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India | Equity Research | Sector Update

## Consumer Staples & Discretionary

### Worm's world view #54: Conversations with QSR chains in Chennai

In this report, we highlight on-the-ground interactions with area / store managers of certain QSR brands in Chennai. We delve further by interacting with dine-in consumers to understand their choice and preference of brands and their average wallet share to these brands on dine-in / delivery. We believe (i) market competition is fierce from local players on price points and brands are competing closely through attractive combos and offers; (ii) the regions are witnessing growth with improved ADS and ATV through improved dine-in and delivery compared to YoY and QoQ (KFC, Popeyes, PH, Dominos); iii) IPL may be an add-on growth factor to improve the ticket size further in Q1FY25 with consumers preferring to order their meal at home and (iv) attractive combos, discounts (eg: KFC lunch combo) and new product launches (flavours) are benefiting brands with improved consumer confidence, rising growth and ADS. We remain constructive on **JUBI** and **Sapphire**.

#### Demand stable with favourable consumer preference

Overall demand remains stable with mid-single-digit growth for certain key brands in Q4FY24 (TD). Brands with portfolio skewed more towards non-veg witnessed moderation between mid-Sep and mid-Oct on account of Purattasi (a Tamil Nadu-based festive month). Our interactions with consumers of certain key brands suggest a visible shift from casual dining restaurants (from biryani's and other Chettinad flavour's) to QSR format due to the Indianisation of flavours and taste. This shift enables them to increase the frequency of orders (dine out / delivery) as the ATV is lower in QSR vis à vis casual dining. With the upcoming IPL frenzy, we expect a rise in consumption of branded QSR players leading to an increase in Q1FY25 ADS through delivery channels.

#### Brands lure consumers with pricing strategy and new product launch

KFC launching its Lunch special combo (11AM to 4PM) at INR 149 has improved its footfall and enabled customer traction. Its **chizza**, a success with stores, is selling ~8-10% of its portfolio every day (priced at INR 300). On Wednesday, Saturday and Sunday, KFC stores are witnessing improved traffic with ADS of ~INR 0.23mn. The brand contributes 85% of revenue from non-veg while 15% from veg. Pizza Hut launched **Melts**, a unique thin crust pizza, starting at INR 169 which is auguring well in the street. It's Don't Cook Wednesday promotion offers 50% discount on any medium pizza. QSR brands are promoting the concept of eating out mid-week (a transition from weekend dine-out) which is enabling these brands to grow.

#### Premiumisation-driven growth

With competition intensifying and consumers' increased frequency of eating out, market demand for quick service has increased. We believe different brands are now catering to varied price points and target audience. Popeyes, with its launch in South India, was expected to fiercely compete against KFC, but food bloggers and consumers suggest it (Popeyes) has created a new category within the fried chicken segment which highlights the scope and increased market size of QSR.

Brands are tapping premiumisation (eg: The Cajun flavour by Popeyes (the first to tap); Chizza by KFC (a pizza prototype); Oven Baked Pasta in PH and Burger Pizza in Dominos (a unique combination). Brands like Biggies Burger, BurgerMan and a few others are fiercely competing with these national brands in chicken space.

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Fried chicken has become the competing edge as each player (be it organised or unorganised) offers competitive price points based on taste. We believe organised players (KFC/McD/ Popeyes/Burger King) are looking for market share gain led by network expansion, increased disposable income from GenZ and working millennials and improved start-up ecosystem.

### Comfort vs experience

Post covid and with workplace opening up, food joints and eateries are witnessing improved footfalls. Our interactions with store managers suggest a visible shift in dine-in. On an average, dine-in vs delivery ratio stands at 47:53 with delivery split into (3% own delivery and 50% from aggregators - 53% from Zomato and 47% from Swiggy) for KFC and PH while McD and Popeyes deliver entirely through aggregators and JUBI (Dominos) through its own fleet. The share from aggregators helps the stores in increasing the manpower with improved TAT during rush and lower fuel cost. Subway has witnessed higher footfall for breakfast over dinner (witnessing consumer choice of meal over nutrition and health).

### Popeyes vs others –key differentiators

Popeyes, at its early stage of launch, had struggles on product positioning vs KFC and McD. The brand competed in fried chicken space where KFC was the market leader. While KFC continues to source the chicken (locally) and marinate it in store for 2 hours, Popeyes differentiated it with a 12-hour marination process done at its commissary in Bengaluru. Our interaction suggests the flavour between the two are different (KFC being spicy, while Popeyes is known for spicy and tanginess) and there is no clear winner, creating a whole new category and reaching new highs on its ADS with the opening of every new store. Its edge over KFC is the central procurement of its chicken maintaining its uniformity. The Cajun flavour also interests consumer vs the Indian spices from other players. We also had the Peri Peri flavour by McDonalds which drove its success as a topping for French Fries, proving premiumisation-driven growth.

### Valuation and risk

We value the stocks in our coverage as per DCF methodology (WACC and TG ranging from 10-13%, 3- 6%, respectively) except Adani Wilmar, Godrej Consumer and Tata Consumer, which we value on SoTP basis. Key upside risk is better-than-expected gross margin due to correction in input prices. Key downside risk is unexpected irrational competition due to deceleration in general consumption demand.

### Exhibit 1: Valuation summary

Company	TP* (INR)	Rating	PE (x)		EV/EBITDA (x)		ADTV (US\$ mn)	Market Cap	
			FY25E	FY26E	FY25E	FY26E		(INR bn)	(US\$ bn)
Burger King India	115	ADD	NM	89	29	15	5.0	51	0.6
Jubilant FoodWorks	600	BUY	66	49	35	28	17.6	307	3.7
Sapphire Foods	1,750	ADD	55	36	15	11	3.2	101	1.2
Westlife Development	800	ADD	58	41	33	25	1.7	118	1.4

Company	EV/ sales (x)		P/B (x)		P/CEPS (x)		RoE (%)		RoCE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Burger King India	1.4	1.2	8	7	18	11	NM	7	3	8
Jubilant FoodWorks	4.8	4.1	10	8	28	23	16	19	14	16
Sapphire Foods	3.0	2.5	7	6	19	14	12	16	20	25
Westlife Development	3.8	3.2	14	11	29	22	27	30	36	41

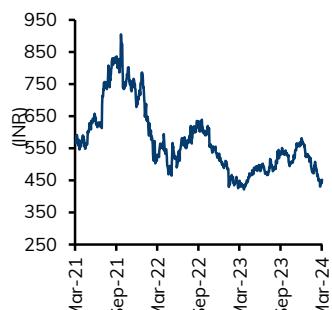
Source: I-Sec research; ADTV, Market Cap – Bloomberg; \* Latest TP / Rating as of 26 Mar'24

## Price charts

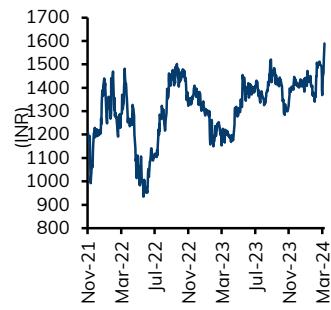
### Restaurant Brands Asia



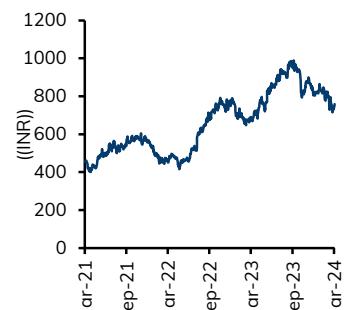
### Jubilant FoodWorks



### Sapphire Foods



### Westlife Development



Source: Bloomberg

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