Quick Service Restaurants Report 2017

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White Unicorn Ventures

A look at the Indian QSR Market

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1. Summary Keynotes

- A quick service restaurant (QSR) category originated in the US in the 1920s. The global quick service restaurants market is expected to surpass $141 billion in revenue by 2019.
- The QSRs market in the Americas was valued at over $108 billion, APAC ($97 billion) and Europe ($35.39 billion) in 2014
- India's QSR market, estimated to be at Rs 8,500 crore currently, is growing at a compounded annual growth rate (CAGR) of 25 per cent. The quick service restaurants (QSR) sector in India is likely to grow three-fold to Rs 25,000 crore within five years.
- About 50 per cent of India's population eats out at least once in every three months and eight times in every month in bustling metros as compared to the US (14 times), Brazil (11 times), Thailand (10 times) and China (9 times)
- Families in Tier-I cities spend about Rs 6,000 annually on eating out, whereas families in Tier-II cities spend Rs 1,500 to 2,000, annually.
- There have been a rise in number of Indian QSR due to many factors like Environment – the access to capital to innovative and enterprising companies has become easier than it was a few years ago; Demand – changing demographics, increase in income, urbanization, growth in organized retail and demand for hygienic food and lastly Supply – the Government has improved infrastructure and private investment in cold chain networks across the country has made access to quality raw material.
- Fast Food market is Rs 1,01,770 crore in 2015, of this market, the burger bite appears tiny - the research firm estimates it at Rs 1,555 crore this year and projects it to grow to Rs 1,688 crore by 2019.
- According to startup analytics firm Tracxn, from 2014 to mid 2015, there have been 23 investments totaling $167 million, or about Rs 1,060 crore, in offline F&B space. Food tech companies attracted investments of $92 million, or about Rs 585 crore, across 26 deals during the same period.
- Domino's now generates more than 17.2 billion rupees ($277 million) in revenue, compared with $222 million for McDonald's. In terms of the quick service restaurant (QSR) market share, burgers occupy 29.9% whereas pizzas slice up 26.7%.
- Domino’s also tried their hand to enter in Burger market with their version of Burger Pizza, but it was not so popular among burger lovers.
- Along with ice-cream chain there have been increased in demand for new frozen yogurt chain in QSR section with several brands like Pinkberry, Red Mango, KiwiKiss and Yogurberry are expanding their operations while Cherry Berry frozen yogurt is seeking an Indian franchisee.

- Haldiram's, the Indian home grown brand which started the trend of snacks and street food in an organized segment has a revenue of Rs 3,500 crore, much more than the combined revenue of Domino's (Rs 1,733 crore) and McDonald's (Rs 1,390 crore)
- Indian cuisine(s) in exciting new formats have been the hottest selling propositions in the country for the last two years now. The success of restaurants such as SodaBottleOpenerwalla, Monkey Bar, Farzi Cafe, The Bombay Canteen and more has shown how younger audiences have been more than ready to embrace the idea of food-with-nostalgia repackaged slickly.
- Industry experts pointed that the PE players can see around 30% returns on their investment in casual dining chain space over a period of five years.
- Several other foreign casual dining restaurant chains like California Burritos, Barcelos and AppleBee are trying to explore Indian market.
- McDonald’s also entered into cafés by launching the McCafé brand in India and is expanding the number of its outlets (per outlet cost investment 25-35 lakh). Recently Starbucks also started serving beer and wine at their international outlets to maximize the revenues in the evening and night, yet to launch the same model in India.
- Online portals and Internet-First restaurants are creating noise in QSR section and investors are likely to focus on these formats and cuisines that have a certain potential to scale beyond the metros to tier-1 and tier-2 towns.
- There are 3 major challenges in QSR industry; people looking for healthier options, real estate issue and trained labor in hospitality.

2. Introduction

A quick service restaurant (QSR) originated in the US in the 1920s and serves swiftly prepared fast food that includes both sweet and savory dishes. The global QSR market is suppose to grow at a CAGR of around 6% during the forecast period. The increased demand for convenient or on-the-go products is the driving factor for the growth of this market. APAC is predicted to be the fastest-growing market during the forecast period.
The growing health awareness is expected to pose challenges for the growth of the QSR market. As most of the products are processed fast foods, it is high in fat resulting in high BMI and weight gain. Many stringent government regulation and documentaries such as 'Super-Size Me' have educated the consumers on the negative impacts of fast food consumption. For instance, during 2010, Puerto Rico's government passed a law to ban the sale of fast food from vending machines in all the public schools. This step was taken as an attempt to reduce the obesity rate among the children.

The global quick service restaurants market is expected to surpass $141 billion in revenue by 2019. The QSRs market in the Americas was valued at over $108 billion in 2014. The Americas dominated the global QSRs market in 2014, and will continue to lead this market during the forecast period. According to research studies, the average American consumes fast food approximately 14 times over a period of 30 days, thereby making the QSRs market one of the most profitable markets to invest in.

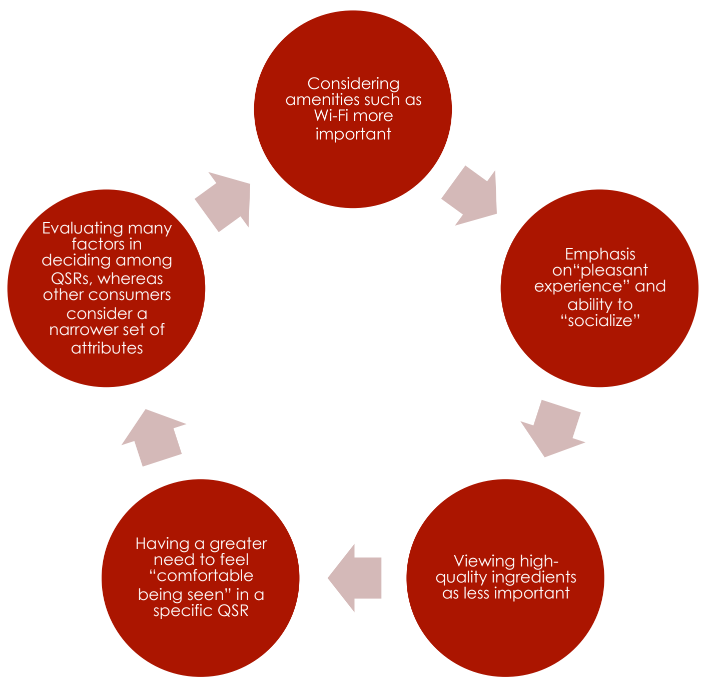
The QSRs market in APAC was valued at close to $97 billion in 2014. This region is expected to be the fastest-growing region over the next five years. Strong emerging economies like India and China characterize the rapid growth of the market in the region. The presence of diverse cultures and demographics in APAC will also likely aid the adoption of fast food in this region during the forecast period. The presence of these diverse cultures gradually looking to experiment with new food categories presents opportunity for market vendors to customize menus and expand their market shares in the region.

The QSRs market in Europe was valued at $35.39 billion in 2014. The demand for fast foods in the QSRs market in Europe varies from country to country. For instance, the demand for fast food from QSRs in the U.K. is lower, as the population prefers casual dining and fine dining to food from QSRs. However, in Germany, consumers prefer to eat healthy food from QSRs.

3. Consumer Appeal

Limited-service brands today are increasingly trying to figure out how to effectively market to their older customers while continuing to attract Gen Y/Millennial (born between 1980 and 1994) and Gen Z (born after 1994) customers. Few restaurant brands are successfully reaching customers across the generational groups by appealing to their various needs. Among all demographic groups, In-N-Out Burger and Papa Murphy's topped limited-service restaurants with customers who have the "strongest intent to return".

In making QSR selections, Gen Y's decision criteria are also different from the average consumer. Some notable differences of Gen Y consumers include:



4. Investment Growth in India

The country's QSR market, estimated to be at Rs 8,500 crore currently, is growing at a compounded annual growth rate (CAGR) of 25 per cent. The quick service restaurants (QSR) sector in India is likely to grow three-fold to Rs 25,000 crore within five years, as per industry body Assocham.

Entry of various national and international players in the QSR space has significantly widened the chain market due to fast expanding middle class, urbanisation, youth spending, nuclear families and better logistics. About 50 per cent of India's population eats out at least once in every three months and eight times in every month in bustling metros as compared to the US (14 times), Brazil (11 times), Thailand (10 times) and China (9 times).

The QSR format took off in India about 19 years ago with the arrival of McDonald's in 1996. Many global brands followed suit since then, either through company-owned stores or the franchisee model or a mix of both. The chain space is marked by the presence of more than 120 brands with more than 4,000 outlets spread across various cities in India. By 2020 it is expected that 35 per cent of India's population will be in urban areas by 2020 totalling 52 crore compared to the current urban population of 34 crore.

There have been a rise in number of Indian QSR due to many factors like Environment – the access to capital to innovative and enterprising companies has become easier than it was a few years ago; Demand – changing demographics, increase in income, urbanisation, growth in organised retail and demand for hygienic food and lastly Supply – the Government has improved infrastructure and private investment in cold chain networks across the country has made access to quality raw material a reality. However, a foreign brand has an easy first quarter of operations because of the hype around them being ‘international’ – so high volumes, along with high marketing spend make it a virtuous circle rather than the local QSR who has to deploy various marketing strategies to pull in the volumes in the same quarter.

International QSR Brands

- McDonald's - 250+ stores
- Pizza Hut - 400+ stores
- KFC - 350+ stores
- Domino's Pizza - 1000+ stores
- Dunkin Donuts -70+ stores
- Papa John's - 50+ stores
- Subway - 500+ stores
- Chilli's - 10+ stores
- Burger King -40+ stores
- Carl Jr
- Wensdy
- Jhonny Rocket

Indian QSR Brands

- Faaso's - 160+ stores
- Nirula's - 80+ stores
- Smokin Joe's - 50+ stores
- Jumbo King - 50+ outlets
- Ammi's Biryani - 75+ stores
- Kailash Parbat - 15+ stores
- Bikanervala - 20+ stores
- Goli Vada Pav - 250+ stores
- Nirula's Potpurri
- Kamat - 500+ stores
- Bhagat tarachand - 7+ stores

A. Burger & Pizza

The vada pav business has seen two Indian companies achieving scale - Goli Vada Pav and Jumboking. The burger, as an American construct, of course, is largely a multinational play, with the rivalry of global brands now spilling over to Indian shores. There's a stiff battle for the Indian stomach and is being fought by no less than seven American companies that operate through franchisees. McDonald's was the earliest - its first store came in October 1996. It has dominated the landscape ever since and has over 380 restaurants now, which annually use nearly 15 crore buns, 3.2 million litres of vegetarian sauce, 9.7 crore patties, 330 metric tonnes of cheese slices and 1,200 tonnes of iceberg lettuce. In 2001, McDonald's opened its first Drive-Thru in the West, in Navi Mumbai's Kalamboli - people driving to Pune wouldn't need to leave their cars; order at one end of the restaurant, pick up from the other side and move on

Over the past few years rivals Burger King, Wendy's, Carl's Jr., and Fat Burger opened shop. Johnny Rockets started in January 2014 and Dunkin' Donuts in May 2012. Together with KFC, which also sells burgers, it completes the cast of characters vying for a space in India's fast food playbook, estimated by market research firm Euromonitor to be worth a mammoth Rs 1,01,770 crore in 2015. Of this market, the burger bite appears tiny - the research firm estimates it at Rs 1,555 crore this year and projects it to grow to Rs 1,688 crore by 2019. Carl's Jr. thinks it can get to 100 stores in 10 years; it has raised $2 million and plans to raise $20 million in tranches to fund the growth. Burger King is spending between Rs 1.75 crore to Rs 2.5 crore to open each store. Prime Gourmet Pvt Ltd., the franchisee that runs Johnny Rockets, may end up spending more than Rs 40 crore to get to 20 stores by 2018, from just four currently. There is a local brand which are coming up such as Burger Singh which is similar to Burger King.

Families in Tier-I cities spend about Rs 6,000 annually on eating out, whereas families in Tier-II cities spend Rs 1,500 to 2,000, annually. Burgers in India are all-day escape and fun food while pizzas are becoming meal replacement and comfort food. BurgerPizza is Dominos offering for this opportunity.The pizza market in India is very small with good international pizzas chains accounting for just around 1,500 outlets. But it's growing very fast and the current number will exceed 3,000 smaller and bigger/international and local outlets. The organized pizza market in India is dominated by players like Domino's, Pizza Hut, Papa John's, and others. Clearly, it's a big pie and there is room for differentiated brands to create their own market. In fact, India can prove a huge platform for Pizza chains to grow as the penetration of pizza consumption is still low. There exists a tremendous growth opportunity for the company in tier II and III cities, where the educated middle class population is becoming more sophisticated with respect to standardized food consumption. Domino's now generates more than 17.2 billion rupees ($277 million) in revenue, compared with $222 million for McDonald's. Domino's, which is valued at $1.6 billion in India, has tried expanding its business by getting Indian consumers to view pizza as a meal replacement, and not just a snack. In terms of the quick service restaurant (QSR) market share, burgers occupy 29.9% whereas pizzas slice up 26.7%.

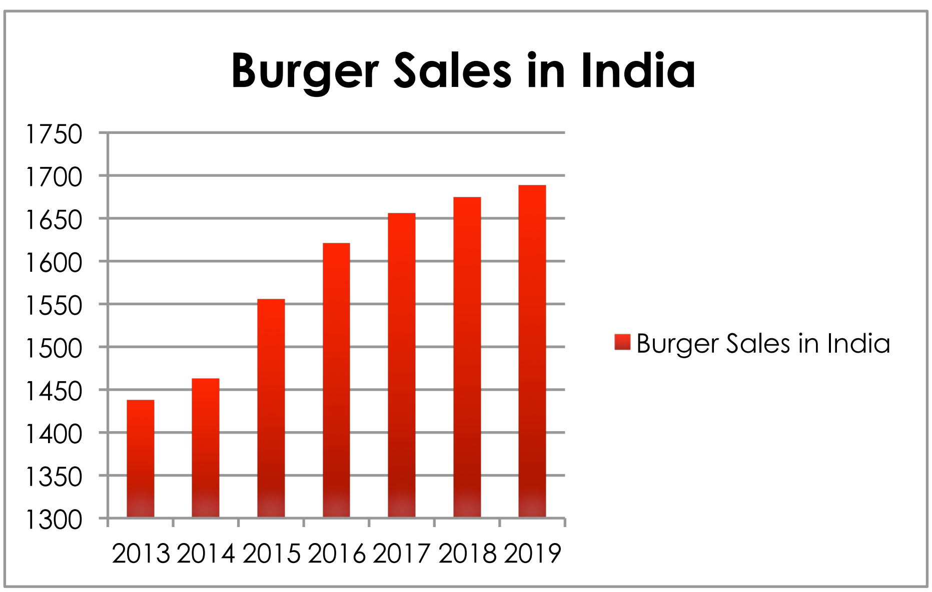


Figure 1- Burger Sales in India (Source – Euromonitor International)

B. Desserts

Ice cream's evolution into QSR has been gradual. The entry of international brands like Haagen Dazs, Movenpick, Swensen's (and, before them, Baskin Robbins), first led to industry estimates of 12-15% annual growth, so as to touch $900 million by 2014-15. As competition intensified, innovations in the form of novel servings followed. Per capita consumption of ice cream in India is still low at 300 ml per year compared to the world average of 2.3 litres. Mini-meal ice cream, however, is increasingly seen replacing traditional desserts. It would be incorrect, however, to credit international brands alone for the trend. As far back as the mid-'70s, Mangalore, the south-western Indian city connecting Kerala and Karnataka, launched 'Gadbad' (Hindi for amiss), consisting of a scoop of kesar- or saffron-flavoured ice cream submerged under a layer of jelly, dry fruits, fruits, and strawberry and vanilla ice cream. Today, Gadbad is a generic term in south India for a bowl of 3-7 scoops of ice cream dotted with tutti-frutti, nuts, raisins, fruits and honey. Priced Rs38-65, ice-cold Gadbad bowls sell like hot cakes.

International brands like Baskin Robbins, Häagen-Dazs, and Unilever's Heartbrand line (e.g., Magnum) are expanding within metro cities like New Delhi, Mumbai, Chennai, Bangalore and Kolkata. In 2013, Mini Melts entered the India market through the city of Bangalore. Another emerging trend is the rise of frozen yoghurt parlors in India. Pinkberry, Red Mango, KiwiKiss and Yogurberry are some of the players who are expanding their operations while sources report that Cherry Berry frozen yogurt is seeking an Indian franchisee.

C. Indian Snacks

Established in 1934, Nirula's was to become the first quick service restaurant (QSR) chain in Delhi. At least a couple of generations of the capital's populace must have had their first taste of the hamburger at the corner joint at L Block in Connaught Place. Another first owned by this landmark is the Chinese Room, Delhi 's oldest Chinese restaurant.
Haldiram started its journey way back in 1937 with a small shop in Rajasthan's Bikaner district.In 2013-14, Haldiram Manufacturing, which looks at North India, clocked Rs 2,100 crore in revenues. Haldiram Foods, catering to West and South India, had annual sales of Rs 1,225 crore. And Haldiram Bhujiawala, which does business in East India, earned revenues of Rs 210 crore. Haldiram's, the Indian home grown brand which started the trend of snacks and street food in an organised segment has a revenue of Rs 3,500 crore, much more than the combined revenue of Domino's (Rs 1,733 crore) and McDonald's (Rs 1,390 crore), reported ET.
At Nukkadwala, a quick service restaurant (QSR) outlet currently incubating at the Vatika Business Centre in Gurgaon, it is with the same sense of surprise that you scan the menu. Instead of the QSR cliches —masala dosa, chola bhatura, papdi chaat — you get a nuanced menu. There is alur dum, whose recipe was found at a specific vendor in Kolkata;

Gujarati panki prepared by layering thin paste of besan between banana leaves and steaming — which even households don't cook any longer. The benne dosa is plump and comes with coconut chutney and aloo rasa.
Indian cuisine(s) in exciting new formats have been the hottest selling propositions in the country for the last two years now. The success of restaurants such as SodaBottleOpenerwalla, Monkey Bar, Farzi Cafe, The Bombay Canteen and more has shown how younger audiences have been more than ready to embrace the idea of food-with-nostalgia repackaged slickly. The new-age inventive desi-chic menus are aspirational and attract an audience that wants some familiarity of flavours but with a twist to make it "cool" experiential dining. That even coffee shops and QSR chains want to be part of this market points to the fact that a new renaissance of Indian food

D. Casual Dining & Others

India's consumption landscape is moving on to the next stage of evolution, powered by 360 million millennials and more specifically, approximately 120 million millennials who live in urban clusters. They are increasingly becoming more discerning in their consumption habits, both in terms of the frequency at which they eat or order from outside as well as the variety they seek, and this is not a trend but a pattern.
The long queue of brands trying to enter India and the mushrooming pubs and cafes is a real indicator of what is attracting investors to this segment. Recently, the F&B arm of Everstone Capital acquired 50% stake in restaurateur Zorawar Kalra-owned Massive Restaurants which owns brands such as Masala Library, Farzi Cafe and Made in Punjab. Industry experts pointed that the PE players can see around 30% returns on their investment in this space over a period of five years.

American investment banking firm Goldman Sachs too recently invested $10 million (Rs 64 crore) in Azure Hospitality, the foreign direct investment-backed company which runs the upscale pan-Asian restaurant chain Mamagoto and mid-market chains Speedy Chow and Rollmaal. The restaurant space has already witnessed an inflow of $100 million through seven deals as on July 2015, as against a total of $128 million spread across 14 deals in entire 2014, according to data from financial research firm VCCEdge.

Several other foreign casual dining restaurant chains like California Burritos, Barcelos and AppleBee are trying to explore Indian market. Barcelos the Brand targets Rs. 200 crore turn over with 30 outlets in the country in the next three years. The new outlets would be a combination of company owned and franchised outlets and the new outlets would come up in Kochi, Chennai, Mumbai, Jaipur, Pune, Hyderabad, Bengaluru, Goa besides Delhi and Kolkata. Barcelos are looking forward to tap the young generation and all those who have a fetish for innovative and healthy food. By healthy food, Barcelos has the uniqueness of serving only Flamed Grilled Chicken which is essentially not fried and also world's healthiest coloured burgers.

California Burrito, a fast-casual Mexican restaurant chain with 12 restaurants across Bangalore and Chennai, has raised an undisclosed amount of funding from existing investor, SNAM Solutions and Adhvith Dhuddu. The investment has been raised for expanding the business, scaling supply chain, and improving the delivery experience. California Burrito will have a footprint of 40 stores in India by first quarter 2018.

E. Beverages

The café culture is growing steadily in India. There is a growing young, well-travelled, section of Indian consumers that are seen following the international culture of a morning coffee and driving to work with a travel cup of coffee,. Domestic and international brands offer coffee or tea with sandwiches, cookies, and muffins for on-the-go consumers. Tea lounges have followed this trend and now offer a variety of teas with food items. It is now common for business meetings to take place at coffee shops and tea lounges, as well. Major international brands like Starbucks and The Coffee Bean & Tea Leaf compete with domestic brands like Café Coffee Day and Barista.

McDonald's also entered into cafés by launching the McCafé brand in India and is expanding the number of its outlets. Unlike other CCD or Starbucks outlets, McCafe is not a stand-alone one. It exists within the McDonald's outlet itself. The idea is to serve as an extension to the core McDonald's offering, with consumers having the option to enjoy an assortment of food & beverages at one place. McCafe does not want an identity of its own.

The biggest gain, however, is going to be on real estate. It is just an in-house expansion. McCafe's will be built into within the existing store itself and the real estate cost of these changes is anywhere between Rs 25-35 lakh.
Café Coffee Day (CCD) is perhaps the market leader in terms of retail footprint with with 1,586 cafés at 220 cities, as of December 2015, including multiple formats and 600 kiosks called Value Express, including 191 in Bangalore and 185 in Delhi. Starbucks, meanwhile, has just 71. Starbucks only moved into India in 2012, giving CCD a considerable advantage. Recently Starbucks also started serving beer and wine at their international outlets to maximize the revenues in the evening and night, yet to launch the same model in India.
India is a land of tea , and there are many QSR chain which are tapping tea lovers in India and making steady growth with several investor backing their model. Chaayos backed by Tiger capital with $5 million funding and Chaipoint has opened 60plus stores and provide call delivery service. Faasos has also added tea for their take away and delivery service.

F. Online Portal and Internet – First Restaurants

Online portals are gaining momentum and tapping into the opportunities the QSR and CDR sector present. These portals have a tie-up with restaurants and provide consumers with a choice of foods under one roof. Other customers on the listed restaurants and the menu items provide consumers first hand review and feedback. Through some of these portals, consumers can order online and pay by credit or debit card and by cashon-delivery. Also, many QSR and CDR chains allow ordering food online from restaurants, which sources report, is increasingly popular with consumers. Consumers can place orders and have food delivered to their door step at a preferred time and, occasionally, at discounted rates. (Zomato,Foodpanda,Burrp,Justeat,Grouptable, Getmefood, tastykhana, pickmyfood).
Early movers among the Internet-first restaurants, which work on a delivery-based model, include Holachef, Spoonjoy, Frsh, Yumist, Eatlo, Biryani 360, Tapcibo, FreshMenu & Foodyn. The expansion of standalone last-mile delivery logistics companies on the back of the ecommerce boom is expected to also support the delivery businesses of restaurant companies. This trend will gather pace even as the number of physical QSR outlets grows fast. QSR chains, based in metros, are expected to expand to smaller cities and towns while the sector is expected to see several new entrants. Investors are likely to focus on the formats and cuisines that have a certain potential to scale beyond the metros to tier-1 and tier-2 towns.

5. Trends for 2017

A. Healthy Food

Nearly every one of the 2016 forecasts mention vegetables in some form, either as part of a dish or as the logical beneficiary of the evolving move toward healthier eating and cleaner ingredients. Vegetables also help fight off the higher cost of many meats. This is especially happening at quick-service and fast-casual restaurants across the country, where there are far more vegetable-only options and plant-based meatless proteins—as well as creative uses of potatoes, mushroom, broccoli, cabbage, kale, and other vegetables—than ever before. Freeman calls vegetables the “hero” of ingredients this year, because they’re not only being moved to the center of the plate, but are also playing important roles in all of the dayparts and across menu segments, as well as in snacking and beverages. Vegetables also dovetail into a wave of other trends, including local sourcing, sustainability, and natural ingredients

B. Breakfast All day Meals

For many of us, all-day breakfast is hardly a new concept. But with many fast food chain offerings such as the “Brunchfast” at Jack-in-the-box and spiced up breakfast sandwiches at Starbucks, what’s particularly unique about this trend in 2017 is how the texture of breakfast will change. Forget smoother breakfast offerings such as soft scrambled eggs, buttered grits, or oatmeals. What you’ll find are the so-called, more “aggressive” crunchier items like fried chicken, crispy chorizo and chimichurri. As a bonus, smaller chains and independent eateries will justify these around-the-clock breakfast items as perfect hangover cures!

C. Food aggregator

Food aggregators and delivery companies like Foodpanda, Zomato, Just Eat, Swiggy, among others, allow customers to choose and order from detailed menus that are available online. They give an additional convenience factor of ordering from comfort of home and provide discounts, cashback and lucrative offers, which these QSRs can not match. However, these food aggregators have their fair share of problems, starting with low APC (average price per customer), low order value (average order Rs 400). There are no extra delivery charges, high average of delivery costs and less than 20 per cent margins from restaurants

D. Micro Cuisines

For a long time, quick service focused on trends like burgers and chicken. Then there was the focus on regional flavors and even some ethnic foods, including Mexican and Chinese. But in 2016, more hyper regional items on the menu. Part of that is driven by food ingredients that come from particular local areas—an offshoot of the locovore movement that has been trending in recent years—as well as popular local menu items. Similar change was seen in the burger segment with Burger Singh brand which provides added desi flavor to burger to attract and suit the local crowd.

E. Asian meals as Fast Casual

India and China are the world's most populous countries, but so far Asian food has made only limited inroads in the quick-serve industry. But that's all set to change. The market is wide open for an Asian concept with a mid-market price point and a semi-upscale feel. Mamagoto chain is an example which is launch in India which are exploring this area of fast casual with Asian cuisines

6. Challenges in Indian Market

A number of foreign-owned brands such as Starbucks, Burger King and Domino's Pizza have now been incorporated into the local market. While this has a positive economic impact and gives consumer more choice, it significantly increases competition and puts more pressure on the performance of established brands.
Following a tried and tested model is no longer a guarantee for success in the franchising sector. Convenience and innovation in technology is increasingly becoming important to customers. Consumers now want the option of ordering meals online and getting them delivered to their homes. Moreover, there is an emerging focus on wellbeing, with consumers opting for healthier food options and preferring to patronise businesses with ethical and sustainable business practices.

The Indian hospitality industry is highly labor-intensive, but the availability of trained chefs, managerial staff and other support staff is low. According to a study by the Ministry of Tourism, the current supply of skilled/ professionally trained manpower is estimated to be ~9% of the total manpower requirement. Given this shortfall of quality manpower and the industry's high attrition rate of 20-25%, the cost of labor is high. To bridge the demand and supply gap, currently players are hiring in huge numbers and increasingly investing in in-house training programs.

For over a decade, India has been experiencing an escalation in real estate prices amplified by increasing demand and the availability of easy credit. For food services outlets, real estate (rentals) is the second major cost component after raw materials and accounts for ~12-15% and sometimes even 20% of total revenues. Further, labor costs are also high in India. People get low salaries, productivity is low, and thus there is a requirement for more employees. The high labor and real estate costs, couples with the high services tax on property, are exerting pressure on store profitability and consequently deterring the growth of food services outlets.

7. Investment Pattern and Investor

Regional local chains have always thrived in India owing to multiple reasons but it is about time India saw a truly national brand emerge that can go global. The Indian F&B business is worth Rs 33,000 crore and is growing at 25% per annum according to retail consultancy Technopak Advisors and is pegged to cross INR 50,000 crores in a couple of years. The demand is no barrier but what might hinder the coming of age of a national brand is the diversity in terms of tastes.

If you're entering into QSR, you're on your own to start out with. The ecosystem is nowhere close to a level where an idea will get financial backing, especially in this segment (and neither it should be). One needs to have their unit economies setup with a strong business model to seek funding.

Company	Founded	Funded By	How much ?
CCD	1996	Sequoia Capital in 2006-2007	$20 million in 2 tranches
Ammis Biryani	2007	SAIF Partners in 2012	$ 8 million
Faasos	2003	Sequoia Capital in 2011	$ 5 million
Fishtro	2010	Correa Hospitality in 2012	$ 5 million
Goli VadaPav	2004	Venture East in 2011	$4.7 million
Mast Kalandar	2005	Helion and Footprint Ventures in 2010	>$2 million in Multiple tranches
Steammo	2010	IncuCapital in 2012	<$0.1 million
Kaati Zone	2005	Accel,Draper, Aashish Gupta in 2007	
Poncho	2011	IAN in 2012	

Figure 2- Investment in QSR from 2000 – 2010 (Source VCC Edge)

Investments on Plate		
(Angel/seed/VC/PE deals)		
Year	Deals	Value ($Min)
2011	11	139.42
2012	14	127.72
2013	9	131.02
2014	13	128.64
2015	10	111.3
Total	57	638.1

Figure 3 -Potential investment patterns after 2010 (Source- VCC Edge)

Top five deals between 2011 and 2015			
Dates	**Target**	**Buyer**	**Value($Min)**
Dec'14	Devyani International Ltd	Temasek Holding Advisors India Pvt Ltd	81.31
Nov'13	Burger King India Pvt Ltd	Everstone Capital Management	100
Nov'12	Harry's International Pvt Ltd	Everstone capital partners II LLC, Verlinvest SA	35.6
Jan'12	Vasudev Adiga's Fast Food pvt ltd	New Silk Route PE Asia Fund LP	38
June'11	Sagar Ratna Restaurants Pvt ltd	India EquityPartners Fund I	30.44

Figure 4- Notable investment in last 5 years (Source- VCC Edge)

Franchising should not be the first model to be tried; it can be a double edged sword as it adds an additional variable of uncertainty to the consumer delivery and experience. Franchising will probably come in only after the business has set up several own stores and truly understood the unit economic model so they can institutionalize the same and then hand over to franchises. A central kitchen is a good way to manage scale, control inventory and reduce the need for a senior chef at every location.

Unit economics is absolutely the most critical factor for understanding the drivers of the business and planning for growth. The complexity comes from the fact that so many factors influence unit economics and it can vary very widely across geographies and even within the same city that its essential to understand the key variables and then focus on them obsessively. In addition, setting up scale process and systems early on and reducing dependence on human intervention is the other learning for us when scaling businesses.

Indian cuisine is very much centre of the plate and over 90% of consumption is still in this category for QSR. While the taste preferences vary across geographies and some tweaks to the recipes may be required, the overall brand positioning and they needs to be consistent and have a universal appeal. A simple model based on less complexities and variables is of essence because managing operations in several cities across the country and still ensure a uniform experience and quality will be the key driver of brand building.

Early movers among the Internet-first restaurants, which work on a delivery-based model, include Holachef, Spoonjoy, Frsh, Yumist, Eatlo, Biryani 360, Tapcibo, FreshMenu & Foodyn. The expansion of standalone last-mile delivery logistics companies on the back of the ecommerce boom is expected to also support the delivery businesses of restaurant companies.

8. Comparison for QSR and Restaurant costing

Major Comparision of QSR Chain Investment				
	Franchise total Investment	**Fee**	**Service fee/Royalty**	**Break even time**
Mcdonald	5 - 15 cr	30 lakhs	4% - 5%	2-5 yrs
Dominos	80 lakhs - 3 cr	-	5.50%	2-4 yrs
Subway	25-60 lakhs	4.5 lakhs	8%	2-3 yrs
KFC	1 - 4 cr	15-20 Lakhs	4%	2-3 yrs
Nandos	1.2- 1.8 cr	-	5%-7%	2-5 yrs
Ammis Biryani	25 - 35 Lakhs	5 lakhs	-	2 yrs aprox

Figure 6- Comparison for Franchise Investment (Source: Franchise India)

Name	Area	Rent/Month (Rs)	Operating Cost	Sales/Month (Rs)	City
Rushhrs - Kothrud	250 Sq ft	65,000/-	2/2.5 Lacs	6/7 Lacs	Pune - Suburban
Russhrs Baner	800 sq ft	90,000/-	3/3.5 Lacs	9/10 Lacs	Pune City
St. Thomas Mount	70 sq ft	5000/-	0.4/0.5 Lacs	1.5 lakhs	Chennai - Suburban
Alandur	150 sq ft	15,000/-	0.8/1.00 Lacs	3 lacs	Chennai - Town
Average Restaurant	750 sq ft	1,50,000/-	6/8 Lacs	20/22 Lacs	Mumbai - Suburban
Frisbees QSR Bandra (Suburbs)	250sq ft	42,000/-	3/4 Lacs	7/9 Lacs	Mumbai - Suburban

Note: *Traditional Restaurant depending of the interiors and ethnicity provided to the culture and cuisine will require total 1cr-10cr investments*

Figure 7- Comparison for QSR and Traditional Restaurant setup

9. Domino v/s Pizza Hut

Domino Pizza is such a huge and popular franchise the investment is obviously going to be big. The investment required in India to open Domino Pizza franchise is around 80lakh to 3 cr. This cost is reduced for transitional and non-traditional stores. There types of stares require investment around 30 to 50lakhs respectively. There is also royalty fees for domino Pizza and that us 505% for stores weekly sales. This fee is 4% for transitional and non-traditional stores as advertisement cost is low for them. There are also 1.5% audit expense, 1500$ for transfer, 1000$ /session for training. The charges for testing ad evaluation indemnification, cost of enforcement is separate from above charges and varies from place to place. The annual software enhancement fee is also charges which is 415$ per year. These changes may vary in Indian currency. This franchise is different for different categories of investor, i.e internal franchise for those who have previous. It worked with the company in post like general manager and so on and external franchise for the rest. Though it is always profitable to open a dominos pizza franchise in market and malls in big cities but due to urbanization in big cities people have largely accepted western food and pizza is one of the most loved western foods. Therefore domino pizza has also proven to be successful business in sub-urban areas, another benefits is that land in suburbs is cheaper than town.

The cost of starting a Pizza Hut franchise in India is quite high. In the United States, minimum investment required for opening a Pizza Hut franchisee would be something around $350000 to $400000. Translated into Indian currency at the prevailing rates, that means nearly 2- 3 crore rupees. However, considering the comparatively cheaper land value and lifestyle in most Indian cities than in the United States, this cost could come down to one and half crore rupees. The initial franchise fee is 25 thousand USD, or nearly 15 lakh rupees as per the present conversion rates. Additionally, you will have to pay an annual 6.5% royalty on your profit. Now let us come to ROI, or Return of Investment. The initial investment amount of starting Pizza Hut franchise in India is indeed colossal, but the return is always worth the investment. The future potential of Pizza Hut in India in general is quite good, and we have adequately explained that in the above section. Metro areas are nearly saturated, but the growth and potential growth are clearly visible in suburbs. The suburban Indians are also fast getting habituated to cosmopolitan lifestyle with increasing fascination to western foods, and the land value in suburbs for starting a new Pizza Hut restaurant in India will also be relatively less. Remember, in areas crowded with vegetarian peoples, you might need to increase your veg items. There are two all veg Pizza Huts in Gujarat to cater to the Jains who do not meat at all, nor eat at places where non veg dishes are served. You have to adjust your business plans according to your locale.

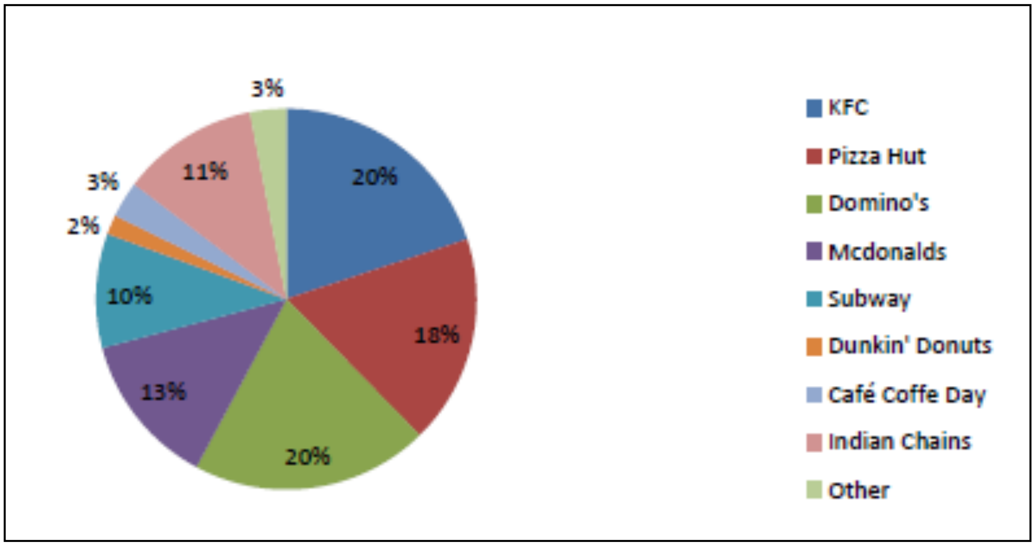


Figure 7- Comparison for Favorite QSR Preferred in India (Source: ResearchPublish.com)

Fast-food chains face a tough time balancing between margin pressures and hiking prices which can hurt volumes. Consequently, the chains have to increase rates or rework their strategies. Affordability has been the cornerstone of global strategy. Some of its measures to achieve this include – Bulk buying, long-term vendor contracts, and manufacturing efficiencies.

In this recessionary times, the basic strategies of Pizza Hut is on making consumers try new products and gradually move them over to high price points. Therefore, the strategy rests upon a simple dictum – hook the customer, make him get used to a product, so that he becomes a habitual buyer. In general, the pricing strategy in the market seems to be concentrated on providing and enticing Indian customers with rock bottom prices in order to drive volumes and higher sales in an inflationary economic environment. Further, the emphasis has also been on creating and offering 'snacking option' rather than a full-meal by Pizza Hut. It piloted the project in Chennai in recent past and is taking the product nationally across 30 cities as Pizza Hut Delivery (PHD) outlets.

The major competitor of Pizza Hut is Domino's Pizza, which believes that, people eat pizzas because they want to enjoy the authentic taste. Considering this view, though Domino's experimented with flavours like, Chettinad Chicken in the past, it realised regional flavours did well initially due to the novelty factor, but could not sustain themselves in the long run. Hence, Domino's answer to innovations are the cheese burst pizza or the three cheese pizza (made only for India) which are exotic, but retain the international influence. Unlike Domino's Pizza, Pizza Hut wants to focus on more than just pizzas. It has offerings like pasta, appetisers

and a larger collection of beverages. This is part of its strategy to make the transition from a quick service restaurant (QSR) to a casual dining restaurant. And the introduction of wine and beer in a few outlets is a part of the strategy. This strategy also acts as a differentiator from their rival Dominos whose core strength has been home delivery.
The competition of the pizza delivery industry is definitely a threat for Domino's. There are constantly new businesses being formed in the pizza and fast food industries. Some of their emerging competitors are Pizza Hut, Papa John's. Another threat is how people are becoming much more aware of their health. With this increase in health awareness, it could affect the profits of Domino's. A final threat is the increase of labor and food prices. Minimum 5 wages has a major impact on their business. All of Domino's supplies have also increased in price and this has hurt their profits by increasing their operating costs.
If there was one thing Domino's was good at, it was delivering pizza at break-neck pace- the brand was widely known for being able to beat its competitors by delivering pizza extremely quickly with a no-hassle online service. In fact, it had the biggest Web ordering portal in the pizza industry in 2009 (20% of its orders came from online), even when its total market share in the pizza industry was significantly lower than that of Pizza Hut (Globally)

The expansion is expected to happen in tier II and tier III cities. Among the many challenges Pizza outlets is facing in recent times are:

- Constant need and assured supply for adequate manpower to run
- The outlets, a problem common to all operators in the sector challenges of solid supply chain system
- Ever-increasing real estate cost

However, there are several drivers which provides opportunities for this sector, such as,

- Segmenting the market to make the products more affordable to a varied range of customers
- Increasing the number of offerings in the menu at affordable
- Cost from appetizers to pizzas, pastas, and desserts.

10. Upcoming QSR Brand in India

- **Goli Vada Pav No.1** : Started in 2004 with the aim to develop an ethnic snack chain. It now operates 150-plus eateries in 40 cities across Maharashtra, Karnataka, Tamil Nadu, Andhra Pradesh, Madhya Pradesh and Uttar Pradesh, with supply chain and technology support from a multinational food solutions company. In 2011, VC firm VenturEast invested $4.7 million or Rs 21 crore in Goli Vada Pav.
- **Republic of Chicken**: This is one of the largest homegrown poultry producers and retail brands. ROC came up when Chandigarh-based Alchemist Group diversified into the dining segment in 2010 and started the first two outlets in Delhi. Besides running the QSR chain, it also supplies poultry products to global brands such as KFC and large supermarket chains including Wal-Mart, Reliance Fresh and Spencer's. It also distributes products through a chain of own brand retail stores and delicatessens across northern India. According to the company's facebook page, it currently has 120 operational outlets. Earlier in 2010, there were media reports that the company was looking for PE funding for expansion. But there has been development on that front. At present , it is also expanding through the franchise route.
- **Fast Trax** : Processed foods exporter Hind Group diversified into the fast food business back in 2006 and started operating under the brand name Fast Trax. The chain offers Indian snacks and desserts. Hind Group initially (in 2006) invested Rs 5 crore into the business with a road map of Rs 20 crore for opening more outlets. At present, the chain has over 30 stores in Delhi and Aligarh
- **Ammi's Biryani** : Set up in 2008, Ammi's Biryani today has 24 outlets. Founded in 2008 by Navaj Sharief, this one specialises in Indian cuisine and mainly operates as a take-away and delivery chain across 13 locations in Bangalore. Currently, it runs a total of 24 outlets. In August 2012, SAIF Partners put in Rs 40 crore or $7.2 million in TMA Hospitality Services Pvt Ltd, which owns Ammi's Biryani.
- **Adiga's** : The QSR chain is promoted by electronics engineer-turned-hotelier, Vasudeva Adiga. Besides restaurants, it also has presence in event catering business. Its corporate clients include marquee names like SAP, NDS, Ingersoll Rand and Honeywell. It currently runs more than 15 outlets in Bangalore. In April 2012, New York-based PE fund New Silk Route invested in the middle-tier South Indian chain as part of its foray into the food and beverage space.
- **Chaayos** : Chaayos, the NCR-based, tea-outlet chain had raised USD 5 million in funding from Tiger Global. Chai Point is another upcoming and fast-growing tea-outlet chain and Teabox from Siliguri has raised USD six million from Accel Partners to take Indian tea to the world

- **Faaso's** : Set up in 2004, this Indian fast food chain offers a variety of wraps (a type of sandwich). According to its website, the company has 16 outlets in Pune and 31 outlets in Mumbai. In October 2011, it raised $5 million (Rs 25 crore) from Sequoia Capital for an undisclosed minority stake.
- **Hokey Pokey Icecream** : The parent company of Epigamia Greek yogurt and Hokey Pokey ice cream, Drums FoodInternational has raised Rs 44.5 crore in a Series A funding round led by by Verlinvest, a Belgian-based consumer focused private equity group and DSG Consumer Partners (DSGCP), an early-stage venture capital firm run by consumer industry veteran Deepak Shahdadpuri.
- **Chaipoint** : Chai Point, led by CEO Amuleek Singh, currently serves chai in Bangalore and the NCR region through their 60+ stores and Chai on Call delivery service. They recently conducted the third edition of the event called Chai Masters at their MG Road branch in Bangalore.
- **Mast Kalandar** : QSR chain which has received decent amount of funding at regular intervals. Set up in 2005, Spring Leaf Retail-owned Mast Kalandar has received three rounds of funding worth $11 million till date. In 2008, Footprint Ventures invested in the Series A round while in 2010, PE firms Helion Venture Partners and Footprint, along with the Salarpuria Group, funded the Series B round in Mast Kalandar. In December 2012, it raised another $6 million from Helion and Footprint. The last round of funding will be used to scale up to 100 outlets across eight cities in the next 12 months . Mast kalandar currently has 40 outlets in bangalore , hyderabad , Chennai and Pune and serves 2 lakh customer every month.
- **Nukkadwala** : The first outlet is in the work on Sohna Road, Gurgaon, though a launch date has not been announced. Vatika Group is committing INR 30 crore as initial investment, though it hints of adding INR 100 crore in the second round, if things go well.
- **Carl's Jr, Fatburger, Johnny Rockets, Wendy's and Barcelos**, for example, have recently set shops in India, while in the non-burger category, Johnny Rockets started its operations in January 2014 and Dunkin' Donuts in May 2012.
- **Foreign Backed Indian Operated** Azure Hospitality, the foreign direct investment-backed company, which runs the upscale pan-Asian restaurant chain Mamagoto, and mid-market chains Speedy Chow and Rollmaal.

11. Emerging Brand without funding

- **Rushhrs** : It is a burger joint started in Pune, which is following franchise route instead of going for funding brings a new tasty and healthy concept to you! Engineered by professionals and served up fresh it offers a unique experience and taste to its customers. Established in August 2010, the brand has garnered a name for Omelets Burgers & Grilled items with its unique offering of various Veg. & Non-Veg. cuisines. Experience of operating 6+ in Pune. They have and are looking forward to give franchise for all over India market. They don't want to get in the trouble of scaling and getting unit economics right with funding as many of them have failed with that attempt and there have been 4 partners to chip in for the investments.
- **Dumpling MoMo:** Dumpling Momo, a brain child of Mohit Kumar Bhati and Manish Kedia, offers a wide range of delicious snacks which are delectable and healthy at the same time. The brands menu offers more than 48 varieties of momos and quenches. The brand through experimenting and innovation have devised many exceptional and tempting momo dishes making the brand stand out of the crowd of food chains offering similar cuisines. No funding taken so far and opted for franchise option.
- **Khan Saheb**: Based out of Bangalore aims at recreating age old recipes from Traditional India to lip-smacking food, fresh and hot; right off the grill. They procure fresh and quality ingredients, latest marinating techniques and grilling for perfect succulence. Offering a wide array of starters, rolls and specials for vegetarians and non-vegetarians, their food is robust in flavors. After their success in Bangalore, the company is now keen on making it a national brand through Franchising instead of raising the fund for faster growth. Their major concern with funding is scaling the model. They already have 9 outlet in Bangalore and not so eager to dominate and scale faster as it will require lot of skilled labor to get everything right.
- **Star Burma** : It is the first quick service restaurant model started in the year 2016, which serves scrumptious Veg & Non veg Burmese street foods, which is quite famous In North Chennai. "Atho' is one of the very famous street food from Burmese cuisine in Chennal. Particularly very popular in areas like Parrys corner. Vyarsarpadi and along the roadside of most famous '2nd Lane Beach Road" in George Town,In a world of Burgers. Pizzas and other Fast food, this authentic Burmese food has the power to mesmerize the taste buds of footles from anywhere and everywhere in the country, as all our food and masala is fresh and made daily. The food served here has high nutritional values and is available at an affordable cost. Low investment with high returns -one can easily get you a 30% return on investment, paying back your money in just 12 - 15 months (depending on location). They have not taken any funding as of yet but are looking for option along with franchise opening scheme.

12. Unsuccessful Startup in Indian market

- **Dazo :** Golden investors and bona fide founder certification still couldn't save this one. The Google India MD, the Amazon India country manager, the FreeCharge CEO, and the founders of CommonFloor, TaxiForSure, and Yo China were all investors in this food startup. Its founder, Shashank Kumar Singhal, was the mobile product head for India's first bus ticketing site RedBus, who had qualified from the prestigious Indian School of Business. His co-founder Monica Rastogi was equally well qualified. And yet, it had to shut down in October within a year of launching. The startup began as an internet kitchen with its own chefs and reliable partners serving a few localities in Bangalore. But soon the pressure to scale up made it pivot into an aggregator of restaurants as it focused on the tech at the cusp of food and logistics. This made it dependent, however, on many restaurant partners whose food quality and delivery efficiency were beyond its control. The curation of content it promised at the outset began to take a beating. It changed its name from TapCibo (because many new consumers didn't get "cibo" is Italian for food), but neither the new name Dazo nor the cool tech it had developed could prevent its slide.

- **Spoonjoy :** Spoonjoy, like Dazo, had an impressive roster of investors including Flipkart founder Sachin Bansal. This food tech company got follow-up funding of US$1 million from Saif Partners. But it could not sustain operations and scaled back last month before being acquired by grocery delivery startup Grofers, whose founder Albinder Dhindsa made it clear that it was an acqui-hire and Grofers had no intention to diversify into the food delivery business.As urban India sees a mushrooming of nuclear, double-income families, as well as a large influx of young singles with busy work schedules, there's clearly a big opportunity for food ecommerce. But this has led to a rush to fund food startups from investors with a "fear of missing out" syndrome. Not enough attention has gone into the cash burn and quality problems on the ground. Now, many of the startups are finding it hard to raise later stage funding and floundering.

- **Langhar** : Launched in February 2013, the Delhi-based portal-backed by Times Internet incubatorTLabs-won $1,50,000 (Rs 90 lakh) at The Ark Challenge in September 2013, among three other startups from India. The Ark is a US-based accelerator program for technology startups.TLabs, which typically invests in early-stage companies, put in another $20,000 (Rs 12 lakh) under its incubation program in February this year. Langhar's concept was borrowed from Singh's mother who cooked and sold biryani, paratha and sarson da saag (a typical Indian dish) in their locality. Her business was a hit and many other ladies had followed suit. Failed due to quality of food which was challenge , marhins were really low and delivery was big challenge.

- **Zeppery** : ($77K from Angel investor Suyash Sharma) Zeppery was a restaurant food pre-orderin app that allowed users to pre –order food at restaurents and other food outlets .It decided to shutshop just after six months of commencing operations. The founders stated that they were trying to copy Tapingo, a US based startup , but realized that this model was too early for Indian market and the customer retention costs were too high.

- **BiteClub** : BiteClub was launched in 2014 by Aushim Krishan, Prateek Agarwal and Siddharth Sharma to connect consumers and home chefs via a mobile app and the website. Although investors including Powai Lake Ventures, growX ventures and a group of angels invested in BiteClub but it stepped back in May as it could not able to solve few problems.

- **EazyMeals** : Another failure was EazyMeals, It closed operations just after eight months of its start. Ravi Baranwal and Harshdeep Rapal launched this venture and has raised funding from Matrix Partners successfully but died early after that.

- **Zupper Meal** : a home delivery food venture backed by world famous chef Sanjeev Kapoor! It has closed its operations in May 2016 just after eight months of raising seed funds from celebrity chef Sanjeev Kapoor and Ravi Saxena. It has also raised undisclosed amount from overseas investors in October 2015 but could not survive for a long time period. It was started by Pallavi Saxena, Balasubramanian Anantha Narayanan and Prabhakar Banerjee to allow users pre-order food at nearby restaurants.

- **ITiffin** : Meal service provider iTiffin closed down operations in March 2016, It was based in Bangalore and started by Ryan Fernando and Tapan Kumar Das in 2013. Although it has raised $1 million seed funding from different investors but all went in vain as it could not survived for a long time period. meal service provider iTiffin closed down operations in March 2016! It was based in Bangalore and started by Ryan Fernando and Tapan Kumar Das in 2013. Although it has raised $1 million seed funding from different investors but all went in vain as it could not survived for a long time period.

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Research Team

Parth Bhuta, Business Development Associate

Abhishek Deochake, Apprentice Analyst

E: connect@whiteunicornventures.com

W: www.whiteunicornventures.com