

2011

# India Food Services Story



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## Foreword

Dear Reader

It is our pleasure to share findings on the food service sector, one of the fastest transforming and growing sectors in India, driven by demographics, lifestyle and economic changes being witnessed across India. This report is sequel, sub-sector converge to our 2010, India Consumer Report which touched upon this sector in brief.

Dietary habits of Indian's are changing on the back of a growing middleclass, rising disposable income and evolving lifestyle. As per Reuters, today India represents the highest priority market for food service industry, second only to China.

The sector has witnessed double digit growth across formats in the organized sector, key being quick service retail (QSR) dominated by international chains, coffee chains dominated by Indian & international majors, casual & fine dining driven by Indian and private equity majors.

With the open market and liberalization policies and given the 100% foreign direct investment(FDI) under automatic route, more international food service chains are opening their branches in various cities of the country either directly, through franchisees or in partnership with local majors.

The sector is driving the need for talent and training. Education and training in the sector is emerging as a high opportunity area.

The growth could be even swifter with government support in the form of legislation, subsidies, financing, tax structure and setting up good quality institutions for training. Simplification of the rules and regulations, as well as systems that ensure compliance would go a long way in contributing to the growth of the food service industry.

The report presents the food service industry in a nutshell covering sector highlights, the growth drivers, transition phases, challenges especially supply chain management, licensing and financing. A snapshot on M&A and private equity activity in the sector has also been covered.

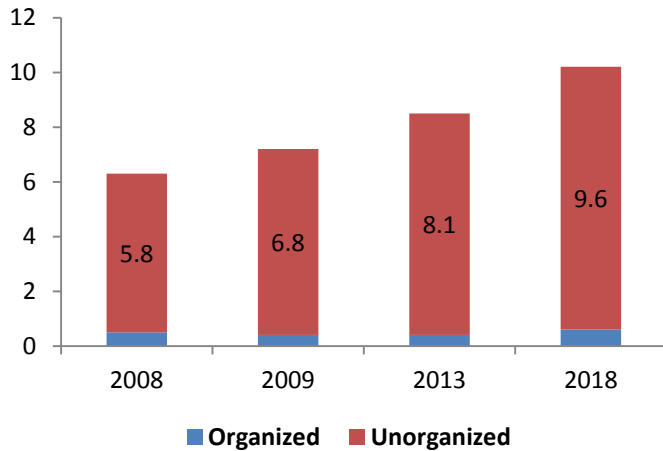
We hope you find the findings useful and would appreciate your feedback.

Sincerely,

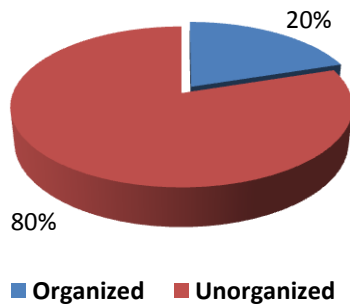
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## Indian Food Service Industry - Sector Highlights

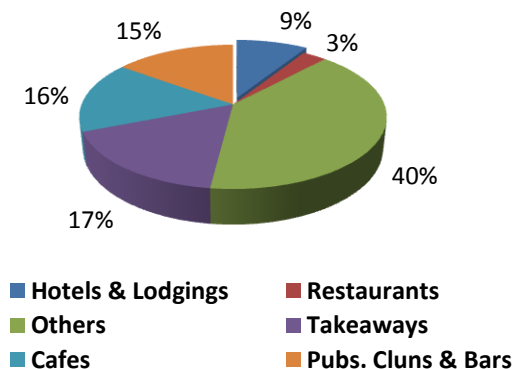
**Market Size & Projections (\$ Bn)**



**Segments of the Food Services Sector**



**Segments of the Organized Food Services Sector**



- The importance of food service industry stems from the large direct and indirect employment it provides, the revenue it generates for the government and the role it plays in promoting tourism.
- The industry provides direct employment to 5 million individuals, five times the IT industry and 10 times the Hotel industry.
- There are 10 million street vendors in India, of which 6 million sell ready to eat food.
- The evolving industry is a significant contributor in terms of tax or VAT to the economy. Currently it contributes \$220 million and has the potential to reach \$770 million.
- According to a report by Technopak Analysis, the market size of the food service sector is estimated to be \$8.1 billion by 2013 and \$9.6 billion by 2018. It is growing @ 5-6% per annum.
- The organized segment of the restaurant industry, at 16-20% of the total industry is more than the organized segment of the retail industry, which currently stands at 8%, and is growing faster than the overall restaurant industry, at 20-25% per annum.
- This segment is dominated by restaurants which constitute 40% of the market. Cafes, pubs, clubs and bars together constitute 32% of the organized food service industry.
- India is beginning to show up on the radar of the top food service chains and is likely to account for 10% of new unit growth in the next four to five years.
- 100% FDI is permissible in the sector under the automatic route.

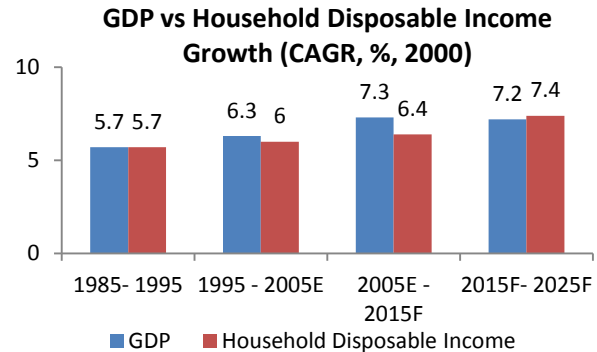
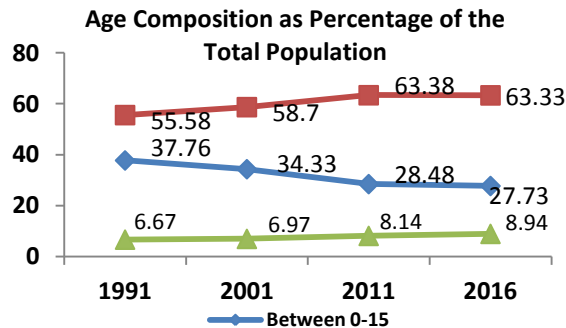
Source: NRAI, Datamonitor, Franchise India, Technopak Analysis

## What Drives the Growth of the Industry?

### Demand Side Drivers – The Demographic Profile of the Indian Consumer Segment

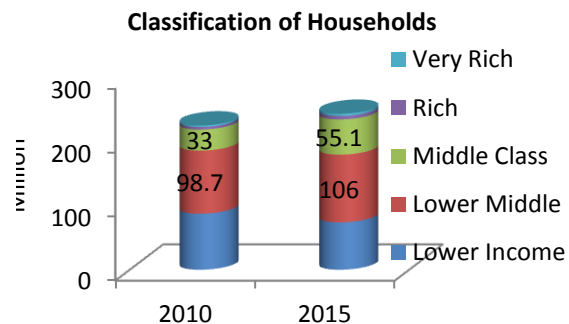
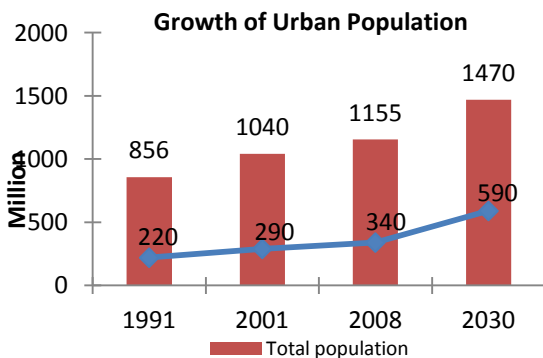
- Favorable demographics and growing working population to augment demand for food service chains**

With a population of 1.2 billion, India represents one of the largest consumer markets in the world. Additionally, the country enjoys one of the largest and most balanced demographics in terms of age, as India has more than 50% of its population below the age of 25 and more than 65% is below the age of 35. Currently, 63.38% of the population is between 15-59 years. The tremendous growth in its population of young people is likely to bring about a shift in the Indian food service trends, as young population drives the demand for processed and health foods. This would provide an impetus for the growth of the food service industry.



- Growing disposable income**

Growing affluence and higher spending capacity provides a huge opportunity for the food services sector. With higher disposable income, consumers do not hesitate to spend more on eating out.



- Increasing number of working women**

Not only has the working age population risen but the proportion of women among the employed has also gone up. With the number of working women on the rise, households are expected to increase the frequency of eating out as a result of less time available for women for household activities.

- Increasing urbanization**

The proportion of Indian population living in urban areas has displayed an upward trend for several years. Expected to grow even further, the urban population will contribute to increasing demand for eating out.

- Growing Middle Class**

The middle class has been the largest patron of the food service industry and is expected to grow by 67% by 2015. This would definitely increase the “dining out” consumer base.

## Supply Side Drivers – Industry Trends Encouraging Growth

- Diversifying into multiple cuisines in tune with changing consumer preferences**  
 Consumerism now is not only about increasing the consumption of one food but it is also about consuming different types of food. To address the need for variety, restaurants have started serving multiple cuisines. Chef-led innovations into fusion cuisine and growing popularity of international food and styles are fuelling the growth of the industry.
- Improved restaurant experience**  
 The focus of eating out has now shifted from food being a necessity to a form of entertainment, whether it is family entertainment, activities, live performances or music. The restaurateurs have begun to understand that today's consumers seek a 'dining experience' for even the smallest catered function.
- Growth of tourism industry**  
 As per the Ministry of Tourism the foreign tourist arrivals were 606,000 in November 2010 as opposed to 528,000 in November 2009 and 532,000 in November 2008. Apart from this, the domestic tourist segment is rapidly growing owing to more affordable air travel, and higher disposable incomes. The growth of the tourism sector and restaurant industry is inter-dependent.
- India gaining attention of international players**  
 Global players are entering India and expanding into smaller cities and newer locations. Food franchising is gaining popularity as more and more master companies are readily tying up with small franchisors and mall owners to promote their brand.
- Improving Retail Infrastructure:** Increasing real estate development is proving a boon. The development of malls and multiplexes has popularized kiosks and food courts as food centers.
- Higher quality food for a health conscious consumer segment**  
 Consumers today want more for their money and now actively seek quality. Apart from demanding time saving and easy to handle goods, they are interested in low calorie, environment friendly and wellness foods and are willing to pay a premium for these products. Being assured healthy and wholesome food options and quality outlets is a significant crowd puller.

Source: National Commission of Population, India Urbanization Econometric Model; McKinsey Global Institute analysis, MDI India Consumer Demand Model

### Interesting Trends in high growth Quick Service Restaurant (QSR) Industry

QSRs	Approx. no. of Outlets	Expansion Plans
Café Coffee Day	1400	20-25 cafes every month
Domino's Pizza	378	500 outlets 2012
Barista	225	300 outlets by 2012
McDonalds	200	300 outlets by 2012
Pizza Hut	170	200 outlets by 2012
US Pizza	90	100 outlets by 2011
Nirula's	60	140 outlets by 2011
KFC	107	1000 outlets by 2014
Costa Coffee	75	100 outlets by 2011
Yo-China	43	200 outlets by 2012

- High speed and consistent food service and efficiency
- Convenient locations with easy accessibility from places of work, commuter routes and shopping areas
- Limited menu choice of standardized items
- Fast turnaround time through efficient model of drive-thru and quick order placement and delivery
- Value proposition for customers due to low average checks

## Transition Phases

	Geographic Penetration
Phase I 1991-2001	Tier I Cities Focus only on Metros -Delhi, Mumbai, Hyderabad, Bangalore & Chennai
Phase II 2002-2010	Promotion of Tier II & III cities
Phase III 2010-2020	Destinations offering multi-tourism options emerging
	Operating Model
Phase I 1991-2001	Ownership & Franchise Model Emergence of management contracts
Phase II 2002-2010	Shift towards management contracts
Phase III 2010-2020	Management models to continue
	Investment Needs
Phase I 1991-2001	Funded by conventional methods, JVs and tie-ups with international brands
Phase II 2002-2010	JVs with engineering, construction, real estate companies, PE firms Acquisitions
Phase III 2010-2020	Refurbishments & Expansions under brands and emergence of new domestic brands/concepts
	Strategic Focus
Phase I 1991-2001	Revenue growth and Maximization, Customer Acquisition
Phase II 2002-2010	Identification of untapped segments, Focus on CRM, Diversification and Addition of new capacity
Phase III 2010-2020	Customer retention, Business diversification and Loyalty factor, Product Enhancement

The transition phase of the Indian food service industry can be divided into 3 stages.

- In the 1990's the majority of organized restaurants and food joints were concentrated in Tier I and metro cities like Mumbai, Delhi, Chennai, Bangalore and Hyderabad. These were the most sought after destinations as this is where the development and growth was happening in terms of infrastructure and business. The strategic focus was inclined towards revenue growth and maximization.

- The early 2000's witnessed development in a lot of Tier II cities on the back on India's growth story. Rapidly growing economic activity in these cities led to increased urbanization, increased disposable income in hands of the consumer and also changed consumption patterns. These factors showcased a lucrative opportunity to focus on a huge untapped population and thus paved the way to the second leg of transition, development in the Tier II cities.

- The present decade is representing a consolidation phase where the unorganized sector is undergoing a phase of identification – evaluation – selection. Franchisers are hoisting their flags in India and the sector is becoming more organized with players focusing on customer retention and enhancing the food range and depth.

- Newer untapped markets like highways are seeing increasing penetration by organized players like McDonalds, Sagar Ratna, Café Coffee Day and others.

Source: Technopak Report 2009

## Structure of the Industry

Unorganized Formats		Average Price Point (INR)
<p>The unorganized segment dominates the Indian food service industry. It lacks technical and accounting standardization. It comprises Dhabas and roadside eateries that have been the most common forms of restaurants and have traditionally addressed eating out requirements of Indians.</p> <ol style="list-style-type: none"> <li>1. Dhabas</li> <li>2. Roadside Eateries <ul style="list-style-type: none"> <li>• Street stalls</li> <li>• Hawkers</li> <li>• Trolleys</li> <li>• Standalone sweet shops</li> </ul> </li> </ol>		<b>10-100</b>
Organized Formats		Average Price Point (INR)
<b>Dining</b>	<p><b>Fine Dining</b> - A full service restaurant with a specific dedicated meal course. Décor features high quality materials with an eye towards the “atmosphere” desired by the restaurateur. The staff is usually highly trained. Fine dining restaurant usually targets rich and upper middle class consumer segments and offers unique ambience and upscale service.</p>	<b>750-3000</b>
	<p><b>Casual Dining</b> - A restaurant serving moderately priced food in a casual atmosphere oriented towards affordable family dining. Except for buffet style restaurants, these typically provide table service. This addresses the price point between fast food establishments and fine dining restaurants.</p>	<b>250-750</b>
<b>Bars and Lounges</b>	<p>Mainly serve alcohol and related beverages. Includes night clubs, sports bars, etc. Example: F-Bar, Xtreme Sports Bar</p>	<b>500-3000</b>
<b>Quick Service Restaurants (QSRs)</b>	<p>They emphasize on speed of service, low cost and convenience. Also known as fast food outlets, for practical purposes, they are essentially characterized by minimal table service and can have a take away and/or home delivery format. McDonald’s, Nirula’s, Domino’s, Haldiram’s, Subway, Bikanerwalas are some of the leading names in this category.</p>	<b>100-350</b>
<b>Food Courts</b>	<p>A relatively nascent phenomenon and being popularized by mall developers; also present at other shared spaces (for example airports, hospitals and office complexes).</p>	<b>100-300</b>
<b>Cafes</b>	<p>Comprises coffee bars and parlours (for example Barista Lavazza, Café Coffee Day) and chai bars. These are casual restaurants that emphasize on serving beverages and food is incidental.</p>	<b>100-200</b>
<b>Kiosks</b>	<p>A relatively new format which comprises Chinese food, corn, chat kiosks and those from established branded players like Café Coffee Day or Nirula’s. Also includes ice cream kiosks.</p>	<b>100-200</b>



## Challenges

General Licensing Requirements		
Nature of the License	Issuing Authority	Mandatory/ Optional
Health / Trade License	Municipal Corporation / Health Department of the concerned State	Mandatory
Eating House License	Police Commissioner - Licensing	Mandatory
Liquor License L-4 (L-17 as per new excise rule)	Excise Commissioner	Mandatory for service of Liquor in the Restaurant otherwise not
Approval/Re-Approval of Restaurants	Department of Tourism of Government of India in the State concerned	Mandatory only for obtaining L-4 License
Playing of Music in Restaurants – License	Phonographic Performance Limited/ Indian Performing Right Society	Mandatory when recorded/live music of the two copyright holders is played in the restaurant.
Environmental Clearance	Concerned Authority in the state	Mandatory
NOC from Fire Department	Fire Department of the concerned state	Mandatory
Lift License	Concerned Authority - Electrical Inspector, Office of the Labor Commissioner	If lift is to be installed
Insurance required to be taken 1. Public Liability 2. Product Liability 3. Fire Policy 4. Building & Asset	Any Insurance company	Mandatory
Nominations under PFA Act 1954 Section 17 (2) and Rule 12 B of the Rules 1955	Director Prevention of Food Adulteration of the State	Mandatory - to be applied in the prescribed form
Shop and Establishment Act	As prescribed in the Act and as applicable to the state	Mandatory
Signage License	Municipal Committee/ Corporation of the City	Mandatory

Source: National Restaurant Association of India

- **Food regulation and licenses**

The Indian food and processing industry is governed by multiple legislations and dealing with them is a challenge. Starting a restaurant requires all permits and licenses from local governing bodies and adequate insurance coverage. There are upto 10 basic licenses to be procured before setting up a food supply store. In addition the duration of these licenses vary from 1 to 3 years.

- **Highly fragmented and competitive industry**

The organized market is highly competitive and fragmented with a large number of Indian and foreign players. The demographic profile of the country and expectations of a strong GDP growth and rising disposable income are attracting many foreign as well as domestic players to increase their footholds in India, which will make the organized market even more competitive.

- **Poor infrastructure**

A major concern for a country like India is poor infrastructure, poor transportation facility and erratic power supply. An indication of the severity of the infrastructure problem is the spoilage of 25-30% of the crops each year due to infrastructure bottle necks. The result of these bottle necks is that prices for food material tend to be on the higher side with the quality compromised.

- **Lack of organized supply chain**

Food companies in India suffer on account of non-availability of facilities like high tech controlled production, cold chains, logistics and warehousing, lack of specialized distribution companies for perishables produce/ processed food products. An inefficient supply chain creates hurdles in ensuring that food of the required quality and quantity is procured and it reaches the end customer on time with little or no loss.

- **High price of real estate**

The location of a food service outlet is critical to the success of the venture. A majority of the restaurant players operate under leased premises. Hence, high real estate lease rentals impact profitability and the growth of the industry.

- **Shortage of skilled and semi-skilled manpower** The food services industry is highly dependent on skilled and well-trained manpower – especially experienced chefs and managers. With growth in other sectors, the hospitality industry as a career option finds few takers.

- **Lack of adequate training institutes**

There is a huge imbalance as the educational institutions are producing managers but not workers who are required in larger numbers to run a business.

## Key Foreign Direct Investment (FDI) Regulations

The following regulations of Hotel & Tourism sector and Development of Townships, Housing, Built-up infrastructure and Construction-development projects apply to the food service sector.

### FDI in Hotel & Tourism sector in India

- 100% FDI is permissible in the sector on the automatic route. The term hotel includes restaurants, beach resorts, and other tourist complexes providing accommodation and/or catering and food facilities to tourists.
- Under the Automatic Route, the non-resident investor or the Indian company does not require any approval from the RBI or Government of India for the investment.
  
- Foreign Technology Transfers
  - (i) Royalty payments in respect of foreign technology transfers involving payment of lumpsum fee of US\$ 2 million and payment of royalty of 5% on domestic sales and 8% on exports under the automatic route.
  - (ii) In the event that there is no technology transfer, royalty up to 2% for exports and 1% for domestic sales is allowed under automatic route on use of trademarks and brand names of the foreign collaborator.
  - (iii) Technology transfers involving payments above these limits require prior permission of the Government of India (Project Approval Board, Department of Industrial Policy and Promotion)
  
- Besides the entry conditions on foreign investment, the investment/investors need to conform to all relevant sectoral laws, regulations, rules etc.
- The national security/internal security related conditions as contained in relevant statutes or notifications of the Government will also have to be complied with. The State Governments/Union Territories have regulations in relation to the subjects in their legislative domain. These regulations also have to be met/complied with.
- As per the recent circular on Foreign Direct Investment issued by the Government of India, foreign investors are now allowed to bring in fresh money and technology to India irrespective of the impact on local partners in any existing joint venture.

Source: Consolidated FDI Policy, Effective April 2011, Government of India

## Supply Chain Management

Supply Chain Management is a comprehensive procurement and distribution system that takes raw materials and commodities through multiple channels of processing, packaging, and distribution to meet the specified quality standards of the company. Efficient Supply Chain Management is necessary to increase margins, improve food quality, and ensure food safety albeit the nature and scope may vary across formats.

Supply Chain Management Aspects - A Comparison	
Cafes	Maintain direct links with growers and cooperatives for the supply of tea/coffee. Dry snacks are sourced from local vendors.
Fine Dining	Fruits, vegetables, spices and meat are sourced from suppliers. Most of the food is prepared in the in-house kitchen to maintain quality and provide the required dining experience.
Quick Service Restaurants	Operate on the concept of centralized kitchen from where food is delivered to smaller outlets around the city. Some of them also fuse with the in-dining arrangement and have an in-house kitchen. This category of restaurants has evolved to have a much more organized supply chain because of the branding associated with them. Most of the quick service joints like McDonalds, Dominos and Pizza Hut now operate in line with a standardized supply chain. Supplier arrangements are made to ensure the set standard and quality of food.

## Functions

Supply Chain Management functions include

- Structuring, evaluating and reviewing key factors ranging from logistics to inventory management.
- Networking with local business partners, suppliers and franchisees.
- Identifying distribution centers that can be made responsible for procurement, the quality inspection programme, storage, and inventory management, deliveries to the restaurants and data collection, recording and reporting.

To achieve this, the Franchisor needs to work closely with the distributors and set up the processes, equipment and facilities required to maintain the predetermined quality standards. The foundation of the supply chain model calls for investment but once fluid supply chains are established, high quality standards can be maintained comfortably.

## Case Study: McDonalds India

### Key Suppliers

#### Dynamix Dairy Industries - Cheese

- Fully automatic international standard processing facility
- Network of milk collection centres equipped with bulk coolers
- Dedicated quality program and R&D centre

#### Trikaya Agriculture - Iceburg Lettuce

- Specialized nursery with a team of agricultural experts
- Drip and sprinkler irrigation
- Pack house, pre-cooling and cold room on the farm

#### Vista Processed Foods Pvt Ltd - Chicken and Vegetable Products

- World class infrastructure and support services
- Separate veg and non veg processing lines
- Hi-tech refrigeration plants

### Key Distribution Centre Radhakrishna Foodlands Ltd

#### Specialized Services

- Procurement
- Quality Inspection
- Storage
- Inventory Management
- Deliveries
- Data Collection
- Recording and reporting

#### Description

- First distribution partnership agreement that dates back to 1993
- Dry and cold storage facility
- Transportation trucks maintained at 22°C
- Implemented ERP software

With its successful supply chain management in India, McDonalds has not only emerged as a market leader but also set a fine example. McDonald's initiative to set up an efficient supply chain and deploy state-of-art technology has changed the entire Indian fast food industry and raised the standards of performance to international levels.

McDonalds had been working on its supply chain even before it opened its first outlet in the country. The level of commitment of McDonalds can be gauged from the fact that even before it set up its first restaurant in the country it infused over USD 90 mn to set up its delivery mechanism. McDonalds, being an international brand which was trying to make inroads into the country, developed its Indian partners in such a manner that they stayed with the company from the beginning.

The success of McDonalds India was achieved by sourcing all its required products from within the country. To ensure this, McDonalds developed local businesses, which can supply it highest quality products.

- McDonalds supply chain is based on the concept of Company- Franchisees - Suppliers.
- All suppliers adhere to Indian government regulations on food, health and hygiene while continuously maintaining McDonald's recognized standards.
- **Cold Chain:** Cold Chain was one of the unique concepts of McDonalds supply chain in India. Cold chain involves procurement, warehousing, transportation and retailing of perishable food products, all under controlled temperatures. This system brought about a revolution, immensely benefiting the farmers at one end and customers at the other end by ensuring highest quality of food products. Through its unique cold chain, McDonalds has been able to both cut down on its operational wastage, as well as maintain the freshness and nutritional value of raw and processed food products.
- **Quality Inspection Programme (QIP):** As the ingredients move from farms to processing plants to the restaurant, McDonald's Quality Inspection Programme (QIP) carries out quality checks at over 20 different points in the Cold Chain system.
- **Hazard Analysis Critical Control Point (HACCP):** It is a systematic approach to food safety. Based on HACCP guidelines, control points and critical control points for all McDonald's major food processing plants and restaurants in India have been identified. It is done at least twice in a year and certified.

Source: Scribd and Articlesbase

## Key PE & M&A Activity

The sector growth has attracted significant funding interest from Private Equity players and strategic interest from international majors. The somewhat fragmented nature of the market and the high growth in the organized segment is likely to enhance strategic interest, with key players like Starbucks, Dunkin Donuts having made their intentions clearer on the India market and numerous others exploring the strategic or franchisee route. The sector is likely to see PE-backed consolidation given the recent buy-outs by PE firms in the sector.

Deal Date	Acquirer/Investor	Target/Investee	Deal Value (US\$ million)	Stake Acquired (%)	Brands Owned
25-May-12	Navis Capital	Nirula's	Undisclosed	10.00%	Nirula's
25-April-12	New Silk Route	Adiga's Fast Food	Undisclosed	Undisclosed	Adiga's
8-Feb-12	Verlinvest SA	Cuisine Asia	Undisclosed	20.00%	Blue Foods (Copper Chimney, Bombay Blue, Noodle Bar, Gelato Italiano and Spaghetti Kitchen Cream Centre)
20-Dec-11	Everstone Capital	J.S. Hospitality	20.0	45.00%	Pind Balluchi
13-Oct-11	Sequoia Capital	Faaso	5.0	Undisclosed	Faaso
29-Aug-11	Venture East	Goli Vada Pav	4.7	21.00%	Vada Pav
29-Aug-11	Mirah Hospitality, Beacon India	Impresario	10.5	Undisclosed	Mocha, Finale, Salt water Grill, Smoke House Grill, The Tasting Room, Prithvi Café, del Italia, Stone Water Grill, Sat water Café, Mocha Bar, Mocha Mojo, Le Kebabiere, Smoke House Deli, Bespke Café, Smoke House Room
28-Jun-11	India Equity Partners	Sagar Ratna	35.0	Majority	Sagar Ratna and Swagath
12-May-11	ICICI Venture	Devyani International	55.0	10.00%	Pizza Hut, KFC and Costa Coffee
31-Mar-11	Bay Capital, Indus Hospitality Fund, Tree Line Asia Master Fund	Westpoint Leisure Parks (Eventual Holdco of Hardcastle Restaurants)	Undisclosed	22.00%	McDonald's (South & West) - Licensee
15-Feb-11	TVS Shriram Group	Indian Cookery	Undisclosed	Undisclosed	The Yellow Chili, Khazana and Indi
26-Dec-10	TVS Shriram Group	Om Pizzas & Eats	11.0	Undisclosed	Papa John's Pizza, Chili's Grill & Bar and The Great Kabab Factory
07-Oct-10	Helion Ventures, Footprint Ventures and Salarpuria Group	Spring Leaf	Undisclosed	Undisclosed	Mast Kalandar
04-Aug-10	Mirah Group	Rajdhani Thali	Undisclosed	100.00%	Rajdhani
1-Apr-10	KKR, New Silk Route & StanChart PE	Coffee Day Holding	200.00	25.00%	Café Coffee Day
26-Mar-10	Glix Securities	Speciality Restaurants	3.4	4.89%	Mainland China, Oh! Calcutta, Flame and Grill

<b>21-Nov-08</b>	Indivision India Partners (through Cuisine Asia)	Blue Foods	35.0	80.00%	Copper Chimney, Bombay Blue, Noodle Bar, Gelato Italiano and Spaghetti Kitchen Cream Centre
<b>1-Mar-08</b>	Beacon India	Impresario	6.2	Undisclosed	Mocha, Finale, Salt water Grill, Smoke House Grill, The Tasting Room, Prithvi Café, del Italia, Stone Water Grill, Sat water Café, Mocha Bar, Mocha Mojo, Le Kebabiere, Smoke House Deli, Bespke Café, Smoke House Room
<b>15-Feb-08</b>	Kotecha Capital	United Pizza Restaurant	125.0	49.00%	US Pizza
<b>23-Jan-08</b>	SAIF Partners	Speciality Restaurants	22.0	20.00%	Mainland China, Oh! Calcutta, Flame and Grill
<b>17-Dec-07</b>	Darby Asia Mezzanine & Deutsche Bank AG	Amalgamated Bean Coffee Trdg	96.1	Undisclosed	Café Coffee Day
<b>1-Sept-07</b>	Peepul Capital	Oriental Cuisines	11.5	Undisclosed	Benjarong, China Town, Ente Keralam, Kebab House, Le Chocolatier, Oriental Banquets, Oriental Inn, Planet Yumm, The French Loaf, Wang's Kitchen, Zara
<b>17-Aug-07</b>	India Hospitality Corp	Mars Restaurant & Sky Gourmet Catering	110	88.90%	Not Just Jazz By The Bay, Tendulkar's, All Stir Fry and Just Around The Corner
<b>28-Nov-06</b>	Matrix Partners	Moods Hospitality	5.5	Undisclosed	Yo! China
<b>20-Nov-06</b>	IFC	Amalgamated Bean Coffee Trdg	5.0	Undisclosed	Café Coffee Day
<b>19-July-06</b>	Sequoia Capital	Amalgamated Bean Coffee Trdg	20.0	Undisclosed	Café Coffee Day
<b>06-Jun-06</b>	Navis Capital	Nirula's	22.5	90.00%	Nirula's

\* Table Updated as on 31<sup>st</sup> March 2012

Source: Deal Curry

## Key Franchising Activity

Nationally Established Brands Planning Expansion		
Franchise Offered	Investment (INR in lacs)	Space (in square feet)
Global Franchise Architects India Pvt Ltd - Pizza Corner	20-80	200-2000
Subway System India Ltd - Subway	30	300
Café Mocha	65-85	Undisclosed
Baskin-Robbins	10-20	Undisclosed
Club City Hospitality - Masala Country, Dosa Plaza and Shanghai Post	10-20 each	400-13000
Moti Mahal Deluxe Hospitality - Dosa n Chutney, China Wall and Darya	30-50 each	1000-3000 each
Radiant Consumer Appliances Pvt Ltd - Café Desire	5-10	2200
East West Ethnic Foods Pvt Ltd - Kaati Zone	5-10	80-800
Little Italy	100-200	2200
Brew Berrys Hospitality	10-20	500-2000
Vertigo India Food & Beverages - Juice Lounge	5-10	500-11000
Juice Lounge	5-10	50-1000

## Trends

F&B franchises remain one of the most appealing business concepts for the aspiring entrepreneurs in India. The franchising sector in India is growing at swift pace of 35 -38% per annum. The market size of franchising sector estimated to be \$ 7.2 billion and is expected to reach \$20 billion by 2013.

- At present there are total of 175 food franchisors in India. To cater to the needs of the growing customers, belonging to various cultures and statuses, the franchisors have come up with a wide array of formats. These are fine dine, quick service, ice creams and beverages.
- Categorizations based on growth and success includes Established players like Sagar Ratna, Amul and Kwality Wall's, Emerging Players like Slice of Italy and Coffee Day Xpress, Debutant Players like Kaati Zone and Daily Bread and International players like Pizza Hut, Subway, Cinnabon, Gloria Jean Coffee etc..
- International Food Service brands are considering Indian markets as a profitable investment destination and many among them have already started their operations. There are many different opportunities for food and beverages franchising, such as fast food, health food, pizza, sandwich shops, ice cream parlor, smoothie, juice bars, cookie shop, candy outlet, and bakery as well as restaurant franchises.

Internationally Established Brands Planning Entry		
Franchise Offered	Investment (INR in lacs)	Space (in square feet)
The Minor Food Group - The Pizza Company	500 and above	3900-4400
Café Jubilee	100-200	2700-3800
Sunshine Kebabs (India) Pvt Ltd	10-20	200-1000
Dunkin Donuts	In talks with Jubilant Foodworks Ltd	
Dairy Queen	In talks with Reliance Retail	
Starbucks Coffee	Tied-up with Tata Coffee Ltd	
Others like Denny's Corp, Wendy's, Arby's International, CKE Restaurants with Carl's Jr and Focus Brands with Schlotzsky's Deli, BannaStrow's Crepes and Coffee, Moe's Southwest Grill and Carvel Ice Cream are also in line to enter India		

Source: Franchise India, Franchise Business India, Franchise Plus, Info Franchise

## Financial Comparable Analysis

Company	Revenue	EBIDTA Margin (LTM)	Net Income Margin	ROCE	ROA	EV	No. of Outlets
<b>Domestic</b> Jubilant Foodworks Limited	171	16%	9%	48%	38%	1,352	378
<b>International</b>							
Yum! Brands, Inc.	11,665	21%	10%	82%	15%	28,260	38,000
Domino's Pizza, Inc.	1,579	16%	6%	-	32%	2,932	9,000
McDonald's Corp.	24,576	37%	21%	35%	15%	98,796	33,000
Specialty Restaurants	32	23%	10%	18%	10%	-	70

Company	Market Cap	P/E	EV/EBITDA	EV/Sales	Levered FCF	Unlevered FCF
<b>Domestic</b> Jubilant Foodworks Limited	1.352	76.2x	49.8x	7.9x	-	-
<b>International</b>						
Yum! Brands, Inc.	25,343	20.6x	11.2x	2.38x	1,095	1,214
Domino's Pizza, Inc.	1,594	18.1x	11.4x	1.87x	84	143
McDonald's Corp.	91,888	17.9x	11.4x	3.99x	3,205	3,492
Specialty Restaurants	-	-	-	-	-	-

\* All Figures are in LTM basis in USD  
Source: Capital IQ

While there are a number of players listed in the hospitality sector, only one among the pure food service players is listed – Jubilant Foodworks Ltd. This skew has reflected positively on Jubilant's valuation which is far superior as compared to other international players. Speciality Restaurants has also filed its DRHP as it plans a \$44 million IPO.

A number of players are expected to approach the market once conditions are appropriate. Café Coffee Day and Devyani Foods are some potential entrants.



## Conclusion

With growing disposable income and changing dietary habits, the demand for fast foods and organized food chains is rising in India. International brands have enhanced their presence as have existing domestic ones and newer start ups seeding every day.

While growth in organized segment is over 20%, the market is still significantly unorganized in comparison to many Asian peers, and we expect this to change rapidly in this decade. We expect this to be consumer driven on back of need for higher quality, hygiene, nutrition and disposable incomes. Most of these drivers are gaining fast traction on back of experience from organized segment and consumer education from various sources. The fast evolving retail infrastructure is a strong enabler as well.

The overall growth could be faster with a more enabling regulatory infrastructure, as many of the current regulations are duplicating, cumbersome while we still have majority of the market uncovered in many forms owing to non compliance. A trend to simpler and more effective regulations is the need of the hour.

The other key challenge that the sector needs to address is education and training, given organized play requires knowledge of product, processes and operations accompanied by delivery at service standards that many of the food services formats demand. Both government initiatives & support alongwith private ventures would aid in this direction to meet the increasing demand for trained and educated workforce.

The food services industry in India is at an inflexion point and despite the challenges, we believe this will be one of the best performing growth sectors in India driven by the graduating and increasingly aware consumer and compelling demographics in India.

We expect continued growth in private equity investments, inbound partnerships and franchising activity in the sector. Select segments and sub scale platforms are likely to see consolidation, while scale players are likely to access capital markets in the next 24 months, given high institutional appetite on the sector.

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