



IPO Note – Burger King India Limited

01-December-2020

Issue Snapshot:

Issue Open: Dec 02 – Dec 04, 2020

Price Band: Rs. 59 –60

*Issue Size: 135,000,000 eq shares
(Fresh Issue of 75,000,000eq sh + Offer for sale of 60,000,000 eq sh)

Issue Size: Rs. 796.5 – 810.0 cr

Reservation for:

QIB	atleast	75% eq sh
Non Institutional	Upto	15% eq sh
Retail	Upto	10% eq sh

Face Value: Rs 10

Book value: Rs 7.62 (September 30, 2020)

Bid size: - 250 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 306.65 cr
Post issue Equity:	Rs. 381.65 cr

Listing: BSE & NSE

Book Running Lead Manager: Kotak Mahindra Capital Company Ltd, CLSA India Pvt Ltd, Edelweiss Financial Services Ltd, JM Financial Ltd

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	94.3	60.1
Public & Employee	5.7	39.9
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Burger King India Ltd (BKIL) is one of the fastest growing international QSR chains in India during the first five years of its operations based on number of restaurants. As the national master franchisee of the BURGER KING® brand in India, it has exclusive rights to develop, establish, operate and franchise Burger King branded restaurants in India. Its master franchisee arrangement provides with the ability to use Burger King's globally recognised brand name to grow its business in India, while leveraging the technical, marketing and operational expertise associated with the global Burger King brand. The globally recognised Burger King brand, also known as the "HOME OF THE WHOPPER®" in the United States and is owned by Burger King Corporation, a subsidiary of Restaurant Brands International Inc. The Burger King brand is the second largest fast food burger brand globally as measured by the total number of restaurants, with a global network of 18,675 restaurants in more than 100 countries and U.S. territories as at September 30, 2020.

BKIL's master franchisee arrangement provides it with flexibility to tailor its menu to Indian tastes and preferences, as well as its promotions and pricing. Its customer proposition focuses on value leadership, offering customers variety through innovative new food offerings at different day parts, catering to the local Indian palate, offering a wide range of vegetarian meal options, and its taste advantage and flame grilling expertise. This enables BKIL to grow its customer base by attracting customers looking for everyday value and giving them opportunities to access its brand for the first time. This also increases the frequency and occasions when customers can visit its restaurants, which drives footfalls and same-store sales. This has driven footfalls and same-store sales in its restaurants and enabled it to become one of the fastest growing QSR brands to reach 200 restaurants among international QSR brands in India during the first five years of its operations.

The majority of BKIL's restaurants have opened for dine-in guests and to support food delivery services; however, the capacity for dine-in guests may be limited, based on local regulations. As at September 30, 2020, it had 261 restaurants, including eight Sub-Franchised Burger King Restaurants, across 17 states and union territories and 57 cities across India. Of its 261 restaurants as of September 30, 2020, 226 were operational. It had 259 Company-owned Burger King Restaurants and nine Sub-Franchised Burger King Restaurants, of which 249 were operational, including two Sub-Franchised Burger King Restaurant. It plans to continue to build its restaurant network using a cluster approach and penetration strategy with the objective to provide greater convenience and accessibility for its customers across relevant geographies. It launch its brand from flagship locations in high traffic and high visibility locations in key metropolitan areas and cities across India and then develop new restaurants within that cluster. This approach also helps to efficiently manage its vertically managed and scalable supply chain and drive down costs, due to the proximity of its restaurants to each other and to the distribution centres of its third-party distributor.

A key focus of BKIL's business is promoting and maintaining operational quality, a people-centric culture and effective technology systems that enable to optimise the performance of its restaurants, enhance the customer experience it offers and contribute to its growth. Its right to use the Burger King brand exclusively on a national basis also provides it with substantial advantages with respect to operational efficiencies and the speed with which it is able to roll out its national advertising campaigns, manage its supply chain and tailor its menu architecture, promotions and pricing to its customers' tastes and preferences..

Objects of Issue:

The Offer comprises of a Fresh Issue and an Offer for Sale.

Offer for Sale

The Promoter Selling Shareholder will be entitled to the proceeds of the Offer for Sale net of its proportion of Offer related expenses. BKIL will not receive any proceeds from the Offer for Sale.

The Fresh Issue

The Net Proceeds from the Fresh Issue are proposed to be utilised in the following manner:

- Funding roll out of new Company-owned Burger King Restaurants by way of:
 - ✓ *Repayment or prepayment of outstanding borrowings of the Company obtained for setting up of new Company-owned Burger King Restaurants; and*
 - ✓ *Capital expenditure incurred for setting up of new Company-owned Burger King Restaurants.*
- General corporate purposes.

Utilisation of Net Proceeds

SR No	Particulars	Amount (in Rs million)
1	Funding roll out of new Company-owned Burger King Restaurants	3,419.79
	<i>Repayment or prepayment of outstanding borrowings of the Company obtained for setting up of new Company-owned Burger King Restaurants; and</i>	1649.79
	<i>Capital expenditure incurred for setting up of new Company-owned Burger King Restaurants</i>	1770.00
2	General corporate purposes	*
	Net Proceeds	*

Competitive Strengths

Exclusive national master franchise rights in India: BKIL is the national master franchisee of the Burger King brand in India, with exclusive rights to develop, establish, operate and franchise Burger King branded restaurants in India. The globally recognized BURGER KING® brand, also known as the “HOME OF THE WHOPPER®”, was founded in 1954 in the United States and is owned by Burger King Corporation, a subsidiary of Restaurant Brands International Inc., which holds a portfolio of fast food brands that are recognized around the world that include the BURGER KING®, POPEYES® and TIM HORTONS® brands. The BURGER KING® brand is the second largest fast food burger brand globally as measured by the total number of restaurants, with a global network of 18,675 restaurants in more than 100 countries and U.S. territories as at September 30, 2020. Its master franchisee arrangement, which expires on December 31, 2039, provides it with the ability to use Burger King’s globally recognised brand name to grow business in India, while leveraging the technical, marketing and operational expertise associated with the global Burger King. Its master franchisee arrangement also provides BKIL with flexibility to tailor its menu, promotions and pricing to the Indian tastes and preferences while meeting Burger King global quality assurance standards. It also provides with flexibility over its vertically managed and scalable supply chain, and receive the support of BK AsiaPac though its supplier approval process in selecting each of its suppliers.

BKIL also benefit from Burger King’s extensive global marketing and advertising concepts, product development capabilities and cooking techniques to drive sales and generate increased restaurant footfalls, while also being guided by Burger King Corporation restaurant development procedures and standards. It also enjoy favourable royalty rates that are capped at 5% under its master franchisee arrangement, which together with the flexibility it enjoy under its master franchise arrangement and its leveraging of the globally recognised Burger King brand, has helped it to grow its business quickly and drive sales and profitability in its restaurants.

Strong customer proposition: BKIL offers a customer proposition that enables to attract customers and drive footfalls at its restaurants. The key pillars of its customer proposition include value leadership, variety, a wide range of vegetarian offerings, taste advantage and flame grilling expertise.

Value leadership: BKIL’s focus on value leadership is a key driver of its business. Its aim has not only been to offer quality products that are tailored to Indian taste and preferences, but also to provide substantial value at attractive price points. The key driver of this strategy has been its “two good menu with variety”. It has extended its WHOPPER® brand with the launch of its Lite WHOPPER® Jr. @ Rs.99, which helps to drive footfalls into its restaurants. In addition to its “two good menu with variety”, it has have also created a wide entry level menu across its burgers, wraps, rice, sides and drinks that is available for under Rs.100.

Variety: BKIL has a wide variety of 18 different vegetarian and non-vegetarian burgers covering both value and premium offerings. It price the majority of its burgers using incremental pricing, in which its burgers are priced at increments of Rs5 to Rs 20, helping its customers to upgrade to higher value burgers more easily. While its core strength is burgers, it continuously strive to enhance its customer experience by providing variety across its food offerings, including burgers, wraps, rice, beverages, sides, snacks, shakes and desserts across different day parts, including breakfast, lunch and dinner, and snack times and late night. This wide choice and variety in menu helps to drive the frequency with which customers visit its restaurants.

Wide range of vegetarian offerings: Menu items of BKIL are developed and made in India to cater to the local Indian palate and include a wide range of vegetarian meal options, which attracts additional customers into its restaurants. It do not offer beef or pork products in its restaurants. Of the 18 burgers that has developed specifically for the Indian market, seven are vegetarian burgers targeting customers

who seek vegetarian food options. It has also separated the cooking and preparation of vegetarian, egg and non-vegetarian meals in its kitchens to build trust with its customers.

Taste advantage and flame grilling expertise: Menu of BKIL is built through extensive taste testing in order to appeal to the Indian palate and the tastes of its customers. It also offers burgers made-to-order for its customers, which allows them to be tailored to their own taste preferences. It serves customers flame grilled patties for its various burgers, including its non-veg WHOPPER® and Chicken Tandoor Grill, which are not offered by any other QSR brands in India. The strength of the Burger King brand has been built in part on its flame grilling expertise, and each of its restaurants has this capability, for which it import specially designed patented broiler equipment.

Brand positioned for millennials: BKIL has positioned its brand to target the large and growing millennial population in India. India has a large number of millennials, and the millennial population in India has grown from 418 million in Fiscal Year 2011 to 447 million in Fiscal 2020. This trend is expected to continue as India's population continues to grow, the number of millennials that form part of India's working-age population increases. It connect with millennials, many of whom are just entering the workforce, through value leadership and strong entry menu at attractive price points. It also connect with millennials through its advertising and marketing campaigns, both on television and social media, its in-restaurant design and messaging, and the packaging of its products. BKIL's recent advertising campaigns targeting millennials have included its "#Wraps Without Gaps" launch, the "#BK Mumbai Indians prank#" and its "#Flirty Whopper" and "#Twogoodmenu" campaigns, which focus on the Burger King brand being about self-expression and 'just being who you are', which connects well with the millennials.

Vertically managed and scalable supply chain model: BKIL benefit from a vertically managed and scalable supply chain model in which it individually negotiate with and actively manage its suppliers of ingredients and packaging materials. The exclusive national rights and flexibility that its master franchisee arrangement provides means that it has significant control over the purchasing of its ingredients and packaging materials. Substantially all of the ingredients used in the preparation of the food it serves in its restaurants are purchased locally from known suppliers that comply with Burger King food quality standards. It also receive the support of BK AsiaPac through its globally defined and thorough approval process for suppliers for purposes of compliance with international audit norms and food quality standards when selecting each of its suppliers. It also has multiple suppliers for most of its key ingredients, enabling to generate competitiveness among its suppliers with the aim of obtaining the best procurement price. It also benefit from certain of its suppliers being global suppliers that source large volumes of ingredients and packaging materials, which helps to obtain more competitive pricing.

BKIL has an extensive service level agreement in place for supply assurance and quality compliance with the aim of ensuring availability of its products at its various regional distribution centres. It directly manage its suppliers of ingredients and packaging materials which helps to protect the quality of its products and drive down the costs embedded in its supply chain, while its relationship with its third-party distributor reduces its supply chain risk and distribution costs. The Company's arrangement with its third-party distributor also helps to reduce its working capital requirements with respect to its supply chain since its third-party distributor purchases from suppliers and holds the ingredients and packaging materials it require as its own inventory until it delivers the product to its restaurants.

Operational quality, a people-centric culture and effective technology systems: A key focus of BKIL's business is promoting and maintaining operational quality, a people-centric culture and effective technology systems that enable it to optimise the performance of its restaurants, enhance the customer experience it offers and contribute to its growth.

Operational quality: BKIL has made significant investments in its operations and are disciplined about maintaining well-defined and standardised processes in order to promote and maintain the quality of its operations across business. It maintain system-wide operating procedures consistent with Burger King's global standards with respect to product quality, taste parameters, food preparation methods, food safety and cleanliness and customer service standards. It has multiple levels of supervision and quality control for both its restaurant operations and its supply chain, including a third-party expert company that specialises in quality control, processes and sanitation that is appointed by BK AsiaPac.

People-centric culture: BKIL's operations are driven by its people-centric policies and practices, which is a principal component of its ability to enhance customer experience at its restaurants. Its people are its strongest brand attribute, and strives to provide them a positive, friendly, safe and collaborative working environment. It has also made significant investments in the promotion and employment of women and diversity in its business, which feels strengthens its workforce and enhances ability to enhance customer experience.

Technology systems: BKIL utilise "360° technology" in its interactions with its customers and across its operations, including in the operations of its restaurants, supply chain and in the management of business. It equip all of its restaurants with technology such as its centrally controlled digital menu board, which provides with the flexibility to alter menu placement of its products and match customer preferences. It vary its menu displays utilizing real-time data based on time of day and restaurant location, which enables it to drive demand to match the needs of its business. Similarly, it utilise self-ordering kiosks and handheld POS systems to facilitate the customer experience through convenience and increase sales. Its technology also enables it to integrate its customer platforms with delivery aggregators, payment gateways and wallets.

Well defined restaurant development process: BKIL has a well-defined new-restaurant roll out process that enables to identify locations and build out restaurants quickly, consistently and efficiently. It build its restaurant network using a cluster approach and penetration strategy with the objective to provide greater convenience and accessibility for its customers across relevant geographies. It launch its brand from flagship locations in high traffic and high visibility locations in key metropolitan areas and cities across India and then develop new restaurants within that cluster. This approach also helps to efficiently manage its vertically managed and scalable supply chain and drive down costs, due to the proximity of its restaurants to each other and to the distribution centres of its third-party distributor. Although the COVID-19 crisis has adversely affected ability to open new restaurants and expand restaurant network temporarily, it continue to evaluate the pace and quantity of new restaurant openings and the expansion of its restaurant network and aims to increase the pace of its growth when the COVID-19 crisis subsides and more of its restaurants become operational again.

Experienced, passionate and professional management team: BKIL's management team also includes former senior employees who has significant work experience in the food and beverage industry, retail and major fast moving consumer goods brands.

Business Strategy:

Increase the pace of expansion of restaurant network: Although the COVID-19 crisis has adversely affected BKIL's ability to open new restaurants and expand restaurant network temporarily, it continue to evaluate the pace and quantity of new restaurant openings and the expansion of its restaurant network and aims to increase the pace of its growth when the COVID-19 crisis subsides and more of its restaurants become operational again. It intend to continue to grow its restaurant network in a disciplined manner by continuing to identify new locations in key metropolitan areas and cities across India in order and build out restaurants quickly, consistently and efficiently to capitalise on the growing market opportunity in India for QSR restaurants. Prior to the impact of COVID-19 crisis on its financial results towards the end of Fiscal 2020 and in the six months ended September 30, 2020, it saw stronger same-store sales even as it continued to open new restaurants in India, which indicated at that time that it had not yet reached its potential in terms of penetration of the market. As it expand its restaurant network in the future, it also intends to open restaurants in new areas and markets where there is strong potential for growth and in addition to taking advantage of the growing online delivery market, including through engagement with delivery aggregators. BKIL's flexibility with respect to its restaurant formats also enabled it to undertake certain temporary changes to its store formats during the COVID-19 crisis, such as moving cash registers and service counters closer to the restaurant entrance to facilitate take away and delivery. Using cluster approach and penetration strategy will also help to efficiently manage its supply chain due to the increased reach and density of its network and the proximity of its restaurants to each other and to the distribution centres of third-party distributor. It currently plans to have approximately 300 restaurants, including Sub-Franchised Burger King Restaurants, open by December 31, 2021.

Continue to build on value leadership: BKIL intends to continue to build on its value leadership in order to drive footfalls and increase same-store sales in its restaurants. It plans to do this by continuing to drive menu architecture to offer quality products that are not only tailored to Indian taste and preferences, but also to provide substantial value at attractive price points. BKIL also intends to continue to offer customers its wide entry level menu across burgers, wraps, rice, sides and drinks that is available for under Rs 100, which gives new customers opportunities to access its brand for the first time. In addition, The company plans to drive footfalls in its restaurants by continuing to offer a number of promotional offerings at attractive price points, such as its entire meal and two burgers and a drink offers. It also intends to continue to create accessible meal conversion options for guests, which help improve its average ticket price and also provides its customers with a full meal experience. While BKIL build on its value leadership, it also intends to continue to focus on its premium offerings, snacks and add-ons and accessible meal conversion options for customers, which provide its customers with more menu options and enable it upsell to higher price points and enhance its average ticket price. This strategy will enable BKIL to precisely target different market segments and increase footfalls at its restaurants by catering to its customers' choice of flavours and price points.

Continue to grow brand awareness and loyalty: BKIL's vision is to make the Burger King brand the most loved QSR brand in India. Brand awareness and loyalty to the Burger King brand in India has increased since its launch in November 2014 and that there is significant opportunity to continue to grow its brand in India as its restaurant network grows and it penetrate further into existing and new markets. It intends to continue to leverage Burger King's globally recognised brand name and marketing initiatives, which are targeted at driving footfalls and supporting same-store sales. In particular, it intends to continue targeting the large and growing millennial population in India. It intends to continue to connect with millennials through its advertising and marketing campaigns, both on television and social media, its in-restaurant design and messaging, and the packaging of its products, focusing on the millennial lifestyle and way of life of this large and growing age group. In addition, it intends to continue promoting its BK Crown loyalty program in order to engage with its customers and drive customer loyalty. BKIL also intends to continue striving to provide customers with a best in class restaurant experience with its customer proposition, menu architecture and its restaurant service, such as by leveraging its value leadership and offering strong entry menu at attractive price points to millennials, many of whom are just entering the workforce and seek everyday value.

Actively manage unit economics and achieve economies of scale through operational leverage: BRIL intends to continue to actively manage the unit economics of its business and achieve economies of scale through operational leverage in order to drive further cost efficiencies and expand its margins. As it continue to grow the number of restaurants, it intend to continue spreading corporate-level

fixed costs, in particular its brand building and launch expenses and its corporate-level administrative expenses, across a larger restaurant network. BKIL also intend to realise further cost efficiencies and benefit economies of scale by leveraging its vertically managed and scalable shared supply chain infrastructure with its third-party distributor, which will drive gross margins. It also intends to continue to optimize spending on ingredients, reduce its exposure to price fluctuations and target best procurement prices by maintaining multiple suppliers for most of its key products, which enhances the Company buying power and enables to generate competitiveness. These advantages will drive cost efficiencies and expand its gross margins as its business grows.

Leverage technologies across business: BKIL intends to leverage its investments in the “360° technology” that it has invested in and deployed across its business of the past several years, such as its centrally controlled digital menu board, self-ordering kiosks, the new version of its BK mobile app, handheld POS systems, the integration of its customer platforms with delivery aggregators and the integration of its systems with third-party distributor. It intends to continue to invest in technology. Its technology roadmap covers: Customer engagement, Delivery and Business process.

Customer engagement: BKIL intends to invest in technology in its interactions with its customers to further enhance its customer experience through convenience. In particular, it intend to use digital and social media platforms to draw its customers to its Burger King app, utilise a user friendly interface and online aggregator apps, and collect customer information and experience data, which will then utilise for continuous customer relationship management.

Delivery. The Company plans to continue to invest in the further integration of its systems with delivery aggregators, as well in its own delivery and online presence. It aims to create an end-to-end online Burger King experience for millennials and other customers through digital touch points at every point of the online consumer path to purchase.

Business process. BKIL also intends to invest in technology across its operations, including in the operations of its restaurants and its supply chain. In particular, it plans to continue to leverage and invest further in the integration of its systems with its third-party distributor to drive efficiencies in its supply chain management. In addition, it intends to continue to increase the use of technology by its management in measuring and monitoring key metrics for operational performance, leveraging best practices on business intelligence across its organization and driving efficiencies.

Industry

Indian food services market overview

The Indian food services market has gained strong momentum in the last decade due to changing consumer consumption patterns that have seen an increase in the tendency to eat out that had not traditionally been a feature of Indians’ lifestyle. This has ensured a constant growth of the Indian food services market, which has evolved considerably since the 1980s, when the number of organized brands operating in the country was negligible and the market was widely dominated by smaller unorganized players. A noticeable shift began in 1996 with the opening up of QSR such as McDonald’s, Pizza Hut and Domino’s Pizza, followed by Subway, KFC, Burger King, Haldiram’s, Moti Mahal and Taco Bell, among others.

Market structure

The Indian food services market is classified into two segments, organized and unorganized, based on three key characteristics: accounting transparency, organized operations with quality control and sourcing norms, and outlet penetration. Any food services outlet that does not conform to these parameters is considered to fall within the unorganized segment, which primarily includes dhabas, roadside small eateries, hawkers and street stalls. By contrast, food services outlets that conform to these parameters fall within the organized segment and can be subcategorized as chains (domestic or international outlets that have more than three restaurant outlets across the country) or standalone outlets. Chains are further subdivided into six sub-segments based on average price charged per person, service quality and speed, and product offering:

- fine dining (“FDR”): full service restaurants with high quality interiors, specific cuisine specialty, high standard of service translating to high average per cover. Fine dining targets rich and upper middle class consumer segments as it offers unique ambience and upscale service with highly trained staff;
- casual dining (“CDR”): a restaurant serving moderately priced food in an ambience oriented towards affordable dining with table services. The offering bridges the gap between fast food establishments and fine dining restaurants;
- pub, bar, club and lounge (“PBCL”): outlets that mainly serve alcohol and related beverages and include night clubs and sports bars;
- quick service restaurants (“QSR”): these are focused on speed of service, affordability and convenience and include the dine-in/takeaway/delivery sub-formats;
- cafes: these include coffee bars and parlours, and chai bars. They are mostly casual restaurants that emphasize on serving beverages and food incidental to those beverages; and
- frozen desserts (“FD/IC”): small kiosk outlets of ice cream brands which have been extended to dine-in concept of frozen yogurt and ice cream brands.

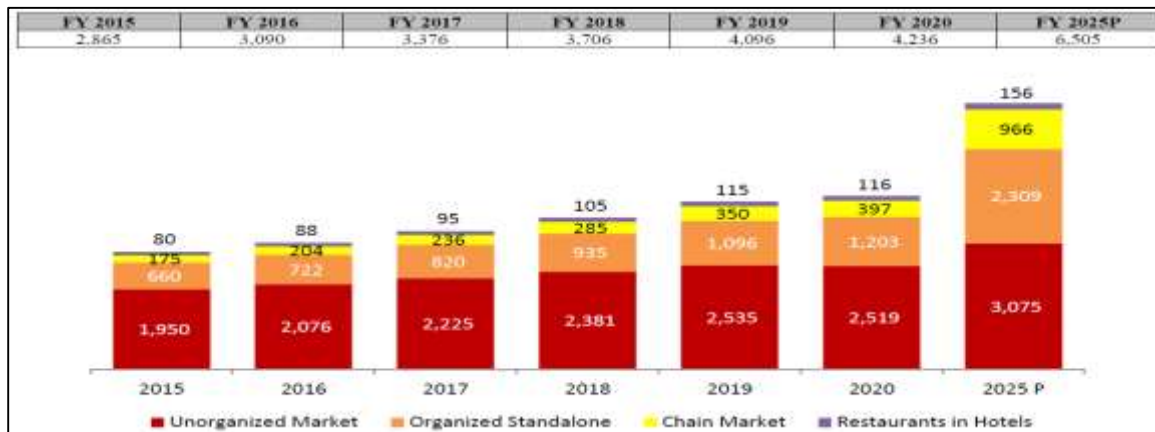
The table below sets out the split of the Indian food services market in Fiscal 2020:



Food services market size

The food services market in India has shown consistent growth since Fiscal 2015 and was estimated at Rs.4,236 billion in Fiscal 2020. The food services market in India is projected to grow at a CAGR of 9% over the next five years and is expected to reach Rs.6,505 billion by Fiscal 2025. In Fiscal 2020, the biggest segment of the food services market was the unorganized market, which accounted for Rs.2,519 billion (59% of the food service market), followed by the organized standalone segment, the chain market and restaurants at hotels, each accounting for Rs.1,203 billion, Rs.397 billion and Rs.116 billion, respectively (28%, 9% and 3% of the food services market, respectively).

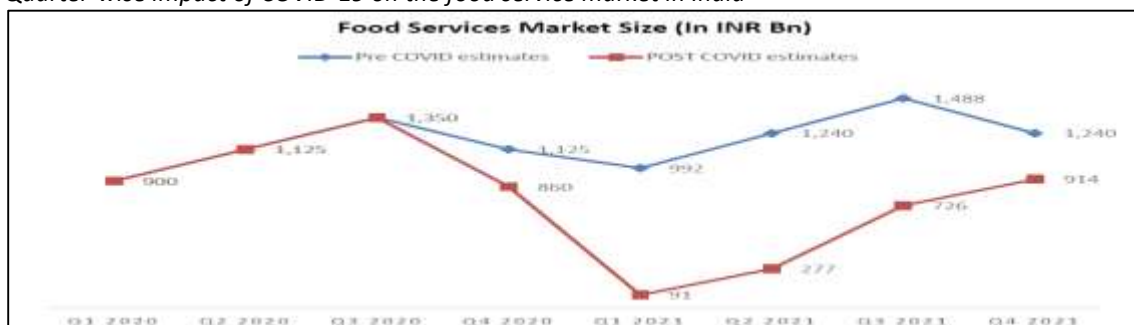
The table below sets out the Indian food services market size in INR billion:



The table below sets out the market share of each of the segments of the Indian food services market in Fiscals 2015 and 2020 and the expected market share for Fiscal 2025:

Format	Market Share FY 2015	Market Share FY 2020	Market Share FY 2025P
Unorganized Market	68.1% (1,950)	59.5% (2,519)	47.3% (3,075)
Organized Standalone Market	23.0% (660)	28.4% (1,203)	35.5% (2,309)
Chain Market	6.1% (175)	9.4% (397)	14.9% (966)
Restaurant in Hotels	2.8% (80)	2.7% (116)	2.4% (156)

Quarter-wise impact of COVID-19 on the food service market in India



Q4 Fiscal 2020: The impact of COVID-19 on the Food Services Market started in the last month of Q4 Fiscal 2020. As of March 2, 2020, there were five active COVID-19 cases in India (according to covid19.org). Beginning in March 2020, people started to refrain from eating out as frequently due to the fear of COVID-19. Unorganised market was the first to take hit due to hygiene concerns, which was followed by standalone restaurants, etc. Organized chain restaurants were relatively less impacted by COVID-19. On March 25, 2020, India went on a complete lockdown, under which all restaurants in the country had to close, which significantly impacted the entire food services market, resulting in a 31% decrease in the size of the market in comparison to pre-COVID-19 levels for Q4 Fiscal 2020.

Q1 Fiscal 2021: In the beginning of Q1 Fiscal 2021, most of the restaurants were closed in the country. But as various state governments started easing out the strict lockdown-related restrictions in their respective states, many restaurants reopened in April and May 2020 for delivery-only services. However, even though restaurants were open for delivery in Q1 Fiscal 2020, people remained conscious about hygiene and safety measures of the restaurants and were therefore reluctant to order delivery from restaurants, which resulted in very few delivery orders initially following the reopening of the restaurants in the country. As food delivery aggregators started demonstrating capabilities for high food quality and service standards, consumers became more active in ordering via food delivery apps from the QSR chains, and sales started to grow towards the end of May and beginning of June 2020. QSRs were among the first group of restaurants to start recording sales during this quarter. Cafés also started building their delivery capabilities under the circumstances and soon began to recover their growth in sales, while such growth was slow in comparison to the QSR chains which already had the delivery infrastructure and process in place. The food services sector recorded the most significant decrease in sales in this quarter as sales went down by 90% as compared to pre- COVID-19 estimates, which was partially mitigated by the restaurants putting in place their home delivery operations.

Q2 Fiscal 2021: In Q2 Fiscal 2021, food brands began to emphasize on strengthened hygiene and safety measures and processes for food delivery services, including introducing “contactless delivery”, etc., to help increase consumers' confidence in their capabilities to provide quality food delivery services; as a result, QSR chains, food delivery aggregators and cloud kitchens began to record rapid growth in their sales figures again. In certain states, such as Delhi, U.P, Tamil Nadu, etc., dine-in services were allowed again with restrictions relating to capacity and opening hours of restaurants. The Central and state governments had designated certain areas in the country as “containment zones” for having a large number of confirmed COVID-19 cases. Complete lockdown was imposed in these containment zones and restaurants in these areas were required to remain closed, which impacted sales in such locations.

Q3 Fiscal 2021: In Q3 Fiscal 2021, the food services market has shown healthy growth in the sales figures as more cities have started opening up and many restaurants were allowed to open again for dine-in services, and restrictions on opening hours have also been removed in many cities which contributed to the increase in sales of the food services market.

Q4 Fiscal 2021: In Q4 Fiscal 2021, any restrictions on the food services market is expected to be removed by the government but new safety regulations are expected to be imposed and social distancing will remain. The unorganised food services market is expected to continue to be impacted heavily due to the social distancing and safety and hygiene requirements imposed, and it is expected that the participants in organized food services, such as the QSR chains, will be able to absorb the demand by the consumers of unorganized food services. In this quarter, the food services market is expected to recover to almost 70% of the pre-COVID-19 level. The growth in this segment will be led by market participants in organized food services, such as the QSR chains, cafés, cloud kitchens, etc. and the organized market is expected to recover to approximately 72% of the pre-COVID- 19 level.

Impact of COVID-19 on the various market participants in the food services industry

QSR: QSRs, particular the chain QSRs, were the first to demonstrate recovery from the impacts of COVID-19. Chain QSRs, including Burger King, generally have the infrastructure and process for delivery services in place long before the COVID-19 crisis and were able to adapt to the government restrictions swiftly. Therefore, while dine-in services had been affected the chain QSRs were able to maintain growth and revenues through enhancing their delivery services. Consumers are also more inclined to order from reputable international QSR chains given they generally maintain high hygiene and safety standards. Sales recovery for QSR brands started as early as May 2020 when home delivery of food was allowed. The COVID-19 pandemic has not only accelerated ‘Delivery’ significantly but also ‘Takeaway’. Dominos’ overall system sales increased by 24% in April 2020 in comparison to the same period last year, with ‘Delivery’, ‘Takeaway’ and ‘Dine-in’ system sales increasing by 47%, 3.6% and 0.2%, respectively, in comparison to the same period last year. In August, Dominos overall system sales increased by 84% and ‘Delivery’, ‘Takeaway’ and ‘Dine-in’ increased by 110%, 154% and 16%, respectively, in comparison to the same period last year. Other QSR chains such as McDonalds, Burger King, etc. are also recovering in sales as most of their outlets had opened up by the end of second quarter of Fiscal 2021 and there has been significant growth in the share of ‘Delivery’ and ‘Takeaway’ for them.

During lockdown, dine-in services were mostly shut down. As sales through dine-in were affected, new sales channels emerged. Apart from delivery, sales through drive-through, on-the-go, takeaway were also showing rapid growth.

Café and CDR: Café and CDR were typically known for their dine-in experience and generally did not offer delivery or takeaway services, so they were not as adaptive to the safety measures and social distancing imposed by the government and the new ways of serving

customers in response to COVID-19. As the situation demanded, they have inevitably also began to offer delivery services. Café and CDR have also been recovering from the impacts of COVID-19, albeit relatively slowly.

PBCL and Fine Dining: PBCL and fine dining restaurants were significantly impacted by COVID-19 as most of them stayed closed till the end of July 2020 and in some parts of the country till Oct 2020. Moreover, even after they have re-opened, customers have been hesitant to visit given ongoing concerns.

Cloud Kitchens and Food Delivery Platforms: Cloud Kitchens and food delivery platforms, such as Zomato and Swiggy, played an important role during the lockdown to serving consumer needs. As of October 2020, Zomato and Swiggy have both recovered to nearly 100% of their pre-COVID-19 levels of sales.

Unorganized Segment: The unorganized segment, which primarily includes dhabas, roadside small eateries, hawkers and street stalls was the segment within the food services market that was most significantly impacted by COVID-19. It is estimated that this segment will be the last to demonstrate recovery in sales primarily due to consumers' concerns over hygiene and food safety, and small business owners are less likely to have sufficient working capital to sustain them through the business downturn.

Quarter-wise analysis of the Food Services Market

As the COVID-19 cases begin to reduce in the country and the progress made in vaccine development, it is estimated that the Food Services Market will regain by Q2 Fiscal 2022 approximately 99% of the market as compared to the same period in Fiscal 2020 and by Q3 and Q4 Fiscal 2022 approximately 110% of the market as compared to the same periods in Fiscal 2020.

Geographical distribution

In terms of geographical distribution, Delhi and Mumbai, the two mega metros in India, contributed a total of 21.9% of the total revenue of the food services market in Fiscal 2020, while the six mini metros contributed approximately 20.8% of the total revenue of the segment during the same period. The largest eight cities of India have been the center of development, in particular for the organized food services market. Delhi and Mumbai accounted for approximately 42% of the total revenue of the chain food services market in India in Fiscal 2020, and when combined with the next six cities (Kolkata, Bengaluru, Chennai, Hyderabad, Pune and Ahmedabad) they accounted for approximately 87% of the total revenue of the chain food services market during the same period. This has been driven by increased economic activity, rising disposable income, a shift in lifestyle pushing for a higher need for convenience and an increase of women in the workforce. Delhi and Mumbai accounted for approximately 27% of the total revenue of the standalone food services market in India in Fiscal 2020, and when combined with the next six cities they accounted for approximately 50% of the total revenue of the standalone food services market during the same period. In addition, the food services market has expanded beyond the mega and mini metros with an increased presence of QSR and CDR in Tier I and Tier II cities, driven partly by a lack of quality real estate in mega and mini metros, increased competition in these cities as well as higher disposable incomes paired with high aspirational value of the younger population. Tier I and Tier II cities have emerged as new urban powerhouses with higher disposable incomes clubbed with high aspirational values of the youth, fuelling growth of food service.

Overview of operating models in the food services market in India

The food services market in India has evolved from home grown, standalone, family-run business ventures to international partnerships with multipolar and integrated business models. Players in the food services market in India currently operate under four key business models:

Master franchise: the traditional franchising model remains one of the most attractive operating models for international brands entering the Indian market. Under this model, the international brand helps the franchisee set up the business by sharing its technical knowhow and lending the brand name. The investment is limited to pre-operative expenses such as supplier development, franchisee training, location assessment and consulting expenses. In return, the international brand charges a royalty fee from the franchisee. In certain instances, franchisees are allowed to operate a system of sub-franchises. The master franchisee is also allowed to make small alterations in the size of the format based on availability of real estate and for better unit economics in certain areas such as metro stations, tier II cities, highway locations, etc. Examples of companies operating under this business model in India include Domino's Pizza and Subway.

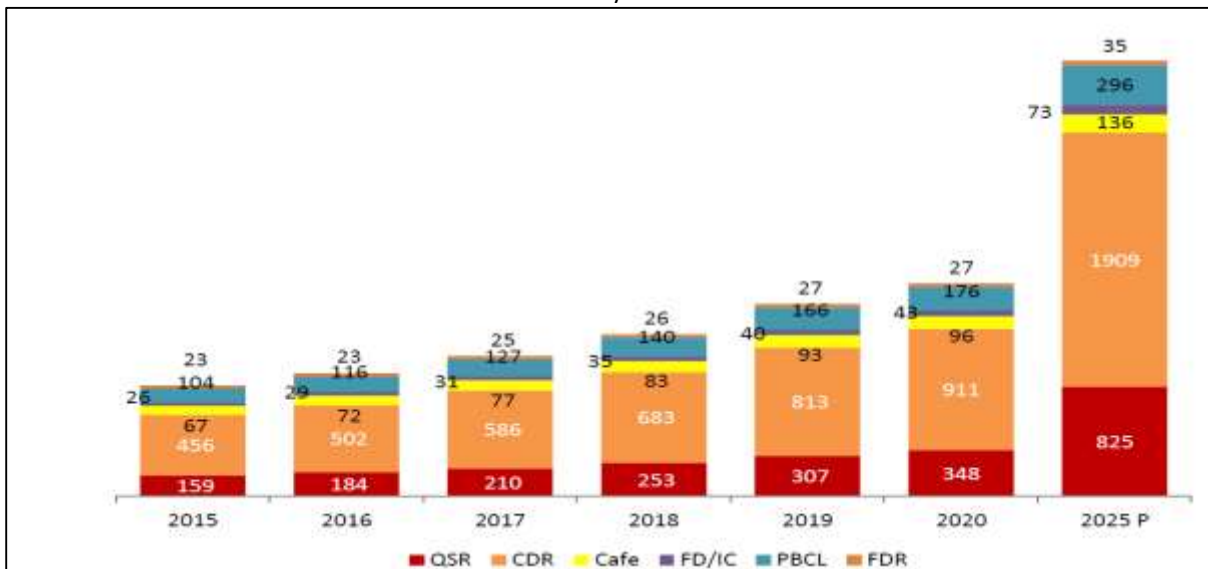
Company owned and franchise: this model is very similar to the master franchise model. The key difference is that the international brand establishes its own representative office in the country and helps the franchisee in setting up its business. In addition to pre-operative expenses typically incurred in the master franchise, this model also requires the international brand to incur expenses related to setting up the representative office. The representative office has a team that is in close relationship with the franchisee and is responsible for creating and maintaining the brand image. Examples of companies operating under this model in India include Pizza Hut and Jumbo King.

100% company owned: under this model the brands set up their business with their own investment and, as a result, have full control of the operation of the business. The downside to this model is that it is capital intensive and, therefore, prone to high financial risk. The company is responsible for all operational aspects of running the business, including creating brand awareness, product development and quality control. This model tends to be more popular with brands that continue to be family run, business that operate under a niche concept or consider consistent service across outlets as a critical factor of operation. Examples of companies operating under this model in India include Café Coffee Day and Barbeque Nation. Some of the companies operating under this model are starting to create a hybrid between the 100% company owned and the franchise model, the franchisee owned company operated model, under which the franchisee develops an outlet which is then run by the brand in return for a percentage in the share of the overall revenue.

Joint venture: under this model, the international brand enters into a joint venture agreement with a local entity to create a new entity which operates as master franchisee for the operation of the international brand in the country. The local partner has deep understanding of the consumer behavior in the country and provides real estate to the international brand, as well as setting up the supply chain, which allows the international brand for a faster scale in the country. Companies operating under the joint venture model are allowed to make small alterations in the size of the format based on availability of real estate and for better unit economics in certain areas such as metro stations, tier II cities, highway locations, etc. Examples of companies operating under this model in India include Starbucks, Burger King and TGI Friday's.

Organized food services market overview

The organized food services market in India (chain and standalone outlets, excluding restaurants in hotels) was estimated at Rs.1,600 billion in Fiscal 2020 and is projected to grow at a CAGR of 15.4% to Rs.3,275 billion by Fiscal 2025, and is expected to increase its share of the total market from 37.8% in Fiscal 2020 to 50.3% by Fiscal 2025.



Chain market

The chain market in India has evolved and witnessed a majority of changeover during the last three decades. The transition phase of the chain market can be divided into 3 stages as set out in the table below:



Growth in the chain market is expected to be driven in the next five years by an increase in presence of international brands, strengthening of back end infrastructure, acceptance of new cuisines, changing lifestyles and aspirations and the emergence of entrepreneurial ventures in these segments. Due to COVID-19, consumers have become more cautious towards hygiene and safety issues, and the chain QSRs or CDRs positioned themselves to meet all the heightened requirements in relation to food quality, service standards, processes and delivery capabilities to capture the opportunities that arise due to the consumers more cautious dining habits, particularly as in the post-COVID-19 world, while some consumers are expected to go back to the unorganized sector, there will be

others who permanently shift from the unorganized sector to the organized sector. This gap created by unorganized sector can be easily serviced by the chain QSR and CDRs.

The QSR and CDR sub-segments had a combined market share of the total chain market of 76% and 81% in Fiscal 2015 and Fiscal 2020, respectively, and are expected to have a combined market share of 86% by Fiscal 2025. The QSR sub-segment is expected to grow driven by economic growth, demographic, cultural and lifestyle changes and increased penetration in Tier II and Tier III cities, which is expected to be facilitated by improved supply chains, innovation and customisation in operating models and store sizes.

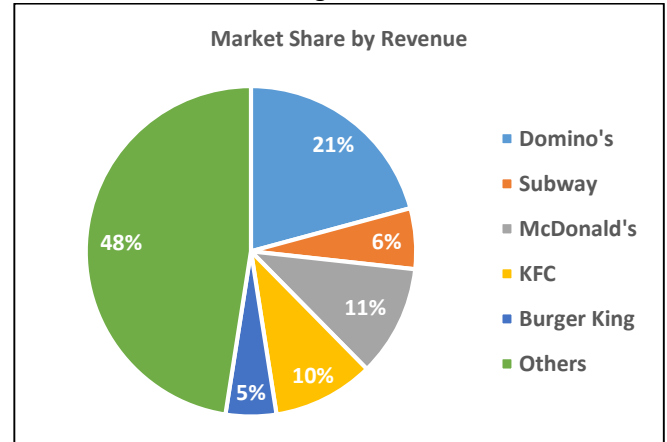
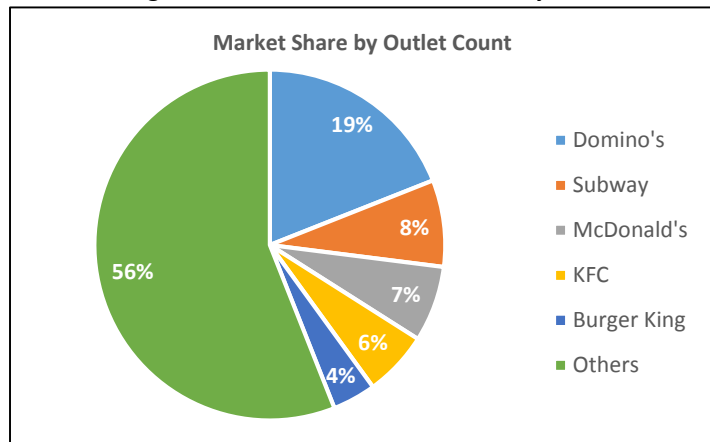
Indian organized QSR sub-segment

The organized QSR sub-segment in India was estimated at Rs.348 billion in Fiscal 2020 and is projected to grow at a CAGR of 19% to Rs.825 billion by Fiscal 2025. Growth in the QSR sub-segment is expected to be driven by the chain QSR market, which was approximately 54% of the total QSR sub-segment in Fiscal 2020 and is estimated to be approximately 64% of the total QSR sub-segment by Fiscal 2025. The historical growth of chain QSR has primarily been driven by international brands such as Domino's Pizza, McDonald's, Burger King, KFC and Subway, which combined account for approximately 44% of the total chain outlets in India as of Fiscal 2020.

Chain QSR market

In order to remain competitive in a growing market, achieve scale and increase consumer acceptance, most of the QSR companies are adjusting their offerings (including flavours, pricing and services) to meet the demands of the Indian market. Amongst the initiatives to achieve these goals are the opening of vegetarian restaurants in certain parts of the country, the creation of non-beef and non-pork based menus, the separation of vegetarian and non-vegetarian cooking areas, the introduction of local flavors to the menu, the roll-out of home delivery services and the setting of India-centric pricing with affordable entry level products in the menu. Domino's Pizza has achieved the largest market share of the chain QSR sub-segment by number of outlets (19% in Fiscal 2020) due to aggressive marketing, an attractive value proposition and a strong home delivery network. They are followed by Subway (8% in Fiscal 2020), McDonald's (7% in Fiscal 2020), KFC (6% in Fiscal 2020) and Burger King (4% in Fiscal 2020), a relatively new entrant that has increased its count in the shortest span of time as compared to other international QSR companies and has become a prominent player in the QSR sub-segment. In terms of sales, Domino's Pizza has the largest market share of the chain QSR sub-segment by revenue (21% in Fiscal 2020) followed by McDonald's (11% in Fiscal 2020), KFC (10% in Fiscal 2020), Subway (6% in Fiscal 2020) and Burger King (5% in Fiscal 2020).

The following charts set out the market share by outlet count and by revenue in the chain QSR sub-segment in Fiscal 2020:



Growth drivers and trends in the food services market

Industry drivers

Increasing availability of retail space leading to food services market expansion

Companies in the food services market operate in a variety of locations, including malls, high streets, office complexes, highways, hospitals, airports, etc. Malls and high streets have traditionally been the preferred locations for the food services market. The sustained growth of online shopping has resulted in brick and mortar retailers rationalizing their retail space, thereby increasing availability for food and services market companies in the organized retail environment. This has resulted in food services market to emerge as a key sector driving the retail space and being a leading segment to increase footfalls in malls or high streets. Malls are leasing prime floor space to increase the number of food and services companies in their buildings due to the high revenues generated from the food services market. It is estimated that during Fiscal 2018 approximately 20% to 25% of total mall space was leased to food and services market outlets. In addition, the concept of food courts inside mall spaces has historically been successful and is expected to continue to attract large numbers of people. Before the COVID-19 pandemic, it was estimated that by the end of Fiscal 2021 there will be an increase in available space of approximately 2 million square feet for expansion of the food services market in malls in the top seven largest cities in India. However, as a result of the COVID-19 crisis, future supply of available spaces has been disrupted due to the shortage of the

required labor force and financial means, and the estimated approximately 2 million square feet of available space are now expected to come through by the end of Fiscal 2023.

There is a growing trend to increase the presence of food services market outlets in highways, railway stations, metro rail stations and airports driven partly by an increase in the trend of the mini-vacation to nearby destinations within 200 to 300 kilometers for weekend getaways. Highways have seen rapid growth in passenger traffic with improvement in infrastructure resulting in increased penetration of food and services market outlets at strategic locations. Highways are preferred by companies in the QSR sub-segment compared to companies in the CDR sub-segment due to ease of operations and setting-up outlets as well as the ability to dispense food at a faster pace to customers who do not wish to spend a long time at a spot in the middle of their journey. In addition, companies in the QSR sub-segment leverage their presence on highways to increase brand visibility with the aim to increase penetration into Tier II and Tier III cities. The National Highway Authority of India has developed a scheme called WASA (wayside amenities), which will be leased for development with a particular focus on the food services market, in order to benefit from increasing traffic in highways across the country.

Air and rail transportation has registered a continuous growth in India, which is driving an increase in food services market outlets in stations and airports, with companies developing new concepts, menus, service style and use of technology to cater to consumers with limited time availability. Various schemes have been put in place by the government to encourage travel growth, including the Railway Ministry's plan to redevelop 90 railway stations across the country to transform them into world class transit hubs; a programme to connect regional cities by way of a low-cost airline services, which already operates 325 routes in 19 states; and the approval of 15 new airports to release congestion on existing airports.

Increasing eating-out and ordering-in behavior

There is an increasing trend in urban cities in India, across all economic classes, to eat out without the need for a special occasion but rather as part of a shopping experience or a leisure outing. Indians are expecting not only to enjoy a meal but also to socialize and experiment various cuisines. This trend is particularly strong with population in the millennial age group of 15 to 34 years of age, which during Fiscal 2020 ate out approximately twice per month and ordered in approximately once per month. India has the highest number of millennials in the world, and the millennial population of India is expected to grow at a faster rate than other groups, which is likely to drive further growth in eating out behavior among Indian consumers.

Growth of online food delivery and food tech

The Restaurant-to-Consumer Delivery segment includes the delivery of meals carried out directly by the restaurants. The order may be made via platforms or directly through a restaurant website or app (e.g., Burger King). The Platform-to-Consumer Delivery segment focuses on online delivery services that provide customers with meals from partner restaurants that do not necessarily have to offer food delivery themselves. In this case, the platforms (e.g., Zomato, Swiggy, etc.) handle the delivery process

The overall delivery market in India is expected to grow at a CAGR of 12.2% to reach US\$18.1 billion by Fiscal 2025 from US\$10.2 billion in Fiscal 2020, which is up from US\$4.7 billion in Fiscal 2016, representing a CAGR of 21.4% between FY 2016 and 2020. Platform-to-Consumer Delivery segment has shown the strongest growth between both delivery business models, growing at a CAGR of 100% between Fiscal 2016 and Fiscal 2020, a trend that is expected to continue at a CAGR of 15.1% to reach US\$9.7 billion by Fiscal 2025 from US\$4.8 billion in Fiscal 2020. Prior to the COVID-19 pandemic, the growth of the Platform-to-Consumer Delivery segment between 2020 and 2025 was estimated to be 13%, but the projected growth rate has increased to 15.1% following the pandemic primarily due to consumers' preference for food delivery over dine-in during this period. Similarly, prior to the COVID-19 pandemic, the growth of the Restaurant-to-Consumer Delivery segment between 2020 and 2025 was estimated to be 7%, but the projected growth rate has increased to 9.2% following the pandemic, which is primarily attributable to the restaurants increased focus on hygienic and safe delivery, which motivated a lot of consumers to order directly from restaurants through their websites and/or apps.

In addition to factors such as busy lifestyle and increase of disposable income, a rise in the use of smart phones and higher internet penetration in India are expected to continue to drive growth in the Indian food services market. Internet in India had a reach of over 535 million users in Fiscal 2018 and is expected to exceed 700 million users by Fiscal 2020. Smartphone penetration is growing at a similar pace, with an estimated 340 million users in Fiscal 2018 and expected to exceed 490 million users by Fiscal 2020. The table below sets out internet and smartphone penetration in India in Fiscals 2017, 2018 and 2019: Internet penetration and increased smartphone usage paired with demonetization implemented in November 2016 boosted an increase in digital payments. Digital wallets like Paytm, Mobikwik and PhonePe fuelled the growth of digital transactions across different sectors. The rise of digital commerce, innovation in payments, real time payment and mobile point of sale have contributed to growth of digital payment across the food services market. According to a study by Assocham-PWC India, digital payments in India will more than double to reach US\$135.2 Bn. by Fiscal 2023 from US\$64.8 Bn in Fiscal 2019

The impact of technology in the food services market is not limited to a shift in the online delivery business models, but has driven the emergence of new businesses such as restaurant discovery platforms (directories, business reviews and opinions available through

online platforms), cloud-based kitchens (delivery-only kitchens that focus their offering on a health-aware, younger, more sophisticated population providing better quality meals at affordable prices, without the need to pay high rental and capital expenditures required for dine-in restaurants) and online table reservation (platforms that allow users to book tables in restaurants online).

Challenges and opportunities in the Indian food services market

Fragmented market and increasing competition: the Indian food market services is highly fragmented with many unorganized companies that contribute 62% of the total food services market by revenue. Customer loyalty is low for small and mid-sized restaurants due to a number of factors such as lack of best practices in maintaining adequate hygiene standards and an increase in consumers desiring to try new experiences. This market fragmentation has facilitated international and domestic chains to grow at a fast pace, growing their market share from 5% in Fiscal 2014 to 8% in Fiscal 2019 and expected to grow to 13% by Fiscal 2024. Players in the chain market with robust food safety and hygiene standards, strong operating procedures consistent taste and flavor and global best practices are winning consumer loyalty and have higher customer retention rates.

Shortage of skilled staff and high attrition: the food services market is labor intensive, but has a shortage of trained manpower. Direct restaurant employment in India in Fiscal 2020 was estimated to be 8.4 million and is expected to reach 11.8 million by Fiscal 2025, a requirement of approximately 650,000 skilled workers in the market every year. However, it is estimated that only 50,000 to 60,000 of graduates focus their career in the hospitality sector every year. Within the hospitality sector, restaurants require the highest number of workers and this share is expected to increase by Fiscal 2022. This leaves an important gap requirement for talented manpower which is likely to be filled with unskilled workers, leading to a decrease in the quality of service provided to consumers. The shortage of skilled manpower paired with an attrition rate in the market of 35% to 40%, the cost of manpower is high. The international brands such as Domino's Pizza, Pizza Hut, McDonald's and Burger King have created strong in-house training programmes to address the demand and supply gap. These programmes focus on building efficiencies, customer satisfaction, developing interpersonal skills and cross-functional trainings, and have helped improve staff's motivation and loyalty to the brand. In-house training programmes also have the benefit of tackling attrition as attrition rate is low in staff that has undertaken a training programme and has acquired new skill sets. During the lockdown due to COVID-19, there was a trend of both skilled and unskilled workers moving away from urban areas to rural areas due to loss of work, which caused pressure on the supply of manpower. But this is expected to be temporary as once the economy recovers, the workers will likely be moving back to the urban areas.

High real estate prices: rentals are the second highest cost component after raw materials for most companies in the food services industry, accounting for approximately 12% to 15% and, occasionally, as high as 20% of total revenue. For over a decade, real estate prices in India have been increasing driven by higher demand and availability of easy credit. High real estate prices are exerting pressure on the profitability of companies in the food services market and deterring the growth of their outlets. Due to COVID-19, rental prices have come down for a number of malls and high street spaces and in some cases rent waivers were granted during the lockdown. As the lockdown restrictions ease and restaurants resume operation, some mall owners and landlords might look to a revenue-sharing model for rent payments. And it is expected that real estate prices will be lower than pre-COVID-19 levels.

Government and regulatory: Over-licensing: a player entering the Indian food services market requires 12 to 15 licenses from various authorities, a process that is not centralized and requires filing applications with individual stakeholders involving a lot of paperwork and time.

Food safety concerns: awareness about health and nutrition, as well as frequent cases of food poisoning, food adulteration and compromised food quality have raised concerns about hygiene standards have driven the Food Safety and Standards Authority of India ("FSSAI") in 2018 to identify a list of 144 unorganized restaurants and street food stalls for audit on cleanliness and hygiene. In 2019, street food hubs in areas such as Telangana, Gurgaon (Haryana) and Varanasi, Lucknow (U.P.) were added to the list for audit. FSSAI is playing an active role in addressing food safety concerns by educating players in the food services market and has made it mandatory for restaurants to prominently display food safety boards, including dos and don'ts with respect to hygiene, sanitation and good manufacturing practices, in addition to employing a trained food safety supervisor in their premises. FSSAI is also accelerating the registration process for food business operators ("FBOs") to ensure compliance with its standards and guidelines. It is estimated that, of the 2.5 million FBOs in India, only approximately 0.5 million have a FSSAI license. Chain QSR players, particularly international brands, have stringent food safety compliance procedures and comply with all Indian rules and regulations, which has helped them build a strong brand loyalty. These brands, together with their supply chain partners, are continuously working towards farm-to-fork traceability to ensure delivering food that is fresh, safe, hygienic and traceable to its origin. The safety awareness generated by FSSAI has driven consumers to choose formats that comply with strict food safety norms. It is expected that this awareness will enable the organized food services market to grow at a faster pace compared to the unorganized market.

Goods and Services Tax ("GST"): the tax regime for companies in the food services market in India has changed significantly in the last couple of years replacing a variety of taxes (such as VAT and service tax) and introducing a single GST for all restaurants, becoming a driver of growth in the food services market providing relief to customers and restaurant operators.

Gap created by the unorganized market: during the COVID-19 pandemic, hygiene and safety in the food industry have become prime concerns for many people. Consumers are likely to be less willing to dine at restaurants in the unorganized segment as a result going forward. This gap in the market is expected to be filled by market participant in the organized segment such as the QSRs and ACDRs.

Post-COVID-19 protocols: the government is expected to impose heightened measures in relation to sanitization in kitchen spaces, dining facilities, delivery services and other related areas, which is expected to put pressure on operational costs on the market participants to ensure compliance

Consistent growth of Indian and international brands

The growing Indian population provides untapped potential to international companies, which has encouraged them to move into the Indian food services market. These companies initially concentrated in the mega and mini metros and the Tier I cities, but over the past four to five years they have further expanded into Tier II and Tier III cities. The chain market is currently dominated by the QSR sub-segment, followed by the CDR and the Café sub-segments. The QSR sub-segment is dominated by Domino's Pizza, which had approximately 19% of market share by number of outlets as of September 30, 2020. The Indian market has reacted positively to the entry of American cuisine restaurants, in particular burger, chicken and sandwich companies, such as McDonald's, Subway, Burger King and KFC. These large chains have successfully expanded into Tier II and Tier III cities, although there is a high concentration (approximately 50%) in mega and mini metros (across sub-segments and across companies). Public listing has also had a positive effect in helping companies increase their footprint at a rapid scale. Outlet growth of Domino's Pizza and McDonald's following their initial public offerings grew at a CAGR of 16% and 10%, respectively, to December 31, 2019, and Café Coffee Day outlet count grew at a CAGR of 4% between its initial public offering and Fiscal 2019.

QSR sub-segment landscape

Presence of key international brands

The organized chain market counts more than 100 brands with over 7,000 outlets spread across various cities in India. The international companies have been able to scale their operations across the country given their strong supply chain, established standard operating procedures, global best practices and product innovation and benefit from increased habits of eating out amongst the Indian consumers. International companies have experimented with multiple formats and cuisine offerings, and have successfully introduced products that cater to the palate of Indian consumers (e.g., wraps by Domino's Pizza, Big Boss and Masala Whopper by Burger King, KFC Rice Bowl) allowing them to increase their presence across various high footfall destinations and to capture increased consumer traffic through different formats. The table below sets out the business model of the key brands in India:

Growth of key brands in India

The number of outlets by established international brands has grown at a rate of 1.1 to 1.5 times between Fiscal 2015 and Fiscal 2020. During the same period, Burger King, a relatively new entrant in the Indian Market, has exponentially grown at a rate of 21.6 times. Compared to other international brands, Burger King is one of the fastest growing international chains in the QSR sub-segment over the last five years and is the fastest Indian QSR player to reach 250 restaurants among international QSR brands in India during the first five years of operation.

Revenue growth of key brands

McDonald's is the category leader in Burger & Sandwiches with close to 42% market share in the category and the revenue of McDonald's has grown at a CAGR of 17% between 2016 and 2020. The category has outpaced the growth of market leader due to entry of newer players such as Burger King (revenue of Burger King has grown at a CAGR of 56.3% between 2016 and 2020), Wat-a-burger, etc. In the Pizza category in the chain QSR segment, the growth is driven by Domino's with a market share of approximately 80%. Domino's has outpaced the growth of category by filling in the void created by exit of other pizza brands such as Papa John's.

Same Store Sales Growth of key brands

The Same Store Sales Growth ("SSSG") was impacted due to policy reforms taken by the Indian government in Fiscal 2016 and Fiscal 2017. These policies had the aim of tackling the shadow economy and the use of counterfeit currency and the implementation of the GST. These measures have had a positive impact on economic activity and an increase in consumption, which have led to an increase in SSSG in Fiscal 2018 and Fiscal 2019.

Geographical penetration of chain brands

It is estimated that as of September 2019 the chain QSR sub-segment has around 7,000 outlets compared with approximately 3,000 to 3,500 in Fiscal 2016. Mini metros have the highest presence of chain QSR outlets (37% as of Fiscal 2019) followed by mega metros (34% as of the same period) and the remaining 29% market share in the same period is accounted for Tier I and Tier II cities. Approximately 65% of the outlets of the key brands are located in the northern (33%) and southern (31%) regions of the country, followed by the western region (28%), driven largely by higher disposable incomes, ease of accessibility, higher share of organized retail and aspirational demographics in these regions.

Key Concerns:

- The outbreak of the 2019 novel coronavirus (“COVID-19”) pandemic, as well as GoI measures to reduce the spread of COVID-19, have had a substantial impact on restaurant operations and the timing of how long the COVID- 19 pandemic and the related GoI measures will last is still uncertain.
- Real and perceived health concerns arising from food-borne illnesses, health epidemics, food quality, allergic reactions or other negative food-related incidents could have a material adverse effect on BKIL’s business, results of operations, financial condition and prospects.
- BKIL’s exclusive right to develop, operate and franchise Burger King restaurants in India depends on the Master Franchise and Development Agreement, which imposes certain restrictions and other obligations on operations that could adversely affect the business, results of operations, financial condition and prospects.
- The termination of Master Franchise and Development Agreement would have a material adverse effect on the business, results of operations, financial condition and prospects.
- Demand for products may decrease due to changes in consumer preferences and food habits, which could have a material adverse effect on the business, results of operations, and financial condition.
- Business of BKIL depends in part on the continued international success and reputation of the Burger King brand globally, and any negative impact on the Burger King brand may adversely affect the business, results of operations and financial condition.
- Deterioration in the performance of, or BKIL’s relationships with, third-party delivery aggregators, may adversely affect the business, results of operations and financial condition.
- Rely on a single third-party distributor for the purchase, supply and delivery of most of its ingredients and packaging materials and if it is required to source ingredients or packaging materials from alternative distributors, deliveries to certain of its restaurants may be disrupted or delayed, which could adversely affect its operations and have an adverse effect on the business, results of operations and financial condition.
- BKIL may not be able to identify suitable locations and successfully develop and roll out new restaurants, and its expansion into new regions and markets may present increased risks due to its unfamiliarity with the areas in which its restaurants are located.
- BKIL’s new restaurants may not be profitable or perform as planned and could also adversely impact sales in its existing restaurants, which could adversely affect the business, results of operations and financial condition.
- The Company does not have operational or financial control over the businesses of its sub-franchisees, and they could take actions that could harm the business.
- The success of business strategy depends on the ability to establish, deliver and maintain value leadership strategy, the failure of which could have a material adverse effect on the business, results of operations and financial condition.
- Changes in governmental regulation or public perception with respect to healthy eating habits could adversely affect the business, results of operations and financial condition.
- Any failure to maintain effective quality control systems or protocols for supply chain or restaurants could have a material adverse effect on the business, reputation, results of operations and financial condition.
- Marketing and advertising campaigns may not be effective in increasing brand awareness and the effectiveness of competitors’ advertising and promotional programs could adversely affect the competitive position.
- Failure to obtain or maintain or renew licenses, registrations, permits and approvals in a timely manner or at all may adversely affect the business and results of operations.
- Dependent on the adequate and timely delivery of quality ingredients, packaging materials and other necessary supplies and if BKIL’s suppliers fail to provide with sufficient quality and quantities of ingredients, packaging materials and other necessary supplies, its business, results of operations and financial condition could be adversely affected.

- Increasing cost of ingredients or packaging materials and other costs could adversely affect the profitability.
- A failure to protect the Burger King brand, as well as other intellectual property rights and proprietary information in India could adversely affect the business, results of operations and financial condition.
- The arrangements with respect to restaurant sites may expose to potential losses, liabilities and increased costs, which may in turn adversely affect the business, financial condition, results of operations and prospects.
- Business is dependent on certain material agreements, which may affect the business, results of operations and financial condition.
- Success depends significantly on senior management and other skilled personnel, and it may be adversely affected if it lose their services without finding equally skilled replacements.
- The QSR industry in India is competitive, and the business and financial results may be adversely affected by actions of its competitors and its failure to respond to competitive pressures.
- Business may be adversely affected by changes in general macroeconomic and demographic factors in India.
- Increases in labour costs in India or failure to attract, motivate and retain qualified managers could adversely affect the business, results of operations and financial condition.
- Inability or failure to recognise, respond to and effectively manage the accelerated impact of social media could materially adversely affect the business.
- If BKIL is unable to protect its credit card or debit card data or any data related to any other electronic mode of payment, or any other personal information that it collect, its reputation could be significantly harmed.
- If the Company is unable to comply with health, safety and environmental regulations, its business, results of operations and reputation could be adversely affected.
- Any disruption in power supply to the restaurants or increase in power and fuel tariffs may have an adverse effect on the business, results of operations and financial condition.
- BKIL may be unable to accurately forecast demand for its products, which could have a material adverse impact on its brand, profit margins and results of operations.
- A slowdown in economic growth in India could cause the business to suffer.
- Changing laws, rules and regulations and legal uncertainties, including adverse application of corporate and tax laws, may adversely affect the business, financial condition, results of operations and prospects.
- Financial instability in other countries may cause increased volatility in Indian financial markets.

Profit & Loss

Particulars (Rs in Million)	H1FY21	FY20	FY19	FY18
Revenue from Operations	1352.1	8412.4	6327.4	3781.2
Other Income	164.4	55.9	114.0	106.2
Total Income	1516.5	8468.3	6441.3	3887.4
Total Expenditure	1639.4	7372.3	5537.5	3700.0
Cost of materials consumed	491.9	3014.9	2300.8	1438.5
Employee benefits expense	517.1	1365.0	968.6	704.3
Other expenses	630.4	2992.3	2268.1	1557.1
PBIDT	-122.9	1096.0	903.8	187.4
Interest	423.9	654.5	464.5	369.4
PBDT	-546.7	441.5	439.3	-182.0
Depreciation	621.4	1163.7	822.1	640.4
PBT	-1168.2	-722.3	-382.8	-822.3
Exceptional items	21.3	43.5	0.0	0.0
Tax (incl. DT & FBT)	0.0	0.0	0.0	0.0

Current tax	0.0	0.0	0.0	0.0
Deferred tax (credit)/ charge	0.0	0.0	0.0	0.0
PAT	-1189.5	-765.7	-382.8	-822.3
EPS (Rs.)	-4.1	-2.8	-1.4	-3.1
Equity	2909.4	2777.4	2650.0	2650.0
Face Value	10.0	10.0	10.0	10.0
OPM (%)	-21.2	12.4	12.5	2.1
PATM (%)	-88.0	-9.1	-6.0	-21.7

(Source:RHP)

Balance Sheet

Particulars (Rs in Million)	H1FY21	FY20	FY19	FY18
Non-current assets				
Property, plant and equipment	4591.2	4742.3	3475.4	2401.6
Right-of-use assets	5,216.76	5379.5	4292.3	3433.5
Capital work-in-progress	411.5	475.6	202.4	103.2
Intangible assets	255.5	245.0	157.9	88.0
Financial Assets				
Loans	296.3	291.0	213.1	161.4
Other financial assets	0.4	0.9	0.6	0.3
Income tax assets (net)	2.5	10.4	8.2	6.0
Other non-current assets	33.3	33.1	39.5	18.9
Total Non-Current Assets	10807.3	11177.9	8389.2	6212.9
Current assets				
Inventories	80.5	94.34	68.56	51.88
Financial Asset				
Investments	280.2	185.8	384.1	868.9
Trade and other receivables	67.2	32.2	59.0	25.9
Cash and cash equivalents	91.8	40.5	158.6	72.0
Bank Balances other than Cash and Cash Equivalents	241.8	239.9	1.6	1.9
Other financial assets	4.9	12.3	29.7	13.3
Other current assets	197.6	194.2	114.0	56.8
Total current Assets	963.9	799.2	815.5	1090.7
Total Assets	11771.2	11977.1	9204.7	7303.6
EQUITY AND LIABILITIES				
Equity				
Equity share capital	2909.4	2777.4	2650.0	2650.0
Other Equity	-720.5	-23.2	-153.5	221.3
Total Equity	2188.9	2754.3	2496.5	2871.3
Non-current liabilities				
Financial liabilities				
Borrowings	1759.9	1787.9	0.0	0.0
Lease liabilities	5616.6	5665.5	4508.4	3522.8
Provisions	196.6	187.3	51.8	33.2
Long-term provisions	7.5	8.2	7.9	7.3
Total Non-Current liabilities	7580.6	7648.8	4568.3	3563.4
Current liabilities				
Trade payables				
Borrowings	197.7	197.3	1000.0	0.0
Micro and small enterprises	5.3	5.4	0.0	0.0
Others	1255.4	810.7	609.0	434.1
Lease liabilities	266.5	312.0	231.8	177.4
Other financial liabilities	197.4	153.5	222.2	157.4
Provisions	37.2	32.9	23.8	17.0
Other current liabilities	42.2	62.3	53.5	82.9
Total Current Liabilities	2001.7	1574.0	2140.2	868.8
Total Liabilities	9582.3	9222.8	6708.6	4432.2
Total Equity and Liabilities	11771.2	11977.1	9204.7	7303.6

(Source:RHP)

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