



An Analysis Of Sapphire Foods And Its Operations Across India And Sri Lanka

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ABSTRACT:

India's Quick Service Restaurant (QSR) industry has emerged as one of the fastest-growing segments within the broader consumer discretionary sector, supported by rising incomes, urbanization, favorable demographics and a structural shift toward convenience-led dining. Despite healthy long-term growth, the sector faces cyclical pressures due to subdued discretionary spending and persistent food inflation. This paper examines the strategic positioning, operational performance and cross-market dynamics of Sapphire Foods India Ltd—a major franchisee for KFC, Pizza Hut and Taco Bell in India and Sri Lanka—to evaluate whether its equity valuation accurately reflects fundamental growth prospects and macroeconomic risks. Using a hybrid methodology combining industry analysis, financial ratio assessment the study finds that KFC remains the company's core growth engine, supported by strong category leadership and efficient store-format optimization. Pizza Hut India, while currently lagging its primary competitor, is benefitting from strategic repositioning toward value-led, dine-in-centric offerings. The paper also highlights Sri Lanka as a significant contributor to revenue diversification, where the company enjoys market leadership but remains exposed to currency volatility and uneven demand recovery. Overall, the analysis suggests that while long-term structural drivers support a favourable growth trajectory, near-term valuation multiples embed execution risks and consumption uncertainties. The findings contribute to literature on QSR strategy and emerging-market consumer behaviour and offer implications for investors, policymakers and multinational franchise operators.

KEYWORDS: Quick Service Restaurants, Sapphire Foods, Devyani International, QSR strategy, Franchising model, Sri Lanka QSR market, Emerging markets

RESEARCH OBJECTIVES

The primary objective of this study is to evaluate the strategic, operational and financial drivers of performance for *Sapphire Foods India Ltd* and to assess whether its equity valuation reflects its underlying fundamentals across the Indian and Sri Lankan QSR markets. In line with this overarching aim, the research pursues the following specific objectives:

a) To analyse the financial performance of Sapphire Foods using key financial ratios.

This includes examining profitability, operating leverage, margins, same-store sales growth and overall financial strength as reflected through indicators such as net margins, ROE.

b) To evaluate the strategic positioning of Sapphire Foods within the Indian market

This includes assessing how store-format optimization, brand repositioning efforts, omni-channel integration and value-led menu strategies contribute to market share expansion, operational efficiency and competitive differentiation.

c) To study the role of geographic diversification through Sapphire Foods Sri Lankan operations

The objective is to understand how the Sri Lankan business contributes to revenue diversification, volume growth and operational resilience, while evaluating currency risks, macroeconomic volatility, demand recovery trends and competitive pressures in the Sri Lankan QSR market.

INTRODUCTION

The Quick Service Restaurant (QSR) sector has become one of the most dynamic and rapidly expanding components of India's consumer economy. Over the past decade, the industry has recorded robust growth, driven by favorable socioeconomic shifts such as rising disposable incomes, the proliferation of nuclear households, increasing urbanization and evolving dietary preferences among a young population. Despite this expansion, India's per capita food services consumption remains significantly lower than global benchmarks, indicating substantial headroom for sustained long-term growth. Within this context, global QSR brands—particularly those in the chicken and pizza categories—have increasingly consolidated their presence and sharpened their value propositions.

At the same time, the sector's growth trajectory has been shaped by macroeconomic volatility. Elevated food inflation, subdued real income growth and a slowdown in discretionary spending have tempered near-term demand, compelling QSR operators to adopt value-led pricing, menu innovation, store-format optimization and efficiency-driven expansion strategies. These pressures are particularly relevant for franchise-led business models operating across heterogeneous regional markets within India.

This research paper examines *Sapphire Foods India Ltd*, a leading franchisee of KFC, Pizza Hut and Taco Bell, operating 997 outlets across India and Sri Lanka. The company presents an insightful case through which to study QSR expansion strategies, cross-regional performance differentiation and multinational franchise adaptation in emerging markets. Its portfolio spans high-GDP Indian regions and a structurally different Sri Lankan market, allowing for a comparative understanding of operational leverage, consumer behavior and macroeconomic exposure.

LITERATURE REVIEW

Research on the Quick Service Restaurant (QSR) sector highlights the role of rising incomes, urbanisation and demographic shifts in driving the transition from informal dining to organised food service formats in emerging economies. Studies emphasise that value-oriented menus, convenience and rapid fulfilment shape consumer behaviour, especially during periods of inflation or weak discretionary spending. This aligns with findings that QSR operators often prioritise transaction growth and brand relevance even at the cost of short-term margins.

The franchise model supports rapid expansion through standardisation and shared operational responsibility. However, geographic fragmentation and regional cost differences can create variation in unit economics, labour expenses and rental structures which influence profitability across markets. These insights are relevant to Yum Brands' dual-franchise structure in India where Sapphire Foods and Devyani International operate in distinct cost environments.

Financial analysis literature highlights the importance of evaluating profitability ratios, operating leverage and valuation multiples to assess long-term sustainability [Ashwath Damodaran, 2012]. High fixed costs make QSR margins highly sensitive to same-store sales growth, while EV/EBITDA is widely used to assess sector valuation due to stable cash flows.

Overall, existing scholarship provides insight into how strategy, cost structure and macroeconomic conditions interact to shape QSR performance which informs the assessment of Sapphire Foods' operations across India and Sri Lanka.

RESEARCH METHODOLOGY

This study adopts a descriptive and analytical research design, drawing primarily on secondary data sourced from the company's financial statements, industry reports and publicly available disclosures. The analysis employs a financial ratio-based approach to evaluate profitability, efficiency, leverage, unit economics and valuation metrics, including SSSG, operating margins, ROE and EV/EBITDA. Strategic assessment is conducted using qualitative frameworks such as competitive positioning analysis and benchmarking against peers in the Indian and Sri Lankan QSR markets. The integration of financial ratio analysis with strategic evaluation enables a comprehensive understanding of Sapphire Foods' performance drivers and the extent to which its market valuation reflects underlying operational fundamentals.

Industry Overview

The Quick Service Restaurant (QSR) industry in India has emerged as one of the fastest-growing segments within the broader food services market, driven by rising urbanisation, income growth, increasing workforce participation and a structural shift toward convenience-led consumption. The industry is characterised by high brand concentration, strong franchising models and an expanding presence across Tier 1, Tier 2 and emerging urban markets. Categories such as chicken, pizza and burgers continue to dominate organised QSR demand, supported by scalable formats, standardised operations and strong supply-chain integration. Within this landscape, international brands such as KFC and Pizza Hut maintain significant share through well-established product portfolios and consistent customer experience.

In parallel, digitalisation has become a defining feature of industry growth. Increasing penetration of online food aggregators, app-based ordering and omni-channel fulfilment has reshaped demand patterns, enhancing delivery volumes while influencing store-format economics. At the same time, rising input costs, shifts in consumer preferences toward value-driven menus and increasing competitive intensity from both global entrants and domestic brands require QSR operators to continuously optimise pricing, product mix and operating efficiencies.

Regionally, the Sri Lankan QSR market exhibits distinct dynamics. Following a period of economic contraction and inflationary pressures, the market is moving through gradual recovery supported by improving tourism, currency stabilisation and rising consumer confidence. International QSR brands retain strong brand equity in Sri Lanka and operators with established store networks are positioned to benefit disproportionately from demand normalisation.

Overall, the QSR sector across India and Sri Lanka presents a combination of high growth potential and operational complexity, where strategic execution, store economics and cost management play a critical role in determining financial performance and market valuation. Sapphire Foods' positioning within this context provides the basis for analysing its strategic strengths, risks and value-creation potential.

Company Overview

Sapphire Foods India Ltd is one of the largest franchise operators of global QSR brands in South Asia. The company serves as the master franchisee for KFC, Pizza Hut and Taco Bell across India and Sri Lanka. It operates one of the region's most diversified portfolios of international QSR formats. Since its incorporation, Sapphire Foods has focused on building scale through rapid network expansion, improving store-level economics and strengthening brand visibility in high-consumption urban centres as well as emerging regional markets.

In India, the company has positioned KFC as its primary growth engine supported by chicken-led consumption, strong market penetration and efficient delivery infrastructure. Pizza Hut has undergone a strategic repositioning that emphasises value, improved menu architecture and targeted store refurbishment to enhance competitiveness within the pizza category. The firm's omni-channel ecosystem integrates dine-in, takeaway and delivery which allows it to optimise throughput and respond to shifting consumer behaviour.

Sapphire Foods also operates an extensive international business with a leading presence in Sri Lanka. Through 117 Pizza Hut outlets and 10 Taco Bell stores, the company holds the position of the largest international QSR operator in the country by both network size and revenue contribution. The Sri Lankan business accounts for approximately 15 percent of consolidated revenue and provides diversification benefits while also exposing the company to currency volatility and macroeconomic uncertainty.

The company's overarching strategy focuses on disciplined capital allocation, margin expansion through operational efficiencies, and sustained investment in digital capability and customer experience. Its financial performance is driven by store productivity, unit economics, supply chain optimisation and the ability to manage cost pressures across diverse geographic markets. This makes Sapphire Foods a relevant subject for evaluating QSR industry dynamics and assessing how multinational franchise operators create value in high-growth emerging markets.

FINDINGS AND ANALYSIS

Company Analysis and Comparative Assessment

Sapphire Foods India Ltd and Devyani International Ltd represent the two largest franchisees of Yum Brands in the Indian subcontinent. Both companies operate KFC and Pizza Hut in India, while Sapphire also manages Taco Bell in Sri Lanka and Devyani operates Costa Coffee and KFC in Nepal and Nigeria. Despite similarities in the brand portfolio, the two companies differ significantly in geographic exposure, store economics, growth strategy and risk profile. These differences shape their financial outcomes and influence how investors evaluate long-term sustainability.

1. Core Business Focus and Geographic Footprint

Sapphire Foods maintains a more concentrated India-plus-Sri Lanka focus, with India contributing the majority of revenue and Sri Lanka adding approximately 15 percent. The Sri Lankan business is strategically important due to Sapphire's first-mover advantage and its dominant Pizza Hut footprint, which is 1.7x larger than the next nearest QSR chain. In contrast, Devyani has more diversified international exposure with operations in Nepal, Nigeria and Thailand. This wider spread supports a larger revenue base but exposes Devyani to a broader set of macroeconomic and operational risks.

2. Brand Performance and Strategic Positioning

Within India, both companies rely heavily on the performance of KFC and Pizza Hut. Sapphire has positioned KFC as its core growth engine supported by defensible leadership in the chicken QSR category, rising delivery contribution and efficient store formats. Pizza Hut India continues to face category-level challenges reflected in declining SSSG of 8 percent in Q2FY26 and lower average daily sales. These pressures underscore the necessity of value-led menu innovation and dine-in repositioning.

Devyani, while facing similar headwinds in Pizza Hut, benefits from Costa Coffee's premium positioning and a larger KFC base. However, Devyani's growth strategy is more expansion-heavy with a faster store roll-out pace that adds pressure on capital allocation and near-term profitability.

3. International Operations: Sri Lanka vs Thailand

A key point of divergence between Sapphire and Devyani lies in the resilience of international operations. Sapphire's Sri Lankan business has been a long-term outperformer with 13 percent SSSG in FY25, strong revenue per store and a premium dine-in perception for Pizza Hut. Despite earlier currency depreciation, revenue in LKR terms grew consistently and operations remain margin-accretive to the consolidated business.

Devyani's Thailand operations stand in sharp contrast. According to recent investor commentary, the business continues to report negative SSSG despite margin improvement and remains burdened by outstanding debt on the Thailand balance sheet. While operational free cash flow exists, this liquidity is absorbed by mandatory debt repayment. Furthermore, Devyani is testing the Tealive beverage format in Thailand which could consume additional cash if expanded. As a result, Thailand is unlikely to become meaningfully free cash flow positive in the near term which adds pressure to Devyani's international profitability profile.

4. Capital Structure and Cash Flow Dynamics

Sapphire Foods has transitioned to a net-debt-free position and generated positive free cash flow in FY25 even while expanding its store base. This reflects stronger capital discipline, more efficient store formats and moderating capex per store. The company benefits from lower leverage and fewer international liabilities, allowing more internal accruals to support growth.

Devyani, meanwhile, carries higher consolidated debt including borrowings tied to its Thailand subsidiary. Although margin improvement may support operating cash flow, debt servicing obligations delay the conversion of EBITDA into free cash flow. The contrast highlights Sapphire's relatively stronger balance sheet flexibility and lower risk of cash flow volatility.

5. Franchise Structure and Regional Division: Sapphire Foods vs Devyani International

Yum Brands operates a dual-franchisee structure in India for its flagship QSR brands, KFC and Pizza Hut. Unlike other QSR networks that follow clear geographic demarcations, Yum's allocation of territories between Sapphire Foods and Devyani International is not strictly region based. This creates a unique competitive landscape with areas of overlap, shared markets and executional interdependencies.

Sapphire Foods maintains a dominant presence in the western and southern regions of India, particularly in the KFC segment where these markets exhibit stronger chicken consumption and higher GDP contribution. Devyani International on the other hand is more concentrated in the northern and eastern regions where non-vegetarian penetration is higher. Although these distinctions create different demand profiles, the overall market potential remains balanced; Sapphire Foods addresses approximately 47 percent of the GDP-weighted non-vegetarian population while Devyani serves roughly 53 percent.

Pizza Hut's franchise segmentation is less clearly divided. Both operators run Pizza Hut stores in overlapping cities which requires strict adherence to Yum's trading rules, including a two-kilometre territorial restriction that prevents either franchisee from opening a store too close to the other's outlet. Even in regions where Devyani holds exclusive rights for Pizza Hut Delivery, Sapphire Foods can fulfil delivery orders from its dine-in restaurants through takeaway classification or aggregator partnerships. This flexibility strengthens Sapphire's omni-channel positioning and helps maintain throughput in contested markets.

Sapphire Foods also holds an international diversification advantage through its exclusive rights for Pizza Hut and Taco Bell in Sri Lanka where it operates a large network with market leadership. Devyani's international presence spans Nepal, Nigeria and Thailand but remains smaller and more exposed to volatility, especially in Thailand where negative same-store sales growth and debt obligations limit free cash flow conversion.

Store format strategy further differentiates the two franchisees. Sapphire Foods prioritises full-format dine-in Pizza Hut stores even in territories where delivery-only formats are permissible. This approach enables higher average daily sales, stronger store-level profitability and greater omni-channel flexibility. Devyani tends to adopt a broader mix of formats including more compact delivery and express stores which support faster rollouts but may dilute dine-in contribution.

Cost structures vary significantly across the two operators due to their geographic footprints. Devyani benefits from lower staffing costs and favourable rental dynamics in eastern and northern India which enhances its cost efficiency and supports margin expansion. Sapphire Foods incurs higher operating costs in premium urban markets located in the west and south. These regions however generate higher average revenue per store which helps offset cost pressures and supports strong KFC unit economics.

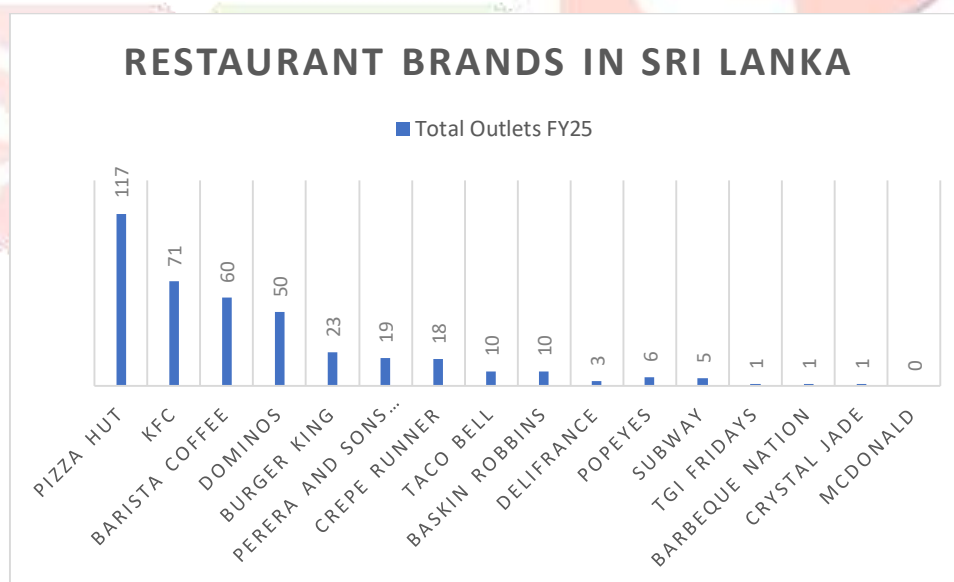
Overall, Yum's dual-franchise model has created two distinct strategic pathways. Sapphire Foods operates a quality-driven, margin-focused model with international diversification and superior dine-in economics while Devyani follows an expansion-centric strategy with structural cost advantages in lower-cost regions. Evaluating these differences is central to understanding competitive positioning and long-term valuation outcomes.

Sri Lanka Market Analysis

Sri Lanka represents a strategically important market for Sapphire Foods due to its scale, brand leadership and differentiated demand characteristics. The country has a well-developed Quick Service Restaurant (QSR) sector, with QSR formats accounting for 51 percent of all restaurant types. The Western Province, which contributes 43.7 percent of national GDP and includes Colombo, hosts the highest concentration of QSR outlets. International brands such as Pizza Hut, KFC, Domino's and Burger King have established significant presence, reflecting strong urban demand for organised food services.

Consumer preferences in Sri Lanka favour chicken-based meals which aligns well with the product portfolios of Pizza Hut and KFC. Most QSR chains have integrated local tastes by offering customised chicken-based menu items, and this localisation supports category growth and brand stickiness.

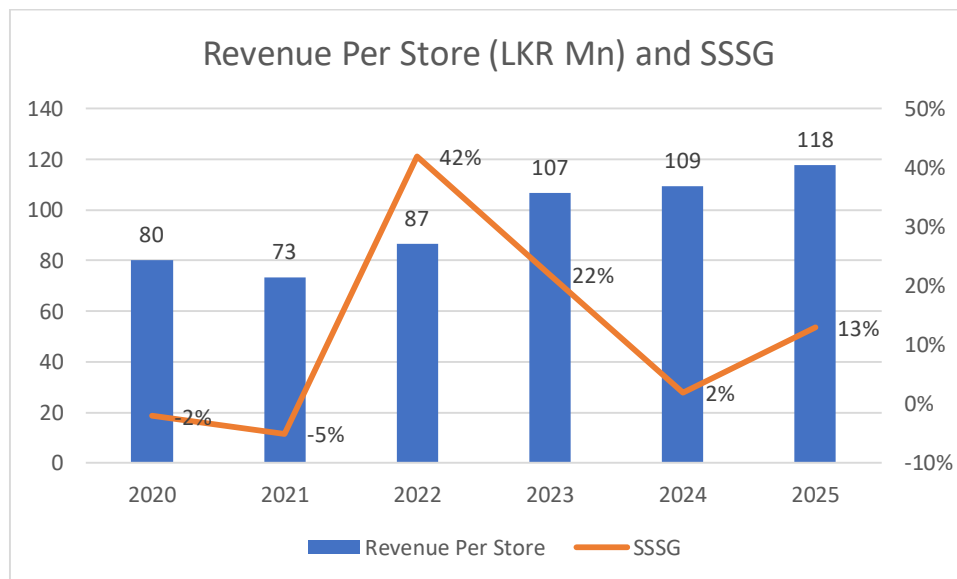
Sapphire Foods holds a dominant position in the Sri Lankan QSR landscape. The company operates 117 Pizza Hut outlets and 10 Taco Bell outlets across 74 cities, making it the largest international QSR operator in the country.



Despite severe currency depreciation in FY23, revenues in LKR terms grew by 43 percent, indicating resilient demand. Sri Lanka contributed about 15 percent to the company's consolidated revenue in FY25 which highlights the significance of this geography in Sapphire's overall portfolio.

Several factors support continued growth potential in the market. First, Pizza Hut benefits from strong brand recognition and accounts for 33 percent of all international QSR restaurants nationwide. Its scale advantage provides opportunities to penetrate smaller cities where organised QSR coverage remains limited. Second, Taco Bell has substantial white-space potential since it faces no direct QSR-format competition in Sri Lanka and enjoys high recall among tourists and younger consumers. Third, Pizza Hut's dine-in positioning provides a competitive edge relative to Domino's which is largely delivery-led. Superior in-restaurant experience and stronger brand engagement support customer loyalty and higher average order values.

Operational performance has been robust. Pizza Hut Sri Lanka reported same-store sales growth of 13 percent in FY25, supported by demand recovery after a weaker FY24. Revenue per store increased from LKR 80 million in FY20 to LKR 118 million in FY25 reflecting improved throughput and sustained consumer traction.



While reported INR revenue fluctuated due to currency movements, revenue in LKR terms rose by 48 percent which shows that operational fundamentals remained strong despite macroeconomic volatility.

Overall, Sri Lanka serves as an important diversification lever for Sapphire Foods. Market leadership, favourable consumer preferences and strong brand equity position the company to benefit from continued recovery in consumption as economic conditions stabilise.

Risk Assessment

Sapphire Foods operates in a high fixed-cost industry where profitability is sensitive to demand cycles and cost pressures. Three key risks influence its near-term financial performance.

Sensitivity to Same-Store Sales Growth

Restaurant-level margins depend heavily on same-store sales growth (SSSG). KFC requires at least five percent SSSG to sustain EBITDA margins near eighteen percent, and Pizza Hut must raise average daily sales to roughly ₹55,000 to achieve double-digit margins. With Pizza Hut reporting negative SSSG of about eight percent and discretionary spending still weak, slower demand recovery may delay margin improvement and affect overall profitability.

High-Cost Geographic Footprint

Sapphire Foods' concentration in western and southern India exposes it to higher wages, rentals and real estate costs compared to Devyani International which operates more in lower-cost eastern regions. Expansion in premium urban markets increases capital intensity and depreciation, which can suppress post-EBITDA margins when revenue growth moderates.

Dependence on Delivery Aggregators

Delivery is a major driver of throughput, but reliance on platforms such as Swiggy and Zomato creates margin risk. Aggregator commissions of 25 to 30 percent significantly reduce profitability, and any increase in take rates would further pressure margins as delivery volumes continue to rise.

Financial Performance Analysis

Sapphire Foods' financial performance from FY23 to FY25 reflects slowing growth and margin compression. Revenue growth declined from 32 percent in FY23 to 11 percent in FY25, and net margins fell sharply from 10.3 percent to 0.6 percent. ROE dropped from 20.6 percent to 1.3 percent, indicating weaker profitability relative to equity employed. These trends stem from higher marketing spends and value-led pricing strategies aimed at increasing transactions in a period of subdued demand and inflationary pressure.

Despite short-term margin strain, the company remains financially robust. Sapphire Foods has become net debt-free and generated positive free cash flow of ₹2,474 million in FY25 even while continuing store expansion. This indicates increasing reliance on internal cash generation rather than external borrowing.

Valuation multiples remain elevated, with EV/EBITDA in the 20 to 30 times range over the past four years. Although these premiums reflect strong long-term growth expectations for the QSR sector, they reduce tolerance for further delays in margin recovery or same-store sales improvement. Sustained valuation strength will therefore depend on consistent execution and profitability normalisation.

Margin (%)	FY22	FY23	FY24	FY25
EBITDAM	17.72	18.91	17.78	16.54
EBITM	5.31	7.25	5.30	3.92
NPM	2.67	10.29	2.00	0.58
Growth (%)	FY22	FY23	FY24	FY25
Net Sales		31.60	14.51	11.09
EBITDA		40.45	7.67	3.36
Performance Ratios	FY22	FY23	FY24	FY25
ROE (%)	3.68	20.61	3.90	1.25
ROIC	6.15	19.63	4.55	3.43
ROCE	4.95	13.86	4.96	4.10
Financial Stability ratios	FY22	FY23	FY24	FY25
Total Debt/Equity (x)	0.06	0.04	0.02	0.01
Net debt/Equity (x)	-0.34	-0.19	-0.10	-0.14
Valuation Ratios	FY22	FY23	FY24	FY25
Price/Book (x)	9.81	7.87	7.40	7.14
EV/Net Sales (x)	5.54	4.25	3.76	3.40
EV/EBITDA (x)	31.25	22.50	21.17	20.52
Du Pont Analysis - ROE	FY22	FY23	FY24	FY25
Net margin %	2.67	10.29	2.00	0.58
Asset turnover (x)	0.65	0.95	1.19	1.02
Equity multiplier	2.13	2.10	1.64	2.12
ROE %	3.68	20.61	3.90	1.25

CONCLUSION

This study examined the strategic, operational and financial performance of Sapphire Foods India Ltd to assess whether its current valuation adequately reflects its growth prospects and risk profile across the Indian and Sri Lankan QSR markets. The findings highlight a business with strong brand assets, improving operational efficiency and a disciplined approach to capital allocation, yet one that faces meaningful short-term constraints arising from consumption softness and margin sensitivity.

In India, KFC remains the company's core growth driver supported by favourable category dynamics, robust unit economics and sustained investments in delivery capability. Pizza Hut, although undergoing a value-led repositioning, continues to face category headwinds which have resulted in negative same-store sales growth and pressure on average daily sales. Sapphire's strategic focus on store-format optimisation, menu affordability and omni-channel execution is well aligned with market conditions but requires consistent execution to deliver meaningful recovery.

Sri Lanka provides a significant diversification advantage. Sapphire Foods holds market leadership through its Pizza Hut and Taco Bell networks and has demonstrated resilient revenue growth in local currency terms despite macroeconomic volatility. Strong brand recognition, a dine-in led positioning strategy and favourable consumer preferences support long-term potential in this market.

Financial analysis shows slowing revenue growth, declining margins and a sharp fall in ROE which reflect both cyclical pressures and deliberate strategic investments. However, the transition to a net-debt-free position and positive free cash flow generation indicate strengthened financial resilience. Elevated valuation multiples suggest that investors continue to price in long-term growth expectations which increases the need for consistent improvement in same-store sales, profitability and unit economics.

Overall, the evidence indicates that Sapphire Foods possesses strong structural advantages but operates in an environment characterised by high cost sensitivity, regional disparities and dependence on delivery platforms. Achieving sustained value creation will depend on the company's ability to stabilise margins, accelerate recovery in Pizza Hut India, leverage scale in Sri Lanka and manage cost pressures across markets. The study contributes to a deeper understanding of QSR performance in emerging economies and highlights the importance of balancing growth ambition with disciplined financial and operational management.

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