

# SAPPHIRE FOODS INDIA LIMITED

## Issue highlights

- ❑ **Sapphire Foods India Limited ("Sapphire Foods")** was incorporated on November 10, 2009. Sapphire Foods is YUM's largest franchisee operator in the Indian subcontinent with revenue from operations of ₹ 1,340.41 crore and ₹ 1,019.62 crore for the financial years 2020 and 2021, respectively.
- ❑ Company's association with Yum started in 2015 and they presently have the non-exclusive rights to operate restaurants under 3 of YUM's leading brands, namely, the **KFC, Pizza Hut** and **Taco Bell** brands in the Territories.
- ❑ They are also Sri Lanka's largest international QSR chain in terms of revenue for the financial year 2021 (with revenue of ₹ 190 crore representing 35% of the total market revenue) and number of restaurants operated as of March 31, 2021 (with 68 restaurants representing 39% of the total number of outlets in the market). They have also established a presence in the Maldives.
- ❑ As of June 31, 2021, they owned and operated 209 KFC restaurants in India and the Maldives, 239 Pizza Hut restaurants in India, Sri Lanka and the Maldives, and 2 Taco Bell restaurants in Sri Lanka. In 2020, KFC, Pizza Hut and Taco Bell recorded system sales worldwide of US\$26.2 billion, US\$11.9 billion and US\$11.7 billion, respectively.
- ❑ Their total number of restaurants in the Territories grew from 376 restaurants as of March 31, 2019 to **450 restaurants as of June 30, 2021**.
- ❑ They operate **warehouses across 5 cities in India** to service their restaurants in India. They have also adopted YUM's global online and digital channel solutions to enhance customer experience in both their physical and digital restaurants and achieve operating efficiency and financial controls within their organization.
- ❑ As of June 30, 2021, the company had **7,020 permanent employees and 36 consultants and contractual employees**, a majority of whom work under the finance function.

## Brief Financial Details\*

(₹ In Cr)

	As at Jun' 30,		As at Mar' 31,		
	2021(03)	2020(03)	2021(12)	2020(12)	2019(12)
Equity Share Capital	52.79	50.24	52.79	50.24	43.11
Reserves#	373.06	365.46	391.50	438.62	322.86
Net worth as stated	425.85	415.70	444.29	488.86	365.97
Revenue from Operations	303.05	111.00	1,019.62	1,340.41	1,193.82
Revenue Growth (%)	173.02%	-	(23.93)%	12.28%	-
Company EBITDA	42.72	(0.44)	178.74	185.60	148.68
Company Adj. EBITDA	9.35	(34.33)	38.18	66.19	43.46
Loss before Tax	(25.64)	(74.88)	(98.69)	(160.98)	(68.30)
Net Loss for the period	(26.40)	(75.17)	(99.90)	(159.25)	(69.40)
NAV (₹)	80.67	82.74	84.16	97.30	84.90
Debt Equity Ratio	0.21	0.15	0.16	0.14	0.24

Source: RHP \*Restated Consolidated, Reserve net of Capital Reserve

## Issue Details

**Offer for Sale of upto 17,569,941 Equity Shares**

**Issue size: ₹ 1,968 – 2,073 Cr**

**No. of shares: 17,569,941 Shares**

**Face value: ₹ 10/-**

**Price band: ₹ 1,120 – 1,180**

**Bid Lot: 12 Shares and in multiple thereof**

**Post Issue Implied Market Cap:**

**₹ 7,117 – 7,498 Cr**

**BRLMs:** JM Financial, BofA Securities, ICICI Securities, IIFL Securities

**Registrar:** Link Intime India Pvt. Ltd.

**Issue opens on: Tuesday, 9<sup>th</sup> Nov'2021**

**Issue closes on: Thursday 11<sup>th</sup> Nov'2021**

## Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	16-11-2021
Refunds/Unblocking ASBA Fund	17-11-2021
Credit of equity shares to DP A/c	18-11-2021
Trading commences	22-11-2021

## Issue break-up

	No. of Shares	₹ In Cr		% of Issue
		@lower	@upper	
QIB	13,177,456	1,475.88	1,554.94	75%
NIB	2,635,491	295.17	310.99	15%
RET	1,756,994	196.78	207.33	10%
<b>Total</b>	<b>17,569,941</b>	<b>1,967.83</b>	<b>2,073.25</b>	<b>100%</b>

**Listing: BSE & NSE**

## Shareholding (No. of Shares)

	Pre-Offer and Post-Offer Equity Shares
No of shares	63,542,541

## Shareholding (%)

	Pre-Issue	Post-Issue
Promoters	51.36%	41.25%
Promoter Group	8.72%	8.72%
Public	39.92%	50.03%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

## BACKGROUND

### Company and Directors

The company was incorporated as 'Samarjit Advisors Private Limited' on November 10, 2009 at Mumbai. Sapphire Foods Mauritius Limited and QSR Management Trust are the Promoters of the company. Currently Sapphire Foods Mauritius Limited holds 28,927,588 Equity Shares of the company, constituting 45.52%, and QSR Management Trust holds 3,705,590 Equity Shares of the company, constituting 5.83%, of the issued, subscribed and paid-up equity share capital of the company. The Promoters, in aggregate, hold 32,633,178 Equity Shares, equivalent to 51.36 % of the issued, subscribed and paid-up equity share capital of the company\*.

*(\* In terms of the SHA, between this Red Herring Prospectus and the Prospectus, Amethyst Private Limited (Selling Shareholder) and WWD Ruby Limited (Selling Shareholder) shall transfer, by way of gift, 187,520 Equity Shares and 356,664 Equity Shares respectively, to Sapphire Foods Mauritius Limited (Selling Shareholder), and AAJV Investment Trust (Selling Shareholder) shall transfer, by way of gift, 3,795 Equity Shares to QSR Management Trust (Selling Shareholder). Further, between this Red Herring Prospectus and the Prospectus, WWD Ruby shall transfer, by way of gift, such number of Equity Shares (i.e., between 236,482 Equity Shares, and 267,804 Equity Shares) to Sapphire Foods Mauritius Limited (Selling Shareholder), depending on the Offer Price, as provided for in the SHA. Accordingly, if such Equity Shares are transferred to QSR Management Trust (Selling Shareholder) and Sapphire Foods Mauritius Limited (Selling Shareholder), their shareholding shall increase from 3,705,590 Equity Shares to 3,709,385 Equity Shares for QSR Management Trust (Selling Shareholder), and from 28,927,588 Equity Shares to between 29,708,254 and 29,739,576 Equity Shares for Sapphire Foods Mauritius Limited (Selling Shareholder).*

### Brief Biographies of Directors

**Sanjay Purohit** is the Whole Time Director and Group CEO of the company. He has over 30 years of work experience across consumer product categories including food and apparel retail, packaged food, and paints.

**Sunil Rewachand Chandiramani** is the Chairman and Independent Director of the company. He has experience of over 29 years and has worked in the field of accounting and advisory services.

**Sumeet Subhash Narang** is the Non-Executive Director of the company as a nominee of Sapphire Foods Mauritius Ltd. He is also the founder and managing director of Samara India Advisors Pvt Ltd. He has over 16 of years of working experience in the field of *inter alia* banking and investments.

**Manish Mehta** is the Non-Executive Director of the company as a nominee of Sapphire Foods Mauritius Limited. He is also currently working as the managing director with Samara India Advisors Pvt Ltd and has experience of over 17 years in the field of *inter alia* investment and private equity business.

**Vikram Ranjan Agarwal** is the Non- Executive Director of the company as a nominee of QSR Management Trust. He is also currently working as managing director and chief financial officer under dual employment with Samara India Advisors Pvt Ltd and Samara Alternate Investment Management LLP and has an experience of over 13 years and has worked in the field of private equity.

**Girish Manjanath Bhat** is the Non- Executive Director of the company as a nominee of Sapphire Foods Mauritius Ltd. He is currently working as managing director under dual employment with Samara India Advisors Pvt Ltd and Samara Alternate Investment Management LLP. He has experience of over 27 years and has worked in the field of *inter alia* finance and operations.

**Kabir Kishin Thakur** is the Non- Executive Director of the company as a nominee of Sapphire Food Mauritius Ltd. Prior to joining the company, he was associated with Chrys Capital group, and also as the managing director and co-head of Creador Advisors India LLP. He has experience of over 14 years and has worked in the field of investment and private equity.

**Deepa Gopalan Wadhwa** and **Anu Ram Aggarwal** are the Independent Directors of the company.

### Key Managerial Personnel

**Vijay Lalchand Jain** is the Chief Financial Officer of the company. He joined the company on August 6, 2018. He has experience of over 18 years in the field of finance.

**Sachin Tukaram Dudam** is the Head – Company Secretary and Compliance Officer of the company. He joined the company on July 15, 2019. He has over 11 years of experience in secretarial work.

**Deepak Taluja** is the chief executive officer of KFC. He joined the company on September 8, 2016. He has over 24 years of experience in operational functions.

**Vikrant Vohra** is the chief executive officer of Pizza Hut. He joined the company on October 1, 2015. He has experience of over 19 years.

## OFFER DETAILS

<b>Offer for sale by:</b>	<b>Upto 17,569,941 Equity Shares</b>
QSR Management Trust – Promoter Selling Shareholder	Upto 850,000 Equity Shares
Sapphire Foods Mauritius Limited – Promoter Selling Shareholder	Upto 5,569,533 Equity Shares
WWD Ruby Limited - Investor Selling Shareholder	Upto 4,846,706 Equity Shares
Amethyst Private Limited - Investor Selling Shareholder	Upto 3,961,737 Equity Shares
AAJV Investment Trust - Investor Selling Shareholder	Upto 80,169 Equity Shares
Edelweiss Crossover Opportunities Fund - Investor Selling Shareholder	Upto 1,615,569 Equity Shares
Edelweiss Crossover Opportunities Fund Series II - Investor Selling Shareholder	Upto 646,227 Equity Shares

## SHAREHOLDING PATTERN

Shareholders	Pre-offer		No. of Shares offered	Post-offer	
	Number of Equity Shares	% of Total Equity Share Capital		Number of Equity Shares	% of Total Equity Share Capital
<b>Promoter and Promoters Group</b>					
Promoter	32,633,178	51.36%	6,419,533	26,213,645	41.25%
Promoters Group	5,540,502	8.72%	-	5,540,502	8.72%
<b>Total for Promoter and Promoter Group</b>	<b>38,173,680</b>	<b>60.08%</b>	<b>6,419,533</b>	<b>31,754,147</b>	<b>49.97%</b>
Public – Investor Selling Shareholders	21,906,740	34.48%	11,150,408	10,756,332	16.93%
Public - Other	3,462,121	5.45%	-	21,032,062	33.10%
<b>Total for Public Shareholder</b>	<b>23,368,861</b>	<b>39.92%</b>	<b>11,150,408</b>	<b>31,788,394</b>	<b>50.03%</b>
<b>Total Equity Share Capital</b>	<b>63,542,541</b>	<b>100.00%</b>	<b>17,569,941</b>	<b>63,542,541</b>	<b>100.00%</b>

## BUSINESS OVERVIEW

Sapphire Foods India Limited (“**Sapphire Foods**”) is YUM’s largest franchisee operator in the Indian subcontinent with revenue from operations of ₹ 1,340.41 crore and ₹ 1,019.62 crore for the financial years 2020 and 2021, respectively. They are also Sri Lanka’s largest international QSR chain in terms of revenue for the financial year 2021 (with revenue of ₹ 190 crore representing 35% of the total market revenue) and number of restaurants operated as of March 31, 2021 (with 68 restaurants representing 39% of the total number of outlets in the market). They have also established a presence in the Maldives. As of June 31, 2021, they owned and operated 209 KFC restaurants in India and the Maldives, 239 Pizza Hut restaurants in India, Sri Lanka and the Maldives, and 2 Taco Bell restaurants in Sri Lanka. In 2020, KFC, Pizza Hut and Taco Bell recorded system sales worldwide of US\$26.2 billion, US\$11.9 billion and US\$11.7 billion, respectively.

Sapphire Foods aspire to be India’s best restaurant operator by serving customers great food with great experience at great value. The company operates their restaurants in high traffic and high visibility locations in key metropolitan areas and cities across India and develop new restaurants in new cities as part of their brand and food category expansion.

Their franchisee arrangement (the “**Franchisee Arrangement**”) with YUM allows them to operate, on a non-exclusive basis, under the KFC brand in several states in India and across the Maldives, the Pizza Hut brand in several states in India and across Sri Lanka and the Maldives, and the Taco Bell brand across Sri Lanka (collectively, the “**Territories**”), while leveraging YUM’s system and system property. Their Franchisee Arrangement also provides them with a right to use YUM’s system and system property covering all aspects of business operations, as well as the flexibility to undertake, with YUM’s approval, local or regional promotions, while meeting YUM’s global quality assurance standards.

KFC was founded in Corbin, Kentucky, in the U.S. by Colonel Harland D. Sanders in 1939, the first Pizza Hut restaurant was opened in Wichita, Kansas, in the U.S. in 1958, and the first Taco Bell restaurant was opened in 1962 in Downey, California. As of December 31, 2020, YUM and its franchisees operated more than 50,000 stores worldwide.

Food services are the key segment in the Indian economy, with a market size of US\$26.8 billion in financial year 2021. The increase in the quality of education, rising income levels of the younger demographic groups, rising urbanization, growing working age population and increase in the number of middle-class households, among other factors, are expected to continue to stimulate growth in per capita consumption. Together with increasing market

proliferation of brands, these factors are expected to boost the growth of the food services sector in India. The organized market, consisting of chain and organized standalone outlets, is expected to increase its share in the food services market in India from 37.8% in financial year 2020 to 51.3% in financial year 2025, thereby surpassing the unorganized market. Within the organized food services market in India, the QSR chain sub-segment is the fastest growing sub-segment, with its value growing at a CAGR of approximately 19% from ₹ 78 billion in financial year 2015 to ₹ 188 billion in financial year 2020, and, from financial year 2020, is expected to grow at a CAGR of approximately 23% to ₹ 534 billion in financial year 2025.

According to the Technopak Report, chicken and pizza are amongst the largest categories within the QSR chain sub-segment.

KFC was the largest chicken QSR brand in the world in terms of global retail sales as of December 31, 2020, Pizza Hut was the largest pizza chain in Asia in terms of store count as of December 31, 2020 and Taco Bell was the largest Mexican-inspired restaurant chain in the world in terms of store count as of December 31, 2020.

Leveraging their customer loyalty to the KFC, Pizza Hut and Taco Bell brands, innovative product offerings, industry leading digital and delivery capabilities, robust supply chain management system, seasoned senior management team and dedicated workforce, Sapphire Foods is well-positioned to capture further opportunities in the Territories in which they operate, expand into other product lines or markets as enabled under the Franchisee Arrangement and continue their success and growth in the years to come.

The key pillars of the customer proposition include:

- **Differentiated product offerings** with KFC, Pizza Hut and Taco Bell as a market leader in chicken, pizza and Mexican-inspired food, respectively;
- **Products which are freshly made every day** at their restaurants;
- **Wide variety of menu offerings** with both meal and snack options for multiple parts of the day;
- **System-wide operating procedures and hygiene** that are consistent with the global standards of KFC, Pizza Hut or Taco Bell, as the case may be, with respect to product quality, taste parameters, food preparation methods, food safety, cleanliness and customer service standards;
- **Value offerings** at entry and premium price points, enabling them to drive new customer acquisition and, at the same time, upsell products through the use of meal combos and add-ons; and
- **Easy access** through their omni-channel platform consisting of dine-in, take-away, own delivery and delivery aggregators.

Sapphire Foods has a dedicated business development and projects team and a well-defined new-restaurant roll-out process that enable them to identify new locations, build out restaurants quickly and efficiently operate with optimal trained manpower to achieve their targeted level of sales for their restaurants. Their total number of restaurants in the Territories grew from 376 restaurants as of March 31, 2019 to 450 restaurants as of June 30, 2021.

Sapphire Foods has an in-house supply chain function, and they work with their vendor partners for food ingredients, packaging, warehousing and logistics with the goal of providing their restaurants with the optimum level of inventory at the highest level of quality in a standardised and cost efficient manner. They operate warehouses across 5 cities in India to service their restaurants in India, and have invested in building technology solutions including a restaurant-level SAP enterprise resource planning ("ERP") system and POS software solutions in their restaurants. They have also adopted YUM's global online and digital channel solutions to enhance customer experience in both their physical and digital restaurants and achieve operating efficiency and financial controls within their organization. Their operational excellence in areas such as hygiene and food safety has allowed them to respond to the serious disruptions they faced during the COVID-19 pandemic.

Sapphire Foods is led by a professional management team with robust corporate governance practices and clearly defined company values that guide their organisation behaviour and culture. Their management team has diverse experience across industries including consumer, retail and QSR, bringing cross-industry perspectives to their operations and growth. The Group CEO, Sanjay Purohit, has more than 30 years' experience in creating and growing profitable consumer product businesses. The CEO of the KFC business, Deepak Taluja, has more than 24 years' experience in the QSR and entertainment retail industries. The CEO of the Pizza Hut business, Vikrant Vohra, has more than 19 years' experience in the hospitality industry and the QSR chain sub-segment. The CFO, Vijay Lalchand Jain, has 18 years of experience in the pharmaceutical, consumer products and retail industries, while the Managing

Director of their subsidiary based in Sri Lanka, Amar Raj Singh has more than 30 years' experience in consumer product companies.

The company has attracted marquee investors such as affiliates of Samara Capital, Goldman Sachs, CX Partners, Creador and Edelweiss. They have experienced restaurant operators who manage and run their restaurants and who have strong track records in delivering superior customer service in an efficient manner.

As of June 30, 2021, the company had 7,020 permanent employees and 36 consultants and contractual employees, a majority of whom work under the finance function.

#### The key financial and operating metrics:

Particulars	As of for the 3 months ended June 30.		As of for the Financial year ended March 31,		
	2021	2021	2021	2020	2019
	(₹ Cr except percentages and No. of stores)				
<b>Store Count</b>	<b>450</b>	<b>423</b>	<b>437</b>	<b>427</b>	<b>376</b>
– KFC India	208	186	203	187	158
– PH India	171	172	162	174	153
– Sri Lanka Business	69	63	70	64	63
– Other Business	2	2	2	2	2
<b>Restaurant Related Revenue</b>	<b>302.66</b>	<b>110.95</b>	<b>1,016.74</b>	<b>1,329.60</b>	<b>1,181.82</b>
– KFC	178.75	51.73	589.74	775.30	658.45
– PH India	66.03	21.77	221.71	334.31	307.14
– Sri Lanka Business	55.51	36.59	196.49	203.79	198.39
– Other Business	2.37	0.86	8.80	16.22	17.85
<b>Restaurant EBITDA (As a % of Restaurant Related Revenue)</b>	<b>12.6%</b>	<b>(14.8)%</b>	<b>13.0%</b>	<b>12.0%</b>	<b>11.8%</b>
– KFC India	13.5%	(20.5)%	14.0%	13.2%	12.7%
– PH India	5.8%	(39.0)%	5.0%	7.3%	7.5%
– Sri Lanka Business	18.0%	9.4%	19.5%	16.2%	16.0%
– Other Business	4.5%	(95.3)%	3.2%	4.8%	5.7%
<b>Company Adjusted EBITDA*</b>	<b>9.35</b>	<b>(34.33)</b>	<b>38.18</b>	<b>66.19</b>	<b>43.46</b>
<b>Company Adjusted EBITDA (Pre-ESOP Expenses)*</b>	<b>15.89</b>	<b>(32.76)</b>	<b>51.96</b>	<b>70.61</b>	<b>50.14</b>
<b>Company EBITDA*</b>	<b>42.72</b>	<b>(0.44)</b>	<b>178.74</b>	<b>185.60</b>	<b>148.68</b>
<b>Company EBITDA (Pre-ESOP Expenses)*</b>	<b>49.27</b>	<b>1.14</b>	<b>192.52</b>	<b>190.02</b>	<b>155.37</b>
Company Adjusted EBITDA Margin*	3.1%	(30.9)%	3.8%	5.0%	3.7%
Company Adjusted EBITDA (Pre-ESOP Expenses)*	5.3%	(29.5)%	5.1%	5.3%	4.2%
Company EBITDA Margin*	14.1%	(0.4)%	17.6%	14.0%	12.6%
Company EBITDA (Pre-ESOP Expenses)*	16.3%	1.0%	18.9%	14.3%	13.1%
<b>Restated Loss for the Year After Tax</b>	<b>(26.40)</b>	<b>(75.17)</b>	<b>(99.90)</b>	<b>(159.25)</b>	<b>(69.40)</b>

\* Non-GAAP measure

The company operated 1 KFC restaurant and 1 Pizza Hut restaurant in the Maldives as of June 30, 2021.

#### Recent Developments

Particulars	As of September 30, 2021	As of March 31, 2021
<b>Store Count</b>	<b>482</b>	<b>437</b>
KFC India	219	203
PH India	188	162
Sri Lanka Business	73	70
Other Business	2	2

#### COVID-19 – BUSINESS EFFECT

The outbreak of the COVID-19 pandemic had a substantial effect on company's restaurant operations across India, Sri Lanka and Maldives since the last week of March 2020, and again since April 2021. As a result of COVID-19, they have had to close temporarily a number of restaurants commencing from March 2020 and have experienced reduced restaurant-level operations, including reduced operating hours and dining room closures. For the first,



second, third and fourth quarters of the financial year 2021 and the first quarter of the financial year 2022, 248 (58.6%), 344(83.5%), 411 (98.1%), 423 (98.3%) and 426 (95.5%), respectively, of their restaurants remained open for dine-in, takeaway or food delivery for a majority of days in that particular quarter. The revenue from operations decreased by 23.9% from ₹1,340.41 crore for the financial year 2020 to ₹1,019.62 crore for the financial year 2021, and was ₹ 303.05 crore for the 3 months ended June 30, 2021.

The decrease in business activity level caused them to make provision for obsolete inventories to the extent of ₹2.62 crore for the financial year 2020 and recognised an impairment loss on goodwill of their Pizza Hut CGU of ₹91.78 crore. Accordingly, they have disclosed exceptional items in the total amount of ₹ 94.39 crore comprising such provision for obsolete inventories and impairment loss on goodwill of their Pizza Hut CGU for the financial year 2020.

As a result of decreased revenues and cash flows during the first half of calendar year 2020, they have delayed in making certain payments to YUM representing royalties and advertising expenses. Also, the expansion of their restaurant network has slowed significantly, and the COVID-19 pandemic has also adversely affected their ability to open new restaurants and expand their restaurant network temporarily.

#### Company's restaurant network since March 31, 2020:

Growth in company's Restaurants Since March 31, 2020						
	As of Jun'30, 2021	As of Mar'31, 2021	As of Dec' 31, 2020	As of Sep' 30, 2020	As of Jun' 30, 2020	As of Mar'31, 2020
Opening number of restaurants at the beginning of the relevant quarter	437	425	414	423	427	426
New restaurants opened in the relevant quarter	14	14	13	8	1	8
Restaurants permanently closed in the relevant quarter	1	2	2	17	5	7
<b>Total number of operational restaurants</b>	<b>450</b>	<b>437</b>	<b>425</b>	<b>414</b>	<b>423</b>	<b>427</b>

## COMPANY OPERATIONS

### Brands

Company's association with Yum started in 2015 and they presently have the non-exclusive rights to operate restaurants under 3 of YUM's leading brands, namely, the KFC, Pizza Hut and Taco Bell brands in the Territories.

<b>KFC</b>	KFC is the largest QSR chain serving chicken in India in terms of restaurant count, with 488 restaurants in India as of March 31, 2021. KFC opened its first restaurant in India in 1996. KFC in India and the Maldives has an extensive menu featuring chicken on the bone, boneless chicken and other chicken products, burgers, rice dishes, wraps, beverages and desserts. The company operates 209 KFC restaurants in India and the Maldives as of June 30, 2021
<b>Pizza Hut</b>	Pizza Hut is the 2 <sup>nd</sup> largest pizza chain in India in terms of revenue in financial year 2020, and the market leader in Sri Lanka in terms of revenue for the financial year 2021 and number of restaurants in as of March 31, 2021. Pizza Hut in India and Sri Lanka has an extensive menu for all parts of the day, offering a broad variety of pizzas, pasta, appetizers, beverages and desserts. Pizza Hut was the 1 <sup>st</sup> international QSR chain to enter the Sri Lankan food and beverage sector in 1993. The company operates 239 Pizza Hut restaurants in India, Sri Lanka and the Maldives as of June 30, 2021
<b>Taco Bell</b>	Taco Bell is the largest Mexican-inspired restaurant chain in the world in terms of store count as of December 31, 2020. The first Taco Bell restaurant was opened in 1962 in Downey, California. Taco Bell specializes in Mexican-inspired food products for multiple dayparts, including breakfast, lunch, snacks and dinner. Taco Bell in Sri Lanka has various types of tacos, chalupas, burritos and other related items. The company operates 2 Taco Bell restaurants in Sri Lanka as of June 30, 2021.

### Franchisee Arrangement with YUM

The Franchisee Arrangement is set out in a number of agreements, primarily:

**A technology license agreement** with YUM India with respect to the operation of each KFC and Pizza Hut restaurant in India,

**A trademark license agreement** with Kentucky Fried Chicken International Holdings LLC with respect to the operation of each KFC restaurant in India,

**A trademark license agreement** with Pizza Hut International LLC with respect to the operation of each Pizza Hut restaurant in India,

Similar agreements with respect to the operation of Pizza Hut and Taco Bell restaurants in Sri Lanka, and KFC and Pizza Hut restaurants in the Maldives.

**Rights:** Under the Franchisee Arrangement, YUM granted the company the non-exclusive right to use intellectual property, including technology and trademarks, owned by YUM and its subsidiaries to operate under the KFC, Pizza Hut and Taco Bell brands in the Territories and to avail of related development, promotional and support services from YUM.

**Term:** The term of the Franchisee Arrangement, with respect to a particular restaurant, expires on the 10<sup>th</sup> anniversary of the grant of rights enjoyed by such restaurant, which may be renewed for an additional 10-year term if they meet the requirements for renewal.

**Royalties and Required Expenditures:** The Company is required to pay YUM a monthly royalty fee of between 6% to 6.3% of their net sales from their operation of the restaurants in the Territories. They are also required to spend 6% of their net sales (including 1.0% to be spent on Local Store Marketing), with respect to their operations in India and 5% of their net sales with respect to their operations in Sri Lanka and the Maldives, to market, advertise and promote the brands and their products in the Territories.

**Non-Competition:** The company may not, directly or indirectly, have an interest in, or engage in, any business ("Proposed Business") involving the wholesale or retail preparation, marketing or sale of any food products in the Territories without YUM's prior approval.

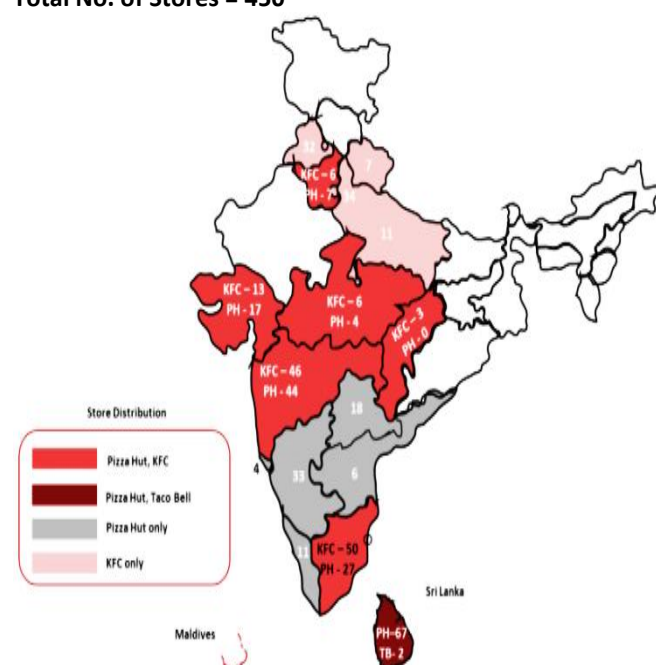
### Development Agreements

Sapphire Foods entered into a development agreement with YUM India effective January 1, 2019, and an amendment agreement effective January 1, 2022, with respect to non-exclusive rights to develop and open KFC restaurants in India (the "**KFC Development Agreement**") and a development agreement with YUM India effective May 26, 2017, as amended, with respect to non-exclusive rights to develop and open Pizza Hut restaurants in India (the "**Pizza Hut Development Agreement**") and, together with the KFC Development Agreement, the "**Development Agreements**").

## GEOGRAPHICAL PRESENCE

The locations of their restaurants across India, Sri Lanka and the Maldives as of June 30, 2021:

**Total No. of Stores = 450**



India	No. of Stores	India	No. of Stores
<b>KFC</b>		<b>Pizza Hut</b>	
Maharashtra	46	Maharashtra	44
Gujarat	13	Gujarat	17
Madhya Pradesh	6	Madhya Pradesh	4
Chhattisgarh	3	Chhattisgarh	0
Tamil Nadu	50	Tamil Nadu	27
Uttar Pradesh	11	Kerala	11
Uttarakhand	7	Karnataka	33
Punjab	32	Andhra Pradesh	6
Haryana	6	Telangana	18
Delhi	34	Goa	4
<b>Total KFC (India)</b>	<b>208</b>	Haryana	7
		<b>Total PH (India)</b>	<b>171</b>
<b>Sri Lanka</b>		<b>Maldives</b>	
<b>Pizza Hut</b>	67	<b>KFC</b>	1
<b>Taco Bell</b>	2	<b>Pizza Hut</b>	1

## COMPETITIVE STRENGTHS

- **Leading QSR brands with a substantial market presence and scale**

Sapphire Foods is an omni-channel player, leveraging their brick-and-mortar restaurants and digital stores to provide dine-in, delivery and take-away services. Their wide footprint of restaurants provides superior accessibility, creates brand awareness and visibility, and improves customer retention in a competitive food service market. Through their digital stores, they are able to optimize their restaurant assets across multiple revenue channels, such as delivery and take-away channels, to derive efficiency for long-term sustainable growth.

By leveraging their brand strength, innovative product offerings, wide restaurant footprint, industry-leading digital and delivery capabilities, robust supply chain management system, technology-enabled operational and financial processes and systems, seasoned senior management team and dedicated workforce, they are well-positioned to capture further opportunities in the QSR chain sub-segment and continue their success and growth in the years to come.

- **Strong relationship with YUM**

Sapphire Foods is YUM's largest franchisee operator in the Indian subcontinent in terms of revenue in the financial year 2020. Their association with YUM started in 2015 and they presently have the non-exclusive rights to operate restaurants under 3 of YUM's leading brands, namely, the KFC, Pizza Hut and Taco Bell brands. They also enjoy access to YUM's system and system property and expertise in building and establishing brands and operating large-scale restaurants chains gained through over 50,000 KFC, Pizza Hut and Taco Bell restaurants operated by YUM and its franchisees worldwide as of December 31, 2020.

Their Franchisee Arrangement allows them to operate under the KFC brand in several states in India and across the Maldives, the Pizza Hut brand in several states in India and across Sri Lanka and the Maldives, and the Taco Bell brand across Sri Lanka, while leveraging YUM's global best practices and system and system property. Their Franchisee Arrangement provides them with rights to YUM's system and system property covering all aspects of business operations, as well as the flexibility to undertake, with YUM's approval, local or regional promotions, thereby meeting YUM's global quality assurance standards. They benefit from their 'One System' commercial negotiations where they negotiate with their suppliers, jointly with YUM and its other franchisee in India, to procure their key raw materials and equipment. They also benefit from YUM's extensive global marketing and advertising concepts, product development capabilities and cooking techniques to drive sales and generate increased restaurant footfalls, while being guided by YUM's restaurant development procedures and standards.

- **Continuous focus on delivering great customer experience**

The company monitors the quality of their customer experience through a sophisticated Guest Experience Survey ("GES") system, a third party tool, to give them customer feedback on taste of food, speed of service, hygiene and overall satisfaction for all of their restaurants across their various channels. This allows them to reward high performing restaurants, improve restaurants with issues and replicate best practices across restaurants.

- **Operational excellence**

Sapphire Foods has made significant investments in their operations and has a well-defined process that helps their restaurant teams to consistently deliver great tasting products, food safety, hygiene, and guest experience. These operating procedures are consistent with the global standards of KFC, Pizza Hut or Taco Bell, as the case may be, with respect to product quality, food preparation methods, food safety and cleanliness and customer service standards. They have multiple levels of supervision and quality control for their restaurant operations including third-party audits. They have invested in specialty equipment and technology to enhance food safety and reduce human error.

Their in-house supply chain function works with their vendor partners for food ingredients, packaging, warehousing and logistics. They operate warehouses in 5 cities across India. They have invested in building technology solutions including a restaurant-level SAP ERP system and a new POS system, LS Retail, to provide enhanced front-of-house customer and back-of-house kitchen solutions.

The company has strong business control and internal audit system comprising three layers, as follows:

- **Financial excellence review** teams who conduct regular audits at restaurants covering sales, cash, inventory and compliance;
- A **data analytics** team at the corporate level which continuously monitors and analyses transactional-level data for exceptions; and



- **Process and risk review** conducted by an in-house team and a third party covering functional processes across the business.

The company operates a robust internal '**PACE SETTER**' program that enables continuous benchmarking of key cost lines amongst cohorts of restaurants, thereby improving financial performance at the restaurant level.

Their operational excellence has allowed them to respond to the serious disruptions they faced during the COVID-19 pandemic. During COVID-19, following actions have taken by the company:

- Visible and tangible improvement in hygiene and food safety to assuage customer concerns;
  - Pivoting to increasing delivery and takeaway sales given restrictions on dine-in services. In the 3 months ended June 30, 2021 and 2020 and the financial years 2021, 2020 and 2019, company's income from take-away and delivery services was ₹ 215.77 crore, ₹ 69.66 crore, ₹ 551.88 crore, ₹ 468.16 crore and ₹ 409.47 crore, or 89%, 96.4%, 68.8%, 42.8% and 43.2%, respectively, of their total restaurant sales;
  - Enhancing their own online delivery platform;
  - Adopting zero-base budgeting techniques to deliver permanent reduction in their cost structures;
  - Working with their landlords to renegotiate rentals to arrive at mutually beneficial arrangements;
  - Effective working capital management, fund infusion and support for their vendor partners; and
  - Employee engagement and support even as they continued to serve their customers in the midst of the pandemic.
- **Scalable new restaurant economic model for expansion**

Sapphire Foods has continuously worked on improving their new restaurant economic model in consultation with YUM through the following initiatives:

- Enhancing the value and affordability proposition of their global brands to drive more transactions and higher ticket sizes and acquire new customers through offerings.
  - The omni-channel strategy of utilizing their brick-and-mortar restaurant assets and digital stores across multiple revenue channels of dine-in, take-away, own delivery and aggregator delivery services.
  - Optimizing the restaurant size (both the front-of-house customer area and back-of-house kitchen area) to reduce capital expenditure, occupancy and operating costs without impacting revenue capacity.
  - Continuous focus on sustainable cost efficiencies through their PACE SETTER program.
  - A robust internal process starting from mapping of new potential trade areas for the next 3 years to achieve their targeted level of sales; and
  - The Development Agreements and Recovery Relief Agreements which provide them with additional incentives for expansion of their KFC and Pizza Hut restaurant networks.
- **Great place to work led by experienced management team and backed by institutional capital**

Sapphire Foods strive to make their company an attractive place to work where their employees would be eager to come to work every day, by building a culture that is purpose-driven, safe, engaging and collaborative. They have received awards such as National Best Employer Brands 2020 by WORLD HRD Congress, The Economic Times Best Workplaces for Women 2021 and Asia's Top 25 Great Places to Work in Sri Lanka in 2020 from Great Place to Work.

The company has a set of clearly articulated company values that define their organisation behaviour and culture, as shown in their value chart below:



They deploy the Gallup Employee Engagement Survey and based on survey results, they are able to tailor capability development and training programs across levels in the organisation. They offer their employees a well-defined career growth path, starting from entry level restaurant team members.

## GROWTH OPPORTUNITIES / STRATEGIES

### • Accelerate conversion from unorganized food services to the brands

The current COVID-19 pandemic, while having a negative impact on the food services industry, has also provided opportunities to brands that can assure consumers of consistent great tasting products, food safety, hygiene, great value and easy accessibility across dine-in, takeaway and delivery channels. In the 4<sup>th</sup> quarter of financial year 2021, high street international chain QSR restaurants recovered to almost 100% of their revenues in the fourth quarter of financial year 2020 prior to the COVID-19 pandemic, aided by their ability to comply with social distancing norms and safety and hygiene requirements. Over the next few years, Sapphire Foods intends to accelerate their growth through the following strategies:

- Continuously enhance relevance of their current brands;
- Leverage their omni-channel strategy - Dine-in, Take away, Own Delivery, Delivery via aggregators;
- Leverage strength on cost efficiencies, manage unit economics and achieve economies of scale;
- Fast-paced restaurant expansion to capitalize on growth opportunities.

The company plans to continue to build their restaurant network using a cluster strategy, where they would launch their brands from flagship locations in high traffic and high visibility locations in key metropolitan areas and cities and then develop new restaurants within that cluster.

### • Pursue inorganic growth

Stemming from their aspiration to be India's best restaurant operator, Sapphire Foods has built their organisation and developed their human resources to grow brands and drive consumption, deliver great operations and customer experience. They also have an organisational culture that fosters an entrepreneurial approach and count, among their investors, professional financial sponsors. They intend to actively explore opportunities to acquire high quality and scalable QSR and food brands in complementary categories in existing or new geographies.

## INDUSTRY OVERVIEW

### Operating Brands and Financials of Key Franchise Operators and Brands in India as of and for the financial year ended March 31, 2021

	Sapphire Foods	Westlife Development	Burger King	Devyani International	Jubilant Foods
Number of Stores	437	305	265	692	1360
Sales (in ₹ Cr)	1016.7	986.0	494.5	1134.8	3268.9
Restaurant EBITDA (in ₹ Cr)	132.6	76.3	(10.5)	163.3	-
Restaurant EBITDA (% of Sales)	13.0%	7.7%	(2.1)%	14.4%	-
Corporate adjusted EBITDA - (Pre IND AS and Post-ESOP) (₹ Cr)	38.2	(2.4)	(61.9)	84.2	-
Corporate adjusted EBITDA - (Pre IND AS & Post-ESOP) (% of Sales)	3.8%	(0.2)%	(12.5)%	7.4%	-
Corporate adjusted EBITDA- (Pre IND AS and Pre-ESOP) (₹ Cr)	52.0	-	-	86.5	-
Corporate adjusted EBITDA- (Pre IND AS & Pre-ESOP) (₹ Cr)	5.1%	-	-	7.6%	-
Corporate EBITDA - Post IND AS and Post ESOP (₹ Cr)	178.7	62.0	32.7	226.9	766.6
Corporate EBITDA - Post IND AS and Post ESOP (% of Sales)	17.6%	6.3%	6.6%	20.0%	23.5%
Corporate EBITDA - (Post IND AS and Pre ESOP) (₹ Cr)	192.5	-	-	229.2	-
Corporate EBITDA - (Post IND AS and Pre ESOP) (% of Sales)	18.9%	-	-	20.2%	-

**Financials of Key Franchise Operators and Brands in India as of and for the 1<sup>st</sup> quarter of the FY2022**

	Sapphire Foods	Westlife Development	Burger King	Devyani International	Jubilant Foods
Number of Stores	450	305	270	-	1380
Sales (in ₹ Cr)	302.7	259.2	149.7	-	879.0
Restaurant EBITDA (in ₹ Cr)	38.1	7.7	16.1	-	-
% of restaurant related revenue	12.6%	3.0%	10.7%	-	-
Company adjusted EBITDA (₹ Cr) (Pre IND AS and Post-ESOP)	9.3	(12.7)	-	-	-
% of restaurant related revenue	3.1%	(4.9)%	-	-	-
Company adjusted EBITDA (₹ Cr) (Pre IND AS and Pre-ESOP)	15.9	-	-	-	-
% of restaurant related revenue	5.3%	-	-	-	-
Company EBITDA Post (₹ Cr) IND AS and Post ESOP	42.7	5.1	1.5	-	211.5
% of restaurant related revenue	14.1%	2.0%	1.0%	-	24.1%
Company EBITDA (₹ Cr) (Post IND AS and Pre ESOP)	49.3	-	-	-	-
% of restaurant related revenue	16.3%	-	-	-	-

Source: Quarterly Results; \* Data not available for Devyani International

**Revenue of Key Franchise Operators in India**

(₹ in Cr, except for %)

Particulars	CAGR from FY 2019 to 2021	Revenue for the Financial Year		
		2021	2020	2019
Westlife Development Ltd	(16.1)%	986.03	1,547.78	1,402.04
Jubilant FoodWorks Ltd	(3.8)%	3,268.87	3,885.78	3,530.67
Burger King India Ltd	(11.6)%	494.45	841.23	632.73
Devyani International Ltd	(6.9)%	1,134.83	1,516.38	1,310.59
<b>Sapphire Foods</b>	<b>(7.6)%</b>	<b>1,019.62</b>	<b>1,340.41</b>	<b>1,193.82</b>

**SSSG (Same Store Sales Growth) of Key Franchise Operators in India**

Particulars	Brands	SSSG for the Financial Year		
		2021	2020	2019
Westlife Development Ltd		NA	4.0%	17.0%
Jubilant FoodWorks Ltd		NA	3.2%	16.4%
Burger King India Ltd		(35.0)%	0.3%	29.2%
Devyani International Ltd	KFC	(33.7)%		4.7%
	Pizza Hut	(30.3)%		4.7%
	Costa Coffee	(61.6)%	(4.4)%	2.7%
<b>Sapphire Foods</b>	<b>KFC</b>	<b>(30.0)%</b>	<b>5.4%</b>	<b>13.9%</b>
	<b>Pizza Hut</b>	<b>(35.4)%</b>	<b>(5.2)%</b>	<b>5.0%</b>
	<b>Costa Coffee</b>	<b>1.0%</b>	<b>(1.0)%</b>	<b>8.0%</b>

**Number of Stores of Key Franchise Operators in India**

Particulars	Number of Stores as of			
	March 31, 2021	December 31, 2020	March 31, 2020	March 31, 2019
Westlife Development Ltd	305	304	319	296
Jubilant FoodWorks Ltd	1,427	1,314	1,397	1,282
Burger King India Ltd	265	261	260	187
Devyani International Ltd	692	555	610	566
<b>Sapphire Foods</b>	<b>437</b>	<b>361</b>	<b>427</b>	<b>376</b>

**Revenue of YUM's Franchisee Operators in the Indian subcontinent**

Particulars	Revenue for the Financial Year	
	2021	2020
Devyani International Ltd* (₹ in Cr)	954.28	1,062.51
<b>Sapphire Foods^ (₹ in Cr)</b>	<b>1,007.93</b>	<b>1,313.39</b>

\*Revenue from Pizza Hut and KFC in India and Nepal; Revenue pertains only to Yum Brands operated by Devyani International. Other brands are excluded.

^Revenue from Pizza Hut, KFC and Taco Bell in India and Sri Lanka.

## Financial Profiles and Liquidity Positions of Key Franchise Operators in India

Ratios for Financial Year 2021	Westlife Development Limited	Jubilant FoodWorks Limited	Burger King India Limited	Sapphire Foods
Current Ratio	1.19	0.95	2.19	0.46
Quick Ratio	1.02	0.80	2.13	0.31
Profit/(Loss) After Tax (in ₹ Cr)	(99.42)	233.68	(173.91)	(99.90)
Profit/(Loss) After Tax / Revenue	(0.10)	0.07	(0.35)	(0.10)
Interest Coverage	0.06	4.78	0.40	0.69
Debt Equity	2.58	1.54	1.12	1.82

## COMPETITION

The company competes within the food services market and the QSR segment not only for customers, but also for personnel and suitable sites for their restaurants. The competitors include international QSR chains operating in India, such as **McDonalds, Domino's Pizza, Subway** and **Burger King**, as well as local restaurants in the QSR segment. The company generally compete on the basis of product and service quality, price and location. The industry is often also affected by changes in consumer tastes, religious beliefs, economic conditions, demographic trends and consumer disposable income.

## COMPARISON WITH LISTED INDUSTRY PEERS (AS ON 31<sup>ST</sup> MARCH 2021)

Name of the Company	Consolidated/ Standalone	Face Value	Total Income (₹ Cr)	EPS (Basic)	NAV <sup>^</sup>	P/E <sup>~</sup>	RoNW (%)
<b>Sapphire Foods India Ltd</b>	<b>Consolidated</b>	<b>10</b>	<b>1,081.24</b>	<b>(19.04)</b>	<b>84.16</b>	<b>[ • ]</b>	<b>(22.16)%</b>
<b>Peer Group</b>							
Jubilant FoodWorks Ltd	Consolidated	10	3,384.95	17.55	108.12	220.44	16.16%
Westlife Development Ltd	Consolidated	2	1,030.33	(6.38)	30.89	NA	(20.66)%
Burger King India Ltd	Consolidated	10	522.93	(5.47)	17.59	NA	(25.82)%
Devyani International Ltd	Consolidated	1	1,198.90	(0.50)	1.03	NA	(48.52)%

Source: RHP; P/E Ratio has been computed based on the closing market price of the equity shares on NSE on October 21, 2021

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