

VOL 26 NO. 7 OCTOBER 2012

INDIA PERSPECTIVES



INSIDE

CULTURE
Bonding over Durga Puja

ART
Steely Wonders

PARTNERSHIPS
India-Pakistan Ties



BUSINESS

THE BIG BITE

India's food services industry is worth US\$ 9 billion; by 2016 it is likely to reach US\$ 16 billion

TEXT: BINDU GOPAL RAO

A burgeoning middle class, greater disposable incomes, working couples and increasing number of nuclear families, are just some of the reasons why eating out is gaining popularity in the country. Moreover, the customer has a wide variety of options to choose from, be it fast food or fine-dining. Ratings agency Crisil Limited's report says that India's expanding urban population is increasingly "dining out as a lifestyle choice" and that will "provide a great impetus to the restaurant business". This is proof enough that the business of eating out in India is soaring. Pegged at US\$ 9 billion in 2011, the Indian food services industry is expected to be worth US\$ 16 billion by 2016.

At present, India's restaurant business is powered by unorganised players, with as much as 70 per cent revenue coming from this segment. This sector largely comprises *dhabas* (small roadside eateries). However, in recent times the organised retail market has witnessed

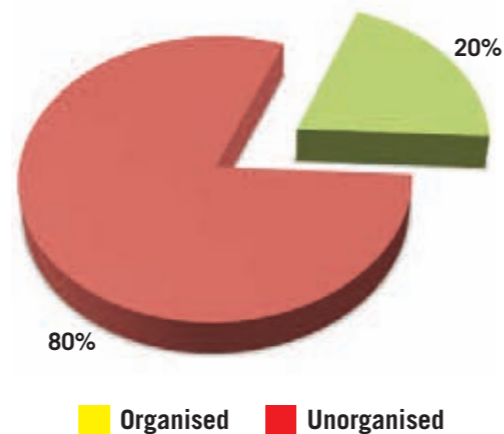
double digit growth across formats. Valued at US\$ 1.5 billion in 2011, it is likely to reach US\$ 6 billion by 2016. "The key being quick service retail (QSR) dominated by international chains, coffee chains and casual and fine-dining outlets driven by Indian and private equity majors. The open market and liberalisation policies added to the 100 per cent foreign direct investment (FDI) under automatic route is resulting in more and more international food service chains opening their branches across the country either directly, through franchisees, or in partnership with local majors," says Pankaj Karna, managing director, Maple Capital Advisors, a firm that focuses on mergers and acquisitions, advisory services, private equity and leverage capital. Manu Chandra, executive chef and partner Olive Beach and Monkey Bar, both Bangalore-based venture capital funded business, and owned by restaurateur A.D. Singh, says: "The biggest drivers of this boom will no longer be from metros but from tier II cities which are growing."

No longer is Indian food the norm, cuisines from all over the world are becoming popular as people are travelling and are willing to try out new cuisines. "There are new concepts such as, wine bars, beer cafes and other themed restaurants. Foreign brands have realised the potential of the Indian market and that is why we see brands such as Hakkasan, the internationally renowned, high-end Chinese food network, already in India and Starbucks, the global coffee company and coffeehouse chain, which has a presence in 60 countries, and Wagamama, which serves Japanese inspired food, slated to open in India soon," says Ravi Sharma, owner, Saffron Bay (Florista Hospitality).

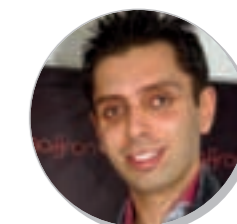
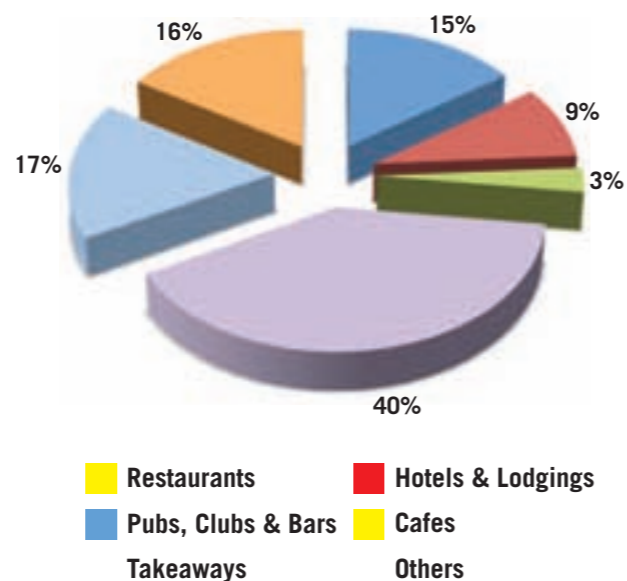
Franchisees are lining up to open outlets of chains like Pizza Hut, Subway, New Zealand Natural, Sagar Ratna, Berco's in tier II and tier III cities. In fact, brands like Pizza Hut and KFC are looking at opening 1,500 to 2,000 restaurants by 2015. "A lot of big brands are eyeing the Indian market. Michelin star restaurants are coming to India, Hakkasan being an example. Hard Rock Café, the US-based restaurant chain, which has 175 outlets in over 50 countries, and Nando's, a South African casual dining restaurant group, have expansion plans here. Also, many Indian restaurateurs are investing in upscale restaurants," says Jayant Singh, CEO and founder, International Hospitality Partners, a business consulting and search firm specialising in the service industry.

Fuelling the growth of the industry are chef-led restaurants, fusion cuisine and the growing popularity of international food and styles. "Restaurants are continuously trying to offer something different because the

SEGMENTS OF THE FOOD SERVICES SECTOR



SEGMENTS OF THE ORGANISED FOOD SERVICES SECTOR



"There are new concepts such as, wine bars, beer cafes and other themed restaurants. Foreign brands have realised the potential of the Indian market and that is why we see brands such as Hakkasan already in India and Starbucks and Wagamama slated to open in India soon"

RAVI SHARMA, owner, Saffron Bay (Florista Hospitality)



"The restaurant industry employs almost 5 million people — five times more than IT and 10 times more than the hotel industry. Currently, we are seeing a phase of consolidation where the unorganised segment is being taken over by organised formats."

A.K. SRIKANTH, CEO, Alchemist Foods Limited



“Restaurants are continuously trying to offer something different because the customer is becoming more discerning. Be it innovative recipes, organic ingredients, food festivals, restaurants are striving to deliver an experience.”

SUHANI MEHTA, director, Orange Tomato that runs F&B brands — Shitakke, Twenty.21, Oval Bar and Binge in Bengaluru



“With the government’s market liberalisation policies, India has also become a consumer market with a massive customer base. This has facilitated a tremendous impetus to the overall growth of the industry.”

ASHISH BHAYANA, Bengaluru-based restaurateur



TRENDS IN QUICK SERVICE RETAIL INDUSTRY

QSRs	Number of Outlets	Expansion Plans
Cafe Coffee Day	1,400	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
KFC	107	1000 outlets by 2014
Yo-China	43	200 outlets by 2012

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

INTERNATIONAL BRANDS PLANNING ENTRY

- The Pizza Company
- Cafe Jubilee
- Sunshine Kebabs (India) Pvt Ltd
- 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

AT PRESENT, INDIA'S RESTAURANT BUSINESS IS POWERED BY UNORGANISED PLAYERS, WITH AS MUCH AS 70 PER CENT REVENUE COMING FROM THIS SEGMENT. HOWEVER, IN RECENT TIMES THE ORGANISED RETAIL MARKET HAS WITNESSED DOUBLE-DIGIT GROWTH ACROSS FORMATS.

customer is becoming more discerning. Be it innovative recipes, organic ingredients, food festivals, restaurants are striving to deliver an experience,” says Suhani Mehta, director, Orange Tomato that runs F&B brands — Shitakke, which specialises in oriental cuisine from Bangkok to Tokyo; Twenty.21, which focuses on European cuisine; Oval Bar, a uber-sleek lounge bar; and Binge, a lounge hotspots that offers a collection of signature cocktails and plush VIP services.

Social media and online websites are the next big marketing tool. A.K. Srikanth, CEO, Alchemist Foods Limited, one of India's fastest growing publicly traded conglomerates currently valued at ₹100 billion with over 8,000 employees across India, says, “The growth in the organised sector is almost 15-20 per cent and foreign players are making their presence felt in previously untapped markets.”

The industry, however, is not free from challenges. The high real estate costs, time taken to perfect back-end operations, lack of cold storage facilities and supply-chain infrastructure are some of the bottlenecks. “With the government’s market liberalisation policies, India has also become a consumer market with a massive customer base. This has facilitated a tremendous impetus to the overall growth of the industry,” says Ashish Bhayana, a Bengaluru-based restaurateur. The high rental cost of real estate poses the biggest challenge. In India, rent forms about 20-25 per cent of the top line, which gives about 15-20 per cent operating profit.

Despite the bottlenecks, the organised restaurant industry is growing and is expected to soar higher fuelled by the entry of newer players and expansion of existing ones. ■