

Estimate changes

TP change

Rating change



Bloomberg	SAPPHIRE IN
Equity Shares (m)	64
M.Cap.(INRb)/(USD\$b)	81.2 / 1
52-Week Range (INR)	1573 / 910
1, 6, 12 Rel. Per (%)	5/-6/7
12M Avg Val (INR M)	236

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	22.7	28.6	35.3
Sales Gr. (%)	31.6	26.2	23.4
EBITDA	4.3	5.7	7.3
Margins (%)	18.9	19.8	20.6
Adj. PAT	1.1	1.4	2.0
Adj. EPS (INR)	17.0	21.6	32.1
EPS Gr. (%)	134.6	27.4	48.4
BV/Sh.(INR)	197.7	219.3	251.4

Ratios

RoE (%)	9.5	10.4	13.6
RoCE (%)	20.9	9.9	11.4

Valuations

P/E (x)	75.1	58.9	39.7
P/BV (x)	6.5	5.8	5.1
EV/Sales (x)	3.5	2.7	2.1
EV/EBITDA (x)	18.3	13.7	10.4
Pre-IND AS 116 EV/EBITDA (x)	29.6	21.6	16.0

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	44.9	44.9	51.3
DII	27.5	25.0	10.8
FII	15.5	16.5	14.3
Others	12.2	13.6	23.6

FII Includes depository receipts

CMP: INR1,275 TP: INR1,585 (+24%)

Buy

Revenue/EBITDA miss; strong store growth continues

- SAPPHIRE's revenue grew 13% YoY (7% miss), led by both KFC and Pizza hut formats. However, revenue in Sri Lanka declined due to the depreciation of LKR. EBITDA declined 2% YoY (8% miss), owing to low SSG, and therefore, negative operating leverage. 2HFY23 for PH was weak.
- The company's SSSG was weak, with KFC experiencing a growth of 2% and PH declining by 4%, due to the challenging business environment (v/s est. 1% in KFC/ a decline of 6% for PH). As a result of cooling off of inflation, the company experienced a sequential improvement of 90bp in margins. Further, KFC has taken a price hike of 3.5%, which could lead to margin accretion going forward.
- We reiterate our **BUY** rating with a TP of INR1,585, given SAPPHIRE's healthy earnings growth trend and relatively inexpensive valuations v/s QSR peers.

SSSG beats expectations

- SAPPHIRE reported a consolidated sales growth of 13% YoY to INR5.6b (7% miss) in 4QFY23.
- SSSG: KFC up 2% (est. 1%), PH down 4% (est. a decline of 6%), and SL down 3% in LKR terms.
- Net new units (NNU): 16 for KFC and 12 for PH.
- Number of stores as of 4QFY23: KFC at 341, PH at 286, and SL at 114. There were a total of 743 stores as of 4QFY23.
- Consolidated gross margin contracted ~80bp YoY, while it expanded ~90bp QoQ to 67.9% (40bp above est)
- EBITDA (post-IND AS) declined 2% YoY to INR981m (8% miss). Margins contracted 260bp/ 200bp YoY/QoQ to 17.5% (30bp below est).
- EBITDA (pre-IND AS) declined 11% YoY to INR563m with a margin of 10% (v/s 13% in 4QFY22)
- PAT stood at INR1.3b (est. INR106m), led by recognized deferred tax asset amounting to INR1.25b. Adj PAT stood at INR102m (in line)
- In FY23, sales/EBITDA/Adj. PAT grew 32%/40%/2.3x YoY to INR22.7b/INR4.3b/INR1.1b.

Highlights from the management commentary

- The management maintained its previous guidance of 130-160 store additions per year and expects to it double in the next three to four years.
- RM inflation has cooled down, hence, the management expects GMs to improve. Starting from Apr'23, the company has implemented a price increase of 3.5% for KFC.
- The company is taking a more cautious approach to expanding its footprint in Sri Lanka over the next 12 months. However, a recovery is expected to drive margin improvement in the next 12-24 months, with the expectation of exceeding 20%.

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Valuation and view

- Despite a 2% YoY decline in EBITDA, we expect the KFC price hike and the easing material costs to have a positive impact in FY24. We have broadly maintained revenue/PAT forecasts for FY24/FY25, registering a CAGR of 25/38% over FY23-25. In order to revive the demand in KFC and PH, the company has launched new products and increased its marketing investments.
- The stock has done well with over 15% return since our [coverage initiation note](#) in May'22 in spite of the recent correction. Despite a strong Revenue/ pre-Ind AS EBITDA growth outlook (25%/ +30% CAGR over FY23-25E), the stock trades at inexpensive multiples of 22x/16x FY24E/FY25E Pre Ind-AS EBITDA.
- We have assigned an FY25E EV/EBITDA (pre-Ind AS 116) multiple of 23x to the KFC business, on account of its robust metrics (ADS and restaurant EBITDA margin), and 12x to the PH business. These multiples are at a 35%/50% discount to the target multiples for DEVYANI's KFC/PH businesses (35x/25x) due to the following disadvantages that SAPPHIRE faces in terms of trade: 1) its territorial rights in KFC are largely in states with a relatively higher vegetarian population, and 2) DEVYANI can venture into SAPPHIRE's territories with PHD format stores, which require lower capex. While some discount to multiples is justified, given the abovementioned reasons, the earnings growth opportunity for SAPPHIRE is still attractive enough to warrant an investment case despite near-term uncertainty on demand recovery. **We reiterate our BUY rating with a TP of INR1,585 on an SoTP basis.**

Quarterly Performance

(INR m)

Y/E March	FY22				FY23				FY22	FY23	FY23 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
KFC - No. of stores	208	219	250	263	281	301	325	341	263	341	335	
PH - No. of stores	171	188	209	219	235	249	274	286	219	286	289	
KFC - SSSG (%)	149.0	NA	29.0	15.0	65.0	15.0	3.0	2.0	31.0	15.0	1.0	
PH - SSSG (%)	-29.0	NA	22.0	3.0	47.0	23.0	-4.0	-4.0	42.0	12.0	-6.0	
Net Sales	3,031	4,142	5,075	4,968	5,463	5,628	5,961	5,604	17,216	22,656	5,995	-6.5
YoY change (%)	173.0	76.9	52.0	45.9	80.3	35.9	17.5	12.8	68.8	31.6	20.7	
Gross Profit	2,130	2,884	3,510	3,414	3,707	3,737	3,998	3,807	11,938	15,249	4,050	-6.0
Margin (%)	70.3	69.6	69.2	68.7	67.9	66.4	67.1	67.9	69.3	67.3	67.6	
EBITDA	341	566	1,145	998	1,104	1,032	1,167	981	3,050	4,284	1,069	-8.2
EBITDA growth %	L/P	70.7	93.1	78.8	223.9	82.2	1.9	-1.7	145.2	40.4	7.2	
Margin (%)	11.2	13.7	22.6	20.1	20.2	18.3	19.6	17.5	17.7	18.9	17.8	
Depreciation	534	512	513	576	609	628	681	724	2,135	2,642	744	-2.7
Interest	172	190	185	233	197	206	217	249	781	869	243	2.6
Other Income	109	95	78	98	59	71	67	114	380	311	69	
PBT	-256	-41	525	286	356	269	336	123	514	1,084	152	-19.3
Tax	8	10	16	21	-25	1	9	-1,232	54	-1,248	46	
Rate (%)	-	-	2.9	7.3	-7.1	0.3	2.6	NA	10.5	-115.1	30.4	
Adjusted PAT	-264	-51	510	265	381	269	327	102	460	1,079	106	-3.9
YoY change (%)	-	-	N/M	-	L/P	L/P	-35.9	-61.6	-	134.6	-60.0	

E: MOFSL Estimates

Quarterly brand-wise performance

	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
KFC									
No. of stores	203	208	219	250	263	281	301	325	341
Net store addition	7	5	11	31	13	18	20	24	16
SSSG (%)	12	149	NA	29	15	65	15	3	2
Net sales (INR m)	2,081	1,788	2,565	3,031	2,966	3,537	3,491	3,810	3,691
YoY growth (%)	NA	245.5	94.8	52.8	42.5	97.9	36.1	25.7	24.4
ADS (INR '000)	118	105	134	144	132	144	134	136	127
Gross Margins (%)	68.6	69.3	68.7	68.0	67.9	67.3	65.6	66.5	66.8
Restaurant EBITDA Margin (%)	18.1	13.5	20.6	21.2	19.0	20.3	17.9	20.2	19.1
Channel mix (%)									
Delivery	33	62	NA	37	40	35	36	36	38
Dine-in + Takeaway	67	38	NA	63	60	65	64	64	62
Pizza Hut									
No. of stores	162	171	188	209	219	235	249	274	286
Net store addition	1	9	17	21	10	16	14	25	12
SSSG (%)	8	(29)	NA	22	3	47	23	(4)	(4)
Net sales (INR m)	776	660	884	1,134	1,032	1,219	1,410	1,364	1,221
YoY growth (%)	NA	203.2	87.1	51.0	33.0	84.6	59.5	20.3	18.3
ADS (INR '000)	54	49	57	64	55	61	64	58	50
Gross Margins (%)	76.6	76.5	75.8	75.4	74.8	75.3	74.7	74.4	74.3
Restaurant EBITDA Margin (%)	11.2	5.8	10.7	14.9	11.5	14.8	15.1	14.1	8.6
Channel mix (%)									
Delivery	45	78	NA	49	52	47	50	50	52
Dine-in + Takeaway	55	22	NA	51	48	53	50	50	48
Sri Lanka									
No. of stores	70	69	73	89	95	98	106	114	114
Net store addition	4	(1)	4	16	6	3	8	8	-
SSSG (%)	8	56	NA	44	29	53	37	18	-3
Net sales (INR m)	501	555	653	858	917	650	669	731	667
YoY growth (%)	-	51.7	23.6	50.5	83.1	17.1	2.5	(14.8)	(27.3)
ADS (INR '000)	97	91	105	121	112	75	73	75	65
Gross Margins (%)	-	66.9	66.0	67.2	64.9	58.8	55.4	57.3	61.0
Restaurant EBITDA Margin (%)	26.3	18.0	19.6	23.9	24.4	15.5	15.0	14.6	14.2

Source: MOFSL, Company

Exhibit 1: SoTP valuation for SAPPHIRE based on pre-Ind AS EV/EBITDA

	Mar'25E EBITDA*	Multiple	EV
KFC	3.6	23	83.4
Pizza Hut	0.8	12	9.8
Sri Lanka	0.4	5	2.2
Others	0.0	1	0.0
Total	4.9	25.6	95.4
Net debt	FY25E		-5.3
Equity value			100.7
TP (INR)			1,585
Upside (%)			24%

*Pre-Ind AS 116

Source: Company, MOFSL



Highlights from the management commentary

Summary notes

- The management has maintained its previous guidance of 130-160 store additions per year and expects it to double in the next three to four years.
- RM Inflation has cooled down, hence, the management expects GMs to improve. Starting from Apr'23, it has taken a price increase of 3.5% in KFC.
- The company is taking a more cautious approach to expanding its footprint in Sri Lanka over the next 12 months. However, a recovery is expected to drive margin improvement in the next 12-24 months, with the expectation of exceeding 20%.

Detailed notes

Performance

- Over FY21-23, the company experienced a 30% CAGR growth in restaurant numbers, while Sales/Adjusted EBITDA registered a CAGR of 49%/2.6x over the same period.
- 4QFY23 Consol restaurant sales grew 13% YoY, wherein India Restaurant Sales delivered a robust growth of 23% YoY.
- The management has maintained its previous guidance of 130-160 store additions per year and expects it to double in the next three to four years.
- Consol Restaurant EBITDA has remained flat YoY and margin was 16.2%. This was primarily due to the adverse Sri Lanka impact. India Restaurant EBITDA grew 19% YoY and margin was 16.5%.
- ESOP cost is expected to about 0.7-0.8% of the company's revenue.
- A new store for the company garners 75-80% of the overall brand average in year one. It takes about three to four years for new stores to scale up toward brand average.

Sri Lanka Impact

- Despite challenges, sales for Pizza Hut grew 48% YoY in LKR for FY23. However, in INR terms, sales declined by 9% due to the depreciation in SLR.
- Despite 100% inflation in Sri Lanka, the restaurant EBITDA remained flat in LKR terms. The company had to take a 50-60% price increase, due to inflation, which resulted in a decline in transactions.
- The company is adopting a more cautious approach on new restaurant expansion in the next 12 months in Sri Lanka.
- Operational constraints such as the ability to import cheese to availability of utilities, have been reduced, and operating conditions have largely returned normal.
- Things have started stabilizing in the country. However, the impact on customers wallets are very high. Has seen big transaction drops on the brand.
- The company believes that the EBITDA margin of 14% could be the bottom, and it is hopeful that over the next 12-24 months, the EBITDA margin will increase to above 20%.

KFC priorities

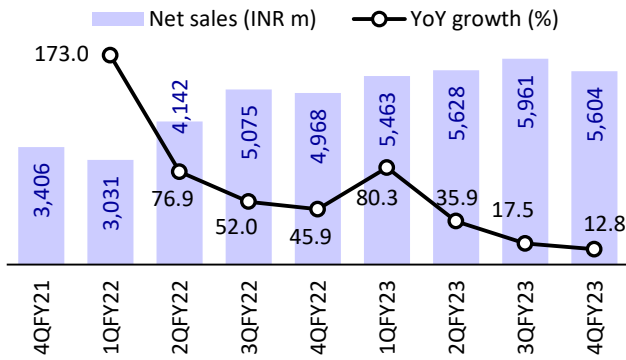
- The company has recently introduced new innovative menu items such as Chizza and Chicken popcorn, all at a value price point. Additionally, they have added Chicken Rolls starting at INR99, which adds to both value and snacking options. The benefits of the marketing and new product initiatives will become apparent in 3-6 months.
- The company has launched value entry and value innovation initiatives, which are expected to drive growth in transaction volume and SSSG.
- The management targets to double the restaurant count in the next three to four years
- It remained a tough quarter with post-Diwali demand challenges, also the 9 days of Navratri and Ramazan in 4QFY23 affected the growth and SSSG reported at 2%
- GM has improved by 120bp from 2QFY23. This is an improvement over the inflation rate.
- Restaurant cost efficiency has enabled them to deliver best efficiency at EBITDA level.
- The raw material prices like that of Chicken and Oil is now recovering. Starting from Apr'23, the company has taken a price increase of 3.5% in KFC.
- KFC always remains at 1500sqft and continued to remain at 1500-1600sqft stores.

PH priorities

- Slowdown post Diwali has adversely impacted Pizza Hut more. Pizza Hut has performed well in 1HFY23, while the last six month were slow. The company expects to continue with its marketing campaigns going forward.
- The company has revamped its core pizza and appetizer range, with the launch of 10 new and exciting pizzas, while the Flavour Fun value range continues to do well. The launch of 10 New Pan Pizzas, 2 new Pastas, Keema Garlic Bread at a value price point and customer feedback were positive.
- The raw material prices are now recovering for PH as well, except the dairy which is still under pressure.
- Restaurant EBITDA has declined due to negative operating leverage, led by a decline in SSSG.
- The management expects to double the restaurant count in the next three to four years with focus on opening 1200sqft / 1000 sqft stores. Previously, the company had 2,500 sqft legacy stores, but it has now decided to convert these stores to 1,200 sqft, which resulted in an 8-10% reduction in capex.
- 85% of the orders are delivered within 30min and 93-94% get delivered under 40mins

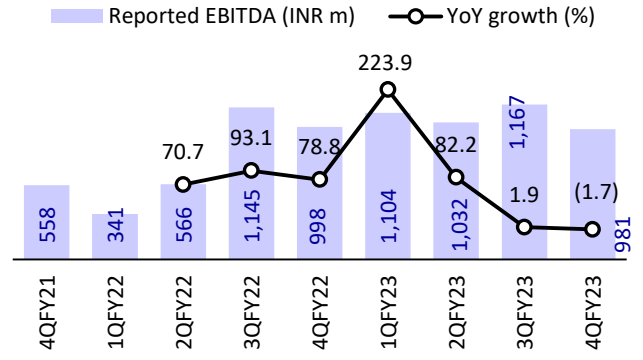
Key exhibits

Exhibit 2: Net sales grew 13% YoY to INR5.6b in 4QFY23



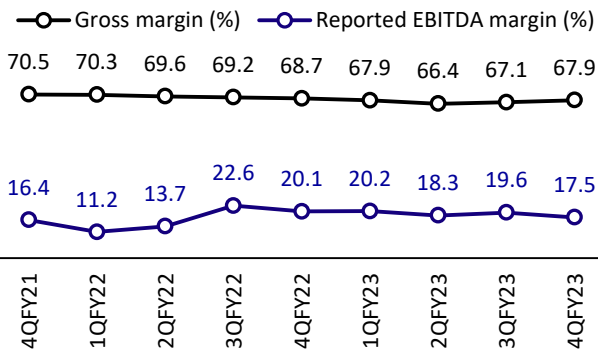
Source: Company, MOFSL

Exhibit 3: EBITDA declined 2% YoY at INR981m



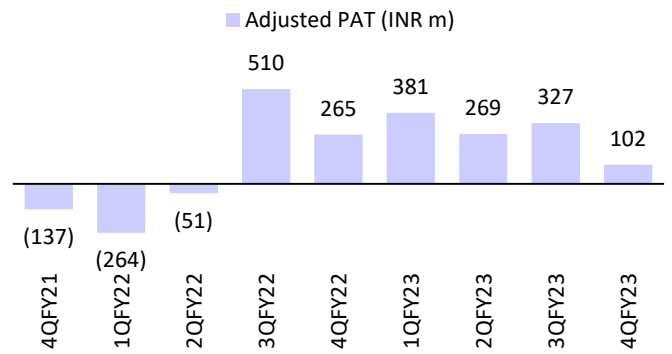
Source: Company, MOFSL

Exhibit 4: Gross margins showing signs of recovery



Source: MOFSL, Company

Exhibit 5: Adjusted PAT came in at INR102m



Source: MOFSL, Company

Exhibit 6: Estimate change

	FY24E	FY25E
Revenue (INR m)		
Old	28,837	35,268
Actual/New	28,601	35,289
Change (%)	-0.8	0.1
Gross Profit (INR m)		
Old	19,620	24,169
Actual/New	19,625	24,337
Change (%)	0.0	0.7
Gross margin (%)		
Old	68.0%	68.5%
Actual/New	68.6%	69.0%
Change (bp)	58	44
EBITDA (INR m)		
Old	5,621	7,184
Actual/New	5,660	7,285
Change (%)	0.7	1.4
EBITDA margin (%)		
Old	19.5%	20.4%
Actual/New	19.8%	20.6%
Change (bp)	30	27
Net Profit (INR m)		
Old	1,345	2,012
Actual/New	1,374	2,040
Change (%)	2.2	1.4
EPS (INR)		
Old	21.2	31.7
Actual/New	21.6	32.1
Change (%)	2.2	1.4

Source: Company, MOFSL

Financials and valuations

Income Statement consol.							(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	11,938	13,404	10,196	17,216	22,656	28,601	35,289
Change (%)		12.3	-23.9	68.8	31.6	26.2	23.4
Raw Materials	3,946	4,317	3,099	5,278	7,407	8,976	10,952
Gross Profit	7,992	9,087	7,097	11,938	15,249	19,625	24,337
Margin (%)	66.9	67.8	69.6	69.3	67.3	68.6	69.0
Operating Expenses	6,532	7,232	5,853	8,888	10,965	13,965	17,052
EBITDA	1,460	1,856	1,244	3,050	4,284	5,660	7,285
Change (%)		27.1	-33.0	145.2	40.4	32.1	28.7
Margin (%)	12.2	13.8	12.2	17.7	18.9	19.8	20.6
Depreciation	1,547	1,913	2,091	2,135	2,642	3,377	4,067
Int. and Fin. Charges	720	722	756	781	869	1,104	1,303
Other Income	125	113	616	380	311	400	635
Profit before Taxes	-683	-666	-987	514	1,084	1,580	2,550
Change (%)		-2.5	48.2	-152.1	111.0	45.7	61.4
Margin (%)	-5.7	-5.0	-9.7	3.0	4.8	5.5	7.2
Total tax	11	-17	12	54	-1,248	205	510
Tax Rate (%)	-1.6	2.6	-1.2	10.5	-115.1	13.0	20.0
Adjusted PAT	-694	-649	-999	460	1,079	1,374	2,040
Change (%)		-	-	L/P	134.6	27.4	48.4
Margin (%)	-5.8	-4.8	-9.8	2.7	4.8	4.8	5.8
Minority Interest	0	0	-14	-5	0	0	0
Exceptional/Prior Period inc	0	944	0	0	0	0	0
Reported PAT	-694	-1,592	-985	465	2,332	1,374	2,040

Balance Sheet							(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	431	502	528	635	635	635	635
Reserves	3,585	4,742	4,271	9,436	11,924	13,298	15,338
Net Worth	4,016	5,245	4,799	10,071	12,559	13,934	15,974
Loans	853	592	520	612	443	443	443
Other Liability	5,455	5,744	5,692	7,283	9,185	10,823	12,505
Minority Interest	11	3	-12	-17	-20	-20	-20
Capital Employed	10,335	11,582	11,000	17,949	22,167	25,180	28,901
Gross Block	5,473	6,567	6,905	8,948	12,194	14,640	17,617
Less: Accum. Depn.	1,587	2,221	2,974	3,487	4,489	5,949	7,723
Net Fixed Assets	3,886	4,346	3,932	5,462	7,706	8,692	9,894
Capital WIP	210	215	304	327	565	565	565
Goodwill	2,539	1,622	1,622	1,622	1,622	1,622	1,622
Other Intangible assets	767	688	551	566	647	712	783
Right to Use Assets	4,859	4,953	4,739	6,251	7,915	8,640	9,190
Investments	0	155	267	1,525	659	2,500	3,000
Current	0	155	267	1,525	659	2,500	3,000
Curr. Assets, L&A	3,414	1,828	2,074	5,890	5,607	5,607	7,684
Inventory	381	444	474	652	993	1,254	1,547
Account Receivables	224	46	78	141	179	227	280
Cash and Bank Balance	1,865	392	500	2,546	2,204	1,494	2,751
Others	944	947	1,022	2,551	2,231	2,632	3,106
Curr. Liab. and Prov.	5,340	2,224	2,490	3,692	2,554	3,157	3,835
Account Payables	1,142	1,307	1,440	1,991	2,170	2,739	3,380
Other Liabilities	4,051	767	887	1,525	207	224	242
Provisions	147	151	163	176	177	194	214
Application of Funds	10,335	11,582	11,000	17,949	22,167	25,179	28,901

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
EPS	-16.1	-12.9	-18.9	7.2	17.0	21.6	32.1
Cash EPS	19.8	25.2	20.7	40.8	58.6	74.8	96.1
BV/Share	93.2	104.4	90.9	158.5	197.7	219.3	251.4
Valuation (x)							
P/E	N/M	N/M	N/M	176.2	75.1	58.9	39.7
Cash P/E	64.4	50.7	61.6	31.2	21.8	17.1	13.3
EV/Sales	4.5	4.8	6.6	4.5	3.5	2.7	2.1
EV/EBITDA	37.0	34.5	53.9	25.4	18.3	13.7	10.4
P/BV	13.7	12.2	14.0	8.0	6.5	5.8	5.1
Return Ratios (%)							
RoE		-14.0	-19.9	6.2	9.5	10.4	13.6
RoCE		0.5	-2.1	8.0	20.9	9.9	11.4
RoIC		-0.6	-8.1	6.5	20.5	9.3	10.6
Working Capital Ratios							
Debtor (Days)	7	1	3	3	3	3	3
Asset Turnover (x)	1.2	1.2	0.9	1.0	1.0	1.1	1.2
Leverage Ratio							
Debt/Equity (x)	0.2	0.1	0.1	0.1	0.0	0.0	0.0

Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(loss) before Tax	-683	-1,610	-987	514	1,084	1,580	2,550
Depreciation	1,547	1,913	2,091	2,135	2,642	3,377	4,067
Net interest	627	620	697	677	666	704	668
Others	94	1,052	-378	117	117	0	0
Direct Taxes Paid	-38	-27	-30	-86	-21	-205	-510
(Incr)/Decr in WC	-46	182	147	592	-669	-106	-142
CF from Operations	1,501	2,130	1,541	3,949	3,818	5,349	6,633
Incr in FA	-1,744	-1,415	-734	-2,844	-3,825	-2,797	-3,047
Free Cash Flow	-243	715	807	1,105	-6	2,553	3,585
Pur of Investments	-1,585	1,313	-55	-4,078	910	-1,590	-500
Others	1,697	-1,419	-128	1,890	879	400	635
CF from Invest.	-1,632	-1,522	-917	-5,032	-2,036	-3,986	-2,912
Issue of Shares	2,321	0	444	4,690	0	0	0
Incr in Debt	646	-218	61	-176	-192	-969	-1,160
Dividend Paid	0	0	0	0	0	0	0
Net interest Paid	-709	-699	-758	-780	-864	-1,104	-1,303
Others	-490	-1,165	-263	-604	-1,068	0	0
CF from Fin. Activity	1,767	-2,081	-515	3,130	-2,125	-2,073	-2,464
Incr/Decr of Cash	1,636	-1,473	109	2,046	-342	-710	1,257
Add: Opening Balance	228	1,865	392	500	2,546	2,204	1,494
Closing Balance	1,865	392	500	2,546	2,204	1,494	2,751

E: MOFSL Estimates

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NOTES

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BUY	>=15%
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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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