

November, 08, 2021

## Sapphire Foods India Limited

Sapphire Foods India Limited (SFIL) was incorporated on November 10, 2009. Sapphire Foods is YUM's largest franchisee operator in the Indian subcontinent with revenue from operations of ₹1,340 crore and ₹1,020 crore for the financial years 2020 and 2021, respectively. Company's association with Yum started in 2015 and they presently have the non-exclusive rights to operate restaurants under 3 of YUM's leading brands, namely, the KFC, Pizza Hut and Taco Bell brands in the Territories. As of June 30, 2021, they owned and operated 209 KFC restaurants in India and the Maldives, 239 Pizza Hut restaurants in India, Sri Lanka and the Maldives, and 2 Taco Bell restaurants in Sri Lanka. Total number of restaurants are 450 as of June 30, 2021.

**Positives:** (a) YUM's largest franchise operator in the Indian subcontinent in terms of revenue (b) Portfolio of well recognized global brands across spectrum (c) Scalable business model (d) Experienced Board and senior management team.

**Investment concerns:** (a) SFIL is making continuous losses on bottom-line front, hence profit concerns remain; (b) Slowdown in the economy could impact the overall revenue of the company (discretionary in nature).

### Outlook & Valuation:

In terms of valuations, the post-issue FY21 EV/Sales works out 7.4x to (at the upper end of the issue price band), which is low compared to its peers Devyani International (FY21 EV/Sales -16.3x). Further, Sapphire Foods India has a better revenue per store compared to Devyani International. On the EBITDA front, the company is continuously showing improvement. Considering all the positive factors, we believe this valuation is at reasonable levels. Thus, we recommend a subscribe rating on the issue.

### Key Financials

Y/E March (Rs cr)	FY2019	FY2020	FY2021	1QFY21	1QFY22
<b>Net Sales</b>	<b>1,194</b>	<b>1,340</b>	<b>1,020</b>	<b>111</b>	<b>303</b>
% chg	-	12.3	(23.9)	-	173.0
<b>Net Profit</b>	<b>(45)</b>	<b>(158)</b>	<b>(98)</b>	<b>(75)</b>	<b>(26)</b>
% chg	-	431.7	309.9	-	-
OPM (%)	3.2	6.8	12.2	(7.9)	11.2
<b>EPS (Rs)</b>	<b>(8.5)</b>	<b>(29.8)</b>	<b>(18.7)</b>	-	-
P/E (x)	-	-	-	-	-
P/BV (x)	13.2	11.9	13.0	-	-
RoE (%)	-	-	-	-	-
RoCE (%)	-	-	-	-	-
EV/Sales (x)	5.1	5.1	6.7	-	-
EV/EBITDA (x)	159.2	74.8	54.6	-	-

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

## SUBSCRIBE

Issue Open: Nov 09, 2021  
Issue Close: Nov 011, 2021

### Issue Details

Face Value: ₹10
Present Eq. Paid up Capital: ₹52.8cr
Offer for Sale: ₹2,073cr
Fresh issue: Nil
Post Eq. Paid up Capital: ₹63.5cr
Issue size (amount): ₹2,073cr
Price Band: ₹1,120-1,180
Lot Size: 12 shares
Post-issue mkt.cap: ₹7,117* - 7,498cr**
Promoter holding Pre-Issue: 60.1%
Promoter holding Post-Issue: 50.0%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	75%
Non-Institutional	15%
Retail	10%

### Post Issue Shareholding Pattern

Promoters	50.0%
Public	50.0%

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## Company background

Sapphire Foods India Limited was incorporated on November 10, 2009. Sapphire Foods is YUM's largest franchisee operator in the Indian subcontinent with revenue from operations of ₹1,340 crore and ₹1,020 crore for the financial years 2020 and 2021, respectively.

Company's association with Yum started in 2015 and they presently have the non-exclusive rights to operate restaurants under 3 of YUM's leading brands, namely, the KFC, Pizza Hut and Taco Bell brands in the Territories.

They are also Sri Lanka's largest international QSR chain in terms of revenue for the financial year 2021 (with revenue of ₹190 crore representing 35% of the total market revenue) and number of restaurants operated as of March 31, 2021 (with 68 restaurants representing 39% of the total number of outlets in the market). They have also established a presence in the Maldives.

As of June 30, 2021, they owned and operated 209 KFC restaurants in India and the Maldives, 239 Pizza Hut restaurants in India, Sri Lanka and the Maldives, and 2 Taco Bell restaurants in Sri Lanka. Total number of restaurants are 450 as of June 30, 2021.

## Issue details

Sapphire Foods India is raising ₹2,073cr through offer for sale by the company's shareholder.

### Exhibit 1: Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	38,173,680	60.1%	31,752,208	50.0%
Public	25,368,861	39.9%	31,790,333	50.0%
Total	63,542,541	100.0%	63,542,541	100.0%

Source: Source: RHP, Note: Calculated on upper price band

## Objectives of the Offer

- Carry out the offer for sale of up to 1.75cr equity shares by the selling shareholders,
- Achieve the benefits of listing the equity shares on the stock exchanges, and
- Enhancement of company's brand name amongst existing and potential customers and creation of a public market for equity shares in India.

**Exhibit 2: Consolidated Income Statement**

Y/E March (₹ cr)	FY2019	FY2020	FY2021
<b>Net Sales</b>	<b>1,194</b>	<b>1,340</b>	<b>1,020</b>
% chg		12.3	(23.9)
<b>Total Expenditure</b>	<b>1,155</b>	<b>1,249</b>	<b>895</b>
Raw Material	395	432	310
Personnel	208	229	196
Others Expenses	553	589	390
<b>EBITDA</b>	<b>39</b>	<b>91</b>	<b>124</b>
% chg		136.5	36.4
(% of Net Sales)	3.2	6.8	12.2
Depreciation & Amortisation	74	191	209
<b>EBIT</b>	<b>(36)</b>	<b>(100)</b>	<b>(85)</b>
% chg		179.7	(15.3)
(% of Net Sales)	(3.0)	(7.5)	(8.3)
Interest & other Charges	18	72	76
Other Income	10	11	62
(% of PBT)	(22.4)	(7.0)	(62.4)
Share in profit of Associates	-	-	-
<b>Recurring PBT</b>	<b>(44)</b>	<b>(161)</b>	<b>(99)</b>
% chg		269.6	(38.7)
Tax	1	(2)	1
(% of PBT)	(2.5)	1.1	(1.2)
<b>PAT (reported)</b>	<b>(45)</b>	<b>(159)</b>	<b>(100)</b>
<b>Basic EPS (₹)</b>	<b>(8.5)</b>	<b>(29.8)</b>	<b>(18.7)</b>
% chg		252.7	(37.5)

Source: Company, Angel Research

**Consolidated Balance Sheet**

Y/E March (₹ cr)	FY2019	FY2020	FY2021
<b>SOURCES OF FUNDS</b>			
Equity Share Capital	43	50	53
Reserves & Surplus	429	474	427
<b>Shareholders Funds</b>	<b>472</b>	<b>524</b>	<b>480</b>
Total Loans	96	646	645
Deferred Tax Liability	17	12	11
<b>Total Liabilities</b>	<b>587</b>	<b>1,182</b>	<b>1,134</b>
<b>APPLICATION OF FUNDS</b>			
<b>Net Block</b>	<b>719</b>	<b>1,161</b>	<b>1,084</b>
Capital Work-in-Progress	21	21	30
Investments	-	16	27
Current Assets	355	186	208
Inventories	38	47	48
Sundry Debtors	22	5	8
Cash	186	39	50
Loans & Advances	16	74	75
Other Assets	92	20	28
Current liabilities	508	202	215
<b>Net Current Assets</b>	<b>(153)</b>	<b>(16)</b>	<b>(7)</b>
Deferred Tax Asset	-	-	-
<b>Total Assets</b>	<b>587</b>	<b>1,182</b>	<b>1,134</b>

Source: Company, Angel Research

**Consolidated Cash Flow Statement**

Y/E March (₹ cr)	FY2019	FY2020	FY2021
Profit before tax	(44)	(161)	(99)
Depreciation	74	191	209
Change in Working Capital	(1)	18	15
Interest / Dividend (Net)	8	62	70
Direct taxes paid	(4)	(3)	(3)
Others	12	105	(38)
<b>Cash Flow from Operations</b>	<b>47</b>	<b>213</b>	<b>154</b>
(Inc.)/ Dec. in Fixed Assets	(174)	(142)	(73)
(Inc.)/ Dec. in Investments	(161)	140	(5)
<b>Cash Flow from Investing</b>	<b>(335)</b>	<b>(2)</b>	<b>(78)</b>
Issue of Equity	0	0	44
Inc./(Dec.) in loans	66	(82)	(18)
Dividend Paid (Incl. Tax)	0	0	0
Interest / Dividend (Net)	216	(126)	(78)
<b>Cash Flow from Financing</b>	<b>281</b>	<b>(208)</b>	<b>(52)</b>
Inc./(Dec.) in Cash	(7)	3	25
<b>Opening Cash balances</b>	<b>30</b>	<b>15</b>	<b>17</b>
<b>Closing Cash balances</b>	<b>22</b>	<b>17</b>	<b>42</b>

Source: Company, Angel Research

**Key Ratios**

Y/E March	FY2019	FY2020	FY2021
<b>Valuation Ratio (x)</b>			
P/E (on FDEPS)	-	-	-
P/CEPS	209.8	194.3	57.0
P/BV	13.2	11.9	13.0
EV/Sales	5.1	5.1	6.7
EV/EBITDA	159.2	74.8	54.6
EV / Total Assets	10.5	5.8	6.0
<b>Per Share Data (Rs)</b>			
EPS (Basic)	(8.5)	(29.8)	(18.7)
EPS (fully diluted)	(8.5)	(29.8)	(18.7)
Cash EPS	5.6	6.1	20.7
Book Value	89.4	99.3	90.9
<b>Returns (%)</b>			
ROCE	-	-	-
Angel ROIC (Pre-tax)	-	-	-
ROE	-	-	-
<b>Turnover ratios (x)</b>			
Asset Turnover (Net Block)	1.7	1.2	0.9
Inventory / Sales (days)	12	13	17
Receivables (days)	7	1	3
Payables (days)	39	40	57
Working capital cycle (ex-cash) (days)	(20)	(26)	(37)

Source: Company, Angel Research

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4.Broking relationship with company covered under Research	No

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<b>Ratings (Based on expected returns over 12 months investment period):</b>	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
		Reduce (-5% to -15%)	Sell (< -15%)
		Hold (Fresh purchase not recommended)	