24 May 2022

Initiating Coverage | Sector: Retail

Sapphire Foods

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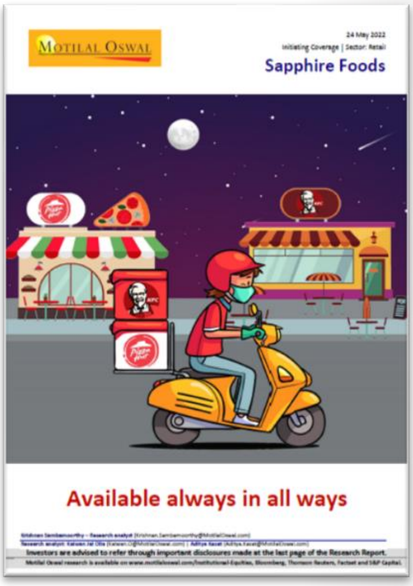

Sapphire Foods:
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Sapphire Foods

BSE SENSEX	S&P CNX
54,053	16,125

Stock Info

Bloomberg	SAPPHIRE IN
Equity Shares (m)	63.5
M.Cap.(INRb)/(USDb)	65.8 / 0.8
52-Week Range (INR)	1535 / 974
12M Avg Val (INR M)	383
Free float (%)	48.7

Financials Snapshot (INR b)

Y/E Mar	2022	2023E	2024E
Sales	17.2	22.7	28.8
Sales Gr. (%)	68.8	31.6	27.0
EBITDA^	3.1	4.0	5.8
Margins (%)	17.7	17.5	20.1
Adj. PAT	0.5	0.7	1.5
Adj. EPS (INR)	7.2	10.7	24.1
EPS Gr. (%)	L/P	47.4	126.0
BV/Sh.(INR)	158.5	169.2	193.3
Ratios			
RoE (%)	6.2	6.5	13.3
RoCE (%)	8.0	7.9	11.6
Valuations			
P/E (x)	138.2	93.8	41.5
P/BV (x)	6.3	5.9	5.2
EV/Sales (x)	3.5	2.7	2.0
EV/EBITDA^ (x)	19.7	15.2	10.1
Pre-IND AS 116 EV/EBITDA (x)	33.2	25.9	15.7

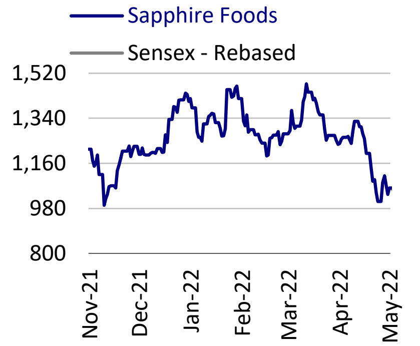
^post-IND AS 116

Shareholding pattern (%)

As On	Mar-22	Dec-21
Promoter	51.3	51.3
DII	10.8	8.6
FII	14.3	16.0
Others	23.6	24.2

FII Includes depository receipts

Stock performance (one-year)



CMP: INR1,000 TP: INR1,420 (+42%) Buy

SAPPHIRE is one of the two franchisees of Yum! Brands (Yum) in India. Yum operates brands such as KFC, Pizza Hut (PH) and Taco Bell. It has a global presence with more than 53,000 Restaurants in over 150 countries. SAPPHIRE develops and operates KFC/PH stores in 10/11 Indian states. It also has an international presence in Sri Lanka and Maldives. Set up in Sep'15 with the acquisition of 250 KFC and PH stores in India and Sri Lanka, it is promoted by a group of leading Private Equity firms, led by Samara Capital, Goldman Sachs, CX Partners, Creador, and Edelweiss. It operates a total of 579 stores across all brands and geographies as of 31st Mar'22.

Available always in all ways

On the cusp of a turnaround, valuations attractive

SAPPHIRE offers an exciting investment opportunity in the Indian Quick Service Restaurant (QSR) space on account of the following factors:

- **The Indian Food Service Industry (FSI) is expected to clock 9% CAGR in the coming years, with QSRs likely to grow faster at 23% CAGR over FY20-25.**
- **SAPPHIRE's new scalable Restaurant economic model is a game-changer. Its omnichannel strategy and reduction in store sizes, along with other elements of the model, have led to a big shift in SAPPHIRE's unit economics.**
- **KFC India's business is on a strong footing, with a healthy ADS and profitability. We expect it to register 31% sales CAGR over FY22-24E driven by rapid store additions and strong SSSG aided by a smart recovery post-Covid.**
- **PH's India business is seeing a turnaround, with a higher focus on delivery, while retaining its dine-in edge. We expect it to register 35% sales CAGR over FY22-24E with a resultant improvement in its Restaurant EBITDA margin.**
- **Overall, SAPPHIRE is poised to deliver strong growth with 29%/43% sales/EBITDA (pre-Ind AS 116) CAGR over FY22-24E.**
- **SAPPHIRE's valuations are at a considerable discount to peers. We initiate coverage with a Buy rating and TP of INR1,420 per share (27x/17x FY24E EV/EBITDA for KFC/PH) which is at a significant discount to the target multiples for DEVYANI's KFC/PH at 45x/35x.**

Large opportunity in FSI with an established right-to-win for QSRs

- The INR4.2t Indian FSI is expected to clock ~9% CAGR over FY20-25. Within FSI, the QSR segment is expected to grow at the fastest pace (23% CAGR) over FY20-25. The segment is expected to see its market share increase to 54% in FY25 from 47% in FY20 within the organized space.
- QSRs have established their right-to-win through their competitive advantages, which include: a) scale, b) aspirational positioning, c) offering new cuisines, d) higher convenience through delivery, on-the-go, and in-transit consumption, and e) greater trust.
- As elaborated in our FSI thematic note in Dec'21, the organized Indian FSI is witnessing enhanced growth prospects after the lifting of COVID-related restrictions, led by several tailwinds.

SAPPHIRE's new scalable Restaurant economic model is a game-changer

- SAPPHIRE has developed a new model in consultation with Yum, which is critical for the growth of KFC and the turnaround of PH.
- Its omnichannel strategy has led to an increased focus on delivery and takeaway channels, which are crucial in terms of driving unit economics. This has led to a rise in the contribution of delivery sales in the domestic business to 47% in FY22 from 22% in FY19, though partially aided by the COVID-19 pandemic.
- At the same time, SAPPHIRE has reduced the size of both KFC and PH stores by ~45% in FY20-22, without materially impacting its revenue capacity. This has further improved unit economics, with considerably improved payback periods from 5-6 years for KFC and 8-9 years for PH to about 3-4 years for both.
- The other elements of the new Restaurant economic model are: a) enhanced value and affordability proposition, b) continuous focus on cost efficiencies, c) robust internal process for store additions, and d) additional incentives for network expansion.

KFC India: On a strong footing

- With the new Restaurant economic model in place, KFC is now accelerating the pace of store additions. While SAPPHIRE added only 29/16 KFC stores in FY20/FY21, it added 60 stores in FY22. We expect this pace of store addition to continue in FY23/FY24 as well.
- With an elevated delivery channel boosting ADS, KFC saw a good recovery with ADS at a record high of INR144k in its 3QFY22 before moderating to INR132k in 4QFY22 which is still healthy given COVID-led disruptions in Jan'22. It registered an SSSG of 31% in FY22 and is expected to post double-digit SSSG in FY23 and a low-single digit in FY24.
- With a strong SSSG and rapid store expansion, we expect KFC India to deliver 31% sales CAGR over FY22-24.
- The new Restaurant economic model has helped push KFC's Restaurant EBITDA margin to high teens in recent quarters from low teens earlier.
- Margin (adjusted for one-off incentives) stood at 18.7% in FY22, aided by robust ADS. We expect KFC's healthy profitability to sustain in the years ahead.

Pizza Hut India: Omnichannel focus pivoting a turnaround

- PH is retaining its dine-in differentiation, while at the same time increasing its focus on the delivery channel. This is boosting its ADS and narrowing the gap with Domino's. Delivery's contribution is up to 57% in FY22 from 33% in FY19, aided by tailwinds from the COVID-19 pandemic.
- Just like KFC, PH too is seeing a strong ADS recovery and rapid store additions. We expect PH to register 35% sales CAGR over FY22-24.
- Due to its erstwhile weak unit economics, EBITDA margin for PH were in single-digits in FY19-21. However, under the new Restaurant economic model, the EBITDA margins for PH are in double-digits (11.4%) in FY22 (adjusted for one-off incentives). As PH's ADS improve in the years ahead, we expect the margin to improve further, though the current commodity environment may be a near-term dampener.

Poised for strong growth

- With healthy SSSG and rapid store additions, we expect SAPPHIRE to deliver strong double-digit sales growth in the years ahead (29% CAGR over FY22-24).
- SAPPHIRE's efforts on the omnichannel model, with a reduction in store sizes, have evidently led to a turnaround in its profitability, with overall EBITDA margin (pre-Ind AS 116) improving from low single-digits in FY19-21 to 11% in FY22. We forecast 43% EBITDA CAGR over FY22-24.
- It has delivered a net profit in FY22 after incurring losses over FY19-21. We expect it to improve its net profit margin to 5.3% in FY24 from 2.7% in FY22.

Valuation and view

- SAPPHIRE has strengthened KFC and turned around the PH businesses through its new Restaurant economic model comprising: a) an omnichannel strategy, b) store size optimization, c) enhanced value proposition, d) continuous focus on cost efficiencies, e) robust internal process for store additions, and f) additional incentives for network expansion.
- Both KFC and PH are poised for strong growth due to their rapid network expansion and healthy SSSG over the next few years. We expect KFC/PH to clock 31%/35% sales CAGR over FY22-24. There is considerable potential for an upside to our forecasts as our estimated FY24 ADS levels had already been surpassed in 3QFY22 (albeit, an outlier).
- SAPPHIRE's operational profitability improved in FY22 due to its: a) robust ADS growth, b) improved unit economics under the new Restaurant model, and c) focus on cost savings. We expect this trend to sustain going forward as well. However, the recent challenges on commodity inflation and the Sri Lanka crisis may apply some pressure on near-term profitability.
- We have assigned an FY24E EV/EBITDA (pre-Ind AS 116) multiple of 27x to the KFC business on account of its robust metrics (ADS and brand contribution margin), and 17x to the PH business. These are at a significant discount to the target multiples for DEVYANI's KFC/PH (45x/35x) on account of the disadvantages that SAPPHIRE faces in terms of trade: a) its territorial rights in KFC are largely in states with a higher vegetarian population, and b) DEVYANI can venture into SAPPHIRE's territories with PHD format stores, which require lower capex. While the discount multiples are justified given the above mentioned reasons, the earnings growth opportunity is attractive enough to warrant an investment case. We assign a Buy rating with a TP of INR1,420 on a SoTP basis.

Exhibit 1: SoTP-based TP of INR1,420 per share

Pre-IND AS 116 EBITDA (INR b)	FY24E	Multiple	EV
KFC	2.7	27x	73.1
PH	0.5	17x	8.9
Sri Lanka	0.6	5x	3.0
Other Business	0.0	1x	0.0
Total EV	**3.9**	**22x**	**85.1**
Net debt	FY24E		-5.2
Equity value			**90.4**
TP			**1,420**
Upside (%)			**42%**

Source: Company, MOFSL

Exhibit 2: Comparative valuations

Company	Rating	CMP	Target price		M-cap	CAGR FY22-24E (%)		EV/sales (x)			EV/EBITDA* (x)		
		(INR)	(INR)	Upside (%)	(INR b)	Sales	EBITDA*	FY22	FY23E	FY24E	FY22	FY23E	FY24E
JUBI	Buy	479	730	53	316	16.6	17.9	6.9	5.8	4.9	38.1	31.9	26.8
DEVYANI	Buy	152	210	38	183	40.5	45 .1	8.8	5.8	4.4	61.2	40.4	28.7
SAPPHIRE	**Buy**	**1,000**	**1,420**	**42**	**64**	**29.3**	**43.3**	**3.5**	**2.7**	**2.0**	**33.2**	**25.9**	**15.7**
WLDL	Neutral	460	490	7	72	25.6	66.6	4.7	3.7	3.0	62.0	32.9	22.5
RBA	Buy	95	150	58	47	39.3	216.4	4.6	3.1	2.4	105.6	16.0	10.6
BARBEQUE	Neutral	959	1,060	11	37	36.3	62.6	4.3	2.7	2.1	49.6	26.5	17.6

*Pre-IND AS 116

Source: Company, MOFSL

Large opportunity in India's Food Services industry

- According to industry estimates, the Indian FSI market was pegged at INR4.2t in FY20 and is expected to touch INR6.2t by FY25 (registering 8% CAGR).
- The organized FSI space is growing faster than the industry, with an expected 15% CAGR over FY20-25. Its share is expected to rise to 51% by FY25 from 38% in FY20.
- Growth drivers for FSI include: a) rising population of youth, b) higher income levels, c) changing lifestyles, with greater frequency of eating out, d) wider internet penetration, e) increasing availability of Retail space, f) growth in online food delivery and food tech, and g) urbanization and nuclear families.

QSR sector enjoys an edge

- The QSR segment is focused on service, speed, affordability, and convenience. It includes dine-in, takeaways, delivery, drive-thrus, and on-the-go sub formats.
- Within FSI, the QSR segment is expected to grow at the fastest pace (23% CAGR) over FY20-25. The segment is expected to see its market share increase to 54% in FY25E from 47% in FY20 within the organized space.
- In this fast-growing industry, QSRs have established their right-to-win through their competitive advantages, which include: a) scale, b) aspirational positioning, c) offering new cuisines, d) higher convenience through delivery, on-the-go, and in-transit consumption, and e) greater trust.

23%
QSR segment CAGR over FY20-25E

Exhibit 3: QSR to see the fastest growth among various FSI segments

	CAGR (%)			Market share (%)			
	FY10-15	FY15-20	FY20-25E	FY10	FY15	FY20	FY25E
Quick Service Restaurants (QSRs)	**29**	**19**	**23**	**33**	**45**	**47**	**54**
Casual Dining Restaurants (CDRs)	18	19	19	37	32	34	32
Frozen Dessert/Ice Cream	15	16	17	7	6	5	5
Pub, Bar, Café and Lounge (PBCL)	25	22	16	4	5	6	5
Café	16	8	10	12	10	6	4
Fine Dining Restaurants (FDR)	5	3	2	6	3	2	1

Source: MOFSL, Technopak

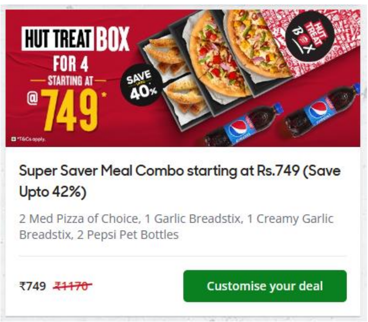
COVID-19 pandemic offers multiple tailwinds for organized players

- As elaborated in our FSI thematic note in Dec'21, the organized Indian FSI is witnessing enhanced growth prospects after the lifting of COVID-related restrictions, led by:
  a) Sustained high delivery levels compared to the past, aided by increased technology adoption by consumers;
  b) Incrementally strong gains from unorganized peers, led by closures of 30-40% of the Restaurants;
  c) The shift towards more trusted brands, with better hygiene standards;
  d) Accelerated store expansion by organized players;
  e) Favorable cost outlook (especially on fixed costs – lease rental and employee expenses) by variablizing them; and
  f) Increased supply of Real Estate due to closures of Restaurants and other Retail players, making it attractive for the survivors to expand their store networks.

New scalable Restaurant economic model – a game changer

New model developed in consultation with Yum critical for turnaround and growth of SAPPHIRE

KFC and PH's value offerings



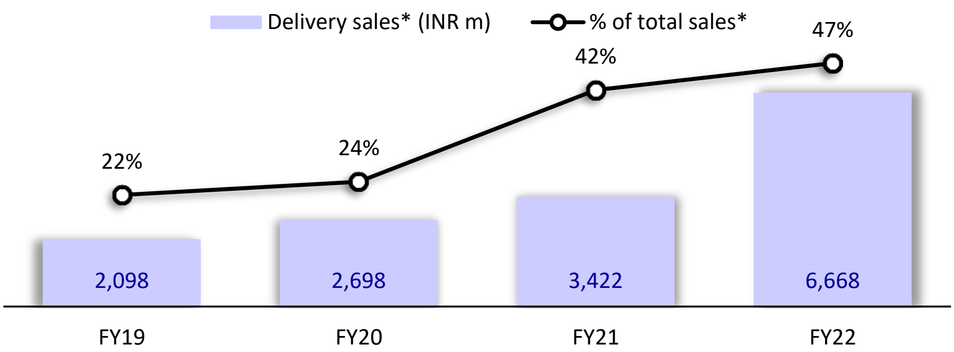
Enhanced value and affordability proposition

- SAPPHIRE has introduced value offerings at entry and premium price points which help: a) drive more transactions, b) push up higher ticket sizes through premiumization, meal combos and add-ons, and c) acquire new customers.
- Since the customer proposition is meant to be uniform across the country, these offerings are developed together with Yum and DEVYANI (sister franchisee).
- Some value offerings are: a) **KFC:** entry-level burgers and value chicken buckets, b) **PH:** 'Every Day Value' pizzas and meal combos for one/two/four persons.

Omnichannel strategy

- As highlighted previously (WLDL and RBA), having additional channels in conjunction with dine-in is critical for the success of any QSR business in India. Delivery and takeaway channels are vital for driving unit economics.
- Some of the initiatives taken by SAPPHIRE to grow these add-on channels are:
  a) Most Restaurants and menu items are configured to enable delivery.
  b) It has adopted a hybrid model with third-party delivery aggregators and its own online delivery platform.
  c) It also uses an analytics-based customer relationship management (CRM) program to gather data on orders placed on its own website.

Exhibit 4: Increasing contribution of the delivery channel aided by the COVID-19 pandemic



*Figures for KFC and PH in India

Source: Company, MOFSL

Optimized Restaurant size

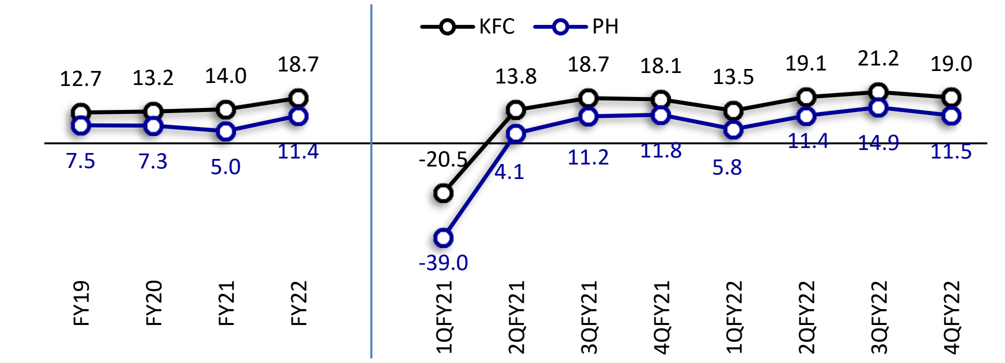
- SAPPHIRE has reduced the sizes of its stores, both the customer area and the kitchen area, without impacting revenue capacity. This has led to lower capex, rental, and other operating costs, leading to better profitability and paybacks.
- As seen in the exhibit below, both KFC and PH store sizes were cut by ~40% in FY20-21 from Mar'19 levels without a major impact on ADS. These sizes have been further reduced in the recently opened outlets. The ADS for recent outlets is lower mainly because these are young outlets v/s the rest.

Exhibit 5: Significantly reduces restaurant sizes without impacting revenue capacity

	KFC			PH		
	Mar'19	FY20-21	Recent	Mar'19	FY20-21	Recent
Average size of restaurant (sq. ft.)	2,736	1,645	1,400-1,500	2,427	1,480	1,200-1,300
Capex per new restaurant (INR m)	21	20	17	16	14	13
ADS (INR'000)	125	130	106	61	58	48

Source: Company, MOFSL

Exhibit 6: Improving adjusted Restaurant EBITDA margin for both KFC and PH



FY21 and 4QFY22 affected due to the COVID-19 pandemic Source: Company, MOFSL

Continuous focus on cost efficiencies

- SAPPHIRE has taken several initiatives towards minimizing wastage and enhancing efficiencies through a combination of ERP systems, processes, and people. Its restaurant-level cost benchmarking programs such as PACE SETTER have helped it to continuously improve restaurant operating margin.
- In FY21, it permanently reduced employee and operating costs at its Restaurants. Prior to the COVID-19 pandemic, 30% staff were on a temporary basis, but the same has now increased to 70%. While this staff is on hourly wages, they are on the payroll of SAPPHIRE and not outsourced.
- The company has built in three-layered business controls and an internal audit system, which enables it to keep leakages in check and highlights opportunities for process and control improvements. These are: a) financial excellence review teams, which conduct quarterly audits at Restaurants, b) a data analytics team, which continuously monitors and analyses transactional-level data; and c) a process and risk review conducted by an in-house and a third-party team covering functional processes across the business.

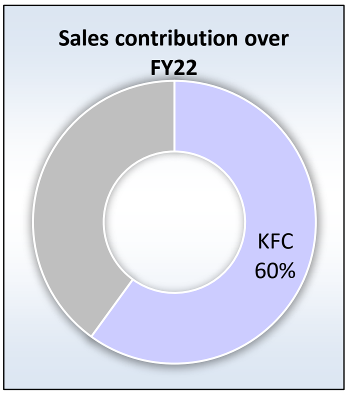
Robust internal process for store additions

- SAPPHIRE has built in a robust internal process for store additions. This starts from mapping of new potential trade areas for the next three years. It further includes site selection, building the Restaurant, manpower planning and training, and a marketing launch plan to achieve its targeted level of sales.
- Even as the management aims to double its store count to ~1,100 across all its business over the next three-to-four years, it is unlikely to opt for a split store strategy as its store network is still very thin.

Additional incentives for network expansion

- As a part of its Development Agreement with Yum, SAPPHIRE is required to open a minimum number of restaurants annually during the term of the DA.
- It is eligible for certain incentives such as waivers of initial fees and marketing expenses should it meet or exceed its targets for opening new restaurants.

KFC India: On a strong footing



Unique value proposition with an aspirational brand

- KFC offers an extensive menu featuring fried chicken buckets and allied chicken products, grilled chicken, burgers, rice bowls, and beverages.
- Its core offering of fried chicken products, with select herbs and spices, is a unique offering in the Indian QSR industry, although competition is intensifying in this space, given the attractive business opportunity.
- KFC enjoys a strong brand equity and loyalty among consumers, making it well-placed to compete and grow.

Reduced store size to optimize unit economics

- As indicated earlier, SAPPHIRE has reduced the size of its KFC stores without compromising on the revenue capacity of the store.
- This has helped cut down capex per store, rentals, and other operating costs, which resulted in better profitability and paybacks. KFC stores now have a payback of around three years from six-to-eight years earlier.

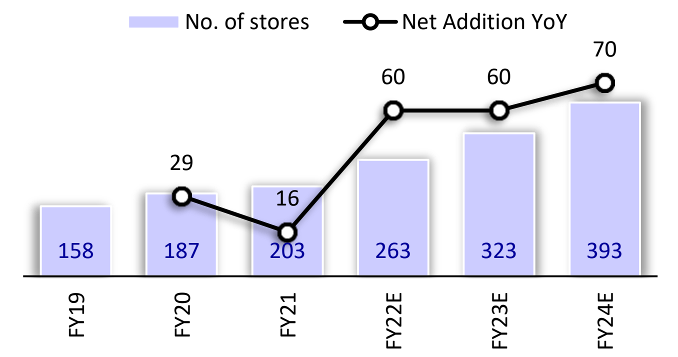
Owns KFC territorial rights for 10 states

- SAPPHIRE owns KFC territorial rights in 10 states: Tamil Nadu, Maharashtra, Delhi, Punjab, Gujarat, Uttar Pradesh, Uttarakhand, Madhya Pradesh, Haryana, and Chhattisgarh. While these states contribute over half of India's GDP, many of these states have a higher vegetarian population.
- Nevertheless, micro markets with the right target consumer within these states can be identified. The potential for store network expansion is not a concern.

Accelerating pace of store network expansion

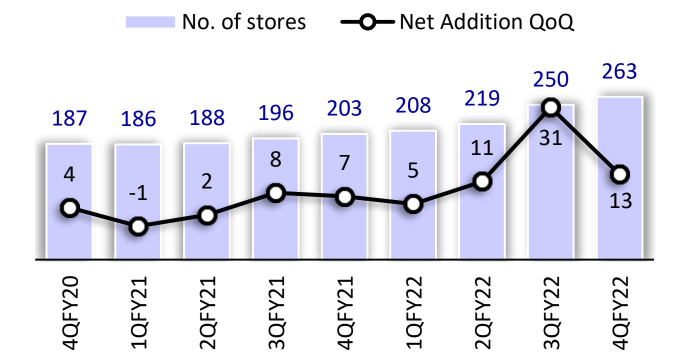
- The management's focus was on optimizing store sizes and formats over FY20-21. Having arrived at the optimum store size under the new Restaurant economic model, SAPPHIRE has now stepped up its pace of store network expansion.
- While SAPPHIRE added only 29/16 KFC stores in FY20/FY21, it added 60 stores in FY22. We expect this pace of store addition to continue in FY23/FY24 as well.

Exhibit 7: Slow pace of KFC's store additions until FY21…



Source: Company, MOFSL

Exhibit 8: …but picks up significantly in recent quarters

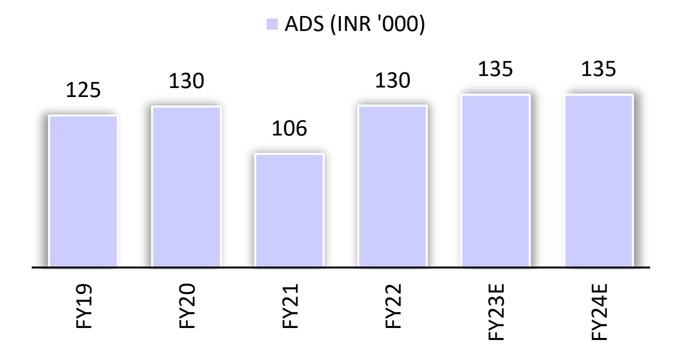


Source: Company, MOFSL

Recovery in ADS aided by KFC India's omnichannel strategy

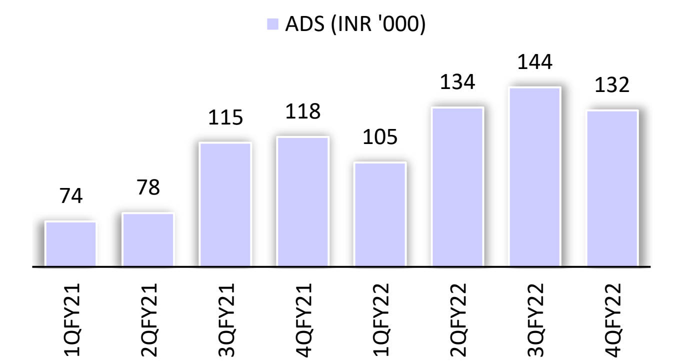
- ADS touched a record high of INR144k in 3QFY22, aided by KFC's omnichannel strategy and an upbeat demand environment due to the festive season and pent up demand. ADS witnessed some normalization in 4QFY22 (albeit impacted by COVID in Jan'22) and we expect these normalized ADS levels to continue over the next few quarters.

Exhibit 9: COVID-19 pandemic affects ADS in FY21 and FY22, expect it to see an uptick going forward



Source: Company, MOFSL

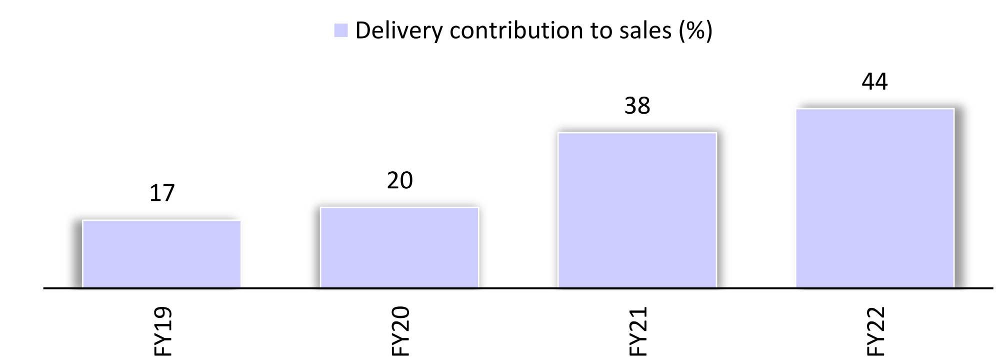
Exhibit 10: High ADS in recent quarters aided by its omnichannel strategy and upbeat demand environment



Source: Company, MOFSL

- The delivery channel gained salience during the COVID-19 pandemic as mobility restrictions led to focus on in-home consumption. The contribution of the delivery channel to sales was significantly higher in FY22 as compared to pre-COVID years.
- This new consumer habit formed during the COVID-19 pandemic has sustained even as normalcy returns. The delivery channel continued to remain elevated in 3QFY22/4QFY22 at 37%/40%, even as the dine-in channel saw a considerable recovery.
- We believe the convenience channels of delivery and takeaways are here to stay and will play a crucial role in store unit economics. SAPPHIRE has done well to pivot its business model to an omnichannel format, thereby catering to evolving consumer needs.

Exhibit 11: Elevated contribution of Delivery v/s pre-COVID levels

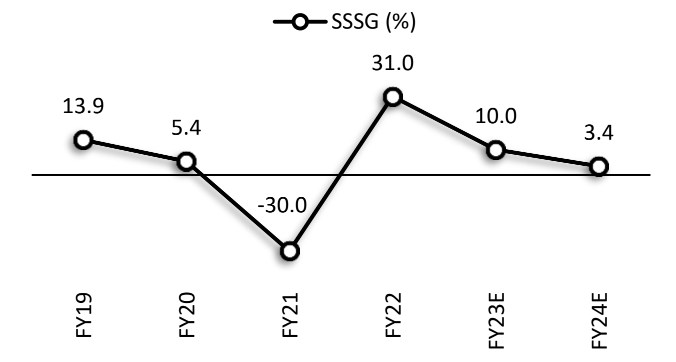


Source: Company, MOFSL

KFC India to deliver strong sales growth

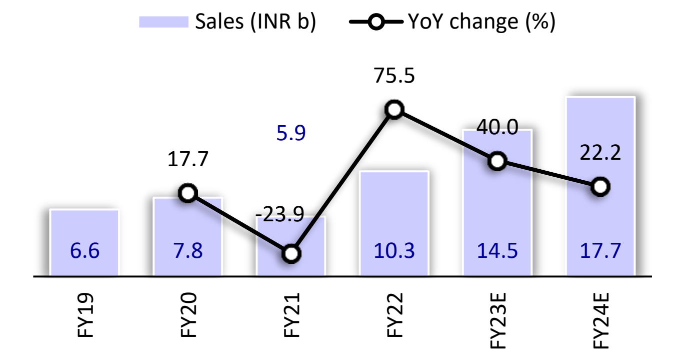
- After a steep decline in ADS in FY21 and 1QFY22 due to the COVID-19 pandemic, we expect a recovery in ADS to drive double-digit SSSG in FY23. We expect SSSG to be in mid-single-digits on a sustainable basis, driven by an increase in volumes, premiumization, and price hikes.
- With an ADS recovery and rapid store expansion, we expect KFC India to deliver 31% sales CAGR over FY22-24.

Exhibit 12: SSSG recovered in FY22 and we expect healthy levels going forward



Source: Company, MOFSL

Exhibit 13: Expect 31% sales CAGR for KFC India to INR17.7b over FY22-24

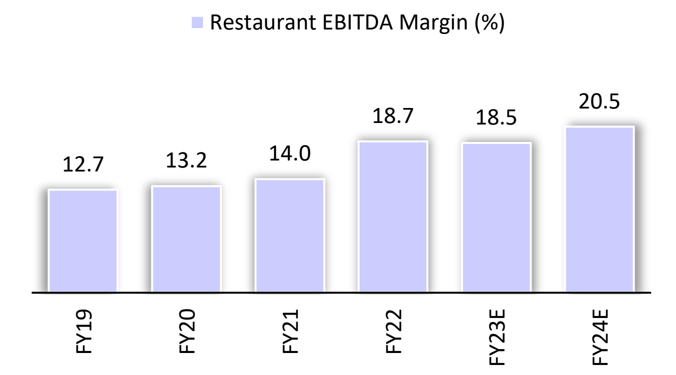


Source: Company, MOFSL

Robust profitability to sustain

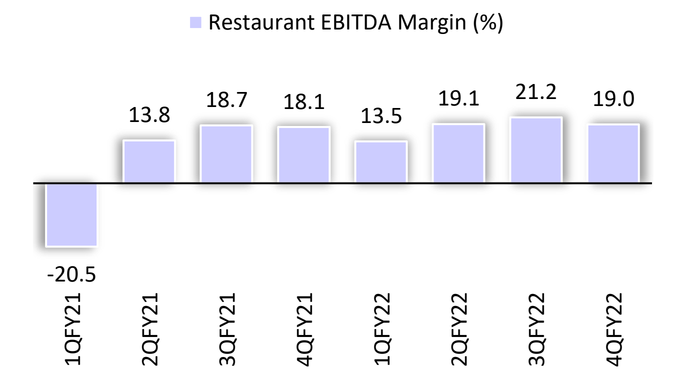
- The new Restaurant economic model has helped push KFC's Restaurant EBITDA margin to high teens in recent quarters from low teens earlier.
- KFC India delivered a strong adjusted Restaurant EBITDA margin of 21.2% in 3QFY22, driven by robust ADS. Reported Restaurant EBITDA margin stood at 22.5%, which includes incentives by Yum for higher than initially planned store additions. While this moderated to 19% in 4QFY22, it was mainly on account of Omicron-led disruptions in Jan'22.
- We build in a gradual expansion in Restaurant EBITDA margin to 19.5% in FY24 as the current commodity inflationary environment may weigh on near-term profitability.

Exhibit 14: New Restaurant economic model boosts KFC's Restaurant EBITDA margin



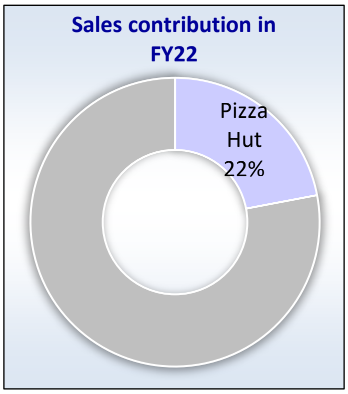
Source: Company, MOFSL

Exhibit 15: Improving trend evident in recent quarters



Source: Company, MOFSL

Pizza Hut India: Omnichannel focus pivoting a turnaround



PH's territorial rights in India are differentiated by formats

- PH as a brand mainly operates two formats in India:

a) Large format stores with full service dine-in capacities, and

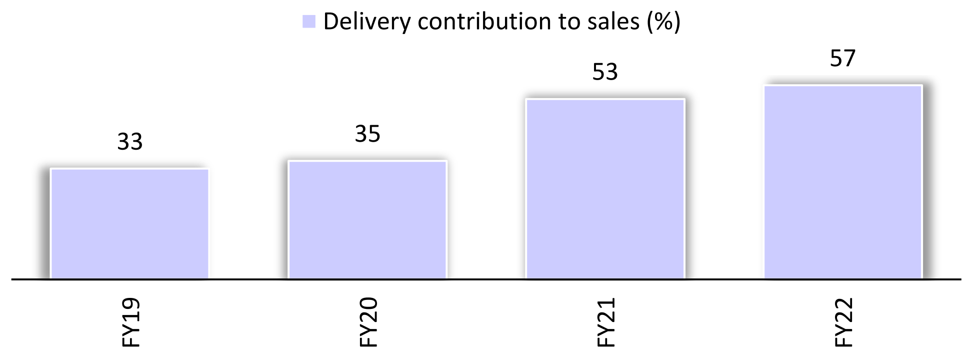
b) Small format stores that cater to delivery or takeaway orders with limited seating. This format is also called 'Pizza Hut Delivery' (PHD).

- For large format stores, SAPPHIRE has territorial rights in 11 states, which contribute over half of India's GDP. In the case of small format stores, it has the rights only for Tamil Nadu.

SAPPHIRE focusing completely on the omnichannel format

- The management believes the omnichannel format is key to differentiate the PH brand in the market. With Domino's having created a strong niche in the pizza delivery channel, PH can stand out by offering a better dine-in experience. In the case of dine-in, SAPPHIRE has reduced store sizes.
- At the same time, SAPPHIRE is also developing its delivery and takeaway channels as incremental channels. Consequently, SAPPHIRE's PH stores offer a holistic omnichannel proposition.
- The pandemic has played a significant role in re-pivoting the business model towards omnichannel as: a) delivery received a boost due to in-home consumption and stayed elevated compared to pre-COVID levels, even as normalcy returns, and b) the dine-in channel recovers as consumer mobility resumes.

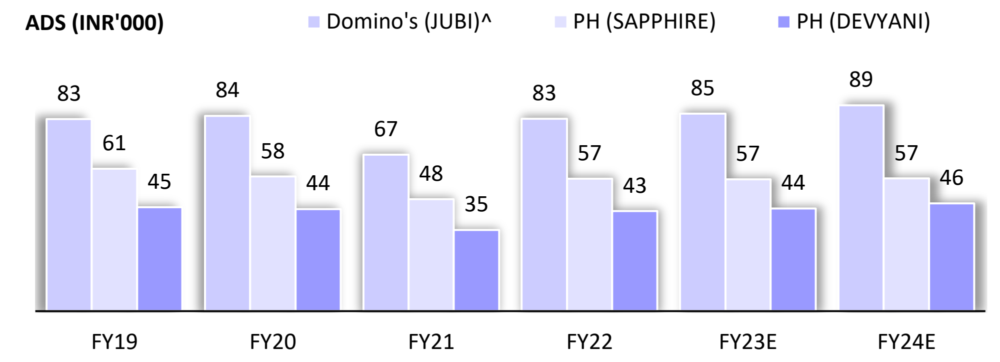
Exhibit 16: PH's delivery sales elevated v/s pre-COVID levels as normalcy returns



Source: Company, MOFSL

- PH as a brand is considerably lagging Domino's on ADS, but the gap is narrowing as both SAPPHIRE and DEVYANI are now getting aggressive. PH is bolstering its delivery capacities, while retaining its dine-in edge. This is key to PH's turnaround in India, in addition to the optimization of store sizes.
- While SAPPHIRE's ADS is higher than DEVYANI, the former's stores are also bigger as the latter focuses extensively on adding small-format stores.

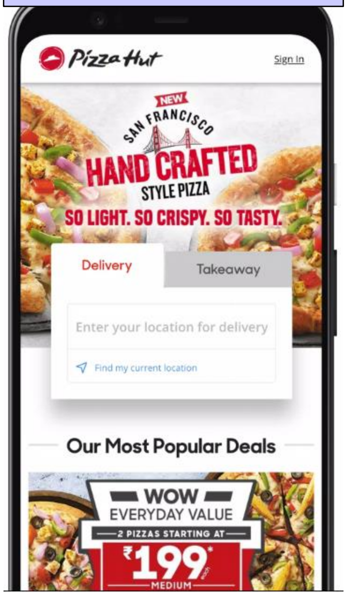
Exhibit 17: PH is narrowing the ADS gap with Domino's



Source: Company, MOFSL

^We calculate ADS for JUBI assuming all sales pertain to Domino's as the contribution of other brands is very low

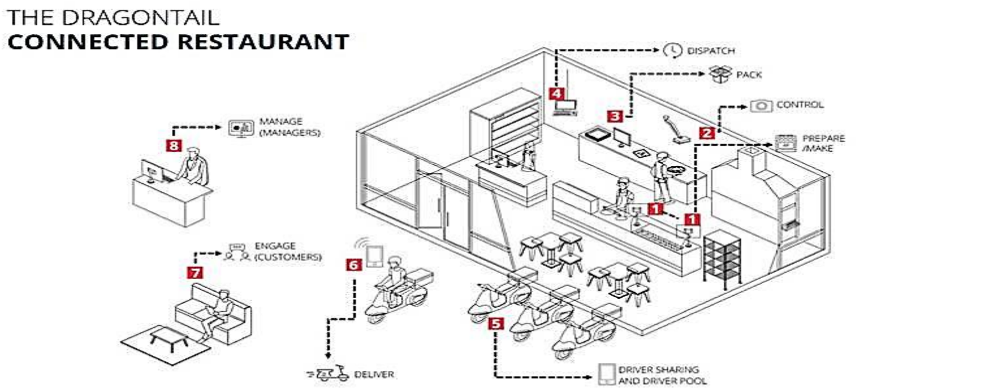
PH's mobile app



Increasing focus on technology

- Driving growth in the delivery channel will require a strong technology back-end. This is an area where JUBI has been investing significantly over the past several years. In the case of KFC and PH, the technology aspect is managed by Yum for both SAPPHIRE and DEVYANI.
- Yum has been increasing its focus on technology globally during the COVID-19 pandemic as the delivery channel gained significance, led by in-home consumption. In CY21, it acquired Australia-based Dragontail Systems, an innovator in kitchen order management and delivery technology, for AUD93.5m in cash. This will give Yum the ability to scale Dragontail's artificial intelligence (AI) kitchen order management and delivery technology globally. The acquisition is hyper-focused on improving delivery operations and pizza delivery in particular. Dragontail's platform is currently deployed across nearly 1,500 PH Restaurants in over 10 countries. This was Yum's third major technology acquisition in CY21. In Mar'21, Yum acquired AI firm Kvantum to assist with its marketing campaign analytics and Tictuk, which develops an omnichannel ordering software that allows consumers to place orders via social media, SMS, email, and other formats.
- In India, both KFC and PH mobile apps were re-launched in the last one year, with a more consumer-friendly interface and strong exclusive value offers. As per the management, another re-launch is being planned in the next six months. The new apps have seen considerable improvement in ratings to 3.5-4 stars from two stars earlier.

Exhibit 18: Dragontail helps optimize kitchen and delivery operations through AI



Source: Company, MOFSL

New campaign to drive awareness of the delivery channel

- The company recently launched a new campaign called *'Dil Khol Ke Delivering'* to drive awareness of the delivery channel.

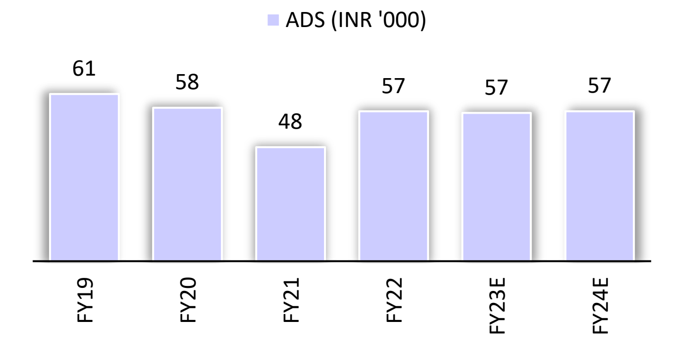
Exhibit 19: PH's new campaign to promote the delivery channel

Source: Company, MOFSL

ADS improving well, but close monitoring required

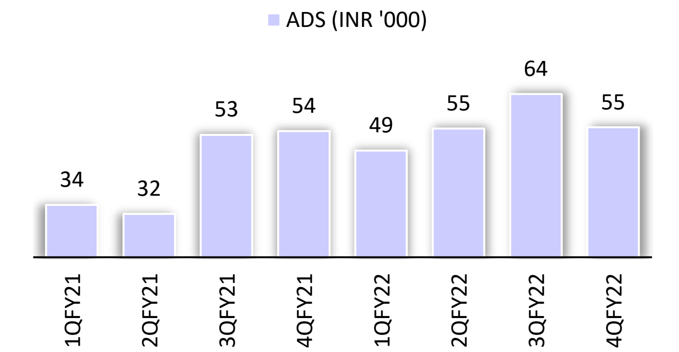
- The omnichannel focus helped PH to cater to both in-home and out-of-home aspects of consumption. SAPHHIRE's PH ADS is recovering well after the lifting of COVID-related restrictions.

Exhibit 20: SAPPHIRE PH ADS recovering well, given its omnichannel focus…



Source: Company, MOFSL

Exhibit 21: …boosted by strong consumer sentiments and unlocking of demand in recent quarters

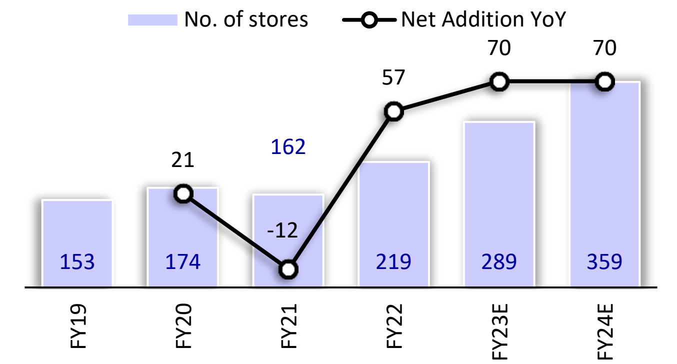


Source: Company, MOFSL

Pace of store network expansion is accelerating for PH as well

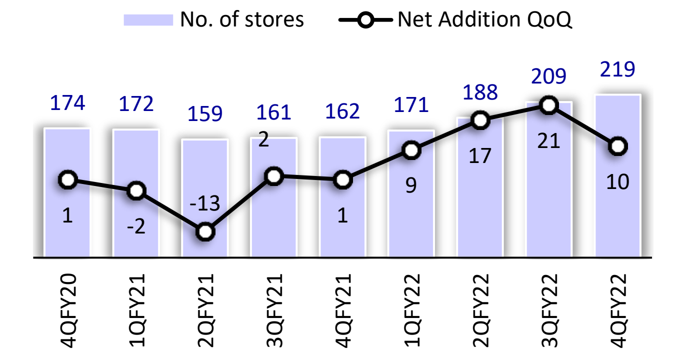
- The management's focus was on optimizing store sizes and formats over FY20-21. Having arrived at the optimum store size, it has now stepped up the pace of its store network expansion.
- While SAPPHIRE added only nine stores over FY19-21, it added 57 stores in FY22. We expect this pace of store additions to continue in FY23 and FY24 as well.

Exhibit 22: Slow pace of PH store additions until FY21…



Source: Company, MOFSL

Exhibit 23: …but sees a pick up from 2QFY22 onwards

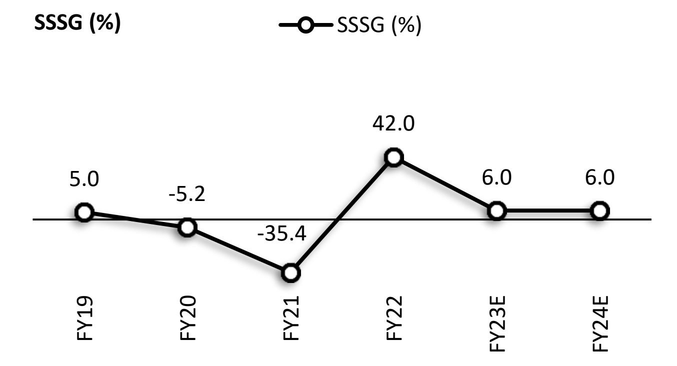


Source: Company, MOFSL

PH India to deliver strong sales growth

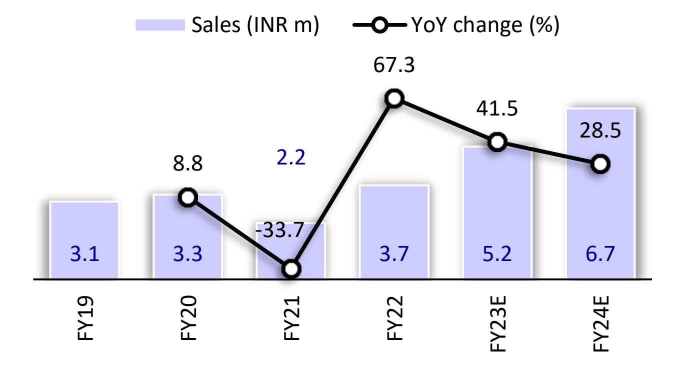
- After a steep decline in ADS in FY21 and 1QFY22, we expect a recovery in the same to drive double-digit SSSG in FY22-23. We expect the double-digit SSSG to continue, given PH's efforts towards narrowing the ADS gap with Domino's.
- With a recovery in ADS and rapid store expansion, we expect PH India to deliver 42% sales CAGR over FY22-24.

Exhibit 24: SSSG recovered in FY22 with mid-single-digit levels thereafter



Source: Company, MOFSL

Exhibit 25: Expect PH India sales to clock 35% CAGR over FY22-24 to INR6.7b



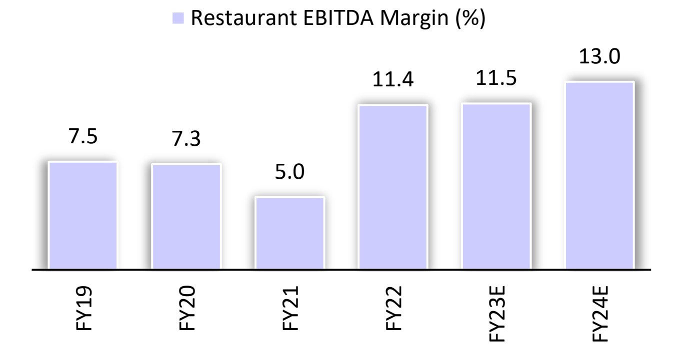
Source: Company, MOFSL

Profitability weak but improving

- Due to its low ADS, PH India has weak fixed cost absorption and therefore weak profitability. As ADS improves in the years ahead, so will its profitability.

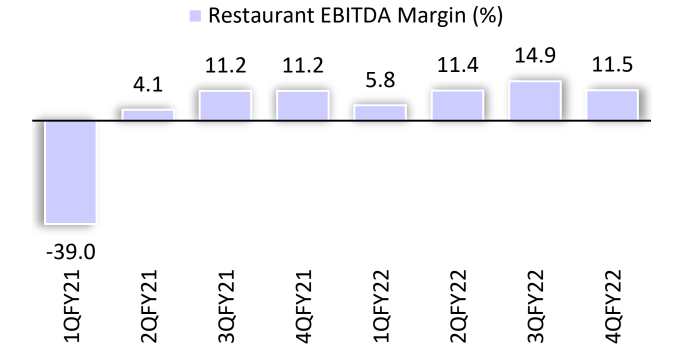
- PH India delivered an adjusted Restaurant EBITDA margin of 11.4% in FY22, led by ADS growth. Reported Restaurant EBITDA margin stood at 13.4%, which includes incentives by Yum for higher than initially planned store additions.
- We build in a gradual Restaurant EBITDA margin expansion to 13% in FY24 as the current commodity inflationary environment may weigh on near term profitability.

Exhibit 26: New Restaurant economic model boosts PH's Restaurant EBITDA margin from FY22



Source: Company, MOFSL

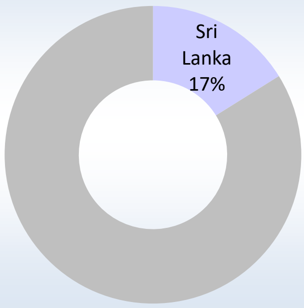
Exhibit 27: Recent quarterly trend also encouraging. 4QFY22 was impacted by Omicron-led disruptions in Jan'22



Source: Company, MOFSL

Sri Lanka business: Macro turbulences dampen prospects

FY22 sales contribution



- SAPPHIRE is the single franchisee for PH and Taco Bell in Sri Lanka.
- It is the largest international QSR chain in Sri Lanka with:

a) FY21 revenue was ~35% of the total market revenue in SL, and

b) The number of restaurants operated as of 31st Mar'21 representing 39% of the total number of outlets in the SL market.

- The store network for SAPPHIRE as of Mar'22 stands at:

a) PH: 90 stores

b) Taco Bell: five stores (three stores added in 3QFY22 after having two stores for a long time).

Macro turbulences to dampen prospects

- Sri Lanka has slipped into an economic crisis in the aftermath of the COVID-19 pandemic. The situation seems challenging and will take time to normalize.
- In 4QFY22 earnings call, SAPPHIRE highlighted continued momentum in SL despite the macro volatilities. It reported a system sales growth of 82% (in INR terms), SSSG of ~29%, YoY ADS growth of 15% (in INR terms). Even more encouraging was that SSSG was driven by a ~30% increase in same store transactions. It also added 6 restaurants in the quarter. Further it highlighted that the business continued to do well in Apr'22 however, there was a worsening of the macro situation in May'22.
- While management expects to add 10-15 new stores during FY23, we expect a slight decline in FY23 revenues on account of a) impact of macro volatilities, and b) sharp depreciation of LKR from ~0.37 INR in Feb'22 to ~0.22 INR in May'22. We expect the business's profitability to be affected in FY23 before recovering gradually FY24 onwards.

Exhibit 28: Expect revenue to decline in Sri Lanka due to the economic crisis in the country

	Unit	FY19	FY20	FY21	FY22	FY23E	FY24E
No. of stores	#	63	64	70	95	105	115
Net addition	#	NA	1	6	25	10	10
SSSG	%	8.0	-2.0	-5.0	31.0	-15.0	38.7
ADS	INR '000	93	87	90	96	19	22
Sales	INR m	1,984	2,038	1,965	2,983	2,718	4,116
YoY change	%	NA	2.7	-3.6	51.8	-8.9	51.4
Restaurant EBITDA	INR m	317	329	384	656	381	823
Margin	%	16.0	16.2	19.5	22.0	14.0	20.0
YoY change	%	NA	3.8	16.5	71.0	-42.0	116.3

Source: Company, MOFSL

Other business: Maldives

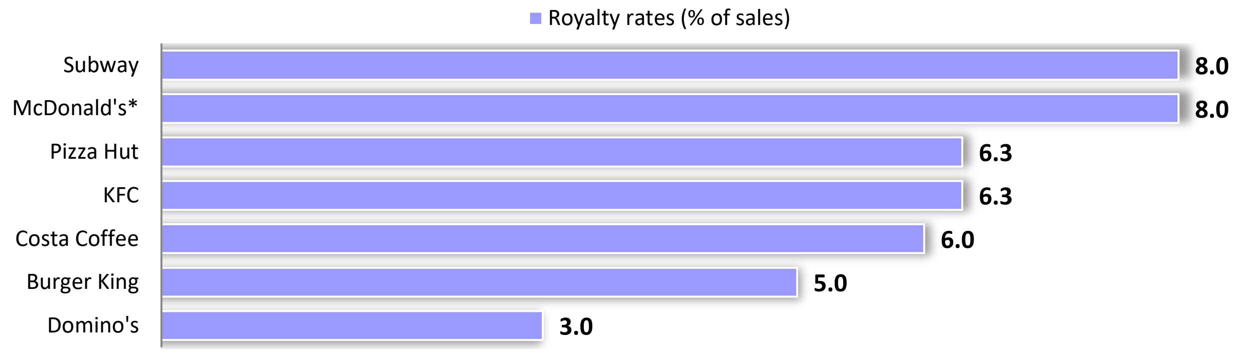
- In Maldives, SAPPHIRE operates one Restaurant each of KFC and PH in Malé.
- Its Maldives business contributes ~1% of the company's sales.

Royalty rates and marketing spends

Royalty rates

- SAPPHIRE and DEVYANI are required to pay a royalty fee of 6.3% of sales to Yum for both KFC and PH. This is higher than the royalty rates paid by Domino's and Burger King at 3% and 5% of sales, respectively. McDonald's currently incurs a royalty rate of 4% of sales, but is scheduled to increase it gradually to 8% in FY27 and thereafter. For Costa Coffee, the royalty rate stands at 6% of sales.

Exhibit 29: Royalty rates paid by industry players



*scheduled to increase to 8% in FY27 from 4% in FY22 Source: Company, MOFSL

Marketing spends

- SAPPHIRE and DEVYANI are expected to incur 6% of sales as marketing spends on both KFC and PH. Of this, 5% will be allocated to Yum for common marketing activities. The balance 1% will be allocated for localized/store-based promotion and marketing activities.

Financial assumptions – Poised for strong growth

- As indicated previously, SAPPHIRE is adding 60-70 stores each of KFC and PH annually, leading to rapid store network expansion. This is broadly in line with DEVYANI and RBA, but considerably higher than the 10-14% annual store additions for JUBI and WLDL.

Exhibit 30: Expect rapid store addition in both KFC and PH

	FY19	FY20	FY21	FY22	FY23E	FY24E
KFC stores	158	187	203	263	323	393
PH stores	153	174	162	219	289	359
Total number of stores	376	427	437	579	719	869
Net additions YoY	-	51	10	142	140	150
Additions (%)	-	13.6	2.3	32.5	24.2	20.9

Source: Company, MOFSL

- We expect double-digit SSSG in both KFC and PH in FY23 on account of continued recovery after the lifting of COVID-related restrictions. We expect mid-single-digit SSSG for KFC on a sustainable basis and high-single- digit SSSG for PH driven by its turnaround efforts.
- We build in a gradual improvement in ADS for KFC and a consistent level of ADS for PH on a conservative basis. Our FY24 ADS estimate levels have already been surpassed in 3QFY22. The latter saw significant tailwinds due to the festive season and pent up demand. These tailwinds will normalize going forward.

Exhibit 31: Expect healthy SSSG in FY23 with improving ADS for KFC

	FY19	FY20	FY21	FY22	FY23E	FY24E
KFC India – ADS (INR'000)	125	130	106	130	135	135
KFC India – SSSG (%)	13.9	5.4	-30.0	31.0	10.0	3.4
PH India – ADS (INR'000)	61	58	48	57	57	57
PH India – SSSG (%)	5.0	-5.2	-35.4	42.0	6.0	6.0

Source: Company, MOFSL

- With healthy SSSG and rapid store additions, we expect SAPPHIRE to deliver strong double-digit sales growth in the years ahead (29% CAGR over FY22-24).
- The current commodity inflation may impact gross margin in FY23, but the same should improve thereafter.
- SAPPHIRE's efforts on the omnichannel model, with a reduction in store sizes, have evidently led to a turnaround in its profitability, with EBITDA margin (pre-Ind AS 116) improving from low single-digits in FY19-21 to 11% in FY22. With increasing ADS, leading to operating leverage and continuous cost saving efforts, EBITDA margin should sustain, if not expand further, at mid-teens levels. While the company has already delivered a commendable 10.5% EBITDA margin (including incentives from Yum) in FY22, we build in a slower margin expansion trajectory, taking into account near-term commodity headwinds. We forecast 43% pre-IND AS 116 EBITDA CAGR over FY22-24.
- It has delivered an adjusted net profit of INR460m in FY22 after incurring losses over FY19-21. We expect it to improve its net profit margin to 5.3% in FY24 from 2.7% in FY22.

Exhibit 32: Expect strong revenue growth with margin expansion in the years ahead

(INR m)	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	11,938	13,404	10,196	17,216	22,655	28,780
YoY change (%)		12.3	-23.9	68.8	31.6	27.0
Gross profit	7,992	9,087	7,097	11,938	15,546	19,989
Gross margin (%)	66.9	67.8	69.6	69.3	68.6	69.5
EBITDA (pre-Ind AS 116)	435	662	382	1,808	2,329	3,715
YoY change (%)		52.3	-42.3	373.5	28.8	59.5
EBITDA margin (%)	3.6	4.9	3.7	10.5	10.3	12.9
EBITDA (post-Ind AS 116)	1,460	1,856	1,244	3,050	3,965	5,793
YoY change (%)		27.1	-33.0	124.5	38.3	46.2
EBITDA margin (%)	12.2	13.8	12.2	17.7	17.5	20.1
Profit before tax	-683	-666	-987	514	753	1,802
Adjusted PAT	-694	-649	-999	460	678	1,532
YoY change (%)		-	-	L/P	47.4	126.0
PAT margin (%)	-5.8	-4.8	-9.8	2.7	3.0	5.3

Source: Company, MOFSL

- SAPPHIRE is a net cash company and we expect it to remain so going forward.

Exhibit 33: SAPPHIRE is a net cash company

(INR m)	FY19	FY20	FY21	FY22	FY23E	FY24E
Debt	853	592	520	612	612	612
Cash	1,865	392	500	2,546	1,722	3,347
Investments	0	155	267	1,525	2,000	2,500
Net debt	-1,011	45	-247	-3,459	-3,110	-5,235

Source: Company, MOFSL

- With low inventory and receivable days and high payable days, SAPPHIRE has a negative working capital cycle. While FY21 saw higher payables days, these normalized in FY22 and we expect similar levels in the years ahead, effectively normalizing average working capital days to -22 days.

Exhibit 34: SAPPHIRE has a negative working capital cycle

(INR m)	FY19	FY20	FY21	FY22	FY23E	FY24E
Inventory	381	444	474	652	858	1,089
Receivables	224	46	78	141	185	235
Payables	1,142	1,307	1,440	1,991	2,620	3,329
Days (average basis)						
Inventory days		11	16	12	12	12
Receivables days		4	2	2	3	3
Payables days		33	49	36	37	38
Cash conversion cycle		-18	-31	-22	-22	-23
Days (year-end basis)						
Inventory days	12	12	17	14	14	14
Receivables days	7	1	3	3	3	3
Payables days	35	36	52	42	42	42
Cash conversion cycle	-16	-22	-32	-25	-25	-25

Source: Company, MOFSL

- We expect return ratios to improve in the years ahead, due to: a) improving profitability, and b) store size reduction, leading to optimization of capital allocation.

Exhibit 35: Expect significant improvement in return ratios going forward

(%)	FY20	FY21	FY22	FY23E	FY24E
RoE	-14.0	-19.9	6.2	6.5	13.3
RoCE	0.5	-2.1	8.0	7.9	11.6

Source: Company, MOFSL

- SAPPHIRE has a positive FCF having optimized its Restaurant unit economics. We expect this momentum to continue.

Exhibit 36: Expect strong cash flow generation going forward

(INR m)	FY19	FY20	FY21	FY22	FY23E	FY24E
CFO	1,501	2,130	1,541	3,949	3,948	5,559
Capex	-1,744	-1,415	-734	-2,844	-2,540	-2,755
FCF	-243	715	807	1,105	1,408	2,804

Source: Company, MOFSL

Key risks to our investment case

- **Territorial limits for PH may shrink for SAPPHIRE** if DEVYANI adds PHD stores in territories where the former has the rights for large format stores. The capex for PHD stores is lower, which means that DEVYANI can add stores at a faster pace. However, there is a buffer against this risk as one franchisee cannot add a store within an eight-minute radius of an existing store of the other player.
- **Inability to sustain delivery in PH**: Its sub-optimal consumer experience, with a higher delivery time as compared to Domino's, has affected PH's delivery performance. Its inability to fix this can derail its current turnaround efforts and, in turn, affect PH's ADS, SSSG, and brand contribution margin.
- **Rapid store additions** can pose an execution risk if the company chooses sub-optimal locations in a bid to meet its targets. This can affect ADS, SSSG, and brand contribution margin. This risk is particularly high for KFC due to its robust metrics.
- **Slower recovery in mall footfalls**: With a high proportion of stores based in malls, the recovery in its margin accretive dine-in business may take longer than expected given slower than expected recovery in mall footfalls owing to dearth of releases of new blockbuster movies.
- **Health concerns:** Real and perceived health concerns, arising from food-borne illnesses, epidemics, quality, nutrition, or other negative food-related incidents, can materially affect SAPPHIRE's performance.

Valuation and view

- SAPPHIRE has strengthened KFC and turned around the PH businesses through its new Restaurant economic model comprising: a) an omnichannel strategy, b) store size optimization, c) enhanced value proposition, d) continuous focus on cost efficiencies, e) robust internal process for store additions, and f) additional incentives for network expansion.
- Both KFC and PH are poised for strong growth due to their rapid network expansion and double-digit SSSG over the next few years. We expect KFC/PH to clock 31%/35% sales CAGR over FY22-24. There is considerable potential for an upside to our forecasts as our estimated FY24 ADS levels have already been surpassed in 3QFY22.
- SAPPHIRE's operational profitability improved in FY22 due to its: a) robust ADS growth, b) improved unit economics under the new Restaurant model, and c) focus on cost savings. We expect this trend to sustain going forward as well. However, the recent challenges on commodity inflation and the Sri Lanka crisis may apply some pressure on near-term profitability.
- We have assigned an FY24E EV/EBITDA (pre-Ind AS 116) multiple of 27x to the KFC business on account of its robust metrics (ADS and brand contribution margin), and 17x to the PH business. These are at a significant discount to the target multiples for DEVYANI's KFC/PH (45x/35x) on account of the disadvantages that SAPPHIRE faces in terms of trade: a) its territorial rights in KFC are largely in states with a higher vegetarian population, and b) DEVYANI can venture into SAPPHIRE's territories with PHD format stores, which require lower capex. While the discount multiples are justified due to the reasons mentioned above, the earnings growth opportunity is attractive enough to warrant an investment case. We assign a **Buy** rating with a TP of INR1,420 on a SoTP basis.

Exhibit 37: TP of INR1,420/share based on SoTP valuation

Pre-IND AS 116 EBITDA (INR b)	FY24E	Multiple	EV
KFC	2.7	27x	73.1
PH	0.5	17x	8.9
Sri Lanka	0.6	5x	3.0
Other Business	0.0	1x	0.0
Total EV	**3.9**	**22x**	**85.1**
Net debt	FY24E		-5.2
Equity value			**90.4**
TP			**1,420**
Upside (%)			**42%**

Source: Company, MOFSL

Exhibit 38: Comparative valuations

Company	Rating	CMP	Target price		M-cap	CAGR FY22-24E (%)		EV/sales (x)			EV/EBITDA* (x)		
		(INR)	(INR)	Upside (%)	(INR b)	Sales	EBITDA*	FY22	FY23E	FY24E	FY22	FY23E	FY24E
JUBI	Buy	479	730	53	316	16.6	17.9	6.9	5.8	4.9	38.1	31.9	26.8
DEVYANI	Buy	152	210	38	183	40.5	45 .1	8.8	5.8	4.4	61.2	40.4	28.7
SAPPHIRE	**Buy**	**1,000**	**1,420**	**42**	**64**	**29.3**	**43.3**	**3.5**	**2.7**	**2.0**	**33.2**	**25.9**	**15.7**
WLDL	Neutral	460	490	7	72	25.6	66.6	4.7	3.7	3.0	62.0	32.9	22.5
RBA	Buy	95	150	58	47	39.3	216.4	4.6	3.1	2.4	105.6	16.0	10.6
BARBEQUE	Neutral	959	1,060	11	37	36.3	62.6	4.3	2.7	2.1	49.6	26.5	17.6

*Pre-IND AS 116

Source: Company, MOFSL

Bull and Bear Case

Bull Case

- ☑ We assume higher ADS for KFC in FY23/FY24 at INR141k/148k resulting in SSSG of 15%/10.5%.
- ☑ We assume higher ADS for PH in FY23/FY24 at INR59k/61k resulting in SSSG of 9%/7%.
- ☑ We assume ADS for Sri Lanka business in FY23/FY24 at INR83k/116k resulting in SSSG of -5%/41.1%.
- ☑ We assume 50bp YoY overall gross margin improvement in FY23 to 69.8% with a further improvement of 70bp in FY24 to 70.5%.

Bear Case

- ☑ We assume lower ADS for KFC in FY23/FY24 at INR129k/129k resulting in SSSG of 4%/3.4%.
- ☑ We assume lower ADS for PH in FY23/FY24 at INR54k/54k resulting in SSSG of 0%/5%.
- ☑ We assume ADS for Sri Lanka business in FY23/FY24 at INR52k/72k resulting in SSSG of -40%/38.7%.
- ☑ We assume 180bp YoY overall gross margin contraction in FY23 to 67.5% with FY24 seeing an improvement of 100bp to 68.5%.

Exhibit 39: Scenario analysis – Bull Case

	FY22	FY23E	FY24E
SSSG – KFC (%)	31.0	15.0	10.5
SSSG – PH (%)	42.0	9.0	7.0
Sales (INR m)	17,216	23,773	31,415
YoY growth (%)	68.8	38.1	32.1
Pre-IND AS 116 EBITDA (INR m)	1,808	2,916	4,667
YoY growth (%)	373.5	61.3	60.0
Margin (%)	10.5	12.3	14.9
EV/EBITDA (Pre IND AS)	33.2	20.5	12.1
Target price (INR)			**1,750**
Upside/(downside) (%)			**75**

Source: MOFSL

Exhibit 40: Scenario analysis – Bear Case

	FY22	FY23E	FY24E
SSSG – PH (%)	31.0	4.0	3.4
SSSG – PH (%)	42.0	0.0	5.0
Sales (INR m)	17,216	20,837	26,342
YoY growth (%)	68.8	21.0	26.4
Pre-IND AS 116 EBITDA (INR m)	1,808	1,605	2,781
YoY growth (%)	373.5	-11.2	73.2
Margin (%)	10.5	7.7	10.6
EV/EBITDA (Pre IND AS)	33.2	38.2	21.7
Target price (INR)			**1,125**
Upside/(downside) (%)			**13**

Source: MOFSL

SWOT analysis

- KFC and Pizza Hut are both well-recognized aspirational QSR brands
- The omnichannel model helps differentiate it from competition, while catering to all consumer needs
- Store size reduction, with an omnichannel model, is improving unit economics

- For KFC, SAPPHIRE's territorial rights are mainly in states with a high vegetarian population
- In PH, DEVYANI can enter SAPPHIRE's territories with its PHD stores, which also require lower capex

- After the lifting of COVID-related restrictions, the opportunity for branded QSR players has grown along with several tailwinds
- The QSR market is considerably under-penetrated and offers scope for rapid network expansion

- Increasing competitive intensity in the Fried Chicken category can affect KFC's SSSG
- Inability to improve its delivery experience for consumers can affect a turnaround at PH

Key management personnel

Mr. Sanjay Purohit, Whole-Time Director and Group CEO

Mr. Purohit pursed mechanical engineering from Mangalore University and is an alumnus of IIM, Bangalore. Before joining SAPPHIRE, he was the MD for Levi Strauss & Co. India and was also associated with Cadbury India. He has over 30 years of work experience across Consumer product categories including Food and Apparel Retail, Packaged Food, and Paints.

Mr. Vijay Jain, CFO

Mr. Jain, a Chartered Accountant, has steered the finance functions for prominent Healthcare and Retail brands for nearly two decades. He has also worked with brands such as Piramal Healthcare, Aditya Birla Nuvo, and HyperCITY Retail (India).

Mr. Deepak Taluja, CEO-KFC

Mr. Taluja is a hotel management graduate. He started his career as a Team Member and grew to hold several senior positions over the next two decades across Domino's Pizza (Jubilant FoodWorks) and Fun Multiplex (Essel Group), with his last assignment being COO at Café Coffee Day. At SAPPHIRE, he steered growth for PH since CY15 as CEO, before taking over as CEO of the KFC business in CY19.

Mr. Vikrant Vohra, CEO-Pizza hut

Mr. Vohra is a hotel management graduate. He has been associated with major hospitality brands such as The Park, Hyatt, Taj, and Marriot International for nearly two decades. At SAPPHIRE, he successfully led operations in Karnataka, Kerala, and West India markets for KFC, before leading the PH's India business as COO.

Key ESG initiatives

Environment

- The management is working towards the elimination of single-use plastic, i.e. majorly straws and lids, for which it will have to incur additional costs.
- Energy conservation: The company has set an internal benchmark for optimal energy consumption.
- There is a Restaurant incident management tool in place to guide in an event of safety concerns.

Social

- Diversity: The company has a strong focus on gender diversity and has women leaders across various functions of the organization. As of 30th Jun’21, ~20% of Restaurant managers were female. SAPPHIRE runs staffing programs at its Restaurants for specially-abled teams. It currently employs ~150 specially-abled employees across its Restaurants.
- During the COVID-19 pandemic, SAPPHIRE provided free pizza to frontline workers such as doctors, health officials, and police officers.
- On an ongoing basis, it provides food for the underprivileged and undertakes cleanliness drives near its Restaurants to build stronger community bonds.

Governance

- The board’s composition is in accordance with regulatory requirements. Out of its total board strength of nine members, 33% are independent and 11% are women directors.
- The majority of the members of the Audit/Nomination and Remuneration Committee are independent directors.
- YUM appoints a third-party to conduct an audit on SAPPHIRE on a periodic basis, covering compliance with food safety, hygiene, and operational and brand standards. It also regularly conducts unannounced audits.

Financials and valuations

Consolidated income statement (INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	**11,938**	**13,404**	**10,196**	**17,216**	**22,655**	**28,780**
Change (%)		12.3	-23.9	68.8	31.6	27.0
Raw Materials	3,946	4,317	3,099	5,278	7,109	8,792
Gross Profit	**7,992**	**9,087**	**7,097**	**11,938**	**15,546**	**19,989**
Margin (%)	66.9	67.8	69.6	69.3	68.6	69.5
Operating Expenses	6,532	7,232	5,853	8,888	11,581	14,195
EBITDA*	**1,460**	**1,856**	**1,244**	**3,050**	**3,965**	**5,793**
Change (%)		27.1	-33.0	145.2	30.0	46.1
Margin (%)	12.2	13.8	12.2	17.7	17.5	20.1
Depreciation	1,547	1,913	2,091	2,135	2,683	3,450
Int. and Fin. Charges	720	722	756	781	860	948
Other Income	125	113	616	380	331	407
Profit before Taxes	**-683**	**-666**	**-987**	**514**	**753**	**1,802**
Change (%)		-2.5	48.2	-152.1	46.6	139.3
Margin (%)	-5.7	-5.0	-9.7	3.0	3.3	6.3
Total tax	11	-17	12	54	75	270
Tax Rate (%)	-1.6	2.6	-1.2	10.5	10.0	15.0
Adjusted PAT	**-694**	**-649**	**-999**	**460**	**678**	**1,532**
Change (%)		-	-	L/P	47.4	126.0
Margin (%)	-5.8	-4.8	-9.8	2.7	3.0	5.3
Exceptional/Prior Period inc	0	944	0	0	0	0
Reported PAT	**-694**	**-1,592**	**-985**	**465**	**678**	**1,532**

Balance Sheet (INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	431	502	528	635	635	635
Reserves	3,585	4,742	4,271	9,436	10,114	11,646
Net Worth	**4,016**	**5,245**	**4,799**	**10,071**	**10,749**	**12,281**
Loans	853	592	520	612	612	612
Other Liability	5,455	5,744	5,692	7,280	7,579	8,511
Minority Interest	11	3	-12	-17	-17	-17
Capital Employed	**10,335**	**11,582**	**11,000**	**17,947**	**18,923**	**21,387**
Gross Block	5,473	6,567	6,905	7,370	9,910	12,664
Less: Accum. Depn.	1,587	2,221	2,974	1,908	4,591	8,041
Net Fixed Assets	**3,886**	**4,346**	**3,932**	**5,462**	**5,319**	**4,623**
Capital WIP	210	215	304	327	327	327
Goodwill	2,539	1,622	1,622	1,622	1,622	1,622
Other Intangible assets	767	688	551	566	623	685
Right to Use Assets	4,859	4,953	4,739	6,249	7,719	8,727
Investments	**0**	**155**	**267**	**1,525**	**2,000**	**2,500**
Current	0	155	267	1,525	2,000	2,500
Non-current	0	0	0	0	0	0
Curr. Assets, L&A	**3,414**	**1,828**	**2,074**	**5,890**	**5,775**	**8,224**
Inventory	381	444	474	652	858	1,089
Account Receivables	224	46	78	141	185	235
Cash and Bank Balance	1,865	392	500	2,546	1,722	3,347
Others	944	947	1,022	2,551	3,010	3,552
Curr. Liab. and Prov.	**5,340**	**2,224**	**2,490**	**3,692**	**4,461**	**5,320**
Account Payables	1,142	1,307	1,440	1,991	2,620	3,329
Other Liabilities	4,051	767	887	1,525	1,647	1,779
Provisions	147	151	163	176	193	213
Net Current Assets	**-1,926**	**-396**	**-416**	**2,198**	**1,314**	**2,904**
Application of Funds	**10,335**	**11,582**	**11,000**	**17,947**	**18,923**	**21,387**

E: MOFSL estimates

*EBITDA is post-IND AS 116 as reported by the company

Financials and valuations

Ratios						
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Basic (INR)						
EPS	**-16.1**	**-12.9**	**-18.9**	**7.2**	**10.7**	**24.1**
Cash EPS	19.8	25.2	20.7	40.8	52.9	78.4
BV/Share	93.2	104.4	90.9	158.5	169.2	193.3
Valuation (x)						
P/E	N/M	N/M	N/M	138.2	93.8	41.5
Cash P/E	50.5	39.7	48.3	24.5	18.9	12.8
EV/Sales	3.5	3.8	5.2	3.5	2.7	2.0
EV/EBITDA	28.8	27.1	42.2	19.7	15.2	10.1
P/BV	10.7	9.6	11.0	6.3	5.9	5.2
Return Ratios (%)						
RoE		-14.0	-19.9	6.2	6.5	13.3
RoCE		0.5	-2.1	8.0	7.9	11.6
RoIC		-0.6	-8.1	6.5	7.2	11.5
Working Capital Ratios						
Debtor (Days)	7	1	3	3	3	3
Asset Turnover (x)	1.2	1.2	0.9	1.0	1.2	1.3
Leverage Ratio						
Debt/Equity (x)	0.2	0.1	0.1	0.1	0.1	0.0

Cash Flow Statement						(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
OP/(loss) before Tax	-683	-1,610	-987	514	753	1,802
Depreciation	1,547	1,913	2,091	2,135	2,683	3,450
Net interest	627	620	697	677	529	541
Others	94	1,052	-378	117	0	0
Direct Taxes Paid	-38	-27	-30	-86	-75	-270
(Incr)/Decr in WC	-46	182	147	592	59	36
CF from Operations	**1,501**	**2,130**	**1,541**	**3,949**	**3,948**	**5,559**
Incr in FA	-1,744	-1,415	-734	-2,844	-2,540	-2,755
Free Cash Flow	**-243**	**715**	**807**	**1,105**	**1,408**	**2,804**
Pur of Investments	-1,585	1,313	-55	-4,078	-475	-500
Others	1,697	-1,419	-128	1,890	-1,527	-1,070
CF from Invest.	**-1,632**	**-1,522**	**-917**	**-5,032**	**-4,542**	**-4,324**
Issue of Shares	2,321	0	444	4,690	0	0
Incr in Debt	646	-218	61	-176	298	932
Dividend Paid	0	0	0	0	0	0
Net interest Paid	-709	-699	-758	-780	-529	-541
Others	-490	-1,165	-263	-604	0	0
CF from Fin. Activity	**1,767**	**-2,081**	**-515**	**3,130**	**-231**	**391**
Incr/Decr of Cash	**1,636**	**-1,473**	**109**	**2,046**	**-824**	**1,626**
Add: Opening Balance	228	1,865	392	500	2,546	1,722
Closing Balance	**1,865**	**392**	**500**	**2,546**	**1,722**	**3,347**

E: MOFSL estimates

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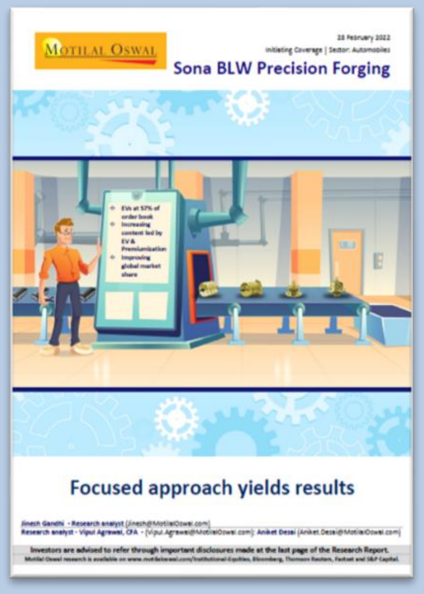

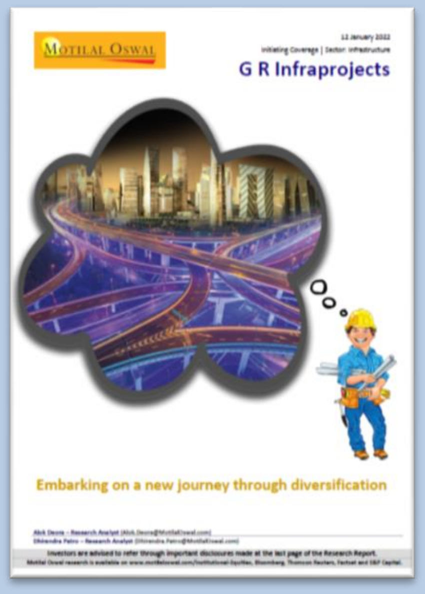

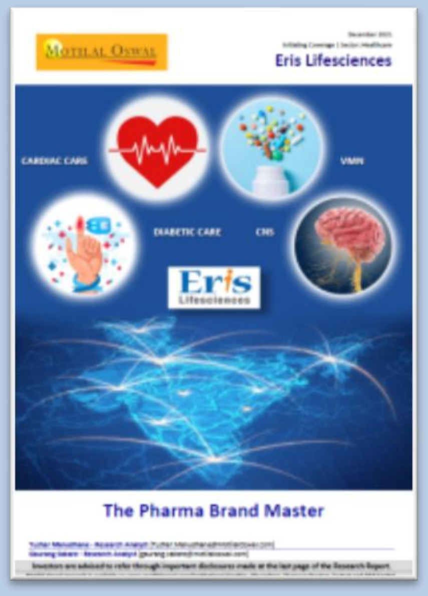

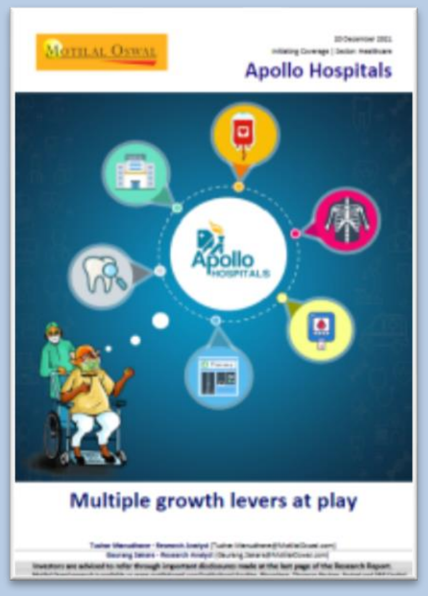

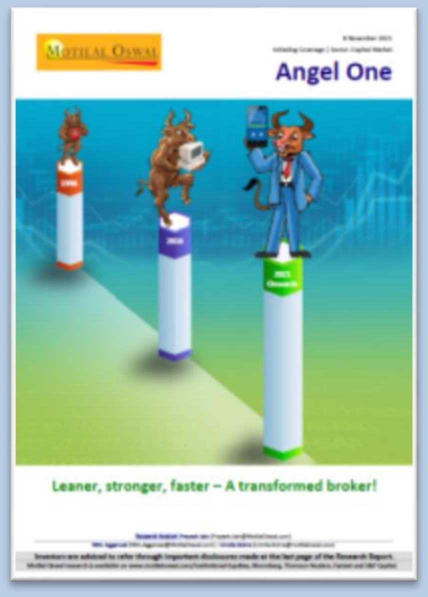

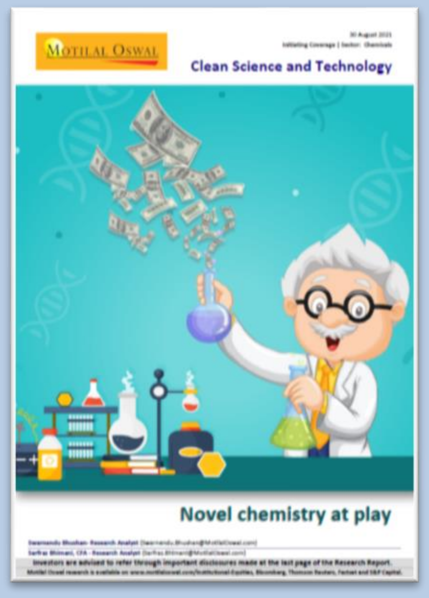

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