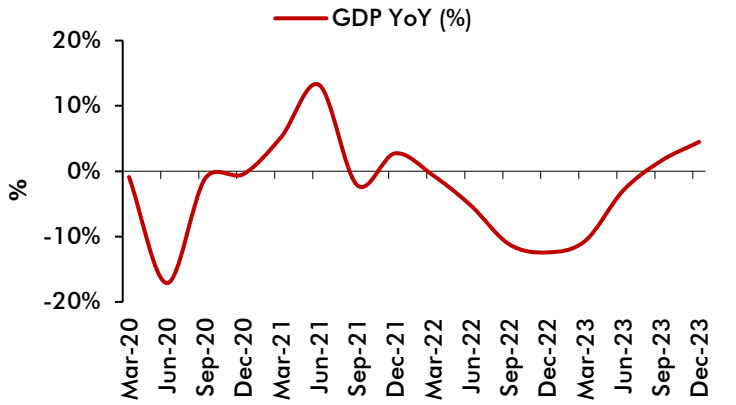
Exhibit 53: SL operations were the most profitable before the economic crisis



Source: Company, Ambit Capital research

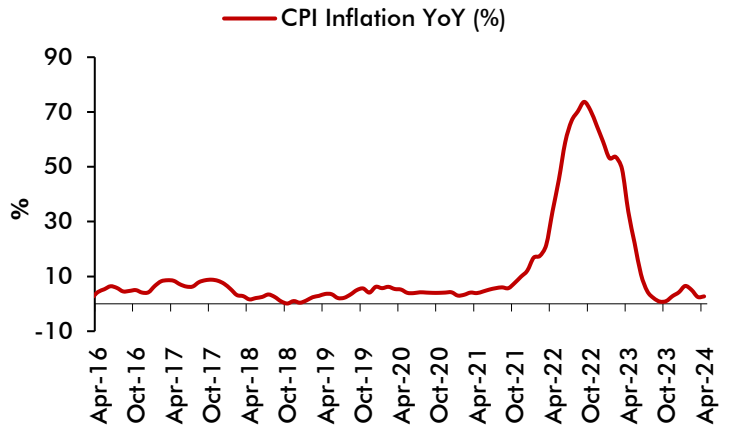
Sri Lanka's contribution to Sapphire's store EBITDA fell to 10% in FY23 from 22% in FY22. This was primarily driven by the deteriorating macro-economic situation driven by the spike in inflation. However, if we look at the recent economic data, we notice that inflation has normalized and real GDP growth turned positive after 5 quarters in Sep-23 and has sustained in Dec-23, suggesting a bottoming out of the economic crisis.

Exhibit 54: World Bank's latest estimates also point to growth trajectory improving...



Source: World Bank, Ambit Capital research

Exhibit 55: ...with inflation staying in check



Source: World Bank, Ambit Capital research

World Bank's latest estimates also point to growth trajectory improving with inflation staying under check.

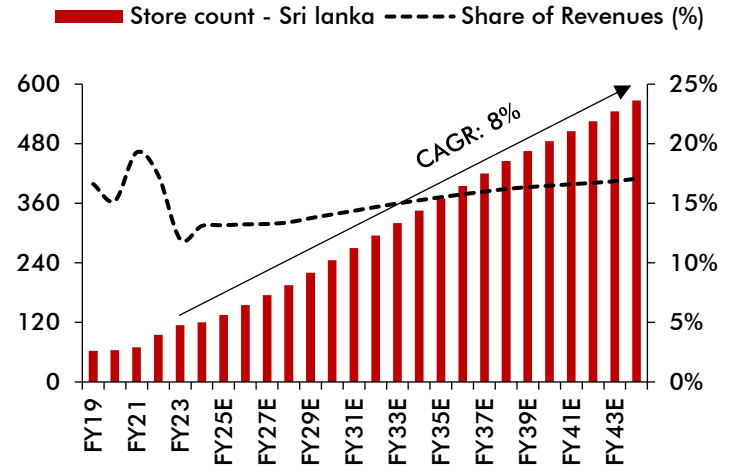
Exhibit 56: World Bank estimates of Sri Lankan GDP (Apr'24)

% YoY	2020	2021	2022	2023p	2024p	2025p	2026p
GDP Constant prices	-4.6	4.2	-7.3	-2.3	2.2	2.5	3.0
Private Consumption	-5.8	2.6	-9.0	-3.2	2.4	2.6	3.1
CPI	4.6	6.0	46.4	17.4	7.8	6.4	5.6

Source: World Bank, Ambit Capital research

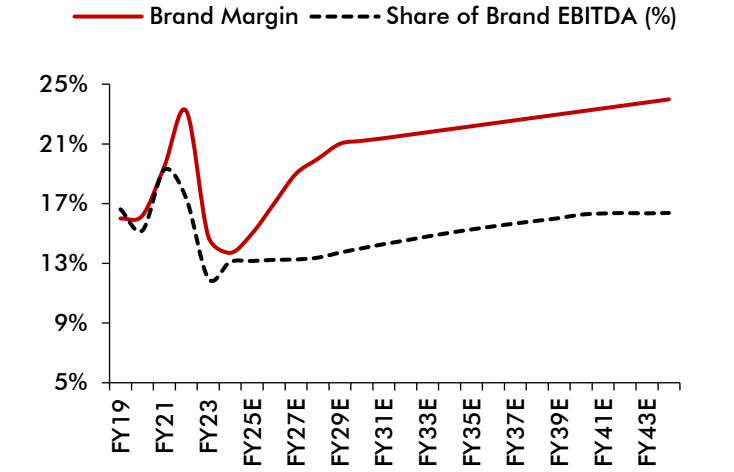
With the economic situation normalizing and PH's market leadership sustaining, we expect Sri Lanka operations to bounce back and build in store additions along with mid-single digit SSSG. Even during the crisis, PH's relative position in the QSR market has only improved, placing it in a better shape as economic recovery plays out. For our long-term forecasts, we build in a store count of 550 for PH in FY44E.

Exhibit 57: Higher store CAGR vs KFC and PH India given the strong competitive positioning of the brand



Source: Company, Ambit Capital research

Exhibit 58: Brand margin to improve in expectation of the macro recovery. However, still equal to FY22 peak



Source: Company, Ambit Capital research

KFC remains the key driver of valuation

Our valuation of Sapphire is built on store potential we forecast for KFC, PH and SL. We build in revenue CAGR of 16%/11% over FY24-27E/FY24-44E. EBITDA growth is higher at 24%/14% driven by improvement in PH and SL margins (weak base of FY24) along with operating leverage benefits. Overall, our DCF-based TP comes to ₹1,876 (COE: 13%) with an FCFF CAGR of 22% over FY25-44E. Approximate value split across the 3 brands is 82:5:13 for KFC: PH:SL. Our implied FY26E EV/EBITDA at 25x is lower than peers despite similar/higher near-term growth and TAM. While Sapphire's promoter selling has been an overhang since listing, with promoter holding now close to contractual threshold, incremental pressure should be much lower. Also, relative to DIL, the valuation differential has narrowed, we expect the same to reduce further. Key risk to our valuation remains moderation in KFC's SSSG/market share loss.

KFC key driver of Sapphire's value followed by Lanka, PH's issues limit conviction

Our estimates for Sapphire build in store potential for KFC based on our benchmarking earlier. On the margin front, we build in a gradual improvement in store margins as store addition will impact any operating leverage gains. Exit margins for KFC at 26% will be back-ended and driven by scale benefits rather than gross margin improvement.

While KFC has managed to transition its format and scale, PH's performance remains inconsistent. Though both DIL and Sapphire are taking initiatives to resurrect the brand, we expect improvement, if any, to be gradual. For PH, while the opportunity size is large, we build in a combined store count for PH (DIL + Sapphire) of 3,100 stores (FY24: 893) and expect only a marginal improvement in relative store market share vs Domino's - on a relative basis to Domino's, the share of revenues is expected to remain at ~35% (FY24: 34%, FY44E: 35%). On store margins, our estimate for FY44 at 19% is only 6% points higher than FY23 store margin and ~10% points lower than Domino's. In our SOTP, too, implied contribution of PH is ~5%. At perfect execution where PH reaches Domino's scale and ADS, this can increase to 20% but chances of the same are minimal as of now.

With the macro-economic situation normalizing – CPI for 4QFY24 down to 4.7% and the country has clocked two consecutive quarters of GDP growth (2QFY24, 3QFY24) – we expect profitability and performance for Sapphire's SL operations to bounce back as PH's dominance in Sri Lanka only improved after the crisis.

Building in a recovery from 2HFY25E

In FY25, we expect improvement in consumer demand and consequent SSSG only in 2HFY25. This drives a lower SSSG of 3% in FY25E for KFC vs the long-term average of 6%. For PH we build in 3% (2Y CAGR: -7%) vs the long-term average of 4%. For FY24-27E we are building 16%/24% revenue/EBITDA CAGR similar to FY20-24 (18%/26%). EBITDA growth is a function of normalization in PH and SL margins from a weak FY24 base along with operating leverage benefits.

Exhibit 59: We expect KFC's store addition momentum to continue despite the demand slowdown and build in a pick-up in SL as the macro-economic situation is normalizing

	FY24	FY25E	FY26E	FY27E	CAGR FY24-27	
P&L						
Revenues	25,943	29,628	34,558	40,057	16%	
KFC	17,157	19,842	23,311	27,102	16%	
PH	5,185	5,666	6,428	7,374	12%	We build in a store addition of 70 p.a. for KFC over FY24-27 vs an average addition of 83 over FY23-24. For PH we expect store addition to moderate to 25 stores in FY25E given the weak profitability of the brand and the elongated turnaround timelines. For Sri Lanka, with the macro-economic situation stabilizing and profitability improving, we build in an average addition of 18 stores p.a. vs 13 over FY23-24.
SL	3,397	3,897	4,573	5,310	16%	
No. of Stores	868	978	1,108	1,248	13%	
KFC	429	499	569	639	14%	
PH	319	344	384	434	11%	
SL	120	135	155	175	13%	
						For all the three segments, we build in a lower SSSG for FY25 given the expectation of a recovery in H2FY25E. SSSG for KFC will be structurally higher given its competitive advantage and also younger vintage of stores.
SSSG						
KFC	-1%	3%	6%	6%		
PH	-16%	3%	4%	4%		
SL	2%	5%	6%	6%		
Store Margin						
KFC	19.7%	19.5%	20.0%	20.5%		Expect moderate improvement in KFC margins driven by operating leverage. In case of PH, while we build in an improvement, it is still lower than what the brand achieved in FY23.
PH	4.9%	7.0%	11.0%	12.0%		
SL	13.7%	15.0%	17.0%	19.0%		
EBITDA	4,613	5,627	7,198	8,843	24%	Improvement in Pre IND AS margin of ~400bps over FY24-27 is driven by a 310bps improvement in brand margins (highlighted above) and the rest driven by scale benefits on corporate overheads.
EBITDAM %	18%	19%	21%	22%		
Pre IND AS 116 EBITDA	2,717	3,389	4,595	5,815	29%	
Pre IND AS 116 EBITDAM %	10.5%	11.4%	13.3%	14.5%		
PAT	520	734	1,448	2,227	62%	
Balance Sheet						
Net Debt	(1,400)	(2,462)	(3,406)	(4,555)		Sapphire's internal cash generation should be sufficient to fund its capex plans.
Net Debt to Equity	-0.10	-0.17	-0.22	-0.26		
RoE	4%	5%	10%	14%		
Reported RoCE	7%	8%	11%	14%		
Pre-tax RoCE (Pre IND AS 116)	9%	11%	15%	18%		
Cash flow parameters						
CFO	4,488	5,991	6,805	8,202		
CFO Pre IND AS 116	2,535	3,754	4,202	5,174		
FCF	639	2,990	3,210	4,196		
FCF Pre IND AS 116	-1,314	753	607	1,168		

Source: Company, Ambit Capital research

Overall, we are building in revenue/EBITDA/PAT CAGR of 11%/14%/23% over FY24-44E. Across KFC/PH/SL our revenue growth estimates are 12%/10%/13%. Growth looks similar for PH due to the low base of FY24 (FY20-24 CAGR for KFC is 22% vs 12% for PH). Long-term SSSG estimate for KFC/PH is 6%/4% respectively. In FY44E, our brand EBITDA split across KFC:PH:SL is 73:11:16 vs 83:6:11 in FY24.

Exhibit 60: Building in higher SSSG for KFC and SL vs. PH. Also, Sapphire will be able to fund its capex organically

	FY24	FY25E	FY26E	FY27E	FY35E	FY44E	FY24-27E	FY27-35E	FY35-44E	FY24-44E
P&L										
Revenues	25,943	29,628	34,558	40,057	102,724	226,806	16%	12%	9%	11%
KFC	17,157	19,842	23,311	27,102	69,581	155,954	16%	13%	9%	12%
PH	5,185	5,666	6,428	7,374	16,878	32,346	12%	11%	7%	10%
SL	3,397	3,897	4,573	5,310	15,683	37,135	16%	14%	10%	13%
No. of Stores	868	978	1,108	1,248	2,323	3,326	13%	8%	4%	7%
KFC	429	499	569	639	1,144	1,614	14%	8%	4%	7%
PH	319	344	384	434	809	1,159	11%	8%	4%	7%
SL	120	135	155	175	370	553	13%	10%	5%	8%
SSSG										
KFC	-1%	3%	6%	6%	6%	6%				
PH	-16%	3%	4%	4%	4%	4%				
SL	2%	5%	6%	6%	6%	6%				
Store Margin										
KFC	20%	20%	20%	21%	23%	26%	80bps	230bps	270bps	580bps
PH	5%	7%	11%	12%	16%	19%	710bps	380bps	270bps	1,360bps
SL	14%	15%	17%	19%	22%	24%	530bps	318bps	180bps	1,028bps
EBITDA	4,613	5,627	7,198	8,843	27,164	66,000	24%	15%	10%	14%
EBITDAM %	18%	19%	21%	22%	26%	29%	430bps	437bps	266bps	1,132bps
Pre IND AS 116 EBITDA	2,717	3,389	4,595	5,815	19,675	51,128	29%	16%	11%	16%
Pre IND AS 116 EBITDAM %	11%	11%	13%	15%	19%	23%	404bps	464bps	339bps	1,207bps
PAT	520	734	1,448	2,227	9,882	30,817	62%	20%	13%	23%
Balance Sheet										
Net Debt	(1,400)	(2,462)	(3,406)	(4,555)	(39,524)	(211,529)				
Net Debt to Equity	-0.1	-0.2	-0.2	-0.3	-0.9	-1.6				
RoE	4%	5%	10%	14%	25%	25%	952bps	1,133bps	-24bps	2,061bps
Reported RoCE	7%	8%	11%	14%	19%	18%	658bps	483bps	-73bps	1,067bps
Pre-tax RoCE (Pre IND AS 116)	9%	11%	15%	18%	30%	26%	881bps	1,187bps	-409bps	1,659bps
Cash flow parameters										
CFO	4,488	5,991	6,805	8,202	23,978	55,470	22%	14%	10%	13%
CFO Pre IND AS 116	2,535	3,754	4,202	5,174	16,489	40,597	27%	16%	11%	15%
FCF	639	2,990	3,210	4,196	18,167	48,979	87%	20%	12%	24%
FCF Pre IND AS 116	-1,314	753	607	1,168	10,678	34,107	NM	32%	14%	NM

Source: Company, Ambit Capital research

Exhibit 61: FY25E estimates are lower as consensus is still to adjust for the weak start to the year

	FY25E			FY26E			FY27E		
	Ambit	Consensus	vs consensus	Ambit	Consensus	vs consensus	Ambit	Consensus	vs consensus
Revenue	29,628	30,555	-3%	34,558	36,181	-4%	40,057	41,712	-4%
EBITDA	5,627	5,727	-2%	7,198	7,071	2%	8,843	8,444	5%
EBITDA margin	19%	19%	25	21%	20%	129	22%	20%	183
PAT	734	933	-21%	1,448	1,544	-6%	2,227	1,973	13%

Source: Visible Alpha, Ambit Capital research

We build in 22% FCFF CAGR over FY25-44E. At CMP, the stock is building in 20% FCFF CAGR.

Exhibit 62: Our DCF-based TP is ₹1,876, implying 25x FY26E EV/EBITDA

Particulars	
PV of cash flows	54,324
PV of Terminal value	62,851
Total EV (₹ mn)	117,175
Less: Debt FY25E (Excluding Lease Liabilities)	276
Add: Cash FY25E	2,594
Core business market cap (₹ mn)	119,493
NOSH	64
Value (₹/Share) - September 2025	**1,876**

Source: Ambit Capital research

Exhibit 63: JFL emerges top of our qualitative framework with DIL and Sapphire a close second and third

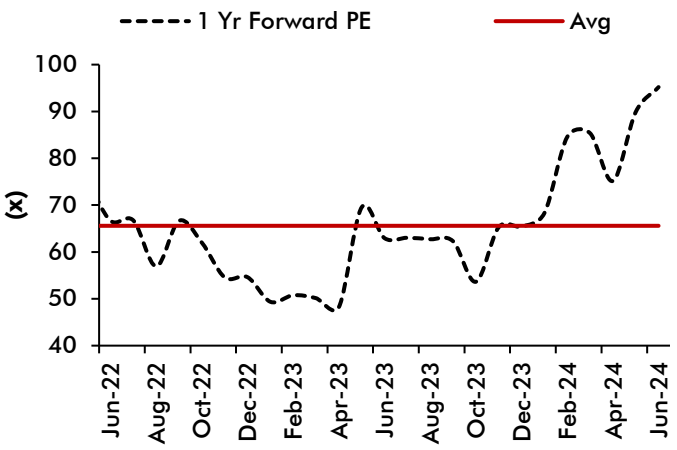
Parameters	JFL	WFL	BKI	BBQ	DIL	Sapphire
TAM/Store Potential						
Category (Competitive intensity)						
Store Economics/RoCE						
SSSG outlook (Includes Brand strength)						
Execution						
Optionality						
Overall						

Source: Company, Ambit Capital research, Note: - Strong; - Relatively Strong; - Average; - Relatively weak.

Based on this, we believe JFL deserves the highest relative valuation given its RoCE and cash flow profile.

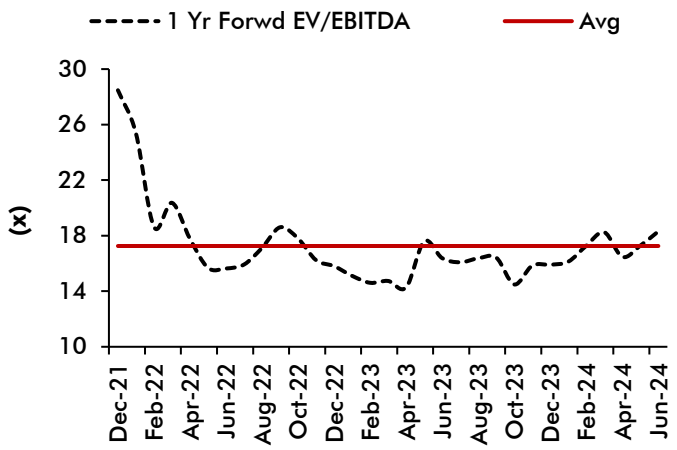
On a relative basis, we believe EV/EBITDA is a better metric to compare valuations across companies as all, except JFL, recently turned profitable or are expected to achieve profitability in the coming years. Also, PAT growth for the entire QSR space (ex JFL) is much higher than EBITDA due to low base.

Exhibit 64: Sapphire's P/E ratio has been volatile given the low profitability



Source: Bloomberg, Ambit Capital research

Exhibit 65: EV/EBITDA is a better reflection of the relative valuation for Sapphire. It is trading at its average multiple



Source: Bloomberg, Ambit Capital research

Comparing Sapphire on a relative basis, we notice that JFL's EV/EBITDA is the lowest across the QSR space (ex BBQ Nation, RBA is on consolidated basis including Indonesia business). This is a reflection of 1) the private equity ownership which is still clouding the execution prowess of the business, 2) private equity promoters have been reducing their stake and 3) Sri Lanka performance impact until now.

Exhibit 66: Sapphire's relative valuation is the lowest across QSR ex BBQ Nation; RBA is on consolidated basis including Indonesia business

Company Name	M Cap (USD bn)	FY24-27E Sales CAGR (%)	FY24-27E EBITDA CAGR (%)	FY24-27E PAT CAGR (%)	FY24 EBITDA margin (%)	P/E (x)			EV/E (x) - Post IND			EV/E (x) - Pre IND		
						FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
India QSR Franchise														
Jubilant Foodworks Ltd	4.6	18	22	38	20	100	73	62	29	24	21	42	35	29
Devyani International	2.4	24	25	60	18	122	79	60	25	21	18	39	32	27
Westlife Foodworld Ltd	1.6	15	20	49	15	135	79	58	34	27	23	44	33	27
Sapphire Foods India Ltd	1.2	17	21	61	18	109	66	46	20	16	13	30	24	19
Restaurant Brands Asia Ltd	0.7	21	38	NM	10	NM	NM	NM	17	13	9	95	40	21
Barbeque Nation	0.3	13	19	NM	17	208	61	35	11	9	8	20	16	15
Average		**18**	**24**	**52**	**16**	**135**	**72**	**52**	**23**	**18**	**15**	**45**	**30**	**23**
Median		**18**	**21**	**55**	**17**	**122**	**73**	**58**	**23**	**19**	**16**	**41**	**32**	**24**

Source: Company, Ambit Capital research

Exhibit 67: Valuations at CMP based on Ambit expectations – Sapphire's multiples are lower than peers despite similar growth outlook

	CAGR FY24-27E		EV/E - Post IND AS			EV/E - Pre IND AS			PE Ratio		
	Revenue	EBITDA*	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
JFL (S) - Ex Popeyes + DP Eurasia	13%	18%	27	23	20	42	34	29	110	74	54
DIL - Ex KFC Thailand	17%	27%	30	24	19	43	33	26	NA	NA	NA
Sapphire Foods	16%	29%	19	15	12	29	21	17	119	60	39
Median	**16%**	**27%**	**27**	**23**	**19**	**42**	**33**	**26**	**114**	**67**	**47**

Source: Company, Ambit Capital research

Promoter stake selling should moderate as it has reached its threshold

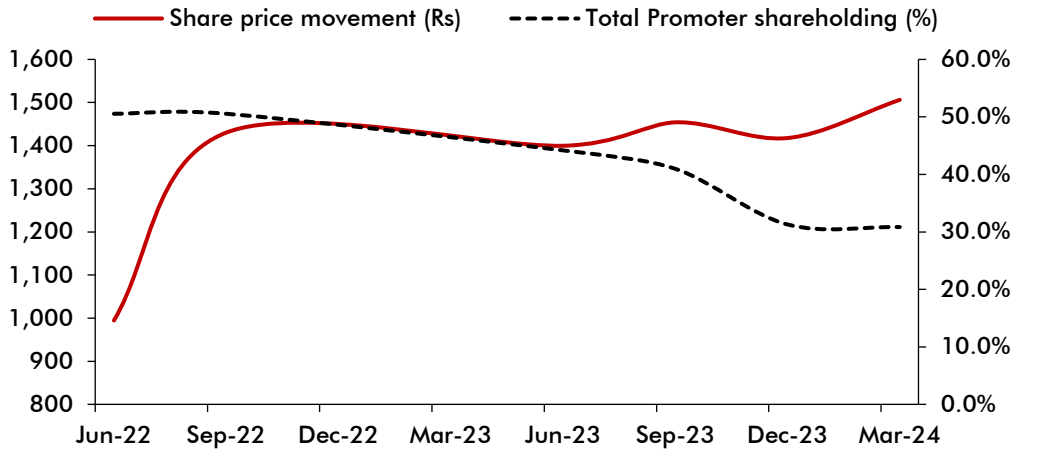
One aspect which impacted Sapphire beyond its fundamental performance is the regular stake sale from the promoter entity as it is a private equity-owned business.

Exhibit 68: Sapphire's Private Equity promoters have been paring stake since IPO

	Jun-22	Sep-22	Jun-23	Sep-23	Dec-23	Mar-24
Sapphire Foods Mauritius	38.0%	38.0%	31.9%	29.3%	24.0%	24.0%
Sagista Realty Advisor	4.5%	4.5%	4.3%	3.7%	3.5%	3.1%
Arinjaya (Mauritius) Limited	8.0%	8.0%	8.0%	8.0%	3.8%	3.8%
Total Promoter shareholding (%)	**50.6%**	**50.6%**	**44.2%**	**41.0%**	**31.3%**	**30.8%**

Source: Company, Ambit Capital research

Exhibit 69: This has impacted the stock performance partially beyond fundament



Source: Company, Ambit Capital research

However, Sapphire's main promoter entities, i.e. Sapphire Foods Mauritius and Sagista Realty Advisors, shareholding is now down to 27.1%, close to the threshold of 25.1%. Hence, incremental supply will be limited and the stock can thus reflect its true valuations rather than being impacted by technical factors beyond performance.

*"Under the terms of the New Licensee SHA, QSR Management Trust (Selling Shareholder) and Sapphire Mauritius, together, have, inter alia, an obligation to maintain a minimum shareholding and voting rights of up to **25.1%** of the entire issued share capital in our Company, which **shall be locked in at all times** ("Minimum Shareholding"). "*

"QSR Management Trust (Selling Shareholder) and Sapphire Mauritius are required to notify and obtain the prior consent of YUM India prior to transferring the Minimum Shareholding."

Sapphire Foods DRHP.

Valuation discount versus Devyani International should narrow further

Sapphire has also been compared to DIL given more than 70% of EBITDA and 90% of value overlap via KFC India and PH India. DIL has traded at a premium historically given 1) the belief in the execution of RJ Corp (Promoter entity of DIL) given the performance of Varun Beverages and 2) higher TAM – about 50%/65% of KFC and PH addressable opportunity in India. Another factor which has worked against Sapphire is it's promoted by a private equity. The selling of PE stake consistently has also not helped and has depressed valuation further. That said, when compared DIL and Sapphire, the margin profile for both the companies across comparable brands has now converged signaling limited execution differentiation. Also, unlike the bottling business (referring to Varun Beverages here) which is distribution and execution-heavy, in the QSR business the management role is more about identifying right store locations and sticking to laid templates. Restaurant-level EBITDA margins for KFC and PH have now converged for Sapphire and DIL. Sapphire has historically delivered higher sales per store while also operating under a higher cost environment.

DIL trades at a 50% premium to Sapphire on FY26 EV/EBITDA while the average premium since listing is around 26%. We believe that the valuation premium for DIL should narrow as Sapphire has closed the gap on operating efficiencies over the past few years.

Exhibit 70: KFC performance is better for stores under Sapphire; PH margins across both brands are similar

	Sapphire			DIL		
	FY20	FY24	FY27E	FY20	FY24	FY27E
KFC						
Revenues (₹ bn)	8	17	27	6	20	34
Stores (#)	187	429	639	172	596	946
SSSG	5.4%	-1.0%	6.0%	3.2%	-4.6%	6.0%
ADS (₹)*	123,136	122,092	122,933	109,076	105,645	105,501
Brand Margin	13.2%	19.7%	20.5%	16.0%	19.6%	20.1%
PH						
Revenues (₹ bn)	3	5	7	4	7	10
Stores (#)	174	319	434	269	567	737
SSSG	-5.2%	-16.0%	4.0%	-3.7%	-10.9%	5.0%
ADS (₹)*	56,019	46,960	49,399	42,594	36,216	38,535
Brand Margin	7.3%	4.9%	12.0%	10.5%	7.2%	12.0%

Source: Company, Ambit Capital research, Calculated*

Catalysts & Risks

Catalysts

SSSG picks up across Sapphire's key formats, especially KFC: We are building in an SSSG improvement for Sapphire in 2HFY25E with an improvement to 6% from -3% in 1HFY25E. Of the three, pick-up in KFC is most important as it contributes ~85% of Sapphire's SOTP.

KFC's store addition pace remains in-tact: We build in an addition of 70 stores p.a. for KFC. This is lower than FY24 (88 stores) but higher than the average addition of 54 stores over FY20-24.

Share of Sri Lanka business in EBITDA improves: Sri Lanka operations saw a much higher impact of the adverse macro situation rather than any internal issue with the brand. At one point it was contributing 30% of Sapphire's EBITDA (FY21) which has fallen to 11% in FY24. We are building in an improvement in this contribution from FY25E itself.

Risks

Slowdown in consumer demand: We are building in an improvement in consumer demand from 2HFY25. However, a delay in recovery or further moderation in demand will impact our estimates and valuation.

Scale-up in Popeyes affecting SSSG for KFC: As per our expectations, there is enough depth in the chicken QSR market to accommodate growth plans for all QSR. However, if Popeyes steps up aggression and this affects KFC's performance, especially moderation in SSSG, it will impact valuations given KFC is the key driver for Sapphire.

Losses in PH dragging profitability and cash flows: While PH's contribution to overall SOTP is minimal, if Sapphire is compelled to open stores and scale up the format (due to store commitments) despite the adverse store economics, it will impact Sapphire's profitability.

Accounting & governance checks

SHIL scores reasonable on accounting and governance check like (a) cash flow generation, (b) cash yield, (c) contingent liabilities as a % of net worth (<5%), (d) CWIP/Gross block (<5%), & (e) advances to related parties. Whereas lag on ratios like (a) volatility in depreciation, (b) misc. expenses as a % of sales (2-4%). While SFIL is audited by one of the Big 4 auditor (EY), there is no stable co-relation between revenue growth and audit fee growth.

Exhibit 71: HAWK Analysis

	FY19	FY20	FY21	FY22	FY23	Comments
P&L mis-statement check						
CFO/EBITDA	118%	135%	148%	151%	121%	Cash conversion has been strong over FY19-22 but slightly fade in FY23.
Volatility in depreciation rate (bps)	(85)	251	21	-	(77)	Depreciation rate has been volatile over FY19-23. Higher volatility in FY20 was owing to higher depreciation due to Covid impact.
Provision for doubtful debtors as % of debtor > 6 months	6%	23%	NA	NA	NA	For Sapphire, debtors are not material. Debtors more than 6 months were Nil for FY21-23.
Balance sheet mis-statement check						
Cash yield	5.0%	8.4%	8.8%	4.3%	5.9%	Sapphire's other non-operating income (interest on deposit) have generated 6% cash yield in FY23.
Contingent Liabilities as % of Net Worth	8%	5%	5%	2%	3%	Contingent liabilities of ₹204mn/₹401mn for FY22/FY23 pertaining to Tax-related disputes.
Pilferage checks						
Misc. expenses as % of total revenues	4%	3%	3%	2%	2%	Misc. exp. as a % of revenue is higher at ~2% in FY23.
Advances to related parties / CFO	1%	1%	NA	NA	NA	
CWIP/Gross Block	4%	3%	3%	4%	4%	CWIP remain less than 5%, indicating no delays in capitalization of capital expenditure.
Audit quality check						
CAGR in auditors remuneration to CAGR in consolidated revenue	NA	NA	NA	(0.1)	0.3	Auditor fees remained stable and grew less than revenue CAGR in FY22 & 23.

Source: Company, Ambit Capital research

Stable KMP team for last 4 years

Sapphire is run by professionals having an experience across Hospitality, QSR & F&B industries. All senior managers have been in the industry for more than two decades and working with Sapphire for 4+ years.

Exhibit 72: SAPPHIRE has an experienced management team with history of working in similar businesses

Name	Designation	Qualification	Experience
Sanjay Purohit	WTD & CEO	BE (Mechanical), MBA (IIM, Bengaluru)	Over 30 years of experience across consumer product companies such as Levi Struass & Co., Cadbury India, Asian Paints, & Mobil Oil Corp.
Deepak Taluja	President & CEO - KFC	Hotel management graduate	Over 2 decades of experience & has worked with an organisations like Jubilant Foodworks, Fun Multiplex and Café Coffee Day. Was CEO of Pizza Hut business in 2015-2019.
Vikrant Vohra	CEO - Pizza Hut	Hotel management graduate	Has been associated hospitality brands such as The Park, Hyatt, Taj and Marriot International for nearly 2 decades. He led operations at Karnataka, Kerala & West India Markets for KFC before leading the Pizza Hut business in India.
Vijay Jain	CFO	CA	Worked with brands such as Piramal Health care, Aditya Birla Nuvo Ltd. and Hypercity Retail (India). Over 2 decades of experience.

Source: Company, Ambit Capital research

BoD meets mandatory requirement

SFIL board comprises of nine members, with Independent being the chairman of the board. They have sufficient representation of Independent directors and women directors. We believe Sapphire has reasonably qualified and diversified board having experience across marketing, investment baking, capital market and finance. All the IDs have board representation on other listed companies as well

Exhibit 73: SFIL board chaired by Independent Director having sufficient women directors

Name	Designation	Qualification	Experience
Sunil Chandiramani	Chairman, ID	CA, Bcom (Mumbai University), Systems Management (NIIT)	Over 29 years' experience in the field of accounting and advisory services. He was previously associated with S.R. Batliboi & Co. LLP and with Ernst & Young LLP as a Partner.
Sanjay Purohit	WTD & CEO	BE (Mechanical), MBA (IIM, Bengaluru)	Over 30 years of experience across consumer product companies such as Levi Strauss & Co., Cadbury India, Asian Paints, & Mobile Peevs Company Limited.
Sumeet Narang	Non-Executive, ND	MBA (Harvard), BE (Mechanical)	He was previously associated with Citigroup and is also the Founder and Managing Director of Samara India Advisors Private Limited. He has over 16 of years of experience in the field of inter alia banking and investments
Vikram Agarwal	Non-Executive, ND	CA, Bcom (Shri ram college, Delhi)	MD & CFO under dual employment with Samara India Advisors Private Limited and Samara Alternate Investment Management LLP. He has over 13 years of experience in private equity.
Nobert Fernandes	Non-Executive, ND	BE (IIT Kanpur), MBA (IIM Kolkata)	He was co-founding principal at IvyCap Ventures and worked with Temasek holdings Singapore and is a director at TR Capital
Vinod Nambiar	Non-Executive, ND	MBA, Marketing (IIM Kolkata)	He has over 30+ years across transformational leadership assignments at Hindustan Unilever India and Colgate Palmolive.
Kabir Thakur	Non-Executive, ND	Bcom, MBA (Mumbai University)	Nominee of Sapphire Food Mauritius Limited. Previously worked at Chrys Capital group and has experience of over 14 years in the field of investment and private equity
Anu Aggarwal	Non-Executive, ID	Master of Management Studies, Mumbai University	Was associated with Citi Bank and holds the position of President in the wholesale banking division of Kotak Mahindra Bank.
Deepa Wadhwa	Non-Executive, ID	MA (Sri Venkateswara University), Bsc (Madras University)	Over 36 years in IFS and served as Joint secretary in Ministry of external affairs.

Source: Company, Ambit Capital research, ND: Nominee Director, ID: Independent Director

Remuneration to KMP and Board remuneration as a % of EBITDA declined YoY

In FY23, Remuneration to KMP & BoD declined YoY in absolute term. It has been in the range (4-6%). In FY22 remuneration was high since it was IPO year and includes employee benefits related to listing. If we compare with Devyani (2-3%), sapphire was tad higher as a % of EBITDA.

Exhibit 74: In FY23 Remuneration to KMP declined YoY in absolute term

	FY19	FY20	FY21	FY22	FY23
KMP Remuneration	60	113	208	744	152
as a % of EBITDA	4%	6%	17%	24%	4%
Remuneration to other BoD	na	na	na	2	4
as a % of EBITDA				0.5%	0.4%
KMP and BoD remuneration	60	113	208	746	157
Remuneration of KMP and BoD as % of EBITDA	4.1%	6.1%	16.7%	24.5%	3.7%

Source: Company, Ambit Capital research

Exhibit 75: Explanation of flags on first page

Field	Score	Comments
Accounting	AMBER	It scores reasonably well across all the ratio except misc. expenses as a % of sales.
Predictability	AMBER	Operational performance is largely predictable subject to store addition & SSSG.
Earning momentum	GREEN	Earning growth for FY24-27 would be ahead of revenue growth as margins were bottomed out in FY24

Source: Company, Ambit Capital research

SAPPHIRE FOODS INDIA (SAPPHIRE IN, BUY)

Valuation Methodology

We value Sapphire Foods India using the DCF value methodology, taking into consideration free cash flow till FY44E using WACC of 13% and a terminal growth rate of 7% to arrive at the target price of ₹1,876.

Risks

- Delay in recovery or further moderation in demand.
- Scale-up in Popeyes affecting SSSG for KFC.

Financials - Consolidated

Income statement

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**22,656**	**25,943**	**29,628**	**34,558**	**40,057**
-growth (Rev)	31.6%	14.5%	14.2%	16.6%	15.9%
Cost of goods sold	7,407	8,109	9,176	10,728	12,451
Gross profit	**15,249**	**17,834**	**20,452**	**23,830**	**27,607**
Employee expenses	2,929	3,456	4,000	4,665	5,408
Advertising/marketing expenses	910	1,042	1,190	1,388	1,609
Power/fuel expenses	1,487	1,868	2,204	2,565	2,983
Other expenses	3,633	4,226	4,392	4,471	4,653
EBITDA	**4,284**	**4,613**	**5,627**	**7,198**	**8,843**
Depreciation	2,642	3,239	3,753	4,232	4,762
EBIT	**1,642**	**1,374**	**1,873**	**2,966**	**4,081**
Other income	311	334	339	355	445
Finance costs	869	1,009	1,233	1,391	1,556
Profit before tax	**1,084**	**699**	**979**	**1,931**	**2,970**
Profit before tax (adjusted)	**1,084**	**699**	**979**	**1,931**	**2,970**
Tax	(1,248)	180	245	483	742
PAT	**2,332**	**520**	**734**	**1,448**	**2,227**
Profit after tax (adjusted)	**2,332**	**520**	**734**	**1,448**	**2,227**
EPS (basic) (₹)	37	8.2	11.5	23	35

Source: Ambit Capital research, Company

Balance sheet

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Property, plant and equipment	7,706	9,624	10,640	11,923	13,246
Capital work in progress	550	673	673	673	673
Right of use assets	7,915	9,818	10,790	11,819	13,554
Other intangible assets	2,268	2,335	2,335	2,335	2,335
Intangible assets under development	14.4	7.1	7.1	7.1	7.1
Total fixed assets	**20,183**	**23,784**	**25,771**	**28,216**	**31,420**
Other non-current assets	831	985	1,034	1,138	1,251
Total non-current assets	**21,015**	**24,769**	**26,805**	**29,354**	**32,672**
Inventories	993	969	918	1,073	1,245
Trade receviables	179	344	296	346	401
Cash and cash equivalents	2,864	1,676	2,594	3,537	4,687
Other current assets	890	643	741	864	1,001
Total current assets	**4,926**	**3,632**	**4,549**	**5,820**	**7,334**
Total assets	**25,941**	**28,401**	**31,354**	**35,173**	**40,006**
Share capital	635	637	637	637	637
Other equity	11,924	12,754	13,489	14,937	16,718
Minority interest	(20)	6.7	6.7	6.7	6.7
Total equity	**12,539**	**13,398**	**14,132**	**15,580**	**17,362**
Long-term borrowings	209	132	132	132	132
Long-term provisions	107	143	143	143	143
Lease liabilities	9,185	11,363	13,069	14,788	17,113
Other non-current liabilities	36	43	148	173	200
Total non-current liabilities	**9,537**	**11,681**	**13,492**	**15,235**	**17,588**
Short-term borrowings	234	145	-	-	-
Trade payables	2,170	2,308	2,753	3,218	3,735
Other current liabilities	1,391	792	889	1,037	1,202
Short term provisions	70	77	88	102	119
Total current liabilities	**3,865**	**3,322**	**3,729**	**4,358**	**5,056**
Total liabilities	**13,401**	**15,003**	**17,222**	**19,593**	**22,644**
Total equity and liabilities	**25,941**	**28,401**	**31,354**	**35,173**	**40,006**

Source: Ambit Capital research, Company

Cash flow statement

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	**1,084**	**699**	**979**	**1,931**	**2,970**
Depreciation	2,642	3,239	3,753	4,232	4,762
Interest income	(203)	(195)	(339)	(355)	(445)
Interest expense	869	1,009	1,233	1,391	1,556
Other items	120	74	-	-	-
Working capital changes	(669)	(317)	610	89	101
Taxes	(21)	(19.8)	(245)	(483)	(742)
Cash flow from operations	**3,821**	**4,488**	**5,991**	**6,805**	**8,202**
(Net) capital expenditure	(3,825)	(3,850)	(3,002)	(3,595)	(4,006)
Acq./(disp.) of Investments	910	691	-	-	-
Interest/dividend Received	133	151	339	355	445
Other items	746	1,138	-	-	-
Cash flow from investments	**(2,036)**	**(1,869)**	**(2,663)**	**(3,240)**	**(3,560)**
Net long-term borrowings	(192)	(209)	(145)	-	-
Issuance of equity	-	83	-	-	-
Interest paid	(69)	(46)	(29)	(18.4)	(18.4)
Dividends paid	-	-	-	-	(445)
Payment of lease liabilities	(1,687)	(1,953)	(2,237)	(2,603)	(3,028)
Cash flow from financing	**(1,948)**	**(2,125)**	**(2,410)**	**(2,622)**	**(3,492)**
Opening cash balance	**583**	**417**	**1,676**	**2,594**	**3,537**
Net change in cash	**(163)**	**494**	**918**	**943**	**1,150**
Closing cash balance	**419**	**911**	**2,594**	**3,537**	**4,687**
Free cash flow to firm	**(4.0)**	**639**	**2,990**	**3,210**	**4,196**

Source: Ambit Capital research, Company

Preferred Ratios

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross margin	67.3%	68.7%	69.0%	69.0%	68.9%
EBITDA margin	18.9%	17.8%	19.0%	20.8%	22.1%
EBIT margin	7.2%	5.3%	6.3%	8.6%	10.2%
Net profit margin	10.3%	2.0%	2.5%	4.2%	5.6%
Interest cover	1.9	1.4	1.5	2.1	2.6
Net debt/equity	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)

Source: Ambit Capital research, Company

Ratio analysis

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross margin	67.3%	68.7%	69.0%	69.0%	68.9%
EBITDA margin	18.9%	17.8%	19.0%	20.8%	22.1%
EBIT margin	7.2%	5.3%	6.3%	8.6%	10.2%
Net profit margin	10.3%	2.0%	2.5%	4.2%	5.6%
Interest cover	1.9	1.4	1.5	2.1	2.6
Net debt/equity	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)
Net debt/EBITDA	(0.6)	(0.3)	(0.4)	(0.5)	(0.5)
Working capital turnover	(23)	(26)	(19.3)	(19.2)	(19.2)
Cash conversion days	(16.1)	(14.0)	(19.0)	(19.0)	(19.0)
Inventory days	16.0	13.6	11.3	11.3	11.3
Receivable days	2.9	4.8	3.7	3.7	3.7
Payable days	35	32	34	34	34
Gross block turnover	1.9	1.6	1.6	1.5	1.5
pre-tax CFO/EBITDA	89.7%	97.7%	111%	101%	101%
pre-tax RoCE	9.7%	7.2%	8.4%	11.4%	13.8%
ROE (%)	20.6%	4.0%	5.3%	9.7%	13.5%

Source: Ambit Capital research, Company

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Devyani International

SELL

INITIATING COVERAGE | **DEVYANI IN EQUITY** | **July 17, 2024**

Twinning on proposition, not value

Devyani International's (DIL), franchisor of KFC and Pizza Hut (PH), core investment proposition remains scalability of KFC in India akin to Sapphire. We expect revenue/EBITDA CAGR of 11%/13% for KFC over FY24-44E, with 61% EBITDA share in FY44E. Moats of chicken category provide comfort to our estimates. Despite this, DIL's current FCFF CAGR of 21% over FY27-44E is similar to Sapphire even factoring a) Costa Coffee franchise, KFC Thailand and b) higher territory rights for PH (~65%). Similar performance of KFC and PH between DIL and Sapphire points to limited execution superiority for DIL. But DIL valuation's 50% premium (33x FY26 EV/EBITDA ex KFC Thailand, Sapphire: 21x) in our view is unjustified given similar performance of KFC and PH between the two. DCF based TP for DIL builds in 12%/14%/21% revenue/EBITDA/PAT CAGR over FY24-44E. Preference order: Sapphire>DIL>JFL. Key risks: Faster-than-expected revival of PH and/or scale-up in Thailand.

Competitive position: STRONG Changes to this position: NEUTRAL

KFC key driver of profitability; higher share of PH business in India

DIL, like Sapphire, revamped store economics of both KFC and PH, whose average store RoCE improved from 11%/8% to 32%/20%. Our current store potential estimates are 805/1,160 (596/567 now). For KFC, we expect DIL to achieve this by FY26E. But for PH, scale-up will be gradual as its performance again worsened (FY24 SSSG: -11%), impacting profitability. KFC will remain DIL's key driver; we expect 61% of EBITDA from the brand vs 12% from PH in FY44E.

KFC Thailand – attractive territory with brand dominance

DIL in Dec-23 acquired the rights for one of three franchises operating KFC stores in Thailand. It acquired 274 stores (total >1,000). KFC's dominance in Thailand is better than that of India with a 65% chicken QSR market share, and is the largest QSR player in the country (4x next competitor). In the backdrop of the pre-Covid chicken market growth of 10%, we build in 7%/10% store addition/revenue CAGR over FY25-35E and expect brand margins to remain at 14-15%. Optionality exists from acquiring any of the other two franchises.

Costa Coffee – stepped up expansion; potential to surprise

DIL stepped up store expansion for Costa, adding 57/60 stores in FY23/24 (FY24 count: 179). With an attractive margin profile of ~20%, we build in addition of 60 stores p.a. over FY25-27 (akin to management guidance). Though contribution share is limited (6% of EBITDA in FY44E), it has potential to surprise given brand recognition (3,500+ stores in 33 countries) and profitable metrics.

Multiple levers but still too much built in

DIL has many more levers than Sapphire and other peers. However, similar opportunity split in KFC (key valuation driver) and similar revenue/EBITDA/FCFF CAGR of 12%/14%/ 23% over FY24-44E do not justify a premium of 50% to Sapphire. Further, EBITDA ask rate of 18% (FY24-44E) is highest across QSRs

Key Financials

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	29,977	35,563	53,156	61,631	71,136
EBITDA	6,551	6,524	9,580	11,820	14,191
Profit after tax (adjusted)	2,776	681	1,335	2,118	2,973
pre-tax RoCE	18.2%	8.5%	9.7%	11.5%	13.2%

Source: Company, Ambit Capital research

Quick Service Restaurants

Recommendation

Mcap (bn):	₹197/US$2.4
6M ADV (mn):	₹504/US$6.1
CMP:	₹163
TP (12 Mths):	₹149
Downside (%):	(9)

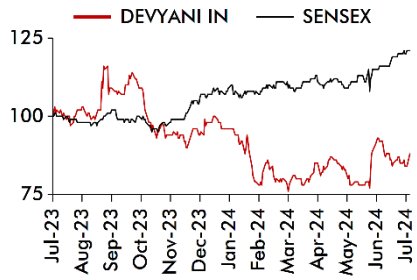
Flags

Accounting:	GREEN
Predictability:	AMBER
Earnings Momentum:	GREEN

Catalysts

- Slowdown in store growth addition for KFC to lower than 120 stores p.a.
- SSSG in KFC failing to reach 4%+ in 2HFY25E and remaining lower than KFC in Sapphire.

Performance



Source: ICE, Ambit Capital Research

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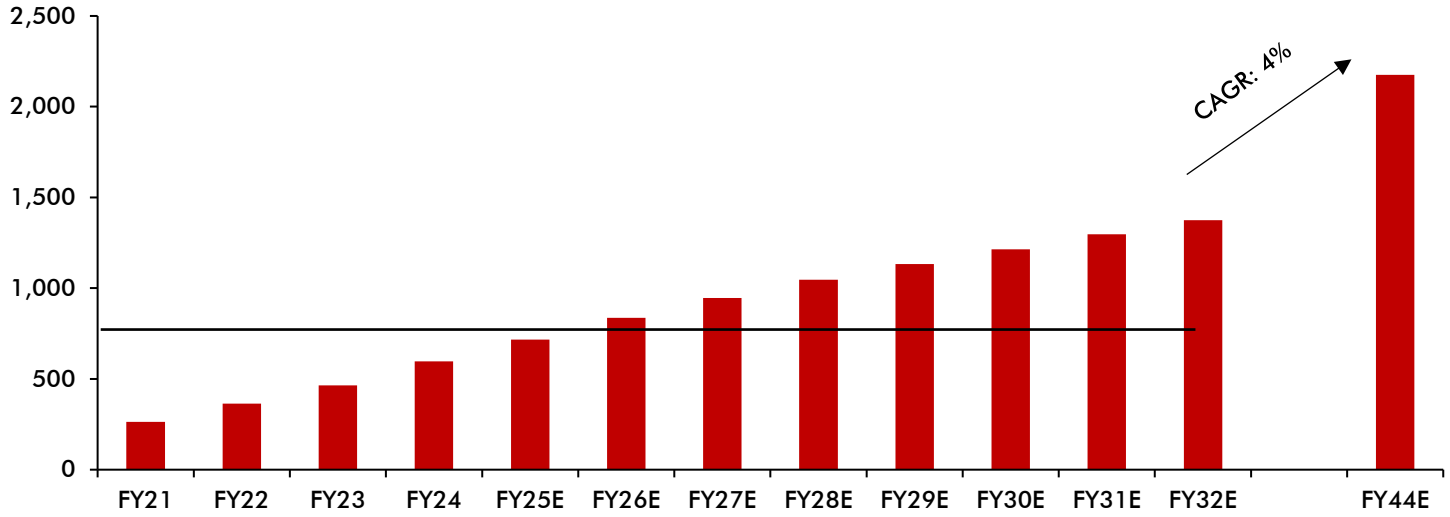
Narrative in Charts

Exhibit 1: DIL forms a much higher share of international revenues after Thailand acquisition

FY25E summary	Stores (#)		Revenues		EBITDA*		% Margin	
	DIL	Sapphire	DIL	Sapphire	DIL	Sapphire	DIL	Sapphire
Core Brands								
KFC	716	499	24,363	19,842	4,702	3,869	19%	20%
PH	612	344	7,755	5,666	698	397	9%	7%
International								
SL	NA	135	NA	3,897	NA	585	NA	15%
Thailand	308	NA	14,513	NA	2,032	NA	14%	NA
Nepal + Nigeria	72	NA	1,544	NA	216	NA	14%	NA
Others								
Costa	239	NA	2,019	NA	348	NA	17%	NA
Vaango + Food Street	99	NA	2,462	NA	172	NA	7%	NA
Total	**2,046**	**978**	**53,156**	**29,628**	**9,580**	**5,627**	**18%**	**19%**

*Source: Company, Ambit Capital research Note: Data for FY25E to reflect full impact of Thailand acquisition (consolidated from Jan-24). *EBITDA for segments relates to brand EBITDA, For company is the reported EBITDA Post IND AS 116.*

Exhibit 2: We expect DIL to touch the current potential of ~800 stores by FY26E



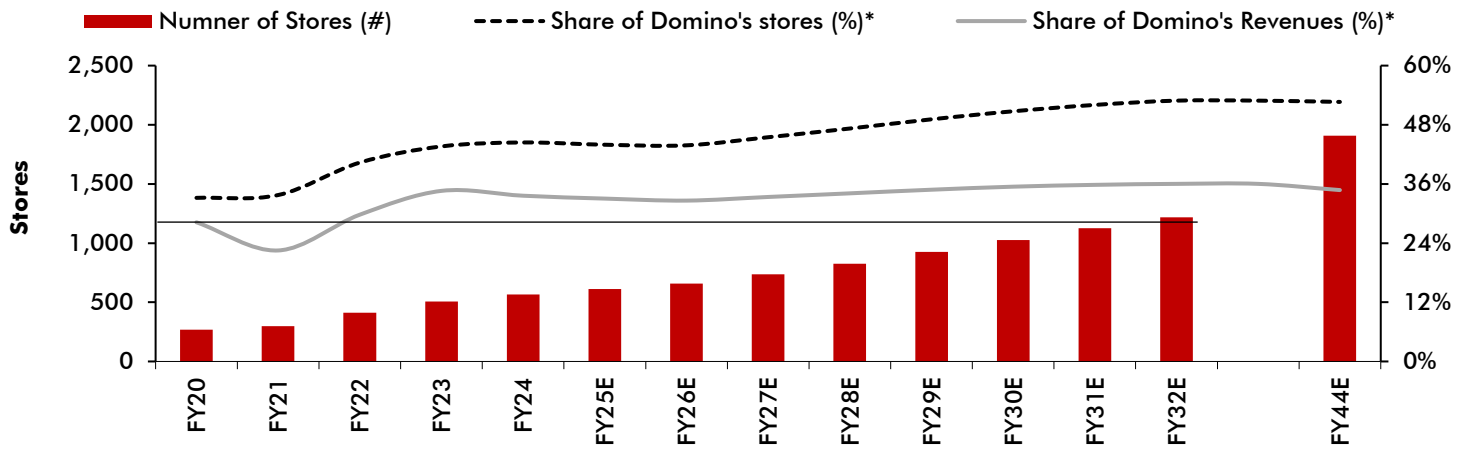
Source: Company, Ambit Capital research

Exhibit 3: Enough depth for market to accommodate growth plans for chicken QSRs

INR bn	FY15	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY15-20	FY20-24E	FY24-27E
KFC - DIL	NA	5	6	6	12	18	20	24	29	34	NA	35%	19%
KFC - Sapphire	NA	7	8	6	10	15	17	20	23	27	NA	22%	16%
KFC - Yum/Other franchisees	NA	7	5	1	1	1	1	1	1	1	NA	-31%	5%
Total KFC	**11**	**18**	**19**	**13**	**24**	**33**	**39**	**45**	**54**	**63**	**12%**	20%	**17%**
Popeyes	0	0	0	0	0	0	1	2	5	8	NA	NA	109%
McDonalds					1	1	2	2	3	3	NA	NA	26%
Others	5	8	9	10	10	11	11	12	12	13	**11%**	5%	5%
Total Market (INR bn)	**16**	**26**	**28**	**23**	**34**	**45**	**52**	**61**	**73**	**87**	**12%**	**17%**	**18%**

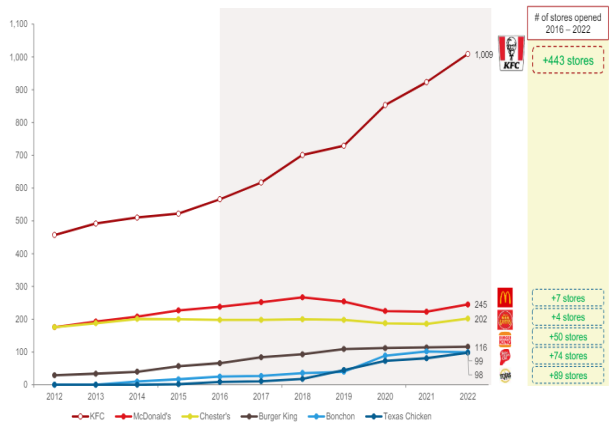
Source: Company, Ambit Capital research

Exhibit 4: PH's scale-up to its potential will be much more gradual than KFC given issues with the format



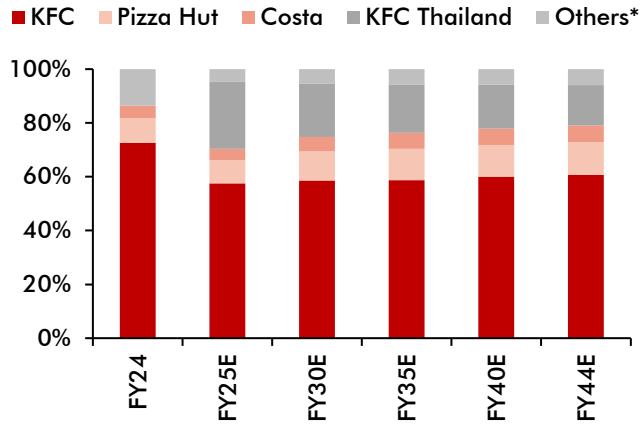
*Source: Company, Ambit Capital research, * Includes PH operated by Sapphire Foods also*

Exhibit 5: KFC is the largest QSR in Thailand (4x next competitor)



Source: Company, Ambit Capital research

Exhibit 6: KFC Thailand and Costa (~20% of FY44E EBITDA), remain optionalities for DIL and can expand further



*Source: Company, Ambit Capital research, * includes Nepal, Nigeria and other domestic brands*

Exhibit 7: TP implies 29x FY26E EV/EBITDA (ex KFC Thailand), KFC Thailand implied EV/EBITDA is 15x FY26E

Particulars	INR mn
PV of cash flows	85,615
PV of Terminal value	111,841
Total EV (INR mn)	**197,456**
Less: Debt FY25E (Excluding Lease Liab)	9,532
Less: 50% share in Thailand	11,843
Add: Cash FY25E	3,245
Core business market cap (INR mn)	179,326
NOSH	1,205
Value (INR/Share) - September 2025	149
CMP (INR)	163
Upside (%)	-9%

Source: Company, Ambit Capital research

Exhibit 8: DIL's valuation is much higher than peers despite similar growth outlook

	CAGR FY24-27E		EV/E - Pre IND AS		
	Revenue	EBITDA*	FY25E	FY26E	FY27E
JFL (S)**	13%	18%	42	34	29
DIL ***	17%	27%	43	33	26
Sapphire Foods	16%	29%	29	21	17
Median	**16%**	**27%**	**42**	**33**	**26**

*Source: Company, Ambit Capital research, * **Pre IND as EBITDA**, ** JFL's valuation and Revenue/CAGR are **Ex Popeyes + DP Eurasia**, *** DIL's valuation and Revenue/CAGR are ex KFC Thailand,*

Higher share of territory in KFC and PH

DIL, compared to Sapphire Foods, has a higher count of brands (Costa, Vaango and food court business) and larger international exposure (especially post recent acquisition of KFC Thailand). Similar to Sapphire, DIL also reworked the store economics for both KFC and PH, which significantly improved their metrics. Our workings on store potential put the current opportunity for KFC at ~800 (FY24: 596) and for PH at ~1,200 (FY24: 567). While we expect KFC expansion to remain robust and profitable, after PH's weak performance in FY24 and the current initiatives again implemented to improve brand profitability, we expect expansion to be gradual. As against KFC achieving its current potential by FY26E (5% CAGR in store adds post that), for PH we expect DIL to touch its current potential by FY32 (4% CAGR after that). Also, DIL's promoter RJ Corp has a track record of driving growth and profitability, visible with its other entity Varun Beverages.

Store economics revamped for both, but reforms for PH were temporary

Similar to Sapphire, DIL revamped its store formats and improved unit economics of both KFC and PH via 1) right-sizing of stores (most important) along with better look and feel, 2) increasing delivery share and 3) focus on optimising costs. All these have driven a significant improvement in profitability. Pre-Covid, average KFC store sizes were between 2,500-3,000 sq.ft. Incremental expansion is focused on stores sized between 1,500-2,000 sq.ft. Similarly, for PH, DIL's focus has been on smaller delivery focused stores vs. Sapphire Foods, which has been targeting omni-channel-focused stores with higher dine-in capacity.

Exhibit 9: DIL has higher brand count (Costa Coffee, Vaango) than Sapphire and presence in Nigeria and Nepal. It recently acquired a KFC franchise in Thailand. Like Sapphire, KFC is key driver of profitability (~70% of brand EBITDA ex KFC Thailand)

FY24 business snapshot	Core Brands			International Business (Thailand, Nigeria and Nepal)	Other Business	Overall
	KFC	Pizza Hut	COSTA COFFEE		Vaango! / the food street	DEVYANI INTERNATIONAL LIMITED
Outlets (Mar'24)	596	567	179	Thailand - 288 KFC stores Nigeria - 40 KFC stores Nepal - 25 KFC & PH stores	87	1,782 253
Cities						253
Revenue	20,437	7,092	1,518	4,436	2,080	35,563
Gross margin	69.5%	75.9%	76.8%	61.2%	73.6%	70.3%
Restaurant EBITDA	4,008	508	258	603	142	5,519
Restaurant EBITDA margin	**19.6%**	**7.2%**	**17.0%**	**13.6%**	**6.8%**	**15.5%**
Store level revenue share	57%	20%	4%	12%	6%	
Store level EBITDA share	73%	9%	5%	11%	3%	
FY20-24 store CAGR	36%	20%	30%	78%	5%	31%
FY20-24 revenue CAGR	35%	14%	17%	31%	-8%	24%
FY20-24 EBITDA CAGR	42%	4%	10%	28%	NA	34%

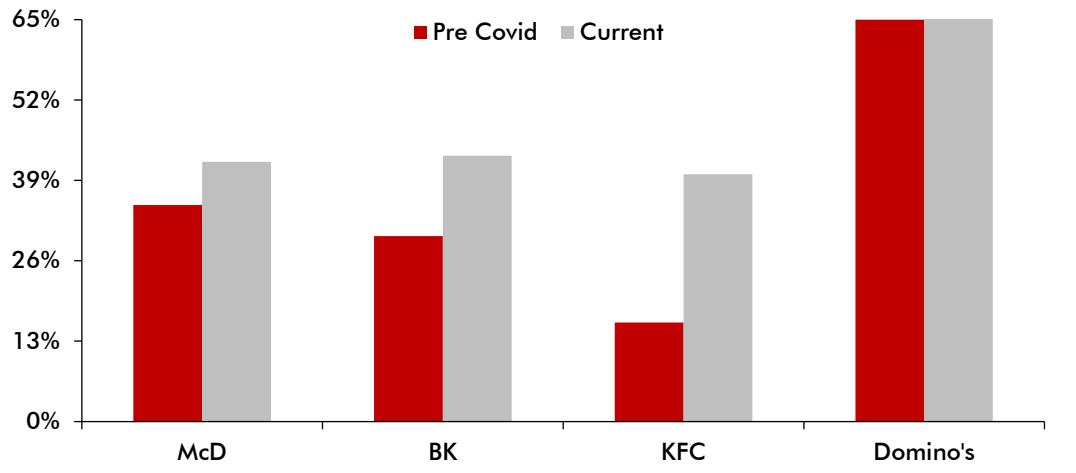
Source: Company, Ambit Capital research

Exhibit 10: DIL - much higher share of international revenues after Thailand acquisition

	Stores (#)		Revenues		EBITDA*		% Margin	
	DIL	Sapphire	DIL	Sapphire	DIL	Sapphire	DIL	Sapphire
Core Brands								
KFC	716	499	24,363	19,842	4,702	3,869	19%	20%
PH	612	344	7,755	5,666	698	397	9%	7%
International								
SL	NA	135	NA	3,897	NA	585	NA	15%
Thailand	308	NA	14,513	NA	2,032	NA	14%	NA
Nepal + Nigeria	72	NA	1,544	NA	216	NA	14%	NA
Others								
Costa	239	NA	2,019	NA	348	NA	17%	NA
Vaango + Food Street	99	NA	2,462	NA	172	NA	7%	NA
Total	**2,046**	**978**	**53,156**	**29,628**	**9,580**	**5,627**	**18%**	**19%**

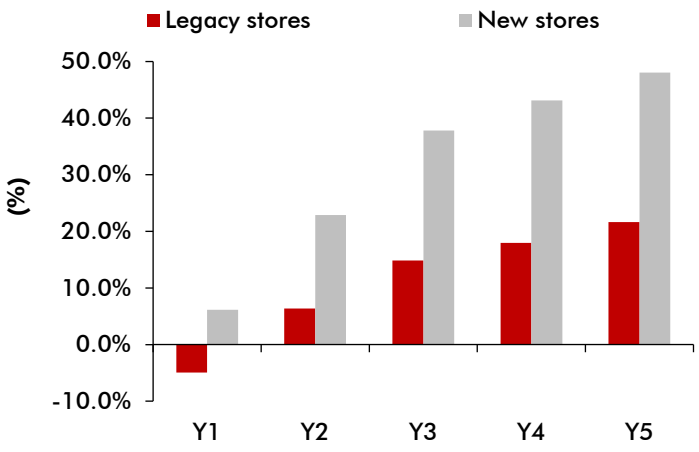
*Source: Company, Ambit Capital research. Note: Data for FY25e to reflect full impact of Thailand acquisition (consolidated from Jan-24). *EBITDA for segments relates to brand EBITDA, For company is the reported EBITDA Post IND AS 116.*

Exhibit 11: KFC posted the highest increase in delivery share vs pre-Covid levels



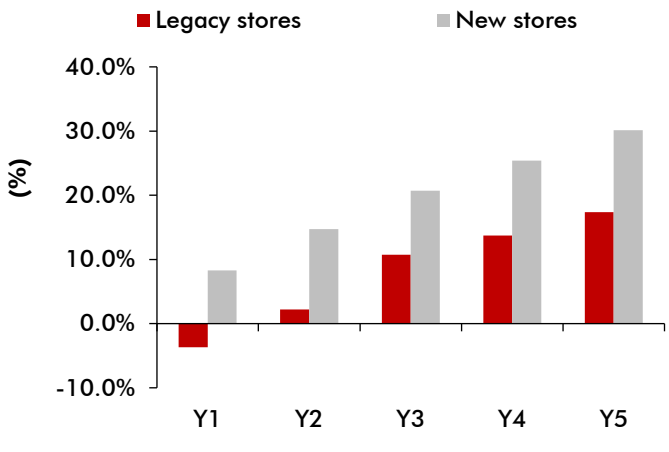
Source: Company, Ambit Capital research

Exhibit 12: KFC's improvement in store RoCE was higher



Source: Company, Ambit Capital research

Exhibit 13: PH also saw improvement



Source: Company, Ambit Capital research

This is reflected in the improved performance for KFC. However, PH, after improvement in FY22 and FY23, posted one of its weakest performances in FY24 with -16% SSSG.

Exhibit 14: DIL was able to optimize store size after Covid as evidenced by sustenance of ADS despite reducing store size

Details (₹ mn, unless specified)	KFC						Pizza Hut					
	FY19	FY20	FY21	FY22	FY23	FY24	FY19	FY20	FY21	FY22	FY23	FY24
Average Daily Sales per store	113,852	116,740	100,270	113,000	117,000	105,000	44,679	43,918	34,900	43,000	42,000	37,000
Avg revenue per store	39.8	39.8	29.6	38.8	41.5	37.6	16.5	15.5	10.2	15.0	13.8	13.2
Stores	**134**	**172**	**264**	**364**	**490**	**596**	**268**	**269**	**297**	**413**	**506**	**567**
Net stores added	**35**	**38**	**92**	**100**	**126**	**106**	**24**	**1**	**28**	**116**	**93**	**61**
SSSG	5%	3%	-34%	49%	16%	-5%	5%	-4%	-30%	45%	4%	-11%
Revenue	4,641	6,091	6,443	12,189	17,714	20,437	4,233	4,174	2,879	5,318	6,997	7,092
EBITDA	854	973	1,182	2,602	3,584	4,008	655.48	438.97	372.44	865	1012	508
Gross margin	*66.0%*	*64.8%*	*67.7%*	*69.3%*	*68.3%*	*69.5%*	*74.0%*	*74.9%*	*74.1%*	*75.6%*	*74.4%*	*75.9%*
Other expenses as % of Net Sales	*47.6%*	*48.9%*	*49.3%*	*47.9%*	*48.1%*	*49.9%*	*58.5%*	*64.4%*	*61.2%*	*59.4%*	*59.9%*	*68.7%*
EBITDA margin	**18.4%**	**16.0%**	**18.3%**	**21.4%**	**20.2%**	**19.6%**	**15.5%**	**10.5%**	**12.9%**	**16.3%**	**14.5%**	**7.2%**

Source: Company, Ambit Capital research

DIL's KFC territories have higher non-veg population; pan-India delivery rights in PH

DIL's KFC territories have a higher share of non-veg population but a lower share of GDP and an equal share of total population. In the case of PH, DIL has pan-India rights for smaller format stores and exclusive rights in North and East; i.e. in South and West (ex Tamil Nadu) both DIL and Sapphire operate with rights for different formats.

DIL's store opening rights for KFC higher non-veg share, lower per capita states

KFC's territories in India are split between DIL and Sapphire (small portion in Hyderabad still with Yum!). While DIL has a higher share of non-veg population states (AP, Telangana, Kerala and North East), Sapphire has higher per capita income states, i.e. Tamil Nadu, Maharashtra, Gujarat and Punjab.

Exhibit 15: Store opening demarcation between the two master franchisees of Yum!

KFC		PH	
Sapphire Foods	**Devyani International**	**Sapphire Foods**	**Devyani International**
Chhattisgarh	Andhra Pradesh	Andhra Pradesh	Bihar
Delhi	Bihar	Chhattisgarh	Delhi
Gujarat	NCR (ex-Delhi)	Goa	Haryana
Haryana*	Goa	Gujarat	Himachal Pradesh
Madhya Pradesh	Himachal Pradesh	Karnataka	Jammu & Kashmir
Maharashtra#	Jammu & Kashmir	Kerala	Jharkhand
Puducherry	Jharkhand	Madhya Pradesh	North-East
Punjab	Karnataka	Maharashtra	Odisha
Tamil Nadu	Kerala	Tamil Nadu	Punjab
Uttar Pradesh^	North-East	Telangana	Rajasthan
Uttarakhand	Odisha		Uttar Pradesh
	Rajasthan		Uttarakhand
	Telangana		West Bengal
	Uttar Pradesh		Delivery Format (Pan India except Tamil Nadu)
	West Bengal		

Source: Company, Ambit Capital research, *DIL has rights to open KFC stores in Gurugram and Faridabad while Sapphire has rights to open KFC stores in rest of the state, #DIL has rights to open KFC outlets at Mumbai airport, ^DIL has rights to open KFC outlets in Noida, Agra, Lucknow and Ghaziabad in UP while Sapphire has rights to open outlets in Rest of the states

Exhibit 16: KFC store opening rights indicate a higher share of GDP for Sapphire but a higher share of non-veg population for DIL

Sapphire Foods	GSDP Projected 2023-24 (₹ tn)	Non-Veg Population (%)	Devyani International	GSDP Projected 2023-24 (₹ tn)	Non-Veg Population (%)
Chhattisgarh	5.1	82%	Andhra Pradesh	14.5	99%
Delhi	10.4	61%	Bihar	8.6	92%
Gujarat	25.6	39%	NCR (Ex- Delhi)	15.9	61%
Haryana (Ex-Gurugram & Faridabad)	7.7	31%	Goa	1.0	69%
Madhya Pradesh	13.9	49%	Himachal Pradesh	2.1	73%
Maharashtra	38.8	60%	Jammu & Kashmir	2.3	69%
Puducherry	0.4	98%	Jharkhand	4.2	97%
Punjab	7.2	33%	Karnataka	25.0	79%
Tamil Nadu	28.3	98%	Kerala	11.3	97%
Uttar Pradesh (Ex- Noida, Ghaziabad, Lucknow, Agra)	12.2	53%	North-East	8.4	79%
Uttarakhand	3.3	73%	Odisha	8.7	97%
			Rajasthan	15.7	25%
			Telangana	14.0	99%
			West Bengal	17.2	99%
Total / Blended	**152.9**	**60%**		**148.8**	**81%**

Source: Company, Ambit Capital research

We estimate KFC's store potential based on KFC's current penetration in Mumbai and Bengaluru (part of DIL's territory). Assuming that the current penetration in these cities is ~70% based on GDP per store, we extrapolate the same to compare that with the state's GDP and adjust it for the GDP per capita to factor purchasing power. We also adjust our workings to the share of non-veg population in that state. Using this framework, we arrive at ~805 stores for KFC (FY24: 596). This store potential is based on current per capita for India. As per capita improves, store potential will also expand at a gradual rate. Based on our workings, store potential for DIL is 804 vs 809 for Sapphire. Sapphire's higher count is primarily due to higher per capita states, especially Tamil Nadu and Maharashtra. In the case of DIL, we expect Karnataka and Telangana to be the most important territories from a scalability perspective.

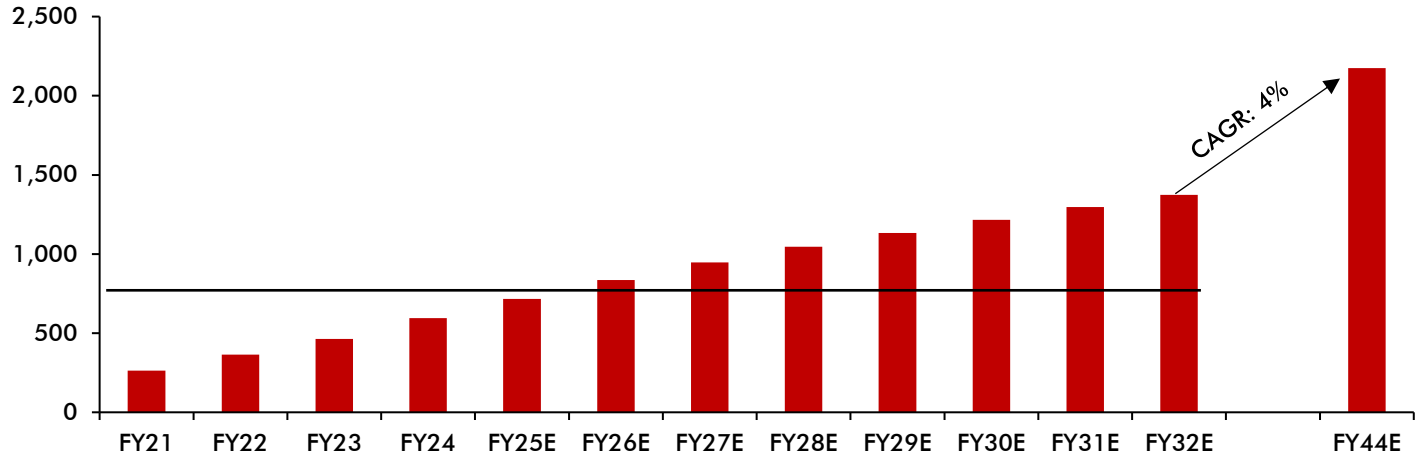
Exhibit 17: KFC's store potential is nearly equally split between the two

State	GDP (INR bn)	Population (mn)	GDP per capita (INR)	% Non Veg	Store Potential
Andhra Pradesh	13,177	92	143,696	97%	61
Arunachal Pradesh	351	2	205,167	100%	2
Assam	4,932	36	136,995	100%	22
Bihar	7,514	129	58,474	92%	13
Delhi*	10,438	19	540,777	76%	56
Goa	826	2	542,734	96%	14
Jammu & Kashmir	2,279	15	151,958	91%	10
Jharkhand	3,937	40	98,184	96%	12
Karnataka	22,414	70	322,037	85%	203
Kerala	9,325	35	268,732	99%	81
Manipur	366	3	106,474	100%	1
Meghalaya	427	4	113,192	100%	2
Mizoram	278	1	212,561	100%	2
Nagaland	319	2	153,938	100%	2
Odisha	7,749	47	164,518	97%	41
Rajasthan	14,136	80	177,808	38%	31
Telangana	13,134	38	344,204	97%	145
Tripura	726	4	173,564	100%	4
Uttar Pradesh*	22,576	232	97,518	66%	24
West Bengal	15,550	101	154,117	100%	78
Total					**804**

Source: Ambit Capital research

With DIL's target to open 120-130 stores of KFC p.a., we expect it to reach KFC's current potential target by FY26E (15% CAGR over FY24-28), after which we build in a 5% CAGR over FY28-44E.

Exhibit 18: We expect DIL to touch the current potential of ~800 stores by FY26E



Source: Company, Ambit Capital research

From a top-down perspective, for all players to achieve their targets/aspirations laid out, the chicken QSR market would have to clock 18% CAGR over FY24-27E. While higher than the 12% achieved between FY15-20 (FY20:24 estimated growth is 17%), it is still possible given the aggressive store expansion and entry into new markets. Competition rather than impacting absolute growth will show up more in SSSG impact, especially in the top 8 cities.

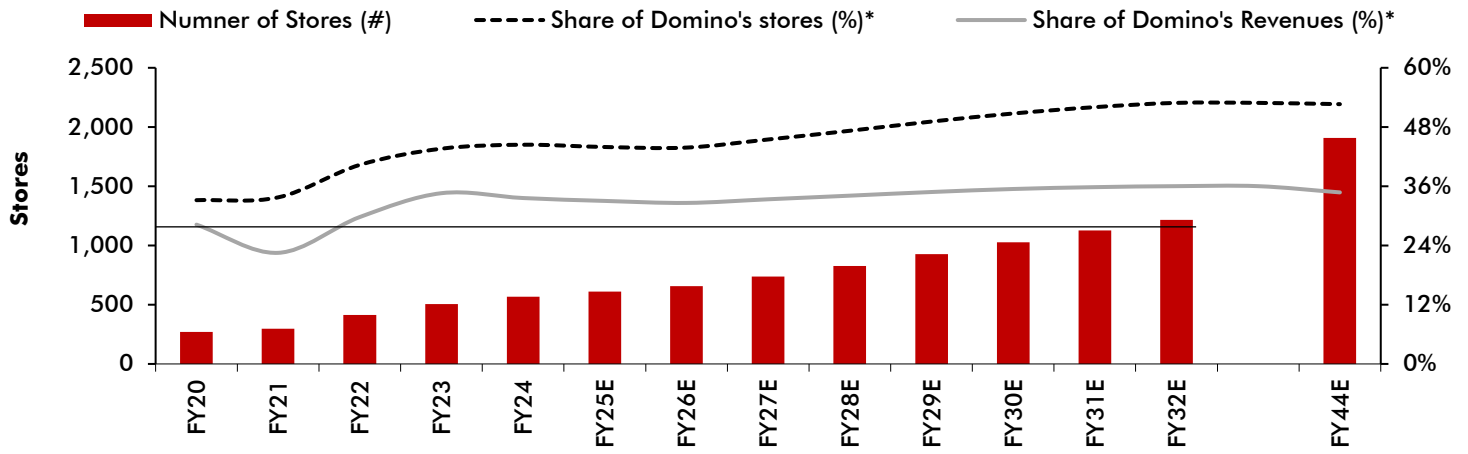
Exhibit 19: Enough depth for market to accommodate growth plans for chicken QSRs

INR bn	FY15	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY15-20	FY20-24E	FY24-27E
KFC - DIL	NA	5	6	6	12	18	20	24	29	34	NA	35%	19%
KFC - Sapphire	NA	7	8	6	10	15	17	20	23	27	NA	22%	16%
KFC - Yum/Other franchisees	NA	7	5	1	1	1	1	1	1	1	NA	-31%	5%
Total KFC	**11**	**18**	**19**	**13**	**24**	**33**	**39**	**45**	**54**	**63**	**12%**	20%	**17%**
Popeyes	0	0	0	0	0	0	1	2	5	8	NA	NA	109%
McDonalds					1	1	2	2	3	3	NA	NA	26%
Others	5	8	9	10	10	11	11	12	12	13	**11%**	5%	5%
Total Market (INR bn)	**16**	**26**	**28**	**23**	**34**	**45**	**52**	**61**	**73**	**87**	**12%**	**17%**	**18%**

Source: Company, Ambit Capital research

In the case of PH, our store potential for DIL is ~1,200 stores. However, given the current issues with the format, we expect this to be achieved by FY32 as DIL plans to moderate expansion of PH until the format revives.

Exhibit 20: PH's scale-up to its potential will be much more gradual vs KFC given the issues with the format



*Source: Company, Ambit Capital research, *Includes PH operated by Sapphire Foods also*

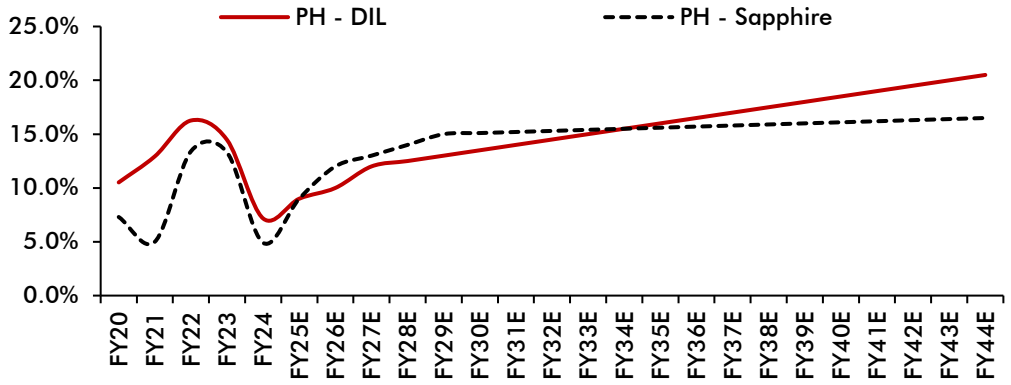
Exhibit 21: About 65% of PH's store potential is under DIL

State	GDP (INR bn)	Population (mn)	GDP per capita (INR)	Franchise	Potential
Andhra Pradesh	13,177	92	143,696	Both	28
Arunachal Pradesh	351	2	205,167	DIL	2
Assam	4,932	36	136,995	DIL	20
Bihar	7,514	129	58,474	DIL	13
Chandigarh	456	1	394,073	DIL	5
Chhattisgarh	4,576	32	142,116	Both	9
Delhi	10,438	19	540,777	DIL	165
Goa	826	2	542,734	Sapphire	0
Gujarat	19,371	70	275,151	Both	78
Haryana	9,942	29	343,990	DIL	100
Himachal Pradesh	1,954	8	260,435	DIL	15
Jammu & Kashmir-U.	2,279	15	151,958	DIL	10
Jharkhand	3,937	40	98,184	DIL	11
Karnataka	22,414	70	322,037	Both	105
Kerala	9,325	35	268,732	Both	37
Madhya Pradesh	13,228	85	155,622	DIL	60
Maharashtra	31,080	125	248,833	Both	113
Manipur	366	3	106,474	DIL	1
Meghalaya	427	4	113,192	DIL	1
Mizoram	278	1	212,561	DIL	2
Nagaland	319	2	153,938	DIL	1
Odisha	7,749	47	164,518	DIL	37
Puducherry	442	2	268,752	Sapphire	0
Punjab	6,731	31	220,683	DIL	43
Rajasthan	14,136	80	177,808	DIL	73
Sikkim	428	1	649,771	DIL	8
Tamil Nadu	23,645	84	282,506	Sapphire	0
Telangana	13,134	38	344,204	Both	66
Tripura	726	4	173,564	DIL	4
Uttar Pradesh	22,576	232	97,518	DIL	64
Uttarakhand	3,026	12	258,648	DIL	23
West Bengal	15,550	101	154,117	DIL	70
Total	**265,437**	**1,429**	**185,784**		**1,164**

Source: Company, Ambit Capital research, Note: For common territories we have assumed an equal split of the opportunity between DIL and Sapphire Foods

DIL's operations are predominantly focused in North and East for Pizza Hut and South and East for KFC where operating, wage and utilities costs are lower compared to West, where Sapphire's operations are focused. This partially explains the difference in profitability between the two and sheds light on the inherent cost advantages that DIL enjoys based on the areas of operations. Hence, we believe that DIL's superiority in store opening rights is rooted in the cost structure of its areas of operations rather than superiority on the demand side.

Exhibit 22: Expect store margins for DIL to be higher for PH vs Sapphire given the scale and also better execution expectation



Source: Company, Ambit Capital research

Experienced senior management team and execution track record of promoters provide comfort

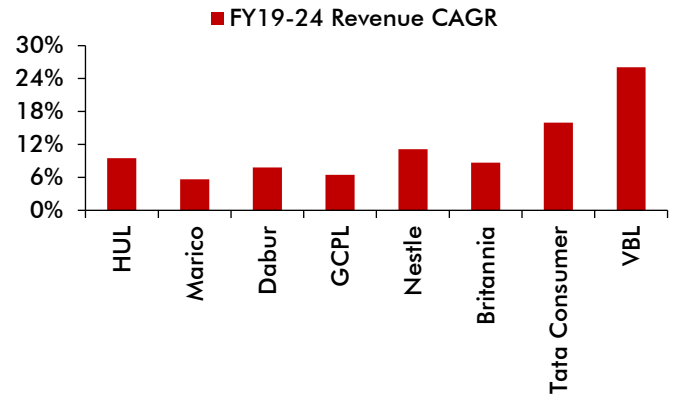
DIL is promoted by RJ Corp. which has a track record of building value. Group company Varun Beverages (VBL) has over the years acquired pan-India bottling rights for PepsiCo and is the second-largest franchisee of PepsiCo in the world (outside of USA). The experience and ability of RJ Corp to build brands and companies are an advantage for DIL over its peers.

Exhibit 23: Varun Beverages delivered revenue/profitability growth last decade driven by acquisitions and volume-led growth

INR bn	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23	CAGR
Revenue	23.5	28.1	39.1	45.3	45.2	52.3	86.3	76.6	93.1	137.7	166.5	22%
EBITDA	3.1	4.0	6.8	8.3	8.5	10.4	15.0	12.5	17.5	28.4	37.1	28%
PAT	1.4	1.9	4.3	3.7	5.6	6.8	9.6	8.9	12.8	21.7	27.8	34%
RoCE (%)	5%	7%	13%	15%	12%	14%	18%	10%	17%	27%	29%	
RONW (%)	-23%	-13%	61%	5%	12%	16%	18%	10%	20%	34%	35%	

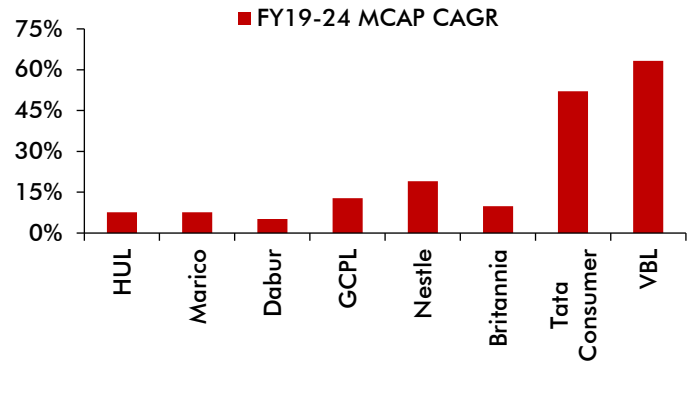
Source: Ace Equity, Ambit Capital research

Exhibit 24: VBL clocked the highest growth across consumer companies...



Source: Company, Ambit Capital research, Note: VBL CAGR over CY18-23

Exhibit 25: ...translating into one of the best performing large cap consumer stocks too



Source: Company, Ambit Capital research, Note: For VBL CAGR over CY18-23

KFC Thailand – An attractive international expansion

DIL, in a tie-up with Temasek, acquired Restaurant Development Co (RDC), one of the three franchises of KFC, operating 274 stores. KFC has a dominant position with ~65% market share and is the largest QSR brand in the country (4x the next competitor). Compared to the Chicken QSR market performance, RDC has performed much better – 5% CAGR over FY20-23 for RDC vs -1% CAGR for the chicken QSR category over CY19-22. In the backdrop of the pre-Covid chicken market growth of 10%, we build in 7%/10% store addition/revenue CAGR for RDC over FY25-35E and expect brand margins to remain at 14-15% as KFC is a value-focused brand in Thailand targeting customer acquisition. Besides scaling RDC operations, there's optionality from acquiring any or both of the other franchises.

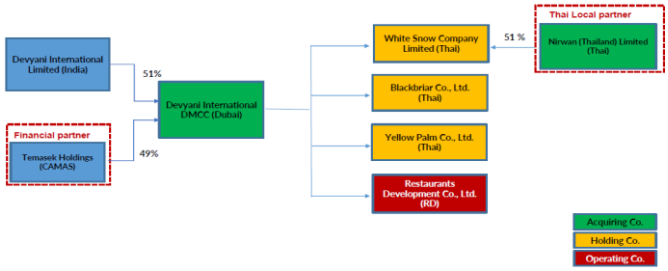
Devyani International, in a tie-up with Temasek, announced the acquisition of Restaurant Development Co (RDC), one of the KFC franchises in Thailand with 274 KFC stores (total KFC stores: 1,000-plus). Total consideration was INR10.7bn (USD129mn) with DIL's/Temasek investment at INR3.4bn/INR3.3bn.

Exhibit 26: DIL has acquired a 50% stake

	USD mn	INR mn	THB mn	% Stake
Devyani International Limited	41	3,414	1,470	50%
Temasek Holdings (CAMAS)	40	3,280	1,410	48%
Nirwan (Thailand) Limited	1	119	50	2%
Total Equity - A	**82**	**6,813**	**2,930**	
Debt (Local bank) - B	47	3,848	1,650	
Total consideration- A+B	**129**	**10,661**	**4,580**	

Source: Company, Ambit Capital research

Exhibit 27: Investment via subsidiary set-up in Dubai

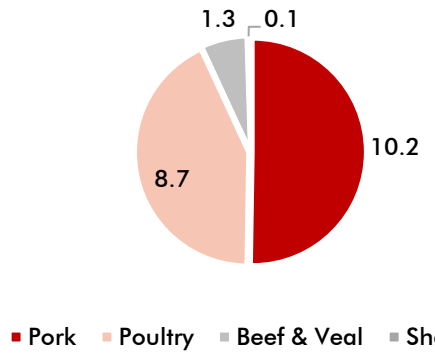


Source: Company, Ambit Capital research

Chicken is the second-largest meat consumed, but largest QSR category

Thailand is a high middle-income population country with a high share of tourism. Poultry is the second most consumed meat after pork. However, in QSR, chicken is the largest and has been one of the most resilient categories after Covid.

Exhibit 28: Poultry is the second-largest meat consumed (data in USD bn)



Source: OECD, Ambit Capital research

Exhibit 29: The QSR space in Thailand is still to recover post Covid. However, chicken QSR category has been resilient

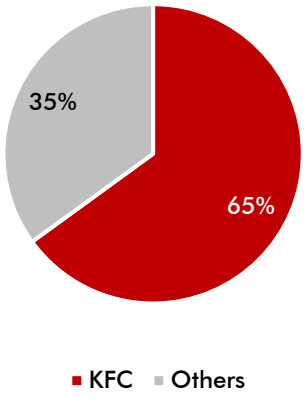
USD mn	CY19	CY20	CY21	CY22	CAGR 13-19	CAGR 19-22
Chicken	**741**	**702**	**604**	**718**	**8%**	**-1%**
Bakery	366	291	244	298	2%	-7%
Pizza	272	265	238	274	8%	0%
Burger	276	230	208	220	6%	-7%
Ice Cream	265	192	163	211	3%	-7%

Source: USDA, Euromonitor, Ambit Capital research

KFC largest QSR in Thailand; managed by three operating partners

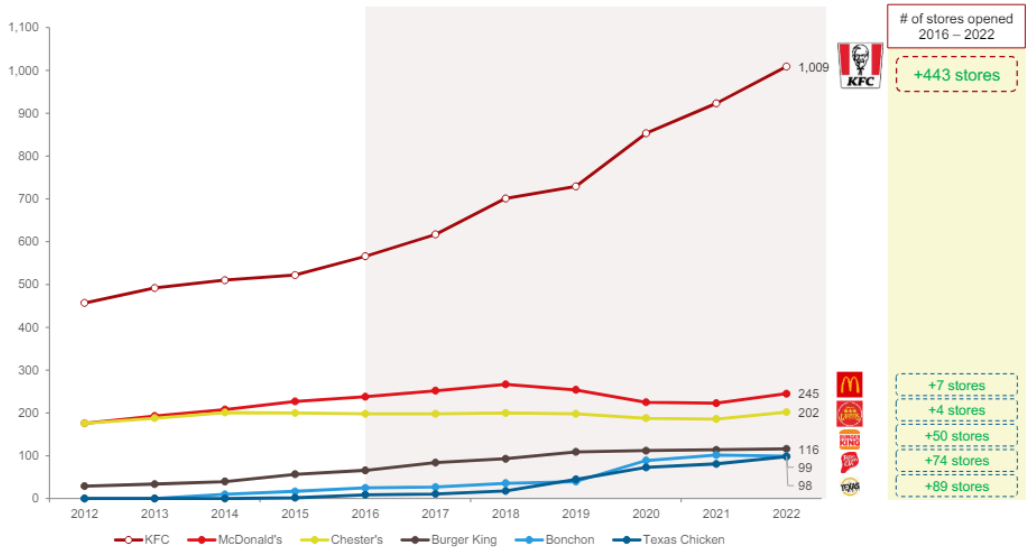
KFC in Thailand is franchised by Yum restaurant International Limited. It is present in the geography since 1984 and has become the largest QSR chain in the country. It operates 1,009 stores as of 2022, which is approximately 4x of the next biggest global QSR operating in the region (McDonald's: 245 stores). The QSR of Asia is the largest franchise, operating 400-plus stores followed by Central Restaurants Group (300+ stores) followed by Restaurant Development (274 stores). Another aspect we notice is the limited presence of international chicken QSRs in Thailand. This also helped KFC cement its position.

Exhibit 30: KFC commands a dominant market share in Thailand, similar to India



Source: Press articles, Ambit Capital research

Exhibit 31: KFC is nearly 4x the next largest QSR competitor



Source: Company

DIL targets to double store count over the next decade

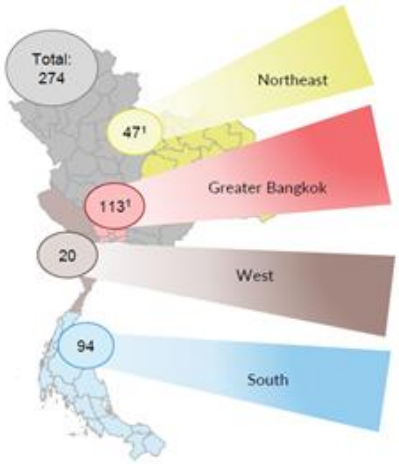
Restaurant Development Co was formed in late 2016 by a consortium of Thai, Japanese and Southeast Asian investors, which won the bidding process to acquire 128 KFC restaurants in Thailand. Yum! Brands sold The Restaurants, as part of its global strategy to have outlets owned and operated by franchisees. Restaurant Development Co registered stable performance over FY20-24 with revenue/store CAGR of 7%/9%. Compared to the Chicken QSR market performance, RDC performed much better – 5% CAGR over FY20-23 for RDC vs -1% CAGR for the chicken QSR category over CY19-22.

Exhibit 32: RDC performance was better than industry

THB mn	FY20	FY21	FY22	FY23	FY24
Revenue	4,447	3,859	4,078	5,176	5,753
YoY Growth %		-13%	6%	27%	11%
Gross profits	2,796	2,437	2,628	3,297	NA
	63%	63%	64%	64%	NA
Brand Contribution	623	441	616	837	NA
Brand Contribution (%)	14%	11%	15%	16%	NA
Stores	202	220	236	265	288
SSSG %	-5%	-22%	-6%	16%	NA
ADS (In THB '000)	65	50	49	57	57

Source: Company, Ambit Capital research, Note: FY24 revenues estimated

Exhibit 33: RDC has highest presence in Bangkok area



Source: Company, Ambit Capital research

Exhibit 34: Management summary of RDC

Name	Current Position	Qualification	Experience	RDC experience
Andrew Norton	CEO	CA in Australia	Over 2 decade of experience in QSR	8 Years
Manoj Chatpibal	CFO	MBA, IT & Decision science, Loyal University, & BBA, Assumption University	Prior to joining RDC, over 15 years' experience in Thailand's largest companies including Minor Food Group, The Siam Commercial Bank PCL, and Tesco Lotus	4 Years
Apichart Sawatdeemongkon	COO	Bachelor's degree in Accounting & MBA (General Management), Ramkhamhaeng University	Prior to joining RDC, he worked in operations and leadership roles at KFC (Yum!) for 16 years and at Popthai International (Popeyes) for 7 years	8 Years
Napaporn Srisuta	Chief People & Culture Officer	HR mang. & employee relationship, Chulalongkorn University	Prior to joining RDC, worked at Starwood Hotels for 11 years in both Thailand and regional HR leadership roles and with Minor Retail and MulienLowe Thailand for 3 years	8 Years
Peerapong Mahawongsnan	Chief Development Officer	Certificate in Entrepreneurship from Harvard Business School, and Master's Degree, Urban, community & regional planning, Chulalongkorn University	Prior to joining RDC, 6 years' experience at KFC and Pizza Hut and 4 years' experience as SVP in Channel Strategy and Development at TMB PCL	8 Years
Kannapong Boonpan	Chief Customer Experience And Marketing Officer	BSc, Chemistry, Thammasat University and Msc, Business Administration, management and operations, University of Sunderland	Prior to joining RDC 17 years' experience in retail businesses including blue chip retailers for 12 years and Big C retail for 5 years	7 Years

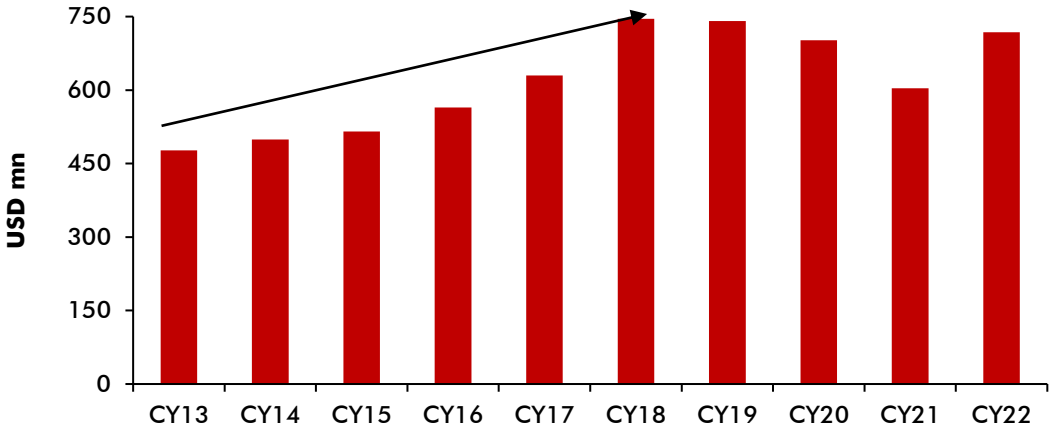
Source: Company, Ambit Capital research

DIL's strategy for expansion is:

- Increase focus on drive-through and gas stations, increasing the share of takeaway.
- Capitalizing on the shift towards online/mobile ordering by strategically choosing locations and asset types

We expect DIL to double KFC's store count over the next decade given the relative monopoly of the brand in Thailand. Our revenue CAGR is 10% for FY25-35E.

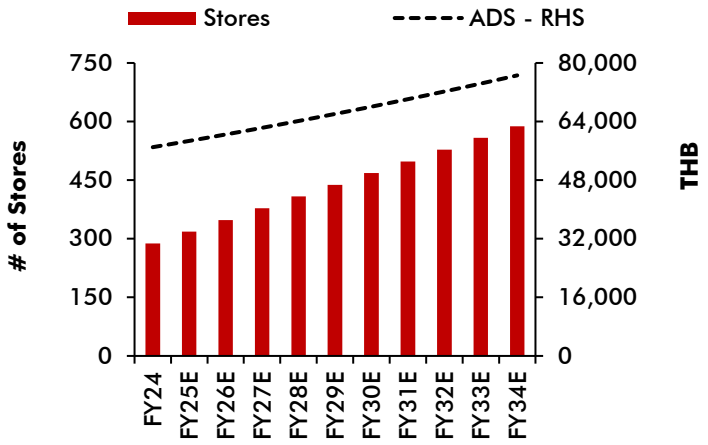
Exhibit 35: Chicken QSR market growth was stable at 9% CAGR pre-Covid



Source: Statista, Ambit Capital research

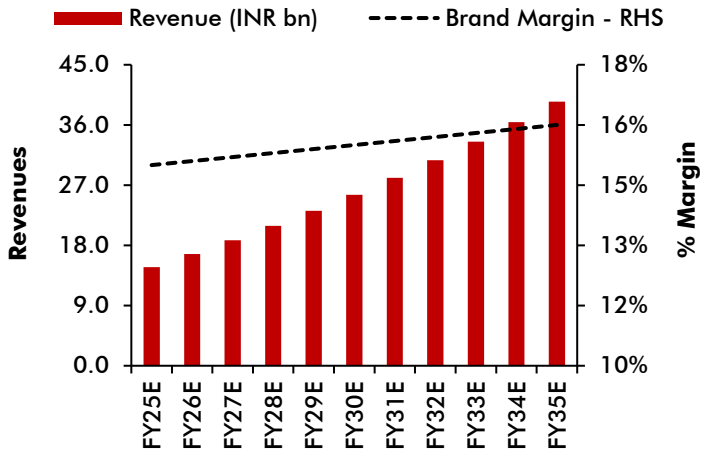
We expect brand margins to remain around 15% as KFC in Thailand has a value-focused positioning vs KFC globally and India as the target is to recruit customers from street food there, which has a very strong presence and is relatively hygienic too.

Exhibit 36: Building in 7%/3% CAGR in store addition/ADS (average daily sales)



Source: Company, Ambit Capital research

Exhibit 37: Expect margins to remain range-bound given the value focus the brand has in Thailand



Source: Company, Ambit Capital research

In addition to expanding the RDC operations, optionality remains from acquiring any of the other two franchises. DIL has highlighted the potential of introducing new brands from its existing portfolio in the future.

Exhibit 38: DIL could look at acquiring one or both of the remaining KFC franchisees in Thailand if Yum! approves

Company	Year of acquisition	Stores	Revenues (THB bn)	Company info
QSR of Asia	2017	430	NA	QSR of Asia is one of the companies in the ThaiBev Group that focuses on operating a range of food and food services business. It's a subsidiary of Food of Asia which own and operates QSR, full-service restaurants and bakery. The QSR business of the group is housed under QSR of Asia.
Central Restaurants Group	1984	338	7+	Central Restaurants Group was established in 1978 and has 20 brands both domestically and internationally.

Source: Company, Ambit Capital research

Costa worth sipping, Nigeria a concern

Beyond the core brands and KFC Thailand, DIL has the franchise for Costa Coffee. Costa Coffee stepped up expansion since FY23 and with an attractive margin profile (24%/17% in FY23/24); we see the scale-up to be profitable and a value driver. Though contribution expectations are limited (6% of EBITDA in FY44E), the business has potential to surprise given brand recognition (3,500+ stores in 33 countries) and profitable metrics. On the other hand, DIL's Nigeria operations have potential to expand with a store count of only 40 (3% of India's) for a population of 200mn+ (15% of India's). However, performance is significantly hit by the currency volatility and high inflation in the country. While FY24 saw DIL report an exceptional loss related to the same, the larger concern would be sustained support from profitable India operations to keep funding losses. Our estimates at present are building for profitability to improve in FY26E.

Costa Coffee store expansion steps up after Coca-Cola deal finalized

DIL stepped up its store addition for costa coffee in FY23 and FY24 after DIL reached a revised development agreement with Coca-Cola in Aug'21. The terms of the agreement provide for a royalty fee of 6% of gross revenue, obligation to spend 2% of gross revenue on advertising and promoting its business in India. Two types of Costa coffee outlets are operated by DIL – full retail outlets and branded kiosks at airports, food courts & hospitals which constitute around 1/4th of its Costa Coffee outlets.

Exhibit 39: Costa Coffee is the fastest growing core brand with higher profitability aided by lower obligations towards marketing and royalties

Details (₹ mn, unless specified)	FY19	FY20	FY21	FY22	FY23	FY24
Revenue per store	13.3	12.6	4.0	8.3	12.2	12.0
Avg daily sales per store (₹)	37,458	37,414	18,510	29,000	35,000	33,000
Stores	**67**	**63**	**44**	**55**	**112**	**179**
Gross store opened	12	4	4	11	57	NA
Stores closed	14	8	23	0	0	NA
Net stores added	**-2**	**-4**	**-19**	**11**	**57**	**67**
SSSG	2.7%	-4.4%	-61.6%	95.2%	56.3%	8.7%
Revenue	902	820	214	411	1,018	1,518
COGS	208	186	46	81	214	352
Gross margin	76.9%	77.3%	78.5%	80.3%	79.0%	76.8%
Brand Contribution/ EBITDA	182	174	33	125	241	258
EBITDA margin	**20.1%**	**21.2%**	**15.5%**	**30.4%**	**23.7%**	**17.0%**

Source: Company, Ambit Capital research

Costa coffee is positioned similar to Starbucks in terms of pricing and offerings but with a focus on smaller stores.

Exhibit 40: Costa's pricing is marginally lower than Starbucks

INR per serve	Americano	Cappuccino
Costa	230	255
Starbucks	255	270
Third Wave	190	218
CCD	218	228
Blue Tokai	210	230

Source: Company, Ambit Capital research

Exhibit 41: Costa has more food options than other chains

No. of items	Food Items
Costa	39
Starbucks	28
Third Wave	26
CCD	28
Blue Tokai	51

Source: Company, Ambit Capital research

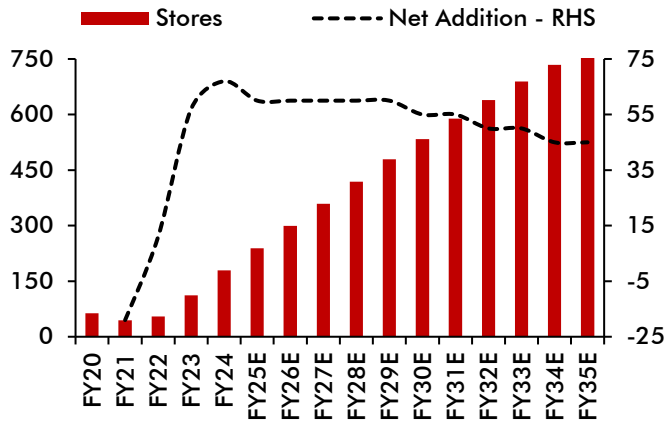
Exhibit 42: Starbucks' revenue per store is higher because of its larger size. However, Costa seems to be better on profitability even if we adjust for overheads

₹ mn	FY19	FY20	FY21	FY22	FY23	FY24
Starbucks						
Stores (#)	146	185	221	268	333	421
Revenue	4,436	5,367	3,604	6,360	10,870	12,174
Revenue per store	30	29	16	24	33	29
EBITDA	(69)	732	(66)	902	2,205	NA
EBITDAM	-2%	14%	-2%	14%	20%	NA
PAT	(289)	(1027)	(1335)	(949)	(250)	(780)
Costa coffee						
Stores (#)	67	63	44	55	112	179
Revenue	902	820	214	411	1,018	1,518
Revenue per store	13	13	5	7	9	8
Brand Contribution	182	174	33	125	241	258
Brand Margin	*20%*	*21%*	*16%*	*30%*	*24%*	*17%*
PAT	NA	NA	NA	NA	NA	NA

Source: Company, Ambit Capital research

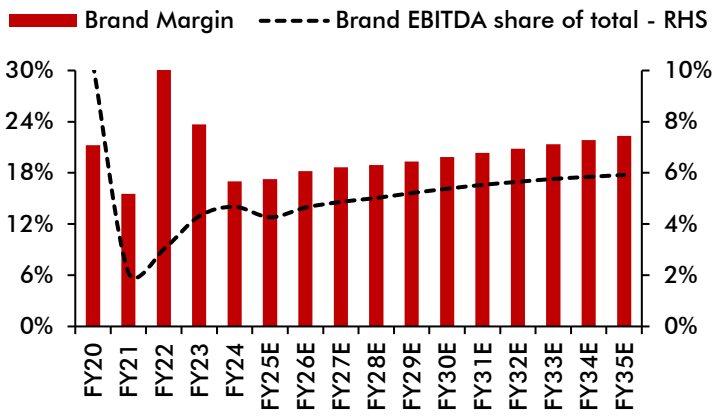
DIL is planning to add 60-70 stores of Costa in FY25E. We also build in a similar run-rate.

Exhibit 43: Building in addition of ~60 stores p.a. for FY25 and FY26 with a moderation post that



Source: Company, Ambit Capital research

Exhibit 44: Contribution to overall Brand EBITDA will remain ~6%



Source: Company, Ambit Capital research

Macro-economic situation hit Nigeria performance

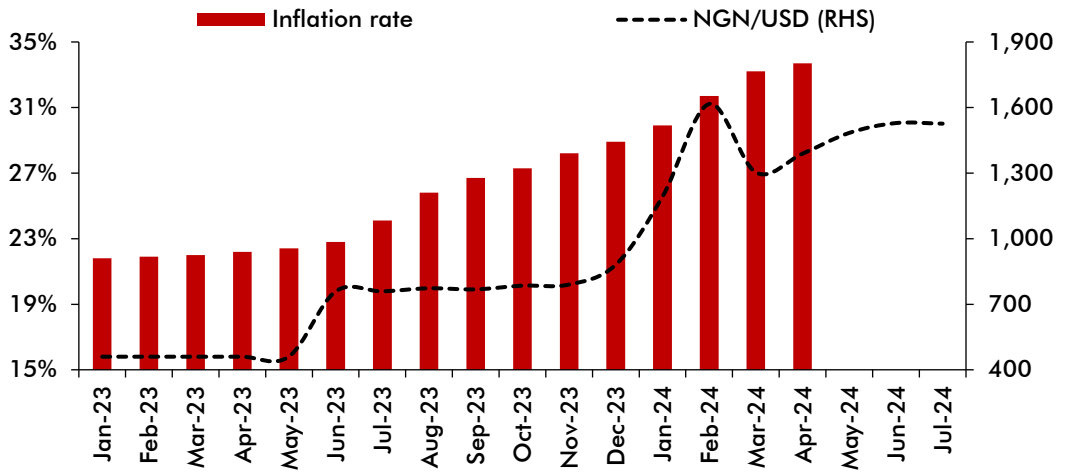
As a part of its international operations, DIL operates as the non-exclusive sole franchisee for KFC and Pizza Hut in Nepal, and for KFC in Nigeria. DIL entered Nigeria in 2010. Nigeria's annual inflation rate continued to climb to 33.7% in April'24, the highest since August 2005, up from 22.2% a year ago. Inflationary pressures intensified in Nigeria recently due to the government's elimination of fuel subsidies and the naira currency's weakness, which followed the central bank's decision to reduce interventions in the foreign exchange markets in June'23. Prices of food, which are the most relevant in the CPI basket, picked up to 40.5% in April, the highest since August 2005, from 24.6% a year ago, given persistent security issues in food-producing regions. Other CPI items including housing & utilities, clothing and footwear and transportation also exerted upward pressure. Also, the Nigerian naira has depreciated by 70% in the past 15 months.

Exhibit 45: International businesses in Nigeria and Nepal self-sufficient in growing until FY23, but with economic crises in Nigeria where DIL has 37 KFC stores, global business is likely to drag overall profitability until Nigerian economy stabilizes

₹ mn, unless specified	FY19	FY20	FY21	FY22	FY23	FY24
Stores	**33**	**35**	**37**	**46**	**59**	**353**
Net stores added*	**1**	**2**	**2**	**9**	**13**	**294**
Revenue	1,104	1,491	1,154	1,902	2,271	4,436
YoY growth		35%	-23%	65%	19%	95%
Brand Contribution/ EBITDA	143	225	164	421	518	603
EBITDA margin	**13.0%**	**15.1%**	**14.2%**	**22.1%**	**22.8%**	**13.6%**

*Source: Company, Ambit Capital research, *288 KFC stores added via acquisition in Thailand*

Exhibit 46: Inflation rates rose sharply (34% in Apr'24) in Nigeria while its currency naira depreciated ~70% over the past 15 months



Source: Central Bank of Nigeria, Investing.com, Ambit Capital research

DIL operates 40 KFC stores in Nigeria as of Mar'24. Earlier, the company planned on no further infusion of capital into the Nigeria business and that the KFC business in Nigeria would be allowed to grow from cash generated there. During the year, the Nigerian naira experienced further depreciation, weakening the local economy. As Nigeria is a highly food-dependent economy, the currency impact led to reduced spending power and consumption. So, DIL's Nigerian business performance was affected, impacting both revenue and margins. Given the current local situation, DIL will need to provide financial support to its Nigerian operations for the next couple of years until stability is restored.

Exhibit 47: Devyani International (Nigeria) Limited profitability took a hit in FY24 and net worth turned negative

₹ mn	FY22	FY23	FY24
Share Capital	128	127	127
Reserves & Surplus	1,876	(1,844)	(2,263)
Turnover /Sales	1,451	1,700	1,119
PBT	45	(7)	(2,415)
PAT	3	(38)	(2,420)

Source: Company, Ambit Capital research

Valuation has more drivers than other QSR but still too much built in

Similar to other QSR, our valuation for DIL is built on the store potential we forecast for KFC and PH. When we compare with other QSR's, especially Sapphire, DIL has higher optionality via Costa Coffee and KFC Thailand. However, the key aspect of paying a higher valuation/multiple for its core brands, KFC and PH, despite similar TAM for KFC (higher for PH) does not fit into our valuation framework. We also build in higher long-term margins for KFC and PH, factoring the territories DIL operates in (lower cost) and also expectations of the promoter group execution looking at VBL's performance. Our DCF-based TP is INR149, implying 21% FCFF CAGR (FY27-44E, COE: 13%). Reverse DCF implies a 18% EBITDA ask over FY24-44E vs 14%/18% for Sapphire/JFL. We initiate with SELL. Key risk to our valuation is higher SSSG/market share gain for core brands.

KFC key driver for DIL too; KFC Thailand remains the biggest optionality

Our valuation for DIL builds in store potential for KFC based on our benchmarking earlier. On the margin front, we are building moderate margin expansion over FY24-27E till store addition remains aggressive (15% CAGR). Our margins for DIL are higher by ~150bps vs KFC under Sapphire as we factor the benefit of lower-cost territories and some aspect of better execution given DIL's promoter's history with VBL.

While KFC has managed to improve its store profitability structurally and scale, PH's profitability and RoCE remains inconsistent. Though both DIL and Sapphire are taking initiatives to resurrect the brand, we expect improvement in profitability and RoCE, if any, to be gradual. For PH, while the opportunity size is large, we build in a combined store count of ~3,100 stores (FY24: 893) for PH (DIL + Sapphire) and expect relative revenue share vs Domino's to remain stable at 34%. On store margins, our estimate for FY44 at 21% is only 4% points higher than FY22 store margin and ~6% points lower than Domino's. In our SOTP, too, implied contribution of PH is ~5%. At perfect execution, where PH reaches Domino's scale and ADS, this can increase to 15%, but chances of this are minimal as of now.

For KFC Thailand, we build in store addition of 30 p.a. over FY26-35E, i.e. store count doubles to ~600. By FY44, we expect KFC Thailand to touch a store count of ~800.

Building a moderate start to FY25E

In FY25, we expect an improvement in consumer demand and consequent SSSG only in 2HFY25. This drives a lower SSSG of 3% in FY25E for KFC vs the long-term average of 6%. For PH, we build in 3% (2Y CAGR: -4%) vs long-term average of 5%. For FY24-27E we are building in 26%/30% revenue/EBITDA CAGR (impact of Thailand KFC, ex of that FY24-27: 17%/27%). Higher EBITDA growth is a function of normalization in PH margins from a weak FY24 base along with operating leverage benefits.

Exhibit 48: Expect KFC to drive topline growth for India; consolidation of KFC Thailand will see full impact in FY25E

	FY24	FY25E	FY26E	FY27E	CAGR FY24-27	Comments
Revenues	35,563	53,156	61,631	71,136	26%	
KFC	20,437	24,363	29,270	34,310	19%	
PH	7,092	7,755	8,528	9,804	11%	
Costa	1,518	2,019	2,551	3,107	27%	
KFC Thailand	2,682	14,513	16,203	18,239	NM	
No. of stores	1,782	2,046	2,320	2,619	14%	
KFC	596	716	836	946	17%	
PH	567	612	657	737	9%	
Costa	179	239	299	359	26%	
KFC Thailand	288	308	338	368	9%	
SSSG						
KFC	-4.6%	3.0%	6.0%	6.0%		
PH	-10.9%	3.0%	4.0%	5.0%		
Brand Margin	15.5%	15.4%	16.2%	16.7%	122bps	
KFC	19.6%	19.3%	20.0%	20.5%	89bps	
PH	7.2%	9.0%	11.0%	12.0%	484bps	
Costa	17.0%	17.3%	18.2%	18.7%	166bps	
KFC Thailand	NA	14.0%	14.0%	14.0%	NM	
EBITDA	6,524	9,580	11,820	14,191	30%	
EBITDAM %	18.3%	18.0%	19.2%	19.9%	161bps	
Pre IND AS 116 EBITDA	3,807	5,943	7,548	9,214	34%	
Pre IND AS 116 EBITDAM %	10.7%	11.2%	12.2%	13.0%	225bps	
PAT	805	1,335	2,118	2,972	55%	

We build in a store addition of 117 p.a. for KFC over FY24-27E vs an average addition of 116 over FY23-24. For PH we expect store addition to moderate to 45 stores in FY25E and FY26E given the weak profitability of the brand and the elongated turnaround timelines. For KFC Thailand, we build in an addition of 20 stores in FY25E and 30 stores per annum post that till FY35E. This will double KFC Thailand's store count over the next decade in line with the company's guidance.

For all the three segments, we build in a lower SSSG for FY25 given the expectation of a recovery in H2FY25E. SSSG for KFC will be structurally higher given its competitive advantage and younger vintage of stores.

Expect moderate improvement in KFC margins as we build in aggressive scale-up. In the case of PH, while we build in an improvement, it is still lower than what the brand achieved in FY23.

Improvement in Pre IND AS margin of ~160bps over FY24-27 is driven by a 120bps improvement in brand margins and the rest driven by scale benefits on corporate overheads. Brand margins also saw a mix related impact due to KFC Thailand.

Source: Company, Ambit Capital research

Overall, we are building in revenue/EBITDA/PAT CAGR of 12%/14%/21% over FY24-44E. For KFC/PH/Costa/International our revenue growth estimates are 11%/10%/13%/15%. Growth looks similar for PH due to the low base of FY24 (FY20-24 CAGR for KFC is 35% vs 14% for PH). The construct is similar with long-term SSSG of 6% for KFC and 5% for PH. In FY44E, our brand EBITDA split across KFC:PH:Costa:International is 61:12:6:17 vs 73:9:5:11 in FY24.

Exhibit 49: KFC India will be the key profitability driver; KFC Thailand and Costa combined contribute ~20% to EBITDA by FY44E and present optionality

	FY24	FY27E	FY35E	FY44E	FY24-27E	FY27-35E	FY35-44E	FY24-44E
Profit & Loss								
Revenues	35,563	71,136	167,395	332,236	26%	11%	8%	12%
KFC	20,437	34,310	83,596	177,598	19%	12%	9%	11%
PH	7,092	9,804	24,606	47,186	11%	12%	8%	10%
Costa	1,518	3,107	8,935	18,339	27%	14%	8%	13%
KFC Thailand	2,682	18,239	38,813	68,576	NM	10%	7%	18%
No. of stores	1,782	2,619	4,790	6,456	14%	8%	3%	7%
KFC	596	946	1,605	2,175	17%	7%	3%	7%
PH	567	737	1,437	1,907	9%	9%	3%	6%
Costa	179	359	779	1,034	26%	10%	3%	9%
KFC Thailand	288	368	608	808	9%	6%	3%	5%
SSSG								
KFC	-4.6%	6.0%	6.0%	6.0%				
PH	-10.9%	5.0%	5.0%	5.0%				
Brand Margin	15.5%	16.7%	20.1%	24.0%	122bps	341bps	385bps	848bps
KFC	19.6%	20.5%	23.7%	27.3%	89bps	320bps	360bps	769bps
PH	7.2%	12.0%	16.0%	20.5%	484bps	400bps	450bps	1334bps
Costa	17.0%	18.7%	22.3%	26.8%	166bps	370bps	450bps	985bps
KFC Thailand	NA	14.0%	15.6%	17.4%	NA	160bps	180bps	NA
EBITDA	6,524	14,191	41,482	94,628	30%	14%	10%	14%
EBITDAM %	18.3%	19.9%	24.8%	28.5%	161bps	483bps	370bps	1014bps
Pre IND AS 116 EBITDA	3,807	9,214	29,558	73,259	34%	16%	11%	16%
Pre IND AS 116 EBITDAM %	10.7%	13.0%	17.7%	22.1%	225bps	471bps	439bps	1135bps
PAT	805	2,972	10,226	37,039	55%	17%	15%	21%
Balance Sheet								
Net Debt	7,293	2,697	(60,364)	(378,130)				
Net Debt to Equity	0.7	0.2	-1.1	-1.9				
RoE	5.9%	16.1%	18.6%	19.7%	1024bps	245bps	116bps	1385bps
Reported RoCE	8.5%	13.2%	12.2%	10.6%	466bps	-103bps	-153bps	210bps
Pre-tax RoCE (Pre IND AS 116)	10.7%	17.6%	23.7%	19.4%	696bps	611bps	-434bps	874bps
Cash flow parameters								
CFO	5,925	13,765	38,883	83,094	32%	14%	9%	14%
CFO Pre IND AS 116	3,215	8,787	26,960	61,725	40%	15%	10%	16%
FCF	1,140	6,904	27,877	68,741	82%	19%	11%	23%
FCF Pre IND AS 116	-1,404	1,926	15,954	47,372	NM	30%	13%	NM

Source: Company, Ambit Capital research

Our FCFF CAGR over FY27-44E is 21%. We reduce the 50% share of RDC (Thailand KFC), not owned by DIL. This gives us a DCF-based TP of INR159. We use cost of equity of 13% and WACC of 12.3% given DIL plans to keep some debt related to the Thailand acquisition. Also, our terminal growth of 7% is similar to that of Sapphire and JFL. We have not built in any optionality from any future acquisitions, which remains a plan of action for DIL.

Exhibit 50: Our TP implies 29x FY26E EV/EBITDA for DIL's business ex Thailand. KFC Thailand implied EV/EBITDA is 15x FY26E

Particulars	INR mn
PV of cash flows	85,615
PV of Terminal value	111,841
Total EV (INR mn)	**197,456**
Less: Debt FY25E (Excluding Lease Liab)	9,532
Less: 50% share in Thailand	11,843
Add: Cash FY25E	3,245
Core business market cap (INR mn)	179,326
NOSH	1,205
Value (INR/Share) - September 2025	149
CMP (INR)	163
Upside (%)	-9%

Source: Company, Ambit Capital research

Exhibit 51: Valuations at CMP based on Ambit expectations – DIL's multiples are much higher than past average despite similar growth outlook

	CAGR FY24-27E		EV/E - Post IND AS			EV/E - Pre IND AS			PE Ratio		
	Revenue	EBITDA*	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
JFL (S) - Ex Popeyes + DP Eurasia	13%	18%	27	23	20	42	34	29	110	74	54
DIL - Ex KFC Thailand	17%	27%	30	24	19	43	33	26	NA	NA	NA
Sapphire Foods	16%	29%	19	15	12	29	21	17	119	60	39
Median	**16%**	**27%**	**27**	**23**	**19**	**42**	**33**	**26**	**114**	**67**	**47**

*Source: Company, Ambit Capital research, *Pre IND AS EBITDA*

Exhibit 52: JFL ranks highest in our qualitative framework with DIL and Sapphire a close second and third

Parameters	JFL	WFL	BKI	BBQ	DIL	Sapphire
TAM/Store Potential						
Category (Competitive intensity)						
Store Economics/RoCE						
SSSG outlook (Includes Brand strength)						
Execution						
Optionality						
Overall						

Source: Company, Ambit Capital research

Exhibit 53: While PAT is lower than consensus, higher revenue/EBITDA could be a function of other brokers still not consolidating KFC Thailand's operations

	FY25E			FY26E			FY27E		
	Ambit	Consensus	vs consensus	Ambit	Consensus	vs consensus	Ambit	Consensus	vs consensus
Revenue	53,156	52,223	2%	61,631	60,992	1%	71,136	70,638	1%
EBITDA	9,580	9,264	3%	11,820	11,501	3%	14,191	13,669	4%
EBITDA margin	18%	18%	28	19%	19%	32	20%	19%	60
PAT	1,335	1,454	-8%	2,118	2,404	-12%	2,972	3,256	-9%

Source: Visible alpha, Ambit Capital research

Catalysts & risks

Catalysts

Slowdown in store growth momentum for KFC: Our expectations factor DIL will keep adding ~120 KFC stores per annum. Similar to PH, if there is any moderation in store addition for KFC, it will impact implied growth expectations. Given KFC's share of total value, this will impact estimates and valuation of the business.

Scale-up in Popeyes affecting SSSG for KFC: As per our expectations, there is enough depth in the chicken QSR market to accommodate growth plans for all QSRs However, if Popeyes steps up aggression and this affects KFC's performance, especially moderation in SSSG, it will impact valuations given KFC is the key driver for Sapphire.

Losses in PH dragging profitability and cash flows: While PH's contribution to overall SOTP is minimal, if DIL is compelled to open stores and scale up the format (due to store commitments) despite the adverse store economics, it will impact Sapphire's profitability.

Expensive acquisitions, impacting cash flows and leverage: DIL, after KFC Thailand, has laid out plans to keep evaluating acquisitions. KFC Thailand's outlay was limited at INR6bn (DIL share) and done at a reasonable valuation. In case DIL makes any or multiple acquisitions, which impact its cash flow and leverage, this will increase business risk and impact valuations.

Risks

Outperformance in KFC vs. Sapphire: We believe DIL's TAM and execution for KFC is similar or marginally higher vs Sapphire. If DIL is able to deliver better on KFC vs Sapphire on SSSG/brand margins, it will point to DIL's execution supremacy, justifying higher valuations.

Moderation in RM prices, especially chicken: Chicken went through a phase of high inflation in FY22, which made KFC take steep price hikes. Any significant moderation in chicken prices can drive margins much higher than our estimates or give Sapphire/KFC the opportunity to reduce prices and thus stimulate demand.

Faster-than-anticipated turnaround in PH: Our expectations for PH are moderate with no market share gains built in despite the low base. However, any turnaround in the business due to the current initiatives can drive a significant improvement in our SOTP. To give perspective, at present PH's share is ~7% and can increase to 25% if the brand can reach Domino's scale and ADS by FY44E.

Accounting & Governance checks

Fares reasonable on accounting checks

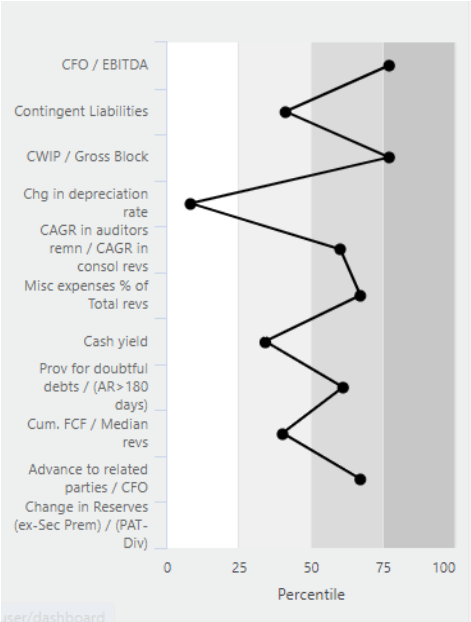
Devyani scores reasonable on accounting and governance check like (1) Operating cash flow generation, (2) cash yield, (3) continent liabilities (5% of net worth in FY24), (4) Low miscellaneous expenses <1% of revenue, and stable co-relation between Sales CAGR and Audit fees CAGR (audited by GT). However, depreciation rate and changes in reserves vs PAT have been volatile. Devyani international is audited by a well-known auditor (Grant Thornton) and audit fee CAGR is stable in relation to revenue CAGR, over last 3 years.

Exhibit 54: HAWK Analysis

	FY19	FY20	FY21	FY22	FY23	FY24	Comments
P&L mis-statement check							
CFO/EBITDA	99%	180%	114%	95%	107%	91%	Cash conversion trend reasonable over FY19-24.
Volatility in depreciation rate (bps)		72bps	65bps	48bps	-49bps	-115bps	Depreciation rate has been marginally volatile.
Provision for doubtful debtors as % of trade receivables >6months	64%	274%	31%	18%	12%	142%	Debtors are not material in the case of DIL.
Balance sheet mis-statement check							
Cash yield	3%	7%	3%	6%	6%	3%	DIL's non-operating assets generated reasonable cash yield over FY19-23.
Contingent Liabilities as % of Net Worth	-19%	-12%	21%	7%	5%	3%	DIL's contingent liabilities for FY23/FY24 were only 5%/3% of net worth and largely pertain to tax-related disputes.
Pilferage checks							
Misc. expenses as % of total revenues	0.6%	0.6%	0.4%	1.1%	1.1%	0.8%	Misc. expenses remained below 1% of overall sales.
Advances to related parties / CFO	2.2%	31.1%	6.8%	0.1%	0.0%	0.0%	Negligible amount in FY23/FY24.
CWIP/Gross Block	1.6%	1.8%	2.0%	0.7%	1.1%	0.4%	Capital expenditures capitalised over the year.
6 yr Cumulative FCF/median revenues	0.1	0.3	0.1	0.2	0.3	-0.4	This ratio improved over FY19-23 but turned negative in FY24 due to acquisition.
Audit quality check							
Revenue CAGR to CAGR in auditor's remuneration		-1.6	-3.9	0.4	0.2	0.2	Ratio has been lowered, shows stable audit fees over the years.

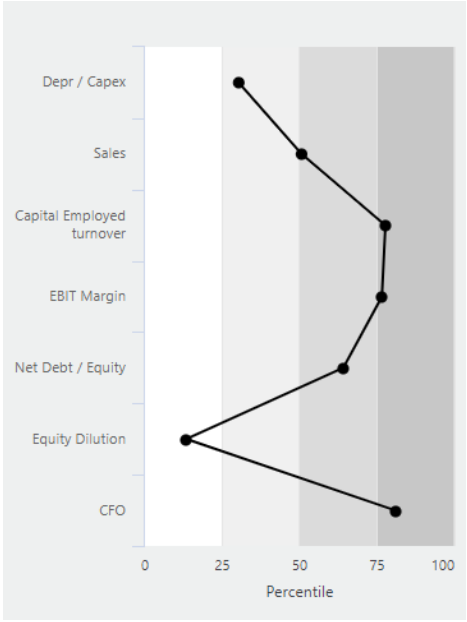
Source: Company, Ambit Capital research

Exhibit 55: Contributors to the forensic scores



Source: Company, Ambit Capital research

Exhibit 56: Contributors to the greatness score



Source: Company, Ambit Capital research

Senior management team (Brand CEOs) associated with Devyani for ~2 years

Mr. Virag Joshi has been the senior most management personnel of DIL. Other brand CEOs spent less time at the current position. Pradeep Das replaced Mr. Rajat Luthra (was a CEO of KFC India and Nepal for last 12 yrs.) as the CEO of KFC. All the KMPs are well experienced with more than two decades of relevant experience. But many of them have been associated with Devyani for less than 2 years in the current position.

Exhibit 57: Relatively new KMPs at the respective position with the vast relevant experience

Name	Designation	Experience with DIL	Qualification	Remarks
Virag Joshi	WTD (President & CEO)	22 years	Diploma in Hotel Management and Catering from State Institute of Hotel Management and Catering, Lucknow	He has been director on Board of DIL for last 2 decades and prior to that has worked with Indian Hotels Company Limited, Milkfood Limited and Domino's Pizza India Limited.
Manish Dawar	WTD (CFO)	2 years	CA & Bcom (with Honours from Punjab University)	Previously worked with Reebok India, Reckitt Benckiser, Vedanta, DEN Networks and Vodafone India
Pradeep Das	CEO, KFC	2 Years	Graduate from Institute of Hotel management, Kolkata, PGDBA (Operations) from Symbiosis Institute of management	With nearly two decades of experience, Pradeep has been instrumental in establishing and managing food courts across locations, including airports, malls, highways, and hospitals, for DIL. He has played a key role in the Airports business. He held leadership positions with organizations such as Nature's Basket, Hypercity Retail India, and Future Group (Big Bazaar).
Vijay Gogate	CEO, Pizza Hut	11 months	MBA (Sales & Marketing)	Over 25+ years of his career, he has experience of working in Consumer Lifestyle Fashion Retail space. He has worked with the organisations like Perfetti, Luxottica, Mattel, VF Corporations, RBL, Hush Puppies & Bata.
Sreejit Nair	CEO Cost Coffee	1 Year	DNA	Over two decades of experience across different facets of FMCG sector. He has worked with an organisations like Wingreens World, RAW Pressery, Pepsico, Henkel, P&G etc.
Dinesh Hariharan	CEO, Vango	1 Year	Diploma in Hotel Management, Bachelor's degree, Hotel & Hospitality Administration	More than 25 years of experience across hospitality sectors, including QSR, Food Retail, Café chains, and Entertainment. He has held key leadership roles in companies like Reliance, Spencer's, the Landmark group, and has led the F&B division at PVR INOX.

Source: Company, Ambit Capital research, DNA: Data Not Available

BoD meets mandatory requirement

Devyani board comprises ten members, with 50% representation of IDs with an experience across legal, taxation, capital market and consumer products. They have sufficient women representation on the board as well. We believe SFIL has reasonably qualified and has diversified experience. Only 3 out of 5 IDs have board representation on the board of other listed companies.

Exhibit 58: 50% IDs with experience across taxation, finance, capital market and consumer industries

Name	Designation	Qualification	Remarks
Ravi Kant Jaipuria	Promoter, Non-executive chairman	Higher Secondary education from Delhi public school	Over four decades of experience in conceptualizing, executing, developing and expanding food, beverages and dairy business in South Asia and Africa
Varun Jaipuria	Promoter, Non-executive director	Program for Leadership development, Harvard business school	14 years of experience in the soft drinks industry
Raj Gandhi	Non-executive director	CA, Management from Harvard business school	Instrumental in formulating company's strategy towards diversification, expansion, mergers and acquisitions, capex planning including capital/fund raising.
Virag Joshi	President & CEO	Diploma in Hotel Management and Catering from State Institute of Hotel Management and Catering, Lucknow	Key strategist in expansion of Pizza Hut, KFC, Costa Coffee outlets from a small base of five restaurants in 2002 to 600 plus outlets in last 19 years. He has been earlier associated with Indian Hotels company limited, Milkfood Limited and Domino's Pizza India Limited.
Manish Dawar	CFO	CA & Bcom (with Honours from Punjab University	Previously worked with Reebok India, Reckitt Benckiser, Vedanta, DEN Networks and Vodafone India
Dr. Ravi Gupta	Independent director	PhD, MBA (University of Delhi), Mcom, LLB	Was a member of the committee constituted for simplification of the Income Tax Act.
Rashmi Dhariwal	Independent director	Advocate, BA (University of Delhi)	Worked with Khaitan & Co and Mulla & Mulla.
Dr. Girish Ahuja	Independent director	PhD, CA	Was a member of the task force for redrafting the Income Tax Act.
Pradeep Sardana	Independent director	BE (Mechanical, IIT Delhi)	CEO of PM Consulting, a consultancy firm in the field of food, beverages, FMCG and other industries. Previously worked at Polyplex Hydro Group, PepsiCo, Hindustan Lever Limited and Union Carbide
Prashant Purekar	Independent director	MBA (IIM Ahmedabad), BE (IIT Kanpur)	Over 31 years of Experience in Private Equity, Capital Markets, Technology and Banking.

Source: Company, Ambit Capital research

KMP and BoD remuneration as a % of EBITDA declined in FY24 YoY

Remuneration to KMP and BoD has been stable over FY19-24 in the range of 2-3% whereas in FY22 (IPO year) it went-up to 5%. However, if we compare it with peer it is lower v/s Sapphire (~4-6%). In absolute terms, there was a decline in overall remuneration YoY in FY24.

Exhibit 59: KMP remunerations as % of EBITDA ranges in 2-3%

	FY19	FY20	FY21	FY22	FY23	FY24
KMP Remuneration	1	2	2	10	64	49
as a % of EBITDA	0%	0%	0%	0%	1%	1%
Remuneration to other BoD	37	34	61	258	164	155
as a % of EBITDA	1%	1%	3%	5%	3%	2%
Remuneration to KMP & BoD	38	35	63	267	229	204
as a % of EBITDA	1%	1%	3%	5%	3%	2%

Source: Company, Ambit Capital research

Exhibit 60: Explanation of flags on first page

Field	Score	Comments
Accounting	GREEN	DIL lies in the top decile of our accounting framework, i.e. 'zone of safety'. It scores reasonably well across all ratios except volatility in depreciation rate and change in reserves to PAT.
Predictability	AMBER	Operational performance is largely predictable but subject to store addition and SSSG.
Earning momentum	GREEN	Earning growth for FY24-27 would be ahead of revenue growth as margins bottomed out in FY24.

Source: Company, Ambit Capital research

Devyani International (DEVYANI IN, SELL)

Valuation Methodology

We value Devyani International using the DCF value methodology, taking into consideration free cash flow till FY44E using WACC of 12.3% and terminal growth rate of 7% to arrive at a target price of ₹149.

Risks

- Outperformance in KFC ahead of Sapphire.
- Faster-than-anticipated turnaround in Pizza Hut.

Financials - Consolidated

Income statement

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**29,977**	**35,563**	**53,156**	**61,631**	**71,136**
Cost of goods sold	8,986	10,566	16,947	19,544	22,442
Gross profit	**20,991**	**24,997**	**36,209**	**42,087**	**48,693**
Employee expenses	3,452	4,950	6,444	7,497	8,651
Advertising/marketing expenses	1,455	1,732	2,820	3,270	3,774
Power/fuel expenses	1,892	2,298	3,021	3,549	4,135
Other expenses	4,323	5,438	8,486	9,247	10,175
EBITDA	**6,551**	**6,524**	**9,580**	**11,820**	**14,191**
Depreciation	2,782	3,907	5,594	6,450	7,367
EBIT	**3,769**	**2,617**	**3,986**	**5,370**	**6,825**
Other income	326	326	466	470	484
EBIT (including other income)	**4,094**	**2,943**	**4,452**	**5,840**	**7,309**
Finance costs	1,475	1,869	2,668	3,009	3,335
Exceptional items	(200)	(1,037)	-	-	-
Profit before tax	**2,419**	**37**	**1,784**	**2,831**	**3,974**
Profit before tax (adjusted)	**2,219**	**(1,000)**	**1,784**	**2,831**	**3,974**
Tax	(206)	133	450	713	1,001
PAT	**2,625**	**(97)**	**1,335**	**2,118**	**2,972**
Profit after tax (adjusted)	**2,775**	**681**	**1,335**	**2,118**	**2,972**
EPS (basic) (₹)	2.3	0.6	1.1	1.8	2.5

Source: Ambit Capital research, Company

Balance sheet

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Property, plant and equipment	9,470	14,995	17,203	19,463	21,960
Capital work in progress	153	110	110	110	110
Right of use assets	12,258	16,906	19,519	22,245	25,428
Other intangible assets	2,187	9,996	9,996	9,996	9,996
Total fixed assets	**24,420**	**42,274**	**47,095**	**52,082**	**57,762**
Deferred tax assets (net)	963	512	512	512	512
Other non-current assets	1,373	1,677	1,677	1,786	1,903
Total non-current assets	**2,336**	**2,189**	**2,189**	**2,298**	**2,416**
Inventories	1,290	1,310	2,203	2,541	2,917
Trade receviables	289	527	797	924	1,067
Cash and cash equivalents	851	1,808	3,245	2,775	3,014
Other current assets	668	1,216	1,329	1,541	1,778
Total current assets	**3,099**	**4,861**	**7,574**	**7,781**	**8,777**
Total assets	**29,854**	**49,324**	**56,859**	**62,161**	**68,955**
Share capital	1,205	1,206	1,206	1,206	1,206
Other equity	8,499	9,352	10,686	12,804	15,777
Minority interest	(62)	2,928	2,928	2,928	2,928
Total equity	**9,642**	**13,486**	**14,821**	**16,938**	**19,911**
Long-term borrowings	767	7,255	9,000	7,000	5,000
Long-term provisions	179	586	586	586	586
Lease liabilities	14,875	19,955	23,594	27,398	31,675
Other non-current liabilities	69	336	159	185	213
Total non-current liabilities	**15,889**	**28,132**	**33,339**	**35,169**	**37,474**
Short-term borrowings	6.9	1,846	532	616	711
Trade payables	2,419	3,756	5,084	5,863	6,733
Other current liabilities	1,799	1,988	2,924	3,390	3,912
Short term provisions	98	116	159	185	213
Total current liabilities	**4,323**	**7,706**	**8,699**	**10,054**	**11,570**
Total liabilities	**20,212**	**35,839**	**42,038**	**45,223**	**49,044**
Total equity and liabilities	**29,854**	**49,324**	**56,859**	**62,161**	**68,955**

Source: Ambit Capital research, Company

Cash flow statement

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	**2,419**	**37**	**1,784**	**2,831**	**3,974**
Depreciation	2,782	4,047	5,594	6,450	7,367
Interest income	(120)	(125)	(466)	(470)	(484)
Interest expense	1,475	1,869	2,668	3,009	3,335
Other items	46	(10.7)	-	-	-
Working capital changes	246	375	855	510	575
Taxes	(478)	(267)	(450)	(713)	(1,001)
Cash flow from operations	**6,370**	**5,925**	**9,985**	**11,616**	**13,765**
(Net) capital expenditure	(4,240)	(15,532)	(5,435)	(6,027)	(6,861)
Acq./(disp.) of Investments	928	370	-	-	-
Interest/dividend Received	50	21	466	470	484
Other items	(235)	(368)	-	-	-
Cash flow from investments	**(3,497)**	**(15,509)**	**(4,969)**	**(5,556)**	**(6,376)**
Net short-term borrowings	2.4	284	-	-	-
Net long-term borrowings	(609)	8,052	430	(1,915)	(1,905)
Issuance of equity	21	21	-	-	-
Interest paid	(27)	(165)	(373)	(343)	(267)
Payment of lease liabilities	(2,215)	(2,710)	(3,637)	(4,272)	(4,978)
Other items	-	3,412	-	-	-
Cash flow from financing	**(2,827)**	**8,893**	**(3,579)**	**(6,530)**	**(7,149)**
Opening cash balance	**574**	**626**	**1,808**	**3,245**	**2,775**
Net change in cash	**46**	**(691)**	**1,437**	**(470)**	**239**
Closing cash balance	**620**	**(65)**	**3,245**	**2,775**	**3,014**
Free cash flow to firm	**2,130**	**(9,607)**	**4,550**	**5,590**	**6,904**

Source: Ambit Capital research, Company

Preferred Ratios

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross margin	70.0%	70.3%	68.1%	68.3%	68.5%
EBITDA margin	21.9%	18.3%	18.0%	19.2%	19.9%
EBIT margin	12.6%	7.4%	7.5%	8.7%	9.6%
Net profit margin	8.8%	(0.3%)	2.5%	3.4%	4.2%
Interest cover	2.6	1.4	1.5	1.8	2.0
Net debt/equity	-	0.7	0.5	0.3	0.2

Source: Ambit Capital research, Company

Ratio analysis

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross margin	70.0%	70.3%	68.1%	68.3%	68.5%
EBITDA margin	21.9%	18.3%	18.0%	19.2%	19.9%
EBIT margin	12.6%	7.4%	7.5%	8.7%	9.6%
Net profit margin	8.8%	(0.3%)	2.5%	3.4%	4.2%
Interest cover	2.6	1.4	1.5	1.8	2.0
Net debt/equity	-	0.7	0.5	0.3	0.2
Net debt/EBITDA	-	1.1	0.7	0.4	0.2
Working capital turnover	7.5	6.4	6.6	6.6	6.6
Cash conversion days	48	57	55	54	54
Inventory days	15.5	13.3	14.9	14.8	14.8
Receivable days	3.5	5.3	5.4	5.4	5.4
Payable days	29	38	34	34	34
Gross block turnover	2.2	1.4	1.7	1.7	1.6
pre-tax CFO/EBITDA	105%	94.9%	109%	104%	104%
pre-tax RoCE	18.1%	8.5%	9.7%	11.5%	13.2%
ROE (%)	33.7%	5.9%	9.4%	13.3%	16.1%

Source: Ambit Capital research, Company

Valuation parameters

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
PE	71	289	147	93	66
EV/EBITDA	30	31	21	16.9	14.1
EV/EBIT	52	76	50	37	29
EV/sales	6.6	5.6	3.8	3.2	2.8

Source: Ambit Capital research, Company

AMBIT
Acumen at work

Jubilant FoodWorks

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COMPANY UPDATE | **JUBI IN EQUITY** | **July 17, 2024**

Palatable, but not at this price

JFL's precise execution helped Domino's sustain industry-leading SSSG and become the largest QSR chain in India with 78% market share in pizza at peak. But new reality of democratized moats (especially delivery capability) in low entry barrier pizza category and limited conviction on recent initiatives to revive growth drive our moderate ~5% SSSG CAGR estimate over FY24-29 (11% in FY11-20) with market-share loss of 280bps to 60%. On Popeyes, JFL is keen on building a profitable brand (especially after Dunkin). Though this makes for decent value creation (15% of SOTP), it negates the potential to be the key driver (think Zudio for Trent). Our DCF-based TP is ₹439 (61x/51x Standalone/Domino's FY26E PE) with Domino's: Popeyes: DP Eurasia comprising 75:15:11 of SOTP. Key risks: Revival in SSSG, higher market share led by initiatives or moderating competition. Valuations historically have been driven by SSSG.

Competitive position: MEDIUM | Changes to this position: NEGATIVE

Domino's – category leadership but difficult to maintain share

Domino's, despite its leadership, has decent store scalability hereon too. Our analysis puts current store potential at 3,050 which Domino's should achieve by FY30 (FY24: 1,995). After the turnaround in FY18 (FY18-20 SSSG: 11%; FY14-17: 1%), expectations are current muted growth will also be transitionary. But we believe the phase of SSSG growth will be lower and the brand will lose market share given: 1) higher competitive intensity in low entry barrier pizza category and 2) limited conviction on recent initiatives on faster delivery, brand imaging and loyalty to revive growth meaningfully (exhibit 21). We see 5% SSSG CAGR over FY26-29 (FY11-20: 11%) with market share loss of 280bps to 60%.

Popeyes – a great add to the portfolio but not a course-changer

Popeyes is the second-largest chicken brand globally. We expect JFL to leverage Popeyes' differentiated offerings and scale up the brand in India as we build 242 stores by FY27E (FY24: 42) and 1,000 stores by FY44E, ~30% of KFC's revenues by then. Our preference for the chicken category also fits into this. Given JFL's focus on profitable scale-up of new brands (especially after Dunkin), we believe Popeyes will add value (~20% of revenues for JFL by FY44E) but does negate the option of Popeyes becoming the key driver, unlike Zudio in Trent.

DP Eurasia - franchise driven business with high profitability but volatility

JFL acquired majority control of DP Eurasia in 2HFY24 and now holds 94% of it. After discontinuing Russia, business metrics turned attractive (9% PAT margin, double of India plus 20% RoCE), and being a franchise-driven business generates cash. While Turkey is an attractive market, currency volatility is a risk.

Multiple levers to value than earlier, but all priced in

We build in 18% FCFF CAGR over FY27-44E. With COE of 12.5%, we get standalone value of ₹392 (Domino's: ₹328). We also separately value DP Eurasia, comparing it to other Domino's franchises globally, and it adds ₹48.

Key Financials

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	50,960	53,409	60,991	71,531	82,988
EBITDA	11,592	10,941	12,597	15,455	18,654
Profit after tax (adjusted)	3,912	2,429	2,832	4,211	5,725
pre-tax RoCE	17.3%	11.8%	12.1%	14.3%	16.1%

Source: Company, Ambit Capital research

Quick Service Restaurants

Recommendation

Mcap (bn):	₹384/US$4.6
6M ADV (mn):	₹1,731/US $20.8
CMP:	₹582
TP (12 Mths):	₹439
Downside (%):	(24)

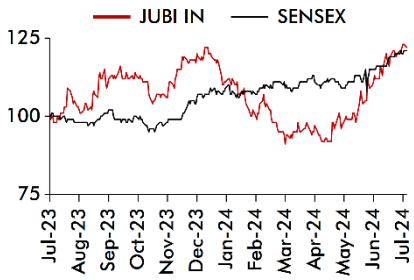
Flags

Accounting:	GREEN
Predictability:	AMBER
Earnings Momentum:	AMBER

Catalysts

- Moderation in SSSG to below 45%/6% in FY25E/FY26E either due to slowdown or heightened competition.
- Regular activations to drive growth, impacting margin improvement.

Performance



Source: ICE, Ambit Capital Research

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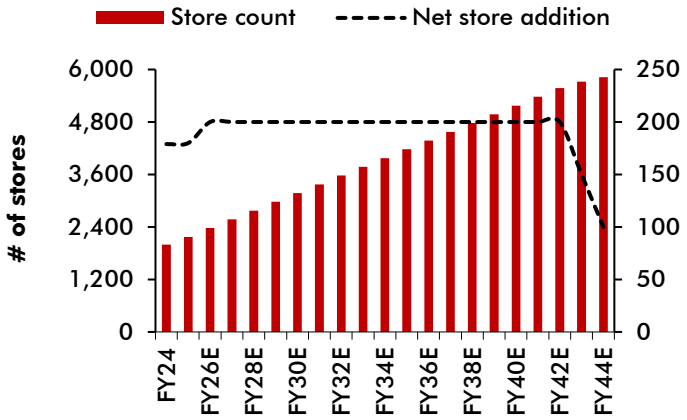
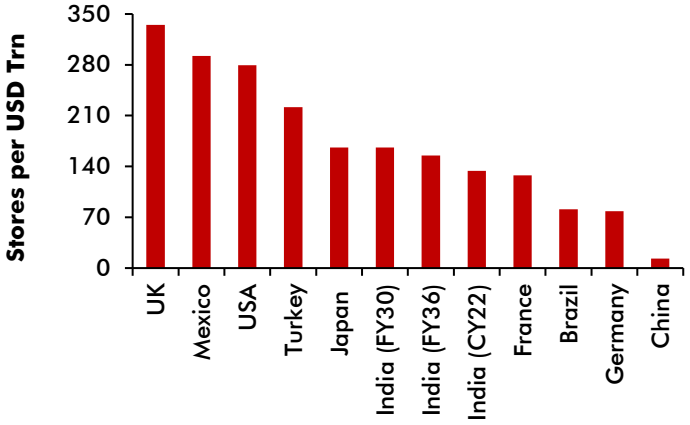
Narrative in Charts

Exhibit 1: Expect Domino's to achieve 3,050/4,000 stores by FY30E/FY34E



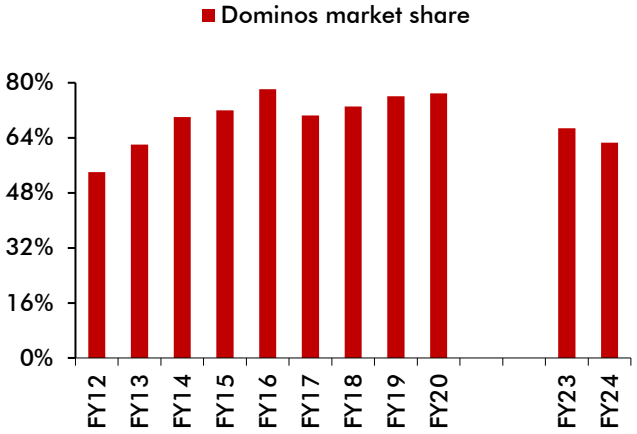
Source: Company, Ambit Capital research

Exhibit 2: Store penetration in India is one of the highest across developing countries



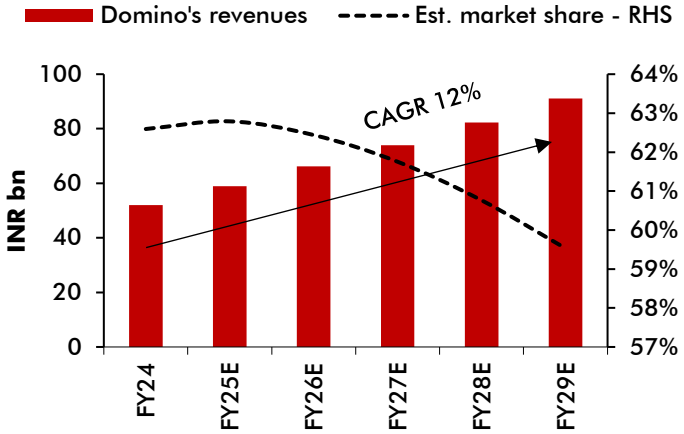
Source: Company, Ambit Capital research Note: For benchmarking considered GDP for CY22 and Domino's stores as of Q3CY22. India GDP estimates for FY30 and FY36 based on Ambit estimates derived from past trends.

Exhibit 3: Domino's market share has moderated as Pizza Hut and La Pino'z scaled up



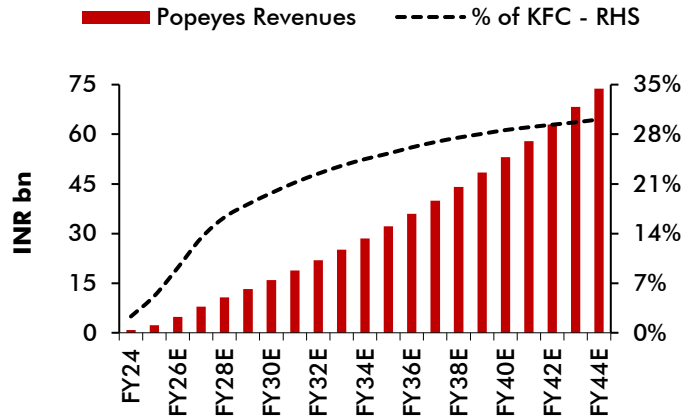
Source: Company, Technopak, Ambit Capital research

Exhibit 4: Building in 280bps moderation in market share



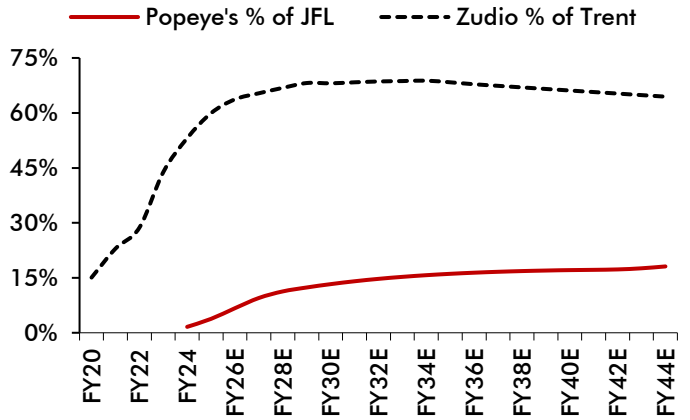
Source: Company, Ambit Capital research, Note – We have calculated Domino's market share assuming the Chain Pizza QSR market clocks a 13% CAGR, similar to the growth over FY14-24.

Exhibit 5: Expect Popeyes to touch 30% of KFC by FY44E



Source: Company, Ambit Capital research

Exhibit 6: Will make up ~20% of JFL's standalone revenues



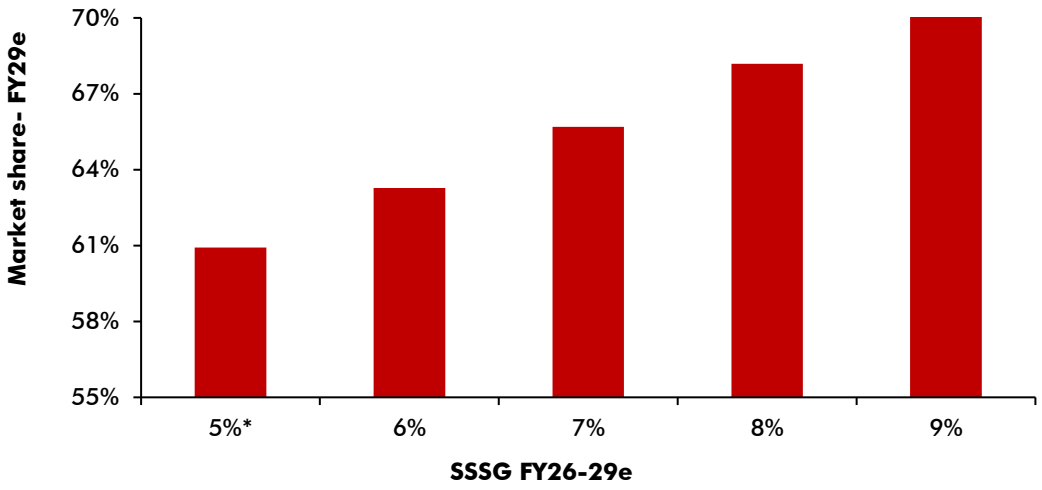
Source: Company, Ambit Capital research

Exhibit 7: Multiple initiatives to revive SSSG/gain market share at play

Initiative	Year of launch	Target	Our view
20 min delivery	2019	Targeting most deliveries under 20 minutes. The pilot started in Bengaluru and at present ~70% of deliveries are happening within 20 minutes.	The key benefit of this will be if there is a big cohort of customers for whom getting food in 20 mins vs 30 min+ will drive a change in preference. We are not sure of the same. Also, since the initiative has already reached a certain scale (~70% deliveries within 20 mins), we have not seen any material improvement in the SSSG/market share profile.
Fast tracking Re-image programme	2022	Fast track of re-image programme (33 out of 100 bottom decile stores re-imaged).	Expect a one-time benefit. However, base of stores is just 5% of the network.
Loyalty programme (Cheesy Rewards)	2022	Increase frequency of ordering from users	While its launch was promising, the programme has been in place for nearly two years now (Jul-22) and there has been no major improvement in SSSG.
Brand refresh - It Happens Only with Pizza	2023	- Entails a 360° communication, including new store designs - ACE 2.0, new delivery boxes, etc. - Aimed towards steering moments of ordering in from various categories to pizzas.	IHOP is a campaign to grow the pizza category and steer moments of ordering towards pizza. Historical growth of the pizza category apart, convincing customers to keep choosing a single cuisine is difficult.
Delivery fee waiver	2024	Gain delivery share vs aggregators.	Recent initiative and definitely a positive as it makes online ordering cheaper on Domino's vs aggregator apps. We build in the benefit of the same.

*Source: Company, Ambit Capital research,**

Exhibit 8: Big difference in market share on a minor change in SSSG



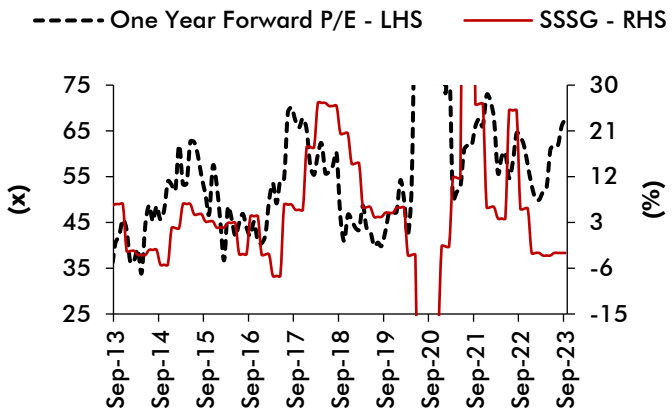
Source: Company, Ambit Capital research

Exhibit 9: SOTP valuation- Domino's makes up majority of JFL's value

	Mcap (₹ mn)	Value (INR/Share)	% SOTP
Standalone - Domino's	216,208	328	75%
Standalone - Popeyes	42,141	64	15%
DP Eurasia	31,595	48	11%
Total	**289,944**	**439**	**100%**

Source: Company, Ambit Capital research

Exhibit 10: JFL's one-year forward P/E has a high correlation to SSSG performance



Source: Company, Ambit Capital research

Domino's – category leadership but maintaining share a challenge

Domino's, despite its QSR and Pizza category leadership, has scalability from here too – our analysis puts current store potential at 3,050 stores, which we build by FY30 (FY24: 1,995). Domino's pain point is its muted SSSG (FY24: about -4%, FY20-23: 2% CAGR). While Domino's saw a similar weak phase over FY14-17, after which there was a revival (FY18-20 SSSG average: 11%), we don't expect a similar outcome given: 1) Much higher competitive intensity - earlier, Domino's high SSSG and market share gains were aided by muted competition. Pizza Hut's partial revival, La Pino'z expansion and scale-up of aggregators especially for a low barrier to an entry category like pizza, has aggravated competition. 2) Recent initiatives are not impactful enough to change course. We build in 5% SSSG for Domino's over FY25-29 as we factor benefit of delivery charge impact in FY25E and some moderation in competition. But this won't suffice to arrest market share loss as we still build in a 280bps dip (63% to 60%) over FY24-29.

Store scalability potential despite leadership

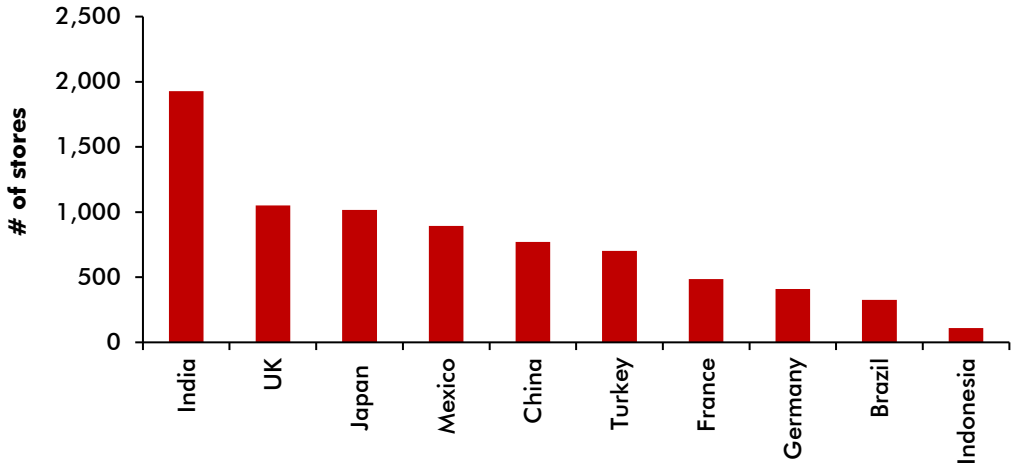
Domino's has delivered industry leading and consistent scale-up over the last 3 decades and today is the largest QSR chain in India. Even on a global scale, Domino's India is the second-largest franchise in Domino's global network.

Exhibit 11: JFL is the second-largest franchises for Domino's globally

	Domino's Pizza Enterprises	Alsea	Domino's Pizza Group	Jubilant Foodworks	DP Eurasia*
Key markets	Australia, New Zealand, Belgium, France, Netherlands, Japan, Germany, Luxembourg, Denmark, Cambodia, Taiwan, Malaysia, Singapore.	Argentina Belgium Chile Colombia France Luxembourg Mexico Netherlands Paraguay Portugal Spain Uruguay	UK Ireland	India Sri Lanka Bangladesh	Turkey Azerbaijan Georgia
Population Served (mn)	451	410	73	1,638	100
Total Brands	1	13	1	4	2
Major Portfolio Brands	Domino's Pizza	Domino's Pizza Starbucks Burger King Vips Others	Domino's Pizza	Domino's Pizza Dunkin Donuts	Domino's Pizza
Domino's Store	3,782	1,451	1,319	2,073	730

*Source: Company, Ambit Capital research. * JFL acquired majority control of DP Eurasia in Feb-24*

Exhibit 12: Outside USA, India has the highest number of Domino's stores



Source: Company, Ambit Capital research

We try estimating Domino's store potential based on its current penetration in Mumbai and Bengaluru. Benchmarking the GDP per store for these two cities, we extrapolate the same to compare that with the state's GDP and adjust it for the GDP per capita to factor purchasing power.

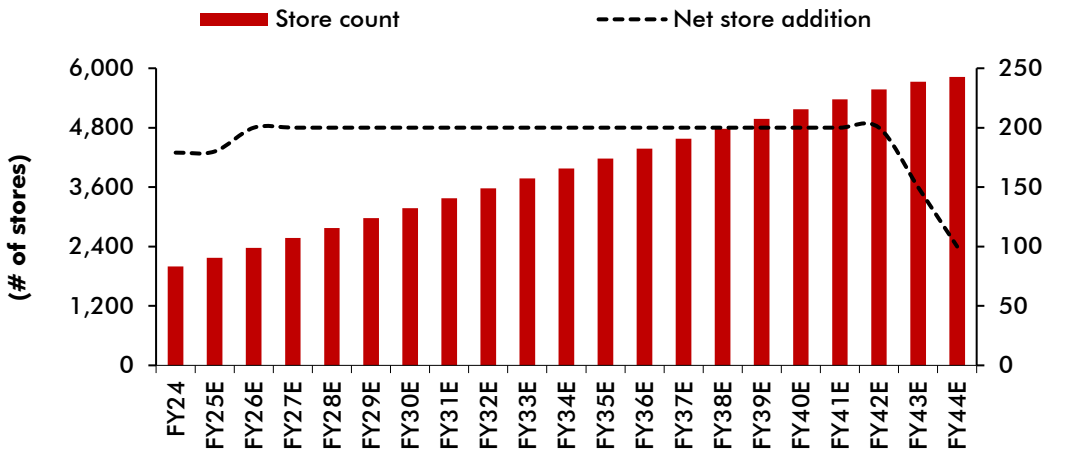
Exhibit 13: Our workings peg Domino's current potential at ~3,050 stores (FY24: 1,995)

State	GDP (INR bn)	Population (mn)	GDP per capita (INR)	Potential
Andhra Pradesh	13,177	92	143,696	95
Arunachal Pradesh	351	2	205,167	4
Assam	4,932	36	136,995	34
Bihar	7,514	129	58,474	22
Chandigarh	456	1	394,073	9
Chhattisgarh	4,576	32	142,116	33
Delhi	10,438	19	540,777	223
Goa	826	2	542,734	22
Gujarat	19,371	70	275,151	267
Haryana	9,942	29	343,990	171
Himachal Pradesh	1,954	8	260,435	25
Jammu & Kashmir	2,279	15	151,958	17
Jharkhand	3,937	40	98,184	19
Karnataka	22,414	70	322,037	361
Kerala	9,325	35	268,732	125
Madhya Pradesh	13,228	85	155,622	103
Maharashtra	31,080	125	248,833	387
Manipur	366	3	106,474	2
Meghalaya	427	4	113,192	2
Mizoram	278	1	212,561	3
Nagaland	319	2	153,938	2
Odisha	7,749	47	164,518	64
Puducherry	442	2	268,752	6
Punjab	6,731	31	220,683	74
Rajasthan	14,136	80	177,808	126
Sikkim	428	1	649,771	14
Tamil Nadu	23,645	84	282,506	334
Telangana	13,134	38	344,204	226
Tripura	726	4	173,564	6
Uttar Pradesh	22,576	232	97,518	110
Uttarakhand	3,026	12	258,648	39
West Bengal	15,550	101	154,117	120
Total	**265,437**	**1,429**	**185,784**	**3,048**

Source: Company, Ambit Capital research

Using this framework, we arrive at ~3,050 stores for Domino's (FY24: 1,995). This store potential is based on current per capita for India. As per capita improves, store potential will also expand at a gradual rate. We expect JFL to reach this store count by FY30E, building in addition of 200 stores every year, similar to its run-rate over the last 3 years. After this, we expect store addition to grow at a 4% CAGR (FY30-44E). Our store potential is in line with the company's earlier mid-term guidance of 3,000 stores. Recently, JFL revised its mid-term guidance to 4,000 stores (for India) without highlighting any specific timelines for the same. We expect the company to achieve 4,000 stores only by FY34E.

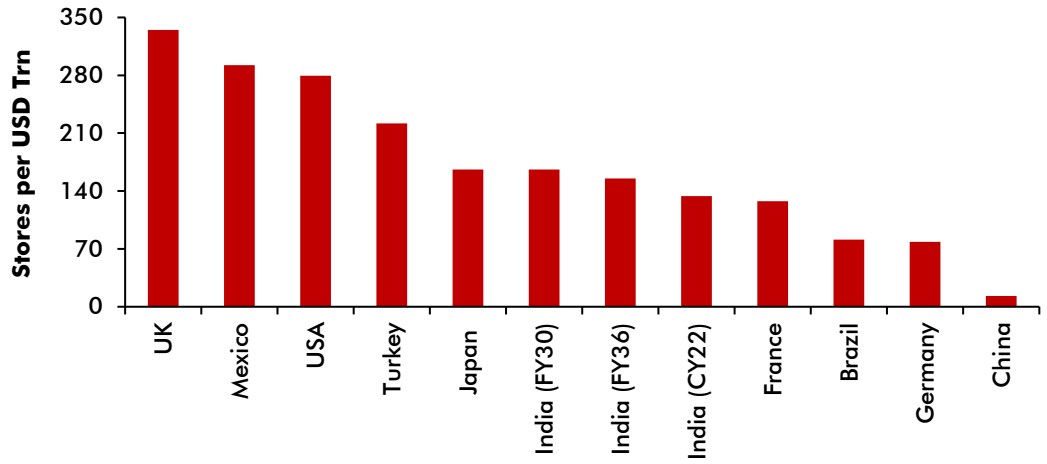
Exhibit 14: Expect Domino's to achieve 3,050/4,000 stores by FY30E/FY34E



Source: Company, Ambit Capital research

At 3,050 stores (FY30E) and ~4,400 stores (FY36E) respectively, Domino's comparison with other global countries will be as follows.

Exhibit 15: Store penetration in India is one of the highest across developing countries

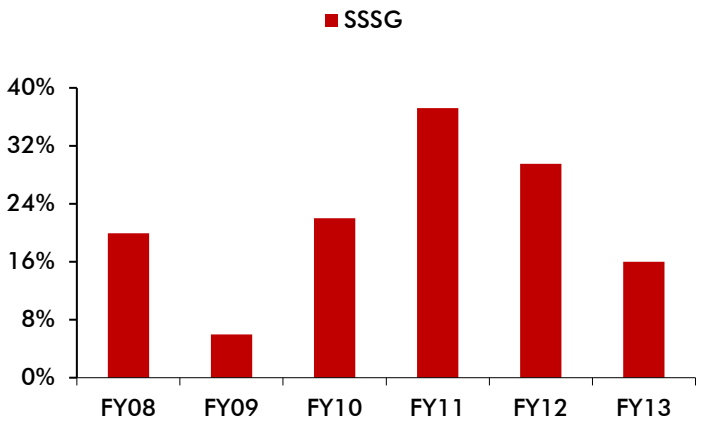


Source: Company, Ambit Capital research, Note: For benchmarking considered GDP for CY22 and Domino's stores as of Q3CY22. India GDP estimates for FY30 and FY36 based on Ambit estimates derived from past trends.

A strong beginning followed by a pause (FY14-17) and then a revival…

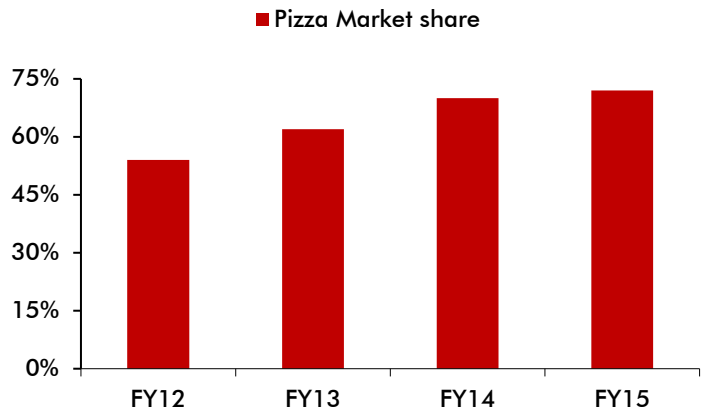
Domino's since inception clocked high SSSG growth driven by its branding initiatives, taste leadership over local peers and delivery offering. Further, competition struggles also helped, with the brand capturing more than 70% share of the pizza market.

Exhibit 16: Phase of high SSSG growth of the back of multiple initiatives related to brand and delivery strength



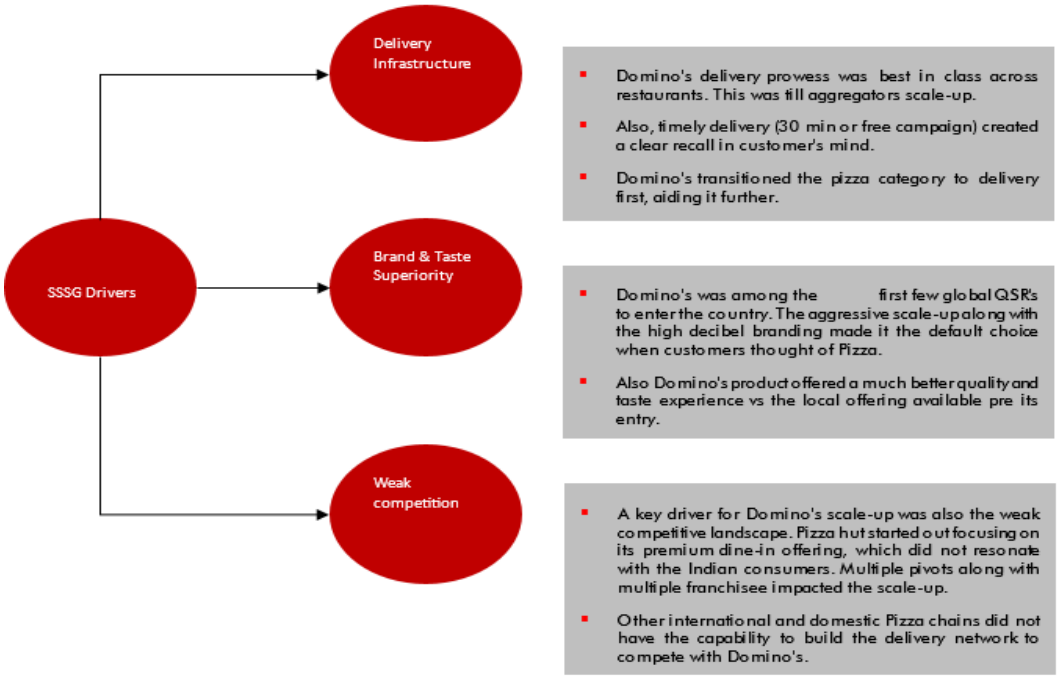
Source: Company, Ambit Capital research Note: Domino's entered India in 1996. Data on SSSG available from FY08

Exhibit 17: High SSSG was not an industry phenomenon but specific to the brand, reflecting in market share gains



Source: Company, Ambit Capital research

Exhibit 18: Key pillars of its SSSG growth/market share were as follows



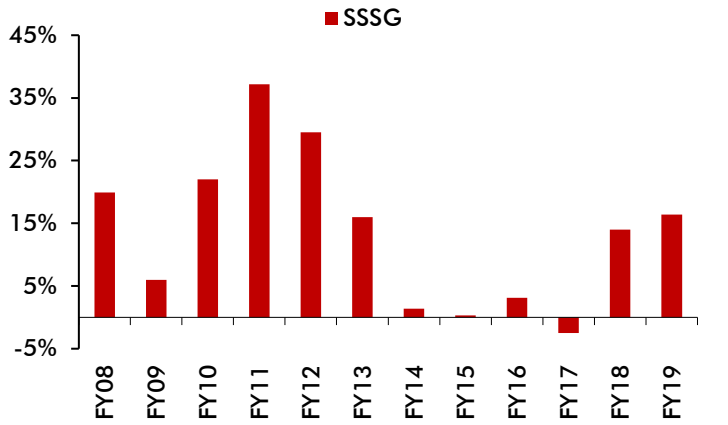
Source: Company, Ambit Capital research

However, Jubilant underwent a phase of muted growth over FY14-17 due to loss of value equation (years of consistently aggressive price hikes - 10% CAGR in pizza prices over FY11-16), rapid store expansion led by addition of new cities (which tend to be loss making initially) and rapid expansion in Dunkin.

The entire management team changed over the period with a new team led by Mr. Pratik Pota coming to the fore towards FY17-end. Key initiatives taken were:

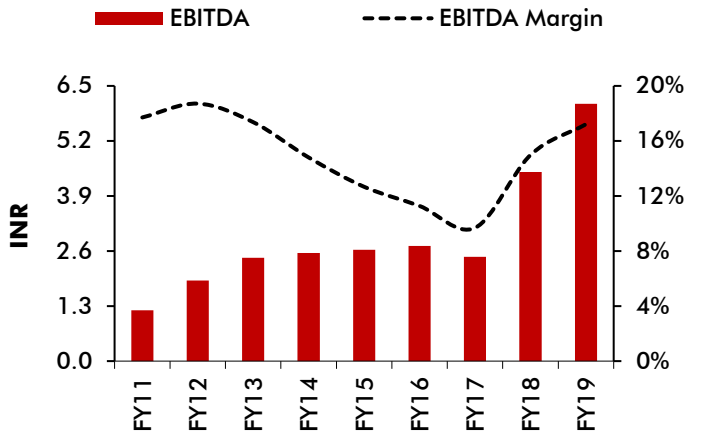
- Improving product quality
- Jubilant boosted value proposition (better products, EDV meal)
- Operational efficiencies in employee and rental costs

Exhibit 19: SSSG saw a revival from FY18 after initiatives taken by new management...



Source: Company, Ambit Capital research

Exhibit 20: ...driving improvement in EBITDA margin as SSSG surge drove significant operating leverage



Source: Company, Ambit Capital research

A cut in GST rate during the phase also helped. The cut in GST from 18% to 5% did help JFL in correcting its value equation as it diverted most of the benefit to consumers. Further, operational efficiencies (400/200bps dip in staff/rental costs, FY16-19) aided margin improvement. This helped management to drive topline growth of 17% over FY17-19 and a more impressive 57% growth on EBITDA.

Domino's US also implemented a similar turnaround during CY10

Domino's Pizza, Inc. (Domino's USA) was also going through a phase of muted SSSG growth pre-CY10. Similar to the India example, Domino's USA saw the appointment of a new CEO (J. Patrick Doyle). Domino's USA made investments in improving product, price value proposition, communication and technology. This helped SSG (average 7.4% over CY10-16 vs -2.6% over CY06-09), PAT (16% CAGR over CY10-16 vs -9% over CY06-09) and RoCE (from 47% in CY08 to 76% in CY16). The quick turnaround was also aided by low input cost inflation and low wage inflation.

Exhibit 21: Steps taken by Domino's USA and Impact; most of these were taken by new CEO, J Patrick Doyle, who was appointed in 2010

Steps	Impact on company's metrics (company operated stores)				
	Metrics	CY08	CY9	CY10	CY11-16
New product creation and involvement in validation: Created a completely new recipe for its pizzas which ranged from dough development to testing dozen of cheeses, 15 sauces and 50 crust seasoning blends and made 1,800 random pizza consumers from eight U.S. Market taste them for their reviews.	Revenue growth	-9.4%	-6.1%	2.9%	4.3%
Hired 30 tech workers to reconfigure its online ordering system; Today the tech team has around 400 members and is the biggest division at the headquarters	SSG	-2.2%	-0.9%	9.7%	6.4%
Rolled out an honest interactive ad campaign that actively utilized the internet and technology that showed customer discussing how they felt the pizza was devoid of flavour	Gross margins	72.4%	74.2%	72.6%	72.7%
	Operating margins	16.4%	18.3%	19.5%	23.4%
	Ad spends as a % of revenues	2.5%	2.4%	1.9%	1.6%

Source: Company, Ambit Capital research

But current scenario not inclined towards a déjà vu

A key investor expectation is that JFL can drive a similar turnaround as it did in FY17. Appointment of a new CEO (Sameer Khetarpal) has also added to the expectation, similar to FY17 when Pratik Pota joined. However, we do not expect a similar turnaround, in SSSG and margins, like earlier as:

- Competitive intensity is much higher.
- None of the new initiatives are needle movers.

Pizza as a category has always had lower barriers to entry vs other formats given: 1) limited process complexity, 2) RM sourcing and 3) lower investment vs other categories.

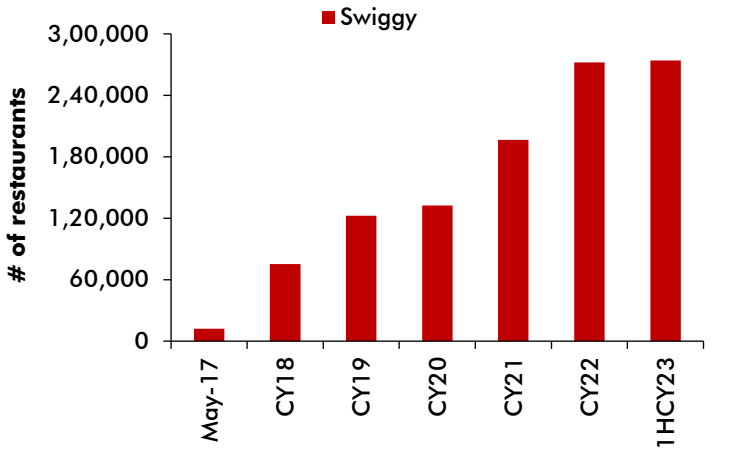
Exhibit 22: Across global categories, Pizza has the lowest entry barriers (Formating)

	RM sourcing	Process Complexity	Delivery salience	Brand Preference	Current competitive intensity	Overall
Global						
Pizza	◑	◑	◔	◕	◑	◑
Burger	◕	◕	◕	◕	◕	◕
Chicken	●	●	◕	◕	●	●
Fusion						
Oriental	◑	◔	◑	◔	◔	◔
Indian						
North Indian	◑	◔	◔	◑	◔	◔
South Indian	◑	◑	●	◔	◔	◑
Biryani	◔	◔	◔	◔	◑	◔

Source: Company, Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak,

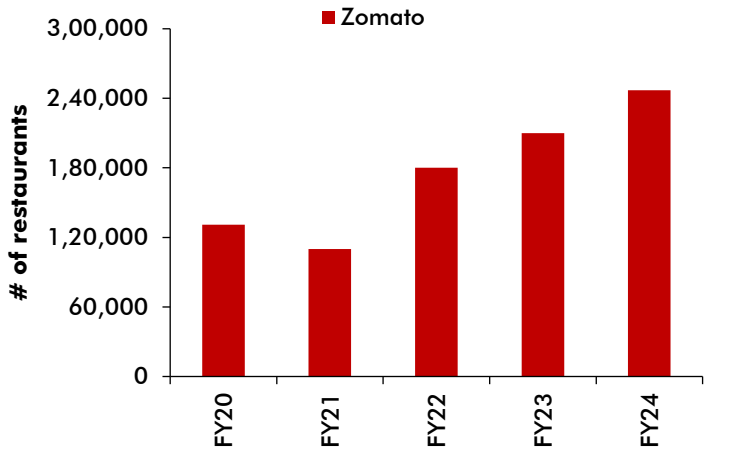
The missing angle for many brands has been the reach, which has been solved with the scale-up of aggregators. While competition and aggregator impact was an issue in FY17 too, the scale and intensity are much higher now. Aggregators, on the back of funding and IPO, have grown the user base and more importantly, the restaurants under coverage multi-fold.

Exhibit 23: Aggregators have significantly scaled up



Source: Company, Ambit Capital research

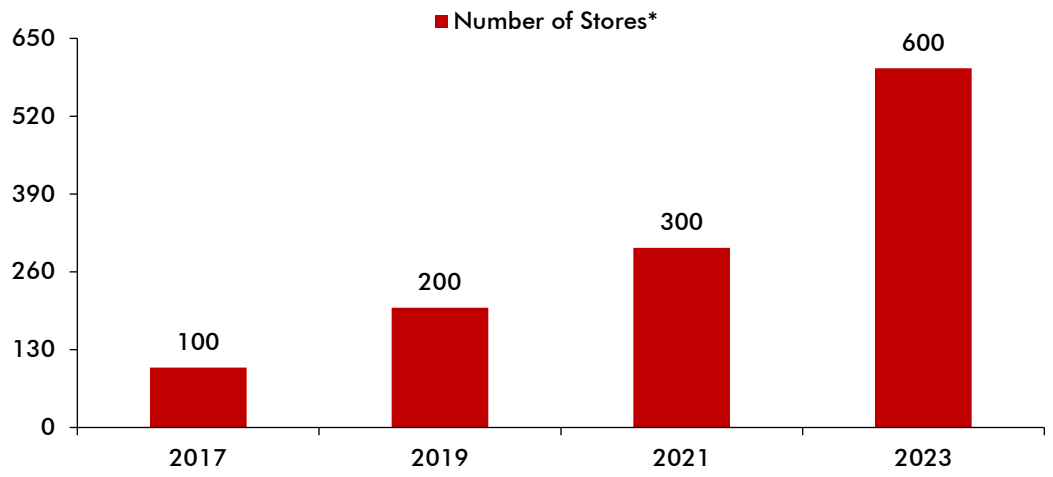
Exhibit 24: Both platforms have increased count significantly



Source: Company, Ambit Capital research

The last 5 years witnessed the scale-up of two brands – Pizza Hut and Li Pino'z. Pizza Hut, while globally a leader, has been struggling in India due to multiple pivots in its positioning and its earlier structure of multiple franchises (for details see our Sapphire/DIL initiation reports). PH managed to partially improve its proposition and while the brand is again struggling, it is still in a better shape versus pre-FY20, as the expansion is now driven by two well-funded and focused franchises. This reflects in the market share gain the business has seen over FY20-24. Similarly, La Pino'z has been a surprise and on the back of focus on certain states (Gujarat, Maharashtra primarily) along with franchise-driven expansion it has scaled up to become the third-largest pizza QSR brand and is just marginally shy of Pizza Hut on system sales.

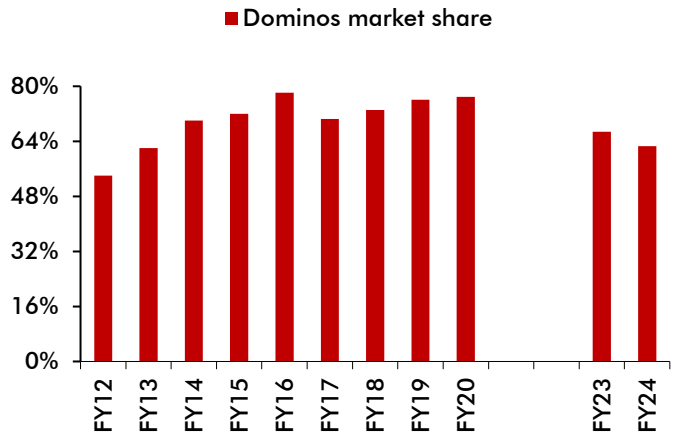
Exhibit 25: La Pino'z has grown its presence in India at ~31% CAGR over the past 6 years



Source: La Pino'z Website, Ambit Capital research

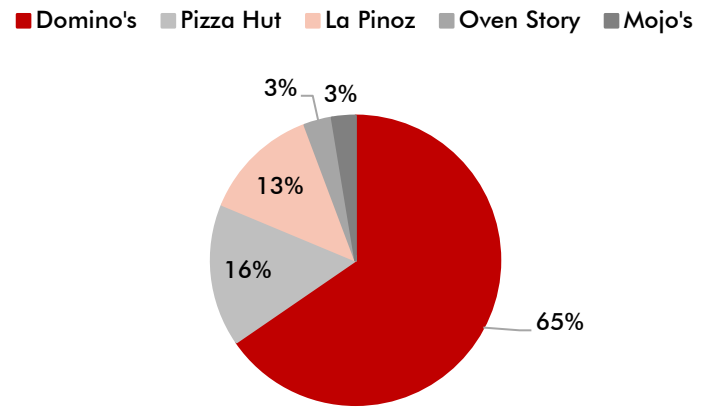
All this is reflecting in the moderation in market share for Domino's.

Exhibit 26: Domino's market share has moderated as Pizza Hut and La Pino'z scaled up



Source: Company, Ambit Capital research, Note: market share for Domino's from FY12-15 reported by company. For Industry size used Technopak estimates till FY23. For FY24 taken the industry size as USD1bn, as highlighted by JFL and estimation of sales of Pizza companies.

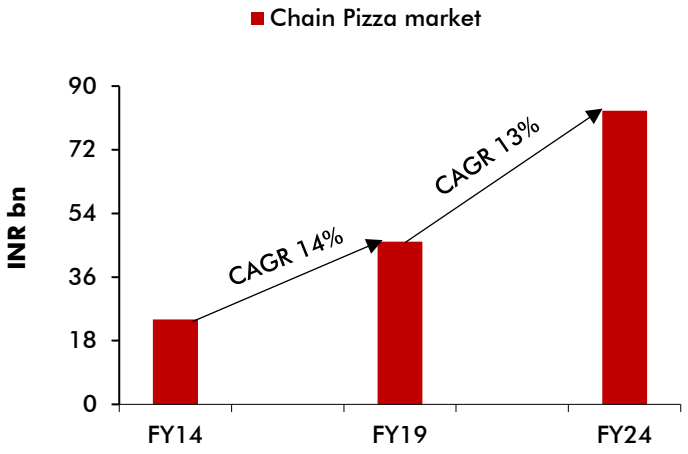
Exhibit 27: Domino's is still a sizeable leader but industry construct has changed



Source: Company, Ambit Capital research, Note: La Pino'z revenues are system sales estimated based on our understanding of its ADS and no of stores

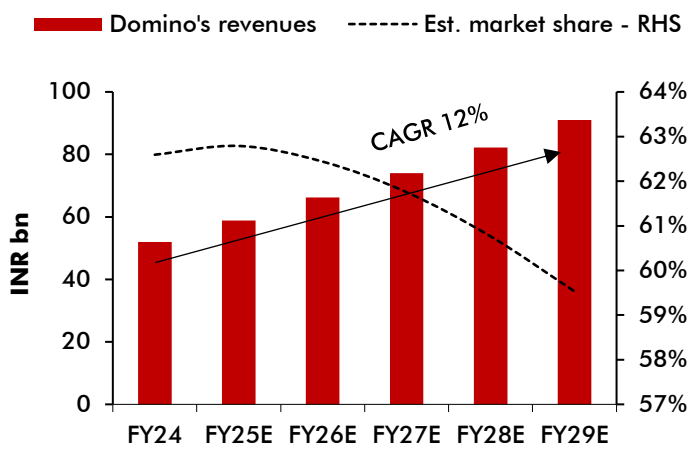
Comparing JFL's growth with its market share reflects one fact – JFL's growth has been more a case of its initiatives and execution rather than phenomenal growth for the industry. The historical growth rate for the QSR Chain Pizza market has been consistent at around 13% over the last decade. Hence, any new player coming in will impact market share/growth, especially for the largest player. Also, compared to chicken, which is still relatively nascent and underpenetrated (from a city reach perspective), pizza penetration is decent with Domino's already present in 400+ cities. In these markets, the scope of category development is thus lower.

Exhibit 28: Historical market growth was in the 13% range



Source: Company, Technopak, Ambit Capital research

Exhibit 29: Building in 280bps moderation in market share



Source: Company, Ambit Capital research, Note – We have calculated Domino's market share assuming the Chain Pizza QSR market clocks a 13% CAGR, similar to the growth over FY14-24.

We do not doubt Domino's growth potential, just that there are barriers to high single-digit SSSG growth, which has an overbearing impact on our TP (covered in detail in valuation section). If we expect the market to grow at 13% over FY24-29, we are building Domino's growing at 12% during the same period.

Multiple initiatives to drive market share/SSSG but see limited success

JFL's execution reflects in its history of initiatives to keep differentiating brand Domino's via product launches, store revamps etc.

Exhibit 30: JFL's journey was a mix of one big team change, initiatives such as delivery until 3am and delivery on trains, continuously innovating sides/beverages and entry into new formats/countries

Year	Campaigning Initiatives	Product Initiatives	Formats/ Geographical expansion	Other
1998	▪ Launched "Hungry Kya" campaign			
2003	▪ Launched "30 min or free" campaign			
2008	▪ Launch of new positioning "Khushiyon Ki Home Delivery"	▪ Introduced pizza mania priced at ₹35		
2011	▪ Launched single national same number 68886888 for ordering	▪ Mexican wraps, Double burst Pizza		
2012	▪ Launch of new positioning "Yeh Hai Rishton Ka Time"	▪ Launch of new range of 5 Peppers Veg, Zesty Chicken and Chicken fiesta - Launched refreshing new varieties and topping options for pizza mania	▪ Launched Dunkin Donuts in India Ventured into Sri Lanka with launch of Domino's Pizza	
2014	▪ "Pehli Kamayi" offering the perfect wat to celebrate small moments of joy	▪ Expanded into meals specifically for Kids through launch of Junior Joy Box, Lebanese rolls, spicy baked chicken, Calzone pockets and fresh pan Pizza	▪ Adopted a new restaurant design 'Pizza Theatre', an innovation that gas been steadily gaining popularity in Domino's world. The design enhances the consumer engagement and experience by having a one-of-its-kind open display kitchen and restaurant layout in the QSR category.	
2015	▪ Partnering with big aggregators like Zomato, Foodpanda, etc. ▪ Introducing a Pizza tracker in mobile ordering	▪ Unique gifting packs consisting of Diwali Donuts in Motichoor, Kaju Katli and Four other festive avatars	▪ All Domino's Pizza restaurants are opened during the year were in the Pizza Theatre format except those opened at the food courts	▪ Domino's India crossed the UK restaurant count and became the largest market for Domino's Pizza worldwide, outside USA ▪ Changed its home delivery policy to allow home delivery of only side products too
2016	▪ Tied up with award winning Michelin starred chef, Vikas Khanna	▪ Chef's inspiration range of exotic Italian Pizza	▪ Tie-up with IRCTC to deliver pizza at Key railway stations	▪ Became the only country outside US with over 1,000 restaurants.
2017	▪ Rolled out an entire all-vegetarian menu around the festive season of Navaratra	▪ Burger Pizza, Quattro Formaggi and Choco Pizza	▪ Closed 20 Dunkin Donuts outlets	▪ CEO Ajay Kaul resigned after service for 12 years and Mr. Pratik Pota joined
2018	▪ Launched Domino's late night delivery offering pizza delivery until 3am	▪ Rollout of 'Every Day Value' for Domino's Pizza, offering pizza at an affordable price		
2019	▪ Started with pilot project of "20 min" delivery	▪ 10 new pizzas under the cricket themed pizza campaign "World Pizza League" introducing range of five new international flavours inspired by the top teams participating in the world cup tournament	▪ Entered into Chinese cuisine with its home-grown restaurant chain "Home Kitchen". - Opened its 1st store in Bangladesh	▪ Signing of PepsiCo as its new beverage partner. Curtailed losses at Dunkin Donuts as it was able to break even during the year.

Source: Company, Ambit Capital research

Since FY22, after the Covid-driven bump that pizza players and Domino's saw, growth did moderate. To address the same, JFL undertook multiple initiatives.

- Wider roll-out of its 20min delivery
- Fast track re-image programme
- Loyalty programme launch
- Brand refresh - It Happens Only with Pizza (IHOP)
- Delivery fee waiver

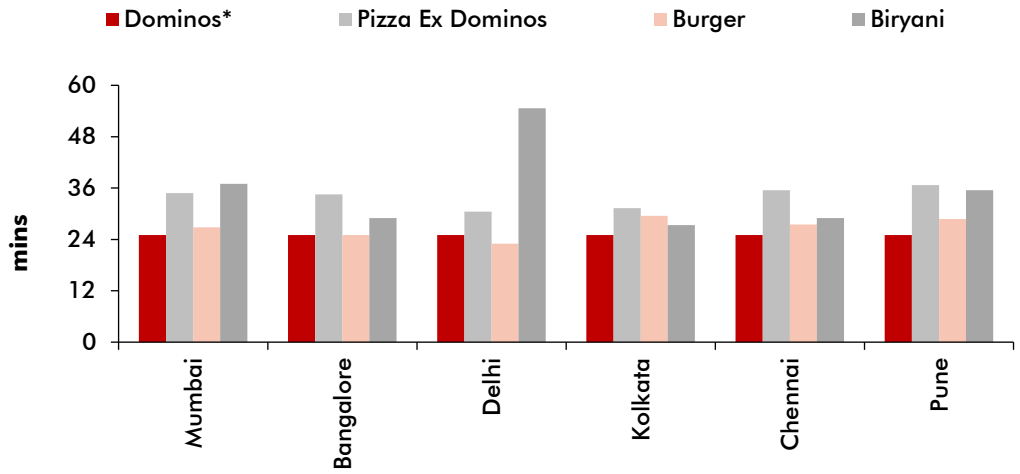
Apart from these, a recent initiative is JFL splitting the organization from four to seven regions to improve KPIs at stores.

Exhibit 31: Multiple initiatives to revive SSSG/gain market share at play

Initiative	Year of launch	Target	Our view
20 min delivery	2019	Targeting most deliveries under 20 minutes. The pilot started in Bengaluru and at present ~70% of deliveries are happening within 20 minutes.	The key benefit of this will be if there is a big cohort of customer for whom getting food in 20 mins vs 30 min+ will drive a chang in preference. We are not sure of the same. Also, since the initiative has already reached a certain scale (~70% deliveries within 20 mins), we have not seen any material improvement in the SSSG/market share profile.
Fast tracking Re-image programme	2022	Fast track of re-image programme (33 out of 100 bottom decile stores re-imaged).	Expect a one-time benefit. However, base of stores is just 5% of the network.
Loyalty programme (Cheesy Rewards)	2022	Increase frequency of ordering from users	While its launch was promising, the programme has been in place for nearly two years now (Jul-22) and there has been no major improvement in SSSG.
Brand refresh - It Happens Only with Pizza	2023	- Entails a 360° communication, including new store designs - ACE 2.0, new delivery boxes, etc. - Aimed towards steering moments of ordering in from various categories to pizzas.	IHOP is a campaign to grow the pizza category and steer moments of ordering towards pizza. Historical growth of the pizza category apart, convincing customers to keep choosing a single cuisine is difficult.
Delivery fee waiver	2024	Gain delivery share vs aggregators.	Recent initiative, and definitely a positive as it makes online ordering cheaper on Domino's vs aggregator apps. We build in the benefit of the same.

*Source: Company, Ambit Capital research,**

Exhibit 32: Competition and competing categories improved delivery timelines



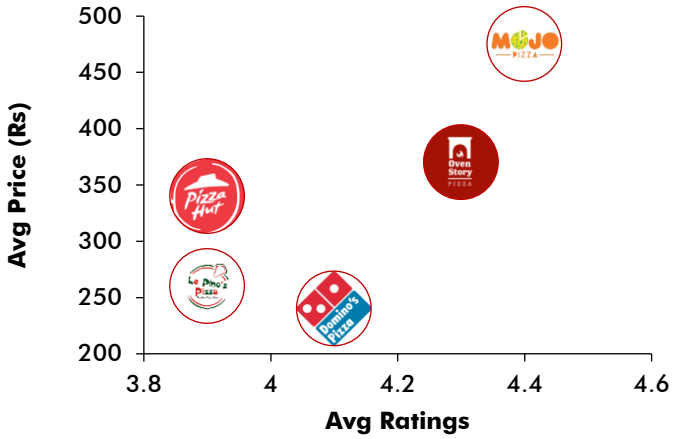
*Source: Company, Zomato, Ambit Capital research, *For Domino's, we have considered delivery time to be 25 mins across cities*

While these initiative are a step in the right direction, we don't see them having a significant impact (see our comments on each of these) but for delivery fee waiver, which in our view can help Domino's improve its delivery market share as the delivery charge vs platforms looks optically lower. A small aspect which will affect any SSSG improvement (and margins) will be Domino's store vintage with average store age of ~8 years.

What can drive a change in SSSG profile/market share is a significant product revamp/hero product launch, which is difficult to replicate. When we compare aggregator ratings and based on general feedback, Domino's stands for *DECENT TASTE FAST DELIVERED VALUE FOR MONEY PIZZA*. We believe, if Domino's makes further effort on the product to create a taste supremacy while keeping value for money, it will be a kicker for significant market share accretion.

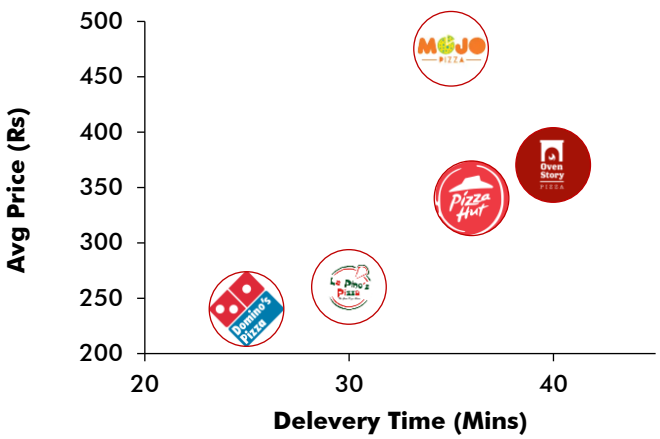
Another potential is to activate certain day parts, especially evening snacking. Historically, this has been difficult as pizza has preferably been a meal item and in that too, dinnertime has much higher salience. Domino's historical efforts to drive the same via Burger Pizza launch and delivery of side orders (without Pizza) have had limited impact.

Exhibit 33: Cloud kitchen brands score on taste but are expensive. Domino's on taste is mid-tier.



Source: Zomato, Ambit Capital research

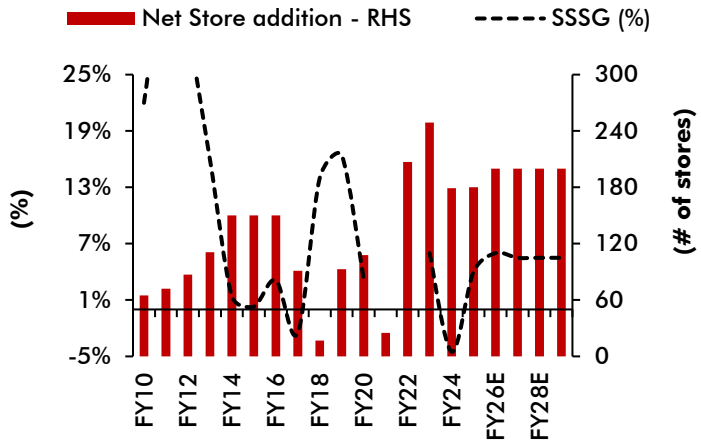
Exhibit 34: Domino's remains the fastest delivery option across brands and is value for money



Source: Zomato, Ambit Capital research

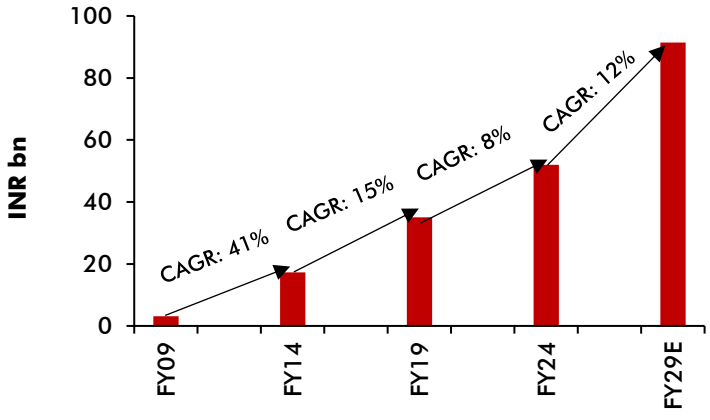
We thus build in a long-term SSSG of 5.5% with an implied price component of 3%. This is higher than JFL's FY20-23 SSSG of 2%, but lower than its earlier phases. The improvement in SSSG is built upon benefit of delivery charge waiver in FY25E and some moderation in competition, especially growth of La Pino'z.

Exhibit 35: We expect long-term SSSG/LFL of 5%/7%, higher than the FY20-23 CAGR of 2%



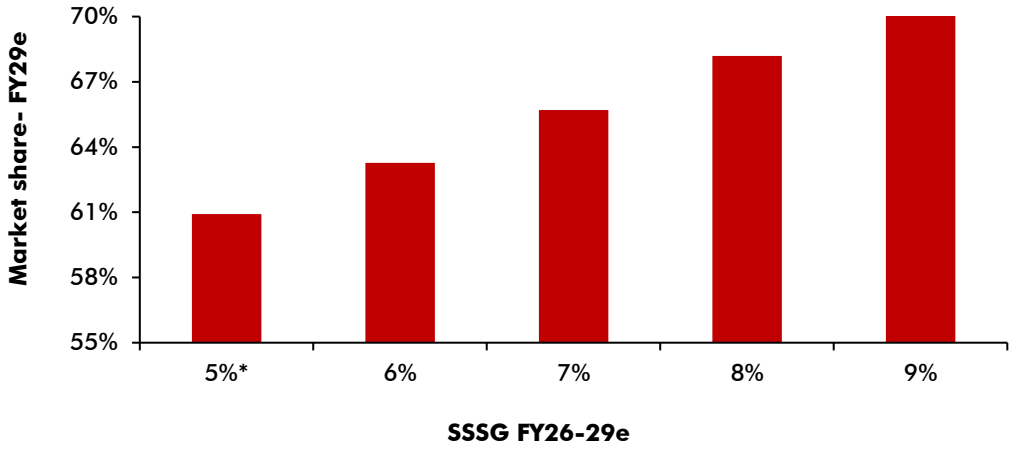
Source: Company, Ambit Capital research

Exhibit 36: This translates into a CAGR of 12% over FY24-29, factoring 200 p.a. store addition after FY25



Source: Company, Ambit Capital research

Exhibit 37: Big difference in market share on a minor change in SSSG



Source: Company, Ambit Capital research

Popeyes – a good top-up but not a core dish

Popeyes is the second-largest chicken brand globally (after KFC) and its addition to JFL's portfolio is a value-add for the company. We expect JFL to leverage Popeyes differentiated offerings (spicier flavors vs KFC) and decent recall to scale-up the brand in India on the back of JFL's execution track record and supply chain. Our preference for chicken category also fits into this. Looking at JFL's approach till now and also its medium-term target (250-300 stores with a topline of ₹10bn), JFL is keen on building a profitable brand (especially after Dunkin) even if it is not a category leader. This gives the potential for decent value creation for JFL and bodes well for KFC too. However, the relatively conservative approach does negate the option of Popeyes becoming the key driver – a related example being the scale-up of Zudio in Trent. We build in 242 stores by FY27 (15% of KFC) and 1,000 stores by FY44E (26% of KFC).

Popeyes – globally the second-largest chicken franchise

Popeyes was founded in 1972; it was acquired by Restaurant Brand International (RBI) in 2017. It is the world's second-largest quick service chicken restaurant. JFL acquired the master franchise agreement for Popeyes in India and neighboring countries--Bangladesh, Nepal and Bhutan in Feb-21. Though burger QSRS have used product extensions by incorporating chicken in their menus, JFL does not have such an option in any of its existing brands.

Exhibit 38: Popeyes is the second-largest chicken franchise but a distant second

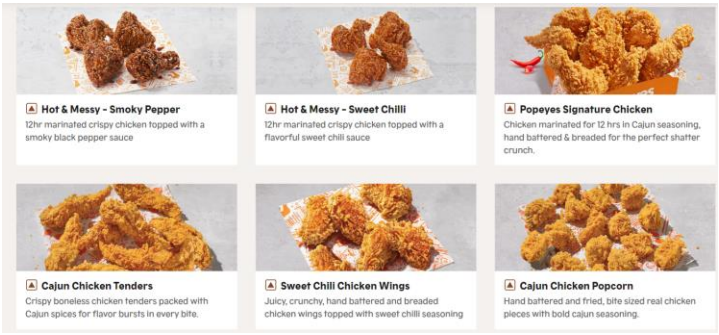
	Popeyes	KFC
Stores (#)	4,571	29,900
Countries (#)	40	149
System wide sales (USD bn)	7	34

Source: Company, Ambit Capital research

Popeyes focused on chicken and spicy flavors; no major superiority to KFC yet

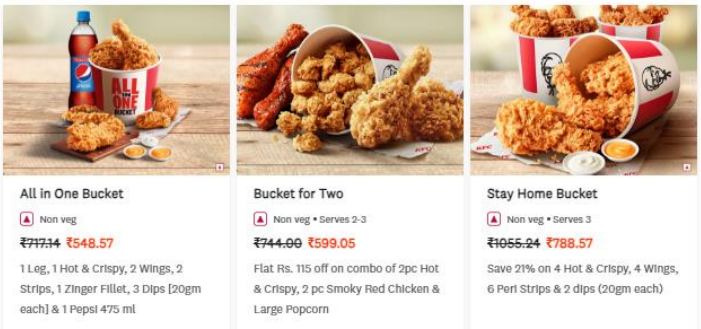
Compared to KFC, Popeyes focused on its core chicken offering and trying to differentiate itself on flavors. JFL is clear that it does not want to compete on pricing and is rather differentiating its flavour and store experience.

Exhibit 39: Popeyes offerings focused on spice and flavour



Source: Company, Ambit Capital research

Exhibit 40: KFC targets larger buckets and filling quantity



Source: Company, Ambit Capital research

Exhibit 41: KFC menu includes many combos and desserts along with a high number of veg offerings and biryani too

Chicken	Price (Rs)
Piri Piri Chicken (5 Leg Pc/10 leg pc)	629/925
Piri Piri Chicken Strips (3/6/10 pc)	179/299/499
4pc Hot Chicken Wings	179
1 pc Smoky red chicken	125
2 Pc Hot & Crispy chicken	230
Chcken Popcorn (R/M/L)	115/169/249

Value Snackers	Price (Rs)
Single Chicken Roll	119
Popcorn (R/M/L)	115/169/249
Chicken Longer Burger & 2 Strips Combo	219
2 Veg Longer Burger	198
2 Veg Roll	229

Chicken Rolls	Price (Rs)
Classic Chicken Roll (Single/Double)	119/169
2 Classic Chicken Roll (Single/Double)	229/329

Chicken Bucket	Price (Rs)
Hot & Crispy Chicken (2/4/6/8 pc)	230/429/629/769
Smoky Red Chicken (1/2/5 pc)	125/249/529
Chicken & Fries Bucket	299
Popcorn & Fries Bucket	319
Mingles Bucket	379
All in One Bucket	549
Stay Home Bucket	789

Rice Bowl	Price (Rs)
Classic Chicken Rice Bowl (R/L)	230/475
Popcorn Chicken Rice Bowl(R/L)	230/475
Smoky Grilled Rice Bowl (R/L)	230/475
Veg Rice Bowl	199
Plain Rice Bowl	139
Veg Rice Box	279

Burgers	Price (Rs)
Veg Zinger Burger	189
American Classic Zinger Burger	199
Tandoori Zinger Burger	209
2 Veg Krisper Burgers	179
2 Chicken Krisper Burgers	249
Mixed Zinger Doubles	369
Indian Paneer Zinger Burger	209
Mexican Zinger Pro burger	239
Carribean Spicy Zinger Burger (Meal)	219 (379)

Sides	Price (Rs)
Fries (M/L)	99/119
Chocolate Lava Cake	109
Buttered Bun	35
Coffee Mousse Cake	129
Choco Mud Pie	129
2 pc Veg Patty	155
Cold Drink (300ml)	57

Combos	Price (Rs)
All Chicken Box	189
Zinger Tandoori Box	313
Veg Rice Box	279
Veg Zinger Box	313
Buddy Meal	529
Classic Biryani Combo	740
Smoky Grilled Biryani Combo	740
Popcorn Biryani Combo	690
Big 12	749
Big 8	685
Family Feast	859

Source: Company, Ambit Capital research

Exhibit 42: Popeyes' menu is leaner and offers less varieties of chicken

Chicken Sandwich	Price
Bold Chicken Sandwich	209
Classic Chicken Sandwich	199

Rice Bowls & Wraps	Price
Zesty Rice Bowl with Grilled Chicken	219
Zesty Rice Bowl with Chicken Popcorn	209
Zesty Rice Bowl with Onion Rings	179
Zesty Rice Bowl	99
Classic Chicken Wrap	209
Classic Veg Wrap	199

Chicken	Price
Popeyes Signature Chicken (1/2/4/6/8 pc)	109/209/419/629/799
Hot & Messy - Smoky Pepper (1/2/4/6/8 pc)	129/249/499/749/959
Hot & Messy - Sweet Chilli (1/2/4/6/8 pc)	129/249/499/749/959
Sweet Chilli Chicken Wings (2/4/6/8 pc)	99/179/259/329
Cajun Chicken Popcorn (R/M/L)	99/169/219
Cajun Chicken Tenders (2/3/5 pc)	139/199/289
Hot Grilled Chicken (2/4 pc)	209/309

Sides	Price
Cajun Fries (R/M/L)	79/99/129
Cajun Onion Rings (R/L)	99/159

Veg Burgers & Wraps	Price
Classic Veg Burger	109
Cajun Veg Burger	189
Classic Veg Wrap	199

Bevrages	Price
Cold Drinks (R/M/L)	79/89/99
Tangy Mojito/Cola/Orange	99

Meals	Price
Classic Veg Burger Meal (M/L)	258/308
Cajun Veg Burger Meal (M/L)	358/388

Combos	Price
Chicken Sandwich & Wings (4pc) + Beverage (M)	429
Chicken Sandwich Combo (M)	348
Chicken Sandwich & Popcorn combo	479
Classic Chicken Wrap Combo (M/L)	358/408
Classic Veg Wrap Combo (M/L)	348/388
Popeye's Chicken Party (11pc)	869
Love that chicken platter (10pc)	819
Famous Louisiana Chicken Combo (8pc)	799
Wings Pop Fiesta	349
Double Sandwich Combo	699

Source: Company, Ambit Capital research

A comparison of the ratings for KFC and Popeyes for store in close vicinity of each other does not point to a significant difference in customer preferences (using ratings as a barometer for the same) or price.

Exhibit 43: Ratings don't point to any major customer preference for Popeyes

Koramangala, Bengaluru	Popeyes		KFC	
	Dine In	Delivery	Dine in	Delivery
Rating	3	4.2	4.1	4.1
Average cost for two	450		500	
Ameerpet, Hyderabad	Dine In	Delivery	Dine In	Delivery
Rating	-	4.1	3.9	3.9
Average cost for two	200		500	
Besant Nagar, Chennai	Dine In	Delivery	Dine In	Delivery
Rating	-	3.2	3.2	3.9
Average cost for two	450		500	
Tiger Circle, Manipal	Dine In	Delivery	Dine In	Delivery
Rating	-	4.3	3.9	4.1
Average cost for two	450		450	
Ganapathy Gardens, Coimbatore	Dine In	Delivery	Dine In	Delivery
Rating	-	3.7	3.9	3.8
Average cost for two	300		450	

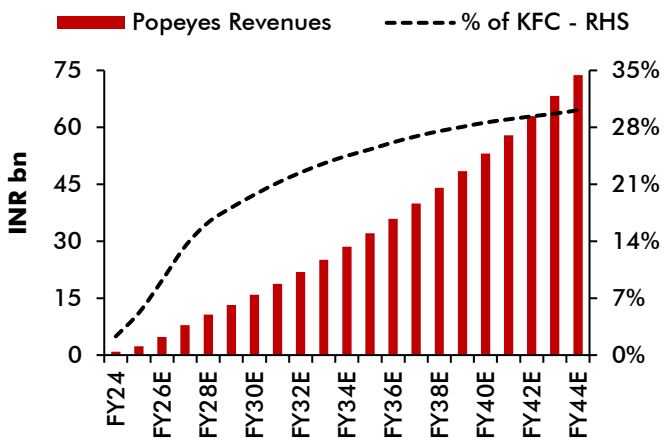
Source: Zomato, Ambit Capital research

If we use the above data as a proxy for customer preference, we do not see a case of significant market share gains within a catchment. As per our understanding, ADS of Popeyes after two years of launch is below INR100K vs an average of INR125K for KFC. Eventually, we expect that both these brands will continue to exist in the market and build in Popeyes achieving 30% of KFC's revenues by FY44E, similar to the pizza market where Domino's (category leader) still commands a 65% share.

Stable value creation potential

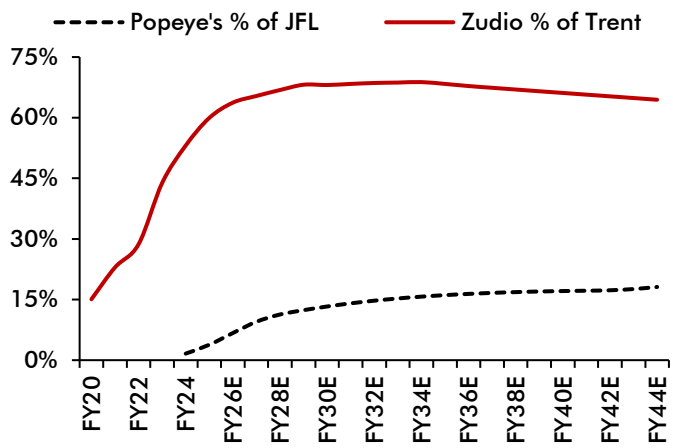
JFL has laid out clear plans of targeting to reach 250-300 stores in the medium term with a revenue of INR10bn. We build in Popeyes to achieve this by FY27E. Looking at JFL's approach until now and its medium-term target, JFL is keen on building a profitable brand (especially after its experience with Dunkin) even if it is not a category leader. This bodes well for KFC and gives the potential for decent value creation for JFL. However, the relatively conservative approach does negate the option of Popeyes becoming the key driver – a related example being the scale-up of Zudio in Trent.

Exhibit 44: Expect Popeyes to touch 30% of KFC by FY44E



Source: Company, Ambit Capital research

Exhibit 45: Will make up ~20% of JFL's standalone revenues



Source: Ambit Capital research

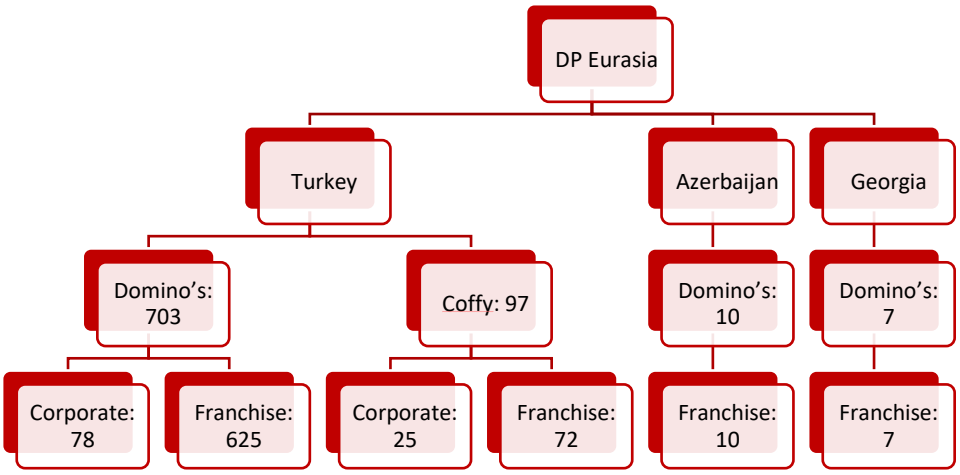
DP Eurasia – attractive but volatile backdrop

JFL acquired its initial stake in DP Eurasia in Feb-21 (42%) and acquired a majority stake in FY24 (93% at present) with a cumulative investment of ₹12bn. While initially the business was loss-making, with the discontinuation of Russia operations (amidst geopolitical uncertainty), the business turned positive. DP Eurasia's operates in an attractive market (Turkey GDP per capita is USD12,000, 5x of India) and Domino's has significant leadership, similar to India (store count more than 3x next peer). With a franchise-driven business, the operations generate strong RoCE (20%/15% in CY21/CY22) and free cash flows. We assign the business a PE-based value of ₹48 (18x CY26E PAT, in line with global Domino's franchisees ex India). Our value already factors JFL's execution track record as it is 90% higher than the last price JFL paid and 2.6x of the total investment of ₹12bn. However, Turkey has historically been a high inflation economy with currency volatility, which can impact any value flow-through.

DP Eurasia – Turkey-centred business with primarily franchise operations

DP Eurasia is the exclusive master franchise in Turkey, Azerbaijan and Georgia of Domino's Pizza. The Group was founded in Istanbul (Turkey) in 1996 as a family business; it subsequently expanded to Russia, Azerbaijan and Georgia. Turkey is the company's biggest market (95% of system sales). Unlike JFL, DP Eurasia also sub-franchises stores, and ~87% of its network is sub-franchised (714 out of 817 stores). In addition to the pizza business, the group also has its own coffee brand, COFFY. The company had entered Russia in 2012 however, it exited operations in 2023 after the global geopolitical crisis.

Exhibit 46: DP Eurasia is majorly a Turkey-focused franchise-driven business



Source: Company, Ambit Capital research

Exhibit 47: Business in operation since 1996

Year	Event
1996	Mr. Aslan Saranga became the initial CEO
1996	First store opened in Istanbul
2000	Opened its first franchised store in Turkey
2011	Launched online ordering facilities for customers in Turkey
2012	Awarded the exclusive master franchise of the Domino's System for Russia
2013	Acquired 13 stores in Russia from the previous incumbent master franchisee
2013	Also granted the exclusive master franchise of the Domino's System for Azerbaijan and Georgia.
2015	Launched online ordering facilities for customers in Russia
2016	Launched its first franchised store in Russia in 2016
2017	DP Eurasia's shares were admitted to the premium-listing segment of the London Stock Exchange's main market. The Group opened its 100th store in Russia, 500th store in Turkey and surpassed the 600th store mark system-wide.
2018	Total store numbers reached 724, an increase of 81 stores across the group over the year, 58 of which were in Russia
2019	Opening 41 new stores, reaching the 550th store milestone in Turkey and the 200th store milestone in Russia.
2020	Extension of oven-baked sandwiches First TV campaign with celebrity Contact less delivery and takeaway launch
2021	4 Seasons Pizza Launch 600th store opening in Turkey /800th store in DPEU Launched Coffy brand
2022	Five-Segment Transition Kantin Pizza and Favori ikili Pizza launch
2023	Shut down Russia operations amidst geopolitical uncertainty
2024	JFL acquired majority stake and delisted the business from London Stock Exchange

Source: Company, Ambit Capital research

In 2021, JFL entered a purchase agreement with Turkish Private Equity Fund II L.P. to fully acquire Fides Food Systems Coöperatief U.A., which held 32.8% equity shares in DP Eurasia N.V. After that JFL kept increasing its stake and in FY24 acquired majority control and delisted the business from London Stock Exchange. In total JFL invested INR12bn to acquire the 94% stake.

Exhibit 48: From its first investment in Feb-21, JFL acquired majority control by Feb-24

Year	Cumulative Investment (INR mn)	Stake
FY21	2,527	33%
FY22	3,750	41%
FY23	4,282	49%
Feb-24	11,950	94%

Source: Company, Ambit Capital research

As per JFL, it acquired DP Eurasia due to:

- Simple and scalable, asset-light business model
- Attractive, under-penetrated market with substantial growth potential
- Track record of resilient and profitable growth as well as strong cash conversion
- Data and digital capabilities with India-like terms with aggregators in Turkey
- Founder-led, experienced management team
- Leading market position through continuous menu innovation for LFL growth and digital innovation for better customer experience
- Globally proven business model successfully applied and adapted to the local markets

Attractive market but inflation and currency volatility create value uncertainty

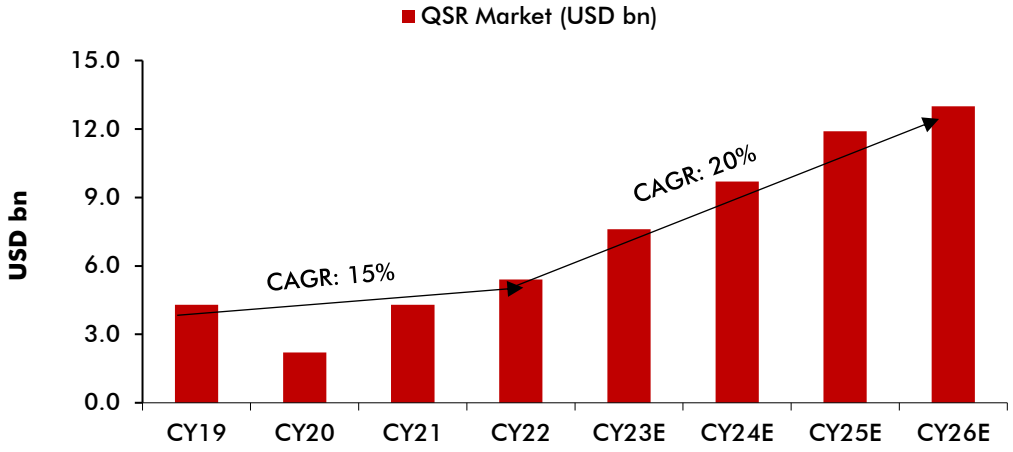
Turkey, DP Eurasia's key operation, has attractive macro-economic drivers. With an average annual real growth of around 5.5% – pre Covid – over the last 10 years, Turkey is one of the fastest growing economies in G20 and other larger emerging markets. Also, 75% of the population lives in urban centres with an average age of 33.6 years.

Exhibit 49: Turkey has attractive macro-economic drivers

	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23
Real GDP Growth (%)	5.3%	6.0%	3.3%	7.4%	3.0%	0.9%	1.9%	11.4%	5.5%	4.5%
GDP Per Capita (USD)	11,964	10,987	10,818	10,592	9,429	9,118	8,614	9,623	10,526	12,241
CPI (%)	8.9%	7.7%	7.8%	11.1%	16.3%	15.2%	12.3%	19.6%	72.3%	53.9%

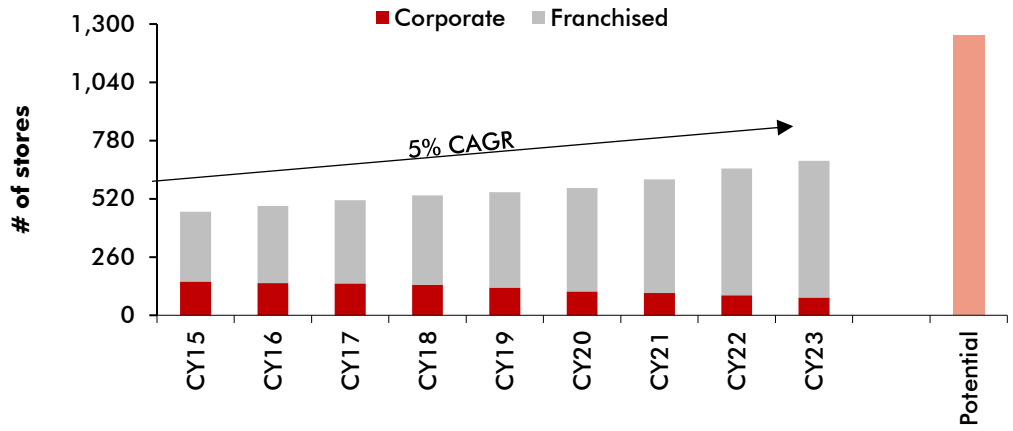
Source: Company, Ambit Capital research

Exhibit 50: QSR market growth outlook is also robust and higher than earlier phase



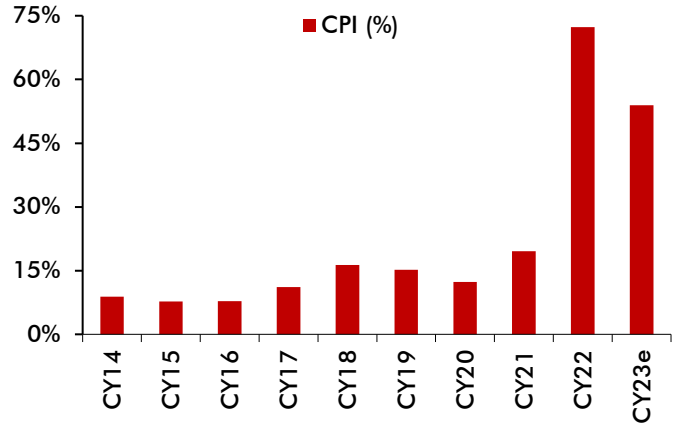
Source: Company, Ambit Capital research

Exhibit 51: As per JFL, DP Eurasia's medium-term potential is 1,250 stores (CY23: 690)



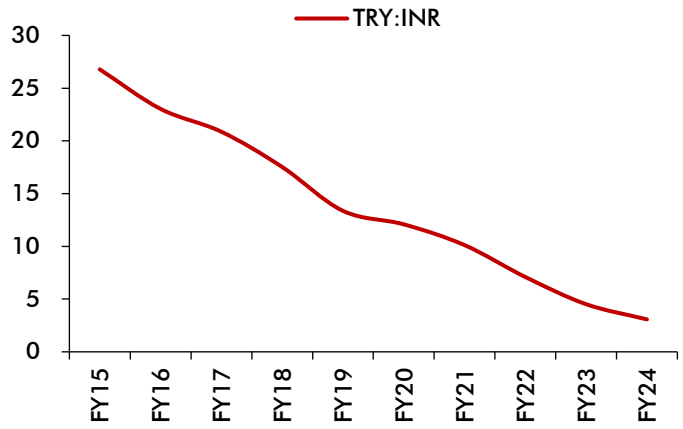
Source: Company, Ambit Capital research

Exhibit 52: Turkey is a high-inflation economy...



Source: Company, Ambit Capital research

Exhibit 53: ...with currency also volatile



Source: Bloomberg, Ambit Capital research

Exhibit 54: DP Eurasia saw stable expansion in Turkey and launched COFFY in CY21

	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23
No of Stores									
Corporate	151	144	142	137	123	106	100	89	80
Franchise	311	344	372	398	427	462	507	566	610
Domino's -Turkey	462	488	514	535	550	568	607	655	690
Domino's - Russia*	43	72	121	179	203	190	188	159	0
Domino's - Azerbaijan & Georgia	0	0	0	10	12	13	14	16	17
Turkey (COFFY)	0	0	0	0	0	0	8	29	89
Stores (#)	**505**	**560**	**635**	**724**	**765**	**771**	**817**	**859**	**796**
LTL Growth									
Turkey - Non Inflation adjusted	5%	7%	10%	9%	13%	26%	50%	64%	96%
Turkey - Inflation adjusted						12%	26%	-6%	27%
System Sales									
Turkey	512	566	646	736	846	1,069	3,417	3,392	
Azerbaijan & Georgia	0	6	9	16	21	29	92	122	
COFFY	0	0	0	0	0	0	11	59	
Total continuing operations	512	571	654	752	867	1,098	3,521	3,573	
Russia (discontinued operations)	32	76	205	374	503	472	629	1,120	
Total (TRY mn)	**543**	**647**	**860**	**1,125**	**1,370**	**1,570**	**4,150**	**4,692**	

*Source: Company, Ambit Capital research, * Discontinued*

Exhibit 55: Operations turned profitable after exit of the Russia business

TRY mn	CY19	CY20	CY21	CY22
Franchise	315	423	1,365	1,547
Corporate revenue (Own Stores)	211	219	566	513
Others	34	31	131	160
Total Revenues - Turkey + Others	559	674	2,063	2,220
Russia	421	346	0	0
Total Reported Revenues	**980**	**1,019**	**2,063**	**2,220**
Gross Profit	344	329	794	823
% Margin	*35%*	*32%*	*39%*	*37%*
Operating Income	71	-10	196	189
% Margin	*7%*	*-1%*	*10%*	*9%*
PAT	-6	-108	134	202

Source: Company, Ambit Capital research

Exhibit 56: We expect DP Eurasia's PAT to touch 40% of JFL's standalone PAT by FY26E

	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E	CY26E
Financials (TRY mn)									
Revenues	857	980	1,019	2,063	2,220	4,810	5,585	6,707	7,996
% YoY growth	*37%*	*14%*	*4%*	*102%*	*8%*	*117%*	*16%*	*20%*	*19%*
Operating income	53	71	-10	196	189	613	600	721	859
% Margin	*6%*	*7%*	*-1%*	*10%*	*9%*	*13%*	*11%*	*11%*	*11%*
PAT	-11	-6	-108	134	202	461	548	647	736
% Margin	*-1%*	*-1%*	*-11%*	*7%*	*9%*	*10%*	*10%*	*10%*	*9%*
Financials (INR mn)									
Revenues				17,635	10,603	17,519	14,243	17,102	20,391
% YoY growth					*-40%*	*65%*	*-19%*	*20%*	*19%*
Operating income				1,677	903	2,233	1,530	1,837	2,191
% Margin				*10%*	*9%*	*13%*	*11%*	*11%*	*11%*
PAT				1,148	965	1,680	1,398	1,650	1,878
% Margin				*7%*	*9%*	*10%*	*10%*	*10%*	*9%*
Share of JFL Standalone PAT				26%	27%	72%	49%	39%	33%
Stores									
Domino's - Corporate	137	123	106	100	89	80	85	90	95
Domino's - Franchise	408	439	475	521	582	627	671	715	759
Total Domino's	**545**	**562**	**581**	**621**	**671**	**707**	**756**	**805**	**854**
Coffy	0	0	0	8	29	59	129	199	269

Source: Company, Ambit Capital research. Note: DP Eurasia's annual report is available till CY22. For CY23 only proforma revenue and PAT estimates available.

Multiple drivers but Domino's key to outlook

JFL's business has 3 key parts: 1) core Domino's India business, 2) Popeyes, and 3) DP Eurasia. Our DCF-based TP for each of these implies a TP of ₹439 split 75:15:11 between the three. Historically, JFL's relative valuations have had a high correlation to its SSSG performance and phases of higher valuation were accompanied by a high SSSG showing. Even our DCF is most sensitive to any improvement in the SSSG profile of Domino's India and a 1% sustained change brings about a 30% change in our SOTP. At our TP, the implied FY26 P/E for Domino's India (Standalone ex Popeyes) is 51x, lower than its 5Y/10Y averages of 64/58x (pre-Covid – 51x/48x). We believe the lower multiple is a factor of: 1) incremental lower store growth potential, and 2) lower SSSG profile (as highlighted earlier) – we build in long-term SSSG of 5%, lower than in earlier phases.

Multiple drivers but Domino's outlook key to valuation

As compared to earlier, JFL's business has three key parts to its valuation: 1) core Domino's India. 2) Popeyes – small at present, but given the opportunity in the chicken category and the strength of the franchise, it has the potential to scale up. 3) DP Eurasia – JFL's recent acquisition that turned profitable due to closing its Russia operations.

To value Domino's, we assess the store potential for the format and expect JFL to achieve the same by FY30. After that, we build organic store addition of 4% CAGR over FY30-44E. Our estimates for Popeyes benchmark its relative size to KFC, where by FY44 we expect Popeyes revenues to be 30% of KFC. We build in a 16% revenue CAGR over FY24-27E with Domino's India/Popeyes/Others expected to grow at 12%/109%/37%. The expected standalone revenue split in FY27E is 89:10:2.

For Domino's India, we build in an addition of 180 stores in FY25E (as guided) and 200 stores p.a. after that. This along with SSSG CAGR of 5% translates into 12% revenue CAGR. In the case of Popeyes, we expect store count to increase from 42 in FY24 to 242 in FY27E, keeping in mind JFL's guidance of 250-300 stores for Popeyes. We expect post-IND AS EBITDA margin to improve 200bps over FY24-27E to 22.5% (pre-IND AS 140bps to 14%). Overall, we expect EBITDA/PAT to clock a CAGR of 19%/35%.

Exhibit 57: Domino's will remain the key driver of valuation and profitability for JFL

	FY24	FY25E	FY26E	FY27E	CAGR 24-27E	Comments
P&L						
Revenues	53,409	60,991	71,531	82,988	16%	
Domino's (Est)	51,952	57,779	65,544	73,600	12%	We build in a store addition of ~190 p.a. for Domino's over FY24-27 vs an average addition of 212 over FY22-24. For Popeyes we expect store addition to pick-up with the brand expected to touch 242 stores by FY27. In the other brands we build in an annual addition of 25/10 for Hong's Kitchen/Dunkin respectively.
Popeyes (Est)	866	2,322	4,801	7,885	109%	
Others (Est)	590	890	1,186	1,503	37%	
No. of Stores	2,096	2,356	2,656	2,956	12%	
Domino's	1,995	2,175	2,375	2,575	9%	
Popeyes	42	92	167	242	79%	
Others	59	89	114	139	33%	
SSSG -Domino's (Est)	-5%	4%	6%	6%		We build in a long term SSSG of 5.5%, higher than the 2% CAGR over FY20-23 as we expect competitive intensity from PH and La Pino's to moderate.
Brand Margin						
Domino's + Others (Est)		21%	21%	21%		To remain similar given the growth focus and stable SSSG
Popeyes (Est)		-6%	2%	8%		As the brand scales, expect the margin profile to improve
EBITDA	10,941	12,597	15,455	18,654	19%	
EBITDAM %	20%	21%	22%	22%		EBITDA margin is expected to remain range bound given the mix impact of scale-up of Popeyes
Pre IND AS 116 EBITDA	6,743	7,504	9,465	11,650	20%	
Pre IND AS 116 EBITDAM %	13%	12%	13%	14%		
PAT	2,339	2,832	4,211	5,725	35%	
Balance Sheet						
Net Debt	289	-127	-240	-2,638		
Net Debt to Equity	0.01	-0.01	-0.01	-0.08		
RoE	11.1%	12.0%	15.6%	18.4%		
Reported RoCE	11.8%	12.1%	14.3%	16.1%		
Pre-tax RoCE (Pre IND AS 116)	16%	15%	18%	20%		
Cash flow parameters						
CFO	10,099	13,511	15,238	18,038		
CFO Pre IND AS 116	5,900	8,418	9,248	11,034		
FCF	1,931	5,358	5,896	10,841		
FCF Pre IND AS 116	-2,267	265	-94	3,838		

Source: Company, Ambit Capital research

Over FY24-44E, we expect Domino's to reach its store potential by FY30E, after which we build a 4% CAGR in store addition. For Popeyes, we expect the brand to reach 242 stores by FY27E and after that store CAGR of 9% to ~1,000 stores. Popeyes contribution to JFL's standalone revenues will be ~20% by FY44E and it should reach 30% of KFC's system sales by then. Overall, over FY24-44E our revenue/EBITDA CAGR comes to 11%/13%.

Exhibit 58: After Domino's, we expect Popeyes to become JFL's second-largest segment in standalone

	FY24	FY25E	FY26E	FY27E	FY35E	FY44E	FY24-27E	FY27-35E	FY35-44E	FY24-44E
P&L										
Revenues	53,409	60,991	71,531	82,988	199,709	407,574	16%	12%	8%	11%
Domino's (Est)	51,952	57,779	65,544	73,600	162,554	321,897	12%	10%	8%	10%
Popeye's (Est)	866	2,322	4,801	7,885	32,137	73,794	109%	19%	10%	25%
Others (Est)	590	890	1,186	1,503	5,018	11,883	37%	16%	10%	16%
No. of Stores	2,096	2,356	2,656	2,956	5,146	7,390	12%	7%	4%	7%
Domino's	1,995	2,175	2,375	2,575	4,175	5,825	9%	6%	4%	6%
Popeye's	42	92	167	242	632	1001	79%	13%	5%	17%
Others	59	89	114	139	339	564	33%	12%	6%	12%
SSSG -Domino's (Est)	-5%	4%	6%	6%	6%	3%				
Brand Margin										
Domino's + Others (Est)		21%	21%	21%	23%	26%	NA	245bps	298bps	NA
Popeye's (Est)		-6%	2%	8%	18%	23%	NA	1008bps	487bps	NA
EBITDA	10,941	12,597	15,455	18,654	53,878	118,364	19%	14%	9%	13%
EBITDAM %	20%	21%	22%	22%	27%	29%	199bps	450bps	206bps	855bps
Pre IND AS 116 EBITDA	6,743	7,504	9,465	11,650	38,308	94,827	20%	16%	11%	14%
Pre IND AS 116 EBITDAM %	13%	12%	13%	14%	19%	23%	141bps	514bps	408bps	1064bps
PAT	2,339	2,832	4,211	5,725	25,223	65,325	35%	20%	11%	18%
Balance Sheet										
Net Debt	289	-127	-240	-2,638	-76,094	-380,372				
Net Debt to Equity	0.01	-0.01	-0.01	-0.08	-0.71	-1.19				
RoE	11.1%	12.0%	15.6%	18.4%	25.0%	21.5%	722	663	-346	1,040
Reported RoCE	11.8%	12.1%	14.3%	16.1%	21.8%	18.2%	435	566	-353	648
Pre-tax RoCE (Pre IND AS 116)	16%	15%	18%	20%	34%	29%	412	1,390	-547	1,255
Cash flow parameters										
CFO	10,099	13,511	15,238	18,038	47,413	98,571	21%	13%	8%	12%
CFO Pre IND AS 116	5,900	8,418	9,248	11,034	31,844	75,033	23%	14%	10%	14%
FCF	1,931	5,358	5,896	10,841	37,775	86,674	78%	17%	10%	21%
FCF Pre IND AS 116	-2,267	265	-94	3,838	22,206	63,136	NM	25%	12%	NM

Source: Company, Ambit Capital research

Exhibit 59: Ambit estimates are lower than consensus by 13%/7% for FY25E/FY26E

	FY25E			FY26E			FY27E		
	Ambit	Consensus	vs consensus	Ambit	Consensus	vs consensus	Ambit	Consensus	vs consensus
Revenue	60,991	60,722	0%	71,531	69,697	3%	82,988	79,783	4%
EBITDA	12,597	13,712	-8%	15,455	16,210	-5%	18,654	18,636	0%
EBITDA margin	21%	23%	-193	22%	23%	-165	22%	23%	-88
PAT	2,832	3,258	-13%	4,211	4,526	-7%	5,725	5,626	2%

Source: Visible Alpha, Ambit Capital research

We value DP Eurasia on a P/E basis as we await detailed financials for the company. Also, the reporting structure is different to JFL. While our PAT in TRY mn will see a 18% CAGR over CY23-25E, taking the current TRY:INR rate, our PAT is flat over CY23-25E. When we compare, DP Eurasia, with other Domino's franchises globally, its PAT CAGR of 18% is in-line with the average for Domino's franchises. We thus assign DP Eurasia a target multiple of 18x CY25E, which gives us a target valuation of INR27bn i.e. INR47 per share for JFL.

This adjusts for JFL's 94% holding in DP Eurasia. The value we ascribe factors JFL's execution as it is at a 90% premium to the last price at which JFL acquired DP Eurasia and 2.6x of the total investment value of INR12bn. A key risk to our expectation is the volatility in macro-economic situation in Turkey and significant currency depreciation (as highlighted above).

Exhibit 60: DP Eurasia makes up ~11% of JFL's value

Particulars	
PAT - CY26E (INR mn)	1,878
Target PE	18
DP Eurasia Target Mcap (INR mn)	33,799
JFL's Share in DP Eurasia	94%
JFL NOSH (mn)	660
TP (INR)	48

Source: Company, Ambit Capital research

Exhibit 61: Domino's contributes ~75% of JFL's value

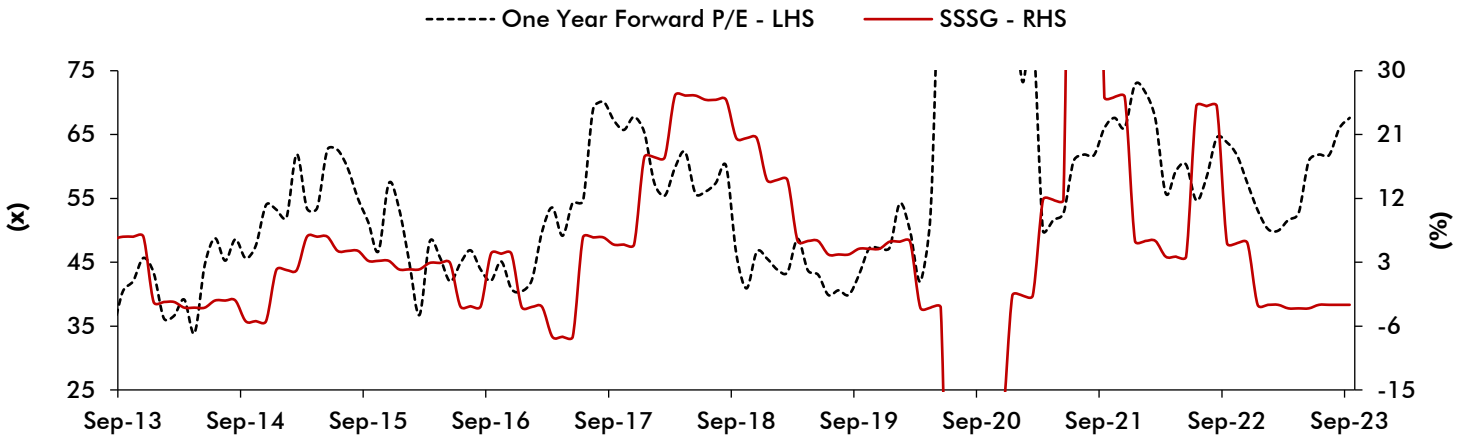
	Mcap	Value (INR/Share)	% SOTP
Standalone - Domino's	216,208	328	75%
Standalone - Popeyes	42,141	64	15%
DP Eurasia	31,595	48	11%
Total	**289,944**	**439**	**100%**

Source: Company, Ambit Capital research

Multiples have a high correlation to SSSG outlook/performance

JFL's relative valuation has a high correlation to its SSSG profile

Exhibit 62: JFL's one-year forward P/E has a high correlation to SSSG performance



Source: Company, Ambit Capital research

At our TP, the implied FY26 P/E for Domino's India (Standalone ex Popeyes) is 51x, lower than its 5Y/10Y average of 64/58x. We believe the lower multiple is a factor of 1) incremental lower store growth potential and 2) lower SSSG profile (as highlighted earlier) – we build in long-term SSSG of 5%, lower than seen in earlier phases.

Exhibit 63: Our implied P/E of 51x for Domino's India is lower than 5Y/10Y average

	Average	Min	Max
1 Year	63	50	73
3 Year	68	50	96
5 Year	64	40	97
10 Year*	58	34	97

Source: Bloomberg, Ambit Capital research

Exhibit 64: Pre-Covid average – compared to our expectations of SSSG, implied multiple is in sync with expectations

	Average	Min	Max	Avg SSSG
1 Year	45	40	54	5%
3 Year	53	40	70	11%
5 Year	51	37	70	7%
10 Year* (Since 2011)	48	34	70	12%

Source: Bloomberg, Ambit Capital research

JFL's current elevated valuations of 74x FY26E (for Domino's India i.e. Standalone ex Popeyes), despite its muted growth profile, reflect the expectation of a revival in SSSG/growth/margins similar to what was seen in FY17-19. However, as we highlighted earlier, we see do not see the possibility given the changed dynamics in terms of competition and democratization of delivery.

Exhibit 65: Valuations at CMP based on Ambit expectations – JFL's multiples are higher than peers/historic average despite lower growth outlook

	CAGR FY24-27E		EV/E - Post IND AS			EV/E - Pre IND AS			PE Ratio		
	Revenue	EBITDA*	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
JFL (S) - Ex Popeyes + DP Eurasia	13%	18%	27	23	20	42	34	29	110	74	54
DIL - Ex KFC Thailand	17%	27%	30	24	19	43	33	26	NA	NA	NA
Sapphire Foods	16%	29%	19	15	12	29	21	17	119	60	39
Median	**16%**	**27%**	**27**	**23**	**19**	**42**	**33**	**26**	**114**	**67**	**47**

*Source: Ambit Capital research, *Pre IND AS EBITDA*

Catalysts & risks

Catalysts

Moderation in SSSG either due to slowdown or heightened competition: We are building in an improvement in SSSG in FY26E driven by a) improvement in consumer demand for the sector and b) moderation in competition from both PH and La Pino'z. Our SSSG of 5.5% is higher than the FY20-23 average primarily on this premise. In case SSSG does not recover for either of the above, it will impact estimates and valuations.

Regular activations to drive growth-impacting margins: We are building in SSSG growth of 5.5% on the back of similar S&M spends/discounts. However, need for regular activations to keep demand intact could impact margins and lead to a further adjustment in margin expectations. As a recent example, only after waiving delivery charges did JFL see a revival in delivery SSSG.

Loss in newer formats, especially Popeyes: While we expect Popeyes to break even in FY25, any delay in achieving the same can impact JFL's EBITDA, thus driving downgrades and lower multiples for the company.

Risks

Moderation in competition: In case competition from major pizza chains, especially Pizza Hut or La Pino'z moderates, this could drive a higher structural market share/SSSG for Domino's, leading to an improvement in revenue estimates, margins and valuations. The potential trigger for the same could be a delay in revival in Pizza Hut or the franchise model in La Pino'z, impacting its scalability and quality.

Deflation in input costs coupled with price correction: A deflation in input costs, which hitherto has been the primary reason for price hikes taken, will give the company leeway to reduce/correct prices. This can drive volume growth by attracting new customers and hence deliver higher SSG.

Success in DP Eurasia and global scalability: If Domino's manages to expand operations of DP Eurasia successfully, it can drive a re-rating for the business.

Acquisition of a recognized format or entry into new category: Any acquisition of a new franchise format (similar to Popeyes) or entry into a category with a high TAM and right to win will expand JFL's valuation and can see the stock perform, even ignoring any moderation in Domino's India's performance.

HAWK Analysis

JFL features in D3 (Zone of "safety") on our forensic accounting framework. JFL scores high on parameters such as CFO/EBITDA, CWIP/Gross Block, Cash yield, and Cumulative FCF/median Revenue. In case of JFL, debtors balances are not material hence provision for debtors is not significant. On greatness framework, JFL features in the 'Good, not great' zone and ranks below average of universe (44th percentile) but ahead of sector percentile (58th percentile).

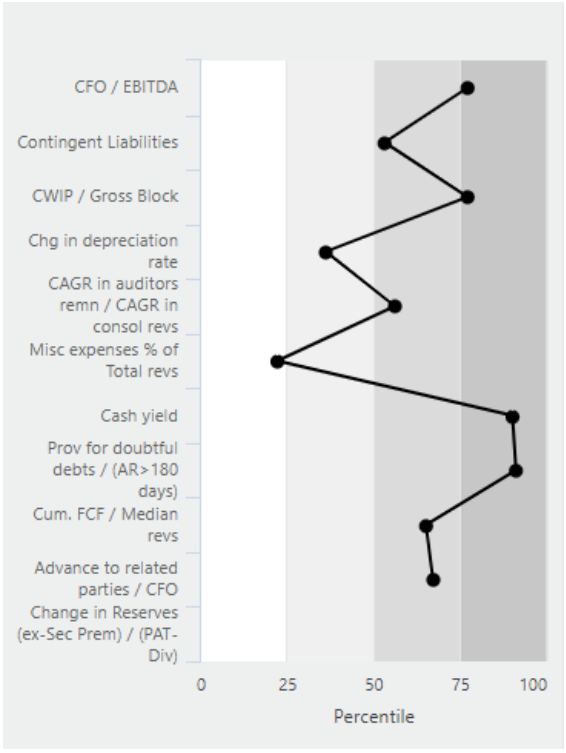
Key contributors to accounting scores

JFL features in top decile (D3) of forensic accounting framework. JFL score high on parameters such as CFO/EBITDA, CWIP/Gross Block, Cash yield, and cumulative FCF/median revenue. Relative to other parameters, JFL scores low on misc. expenses, volatility in the depreciation rates.

Our analysis of FY23 data suggest improvement in CFO/EBITDA, cash yield, CWIP/Gross block. However, certain parameters such as Misc. expenses as % of total revenues, witnessed slight deterioration YoY.

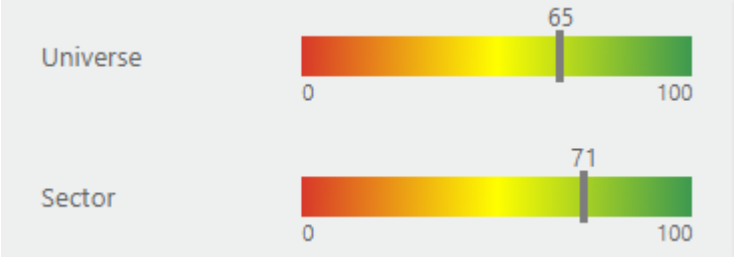
JFL scores higher than its median accounting score for its sector (71st percentile) and universe (65th percentile).

Exhibit 66: Forensic accounting Contributors



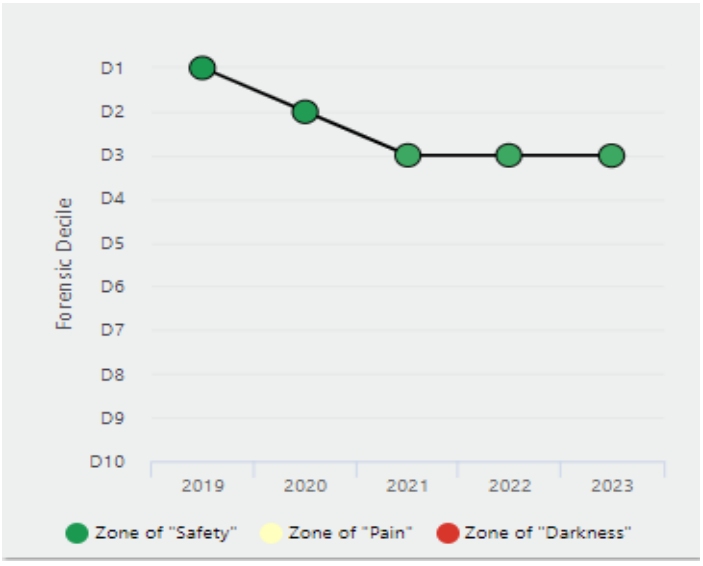
Source: Company, Ambit Capital research

Exhibit 67: Forensic score percentile to universe and sector



Source: Company, Ambit Capital research

Exhibit 68: Evolution of forensic score



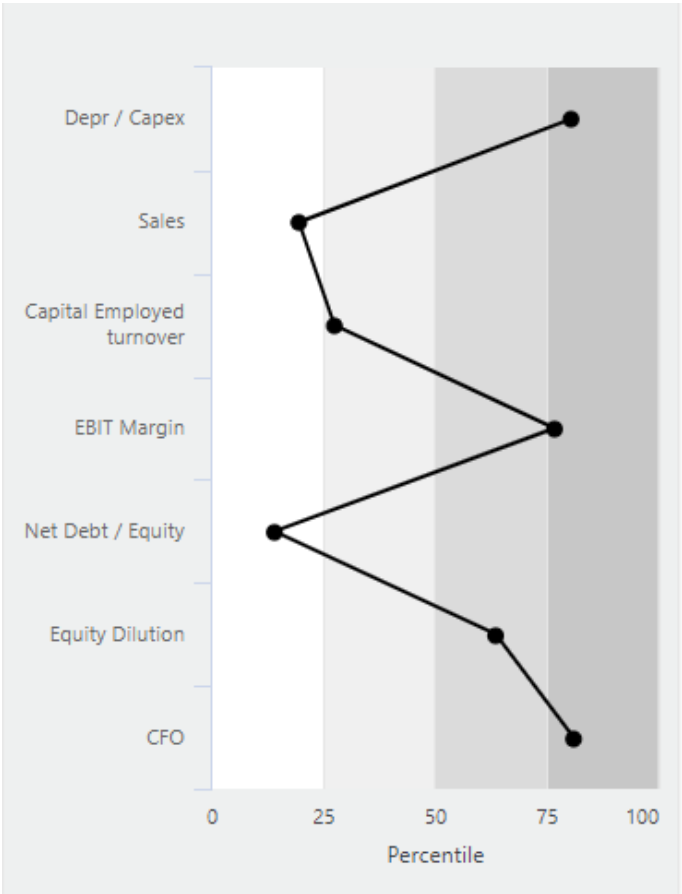
Source: Company, Ambit Capital research

Exhibit 69: Movement in accounting ratios

	FY21	FY22	FY23
P&L mis-statement check			
CFO/EBITDA	106%	104%	104%
Volatility in depreciation rate (bps)	1bps	-210bps	81bps
Provision for doubtful debtors as % of debtor > 6 months	108%	5%	62%
Balance sheet mis-statement check			
Cash yield	6.3%	4.6%	5.2%
Change in reserves/PAT ex-dividend	1.3	1.6	0.3
Contingent Liabilities as % of Net Worth	10%	6%	6%
Pilferage checks			
Misc. expenses as % of total revenues	2.0%	2.0%	2.2%
Advances to related parties / CFO	0.4%	4.9%	0.0%
CWIP/Gross Block	1.6%	2.1%	6.9%
Cumulative FCF/median Revenue	78%	92%	100%
Audit quality check			
CAGR in auditors remuneration to CAGR in consolidated revenue	(0.2)	0.7	1.6

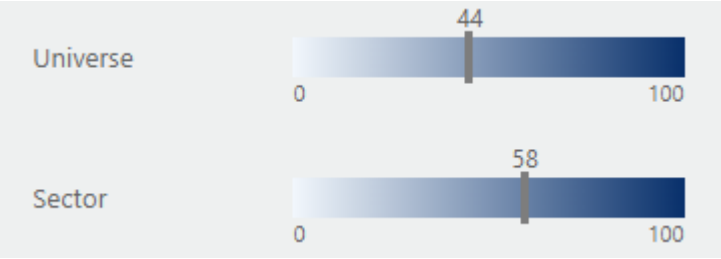
Source: Company, Ambit Capital research

Exhibit 70: Greatness score contributors to greatness score



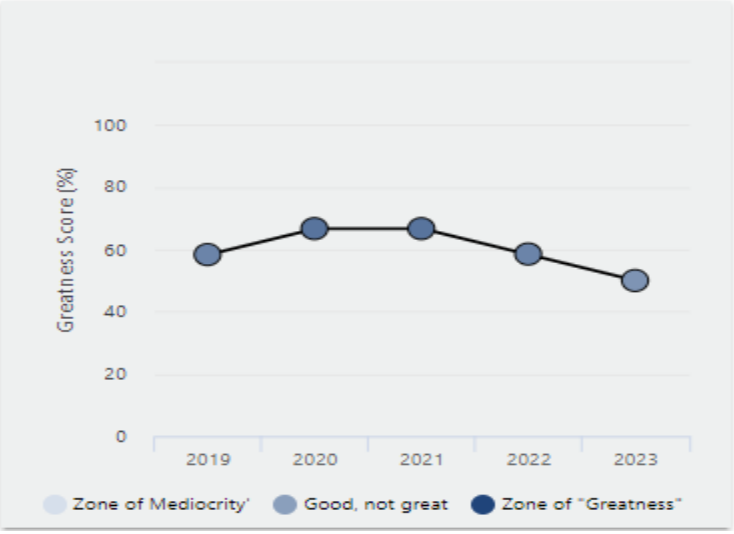
Source: Company, Ambit Capital research

Exhibit 71: Greatness score percentile to universe and sector



Source: Company, Ambit Capital research

Exhibit 72: Greatness score evolution



Source: Company, Ambit Capital research

Exhibit 73: Explanation of our flags on the cover page

Segment	SCORE	Comments
Accounting	**GREEN**	It scores reasonably well across all ratios except misc. expenses as a % of sales.
Predictability	**AMBER**	Operational performance is largely predictable subject to store addition & SSSG.
Earnings momentum	**AMBER**	Earning momentum expected to be lower vs peers.

Source: Company, Ambit Capital research

Jubilant FoodWorks (JUBI IN, SELL)

Valuation Methodology

We value JFL using the DCF value methodology, taking into consideration free cash flow till FY44E using WACC of 12.5% and terminal growth rate of 7% to arrive at the target price of ₹439. We value DP Eurasia via PE method.

Risks

- Moderation in competition from major pizza chains.
- Success in DP Eurasia and global scalability.

Financials - Consolidated

Income statement

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**50,960**	**53,409**	**60,991**	**71,531**	**82,988**
Cost of goods sold	12,272	12,591	14,777	17,451	20,375
Gross profit	**38,688**	**40,817**	**46,214**	**54,080**	**62,614**
Employee expenses	8,896	9,914	11,351	13,035	14,890
Advertising/marketing expenses	3,140	3,239	3,459	4,054	4,604
Power/fuel expenses	2,614	2,591	2,920	3,391	3,849
Other expenses	11,592	10,941	12,597	15,455	18,654
EBITDA	**11,592**	**10,941**	**12,597**	**15,455**	**18,654**
Depreciation	4,753	5,684	6,582	7,391	8,400
EBIT	**6,839**	**5,257**	**6,015**	**8,064**	**10,253**
Other income	497	285	330	388	457
EBIT (including other income)	**7,336**	**5,542**	**6,345**	**8,452**	**10,711**
Finance costs	1,951	2,239	2,558	2,822	3,057
Exceptional items	(466)	(120)	-	-	-
Profit before tax	**4,918**	**3,183**	**3,786**	**5,630**	**7,653**
Profit before tax (adjusted)	**5,385**	**3,303**	**3,786**	**5,630**	**7,653**
Tax	1,356	844	954	1,419	1,929
PAT	**3,562**	**2,339**	**2,832**	**4,211**	**5,725**
Profit after tax (adjusted)	**3,912**	**2,429**	**2,832**	**4,211**	**5,725**
EPS (basic) (₹)	5.4	3.5	4.3	6.4	8.7

Source: Ambit Capital research, Company

Balance sheet

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Property, plant and equipment	13,164	18,486	23,122	28,511	31,115
Capital work in progress	1,585	905	905	905	905
Right of use assets	19,797	21,138	24,043	27,006	30,656
Other intangible assets	1,346	1,793	1,793	1,793	1,793
Total fixed assets	**35,891**	**42,322**	**49,862**	**58,215**	**64,469**
Non-current investments	6,802	6,645	6,645	6,645	6,645
Other non-current assets	12,741	2,712	2,712	2,712	2,712
Total non-current assets	**55,435**	**51,679**	**59,219**	**67,572**	**73,826**
Inventories	1,703	2,630	1,478	1,745	2,037
Current investments	1,225	974	974	974	974
Trade receviables	331	584	610	715	830
Cash and cash equivalents	2,330	717	1,153	1,267	3,665
Other current assets	14.2	-	-	-	-
Total current assets	**6,542**	**5,851**	**4,837**	**5,429**	**8,348**
Total assets	**61,976**	**57,530**	**64,056**	**73,000**	**82,174**
Share capital	1,320	1,320	1,320	1,320	1,320
Other equity	20,135	20,797	23,629	27,840	31,848
Total equity	**21,455**	**22,117**	**24,949**	**29,160**	**33,167**
Long-term borrowings	-	1,980	2,000	2,000	2,000
Deferred payment liabilties	(779)	(866)	(866)	(866)	(866)
Other non-current liabilities	9.5	12.5	14.3	16.7	19.4
Total non-current liabilities	**(769)**	**1,126**	**1,148**	**1,150**	**1,153**
Trade payables	5,496	6,424	6,650	7,853	9,169
Lease liabilities	23,340	25,297	28,565	31,618	34,950
Other current liabilities	1,790	2,080	2,135	2,504	2,905
Short term provisions	10,665	486	610	715	830
Total current liabilities	**41,291**	**34,287**	**37,959**	**42,690**	**47,853**
Total liabilities	**40,522**	**35,413**	**39,107**	**43,840**	**49,006**
Total equity and liabilities	**61,976**	**57,530**	**64,056**	**73,000**	**82,174**

Source: Ambit Capital research, Company

Cash flow statement

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	**4,918**	**3,183**	**3,786**	**5,630**	**7,653**
Depreciation	4,753	5,684	6,582	7,391	8,400
Interest income	(261)	(148)	(330)	(388)	(457)
Interest expense	1,951	2,239	2,558	2,822	3,057
Other items	493	415	-	-	-
Working capital changes	(83)	(378)	1,868	1,202	1,312
Taxes	(1,253)	(896)	(954)	(1,419)	(1,929)
Cash flow from operations	**10,519**	**10,099**	**13,511**	**15,238**	**18,038**
(Net) capital expenditure	(8,180)	(8,167)	(8,153)	(9,342)	(7,196)
Acq./(disp.) of Investments	1,980	1,791	-	-	-
Interest/dividend Received	203	90	330	388	457
Cash flow from investments	**(5,997)**	**(6,286)**	**(7,823)**	**(8,954)**	**(6,739)**
Net short-term borrowings	-	-	20	-	-
Net long-term borrowings	-	2,075	-	-	-
Interest paid	-	(33)	(179)	(180)	(180)
Dividends paid	(790)	(790)	-	-	(1,717)
Payment of lease liabilities	(3,682)	(4,729)	(5,093)	(5,990)	(7,003)
Cash flow from financing	**(4,472)**	**(3,477)**	**(5,252)**	**(6,170)**	**(8,901)**
Opening cash balance	**102**	**153**	**717**	**1,153**	**1,267**
Net change in cash	**51**	**336**	**436**	**114**	**2,398**
Closing cash balance	**153**	**489**	**1,153**	**1,267**	**3,665**
Free cash flow to firm	**2,339**	**1,931**	**5,358**	**5,896**	**10,841**

Source: Ambit Capital research, Company

Preferred Ratios

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross margin	75.9%	76.4%	75.8%	75.6%	75.4%
EBITDA margin	22.7%	20.5%	20.7%	21.6%	22.5%
EBIT margin	13.4%	9.8%	9.9%	11.3%	12.4%
Net profit margin	7.0%	4.4%	4.6%	5.9%	6.9%
Net debt/equity	(0.1)	0.1	-	-	(0.1)

Source: Ambit Capital research, Company

Ratio analysis

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross margin	75.9%	76.4%	75.8%	75.6%	75.4%
EBITDA margin	22.7%	20.5%	20.7%	21.6%	22.5%
EBIT margin	13.4%	9.8%	9.9%	11.3%	12.4%
Net profit margin	7.0%	4.4%	4.6%	5.9%	6.9%
Interest cover	3.5	2.3	2.4	2.9	3.4
Net debt/equity	(0.1)	0.1	-	-	(0.1)
Net debt/EBITDA	(0.2)	0.1	0.1	-	(0.1)
Cash conversion days	(110)	(107)	(107)	(115)	(115)
Inventory days	49	63	51	34	34
Receivable days	2.1	3.1	3.6	3.4	3.4
Payable days	161	173	161	152	152
Gross block turnover	2.2	1.7	1.6	1.5	1.5
pre-tax CFO/EBITDA	102%	100%	115%	108%	107%
pre-tax RoCE	17.3%	11.8%	12.1%	14.3%	16.1%
ROE (%)	18.6%	11.1%	12.0%	15.6%	18.4%

Source: Ambit Capital research, Company

Valuation parameters

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
PE	108	164	136	91	67
EV/EBITDA	33	35	31	25	21
EV/EBIT	56	73	64	48	37
EV/sales	7.5	7.2	6.3	5.4	4.6

Source: Ambit Capital research, Company

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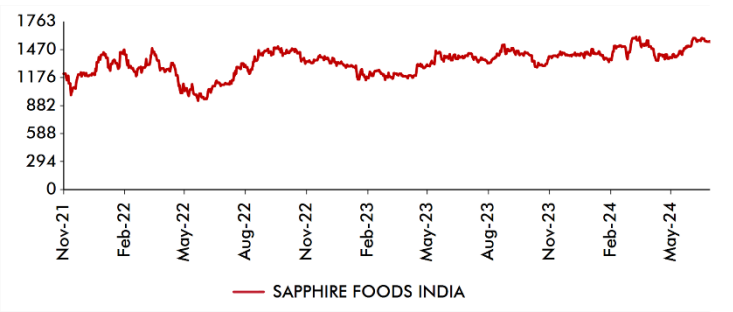
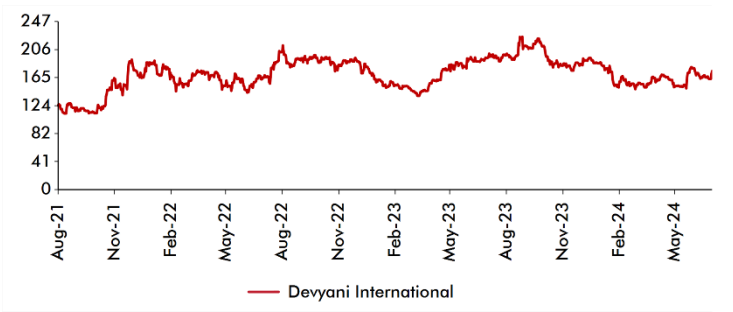
SAPPHIRE FOODS INDIA (SAPPHIRE IN, BUY, CMP: *Rs 1,550*)



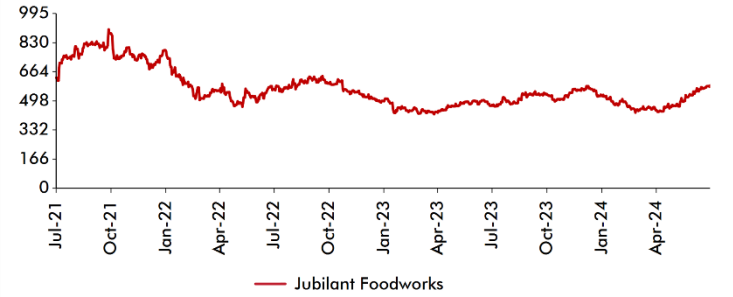
Source: ICE, Ambit Capital research

Devyani International (DEVYANI IN, SELL, CMP: Rs 174)



Source: ICE, Ambit Capital research

Jubilant Foodworks (JUBI IN, SELL, CMP: Rs 586)



Source: ICE, Ambit Capital research

Explanation of Investment Rating - Our target prices are with a 12-month perspective. Returns stated are our internal benchmark

Investment Rating	Expected return (over 12-month)
BUY	We expect this stock to deliver more than 10% returns over the next12 month
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