

India Food Services Update

January 2014



Evolving Times

“In 2011, India Food services Story, published by Maple Capital Advisors had forecasted growth in private equity investments, inbound partnerships and franchising activity in the food service sector as well as a need for improvement in regulatory infrastructure. With over 30 private equity investments over last 3 years and strategic entry by Starbucks

and other select majors we saw some good growth momentum. However, regulatory aspects as well as rising real estate costs are still challenges in the industry.

The sector, however, is one of the fastest growing in the country on the back of rapid transformation from unorganized to organized”

**Pankaj Karna, Managing Director,
Maple Capital Advisors**

Food Services Sector Today

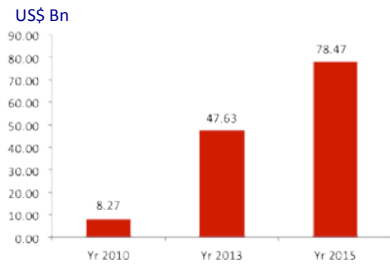
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Emerging Trends & Challenges

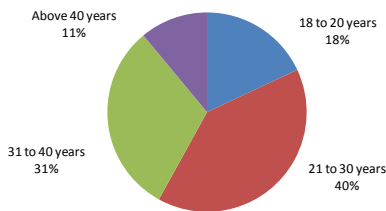
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Private Equity & M&A

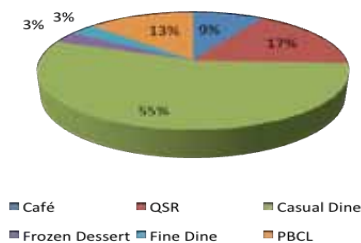
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Market Size



Eating out Demographics



Format Share

Supply Chain transforming fast

The emergence of scale players in logistics and supply chain has enabled growth of players in the sector. Baker's Circle, Cremica, Holyland Marketing are a few taking the lead.

There is significant private equity interest in the space as well as strategic interest from international players.

Logistics and cold chain players have also evolved, Snowman, Radhakrishna Foodland, Gati kauser, Kelvin and Crystal are making investments and growing to service the sector demands.

Food Services Sector Today

Food Service Sector in India, a USD 50 billion Industry growing at 16% p.a, fast transforming from unorganized (70%) to organized supported by increased investments from private equity and strategic players in the market spanning from farm to the table.

The size and transformation is substantially driven by the youth (90% of whom are below 40 years). Consumption is driven by convenience, aspiration, cultural shifts, changing retail landscape and unparalleled access to information backed by some innovative marketing and product revitalization.

Increasing regulatory pressure is also driving change albeit creating challenges as well. The FSSAI registration drive is a step in the right direction but execution might be an issue as less than 10% of food business operators have signed up for it. Licensing complexity especially for full service restaurants and bars is something that needs immediate attention.

The sector is supported by a 100% Foreign Direct Investment (FDI) which has been helped build supply chain and is driving quality and increased organized play in the sector.

Organized market has grown despite economic slowdown

The Organised market today stands at US\$ 13 bn and is expected to grow to US\$ 28 bn (at a CAGR of 16%). There has been a significant growth in QSR, pubs/bars and casual dining.

The overall economic slowdown in FY 14 has impacted the sector with single digit same store growths even as new stores, drove overall growth.

Tier2/Tier 3 towns where rentals are still sublime will be important markets, both from growth and profitability perspective given increasing awareness and consumer aspiration in these markets.



F&B Brands	No. of Facebook fans	Avg. No. of interactions	No. of twitter followers
Pizza Hut	1,343,168	10,552	3,630
Café Coffee Day	4,024,924	25,975	14,875
Domino's	5,804,901	199,679	26,217
Cocoberry	2,203,750	3,133	686
KFC	5,908,185	137,468	5,375
Hard Rock Café	119,623*	n.a.	13,234
McDonalds	1,135,831	10,038	n.a.
Barista	244,120	1,178	1,608
Lavazza			

* Combined total of all stores

Emerging Trends and Challenges

Social Media, Mobile connectivity and focused marketing are changing the way the sector is reaching its customers.

Companies like Domino's use OLO (online ordering) applications for home delivery and customers are getting more accustomed to third party enablers like Zomato (directory and content services) and Mydala and Groupon (discount and deal sites).

The emergence of social media and fan followings on facebook and twitter is strong proof of this. Most chains and stand alone restaurants are now thinking or planning strategies on social media and mobile to monetize customers and enhance store economics.

As the industry matures and business environment improves, India continues to attract global chains. Burger King, Taco Bell, Starbucks are the most recent to enter the country and multiple casual dining/pubs/bar majors are enhancing rollouts across the country.

Changing food service concepts from traditional institutional catering to organized food service delivery and retail by food service players at institutions (office, education and hospitals) are gaining traction.

The sector continues to grapple with high rentals and regulatory challenges (12-15 licenses for a full service restaurant that exists from state to state) are hampering efficient and quick rollouts.

Rising food costs and overall slowdown has impacted store economics in many cases store closures by chains.

Overall, it has been a year that has continued and reaffirmed sector opportunity belief while enhancing focus on costs, service, prudent expansion and customer focus.

Private Equity in the Food Service Sector

The Food Service Sector has seen strong deal activity in the last 3 years, with over 30 investments totaling USD 250 mn invested in early and growth stage companies.

In the same period the sector saw few exits, given 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 3 year period. Specialty Foods was the only IPO, where the initial PE remain invested.

The number of scale players (USD 100 mn or more in sales) are still in low double digits, prominent being Café Coffee Day, Jubilant Foods Hardcastle Restaurants and Devyani Foods.

The next three years are thus likely to see a spectrum of players targeting listing or subsequent rounds of PE investing.

Private Equity investors have invested across all stages eg. growth capital by ICICI in Devyani Foods and Arisaig Partners in Westlife Development.

Prominent on early stage/venture were Sequoia in Faaso's, Helion in Spring Leaf Retail(Mast Kalandar) and Mayfield in BTB Marketing(The Beer Café).

The sector also saw consolidators and hands on managers like Everstone in Cuisine Asia having Blue Foods and now Burger King (in the form of a Joint Venture) raise investments through Verlinvest .

Apart from Private equity the sector has also seen family offices active as in case of Lite Bite Foods and its portfolio of brands eg. Punjab Grill, Subway, SFI, Zambar, Fresco, Baker Street etc..

Overall, despite economic slowdown the sector has seen good investor interest, at all stages of investment given the confidence on demand side and sector shift from unorganized to organised.

Some of the key pointers that Private equity today are seeking in Food Service include;

1. Scalable model
2. Casual and QSR segments.
3. Proven store economics in atleast a few locations.
4. Knowledgeable management team with execution track record.
5. Early adoption on organized supply chain and operations/sales management.

Private Equity Deals in the Food service Sector 2011-2013

Date	Target	Investor	Deal Value (\$ mn)	Percentage Sought (%)
16-Dec-13	Speciality Restaurants	SAIF Partners	4.02	4.28
2-Sep-13	Moshe's Fine Foods	New Silk Route PE Asia	1.43	N/A
15-May-13	BTB Marketing (Beer Café)	Mayfield India	4.5	35%
15-Apr-13	Barbeque-Nation Hospitality	CX Advisors	20.11	29.75
6-Feb-13	Dana Choga Foods And Hospitality	SAIF Advisors	N/A	N/A
16-Jan-13	Vrinda Foods & Hospitality (Dana Choga's Kitchen)	SAIF Advisors	1.84	N/A
3-Dec-12	Spring Leaf Retail (Mast Kalandar)	Footprint Ventures, Helion Venture Fund II	6	32.8
12-Oct-12	JSM Corp (Hard Rock Café, Shiro, Pitstop)	PI Opportunities Fund I	25	N/A
11-Oct-12	Coffee Day Resorts	Brand Capital	8.5	1.08
28-Sep-12	Olive Bar and Kitchen	Aditya Birla Private Equity	7.54	33.34
18-Sep-12	Poncho	Indian Angel Network Services	N/A	N/A
4-Aug-12	TMA Hospitality (Ammi's Biryani)	SAIF Advisors	7.2	N/A
10-Jul-12	Om Pizzas and Eats	TVS Shriram Growth	N/A	N/A
25-Apr-12	Adiga's Fast Food	New Silk Route	N/A	N/A
1-Mar-12	Vasudev Adigas Fast Food	New Silk Route Advisors	38	51
8-Feb-12	Cuisine Asia	Verlinvest SA	N/A	20
20-Dec-11	J.S. Hospitality Services (Pind Balluchi)	Everstone Capital	20	45
12-Oct-11	Faaso's Food Services	Sequoia Capital	2.71	27.1
30-Sep-11	Spring Leaf Retail (Mast Kalandar)	Footprint Ventures, Helion Venture Fund II	3.2	29.32
29-Aug-11	Goli Vada Pav	Ventureast Proactive	4.7	33.96
27-Jul-11	Impresario (Mocha, Smoke Grill, Prithvi Café, Smoke House Deli)	Beacon India Private Equity Fund, Mirah Hospitality and Food Solutions Pvt. Ltd.	10.77	28.71
2-Jun-11	Brand Calculus Franchising (India)	Helion Venture	0.33	6.6
12-May-11	Devyani International	India Advantage Fund	55.7	10
31-Mar-11	Westpoint Leisure Parks McDonald's (South & West)	Bay Capital, Indus Hospitality Fund, Tree Line Asia Master Fund	N/A	22
15-Feb-11	Indian Cookery (The Yellow Chili, Khazana and Indi)	TVS Shriram Group	N/A	N/A
23-Feb-11	Cocoberry	Ajay Relan	1	8

M&A in the Food service Sector 2011-2013

The sector has seen select M&A either where PE funds are exiting or consolidating.

The key PE led acquisition was Everstone led buyout of Harry's.

The key strategic M&A constituted, Avan Group's acquisition of OM Pizza, franchisee consolidations(eg. Hardcastle Restaurants (buyout of McDonald's stake by Jatia family) and regional Pizza Hut franchisee consolidation (Hansa acquisition of Pizzeria business).

Given the majority of the Private equity funded players are in early to growth stage we believe significant M&A activity in the sector will be through private equity backed portfolio companies to enable optimal exits that are targeted in the next 3 years.

Most international strategic players while quite keen on the India market are still taking the franchisee route on India, given the fragmentation and limited scale opportunities and selectively in JV situations like Starbucks Tata venture.

Key franchisees that have recently entered or announced include Dunkin Donuts, Krispy Crème, Eagle Boys Pizza Burger King, California Pizza Kitchen and Pizza Express.

Continued challenges on real estate and sub optimal store economics will further drive consolidation especially in sub scale businesses in the sector even as scale own brand platforms will be active on both sides of M&A .

Date	Target	Buyer	Deal Value (\$ mn)	Stake	Brand
9-Dec-13	Om Pizzas and Eats	Avan Projects		80%	Papa Johns Pizza, Chilis Grill and Bar and The Great Kabab Factory
19-Nov-13	Burger King India (JV)	Everstone Capital (JV)	N/A	N/A	
13-Aug-13	SPI Diners	Australian Foods India		N/A	Ecstasy and Id brand
13-Nov-12	Harry's International	Everstone Capital Partners II, Verlinvest SA	35.6	90	Harry's
25-Aug-12	Amalgamated Bean Coffee Trading	Coffee Day Resorts	40	10%	Café Coffee Day
25-Jul-12	Sigma Restaurant	Correa Hotels	5	N/A	Fishtro
20-Jul-12	Nirulas Corner House	A2Z Excursions		100%	Nirulas
25-May-12	Nirulas Corner House	Navis Asia	Private Equity	N/A	100
12-Apr-12	Adelie Food Holdings	India Hospitality Corp.	350	100%	
29-Feb-12	Wrapster Foods	Lite Bite Foods	N/A	N/A	Punjab Grill
1-Dec-11	Triple A Foods	Westlife Development	N/A	80%	McDonald's (west and south India)
30-Jul-11	Pizzeria Fast Food Restaurants Madras	Hansa Zone	N/A	100%	
16-Jun-11	Sagar Ratna Restaurants	India Equity Partners	Private Equity	30.44	77.65
21-Feb-11	Hardcastle Restaurants	BL Jatia Family	N/A	50%	McDonald's (North and East India)

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- **Advisory**— Joint Ventures, Alliances, Valuation and Business Plans
- **Private Equity** - Working closely with PE funds and Advising on induction of equity or like instruments
- **LEverage Capital** - Advising on structured debt spectrum covering, acquisition financing, convertibles, special situations

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