

India's Pizza Market: Get a Slice of the Action





Jubilant Foodworks has dominated India's pizza segment since it opened Domino's first store in New Delhi in 1996 under a master franchise agreement signed with US-based Domino's Pizza Inc. As of Q4FY23, Jubilant operated 1,816 Domino's stores across 393 Indian cities and planned to expand its network to over 3,000 stores over the medium term. During the same period, Domino's stores generated average daily sales (ADS) of Rs.81,430/US\$993. Delivery orders accounted for 63.6% of sales, and dine-in and takeaway orders collectively accounted for 36.4% of sales.

Domino's accepts orders placed through its app, website, and 1-800 number. It also accepts orders placed through food delivery aggregators Swiggy and Zomato. The company so heavily prioritizes speed of delivery that all orders placed through aggregators are delivered by its own last-mile delivery fleet. Domino's has developed a strong delivery competency and outclasses its primary competitor Pizza Hut in this regard. As of FY22, more than 70% of the company's orders were successfully delivered in under 20 minutes. The company has rolled out guaranteed 20-minute delivery across 170+ restaurants in Bangalore with plans to launch the service in Mumbai, Delhi, Calcutta, Chennai, and Hyderabad over the next 12 months. Remarkably, Domino's has been able to improve delivery times despite a significant reduction in headcount.

To get a feel for the company's products and customer experience, we ordered Domino's to our office for a weekday lunch. We placed our order through Domino's website, where we were able to view the company's wide selection of products. Domino's offers five different crust options: Classic Hand Tossed, New Hand Tossed, 100% Wheat Thin Crust, Cheese Burst (a crust filled with liquid cheese), and Fresh Pan Pizza.

Broadly speaking, its pizzas are segmented into three price ranges, with quality of toppings being the primary differentiating factor between the three. Domino's value segment Pizza Mania product line (only available in personal-size) ranges in price from Rs.49-189/US\$0.60-2.30. Standard price 10-inch pizzas range from Rs.239-718/US\$3-9. A 10-inch pizza from the company's newly introduced premium line, Viva Roma, ranges from Rs.699- 849/US\$9-10. Combos for two range from Rs.339-669/US\$4-8, and combos for four from Rs.549-999/US\$7-12. Other items on the menu include chicken wings, chicken meatballs, garlic bread sticks, stuffed garlic bread, potato cheese shots, crinkle fries, a selection of pasta, and desserts. To expand into new product segments and differentiate itself from its competitors, Domino's has introduced tacos and innovated unique products such as the Paratha Pizza and the Burger Pizza.

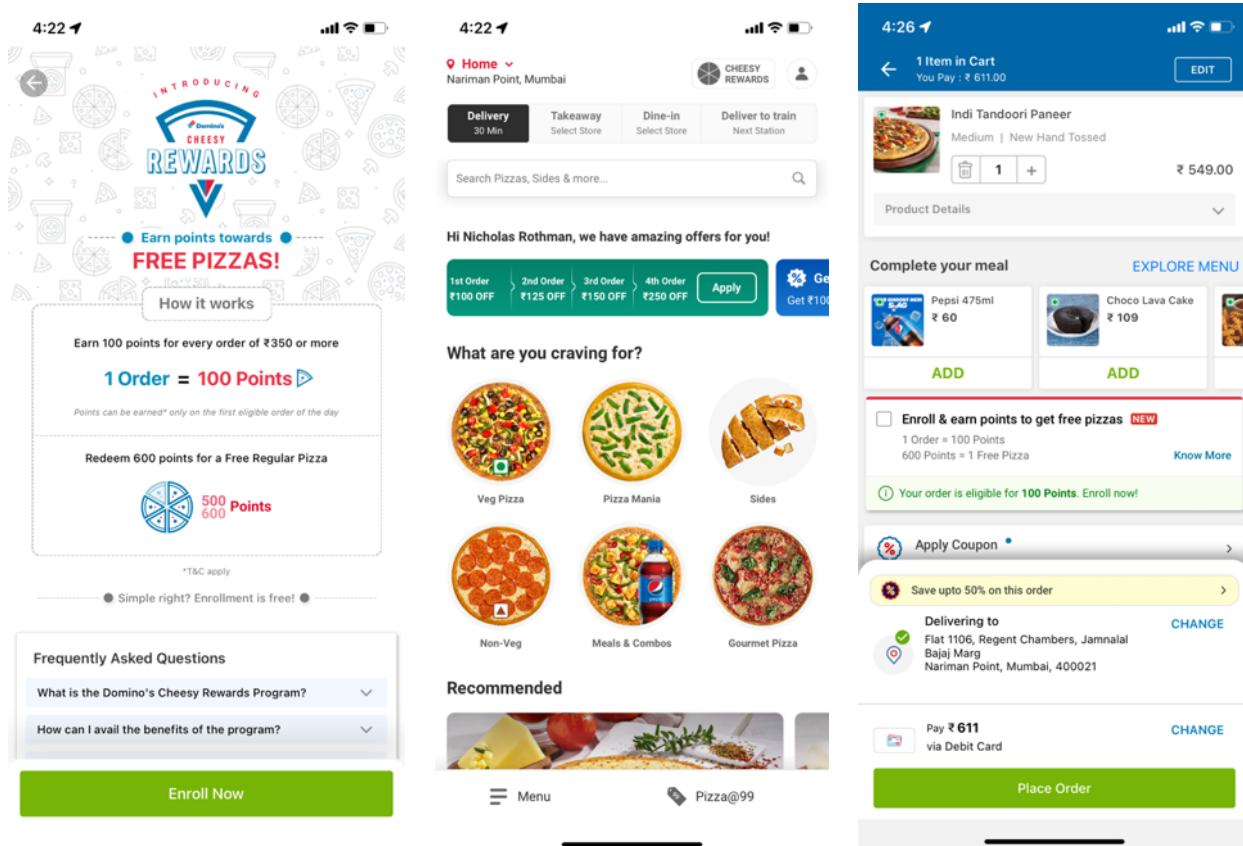
Exhibit 1: Domino's Viva Roma Caprese Gourmet Pizza



Domino's website experience feels buggy and outdated. Its app experience, however, feels much more up-to-date. The app does a better job of informing customers about new products and special offers. It is also more effective at upselling customers on more expensive crust types, additional toppings, sides, beverages, and desserts.

When you consider that mobile ordering accounted for 96% of delivery sales during Q4, it is no surprise that the company has prioritized the quality of its app user experience over that of its website. During Q4, the Domino's app had 11.1 million active users. Domino's recently launched a Hindi version of its app, which will be a game changer for the company as it continues efforts to expand into Tier 4 and 5 cities. The app also enables customers to register for the company's Cheesy Rewards loyalty program. Cheesy Rewards sharpens the company's competitive edge over Pizza Hut, which does not currently operate a loyalty program. Loyalty enrollments crossed 13.6 million customers during Q4, and order contribution from enrolled customers crossed 45% of sales in March 2023.

Exhibit 2: Domino's App



A takeaway from our dining experience: we were disappointed by the quality and taste of our premium segment Viva Roma pizza. That said, we were particularly impressed by the value segment Pizza Mania product (that we ordered for the very low price of Rs.49/US\$0.60), which was delicious. We can confidently assert that Domino's is the undisputed value king among QSR (Quick Service restaurants) pizza brands in India.

Exhibit 3: Domino's Pizza Mania Classic Pizza





Pizza Hut is the second-largest player in India. Pizza Hut stores in India are operated by two franchisees – **Sapphire Foods** (SAPPHIRE IN) and **Devyani International** (DEVYANI IN).

Pizza Hut's menu includes six crust types: Pan, Schezwan Pan, San Francisco Style (a lighter, crispier crust), Cheesy Momo Mia (a momo and cheese sauce enclosed by crust), Stuffed Crust - Cheese Maxx, and Stuffed Crust - Kebab. Sides include cheesy garlic bread, garlic bread sticks, cheesy baked momos, Indi Rockin Roll (a tortilla stuffed with cheese, kebab, and mint mayo), potato poppers, jalapeno poppers, paneer pockets, a selection of pasta, and desserts. Pizza Hut has recently innovated products like the San Francisco Style crust, Cheesy Momo Mia pizza, Schezwan Pan crust, and Stuffed Crust - Kebab to differentiate itself from its competition and appeal to a broader set of customers by entering new product segments. Momos (a type of dumpling), for example, are hugely popular in India (the country's largest homegrown QSR brand is Wow! Momo).

The brand's value segment Flavor Fun products (7-inch pizzas only) range in price from Rs.79-129/US\$0.96-1.57. The staff at Pizza Hut's Phoenix Mills store informed us that 60% of their store's sales volumes are derived from that product line. Standard and premium segment 10-inch pizzas range from Rs.289-689/US\$4-8. Combos for one range from Rs.149-349/US\$2-4, combos for two from Rs.449-499/US\$5-6, and combos for four from Rs.599-799/US\$7-10. Combo meals account for 47% of the company's sales, a la carte pizzas 27%, and sides and beverages collectively account for 26%. While Pizza Hut's value segment products are more expensive than Domino's, its premium segment products are less expensive.

Pizza Hut uses its own last-mile fleet to deliver orders placed through its app and website. With a weaker delivery infrastructure in place than Domino's, the company relies on its aggregator partners (Swiggy and Zomato) to deliver orders placed through their platforms. We placed our delivery order from Pizza Hut through its website. We observed that Pizza Hut's website has a more attractive user interface than Domino's and is more effective at displaying special deals and combos. Pizza Hut's website, unlike Domino's, did not contain a tracker that displayed the live location of the delivery person assigned to our order.

Exhibit 6: Pizza Hut Website

The screenshot displays the Pizza Hut website interface. At the top, the Pizza Hut logo is on the left, and the delivery location 'WRG9+7C9' and 'ASAP' are on the right. Below the logo is a navigation bar with categories: Deals, Pizzas, Sides, Desserts, Drinks, and Vegetarian. The main content area features four promotional banners:

- HOLI TREAT 1 PLUS 1 2 MEDIUM PIZZAS @ 599** with 2 PEPSI FREE. Description: 'Holi Treat - Meal For 4. Treat yourself to 2 fully loaded Medium Pizzas of your choice with 2 Pepsi FREE! Limited time offer only.' Price: ₹599.
- BUY 1 GET 1 FREE ON MEDIUM PIZZAS**. Description: 'Buy One Pizza & Get One Free. Super Value Deal: Buy 1 Medium Pizza from select range & Get another of same or lesser value Free.' Price: ₹539.
- 1 PLUS 1 2 PERSONAL PIZZAS @ 299** with NEW SAN FRANCISCO STYLE PIZZA. Description: 'SAVE 44%'. Price: ₹299.
- FLAVOUR FUN BOX OF 4** starting at ₹349.

On the right side, the 'Your Basket' section is visible, containing an 'Apply Voucher code or Gift Card' button and a message: 'Your basket looks a little empty. Why not check out some of our unbeatable deals?'. At the bottom right, a 'Checkout' button is present, with a note: 'Minimum cart value for delivery is ₹200'.

Pizza Hut's combos are very economical. We ordered moderately more food than we did from Domino's and paid 25% less! Pizza Hut combos offer greater flexibility, with a larger selection of crust types and toppings than Domino's combos, which generally shoehorn customers into ordering from a smaller selection of crust types and toppings. We concluded that Pizza Hut's delivery experience beat Domino's on food quality and innovation, as well as affordability and flexibility of combos. We were particularly impressed with the Cheesy Momo Mia pizza and the value segment Flavor Fun pizza that we ordered. Our team members were disappointed that Pizza Hut, unlike Domino's, does not offer a truly thin-crust pizza.

As of Q4, Sapphire operated 286 Pizza Hut stores across 10 Indian states. The company's core markets include major cities like Delhi, Mumbai, Pune, and Chennai. Sapphire plans to double its Pizza Hut store network over the next four years, with network expansion to be maintained at a rate of 17%-18% per year for the foreseeable future. During Q4, its Pizza Hut stores generated ADS of Rs.50,000/US\$610.

Over the past few years, Pizza Hut has undergone a brand transformation. The brand has enhanced its value proposition (by introducing additional value segment products) to drive more transactions, acquire new customers, and better compete with Domino's (Pizza Hut was traditionally viewed by customers as the more expensive brand). Pizza Hut has closed down its network of dine-in focused large format stores in favor of newly opened small format stores. Sapphire stores that were operational in 2015 were on average 2,100 square feet in size with a payback period of 5-7 years. Stores opened after 2018, measured on average 1,250 square feet in size with a payback period of 3-4 years. As a result, capex requirements per store have fallen by 18% and store-level EBITDA margins improved from 8% in FY19 to 13% in FY23. Small format stores have leveraged omnichannel integration to boost share of delivery and takeaway

sales. During Q4, delivery orders accounted for 52% of sales (up from 35% in FY19), takeaway orders 15%, and dine-in orders 33%.

Exhibit 4: Sapphire’s Small Format Pizza Hut store at Phoenix Palladium



To assess the quality of Pizza Hut’s dine-in and delivery customer experiences, we lunched at Sapphire’s Pizza Hut store in Mumbai’s Phoenix Palladium mall and placed a delivery order from a different store near our office. The store was clean, modern, and had an appealing visual aesthetic. I ordered directly from my table via QR code and was provided with plates and metal cutlery. Food was brought directly to my table by servers. Pizza Hut’s dine-in offering was excellent (the food quality thoroughly outclassed both its own delivery product and anything Domino’s has to offer); a strong dine-in proposition has always been a part of the brand’s DNA.

Exhibit 5: Table Set-up at Pizza Hut Phoenix Palladium



Exhibit 7: Pizza Hut Cheesy Momo Mia Pizza



Exhibit 8: Pizza Hut Flavor Fun Classic Corn Pan Pizza





The largest home-grown player (unlisted) in the Indian pizza segment is **La Pino'z Pizza**. The company has expanded very rapidly, increasing its network from 148 stores in FY21 to more than 550 today. The company has a particularly strong presence in small Indian cities. In 2022, La Pino'z opened its first overseas store in London. It plans to expand to Canada, Australia, the UAE, and Tanzania in the near term. The company focuses primarily on delivery sales.

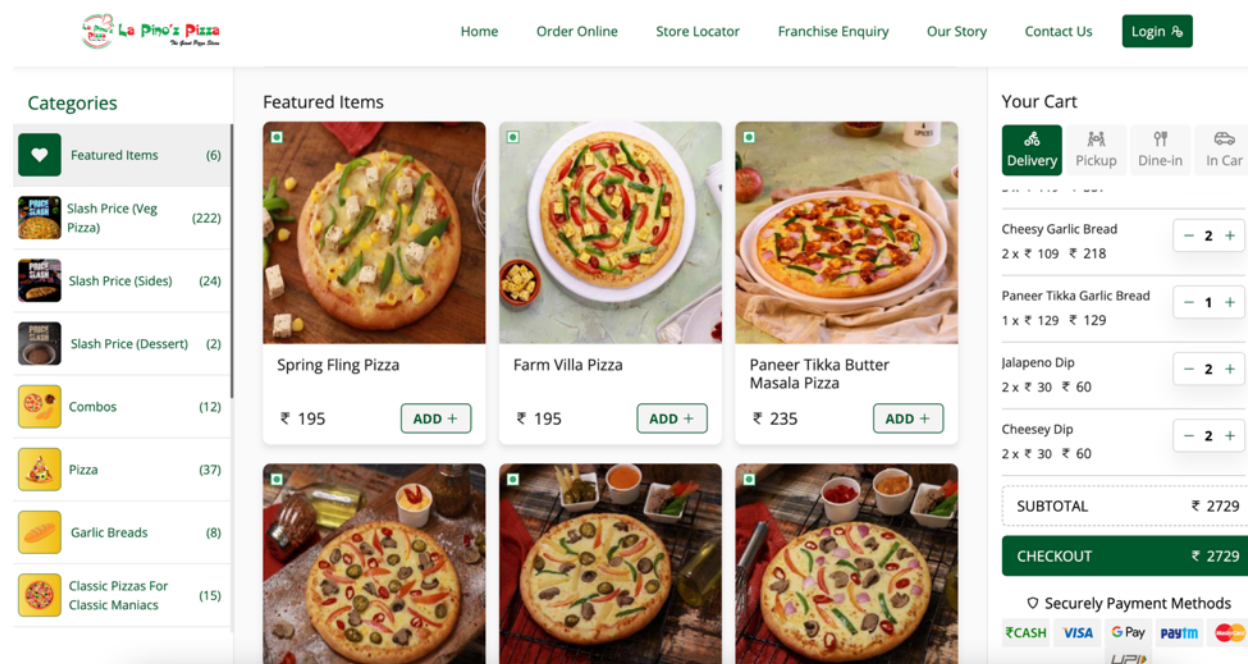
We ordered La Pino'z for a weekday lunch in our office. Their pizzas are available in three crust types: regular, Ultra-Thin, and Double Burst (similar to Domino's Cheese Burst). Unlike Pizza Hut and Domino's, La Pino'z offers pizza by the slice, mac and cheese, a range of quesadillas, and lasagna. La Pino'z has also differentiated itself from its listed competitors by selling very large pizza sizes (17-inch and 24-inch) in addition to its standard 7-inch, 10-inch, and 13-inch pies. For perspective, a typical large-size pizza sold by most pizza brands has a diameter of 12-14 inches. Other items on offer include tacos, garlic bread, stuffed garlic bread, garlic sticks, a selection of pasta, and desserts. Medium-size pizzas range in price from Rs.245-590/US\$3-7. The company also offers a wide range of combo options. Combos for one person are sold for Rs.349-399/US\$4-5, two to three people for Rs.410-739/US\$5-9, four people for Rs.1,199/US\$15, five people for Rs.1,270/US\$15.50, six people for Rs.1,370/US\$17, and 10-12 people for Rs.3,280/US\$40.

Exhibit 9: La Pino'z Cheesy Macaroni Double Burst Pizza



The company’s digital experience is greatly inferior to that of Pizza Hut and Domino’s. We attempted to order through its website but were unable to even add a delivery address. We followed up by placing our order through its app, which was buggy and contained a poorly designed user interface. Like Pizza Hut, its app did not display a tracker that showed the live location of our delivery person.

Exhibit 10: La Pino’z Website



We concluded that the quality of Pizza Hut and Domino’s products was superior to that of La Pino’z. We observed that La Pino’z spicy pizza toppings were spicier, and its tomato sauce sweeter, than those of its listed competitors. Everyone on our team agreed that the company’s offerings were the most Indianized among the three brands. La Pino’z has recorded massive growth in recent years, particularly in small-town India, and it’s easy to see why. Small-town India represents a massive growth opportunity for major pizza players; successful Indianization of products will be a very important factor for pizza players to consider when approaching further expansion there.

Table 1: Key Financial Metrics - India's Listed QSR Companies (INR Mn – FY23)

Company	Brands	Revenue	EBITDA	EBITDA Margin	ROE	EV/EBITDA (FY25)
Devyani International	Pizza Hut, Costa Coffee, KFC	29,980	6,580	22%	34%	27.3x
Jubilant Foodworks	Domino's Pizza, Popeyes, Dunkin'	51,580	11,250	22%	18%	25.9x
Restaurant Brands Asia	Burger King	20,540	1,110	5%	N/A*	56.9x
Sapphire Foods India	Pizza Hut, KFC	22,660	4,280	19%	21%	19.1x
Westlife Foodworld	McDonald's	22,780	3,740	16%	22%	25.8x

*Net profit is negative

CONCLUSION:

We own Sapphire Foods from the above QSR companies because:

1. The sector is a great way to play rising urban incomes and the growing aspirations of the middle class in India's Top 500 cities & towns.
2. Sapphire is the cheapest QSR company in India. On an FY25 EV/EBITDA multiple, it trades at a 30% discount to its immediate peer, Devyani International. Given geopolitical concerns and the potential of a U.S. recession, at 19.1x Sapphire offers downside valuation protection.
3. While near-term challenges like inflation and demand slowdown persist for the sector, the company's EBITDA should grow at a CAGR of 30-35% over the next three years.
4. Currently operating 743 stores (including 116 in Sri Lanka), the company plans to double its store footprint over the next three to four years.
5. Sapphire inherited a weaker business model, i.e. larger format stores vs. Devyani. But after 2018, it has improved unit economics and capital allocation by focusing on reducing store sizes and adopting an omni channel approach (dine-in, takeaway and delivery).
6. The company is owned by a clutch of private equity funds led by Samara Capital, CX Partners, Goldman Sachs and Creador who all have definitive fund lives. We believe that a longer-term trigger will be a sale to a strategic partner or to another private equity fund/s.