

# Business India

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March 17-30, 2014

- NCD ISSUANCES
- KAJARIA CERAMICS
- RG STONE U&L
- INVESTING IN F&B

# THE BIGGEST EVENT



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## Look what's cooking!

**Private equity players gear up to capture a slice of the action in the Indian F&B space**

It's exciting times for the Indian F&B market. Players are busy lining up to capture a share of the booming eating-out segment, what with new concepts popping up every other month and a bevy of branded quick service restaurants (QSRs), cafés and international restaurant chains making their way to tap opportunities in this segment. Right from the recently announced entry of Burger King into India to compete with McDonald's, to Starbucks, Dunkin' Donuts, Taco Bell, Pizza Express and Ping Pong, a host of others are eyeing the Indian consumption story. Coupled with the emergence of various homegrown concepts that have successfully captured the taste buds of younger demographics, the food services segment is proving to be a big draw for private equity players, who are now busy increasing their appetite for investments in this space.

The industry has come a long way since players like McDonald's launched in India some 15 years ago. According to a report by the National Restaurant Association of India (NRAI)

and Technopak, a management consulting firm, the size of the food services market in India was estimated at \$48 billion (about ₹29,000 crore) in 2013. This is projected to grow at a CAGR of 11 per cent over the next five years to reach \$78 billion (about ₹47,000 crore) by 2018. Within this, chains account for only as little as 5 per cent of the total market.

PE investors are busy setting up holding companies to take this growth forward. Everstone Capital, for instance, has its platforms, Cuisine Asia and F&B Asia, where they've been investing and building up brands over the last six years. Its first investment was the acquisition of a majority stake in the Mumbai-based Blue Foods (now Pan-India Food Solutions) of Copper Chimney fame. (Other brands include Spaghetti Kitchen, Coffee Bean & Tea Leaf, Noodle Bar, Gelato Italiano, etc). "Last year, we created another platform called F&B Asia, which invested in the Singapore-based chain 'Harry's Bar', to bring it to the Indian market," says Jaspal Singh

Sabharwal, partner, Everstone Capital. Initial stores have been launched in Mumbai and Delhi. F&B Asia has also picked up a minority stake in Pind Balluchi, a North Indian cuisine restaurant chain based in Northern India. Their latest partnership is with popular American chain, Burger King, as a JV in the Indian market. Initial stores are expected to rollout later this year.

Similarly, New Silk Route (NSR) recently acquired a majority stake in Mumbai-based Moshe's Fine Foods Pvt Ltd, which serves up Mediterranean cuisine in cafés, casual dining and QSR formats. This is the second investment by NSR's Gastronomy Holding Co; last year it invested in Bangalore-based Vasudev Adigas Fast Food, a chain of South Indian food outlets. NSR says that they are setting aside around \$100 million to invest in this space through its gastronomy holding platform. Other than MNCs, there aren't many that have scaled up a food business in India, points out Jacob Kurian, partner, NSR. The eating-out culture has seen a significant shift in the last few years, also owing to exposure to new cuisines and formats. Consumers are willing to pay for better eating out experiences, he says.

He adds that over the next six months they plan to rollout Moshe's in Pune and Bangalore. Sufra,

another QSR format under Moshe's, will be fine-tuned as well. "We want to build a complementary portfolio of brands," says Kurian. "We aren't looking at chasing numbers and just adding 10-12 brands. We'd rather focus on having 3-4 good brands and scale those up," he adds. "For instance, with a brand like Adiga's, which took a good number of years to reach a store count of 11, we are now looking at doubling the store count to about 25."

### Significant traction

It's not just the QSRs that are garnering interest. The casual dining space has also seen a spurt in growth over the last few years, pushed by the popularity of various homegrown formats. "Some 12 years ago, you wouldn't see this kind of interest in the F&B market," notes A.D. Singh of Olive Bar & Kitchen. "There weren't even those many restaurants or formats to invest in." Singh, who also pioneered the concept of stand-alone restaurants in the Indian market with 'Olive', has lots to offer in the coming months with new concepts. The company received a line of funding from Aditya Birla Private Equity in 2012. "We're looking at setting up another 20 restaurants over the next 3-4 years, extending the Olive brand and experimenting with smaller formats as well," he explains. This includes Olive Bistro, a trendy casual take on Olive, Monkey Bar, which is a gastro-pub, Guppy by ai, a Japanese bar and kitchen and SodaBottleOpenerWala, a format along the lines of a quaint Irani café.

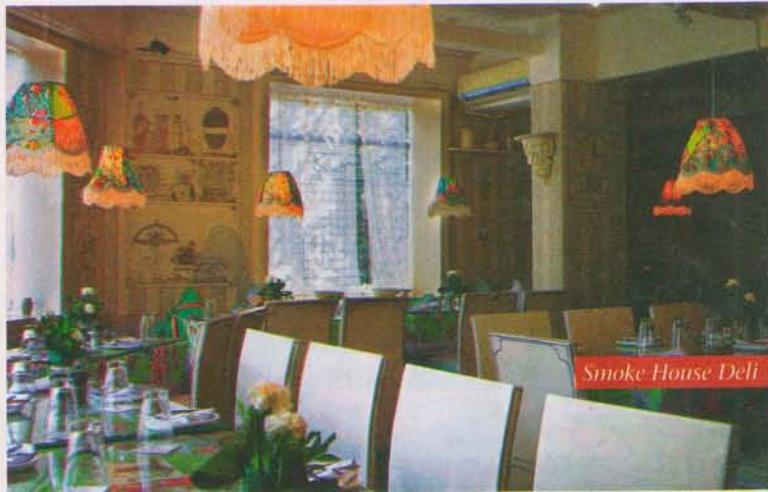
Pankaj Karna, MD, Maple Capital Advisors, admits that there's been significant traction in this segment. "This sector is one of the fastest growing in the country on the back of rapid transformation from unorganised to organised," he says. According to a food services report by Maple Capital Advisors, the organised market today stands at \$13 billion (about ₹80,000 crore) and is expected to grow to \$28 billion (about ₹1,70,000 crore). What's favourable for PE players are the scalable models, capital efficiency and organised play, when it comes to such formats,



### PRIVATE EQUITY DEALS IN THE FOOD SERVICE SECTOR 2011-2013

Date	Target	Investor	Deal value (\$ mn)	% sought (%)
<b>2013</b>				
16 Dec	Speciality Restaurants	SAIF Partners	4.02	4.28
02 Sep	Moshe's Fine Foods	New Silk Route PE Asia	1.43	N/A
15 May	BTB Marketing (Beer Café)	Mayfield India	4.5	35
15 Apr	Barbeque-Nation Hospitality	CX Advisors	20.11	29.75
06 Feb	Dana Choga Foods & Hospitality	SAIF Advisors	N/A	N/A
16 Jan	Vrinda Foods & Hospitality (Dana Choga's Kitchen)	SAIF Advisors	1.84	N/A
3 Dec	Spring Leaf Retail (Mast Kalandar)	Footprint Ventures, Helion Venture Fund II	6	32.8
<b>2012</b>				
12 Oct	JSM Corp (Hard Rock Café, Shiro, Pitstop)	PI Opportunities Fund I	25	N/A
11 Oct	Coffee Day Resorts	Brand Capital	8.5	1.08
28 Sep	Olive Bar and Kitchen	Aditya Birla Private Equity	7.54	33.34
18 Sep	Poncho	Indian Angel Network Services	N/A	N/A
04 Aug	TMA Hospitality (Ammi's Biryani)	SAIF Advisors	7.2	N/A
10 Jul	Om Pizzas and Eats	TVS Shriram Growth	N/A	N/A
25 Apr	Adiga's Fast Food	New Silk Route	N/A	N/A
01 Mar	Vasudev Adigas Fast Food	New Silk Route Advisors	38	51
08 Feb	Cuisine Asia	Verlinvest SA	N/A	20
<b>2011</b>				
20 Dec	JS Hospitality Services (Pind Balluchi)	Everstone Capital	20	45
12 Oct	Faaso's Food Services	Sequoia Capital	2.71	27.1
30 Sep	Spring Leaf Retail (Mast Kalandar)	Footprint Ventures, Helion Venture Fund II	3.2	29.32
29 Aug	Goli Vada Pav	Ventureast Proactive	4.7	33.96
27 Jul	Impresario (Mocha, Smoke Grill, Prithvi Café, Smoke House Deli)	Beacon India Private Equity Fund, Mirah	10.77	28.71
02 Jun	Brand Calculus Franchising (I)	Hospitality & Food Solutions	0.33	6.6
	Helion Venture			
12 May	Devyani International India	Advantage Fund	55.7	10
31 Mar	Westpoint Leisure Parks McDonald's (South & West)	Bay Capital, Indus Hospitality Fund, Tree Line Asia Master Fund	N/A	22
15 Feb	Indian Cookery (The Yellow Chili, Khazana & Indi)	TVS Shriram Group	N/A	N/A
23 Feb	Cocoberry	Ajay Relan	1	8

Source: Maple Capital Advisors, India Food Services



Smoke House Deli



Harry's Bar

he adds. However, there are scale pressures, as well. Back-end management is also critical, something that can take time.

### Big challenges

Riyaaz Amlani, CEO & MD, Impresario Entertainment & Hospitality, which has in its portfolio popular brands like Mocha, Smoke House Deli and Smoke House Grill, The Tasting Room and Salt Water Café, among others, points out that consumers are moving towards convenience and comfort, when it comes to eating out. "Consumers are demanding great food in a casual setting – something that doesn't involve extremely high price points," says Amlani. The company received ₹48 crore in 2011 in funding from Beacon India Private Equity Fund and Mirah Hospitality to expand Mocha and Smoke House Deli brands in India, as well as overseas markets. In the pipeline are plans to launch another café concept called 'Social' first in Bangalore and then other markets. "There are a lot more people who have gotten into this business and understand the space a lot better," he says, referring to the PE activity in this space.

Players are also shifting focus to mass markets to drive growth. Everstone, for one, is bullish about its expansion plans. "We invested over \$40 million (about ₹250 crore) so far from our first fund into Pan India in expanding brands like Copper Chimney, Spaghetti Kitchen, CBTL, Noodle Bar and Gelato Italiano

across Tier I and Tier II cities in the country," says Sabharwal. "F&B Asia is the food & beverage services platform of our second fund with a total investment of over \$200 million (about ₹1,250 crore) with a significant contribution from our second fund." The company says that they are looking at getting into 3-4 cities every year.

However, while the sector may be attractive to many, as more foreign brands join the fray to expand into the Indian market, coupled with the investor sentiment, the industry isn't exactly the easiest to navigate. Regulatory frameworks, rising real estate

costs, as well as getting back-end management in place continue to be some of the biggest challenges faced by players. Profitability is another issue, given the nature of the business and thin margins. In a country like India, where even micro markets in a city behave differently, replicating models doesn't come easily. Increasing costs, inflationary pressures and consumers holding back on discretionary spends has affected the industry, and profitability. Margins in the industry generally range from 15 to 22 per cent, although lately, players have been facing pressured margins.

Sabharwal points out that the food space needs a very different and operational mindset. "It is important to test out a model for its scalability and unit economics before getting into an expansion drive. The organised F&B sector is on a secular growth path in India owing to a rise in the eating out culture and consumers getting used to more choices." There is a strong impetus on putting the right back end systems and management in place, which requires significant investment to build the business over the long-term, he adds. Kurian points out that, for a business of this sort, it usually takes 3-5 years to build and scale up.

That said, it seems the activity in this space is set to increase as more players line up to capture a slice of the action and more foreign players chart out their India strategy.

### Wheeling dealing

The Food Service Sector has seen strong deal activity in the last three years, with over 30 investments totaling \$250 million (about ₹1,600 crore) invested in early and growth stage companies. During the same period, the sector saw a few exits, given that most companies are in the growth phase. Exit by TVS Capital in Om Pizza, Navis Capital's exit from Nirulas to A2Z Excursion group and Sequoia's exit from Amalgamated Bean Coffee Trading Co were the key exits in the three-year period. Specialty Foods was the only IPO, where the initial PE remained invested.

The number of scale players (\$100 million – about ₹650 crore – or more in sales) are still in low double digits, prominent being Café Coffee Day, Jubilant Foods, Hardcastle Restaurant. •

Source: Marple Capital Advisors