

# Sapphire Foods Ltd

**Strong growth trajectory. Available at a significant discount to peers.**



**Kyon ki bhaiya, sabse bada rupaiya.**

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**Strong growth trajectory. Available at a significant discount to peers.**

Since 2014 Sapphire Foods Ltd. (Sapphire) is one of the two YUM franchisee operators in the subcontinent. It operates the franchises of KFC and Pizza Hut across 407 outlets in India across several states. Apart from India, it also operates in Sri Lanka (largest international QSR chain with 73 stores) and Maldives (2 stores). In addition to KFC and Pizza Hut it also has the franchise rights for the Taco Bell brand for the Sri Lanka geography.

The QSR market in India is expected to grow at 23% from INR 188 bn to INR 534 bn over FY20-25. The QSR market is at a nascent stage of growth in India and hence can sustain the high growth over the next couple of decades. At the OFS price of INR 1,180 per share the stock of Sapphire is valued at 17.6X FY24 EV/EBITDA which is at a significant discount of 8.8% to YUM's sister franchisee Devyani International Ltd. (19.3X FY24 EV/EBIDTA), and other QSR peers 23.8% Westlife (23.1X FY24 EV/EBIDTA), and 37.1% Jubilant Foodworks (28.0X FY24 EV/EBIDTA). We initiate with a Subscribe for long term with a 24-month target of 1,502 per share (208.1X FY24 earnings) representing an upside potential of 27.2%. Sapphire, leveraging its brand, innovative product offerings, wide footprint, digital and delivery capabilities and a seasoned senior management team, is well positioned to take advantage of this opportunity.

We expect Sapphire to roll out 306 additional stores over the next 3 years taking its total tally to 788 stores by FY24. This store expansion should support a robust revenue CAGR of 39.6% to INR 2,774 cr. Due to operating leverage, EBITDA is expected to grow at a faster CAGR of 51.3% to INR 431 cr and EBITDA margin to expand to 15.5% (+330 bps). Net earnings are expected to turn positive by FY24 and scale to INR 46 cr (vs INR 98 cr loss in FY21) with net margin expanding by 1,130 bps to stand at 1.7%. Return ratios ROE and ROCE are expected to expand by 3,500 bps and 760 bps to 5.0% and 12.2% respectively.

Post the INR 2073 cr OFS, the promoter's holding will stand reduced to 49.97%.

Key Financial Data (INR Cr, unless specified)

	Sales	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS ₹	BVPS ₹	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
FY20	1,340	186	-158	13.8	-11.8	-24.8	82.6	-30.0	-0.5	-47.6	14.3	43.6
FY21	1,020	124	-98	12.2	-9.7	-15.5	75.3	-20.5	-7.6	-76.2	15.7	64.8
FY22E	1,537	206	-91	13.4	-5.9	-14.4	138.7	-10.4	-1.3	-82.0	8.5	37.0
FY23E	2,212	332	-9	15.0	-0.4	-1.3	137.3	-1.0	4.0	-876.2	8.6	23.1
FY24E	2,774	431	46	15.5	1.7	7.2	144.5	5.0	7.1	163.6	8.2	17.6

Industry	QSR
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**Issue Details**

Listing	BSE & NSE
Open Date	9 <sup>th</sup> Nov 2021
Close Date	11 <sup>th</sup> Nov 2021
Price Band	INR 1120-1180
Face Value	INR 10
Market Lot	12 shares
Minimum Lot	1 Lot

**Issue Structure**

Offer for Sale	100%
Fresh Issue	0%
Issue Size (Amount)	INR 2073 cr
Issue Size (Shares)	1,75,69,941
QIB Share (%)	≥ 75%
Non-Inst Share (%)	≤ 15%
Retail Share (%)	≤ 10%
Pre issue sh (nos)	6,35,42,541
Post issue sh (nos)	6,35,42,541
Post issue M Cap	INR 7,498 cr

Shareholding (%)	Pre (%)	Post (%)
Promoter	60.1	50.0
Institution	0.0	20.7
Public	39.9	29.3
<b>TOTAL</b>	<b>100</b>	<b>100</b>

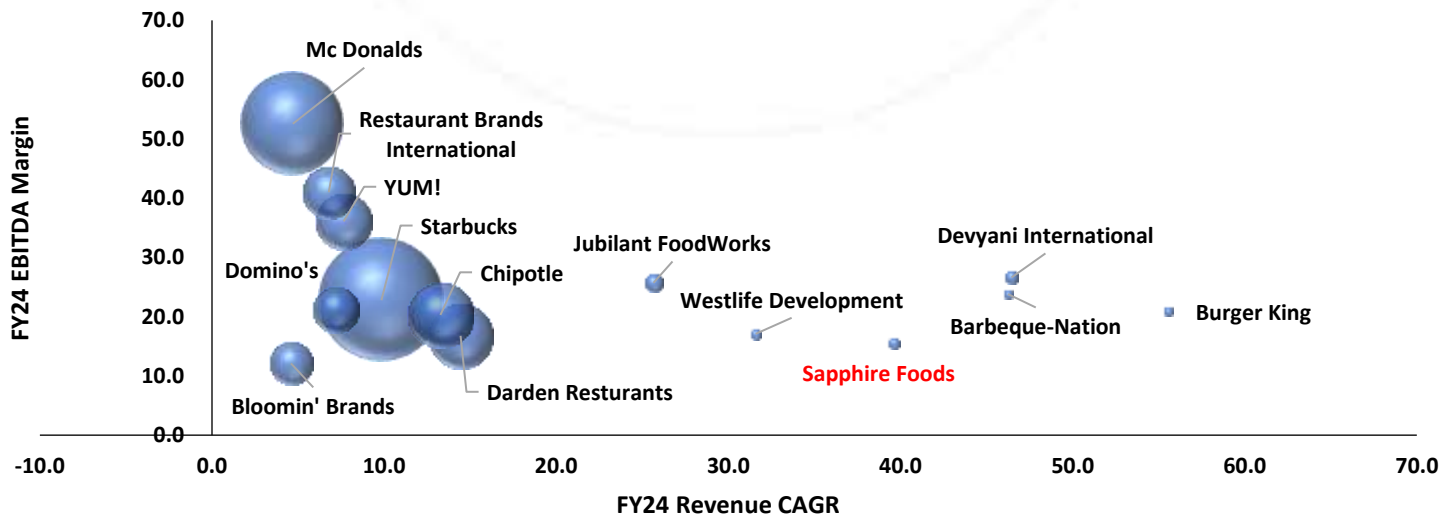
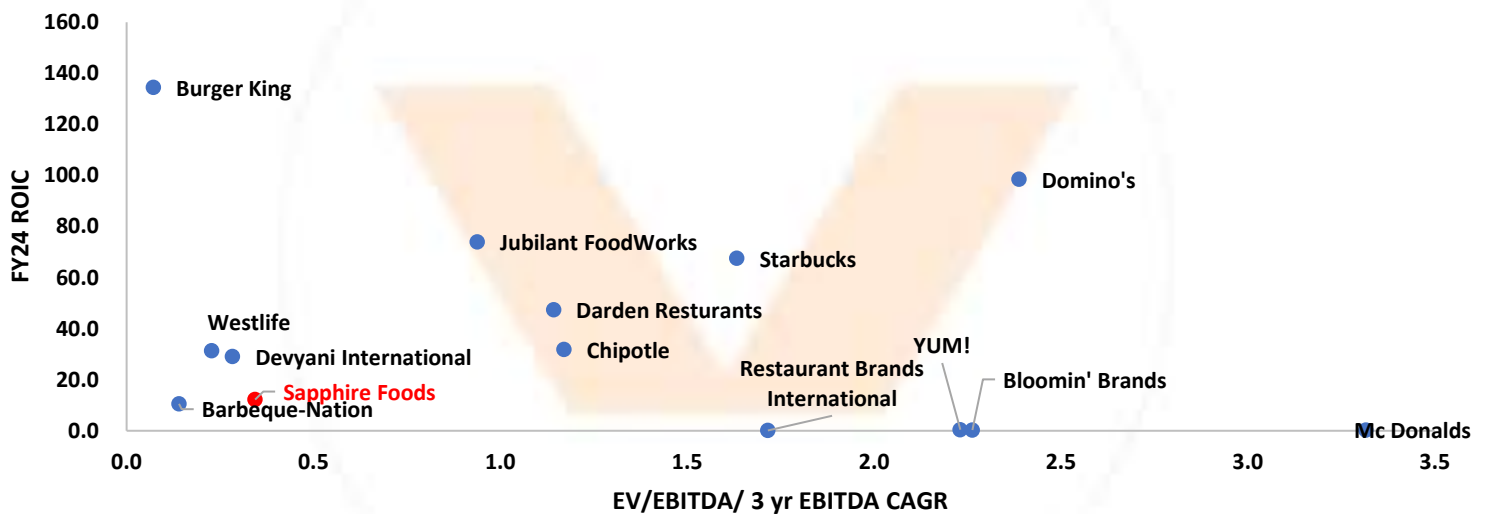
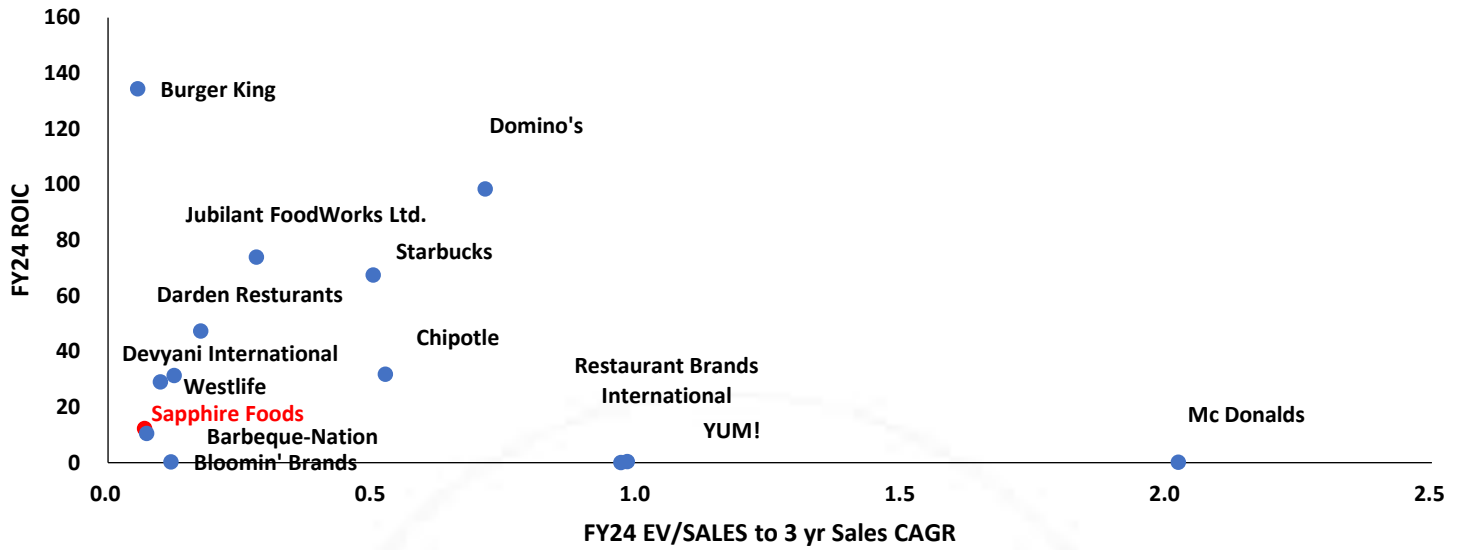
### Valuation and Comparable Metric of Global Peers

*Figures as mentioned*

Company Name	Mkt Cap	Price	PEG 2021-24	P/E (X)				EV/EBITDA (X)				P/BV (X)				RoE (%)				RoIC (%)				Sales				EBITDA Margin (%)				Net Margin (%)			
				2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
<b>Domestic Peers (Fig in INR Cr)</b>																																			
Sapphire Foods	7,498	1,180	-	(76.2)	(82.0)	(876.2)	163.6	64.8	37.1	23.1	17.7	15.7	8.5	8.6	8.2	(20.5)	(10.4)	(1.0)	5.0	(8.1)	(2.1)	6.5	12.2	1,020	1,537	2,212	2,774	12.2	13.4	15.0	15.5	(9.7)	(5.9)	(0.4)	1.7
Devyani International	18,176	151	-	(214.4)	186.1	65.4	47.3	85.4	37.9	24.3	19.3	153.3	27.9	19.6	13.8	(71.5)	15.0	29.9	29.3	(3.8)	11.3	20.4	29.0	1,135	1,910	2,830	3,565	20.0	26.3	27.4	26.6	(7.2)	5.1	9.8	10.8
Burger King	6,268	163	-	(36.0)	(108.6)	(163.2)	(814.0)	395.5	29.5	22.1	14.2	8.8	9.7	10.3	10.5	(25.8)	(9.4)	(6.7)	(1.4)	(33.8)	20.5	41.6	134.5	495	1,054	1,343	1,861	3.0	17.9	18.8	20.9	(35.2)	(5.5)	(2.9)	(0.4)
Jubilant Foodworks	48,429	3,670	52.1	209.0	99.6	74.9	59.4	64.1	42.0	33.7	28.0	33.9	27.3	21.9	17.8	16.2	27.4	29.2	29.9	16.3	49.8	63.8	74.0	3,312	4,531	5,514	6,570	23.3	25.4	25.7	25.7	7.0	10.7	11.7	12.4
Westlife Development	8,853	572	-	(89.0)	(48.2)	108.9	71.0	204.7	44.6	27.5	23.1	18.4	18.5	16.0	13.3	(20.7)	(0.4)	14.7	18.8	(7.5)	11.6	23.4	31.3	986	1,470	1,926	2,247	4.8	13.5	16.9	17.1	(10.1)	(0.1)	4.2	5.6
Barbeque Nation	4,730	1,219	-	(0.5)	(103.7)	69.6	40.6	109.0	41.8	18.3	14.2	19.4	23.0	17.2	11.7	(37.1)	(22.2)	24.6	28.8	(13.1)	(8.6)	0.9	10.6	507	850	1,243	1,586	9.1	14.6	23.2	23.8	(17.8)	(5.4)	5.5	7.3
<b>Global Peers (Fig in USD mn)</b>																																			
Starbucks	1,29,564	109.8	6.8	30.9	31.7	28.1	27.4	31.6	21.8	19.7	18.1	(24.3)	(17.8)	(12.7)	(33.1)	(78.9)	(56.1)	(45.2)	(120.7)	41.8	198.4	547.6	67.5	29,061	32,361	35,399	38,514	22.0	22.1	22.3	22.8	14.5	12.6	13.0	12.3
Mc Donalds	1,87,133	250.6	3.9	25.9	24.9	23.3	22.0	20.7	18.0	16.9	16.2	(46.1)	(62.3)	(149.9)	25.7	(178.1)	(250.6)	(642.2)	117.2	37.8	39.1	40.7	0.2	23,187	24,670	25,879	26,610	52.3	52.1	52.5	52.6	31.2	30.5	31.0	32.0
YUM!	37,408	126.5	2.7	27.2	25.6	23.6	21.6	27.6	20.5	19.2	18.2	(4.8)	(4.4)	(4.3)	(5.4)	(17.7)	(17.4)	(18.2)	(24.9)	87.3	108.7	124.0	0.4	6,580	7,054	7,518	8,209	35.6	35.6	36.1	36.1	20.9	20.8	21.1	21.1
Darden Resturants	19,211	148.0	0.7	30.5	19.2	17.7	16.5	29.4	13.7	11.7	10.7	6.9	6.6	6.0	4.9	22.5	34.6	34.2	29.6	8.8	45.9	48.9	47.4	7,196	9,544	10,216	10,786	19.2	16.7	16.8	16.8	8.7	10.5	10.6	10.8
Chipotle	50,677	1,801.2	1.4	70.9	54.6	44.3	36.1	58.6	43.5	33.7	28.6	22.4	18.4	16.1	11.8	31.6	33.7	36.4	32.8	47.0	54.0	45.4	31.8	7,545	8,600	9,693	10,965	15.3	17.6	19.0	20.3	9.5	10.8	11.8	12.8
Restaurant Brands International	26,073	57.6	1.6	20.2	18.6	16.7	15.3	28.3	16.6	15.2	14.3	9.0	10.0	10.2	6.1	44.6	53.6	61.1	40.0	14.0	15.9	17.0	0.1	5,701	6,139	6,445	6,942	39.3	39.9	40.7	41.0	22.6	22.8	24.2	24.6
Domino's	17,734	487.4	2.7	34.4	31.7	28.6	26.0	27.0	25.5	23.5	21.4	(4.5)	(4.2)	(4.3)	(4.7)	(13.1)	(13.4)	(15.2)	(18.1)	92.9	119.8	108.6	98.4	4,400	4,711	5,081	5,421	20.2	20.5	20.8	21.2	11.7	11.9	12.2	12.6
Bloomin' Brands	2,014	22.6	1.4	7.5	7.6	7.2	6.5	15.0	4.6	4.4	4.2	7.5	10.2	5.3	2.9	100.1	135.0	73.0	44.8	39.5	50.5	50.0	0.3	4,209	4,501	4,686	4,815	13.1	11.9	11.7	12.1	6.4	5.9	5.9	6.4

Source: Ventura Research & Bloomberg

**Sapphire available at significant discount to peers**

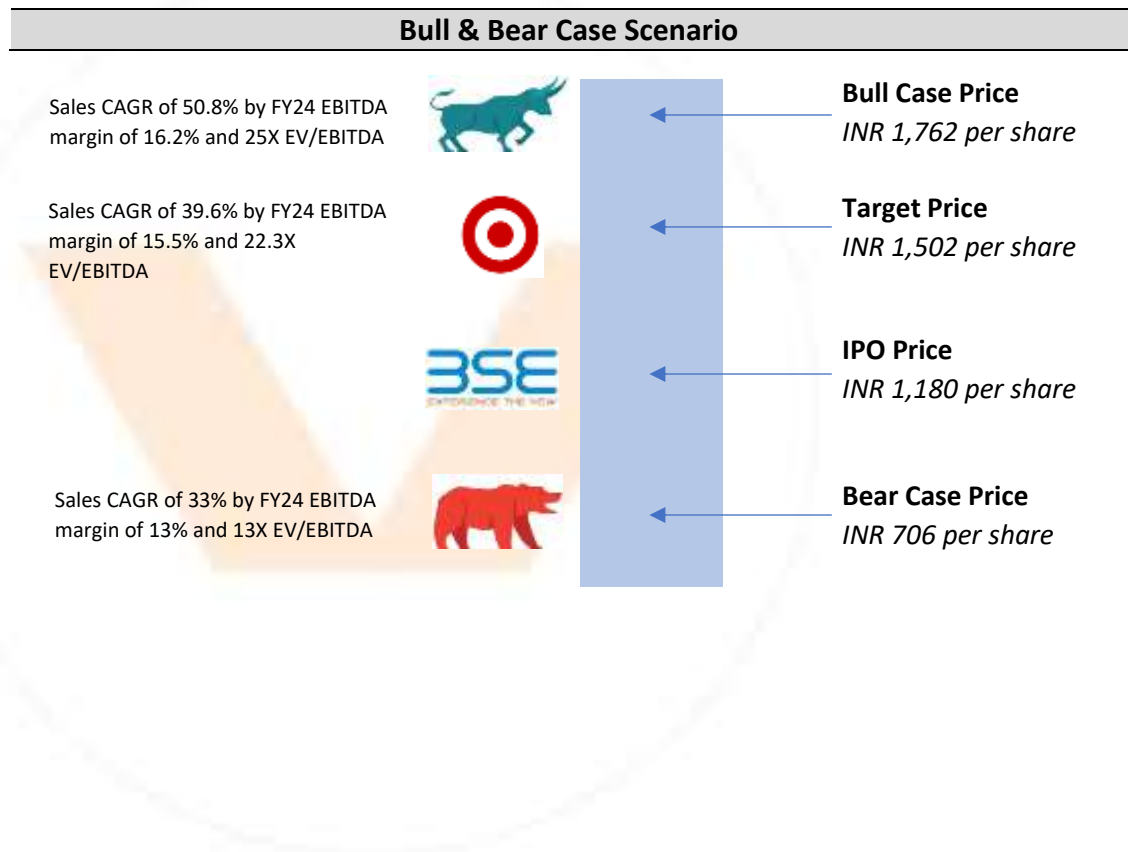


Source: Ventura Research, ACE Equity & Bloomberg

## Our Bull and Bear Case Scenarios

We have prepared a Bull and Bear case scenario based on Sapphire’s FY24 Sales CAGR, EBITDA margins and EV to Sales valuation.

- **Bull Case:** We have assumed a 50.8% revenue CAGR to INR 3,500 cr by FY24 and EBITDA margin of 16.2%, along with the valuation re-rating to 25X EV/EBITDA, which will result in a Bull Case price target of INR 1,762 per share (an upside of 49.3% from the upper band IPO price of INR 1,180 per share).
- **Bear Case:** We have assumed a 33.0% revenue CAGR to INR 2,400 cr by FY24 and EBITDA margin of 13%, along with the valuation de-rating to 13X EV/Sales, which will result in a Bear Case price target of INR 706 per share (a downside of 40.1% from the upper band IPO price of INR 1,180 per share).



## Financial Analysis and Projections

During FY19-21, Sapphire reported a revenue and EBITDA de-growth of 7.6% to INR 1,020 cr and 7.7% to INR 124 cr respectively given the outcome of the pandemic. KFC India operations declined by 5.4% to INR 590 cr, Pizza Hut India by 15.0% to INR 222 cr, the Sri Lanka business marginally by 0.5% to INR 196 cr and other business (which is essentially their Maldives operations) by 29.8% to INR 9 cr. Over the same period, the company's net loss widened by INR 30.4 cr to INR 98.5 cr. EBITDA margin remained flat at 12.2% however PAT margin contracted by 400 bps to -9.7%. Return ratios ROE and ROCE stand at -20.5% (contraction of 3600 bps) and -7.6% (contraction of 680 bps).

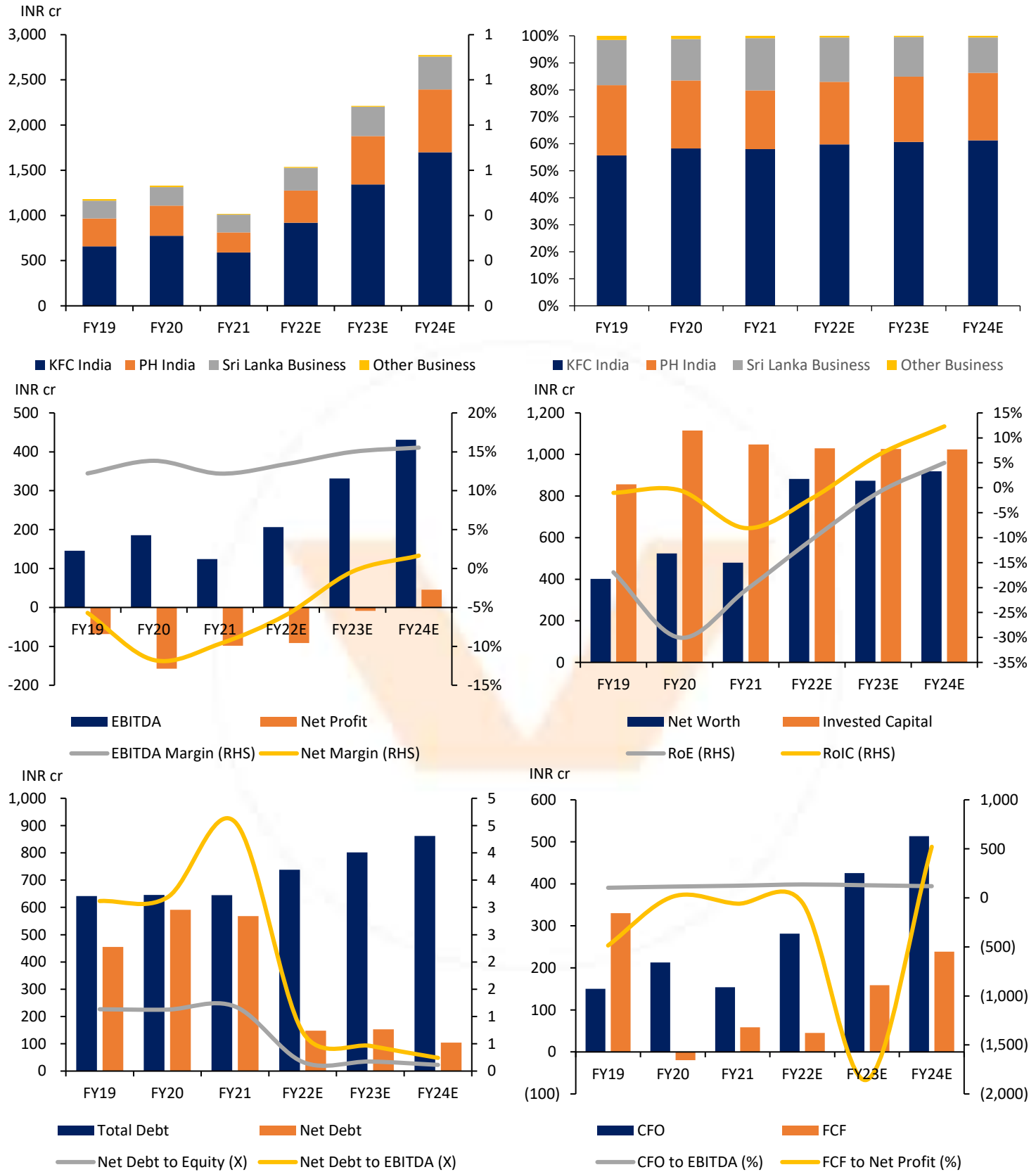
Over the period FY21-24E, we expect addition of 306 stores taking the total tally 788 stores (KFC +149 to 368 nos, Pizza Hut +144 stores to 332 nos., Sri Lanka +12 to 85 nos, Maldives +1 to 3 nos). Driven by the aggressive store roll out plan we expect overall revenues to grow to INR 2,744 cr (KFC 42.3% CAGR to INR 1,700 cr, Pizza Hut 46.3% CAGR to INR 694 cr, Sri Lanka 22.8% CAGR to INR 364 cr and other business 23.2% CAGR to INR 16 cr). EBITDA is expected to grow at 51.3% (to INR 431 cr) and EBITDA margin to expand by 330 bps to 15.5%. The company is expected to turn profitable by FY24 and earn INR 46 cr with 1.7% margin. Return ratios ROE and ROCE are expected to expand by 3,500 bps and 760 bps to 5.0% and 12.2% respectively.

## Sapphire's Financial Summary

Fig in INR Cr (unless specified)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
<b>Revenue from operations</b>	<b>1,193.8</b>	<b>1,340.4</b>	<b>1,019.6</b>	<b>1,537.3</b>	<b>2,212.0</b>	<b>2,774.0</b>	<b>3,354.1</b>	<b>3,956.1</b>	<b>4,578.3</b>	<b>5,183.0</b>	<b>5,791.7</b>	<b>6,454.7</b>
<i>YoY Growth (%)</i>	<i>0.0</i>	<i>12.3</i>	<i>(23.9)</i>	<i>50.8</i>	<i>43.9</i>	<i>25.4</i>	<i>20.9</i>	<i>17.9</i>	<i>15.7</i>	<i>13.2</i>	<i>11.7</i>	<i>11.4</i>
Raw Material Cost	394.6	431.7	309.9	478.3	694.8	879.6	1,073.6	1,278.2	1,493.0	1,705.7	1,923.4	2,163.0
<i>RM Cost to Sales (%)</i>	<i>33.1</i>	<i>32.2</i>	<i>30.4</i>	<i>31.1</i>	<i>31.4</i>	<i>31.7</i>	<i>32.0</i>	<i>32.3</i>	<i>32.6</i>	<i>32.9</i>	<i>33.2</i>	<i>33.5</i>
Employee Cost	206.3	228.8	195.6	273.8	328.6	361.5	397.6	437.4	481.1	529.2	582.1	640.4
<i>Employee Cost to Sales (%)</i>	<i>17.3</i>	<i>17.1</i>	<i>19.2</i>	<i>17.8</i>	<i>14.9</i>	<i>13.0</i>	<i>11.9</i>	<i>11.1</i>	<i>10.5</i>	<i>10.2</i>	<i>10.1</i>	<i>9.9</i>
Other Expenses	446.9	494.3	389.7	578.8	856.9	1,101.9	1,349.6	1,601.9	1,857.5	2,098.5	2,334.1	2,588.0
<i>Other Expenses to Sales (%)</i>	<i>37.4</i>	<i>36.9</i>	<i>38.2</i>	<i>37.7</i>	<i>38.7</i>	<i>39.7</i>	<i>40.2</i>	<i>40.5</i>	<i>40.6</i>	<i>40.5</i>	<i>40.3</i>	<i>40.1</i>
<b>EBITDA</b>	<b>146.0</b>	<b>185.6</b>	<b>124.4</b>	<b>206.4</b>	<b>331.7</b>	<b>431.1</b>	<b>533.3</b>	<b>638.6</b>	<b>746.7</b>	<b>849.5</b>	<b>952.0</b>	<b>1,063.4</b>
<i>EBITDA Margin (%)</i>	<i>12.2</i>	<i>13.8</i>	<i>12.2</i>	<i>13.4</i>	<i>15.0</i>	<i>15.5</i>	<i>15.9</i>	<i>16.1</i>	<i>16.3</i>	<i>16.4</i>	<i>16.4</i>	<i>16.5</i>
<b>Net Profit</b>	<b>(68.0)</b>	<b>(157.5)</b>	<b>(98.5)</b>	<b>(91.4)</b>	<b>(8.6)</b>	<b>45.8</b>	<b>104.2</b>	<b>165.8</b>	<b>233.4</b>	<b>293.3</b>	<b>262.5</b>	<b>309.2</b>
<i>Net Margin (%)</i>	<i>(5.7)</i>	<i>(11.8)</i>	<i>(9.7)</i>	<i>(5.9)</i>	<i>(0.4)</i>	<i>1.7</i>	<i>3.1</i>	<i>4.2</i>	<i>5.1</i>	<i>5.7</i>	<i>4.5</i>	<i>4.8</i>
<b>Adjusted EPS</b>	<b>(12.9)</b>	<b>(29.8)</b>	<b>(18.7)</b>	<b>(17.3)</b>	<b>(1.6)</b>	<b>8.7</b>	<b>19.7</b>	<b>31.4</b>	<b>44.2</b>	<b>55.6</b>	<b>49.7</b>	<b>58.6</b>
<i>P/E (X)</i>	<i>(91.6)</i>	<i>(39.5)</i>	<i>(63.3)</i>	<i>(68.1)</i>	<i>(728.0)</i>	<i>135.9</i>	<i>59.8</i>	<i>37.6</i>	<i>26.7</i>	<i>21.2</i>	<i>23.7</i>	<i>20.1</i>
<b>Adjusted BVPS</b>	<b>76.1</b>	<b>99.3</b>	<b>90.9</b>	<b>167.1</b>	<b>165.5</b>	<b>174.2</b>	<b>193.9</b>	<b>225.3</b>	<b>269.6</b>	<b>325.1</b>	<b>374.8</b>	<b>433.4</b>
<i>P/BV (X)</i>	<i>15.5</i>	<i>11.9</i>	<i>13.0</i>	<i>7.1</i>	<i>7.1</i>	<i>6.8</i>	<i>6.1</i>	<i>5.2</i>	<i>4.4</i>	<i>3.6</i>	<i>3.1</i>	<i>2.7</i>
<b>Enterprise Value</b>	<b>7,953.0</b>	<b>8,088.9</b>	<b>8,066.1</b>	<b>7,645.8</b>	<b>7,651.1</b>	<b>7,602.6</b>	<b>7,434.8</b>	<b>7,174.9</b>	<b>6,823.8</b>	<b>6,352.5</b>	<b>5,892.6</b>	<b>5,374.8</b>
<i>EV/EBITDA (X)</i>	<i>54.5</i>	<i>43.6</i>	<i>64.8</i>	<i>37.0</i>	<i>23.1</i>	<i>17.6</i>	<i>13.9</i>	<i>11.2</i>	<i>9.1</i>	<i>7.5</i>	<i>6.2</i>	<i>5.1</i>
<b>Net Worth</b>	<b>401.6</b>	<b>524.5</b>	<b>479.9</b>	<b>882.3</b>	<b>873.7</b>	<b>919.6</b>	<b>1,023.8</b>	<b>1,189.6</b>	<b>1,423.0</b>	<b>1,716.4</b>	<b>1,978.8</b>	<b>2,288.0</b>
<i>Return on Equity (%)</i>	<i>(16.9)</i>	<i>(30.0)</i>	<i>(20.5)</i>	<i>(10.4)</i>	<i>(1.0)</i>	<i>5.0</i>	<i>10.2</i>	<i>13.9</i>	<i>16.4</i>	<i>17.1</i>	<i>13.3</i>	<i>13.5</i>
<b>Capital Employed</b>	<b>1,043.0</b>	<b>1,170.0</b>	<b>1,124.8</b>	<b>1,620.3</b>	<b>1,675.7</b>	<b>1,781.3</b>	<b>1,951.6</b>	<b>2,184.2</b>	<b>2,484.9</b>	<b>2,845.0</b>	<b>3,174.4</b>	<b>3,565.9</b>
<i>Return on Capital Employed (%)</i>	<i>(0.9)</i>	<i>(0.5)</i>	<i>(7.6)</i>	<i>(1.3)</i>	<i>4.0</i>	<i>7.1</i>	<i>9.7</i>	<i>11.7</i>	<i>13.0</i>	<i>13.6</i>	<i>10.6</i>	<i>10.8</i>
<b>Invested Capital</b>	<b>856.6</b>	<b>1,115.4</b>	<b>1,048.0</b>	<b>1,030.1</b>	<b>1,026.8</b>	<b>1,024.1</b>	<b>960.5</b>	<b>866.5</b>	<b>748.8</b>	<b>570.9</b>	<b>373.4</b>	<b>164.8</b>
<i>Return on Invested Capital (%)</i>	<i>(1.0)</i>	<i>(0.5)</i>	<i>(8.1)</i>	<i>(2.1)</i>	<i>6.5</i>	<i>12.3</i>	<i>19.8</i>	<i>29.6</i>	<i>43.2</i>	<i>67.8</i>	<i>89.8</i>	<i>233.3</i>
Cash Flow from Operations	150.1	213.0	154.1	281.6	425.6	513.5	619.4	730.7	850.1	955.1	974.3	1,082.2
Cash Flow from Investing	(335.1)	(2.0)	(77.9)	(290.2)	(361.7)	(385.0)	(364.9)	(377.0)	(397.9)	(374.4)	(397.2)	(440.2)
Cash Flow from Financing	176.7	(208.1)	(51.5)	506.0	(26.2)	(37.7)	(38.6)	(45.8)	(53.2)	(61.5)	(69.2)	(62.5)
<b>Net Cash Flow</b>	<b>(8.3)</b>	<b>2.9</b>	<b>24.6</b>	<b>497.4</b>	<b>37.7</b>	<b>90.8</b>	<b>215.9</b>	<b>307.9</b>	<b>399.0</b>	<b>519.2</b>	<b>507.9</b>	<b>579.5</b>
<b>Free Cash Flow</b>	<b>330.3</b>	<b>(19.7)</b>	<b>58.5</b>	<b>45.0</b>	<b>158.7</b>	<b>238.7</b>	<b>338.0</b>	<b>455.4</b>	<b>546.4</b>	<b>669.4</b>	<b>642.0</b>	<b>714.3</b>
<i>FCF to Revenue (%)</i>	<i>27.7</i>	<i>(1.5)</i>	<i>5.7</i>	<i>2.9</i>	<i>7.2</i>	<i>8.6</i>	<i>10.1</i>	<i>11.5</i>	<i>11.9</i>	<i>12.9</i>	<i>11.1</i>	<i>11.1</i>
<i>FCF to EBITDA (%)</i>	<i>226.3</i>	<i>(10.6)</i>	<i>47.0</i>	<i>21.8</i>	<i>47.8</i>	<i>55.4</i>	<i>63.4</i>	<i>71.3</i>	<i>73.2</i>	<i>78.8</i>	<i>67.4</i>	<i>67.2</i>
<i>FCF to Net Profit (%)</i>	<i>(485.6)</i>	<i>12.5</i>	<i>(59.4)</i>	<i>(49.2)</i>	<i>(1,854.6)</i>	<i>520.8</i>	<i>324.4</i>	<i>274.6</i>	<i>234.1</i>	<i>228.2</i>	<i>244.6</i>	<i>231.0</i>
<i>FCF to Net Worth (%)</i>	<i>82.3</i>	<i>(3.8)</i>	<i>12.2</i>	<i>5.1</i>	<i>18.2</i>	<i>26.0</i>	<i>33.0</i>	<i>38.3</i>	<i>38.4</i>	<i>39.0</i>	<i>32.4</i>	<i>31.2</i>
<b>Total Debt</b>	<b>641.4</b>	<b>645.6</b>	<b>644.9</b>	<b>738.1</b>	<b>802.0</b>	<b>861.7</b>	<b>927.9</b>	<b>994.6</b>	<b>1,061.8</b>	<b>1,128.6</b>	<b>1,195.5</b>	<b>1,277.9</b>
<b>Net Debt</b>	<b>455.0</b>	<b>590.9</b>	<b>568.1</b>	<b>147.8</b>	<b>153.1</b>	<b>104.5</b>	<b>(63.3)</b>	<b>(323.1)</b>	<b>(674.3)</b>	<b>(1,145.5)</b>	<b>(1,605.4)</b>	<b>(2,123.2)</b>
<i>Net Debt to Equity (X)</i>	<i>1.1</i>	<i>1.1</i>	<i>1.2</i>	<i>0.2</i>	<i>0.2</i>	<i>0.1</i>	<i>(0.1)</i>	<i>(0.3)</i>	<i>(0.5)</i>	<i>(0.7)</i>	<i>(0.8)</i>	<i>(0.9)</i>
<i>Net Debt to EBITDA (X)</i>	<i>3.1</i>	<i>3.2</i>	<i>4.6</i>	<i>0.7</i>	<i>0.5</i>	<i>0.2</i>	<i>(0.1)</i>	<i>(0.5)</i>	<i>(0.9)</i>	<i>(1.3)</i>	<i>(1.7)</i>	<i>(2.0)</i>
<i>Interest Coverage Ratio (X)</i>	<i>(0.1)</i>	<i>(0.1)</i>	<i>(1.1)</i>	<i>(0.3)</i>	<i>0.7</i>	<i>1.3</i>	<i>1.8</i>	<i>2.3</i>	<i>2.7</i>	<i>3.0</i>	<i>3.3</i>	<i>3.5</i>

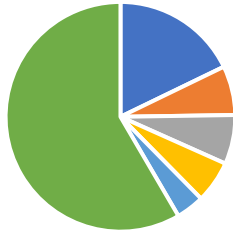
Source: Company Report





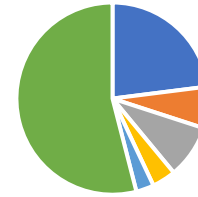
Source: Company Reports and Ventura Research

Market Share by Outlet Count



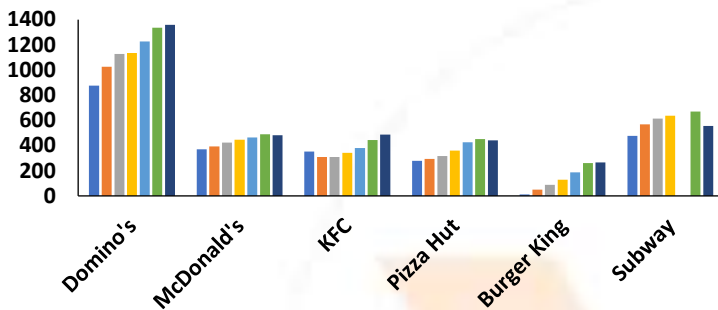
■ Domino's ■ McDonald's ■ KFC ■ Pizza Hut ■ Burger King ■ Others

Market Share by Revenue



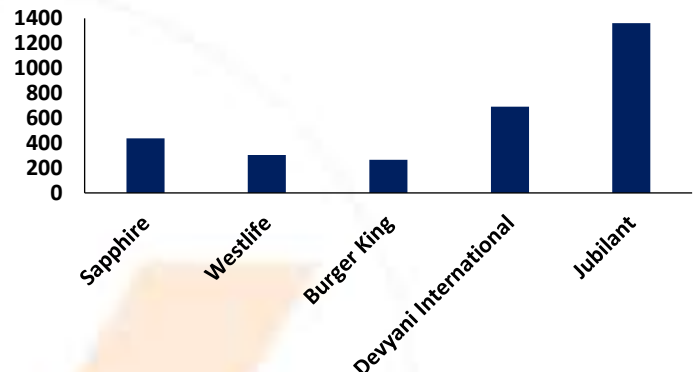
■ Domino's ■ McDonald's ■ KFC  
■ Pizza Hut ■ Burger King ■ Others

Growth of Key Brands in India (No. of Outlets)

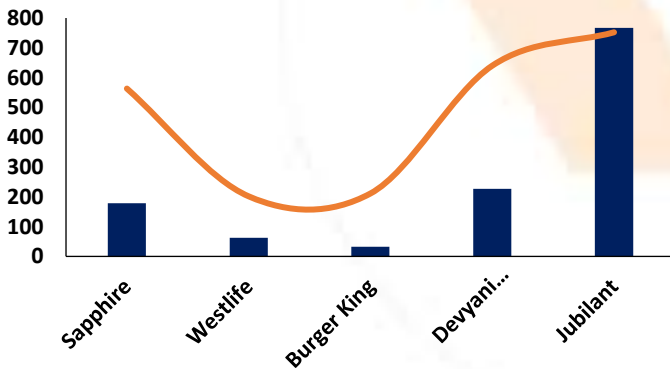


■ FY15 ■ FY16 ■ FY17 ■ FY18 ■ FY19 ■ FY20 ■ FY21

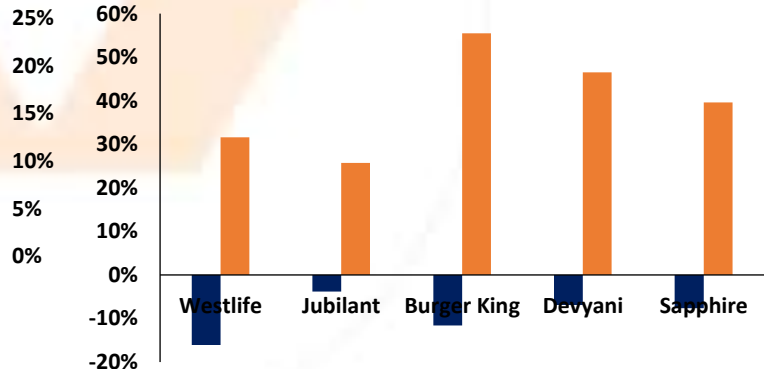
Number of Stores (FY21)



INR cr

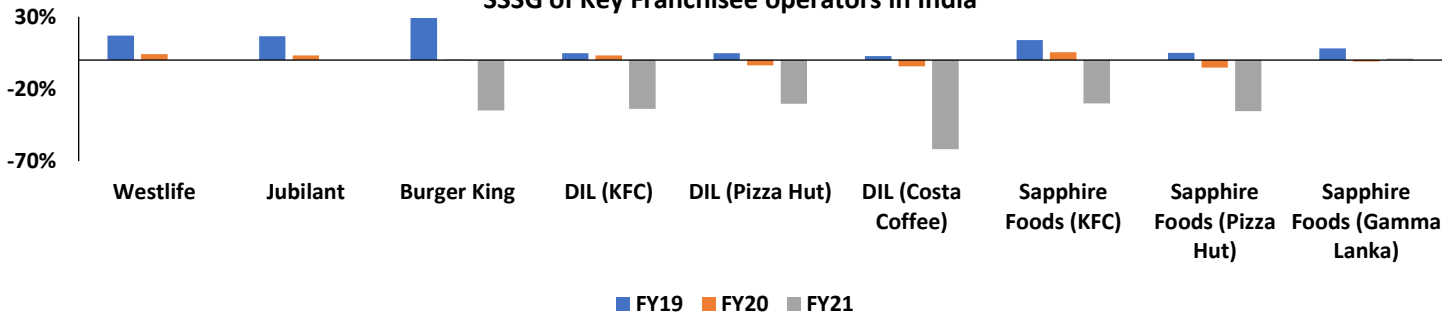


■ Resturant EBITDA ■ Resturant EBITDA Margin (RHS)



■ Revenue CAGR (FY19-21) ■ Revenue CAGR (FY21-24E)

SSSG of Key Franchisee operators in India

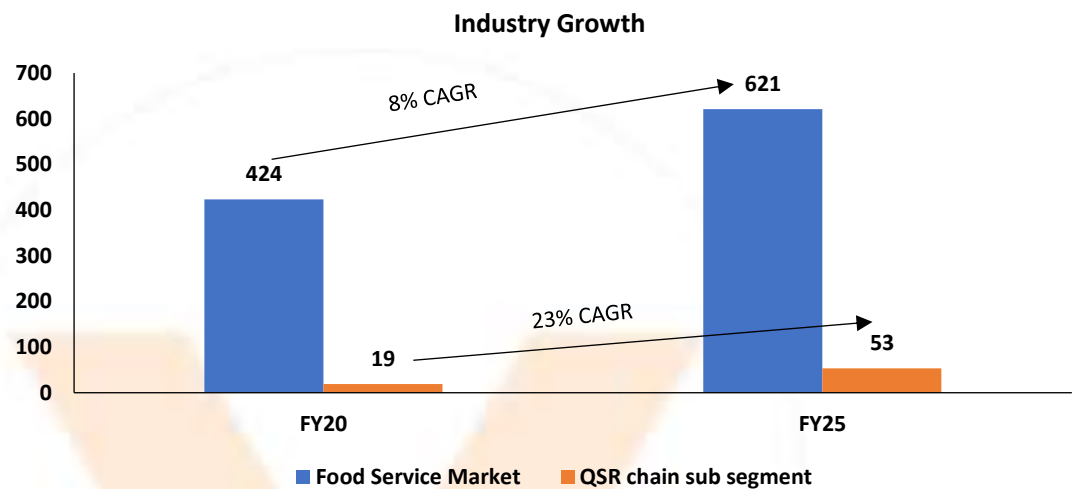


■ FY19 ■ FY20 ■ FY21

Source: Company RHP, Ventura estimates

## Key Growth Drivers

**Growing with the industry** - The value of the food services market in India is estimated to grow at a CAGR of 8.0% from INR 4,23.6 cr in FY20 to INR 621.1 cr in FY25, while the value of the QSR chain sub-segment is expected to grow at a CAGR of ~23% from INR 188 bn in FY20 to INR 534 bn in FY25. We believe that Sapphire, by leveraging their brand strength, innovative product offerings, wide restaurant footprint, delivery capabilities, and a seasoned senior management team, is well-positioned to capture further opportunities in the QSR chain sub-segment



**Smaller format stores with shorter payback period** – For a food services outlet, rent is the second highest cost component after raw materials. Sapphire to improve operating metrics is now focusing on reducing store size by ~40% (18% less capex). This significantly reduces the rental and operating cost of the stores without compromising on the average daily sales. Further the omnichannel delivery model (in delivery, dine-in and takeaway) helps improve the store footfalls compounding the leverage of cost saving and higher throughput.

**Aggressive Expansion plans** – We expect the company to roll out 110, 115 and 120 stores over the next 3 years leading to a 39.6% growth in revenue. The required capex for the roll out of new stores (including old store refurbishment) is expected to be between INR 200 cr and 250 cr. Given the strong cash balances and profitable operations (at operating level) we expect the store expansion to be funded through internal accruals.

## Management Team

Name	Designation	Description
Sanjay Purohit	Whole Time Director and Group CEO	Sanjay has over 30 years of experience in building & profitably growing great brands & organizations. He has had a stellar successful career across consumer product companies such as Levi Struass & Co., Cadbury India, Asian Paints, & Mobil Oil Corp.
Deepak Taluja	Chief Executive Officer-KFC	A Hotel Management graduate, Deepak started his career as a Team Member, and grew to hold several senior positions for over 2 decades, across Domino's Pizza (Jubilant Food Works), Fun Multiplex (Essel Group), with his last assignment being COO at Café Coffee Day.
Vikrant Vohra	Chief Executive Officer- Pizza Hut	A Hotel Management graduate, Vikrant has been associated with major hospitality brands such as The Park, Hyatt, Taj and Marriot International for nearly 2 decades.
Vijay Jain	Chief Financial Officer- Sapphire Foods	After completing his Chartered Accountancy course in the year 2002, Vijay has steered Finance functions for prominent healthcare & retail brands for nearly 2 decades. Having worked with brands such as Piramal Health care, Aditya Birla Nuvo Ltd. and Hypercity Retail (India), Vijay is now on board with us as the Chief Financial Officer for Sapphire Foods.
Sandhydeep Purri	Chief Peoples Officer	Sandhydeep has been operating in HRD, OD & Consulting space for over 2 decades across brands such as DDB Mudra, Satyam Computer Services, Deloitte & Aditya Birla Group. A Post Graduate in Management and a Certified Marshalls Goldsmith Coach, Sandhydeep is our Chief People Officer since 2017.
Sunil Chandiramani	Chairman	Prior to joining our Company, he was associated with S.R. Batliboi & Co. LLP as a partner from April, 1996 to March, 2001 and with Ernst & Young LLP as a partner from April, 2001 to September, 2014.
Amit Sharma	Head-Supply Chain Management	Amit holds a Bachelor's degree in Instrumentation Engineering and has two decades of experience with renowned organisations such as Coca Cola, Vistana Foods, Baskin Robbins, PepsiCo, Reckitt Benckiser and Wockhardt.

Source: Company Reports

## Issue Structure and Offer Details

The proposed issue size of Sapphire Foods offer for sale IPO is INR 2,073 cr. The price band for the issue is in the range of INR 1,120-1,180 and the bid lot is 12 shares and multiples thereof.

Issue Structure		
Category	No. of shares offered	% of Issue
<b>QIB</b>	<b>1,31,77,456</b>	<b>Not less than 75% of the issue</b>
<b>Non Institutional Bidders</b>	<b>26,35,491</b>	<b>Not more than 15% of the issue</b>
<b>Retail</b>	<b>17,56,994</b>	<b>Not more than 10% of the issue</b>
<b>Total</b>	<b>1,75,69,941</b>	<b>100%</b>

*\* Number of shares based on higher price band of INR 1,180*

Source: Company Reports

Shareholding Pattern		
Category	Pre Issue	Post Issue
<b>Promoters</b>	<b>60.08%</b>	<b>49.97%</b>
<b>Institutions</b>	<b>0.00%</b>	<b>20.74%</b>
<b>Public</b>	<b>39.92%</b>	<b>29.29%</b>
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Company Reports

## Financial Analysis & Projections

Fig in INR Cr (unless specified)	FY20	FY21	FY22E	FY23E	FY24E	Fig in INR Cr (unless specified)	FY20	FY21	FY22E	FY23E	FY24E
<b>Income Statement</b>						<b>Per share data &amp; Yields</b>					
Revenue	1,340.4	1,019.6	1,537.3	2,212.0	2,774.0	Adjusted EPS (INR)	(24.8)	(15.5)	(14.4)	(1.3)	7.2
YoY Growth (%)	12.3	(23.9)	50.8	43.9	25.4	Adjusted Cash EPS (INR)	5.3	17.4	21.5	40.3	55.2
Raw Material Cost	431.7	309.9	478.3	694.8	879.6	Adjusted BVPS (INR)	82.6	75.3	138.7	137.3	144.5
RM Cost to Sales (%)	32.2	30.4	31.1	31.4	31.7	Adjusted CFO per share (INR)	33.5	24.2	44.3	67.0	80.8
Employee Cost	228.8	195.6	273.8	328.6	361.5	CFO Yield (%)	2.8	2.1	3.8	5.7	6.8
Employee Cost to Sales (%)	17.1	19.2	17.8	14.9	13.0	Adjusted FCF per share (INR)	(3.1)	9.2	7.1	25.0	37.6
Other Expenses	494.3	389.7	578.8	856.9	1,101.9	FCF Yield (%)	(0.3)	0.8	0.6	2.1	3.2
Other Exp to Sales (%)	36.9	38.2	37.7	38.7	39.7	<b>Solvency Ratio (X)</b>					
EBITDA	185.6	124.4	206.4	331.7	431.1	Total Debt to Equity	1.2	1.3	0.8	0.9	0.9
Margin (%)	13.8	12.2	13.4	15.0	15.5	Net Debt to Equity	1.1	1.2	0.2	0.2	0.1
YoY Growth (%)	27.1	(33.0)	65.9	60.7	30.0	Net Debt to EBITDA	3.2	4.6	0.7	0.5	0.2
Depreciation & Amortization	191.3	209.1	228.1	264.5	305.1	<b>Return Ratios (%)</b>					
EBIT	(5.7)	(84.7)	(21.7)	67.2	126.0	Return on Equity	(30.0)	(20.5)	(10.4)	(1.0)	5.0
Margin (%)	(0.4)	(8.3)	(1.4)	3.0	4.5	Return on Capital Employed	(0.5)	(7.6)	(1.3)	4.0	7.1
YoY Growth (%)	(34.7)	1,380.8	(74.4)	(409.6)	87.5	Return on Invested Capital	(0.5)	(8.1)	(2.1)	6.5	12.3
Other Income	11.3	61.6	9.8	13.3	15.7	<b>Working Capital Ratios</b>					
Finance Cost	72.2	75.6	81.0	90.2	97.4	Payable Days (Nos)	36	52	52	52	52
Interest Coverage (X)	(0.1)	(1.1)	(0.3)	0.7	1.3	Inventory Days (Nos)	12	17	17	17	17
Exceptional Item	(94.4)	0.0	0.0	0.0	0.0	Receivable Days (Nos)	1	3	3	3	3
PBT	(161.0)	(98.7)	(92.8)	(9.8)	44.2	Net Working Capital Days (Nos)	-22	-32	-32	-32	-32
Margin (%)	(12.0)	(9.7)	(6.0)	(0.4)	1.6	Net Working Capital to Sales (%)	(6.1)	(8.7)	(8.7)	(8.7)	(8.7)
YoY Growth (%)	135.7	(38.7)	(5.9)	(89.5)	(553.4)	<b>Valuation (X)</b>					
Tax Expense	(1.7)	1.2	0.0	0.0	0.0	P/E	(47.6)	(76.2)	(82.0)	(876.2)	163.6
Tax Rate (%)	1.1	(1.2)	0.0	0.0	0.0	P/BV	14.3	15.7	8.5	8.6	8.2
PAT	(159.2)	(99.9)	(92.8)	(9.8)	44.2	EV/EBITDA	43.6	64.8	37.0	23.1	17.6
Margin (%)	(11.9)	(9.8)	(6.0)	(0.4)	1.6	EV/Sales	6.0	7.9	5.0	3.5	2.7
YoY Growth (%)	129.4	(37.3)	(7.1)	(89.5)	(553.4)	<b>Cash Flow Statement</b>					
Min Int/Sh of Assoc	1.7	1.4	1.4	1.2	1.6	PBT	(161.0)	(98.7)	(92.8)	(9.8)	44.2
Net Profit	(157.5)	(98.5)	(91.4)	(8.6)	45.8	Adjustments	344.2	246.8	329.4	376.6	420.3
Margin (%)	(11.8)	(9.7)	(5.9)	(0.4)	1.7	Change in Working Capital	28.1	7.1	45.1	58.8	48.9
YoY Growth (%)	131.6	(37.5)	(7.1)	(90.6)	(635.7)	Less: Tax Paid	1.7	(1.2)	0.0	0.0	0.0
<b>Balance Sheet</b>						<b>Cash Flow from Operations</b>	<b>213.0</b>	<b>154.1</b>	<b>281.6</b>	<b>425.6</b>	<b>513.5</b>
Share Capital	50.2	52.8	63.5	63.5	63.5	Net Capital Expenditure	(141.7)	(73.4)	(207.9)	(233.0)	(242.9)
Total Reserves	474.5	425.9	817.6	809.0	854.8	Change in Investments	139.7	(4.5)	(82.3)	(128.8)	(142.1)
Shareholders Fund	524.7	478.7	881.1	872.5	918.4	<b>Cash Flow from Investing</b>	<b>(2.0)</b>	<b>(77.9)</b>	<b>(290.2)</b>	<b>(361.7)</b>	<b>(385.0)</b>
Minority Int	0.3	(1.2)	(1.2)	(1.2)	(1.2)	Change in Borrowings	(9.7)	6.6	19.7	(13.7)	(15.0)
Long Term Borrowings	54.0	49.0	68.7	55.0	40.0	Less: Finance Cost	(9.3)	(12.2)	(81.0)	(90.2)	(97.4)
Deferred Tax Assets / Liabilities	11.7	10.7	10.7	10.7	10.7	Proceeds from Equity	0.0	44.4	493.8	0.0	0.0
Lease Liabilities	502.5	490.5	520.5	550.5	580.5	Change in Lease Liabilities	(120.9)	(87.7)	60.0	60.0	60.0
Long Term Provisions	8.8	9.9	13.8	16.6	18.3	Change in Short term borrowings	(12.1)	(0.4)	13.5	17.6	14.7
<b>Total Liabilities</b>	<b>1,102.0</b>	<b>1,037.6</b>	<b>1,493.6</b>	<b>1,504.2</b>	<b>1,566.7</b>	Proceeds from Preference Shares	0.0	0.0	0.0	0.0	0.0
Net Block	434.6	393.2	495.0	594.4	675.1	Equity contribution from Minority Int	0.0	0.0	0.0	0.0	0.0
Capital Work in Progress	18.4	21.3	0.0	0.0	0.0	Acquisition of Minority Int	(56.1)	(2.2)	0.0	0.0	0.0
Intangible assets under development	3.1	9.1	0.0	0.0	0.0	<b>Cash flow from Financing</b>	<b>(208.1)</b>	<b>(51.5)</b>	<b>506.0</b>	<b>(26.2)</b>	<b>(37.7)</b>
Right of Use Assets	495.3	473.9	426.9	370.9	305.9	<b>Net Cash Flow</b>	<b>2.9</b>	<b>24.6</b>	<b>497.4</b>	<b>37.7</b>	<b>90.8</b>
Income Tax Assets	3.8	4.4	6.6	9.5	11.9	Forex Effect	0.0	0.0	0.0	0.0	0.0
Goodwill	162.2	162.2	162.2	162.2	162.2	Opening Balance of Cash	14.5	17.4	45.1	542.5	580.1
Other Intangible Assets	68.8	55.1	40.1	25.2	32.0	<b>Closing Balance of Cash</b>	<b>17.4</b>	<b>42.0</b>	<b>542.5</b>	<b>580.1</b>	<b>670.9</b>
Other Financial Assets	62.2	72.2	108.9	156.7	196.5						
Other Non Current Assets	15.7	14.0	21.1	30.3	38.0						
Net Current Assets	(161.9)	(167.8)	232.9	155.1	145.1						
<b>Total Assets</b>	<b>1,102.0</b>	<b>1,037.6</b>	<b>1,493.6</b>	<b>1,504.2</b>	<b>1,566.7</b>						

Source: Company RHP and Ventura Research

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