



Sector Report - Quick Service Restaurants

Evolving consumer preferences to drive growth



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Executive Summary:

The global market size of the food services industry reached USD 3.5 Tn in 2020 and it is forecasted to grow to 4.2 trillion USD in 2027, showing a CAGR of 2.7% from 2020 to 2027. The food service market represents one of the biggest industries influencing GDP at both the global and national levels. The market value of the Indian food service and restaurant industry was about INR 4.1 Tn in the FY19. The market value of the organized segment and the unorganized segment was 1.6 trillion INR and 2.5 trillion INR in 2019 respectively.

The food service market in India has evolved over the last two decades. It has not only matured but also saw increasing investments, geographical expansion, new franchisee models, and the emergence of aggregators. Amongst the various segments in the food services and restaurant industry, the market size of the QSR sector under chain market is nearly around INR 18,800 Cr which is 4.43% of the total food services market. According to FICCI, the QSR sector in the country has witnessed unprecedented growth over the past few years, contributing a substantial proportion to India's economic performance. The Indian market has a major share from the unorganized segment but with the advent of foreign and Indian restaurant chains, the organized market will be expanding rapidly.

QSR has been one of the first sectors to attract foreign interest because of the huge opportunities. Indian entrepreneurs have started to exploit the opportunity to expand the organized segment. High disposable incomes, urbanization, and favorable demographics have exceedingly contributed to the growth of the sector, dominated by fast food outlets and restaurants. Also, the growing popularity of online food ordering and food delivery platforms have encouraged QSRs to reach more consumers. However, the COVID-19 lockdown made consumers refrained from eating out. This impacted the entire QSR industry which resulted in the closure of stores. During this phase, QSR responded with the advancement of convenience platforms such as takeaways and delivery. These new convenience channels helped the industry as the average order value increased by 25-30%.

Overview:

In the 80s and 90s, eating out was not a popular activity in an Indian's life but over the years, things have changed rapidly and with varying consumption patterns, eating out has become just a habit. The Indian Restaurant and Food Service Market has seen constant growth since 1980. At that time, the market was much dominated by unorganized brands and the number of organized brands was countable. The organized market started booming in 1996 with the opening up of restaurants by Domino's, McDonald's, Pizza Hut followed by Subway, KFC, and other brands.

The Indian Restaurant and Food Service Sector has seen continuous growth at a strong rate year by year. According to the Technopak report, the market size of food services in India in Fiscal 2015 was INR 2,86,500 Cr and it reached INR 4,23,600 Cr in FY20. They projected the market size to grow at 9% CAGR over the next five years and reach INR 6,50,500 Cr.

The sector is classified into two divisions, organized and unorganized market based on organized operations, accounting transparency, and outlet penetration. Any food services outlet that does not comply with these characteristics will fall in an unorganized market, which will include dhabas, street stalls, trolleys, and hawkers. The food services outlets that comply with the above characteristics will fall in an organized market and can be subcategorized as chains (more than three outlets across the country) or standalone outlets. Chains are divided into sub-segments: fine dining (FDR), casual dining (CDR), PBCL (pub, bar, club, and lounge), quick-service restaurants (QSR), cafes, and frozen desserts/ice creams. The table below shows the market share of different Indian food services markets in Fiscals 2015 and 2020 and the expected market share in Fiscal 2025 as per the report by Technopak.

Format	Market Share FY 2015	Market Share FY 2020	Market Share FY 2025P
Unorganized Market	68.1%	59.5%	47.3%
Organized Standalone Market	23%	28.4%	35.5%
Chain Market	6.1%	9.4%	14.9%
Restaurants in Hotels	2.8%	2.7%	2.4%

Source: Technopak Research & Analysis

Overview (Contd...):

The evolution of Indian society is happening at a higher pace with a rise in the working population, higher income levels, and more outdoor activities such as traveling, trips with friends and families. People are becoming brand conscious and are ready to experiment with new cuisines which is expanding the food services and restaurant sector in India. The trends like digitalization, changing customer perception, increasing delivery & takeaway and contactless transactions are helping in the expansion of the sector. The Indian foodservice market is expected to register powerful growth in upcoming years because of the growing delivery channel.

Measure	2015	2020	2025	CAGR 2015-2020	CAGR 2020-2025
Value INR (Cr)	7,60,136	8,36,661	17,22,027	1.9%	15.5%
Transactions (Cr)	9691	10,913	15,234	2.4%	6.9%
Outlets	34,17,225	36,60,188	45,53,680	1.4%	4.5%

Source: Devyani International RHP

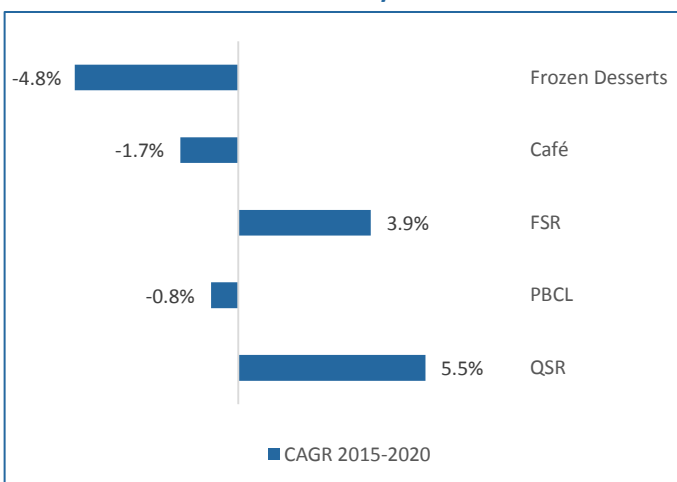
Growth in the chain market is driven by international brands, robust supply chain, innovation, and customization in operating models and outlet sizes. Mature QSR players are well established in major metro cities with aggressive store expansions, therefore providing little scope for new players to expand. QSR segment has outclassed the other sub-segments in terms of growth and higher sales resulting in higher profits.. The following table shows the CAGR of each of the chain food services sub-segments between FY15 and FY20 and their expected CAGR between FY20 and FY25:

Format	CAGR 2015-2020	CAGR 2020-2025
Quick Service Restaurants	19%	23%
Casual Dining Restaurants	19%	18%
Café	8%	8%
Frozen Dessert/ Ice Cream	16%	15%
PBCL	22%	17%
Fine Dining Restaurants	3%	1%

Source: Burger King India RHP

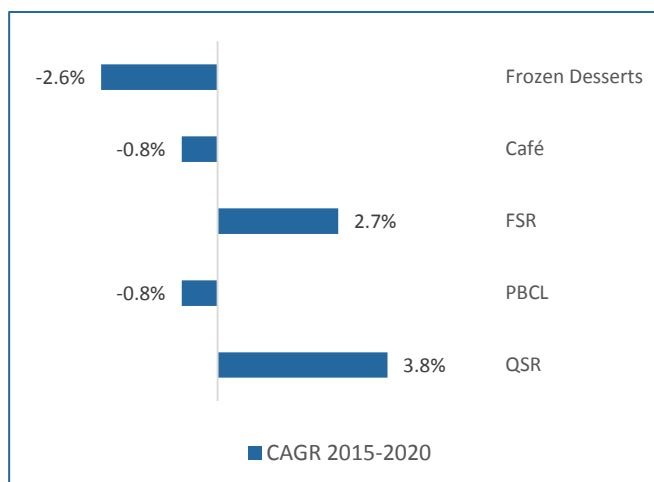
QSR segment has international players in the country with a strong supply chain, established standard operating procedure, global best practices, and the benefits arising from the increasingly eating out behavior among Indians. These factors are making the QSR channel better than the traditional channels. QSR channel recorded the fastest growth and number of transactions from 2015 to 2020. Value meals, a large number of outlets, and affordability are the major drivers for the fastest growth and a large number of transactions. Between 2020 and 2025, QSR is expected to grow at a CAGR of 6.9%.

Value Growth by Channel



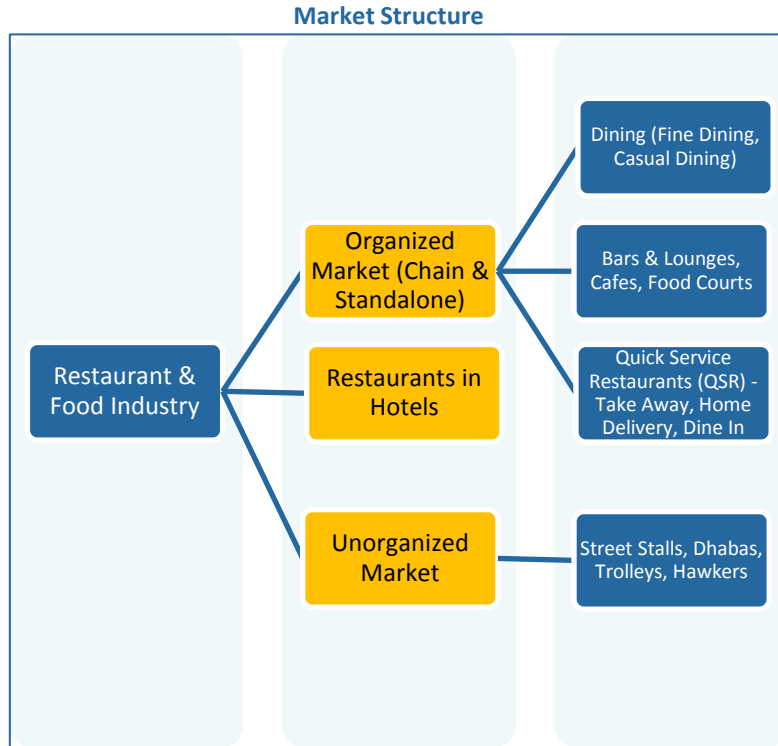
Source: Devyani International RHP

Transaction Historic Growth



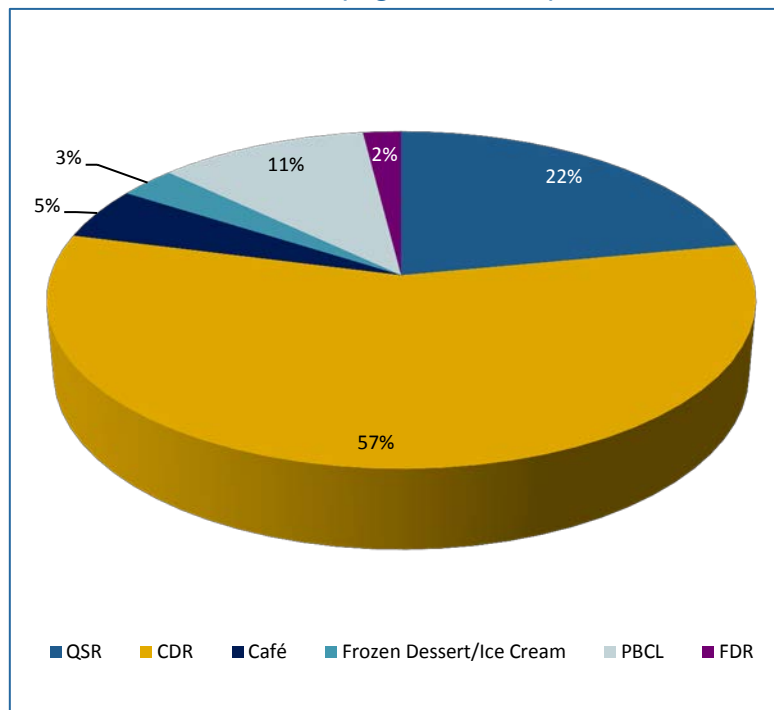
Source: Devyani International RHP

Market Structure:



Source: Care Ratings Company Presentations, Industry

Market Share (Organized Market) FY 2020



Source: Technopak Research & Analysis

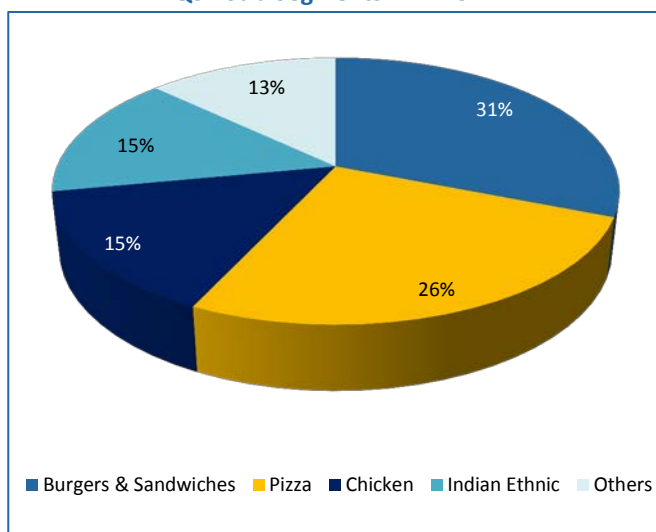
Quick Service Restaurant (QSR):

The Quick Service Restaurants (QSR) are the major contributors in the organized market under the restaurant and food industry. It has fast-food cuisines which require minimal preparation time, minimal table services to fulfill the needs of youth and working professionals. These food items are delivered through quick services and the prices are very competitive which are differentiating factors of these special types of restaurants. QSRs generally target people from the age group of 16-35 years. The average spending of a person in QSRs is in the range of INR 75-250.

The segment has the potential to grow in India as it is a very significant segment of the Indian Fast-food services. Also, the availability of cheap labor makes India a favorable destination for the development of the QSR Industry. India has a large number of international QSRs with franchise rights of various companies. The major players in the QSR are Jubilant FoodWorks Limited, Westlife Development Limited, Sapphire Foods India Pvt Ltd, Burger King India Pvt Ltd, Subway System India Pvt Ltd, etc. The domestic players such as Coffee Day Enterprises Ltd, Haldiram, Goli Vada Pav, Faasos, Wow! Momo, etc. are also growing exponentially in recent times.

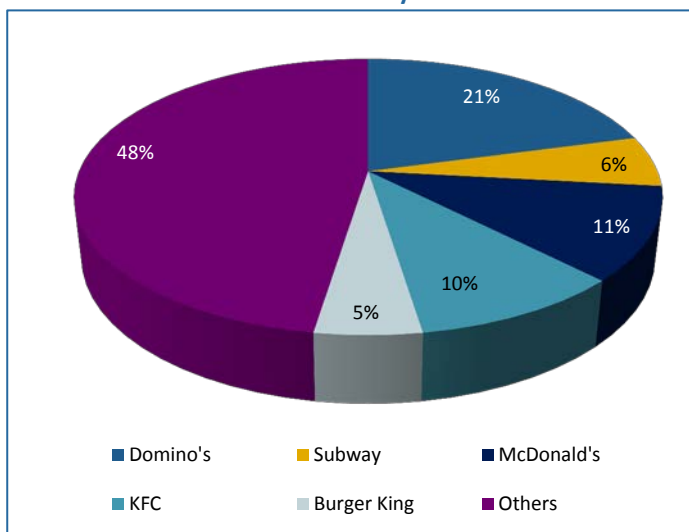
The varying consumption preferences and rise in millennials provide a huge growth opportunity for QSR Industry. Youth and working professionals are shifting more towards the food that is readily available in a shorter duration. The restaurant industry was the worst hit after the pandemic followed by the lockdown that led many restaurants to close their businesses. But QSRs started to change their policies and took necessary measures to fulfill the needs of their customers post lockdown. They stopped taking delivery orders from their portals and started partnering with Swiggy and Zomato to ensure a contactless delivery while following all the safety protocols. The QSR market experiences various growth drivers and is therefore expected to rise in the future as well.

QSR Sub-Segments in FY20



Source: Technopak Research & Analysis

Market Share by Revenue



Source: Technopak Research & Analysis

The growing Indian market is still fully untapped to international QSR companies. These companies have majorly targeted the Tier I cities but in past few years, they have started to grow their network in Tier II & Tier III cities as well. The distribution of QSR outlets is majorly driven by demographics, higher disposable income, and ease of accessibility across geographies. The following tables show the key QSR players presence in India and their geographical penetration as of September 30, 2020:

Quick Service Restaurant (QSR) (Contd...):

Brands	Total Outlet Count	Mega Metros (%)	Mini Metros (%)	Tier I (%)	Tier II & Others (%)
Domino's	1354	25%	32%	20%	23%
Subway	541	37%	43%	12%	8%
Pizza Hut*	505	26%	33%	19%	22%
McDonald's**	481	36%	35%	17%	12%
KFC	454	19%	37%	21%	23%
Burger King	261	41%	26%	11%	23%

Source: Brands Website, Restaurant Discovery Platforms, Technopak BoK

*Pizza Hut Outlets are as of 31st March, 2021

**McDonald's Outlet count is considered as a total of both the operators present in the country

Brands	Total Outlet Count	North (%)	South (%)	East (%)	West (%)
Domino's	1354	33%	28%	12%	27%
Subway	541	38%	27%	7%	28%
Pizza Hut*	505	35%	33%	8%	24%
McDonald's**	481	32%	28%	2%	38%
KFC	454	29%	40%	17%	14%
Burger King	261	50%	21%	3%	26%

Source: Brands Website, Restaurant Discovery Platforms, Technopak BoK

*Pizza Hut Outlets are as of 31st March, 2021

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The entities involved in the front-end and the back-end have equally contributed to the success of the QSR sector. Key delivery aggregators such as Zomato and Swiggy in the front-end have promoted the habits of online food ordering and food delivery among the consumers with offers and discounts. The aggregators have helped QSR companies to increase their market reach and have had a positive impact on their revenue. Zomato and Swiggy have played an important role in increasing the sales of QSR companies by delivering the food during the COVID-19 pandemic. The pandemic has in fact amplified its role in the ecosystem.

For higher scalability and negotiations in back-end operations, QSR restaurants prefer to source their ingredients from local suppliers that comply with their quality standards. Bread & Bun are key ingredients in the QSR sector. According to Technopak Mrs. Bector's is the largest supplier of buns to the well-known QSR giants such as Burger King India Ltd., Connaught Plaza Restaurants, Hardcastle Restaurants (McDonald's), and Yum! Restaurants (India) Pvt. Ltd. Their major focus on quality standards and ensuring compliance have helped them to maintain long-lasting relationships with renowned QSR companies. They have dedicated modern manufacturing facilities for buns that can take large orders while complying with quality standards to serve QSR chains.

Impact of COVID-19 on QSR:

When the COVID-19 pandemic began, dine-in services were mostly shut down due to the lockdown. QSRs were already equipped with the delivery services long before the COVID-19 crisis and were able to follow the government guidelines and instructions. Dine-in services were affected but the QSRs were able to generate revenue by enhancing their delivery services. Consumers are also found ordering online from the reputed QSRs through their delivery services because they were keen to focus on hygiene and following all safety standards. The situation also allowed QSRs to grow the new sales channels such as drive-through, on-the-go, and takeaway. Until 12th October 2020, one of the leading food aggregators Zomato delivered a total of INR 9.2 Cr orders since March 23, 2020, and claimed to have zero reported cases of COVID-19 transmission through food delivery, or through food delivery agents.

In March 2020, when India went on a complete lockdown, the entire food service sector saw a 31% downfall in the size of the market in comparison to the pre-COVID levels for Q4 FY20. Some state governments relaxed the strict lockdown and allowed the food delivery services in April and May. Even though restaurants were open with their delivery services but consumers remained conscious about the hygiene and safety measures of the restaurants and hesitated to order the food online. They started to grow at the end of May and QSR was first among the organized market to start recording sales. QSRs had to demonstrate and emphasize on strengthened hygiene and safety measures for food delivery services to gain back the consumers' confidence and trust. The healthy growth among the sector was seen in the third quarter of FY21 when more and more cities started opening up and dine-in services were also resumed.

In 9M FY21, Domino's closed 105 stores, McDonald's closed 19 stores, and Burger King closed 5 stores. The QSR industry is using COVID-19 as an opportunity to close down the loss-making stores and adjusting to the ongoing scenario. The recent increase in COVID-19 cases will be a key issue for the food industry again but there will be some relief as delivery services will be running as usual.

Drivers of QSR:

- Online Food Ordering, Food Delivery & Takeaway:** The channels such as deliveries and takeaways will be the biggest growth drivers for QSR. Food delivery shipments grew to INR 16 Cr in 3Q FY21 from INR 10.7 Cr as compared to the last quarter. The delivery platforms such as Swiggy and Zomato have grown by 50% CAGR. Zomato recorded the highest Gross Order Value (GOV) of INR 2981 Cr in 3Q FY21 and during the nine months ended December 31, 2020, 69.3% new customers were acquired by them, and that too without any paid advertisements. Because of the pandemic and strict restrictions, not only customers but the restaurant industry was affected as well and they didn't have enough resources to run their business. Aggregators like Swiggy and Zomato came to their rescue and the restaurant owners didn't hesitate to reach out to them to grow their customer base and increase their sales during the pandemic. During 9M FY21, active delivery restaurants were 1,32,769 and average monthly transacting users (MTU) were 5.8 million on Zomato. Aggregators also eat up the revenues of the brands like McDonald's who have their delivery channel (McDelivery). Till December 2020, McDelivery app sales were only 20% of the total, while aggregator sales accounted for 80% of the delivery sales. Food deliveries make up nearly 10-15% of the business of the total restaurant's market pie. Aggregators charge a commission of 20-25%, which can be exceeded if the restaurant chooses to advertise on their platform. However, the dine-in channel will report lower growth due to the pandemic. Once the situation becomes normal, there will be a gradual uptick in the dine-in channel as well. The table below shows the online delivery business models in FY16, FY20, and FY25 (pre-and post-COVID scenarios) in USD Bn:

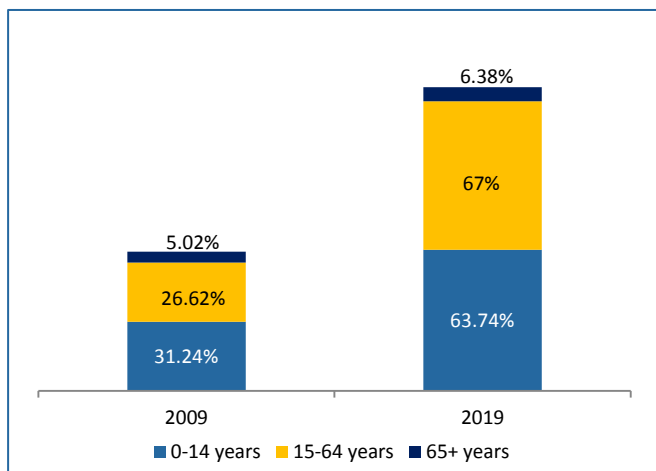
FY 2016	FY 2020	FY 2025P (Pre COVID-Scenario)	FY 2025P (Post COVID-Scenario)
4.7	10.2	16.4	18.1

Source: Technopak Research & Analysis

- Encouraging Demographics:** The age group 15-64 years is an earning population of the country which saw an increase from 63.74% in 2009 to 67% in 2019. According to the CIA World Factbook, India has also a lower median age of 28.7 years in 2020 as compared to the global economies which imply a higher number of working people making it a perfect market for QSR to grow. Increasing expenditures and spending among youth will boost retail sales in India.

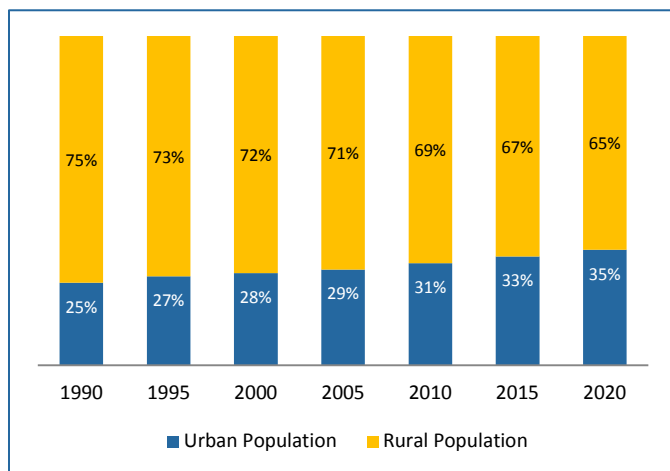
Drivers of QSR (Contd...):

Age Distribution



Source: Statista

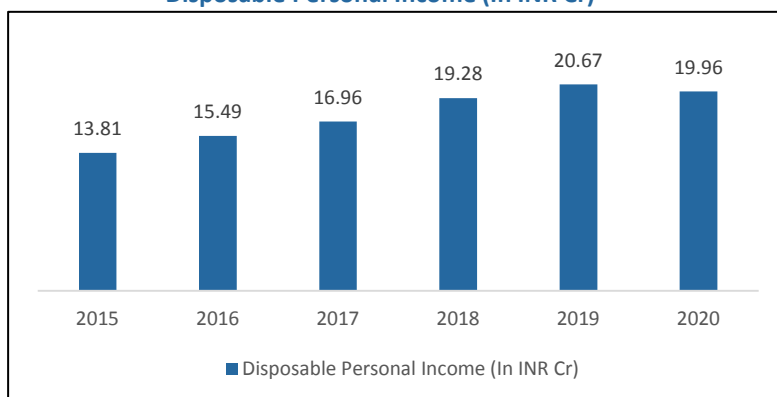
India Urban vs Rural Population



Source: Statista

- Increasing Urbanization:** More population of India is moving from rural to urban at a faster pace. It is estimated by 2025, 37% of India's population will be living in urban centers, contributing between 70-75% of India's GDP. An increase in urbanization will lead to higher disposable income and that will result in a growth of eating-out and ordering-in. The situation will give a boost to QSRs and provide them the opportunity to grow at an exceptional rate.
- Changing disposable Income levels:** The Indian economy is growing which is resulting in a boost in the income levels which is further leading to an increase in disposable income. The income levels are expected to rise more in upcoming years which will allow the consumers to spend more. According to the Ministry of Statistics and Program Implementation, the disposable personal income rose from INR 13.81 Cr in 2015 to INR 20.67 Cr in 2019 but it saw a decline in 2020 because of the pandemic. But it is expected to rise again once the situation gets better which will provide a lucrative opportunity to the QSRs.

Disposable Personal Income (In INR Cr)



Source: Statista

- Changing consumer lifestyle:** Eating out is becoming a habit among youngsters, rather than just an occasion or an event. Consumers are not only bothered about enjoying a meal but also to experiment with new cuisines. According to Technopak, an urban individual couple spends a total of 9 days eating out in one year. The young population is increasing year by year with the increase in their income levels has led to a shift in their food buying habits. Their busy and hectic lifestyle making them opt for ready-to-eat food with much convenience. With technological advancements, food delivery is becoming a faster and easier option. The young population is ready to explore regional and international cuisines on different outlets, based on the reviews shared on social media.

Drivers of QSR (Contd...):

Age Group	Eating-out Frequency/ Month	Ordering-in Frequency/ Month	Average Spend per Outing (₹)	Average Spend per Order (₹)
15-24 yrs.	2.3	0.9	230	124
25-34 yrs.	1.9	0.7	225	118
> 35 yrs.	1.5	0.3	303	107

Source: Technopak Research & Analysis

- Internet Penetration:** Not only youth people from every category can access high-speed internet in Tier-2 and Tier-3 cities because of the cheapest internet connections in the world. The demand for fast food is on the rise as the customers are preferring online orders through vendors like Zomato and Swiggy in non-metro cities. QSRs are also expected to expand their presence here to meet the growing demand. As per the report by the Internet & Mobile Association of India (IMAI) and Nielsen, rural India had INR 22.7 Cr active users, 10% more than urban India's about INR 20.5 Cr as of November 2019. The table below shows the internet and smartphone penetration in India in FY19 and FY20:

Category	FY17	FY18	FY19
Internet Users (in Mn)	455	535	627
Smartphone Users (in Mn.)	100	340	408

Source: Technopak Research & Analysis

Trends in QSR:

- **Larger focus on value meals:** Indian consumers have always been cost-conscious and preferred the value for money when eating out and ordering in. They are willing to spend more on experimenting and socializing over the food only if they get the value-for-money options. Indian customers find 'value meals' and 'combos' alluring that provide 12-25% discounts. Because of the COVID-19 pandemic, customers are moving away from experimentation and focusing more on low-cost and value meals.
- **Cloud-based kitchens:** The restaurants that are looking to get rid of high rental prices and capex are now focusing on becoming delivery-based kitchens. These cloud-based kitchens will provide better quality meals at affordable prices to the consumers. They aim to deliver healthy and hygienic food under the guidance of well-trained chefs. The delivery-only kitchen will not only reduce the rental barrier for the owners but will reduce the manpower cost and utilities cost as well. Cloud-based kitchens will grow further with the advancement in technology and smartphone penetration. According to a leading food aggregator in December 2020, *"In India, takeaway and drive-through contributed ~1% of the overall revenue of the restaurant industry as compared to 15-20% in the US and Europe during pre-COVID times. However, given the current trends in India, it is expected to go up to 15% over the next 6 months."*
- **Food on the Go:** Travelling is becoming a newly found hobby among the youth generation. While traveling in trains or airplanes, people are preferring food that can be quickly served on the railway stations or airports. With the increase in new airports and railway stations or area expansion of airport terminals and railway platforms, a new opportunity is arising for QSR operators.
- **Evolution of Indian Food Menu:** International franchises are majorly focusing on local taste and Indianizing their menu options to win the Indian customers whereas local players are bringing international cuisines to their menu. QSRs are also tweaking their offerings as per the local market, which is not served anywhere outside the country. QSRs are also experimenting with fusion food by serving the dishes with different culinary traditions to please their customers. As people are becoming more health-conscious, healthy eating options are now added to the menu of restaurants and also served by some restaurants as their core offerings.
- **Social Media and Tech-Savvy Consumers:** The rise of social media has encouraged consumers to explore the best options even before visiting an outlet. The companies are expanding their reach on social media platforms such as Facebook, Twitter, and Instagram. Through these platforms, companies can directly connect to the consumers providing them not only with information about events, discounts, and offers but also allows them to raise their concerns, complaints, and feedback. Food review websites also provide the information about restaurants which include menus, review, ratings, restaurant pictures, etc. and allows the consumers to explore the available options.
- **Product Sustainability:** Customers have started to adopt sustainable practices. They are having awareness of the connection between food, health, and environment which results in the selection of food that is low-carbon, organic, and free of artificial fertilizers. They are preferring non-biodegradable packaging, micro packaging, edible packaging, and other forms of packaging.
- **Increasing focus on health and hygiene:** With the advent of the COVID-19 pandemic, consumers have become more health-conscious and their preference for increased hygiene practices will increase substantially. They are becoming more conscious of what they eat. The QSRs will be focusing more on providing a healthy, safe, clean and hygienic experience.

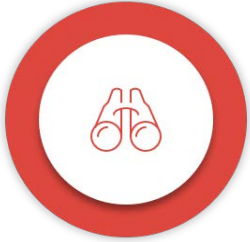
Government Policies & Regulations in QSR:

- **Licensing:** A new company entering the Indian food services requires 12-15 licenses from different entities. The number of licenses required is way too high as compared to the other countries. The process to get these licenses is also very complex and involves a lot of paperwork and time. Although getting these licenses is not much difficult.

Country	Number of Licenses
India	12-15
Thailand	5
China	4
Singapore	4
Turkey	2
USA	7

- **Goods and Service Tax:** In the last couple of years, the government used to charge a variety of taxes in the foodservice market such as VAT, service tax, service charge, etc. But after the introduction of single Goods and Service Tax (GST), there was much relief for consumers and restaurant owners under the new regime that gave them more transparency. The decision will give a consumer more reason to explore the new food joints and eating out to pamper their taste buds. The taxes cutting down from 18% to 5% helped the QSR sector and the consumers significantly. However, the consumers are paying the same amount which they used to pay earlier as restaurants hiked the prices on the menu.
- **Food Safety:** Food Safety and Standards Authority of India (FSSAI) aims to have globally benchmarked food standards and practices. It is their responsibility to get consumers aware of health & nutrition, hygiene standards, and food quality. QSRs have strict food safety norms and they have to follow all Indian rules & regulations for smooth operations. The QSR brands and their supply chain partners have to work hand-in-hand to ensure delivering the food fresh, safe, healthy, hygienic, and traceable to its origin. This awareness will reduce the cases of food adulteration & food poisoning and will enable the organized foodservice market to grow at a faster pace compared to the unorganized market. FSSAI has also issued a guidance note on 'Food Hygiene and Safety Guidelines of Food Businesses during COVID-19 pandemic' to prevent the spread of COVID-19. However, the insufficient number of laboratories and lack of infrastructure in the country makes a struggling situation with enforcing food safety norms and standards effectively.
- **Foreign Investments:** 100% Foreign Direct Investments (FDI) under government approval route is allowed for food products manufactured or produced in India. To attract more foreign investors, the government has increased the FDI. Foreign companies can set up their business in India through a joint venture, a wholly-owned subsidiary, or enter as an Indian company.

Porter's Five Forces Analysis:



A new entrant in QSR chains will find it difficult to set up a new restaurant that can provide the best customer value and also difficulty in creating strong brand loyalty. So, for them, market penetration would be a bit difficult. The regulations from the government are also stringent and involve a complex set of permissions and licenses in the industry. With the concept of cloud kitchen, new entrants can be encouraged to enter the market but there will be a task of creating unique products which could outclass the competition.

Threat of New Entrant

The buyers have multiple options, greater choices, awareness about the product, high product differentiation, high price sensitivity, awareness of the latest trends & technologies. The switching cost for buyers is very low which allows them to change one restaurant from another with ease. However, customer loyalty and high brand value can diminish the bargaining power of the buyer.



Bargaining Power of Buyer

BUYERS



There are so many players in the QSR which provide similar products, low switching cost, and healthier options that make the sector having a high threat of substitution. The only thing which can reduce the threat is trust, convenience, and value-adding components by QSRs.

Threat of Substitute Product

The lack of differentiation among the products available in various QSRs give a rise to competition among the suppliers. Nowadays, companies are developing their in-house farming and packaging to reduce the dependency on external suppliers. Suppliers with their renowned brands may have high bargaining power than those who sell generic products.



Bargaining Power of Supplier

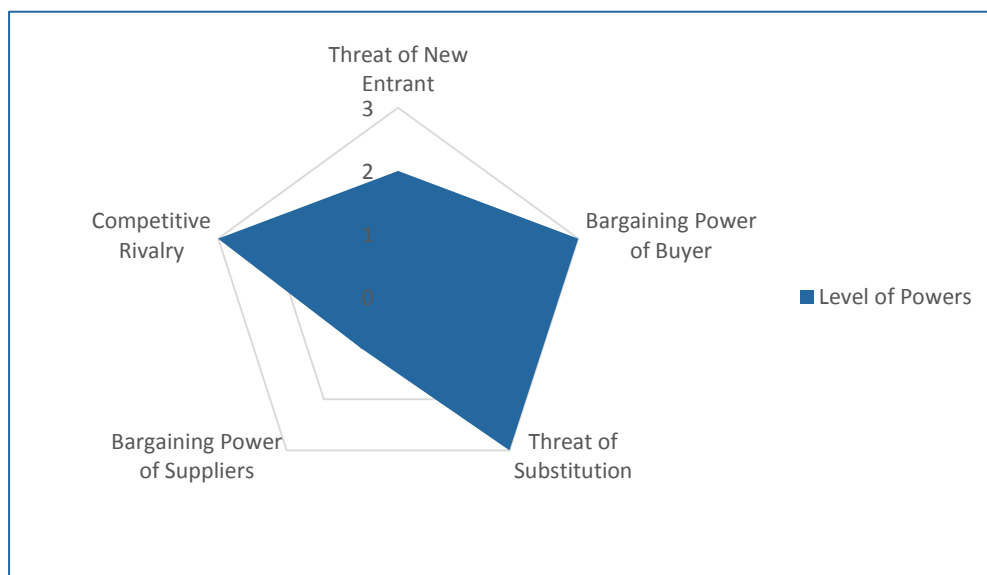


There is a high number of global chains and local takeaways eateries selling similar products which gives a rise in competition. To gain market share and win the competition, companies have to reduce the price without compromising quality. However, it would be difficult for a new entrant to compete with bigger firms on price, quality, and service to win the customers.

Competitive Rivalry

COMPETITIVE RIVALRY

Porter Five Forces vs Level of Powers



Key Players & Peer Comparison:

Company name	Face value (Rs.)	CMP (Rs.)	MCAP (Rs. mn)	Enterprise value (Rs. mn)	Operating Revenue (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EBITDA Margin (%)	PAT Margin (%)
Westlife Development Ltd.	2	435	67,786	76,666	10,727	1,244	(969)	11.6%	-9.0%
Jubilant Foodworks Ltd.	10	2,498	329,619	339,683	31,848	6,518	1,370	20.5%	4.3%
Burger King India Ltd.	10	60	22,899	29,049	5,541	182	(1,716)	3.3%	-31.0%
Average								11.8%	-11.9%

Company name	EPS (Rs.)	BVPS (Rs.)	DPS (Rs.)	Debt Equity Ratio	Total Asset turnover Ratio	RoE(%)	RoCE (%)	P/E (x)	P/B (x)	EV/Sales (x)	EV/EBITDA (x)	MCAP/Sales (x)	Earning yield (%)
Westlife Development Ltd.	(6.2)	37.1	0.0	1.8	0.6	-16.8%	-2.8%	(70.0)	11.7	7.1	61.6	6.3	-1.4%
Jubilant Foodworks Ltd.	10.4	85.8	6.0	1.5	0.9	12.1%	10.1%	240.5	29.1	10.7	52.1	10.3	0.4%
Burger King India Ltd.	(4.5)	11.1	0.0	1.9	0.4	-40.3%	-9.3%	(13.3)	5.4	5.2	159.2	4.1	-7.5%
Average			2.0	1.7	0.6	-15.0%	-0.7%	52.4	15.4	7.7	91.0	6.9	-2.8%

*Profitability data as on TTM basis; Source: Choice Broking Research

Westlife Development Ltd.:

Westlife Development operates a chain of McDonald's restaurants in western and southern parts of India through its subsidiary Hardcastle Restaurants Pvt. Ltd. (HRPL). McDonald's operates through various extensions such as standalone restaurants, drive-thru's, 24/7 restaurants, McDelivery, dessert kiosks. The brand extension includes McCafe, McBreakfast, and McDelivery that have helped the company to create a portfolio that builds brand differentiation and brand value. Westlife has scaled its business from 296 outlets in FY19 to 315 outlets in FY19-20 and planning to reach 400+ outlets in upcoming years. It has focused on expanding in key cities for superior brand recall. The gross revenue for FY20 grew by 11.45% to INR 1547 Cr. The focus of the company is to be profitable and that has given rise to operating EBITDA as 144 Cr in FY20. Westlife Development Limited has given 2x return on stocks in the last 4 years.

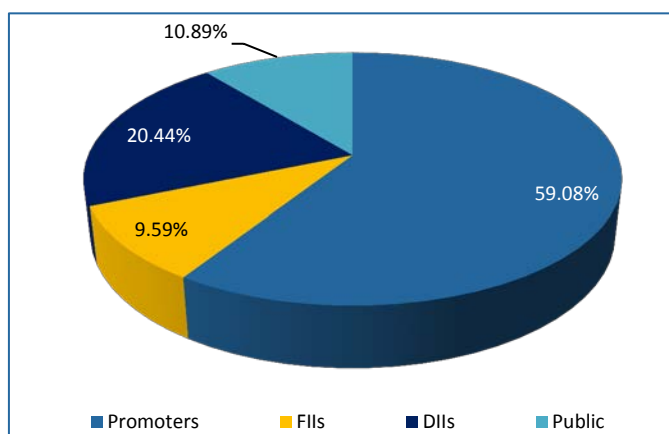
Revenue share %	2012	2020
Standalone restaurants	90%	40%
McCafe, McDelivery, McBreakfast, Drive-Thru	10%	60%

Source: Company Annual Report

EBITDA and Gross Margins (%)

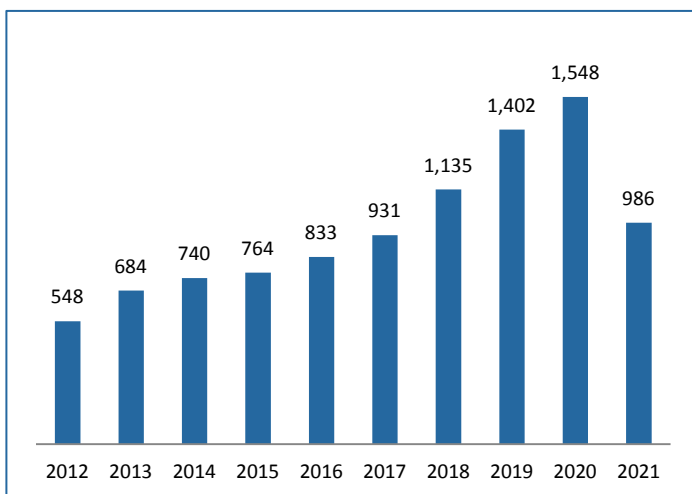
	2016	2017	2018	2019	2020	2021
Gross margin	60.0%	60.6%	62.6%	63.5%	65.2%	64.7%
EBITDA margin	5.1%	5.0%	6.8%	8.5%	13.8%	4.8%

Shareholding Pattern as on 31st March 2021



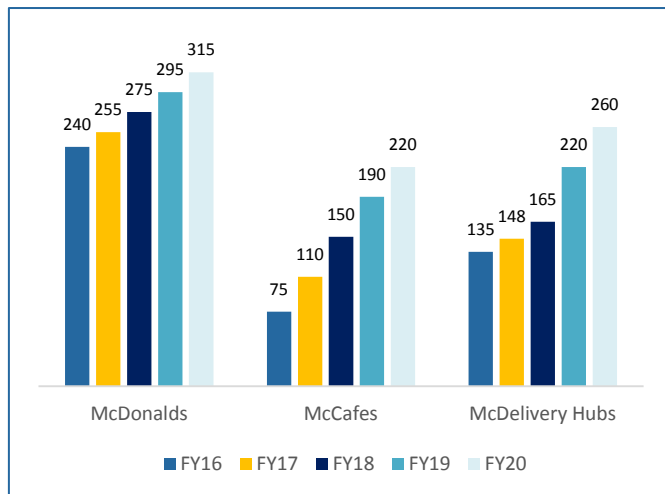
Source: Company Website

Revenue from Operations (INR Cr)



Source: Company Annual Report

McCafe & McDelivery expanding fast

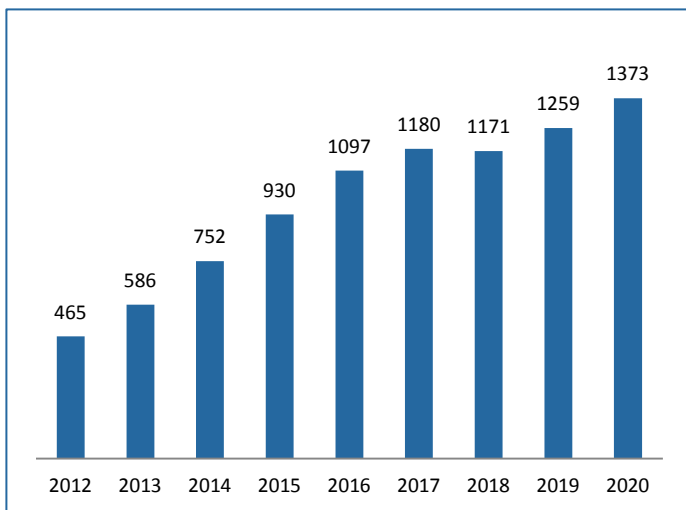


Source: Company Annual Report

Jubilant Foodworks Ltd.:

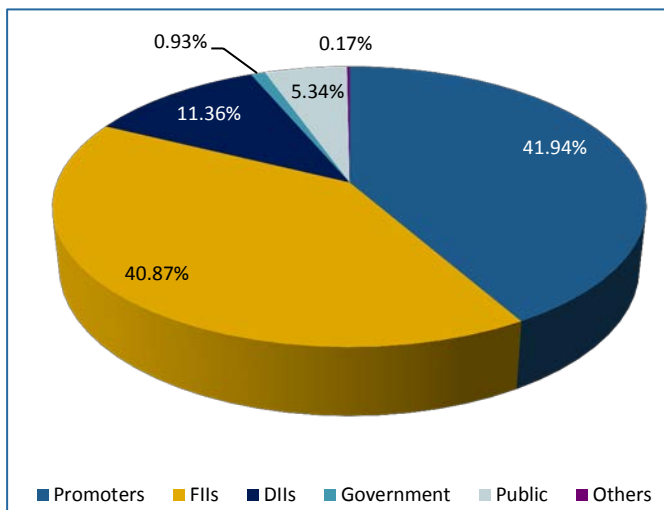
Jubilant FoodWorks one of India’s largest food service companies. It operates Domino’s Pizza, Dunkin’ Donuts, Hong’s Kitchen, and Ek dum! brands in India. Apart from Domino’s Pizza operations in India, it is also present in Bangladesh and Sri Lanka. The gross revenue for FY20 grew by 10.1% to INR 3885 Cr. It opened 123 outlets in FY20 which is the highest in the last 3 years. It has a different menu for different store-formats/small-towns which differentiates it from the competition. The company reported strong double-digit growth with strong EBITDA, which stood at 22.6% of revenues. EBITDA stood at INR 877 Cr. With the rising preference for ordering online, food delivery, and takeaway, the company is focusing on leveraging digital technology for driving convenience and transparency in online ordering. Jubilant FoodWorks has recently announced that it will bring US-based fast-food chain Popeyes to India, Bangladesh, Bhutan, and Nepal. Jubilant FoodWorks have given more than 5x return on stocks after including a 1:1 bonus share in the last 4 years.

Number of stores (All brands)



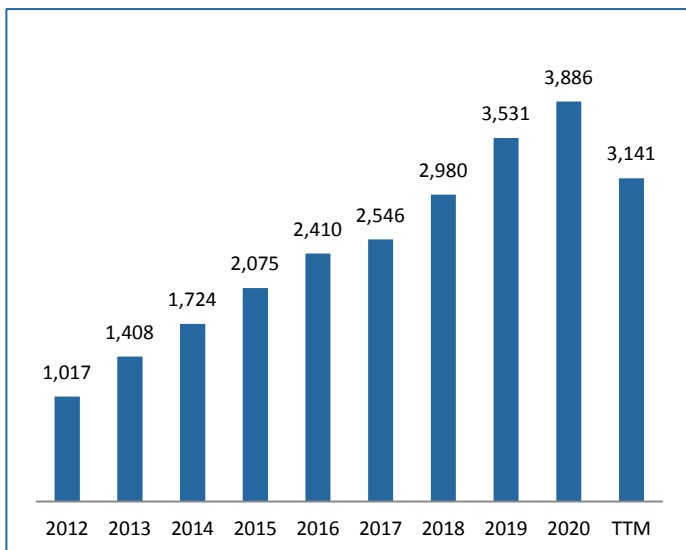
Source: Company Annual Report

Shareholding Pattern as on 31st March 2021



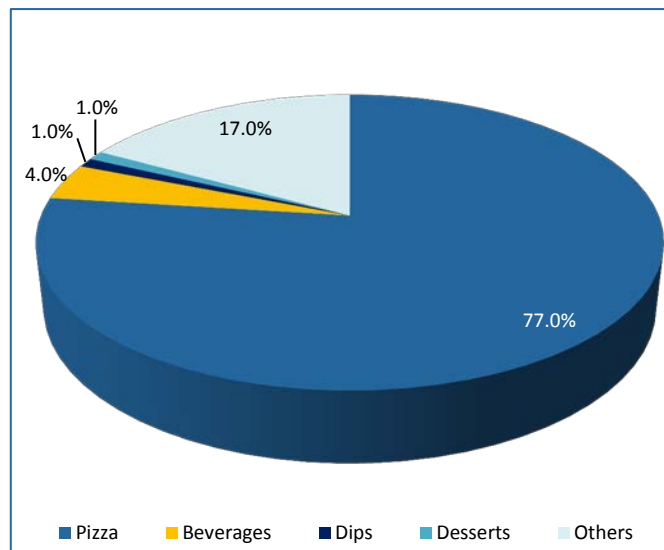
Source: Company Website

Revenue from Operations (INR Cr)



Source: Company Annual Report

Revenue Break-Up

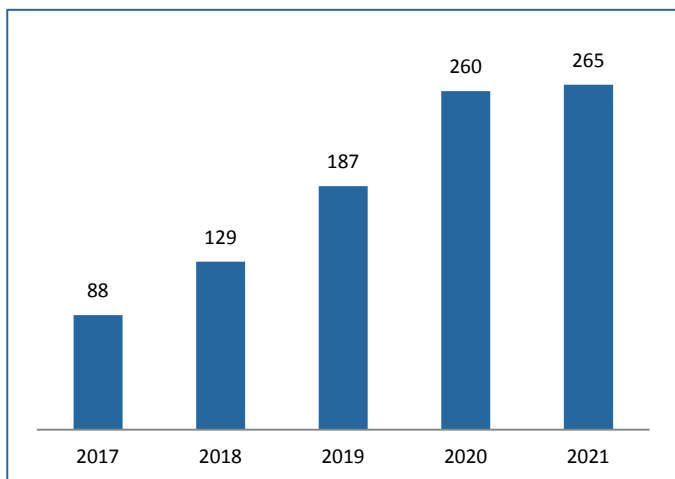


Source: Company Annual Report

Burger King India Ltd.:

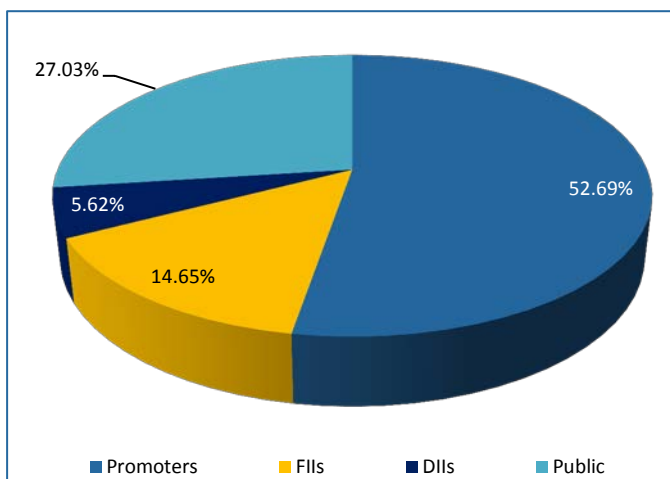
Burger King India Limited is a subsidiary of QSR Asia Pte Ltd. which is promoted by F&B Asia Ventures (Singapore) and BK AsiaPac. The holding company owns around 99.44% of the shares as of September 30, 2020. The company has variety across food offerings, including burgers, wraps, rice, beverages, sides, snacks, shakes, and desserts across breakfast, lunch, dinner, snacks time, and late night. It is one of the fastest-growing QSR chains in India with 261 restaurants spread across 17 states/UTs and 57 cities in the first five years of its operations. The company has increased its revenues from INR 140 Cr in FY16 to INR 841 Cr in FY20. It has already garnered a 5% market share in INR 34,800 Cr QSR market. Its gross margin grew from INR 232 Cr in FY18 to INR 536 Cr in FY20. Burger King India is a national master franchise that is targeting to open 50 restaurants every year with the target to reach 700 restaurants until 2026 all over India that gives better revenue growth visibility from a long-term perspective. The company plans to increase the delivery only kitchen which will reduce the size of the store and increase the asset turnover of the company.

Number of stores



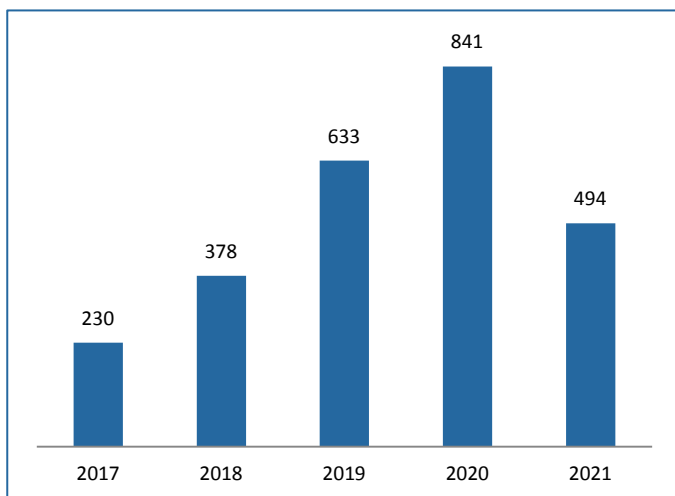
Source: Company RHP, Company earnings release

Shareholding Pattern as on 31st March 2021



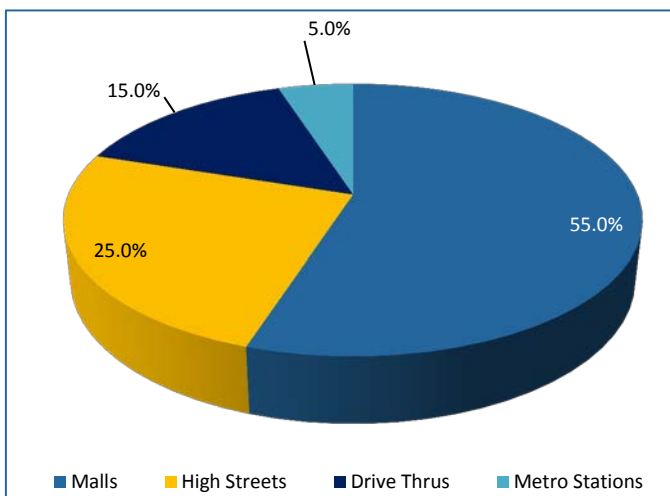
Source: Company Website

Revenue from Operations (INR Cr)



Source: Company RHP, Company earnings release

Store Mix favor Malls



Source: Company RHP

Key Risks:

- **COVID-19 Pandemic & Lockdown:** The outbreak of COVID-19 pandemic around the world followed by strict lockdown has caused a significant impact on the QSR sector. The pandemic has also changed the consumer lifestyle as they now prefer more on ordering online rather than going to restaurants. The cases have started rising again all over India when things were getting back normal. The present situation would adversely impact the restaurants and QSR businesses in the medium term (3-6 months).
- **Negative Advertisement of Junk Food:** People mostly parents perceive junk food as a non-healthier option. Pizza, burgers, sandwiches, and other related items are the major products of the QSRs. These food items become the target of negative advertisement which impacts the QSR brands in the long run.
- **Competition:** There is cut-throat competition in the QSR sector of India. The QSRs are expanding their menu and giving combos, offers, and high discounts to lure the customers. The company can face stiff competition in their core offering from other QSRs as well in the future, which can restrict the growth of the company.
- **Quality Manpower:** The food services market is labor-intensive but has a shortage of manpower. It requires human intervention at each step right from the purchase of ingredients to cooking to service delivery to customers. The QSR sector requires trained and professional chefs and waiters. Every year, the market requires a high number of skilled workers for restaurant employment but the availability of such workers in the market is limited. This creates a void for talented manpower which is likely to be filled with unskilled workers, leading to a decrease in the quality of service provided to the customers. The attrition rate in the segment is around 35% to 40%. During the lockdown, the skilled and unskilled workers moved from urban to rural areas due to the loss of jobs, which caused the supply of manpower.
- **Food Safety:** Because of the pandemic, hygiene and food safety have become the primary concern for most of the consumers and industries. The customers will be shifting towards the organized sector from the unorganized sector. Food Safety and Standards Authority of India (FSSAI) has to play an active role in addressing food safety issues by educating companies in the food sector. International brands such as McDonald's, Burger King, KFC, and others have strict rules regarding food safety and hygiene. The awareness from FSSAI will drive consumers to choose formats that follow the food safety norms.

Future Outlook: The organized QSR market in India has more than 100 brands with 7000+ outlets spread across India. Five years ago, the numbers were less than 50% as compared to these numbers. International companies are looking to scale their operations throughout the country with best global best practices, advanced supply chains, and established standard operating procedures. **The QSR sector is expected to rebound in the coming years with the improvement in the purchasing power of consumers.**

The one thing we can take away from the COVID-19 pandemic is increasing focus on food safety, health, and sanitation. The QSRs have to make sure that they follow the best hygiene practices. This gives an extra opportunity to the sector to explore new ideas and bring innovation to their menu to fulfill the needs of customers. Moreover, businesses have to change their entire model and incorporate the latest technological trends. QSRs will be focusing more on health & hygiene, contactless delivery, and special take-out menus in the future. According to the Morgan Stanley report, **QSRs will be among the first beneficiaries of the recovery in discretionary consumption once the pandemic is over.** Contactless dining and deliveries will be priorities for consumers as the pandemic is still not over.

The pandemic has had a harsher impact on the unorganized segment as compared to the organized players; this is expected to lead to faster consolidation of the industry towards the organized segment. Convenience channels such as home delivery will be growing at a faster pace due to the varying consumer eating patterns. These factors will enhance the investments in QSRs. In the upcoming years, QSRs will be looking to expand their presence in multiple non-metro towns across India.

Due to the reasons enumerated, the outlook for the QSR sector and entire value chain in India remains positive going forward. We believe the existing listed players can grow their revenue and profitability further while creating wealth for investors. Further, many companies are looking to tap the equity markets for fundraising, driven by the promising potential in the sector. Companies like Devyani Int. (Pizza Hut) and Zomato have already begun the process for bringing IPOs to the market. We expect more such companies in the food services value chain to do the same as investor's appetite for the sector grows.

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