A decade back eating out had not been a prominent feature in an Indian’s life but over the years, due to changing consumption pattern, eating out has gained momentum. This changing pattern has ensured constant growth for the Indian Food Services market.

India’s Food Services market has come a long way from early 1980’s when the number of organized brands were countable and the market otherwise was dominated by un-organized players. The revolution in this sector began in 1996 with the opening up of restaurants by McDonald’s, Pizza Hut, Domino’s followed by Subway, Haldiram’s, Moti Mahal and Barbeque Nation etc.

Faster development (infrastructure and business opportunities) in metros and minimetroslike Delhi, Mumbai & Bengaluru rapidly increased the number of organized restaurants in the1990s. With the help of their first mover advantage, players looked to maximize revenue.

No clear segmentation based on offerings was witnessed. Most of the Indian brands were running Multi Cuisine Restaurants and were offering different products under the same roof. However, with the entry of International brands like McDonald’s, Pizza Hut, KFC and Domino’s in 1995-96, segmentation based on offerings and service started in India

Demand for food joints in Tier II cities in the 2000s was powered by increasing urbanization, rising personal disposable incomes and more economic activities. A huge untapped population coupled with changing consumer lifestyles gave players an incentive to expand into Tier II cities. Also, a clear segmentation of formats started to emerge based on the offerings and service style such as QSR, CDR, FDR etc.

The current decade is overseeing a shift to a larger organized sector. Customer retention,a higher range and depth of offerings are new goals among organized players. This phase witnessed a sharper segmentation within the different formats based on consumer needs and offerings by the brands e.g. within QSRs there is a clear differentiation between pizza chains and burger chains, within CDRs a further segmentation was observed as premium and value based CDRs based on attributes like ambiance, service style and cuisines etc. This phase has also seen the birth of food technology which is estimated to be growing at almost 15-20% per year.

Food Services Industry is classified in two segments: organized and unorganized based on following three key parameters: (i) accounting transparency, (ii) organized operations with quality control and sourcing norms, and (iii) outlet penetration.

The Food Services outlets that do not conform to the above three key parameters would be categorized under the ‘unorganized’ segments. This segment primarily comprises of dhabas, roadside small eateries, hawkers and street stalls.

The organized segment conforms to above three parameters and is further classified in Chained and Standalone formats. Chained formats are domestic and international formats with more than three outlets present across the country.

The Chained formats are further classified in six sub segments based on price (avg. price per person), service quality and speed, and product offering. The sub-segments are: Fine Dining, Casual Dining, Pub Bar Club & Lounge (PBCL), Quick Service Restaurants (QSR), Cafes and Frozen Desserts. The definition of these sub segments and average price points are given in table below:

The size of the Indian Food Services market in India (organized and unorganized) is estimated at INR 3,37,500 crore in 2017 and is projected to grow at a CAGR of 10% over the next 5 years to reach INR 5,52,000 crore by 2022.

The unorganized segment’s share in the Food Services market reduced from 70% in 2013 to 66% in 2016 and is projected to fall to 57% in 2022. This is the case as many unorganized businesses are moving towards the organized sector.

The organized market (chain and organized standalone outlets) is estimated at INR 1,15,000 crore in 2017 and is projected to grow, at a CAGR of 16%, to reach INR 2,37,000 crore by 2022 gaining a share of 40% from 31% in 2017.

The organized standalone market share in total Food Services market is projected to rise to 29% in 2022 from 24% in 2017. This is the case as increasing disposable incomes have encouraged owners and entrepreneurs to open such organized outlets. Moreover, this segment is projected to grow at a CAGR of 14% from 2017 to 2022. The chain market share is expected to increase from 7% in 2017 to 11% in 2022. This segment is projected to grow at a CAGR of 21% from 2017 to 2022.

In case of the independent restaurants (in hotels) market share is estimated to remain constant at 3% till 2022. However, this segment is still expected to grow at a CAGR of 9% from 2017 to 2022.

The organized standalone market is the largest organized segment with a market share of 24% in 2017. The segment is expected to grow at a CAGR of 14% from INR 82,000 crore in 2017 to INR 1,60,500 crore by 2022.

The Casual Dining Restaurants at INR 50,000 crore in 2017 formulate around ~61% of the organized standalone market and is growing at a CAGR of 16% to reach INR 1,05,500 crore (66%) in 2022 followed by QSRs growing at 15% to reach INR 21,500 crore in 2022.

The chain market is expected to grow at a CAGR of 21% to reach INR 62,000 crore by 2022 from INR 23,500 crore in 2017. QSRs have the maximum market share followed by casual dining restaurants.

In the chain market, QSRs and the CDRs constitute 79% in 2017 and the same is expected to grow to 83% by 2022. QSRs will be driving the growth based on the operating model, where centralized commissaries and robust supply chain will be help in attaining deeper penetration in Tier II and Tier III cities. The market share of CDRs will remain the same at 34% in 2022. However, the segment will grow at a healthy CAGR of 21% to reach INR 21,000 crore. The growth for CDRs will be fuelled by more CDRs in the chain segment making inroads in Tier II and Tier III cities.

Also, as the Food Services market has evolved over time, each format caters to a distinct primary target group and occasions. Within the eating out space, the CDR segment is best placed in the overall chain segment based on pricing, wholesome offer and involvement of the entire family. Apart from convenience and quick bites, the consumers are also looking at experiential format due to higher disposable income and changing eating out habits. CDRs continue to be a popular format in Tier I and Tier II cities along with the metros and mini metros.

The chain market is dominated by the international QSR brands operating in India such as Domino’s, McDonald’s, KFC, Pizza Hut, Burger King etc. The overall share of international brands in terms of outlets in the chain market is around 37%, contributing 45% share to the total revenue in chain market. For the International brands, the QSR segment is the maximum revenue contributor with around 70-75% share followed by CDR, whereas in the domestic segment, the market is dominated by CDRs with around 50-55% revenue share. Home grown players like Moti Mahal Delux and Sagar Ratna dominate the value segment in casual dine market whereas brands like Barbeque Nation, Sigree and Mainland China are the key players in the premium space.

The top eight cities in India have been the centre of development, especially for the organized Food Services. Due to increased economic activity, rising disposable incomes, a greater need for convenience and an increasing women workforce, the chain Food Service brands have done well in these cities. The two mega metros, Delhi & Mumbai, contribute a total of 22% (11% each) to the Food Services market. The 6 Mini-Metros constitute ~20% of the Food Services market, while the rest of the contribution comes from the Tier I & II cities along with the rest of India.

With a prospering economy and a vibrant population of 1.3 billion people, India is today under the global spotlight for consumption-oriented sectors. Changing cultural dynamics and family structures have resulted in creation of multiple households. These new households have spurred the trend of food consumption from alternate avenues (non-home cooked food). A larger workforce and greater employment generation in the liberalized economy is another factor which has contributed to higher discretionary spending on eating-out and dining-in.

Thus the interplay of these factors is anticipated to sustain the industry’s growth momentum in the foreseeable future.

High percentage of young and working age population driving the growth of food business

Demographically youngest consumer market (33% of the population is younger than 15 and 50% younger than 24)

Largest working age (15-54 years) population (will rise by 135 Mn by 2022, India to soon have 20% of the world’s working-age population)

Urbanization in India is happening at fast pace, with every sixth person getting urbanised globally is an India. India is second largest urban community in the world after China, with an urban population of about 430 mn (2015). It is estimated that by 2020, 35% of India’s population will be living in urban centres and will contribute to 70 – 75% of India’s GDP.

Urban India will see growth in households where both husband and wife work. Higher income and lesser time will fuel growth of eating out and ordering in and many players have recognized this and offer value meals or combos for this target segment. Smart Cities initiative by Government to create new ‘urban clusters’ will also expedite urbanization in India.

According to International Labour Organization (ILO) data, India ranks 11th from bottom in terms of Female Labour Force Participation (FLFP). The proportion of women in private sector companies is 24.5% (2011) of the total workforce compared to just 17.9% of the public sector. In central government jobs, women accounted for 7.6% in 1991, which, almost two decades later, had touched just 10%. In recent years there has also seen a decline in the labour force and workforce participation rates of women, whereas, service sector may see increase in women employment from ~20% in 2011 to ~25% in 2020.

With increasing proportion of women in working population; the trend for home-cooked meals has gone down, leading to robust demand of ‘out of home’ food from households with working couples.

The households with annual earnings between USD 5,000 - 10,000 has grown at a CAGR of 17% over the last five years and is further projected to grow at a rate of 12% to reach 109 million in 2020. The households with annual earnings between USD 10,000-50,000 have also grown at a CAGR of 20% over the last five years.

Increase in number of household with annual earning of USD 10,000 - USD 50,000 will lead to increase in indulgence spending by the group. This will lead to increase in expenditure on eating out, luxury products, consumer durables and across all the consumption categories. It is estimated that 23% of global middle class will be from India.

The number of increase in household exceeds increase in population growth indicating increasing nucelarization trend in India. According to census data 2011, 74% of urban households have five or less members as compared to 65% in 2001.

Fall in the average household size coupled with rising disposable income will lead to a greater percentage on discretionary spending, eating out being one of them.

The widely travelled, vibrant middle class, which is exposed to global trends in terms of newer format and cuisines, with seamless interaction, facilitated by the growth of multiple communication channels such as the internet and mobiles etc., is open to spending on dining experiences similar to those found elsewhere in the globe. Such factors have prompted growth of new outlets serving cuisines from yet-unexplored cuisines within the country, and these outlets have demonstrated the potential of delivering a novel offering to the discerning Indian consumer.

With higher disposable incomes, evolution of aspirations of younger generation, rise in presence of branded retail chains and growth of entertainment as a concept with emergence of malls & multiplexes; consumers in small cities are also emerging as a strong new segment that is open to trying out branded and organized F&B dining options. They have the money to spend and are also shedding their earlier inhibitions about spending more on eating out experience.

With multiple binding time-commitments, both on the personal and professional fronts, consumers look forward to experiences in order to distress from their hectic routines. Apart from pure entertainment avenues such as movies and social get-togethers, eating-out has emerged as a prominent avenue for relaxing and spending quality time with the family or with friends.

The emergence of newer formats and their popularity as hang-out destinations is an anecdotal evidence of these underlying trends. A schematic representation of the time spent by an urban couple annually on various activities in a year shows that a total of 9 days are spent on eating-out itself.

This has led to an increase in the overall spending on eating-out at a house hold level across various city types. The penetration of Food Services in India has largely been in the northern, southern and western parts of the country. Major developed cities and towns in the country with high net worth individuals lie in these parts of the country, resulting in higher spend on eating-out.

The Indian Food Services universe (including organized and unorganized segments) has grown at a 7.7% CAGR over last three years and is expected to grow at a rate of 10% over the next five years. The growth in Food Services has provided impetus to allied industries. Key allied industries which support Food Services and have benefited from its growth are:

Agriculture and Food Processing

Supply Chain and Logistics

Real Estate

Kitchen Equipment and Commissary

The food processing sector in India is estimated to be INR 7 lakh crore. The output of the food processing sector like breads, buns, jams, meat and poultry, processed dairy, beverages etc. form direct inputs of the Food Services industry, while fresh produce like fruits and vegetables are direct agricultural inputs. Nearly 6-8% of food processing output and ~0.8% of agricultural output (e.g. fruits and vegetables) goes in the Food Services industry.

The growth in the Food Services industry has also given impetus to the food processing industry. With the organized Food Services segment showing a faster growth, demand for products with higher safety standards will boost demand for food processing and agriculture sector. Operators will demand more standardized quality raw materials and semi-processed products with higher safety standards. McDonalds is a case in point, where the suppliers have continuously engaged with farmers to standardize and improve the quality of farm produce, thereby leading to better farm practices and technology transfers.

The last decade has seen the emergence of a large number of organized food processors having a strong focus on the HoReCa (Hotel, Restaurant, Catering) segment. Sumeru, Venky’s, Vista, Mrs. Bector, CP Foods, Amrit Foods, Trikaya Agriculture, Dynamix Dairy etc. are some of the players whose major business comes from the HoReCa segment.

The Indian supply chain and logistics market is estimated to be ~ INR 24-26 lakh crore and is one of the most fragmented industries in the world. Due to an inefficient supply chain, it is estimated that annually about 18% of food is wasted (conservative estimate). Lack of an adequate cold chain infrastructure and a fragmented food processing supply chain will further add to this wastage.

It is estimated that the share of organized Food Services in the supply chain and logistics sector is ~INR 3,575 – 3,900 crore. Chain segment growth will have a proportionally positive impact on creating an efficient supply chain. Entry of international QSR chains in India has helped in increasing standards and adoption of better practices by supply chain players.

Efficient supply chain and logistics form the backbone of any Food Services operator who plans to grow and expand its business across regions. Food Services players have understood this and are investing in creating supply chain infrastructure and also work actively with their supply chain partners to ensure seamless integration of supply chain with company’s business. Some of the well-known players in the logistics and supply chain industry are also cashing in on the opportunity provided by the Food Services industry. About ~10% of the revenue of Snowman Logistics is contributed by Food Services industry and they provide end to end solutions to clients like Compass Group and Sodexo. Radha Krishna Foodlands is another leading player in the logistics and supply chain industry catering to chains like McDonalds and Haagen - Dazs to name a few.

The Food Services operators are also increasingly adopting technology to make the supply chain more agile, responsive and cost effective. New tracking software and standards are helping restaurant operators to have a better understanding of where food comes from. Operators have to collate data and information regarding raw material types, quantity, ordering cycles, customer information etc. As companies grow and tasks become more complex, technologies like ERP allow them to manage data more efficiently across these activities.

The demographic insights of India propose that India can be a leading real estate destination globally. It is projected that the real estate sector will increase five-fold and reach ~INR 43.5- 44.2 lakh crore by 2025. The Indian real estate sector has been a major beneficiary of the strong economic growth witnessed in India since the year 2000. The growth in the sector, on the back of a series of reforms, has not only resulted in significant residential and commercial real estate growth, but also complemented the development of physical and social infrastructure of the country.

The organized retail is expected to reach INR 23 lakh crore during the same period. Assuming revenue of INR 19,500-21,125 per square foot per year for a large retail store set-up in India, the total incremental demand for organized retail space by 2022 could possibly reach 500-530 million square feet. Currently, 70% of the retail space stock is accounted for by top 7 cities of Delhi, Mumbai, Bengaluru, Pune, Hyderabad, Chennai and Kolkata.

Food Services has recently emerged as a key sector in driving the retail space. Due to heavy demand, Food Services has emerged as leading segment to increase footfalls. With intent to leverage on higher revenues generated by the segment, malls are leasing out prime floor spaces to bring new F&B brands within their fold.

On an average, ~20-25% of the mall space is dedicated to Food Services outlets. Revenue share between the operators and mall developers is also an emerging business model, wherein the Food Services operators share 6-8% of their revenues. The concept of mall spaces dedicated completely to Food Services is also coming up. Some key examples being Epicuria and Sangam Courtyard in Delhi. Epicuria in Nehru Place started in 2013 and houses some of the most popular Food Services brands like Pizza Express, Starbucks, Burger King, KFC, The Beer Café, Social to name a few. Similarly, Sangam Courtyard which started in 2015 is a dedicated food mall having brands like Café Diva, Tha Fatty Bao, Ziu and Delhi Club House etc.

However, high rental across malls and high street spaces are a rising concern for the Food Services operators. The real estate sector will further benefit from the growth of organized Food Services, which currently contributes 33% of the total Food Services market and growing at CAGR of 11% will be 41% of the overall Food Services market in next 2 years. Food Services chains would need an additional 13-15 million square feet of real estate in the next 5 years.

Indian packaging industry is estimated at ~INR 2,90,000 crore1 and is expected to reach to ~INR 4,75,000 crore by 2020. Indian packaging offers employment to more than 10 lakh people across the country through ~10,000 firms.

The total demand of F&B packaging segment stands at around INR ~117,000 crore, and the Food Services based packaging has a contribution of ~2.5% which amounts to INR 2,600 crore. The share of flexible packaging is increasing within the Food Services packaging.

Moreover, with increasing competition in the Food Services industry and growing focus towards health and hygiene brands are discovering that packaging has the potential to be a key differentiator. A lot of new materials are increasingly being used like insulated double-wall paper cups, as well as insulated plastic cups made from polypropylene (PP) and polyethylene terephthalate (PET).

Increasing interest in composting and recycling of Food Services packaging are driving some material selections as well. Packaging plays an increasingly important role in supporting menu trends and consumer demands due to more competition and growth in the ‘grab n go’ category, stronger interest from convenience stores and changes in distribution channels. Some of the major players in the food packaging segment are Biopac, Parksons Packaging Limited, Paper Products Private Limited and ITC Packaging. With a lot of food-tech delivery focused start-ups coming up and the home-delivery and takeaway segment gaining traction, the demand for quality packaging materials is bound to increase, thereby positively impacting the packaging industry.

The total established base for HoReCa equipment amounts to ~INR 22,000 crore in 2017. By 2022 an additional ~INR 12,000-13,000 crore will be added to the equipment market. Restaurants are the highest contributors, having a share of about ~70%, followed by hotels (27%) and the remaining by caterers. The equipment industry has evolved over the last two decades, with increasing presence of international formats.

The commissaries and back-end kitchen segment can be classified into the following segments:

centrally preparing food for self-owned outlets. E.g. Jubilant Foodworks, Dish Hospitality, Barista

catering to railways and airlines. E.g. Tajsats, Oberoi Flight Services, Sky Gourmet

preparing food for corporate and industrial messes. E.g. Sodexo, Compass Group, Tirumala

e.g. India Hospitality.

The chain Food Services market has more than 60% contribution from segments (QSRs/Cafés/CDRs) procuring from commissaries to maintain uniform quality and taste standards.

The chain Food Services market has more than 60% contribution from segments (QSRs/Cafés/CDRs) procuring from commissaries. To sustain their growth and develop profits these segments will have to build a robust supply chain. Commissaries have the potential to play the role of key supply chain partners as they help in maintaining uniform quality and taste standards. Commissaries will have the potential to develop themselves as the link between Food Services operators, processors and food producers.

In the Food Services industry, marketing spends constituted 4-6% of the total revenue for majority of the players for FY 2016-17. With the number of people accessible through smart devices on the rise, digital media has become quite indispensable, and the use of the medium for marketing initiatives has been on the rise. While traditional media offers mass reach and visibility, digital media provides quick response time, direct consumer feedback on the efficacy and effectiveness of the initiatives and enables dynamic campaigns targeting extremely focused audience groups. Also, the investment in creating a digital campaign that reaches out to specific target group is much lower when compared to traditional media, i.e. television and print.

The large players especially the chains observe 65-70% of the marketing budget being spent on traditional media and the balance 30-35% on digital media. However, for the rest of the industry 20-30% of the marketing budget is spent on traditional media whereas 70-80% is spent on digital media. A focused / targeted marketing campaign to a specific and well defined target audience is becoming more important than mass marketing. Reaching to the niche and direct audience is more important than reaching out to mass populace, since acquiring and engaging with loyal customers is more beneficial for any brand.

The trend reflects that the percentage share of marketing budgets spent through digital initiatives is only going to increase over the years, given the cost effectiveness and efficacy of the medium.

The Café segment invests heavily on Third Party Aggregators (50%) as it makes the discovery for consumers easier. This is followed by spends on Social Media (30%), SEO/SEM/Email Marketing (10%) and Display Marketing (10%).

For the QSR segment, Digital Video is the most important avenue for investment (50%) followed by Online Search/Email Marketing (20%), Social Media (20%) and Display Marketing (10%).

The Casual Dining segment invests a majority of their marketing budget on Search / Email Marketing (51%) majorly for discovery and communicating promotional offers. This is followed by Mobile Ads/SMSes (19%) as these can be used to communicate personalized and location based promotional offers. The rest of the marketing budget is distributed between Social Media (9%), Digital Video (9%), Display Marketing (9%) and Third Party aggregators (2%).

The Fine Dining segment invests its marketing budget largely on Social Media (43%) as it is the content and promotional offers that will drive the consumers’ awareness. This is followed by Search / Email marketing (26%) which helps in discovery and communicating offers in a more personalized fashion followed by Digital Video (12%) and Display Marketing (11%). This segment doesn’t spend much marketing budget on Third Party Aggregators and Mobile Ads/SMSes.

The PBCL segment also invests a large portion of the budget on Social Media (40%) such as Facebook, Instagram, Twitter etc. and Third Party apps (40%) such as Zomato, Foodpanda, Swiggy, My Butler, Burrp etc. Investments are also made in Digital Video (10%) and search and Search / Email marketing (10%).

For the Frozen Dessert/Ice Cream segment, 57% of Digital Marketing budgets are spent on Digital Video. The rest of the budget is equally distributed between Search / Email Marketing, Third Party Aggregators and Social Media.

Technology has disrupted Food Services industry in the following 3 key segments:

Earlier food enthusiasts had to wait for annual food guides and eating out directories of restaurants. These publications had expert reviews, opinions and vital information to dine in the city. Now, these directories, expert reviews and opinions are made available by food discovery or restaurant search players on just a few clicks, a feat attained by food discovery players. Zomato is a restaurant search and discover service provider launched in 2008, currently its revenue is INR 318 Crore2 (FY 2016 – 17)

Of late it has become common for fine dining restaurants to offer table reservations to their clients. In fact, this service has become an integral part of a restaurant’s operation, because of its multiple benefits. With this service, outlets can estimate demand more accurately and improve on sourcing & staffing and can manage costs more efficiently. It is beneficial to a customer as reservation will guarantee one’s table at the time and place he has planned and likely to receive better service at the outlet as details like time of arrival, no of persons etc. will be shared with the outlet in advance 25% of all reservations are currently through reservation portals and are projected to grow to 62 - 65% by 2022. Dineout operates as an online restaurant booking site, launched in 2012, current sales number are 4,00,000 diners per month3

Technology has eased the process of customers having to travel to an outlet for eating out. Today customers can use their smartphones to order food from any restaurant of their choice and get it delivered too. No waste of time, no traffic hassles, no quality compromise – consumers are able to save time and enjoy restaurant food at the same time. Platforms like Foodpanda pioneered the food ordering industry in 2012, with the idea of providing an end to end food ordering and delivery solution to urban consumers from the neighbourhood restaurants, which now stands at a revenue of INR 37 crore (FY 2015-16) and reaching over 15 million users per month. Later on, in 2014, Swiggy was started which now has a revenue of INR 24 crore.4

A company is categorized a food-tech if they are using explicit technology to reach out to customers for food review, food delivery or providing food ingredients etc.

Private investments can be broadly categorized into three stages – early stage, growth stage, and mature/late stage. Private Equity investments in India touched a record high of INR 109,200 crore in 2015 (across 661 deals), 16% higher than the previous high of INR 94,250 crore (across 529 deals) recorded in 2007 and a whopping 50% higher than the INR 72,800 crore (across 530 deals) invested during the previous year.

Other than growing GDP and per capita income, there are micro trends that are propelling the restaurant industry itself and consequently PE investments in the sector. Further, PE firms are adding management inputs to the restaurants. Restaurant sector is a long-term play for PE investors, and not a transitory trend. PE investors are typically looking at making a minimum of at least 3x in a four-year timeframe. Also, there’s a certainty in cash flows if the model is right. That, along with growth, should allow private equity to make fair returns from this sector.

The last couple of years have seen a growth in number of food tech start-ups not only in terms of new models of aggregators but also food creators and cloud/virtual restaurants. These companies serve high quality hygienic food prepared under the guidance of well-known chefs, so it tastes like restaurant food with hygiene coefficient of homemade food.

Desire to eat home-made fresh food without spending much time in cooking from scratch has led to evolution of new category of food tech companies called ‘Ingredient players’. These companies deliver recipes or ingredients designed by trained chefs at the door step and consumers need to follow the instruction given in the manual to prepare a fresh dish within no time.

Timely delivery of the food ordered is considered as the major challenge for the Food Services industry. A new trend is coming up in logistics/delivery space, where new companies with some innovation are coming up in this space, these companies also work as courier service provider, gift delivery partner etc. and wish to grow with the growth of the associated service providers and these companies are providing the solution to that as they guarantee timely delivery to the customers.

While malls and high streets have been traditional locations for F&B outlets, we are witnessing emerging trend of new breed of food centric destinations.

A new trend has started by few well know chefs and food enthusiasts where they are reviving the forgotten old or regional recipes and connecting consumers with history of cooking.

A new development is being crafted in Indian restaurant industry where consumers can experience the modern Indian food prepared by using elements of molecular gastronomy.

Increased penetration of Food Services in travel destinations airline and railway traffic has been registering a continuous growth in India. This increase in traffic has necessitated the growth of infrastructure in the form of new airports and railway stations or area expansion of existing airport terminals or railway stations. Since F&B is an important component of such terminal/stations, this is creating new opportunity for F&B operators.

Payment platform industry evolves with evolution of shopping patterns. Mobile wallet is a new concept in India that is slowly beginning to replace the traditional payment methods.

Mobile wallet payment system has got huge potential in India as less than 10% transactions take place through digital channel and mobile wallet is miniscule part of digital payment.

With infrastructure improvement and wider acceptance, mobile wallet will be a popular mode for payment at restaurants and retail outlets.

The Indian economy has a significant presence on the global economic stage. During FY 2010 to FY 2016, India’s Real GDP grew at a CAGR of 7.3%. It is estimated that GDP will grow at a CAGR of 7.6 % from FY 2016 to FY 2022 and India will be in the top three global economies by 2050.

The Indian economy is pegged to reach an estimated ~INR 230 lakh crore by 2020 (nominal terms) and . Food Services emergeas a key segment in Indian economy, with the overall market worth INR 3,37,500 crore (2017) which is ~8 times bigger than hotels. The market’s growth will be powered by changing consumer dynamics and increasing market proliferation by brands in the space.

The Indian economy, worth INR 155 lakh crore in FY 2017, is estimated to reach INR 230 lakh crore by FY 2020.

Globally India is seen as one of the key consumer markets from where future growth is likely to emerge. As more people move beyond the basic sustenance level in any country, it reflects in consumption expenditure. Although, the share of Private Final Consumption Expenditure (PFCE) as percentage of GDP is slowly decreasing, in absolute terms it has increased from INR 10 lakh crore to INR 87 lakh crore (1980 – 2016). Rising income levels coupled with growing young working-age population will lead private final consumption expenditure to grow steadily over the years. Growth in Private Final Consumption Expenditure is expected to average at around 7.2% of GDP during FY11-FY20.

It is estimated that India’s consumption expenditure will increase to INR 130 lakh crore by 2020 and will surpass the consumption expenditure of developed economies like Italy, France and United Kingdom.

The rising disposable income is fuelling the overall spend on discretionary items. The per capita personal disposable income has grown at a CAGR of 14% from 2005-2012. The share of expenses on discretionary purchase categories like grooming, apparel, consumer electronics and durables, as well as experiences such as eating-out and dining-in increases, while the share of expenses on basic necessities reduces. This shift in spending patterns has given rise to a number of micro-trends within the overall consumption basket in India.

The share of spending in basic goods (food, beverages & tobacco and clothing & foot wear) in private final consumption expenditure is expected to decline substantially to about 36% in FY20, versus 45% in FY11. On the other hand, share of discretionary spending (rent, fuel & power, furniture, medical care, transport & communication, recreation & education) is projected to increase to rise from 55% (P) in FY11to around 64% in FY20.

A higher share of consumer discretionary spends have been absorbed by eating-out and ordering-in; a trend which is expected to strengthen in the next 5 years. At present 17% of discretionary spend is expended on eating-out and ordering-in, and is expected to reach 19% by 2020.

Food Services is emerging as a key segment in the Indian economy, with a value of INR 3,37,500 crore at current prices) larger than the pharmaceuticals and FMCG sector in India. The unorganized market is worth INR 2,22,500 crore while the organized market is worth INR 1,15,000 crore. The market’s growth will be powered by changing consumer dynamics and increasing market proliferation by brands in the space. It is rational to anticipate that the Food Services market will see growth in tandem with this economic growth, and there is every indication that such expansion will be substantial. Though PFCE is increasing in absolute terms, the YoY growth rate from 2010 to 2022 is declining. The share of expenses on basic necessities is reducing as the discretionary spend on categories like apparel; consumer electronics and durables are on rise. Spend on Food Services will also grow at a healthy rate with the rise in discretionary spend.

The share of Food Services in Indian GDP is expected to increase to 2.6% by 2022 from 2.3% currently on account of its growth at faster pace compared to GDP growth. Also, growth of Food Services market is expected to outpace its growth till now i.e. from 8% to 10%. It is rational to anticipate that the Food Services market will see growth in tandem with this economic growth, and there is every indication that such expansion will be substantial. Key implications of this trend are summarized below:

It is estimated that Indians spend 8 to 10% of their food expenditures outside the home in restaurants, cafeterias and other food establishments. This trend is expected to strengthen in future

Indian consumers are dining out more frequently and younger Indians are shedding the biases of their elders against international franchises and foreign foods. With over one lakh outlets unorganized segment (20 or more seats, wait staff, menus) in India, there is plenty of room for growth in the industry

With higher disposable income with younger population who are well travelled, brand conscious and well connected through social media and along with rise in presence of branded retail chains; consumers in smaller cities i.e. Tier I & Tier II cities are also spending more on eating out and this trend is expected to further continue. National and international chains are looking at Tier I and Tier II cities as the emerging markets for growth and expansion

The Food Services industry is labour intensive and requires human intervention at each step right from purchase of ingredients to cooking to service delivery to customers.

Presently, it is estimated that Food Services industry provides employment to 6.2 million people and it is expected to increase to about 9.5 million by 2022. Contribution of organized segment is currently 52% in total employment generation and is expected to increase to 55% by 2022.

The growth of Food Services market in India has triggered growth across a wide range of ancillary industries, thus providing a boost to the entire ecosystem. This has not only added to the growth of these industries but has also given a push to growth in employment in these industries. The indirect employment generated by Food Services has seen a growth at CAGR of 4% from 2013-2017 and expected to grow at a CAGR of 6% till 2022.

Food Services Industry is growing at a fast pace and has potential to emerge as a sunrise sector. Government has significant role in creating enabling business environment for Food Services Industry. This section briefly elaborates on key areas where Government support will help in Industry’s growth which will facilitate in creating significant employment opportunities especially for unskilled and semiskilled Indian youth.

Food Services industry is labour intensive industry; however, it faces shortage of trained manpower. The direct employment in restaurant industry in India (FY 2017) is estimated to be 6.3 mn and is expected to reach 9.3 mn by FY 2022, which implies that approximately 6,00,000 skilled manpower will be required in this industry every year. However, only 50,000 graduates pass out from government or private institutions in hospitality sector every year

This leaves a huge gap requirement for talented manpower in restaurant industry and is likely to be fulfilled by unskilled manpower leading to poor service delivery. Also as per the National Skill Development Corporation (NSDC), restaurants contribute highest to the workforce requirement of the hospitality sector and its share will further increase by FY 2022.

Given this shortfall of quality manpower and the industry’s high attrition rate of 35-40%, the cost of manpower is high. To bridge the demand and supply gap, currently players are increasingly investing in in-house training programs. The National Restaurant Association of India (NRAI) is actively involved in providing skilled manpower for the industry.

As part of the Tourism & Hospitality Sector Skill Council under NSDC, the association has facilitated creation of industry validated standards for 63 job roles. The skilling is being done through 179 selected training partners with 600 centres across all regions of the country. The job roles and training centres are continuously being expanded.

The Food Services market is labour driven and requires human intervention at each step right from receiving raw material to production and service delivery to customers. The overall Food Services market- organized and unorganized, is estimated to employ ~5.8 million people at present.

The employment grew by CAGR of ~8% from 2013 to 2017 and is expected to add another ~3 million people by 2022. The share of chain Food Services market is ~7% of the overall market and contributes to 11% of the total employment whereas the share of standalone market is ~24% and contributes to 40% of the total employment.

The industry’s supply chain is fragmented in nature and marked by the presence of multiple intermediaries. The lack of appropriate infrastructure, inadequate investment in technology and nonintegration of the food value chain are the key factors leading to significant food wastage across the supply chain. The supply chain infrastructure in Food Services industry in India has improved over last few years; however there is still a huge gap that needs to be filled.

Easy, low cost financing and credit facilities play a very pivotal role in the growth of every industry. The Food Services sector in general and the standalone segment in particular requires access to easy and low cost financing facilities as this will provide motivation to young entrepreneurs who want to enter the industry. Moreover, Food Services operators find it extremely difficult to get working capital loans without any collateral. High cost of domestic funding further adds to the problem.

In India, obtaining the requisite licenses, e.g. health license, food safety license, police license, No Objection Certificate (NOC), from the fire department and the state pollution control board, etc. is a major obstacle hindering smooth operations of a restaurant. The process is not centralized as yet and requires filing applications with individual stakeholders, which involves a lot of paperwork and is a time-consuming activity. A player needs approximately 12-15 government licenses, from various departments, just to open an outlet. In comparison, the licensing requirements internationally are not as intricate.

The licensing process is not centralized as yet and requires filing applications with multiple departments and involves a lot of paperwork and is a time-consuming activity.

The Indian Food Services market space is attracting significant interest from domestic as well as international private equity and venture capital funds with investors such as Goldman Sachs, India Value Fund, Everstone Capital, CX Partners and Samara making investments in this space. The large number of investments can be attributed to the fact that the Food Services market is a domestic consumption driven story with great growth potential. In fact, private equity investments are seen flowing through the entire ecosystem, funnelling growth in front-end companies across formats (fine dine, casual dine and quick service restaurants), back-end companies (such as Suppliers, Logistic Partners, etc., which act as a support system to the front-end companies) and even food-tech companies (like Fassos, Scootsy, Swiggy, Zomato, Holachef, etc). With the help of private equity investments, various companies such as Jubilant Foodworks (Domino’s), Speciality Restaurants, Barbeque Nation and Devyani International have grown significantly over the years.

Private equity funding acts as a catalyst enabling well-managed, ambitious, growing businesses to reach the next level, generating returns for investors and investees alike. A private equity firm aids its investee companies in many ways, such as:

Long term capital facilitating the company’s growth

Robust corporate governance practices

Higher visibility amongst landlords, bankers, suppliers, employee talent pool etc.

Strategic and financial advice

Future fund raising endeavors

Ability to form strategic alliances by leveraging the investor’s network of contacts and portfolio investments

A partial or total exit strategy

Private investments can be broadly categorized into three stages: early stage, growth stage, and mature/ late stage.

In most scenarios, private equity/ venture capital funds take minority positions. However, a number of private equity firms prefer to take a controlling stake in a business as part of their fund philosophy. A number of private equity firms are also looking at building F&B platforms with multiple brands. Everstone owns and operates several brands (Bombay Blue, Copper Chimney, Gelato Italiano, Noodle Bar, Spaghetti Kitchen and The Coffee Bean & Tea Leaf - CBTL) under Pan India Food Solutions Pvt. Ltd. F&B Asia, an investment holding company of Everstone, owns assets such as Massive Restaurants (majority stake) and Harry’s Group, and it also owns a stake in the Indonesian franchise of Domino’s Pizza (51%) and the JV that operates Burger King in India. One of the investment strategies adopted by India Value Fund Advisors (IVFA) is the ‘Buy and Build Model’ where it becomes the majority shareholder and drives the business. deGustibus Hospitality (Indigo, Indigo Deli, Neel, etc.) is an example of such a controlling investment by IVFA.

Further, the investor base is expanding with a large number of corporates as well as family offices making investments in the F&B space. Following are a few examples of this growing trend:

Chaayos raised seed funding of INR 2 crore from Zishaan Hayath in 2014. In May 2015, the company had 8 outlets and raised Series A funding of INR 32 crore from Tiger Global

Holachef raised its Series A funding of INR 19.6 crore from Kalaari Capital and Mr. Ratan Tata in June2015

After successfully exiting Punjab Grill, Zorawar Kalra started Massive Restaurants with an investment by Mirah Group in December2012

Swiggy raised Series A funding of INR 12 crore from Accel India and SAIF Partners in February2015

Azure Hospitality (Mamagoto), founded by Kabir Suri and Rahul Khanna, raised seed funding from Gautam Thapar (founder and chairman of Avantha Group) and Mauritius based Blue Sky Capital

Barbeque Nation had 12 outlets when it raised funding of INR 110 crore from CX Partners in March 2013

Devyani International that runs a chain of180 outlets including KFC, Pizza Hut and Costa Coffee raised INR 250 crore in funding from ICICI Venture in May2011

Cremica raised INR 72 crore funding from Goldman Sachs in January 2007. It had a turnover of INR 227.5 crore in FY’07

Azure Hospitality raised INR 66 crore from Max Ventures & Industries and Goldman Sachs in May 2016. In July 2015, it raised INR 65 crore in funding from Goldman Sachs when it had 9 outlets of Mamagoto and 5 outlets each of Rollmall & Speedy Chow

Temasek invested INR ~500 crore in Devyani International (INR 400 crore primary and INR 100 crore secondary) in October 2014, providing a part exit to ICICI Venture. Devyani operated a chain of over 300 outlets at the time of the transaction

Rabo Equity Advisors invested INR 100 crore in Cremica in June 2016. CX Partners invested INR 390 crore in Cremicain August 2015 (providing an exit to Motilal Oswal PE). In FY14, the company recorded revenues of INR 532.5 crore with an 11% EBITDA margin

In evaluating various investment opportunities, investors rely on various parameters based on their experience. The following points highlight some of the major investment considerations when it comes to investing in a company, especially in the Food Services space:

A proven track record of solid achievement is a base line for attracting financial backing. The business must be capable of operating as a commercially viable entity that has:

An established market position and a solid, defensible market share/ brand recall

A product or service with a competitive edge or unique selling point (USP)

Opportunity for growth and scalability

Attractive store-level economics with healthy return on investment and payback period along with good profitability at corporate level

Regular and reliable income and cash flows

Good corporate governance with robust financial systems and controls

A proven track record

As passive investors, PE fund managers rely on the promoters of the company to carry on the business in a fully committed way. Typically, they expect the promoters to have enough skin in the game to be incentivized to deliver on the projected business plan. They prefer to partner with top quality promoters and management teams that are professional, ethical and have a proven track record.

It is important to note that PE/ VC investors invest in a company for financial returns, and therefore, they are likely to invest only if they believe that a promoter is going to do all that is in his power to provide an exit and maximize returns to an investor.

Most PE investors typically invest for a horizon of 4-5 years and therefore, the potential of exit plays an important role in the investment decision. Typical exit options include – listing on a stock exchange, secondary sale to another PE investor or a trade sale of the entire business or a majority stake to a strategic investor

Performance of PE investment is determined by internal rate of return (IRR), which is a function of entry and exit price. Typically, PE investors consider the valuation paid in various recent transactions and the valuation at which listed peers trade at to value businesses. Therefore, it is crucial to reach an agreement on all such terms and rights including valuation to close a transaction.

Therefore, they seek standard minority protection rights. They play an active role in monitoring portfolio companies through participation on the Board of Directors and Management Committees.

To receive information on the company’s financials and operations on a regular basis

List of certain matters that may have an impact on the interests of the investor and cannot be decided upon without the consent of the investor. These matters typically include any decisions on significant capital expenditure or acquisitions or dispositions, any new borrowings or share issuances, any alterations to the company’s Articles & Memorandum of Association, and approval of the annual business plan (and any significant deviations from the approved plan).

Promoters are required not to sell their stake in the business while an investor owns a stake in the business

whereby promoters have to agree to provide an exit to an investor. An exit right clause may require the promoter to either list the company, sell the business to a strategic investor or buy back the investor’s stake at the end of the investment horizon. Typical exit rights also include (i) a Tag Along right, whereby an investor has the right to co-sell its shares in the company on the same terms, should the promoter sell his or her stake to a third party and (ii) a Drag Along right, whereby promoters are obligated to sell their shares to a potential purchaser along with the PE investor - usually, this right comes into force once all other exit options have been exhausted

While the above factors are typically considered for PE/VC investments, investors view different formats within the restaurant space distinctly.

QSR is considered an attractive space given the high degree of scalability, which is evident in the success of various foreign brands such as Domino’s, McDonald’s, Subway, KFC, etc. Having said that, the format requires significant investments, especially to set up the supply chain, and typically has a long gestation period. Also, given low prices and a high degree of competition, healthy levels of profitability are typically achieved when the brand starts enjoying strong recall as also achieves a level of scale that allows it to adequately leverage its high back-end costs

Given that most middle class/ upper middle class families frequent CDRs for a weekend/celebratory meal, this format is reasonably scalable, at least in large cities. Although QSRs are far more scalable, CDRs enjoy much higher revenue per outlet, reducing to some extent the execution effort and risk as compared to QSRs. Some examples of successful brands in this format are Mainland China, Smoke House Deli, Cream Centre, Mamagoto and Rajdhani

Owing to the higher spend per customer, successful fine dining brands, such as Indian Accent, Masala Library, Yauatcha, Indigo and The Table, gross higher revenues and profits when compared to QSR/CDR formats. However, the scalability of such formats is limited and only 1 or 2 restaurants can typically be opened in each Tier I city.

Back-end companies act as the backbone of the Food Services market on which the efficiency of the front- end system rests. These primarily constitute suppliers (produce, dairy, bakery and confectionary, staples, sauces, condiments, etc.) and logistics (including cold chains) companies.

Back-end companies are exceedingly important for good restaurant chains, helping them maintain the consistency and quality of ingredients, and therefore a standardized end product across their network of restaurants. Certain examples of back-end companies are as follows:

PE and VC investors are making significant investments in the back-end space as these companies can benefit from the tremendous growth potential of the restaurant space. Although back-end companies enjoy lower margins as compared to front- end “branded” players, they are typically considered to be safer investments given that they serve a diversified set of front-end companies. Being a low margin – high volume play, the following factors play a vital role for the success of a back-end business:

A balanced customer base without over-dependence on any one customer

Large well-known brands as clients that can offer long term contracts with significant volumes

Ability to scale, resulting in cost efficiencies

Robust quality control mechanisms in sourcing and manufacturing

Technological capabilities

With the increasing proliferation of smartphones and the growing penetration of the internet, food tech companies are gaining significant traction. These are supported by consumers resorting to meals from the convenience of their homes and offices with the tap of a button. The popularity of food tech companies has grown tremendously over the past couple of years garnering a great deal of interest from the venture capital/ private equity fraternity. Below is an overview of various food tech companies across different categories:

In India, the listed companies in the front end Food Services space are valued in the 1x – 4x revenue multiple range. Companies operating QSR brands are valued at better multiples compared to the ones offering CDR and fine dine brands due to significant growth potential and large addressable market.

Generally, transactions in this space have also happened in the 1.5x – 4.5x revenue multiple range. A 15x – 25x EBITDA is considered fair for most private investments in this space.

The scalable, profitable companies with solid entrepreneurs and good systems and processes (not owner dependent) enjoy higher multiples and the ones which have some brand recognition but performance has been a bit of a question mark enjoy lower multiples.

Tables given below highlight valuation of some listed front end Food Services companies in India and the USA

The massive growth potential in the Food Services industry has attracted a plethora of private equity and venture capital investors. These PE/VC investors bring with them a host of benefits to the investee company, playing a vital role in the growth and development of the Food Services industry as a whole.

Over the past few years, the Indian Food Services market has gained increased prominence and grown to include a large number of brands across various Food Services formats alongside the presence of standalone outlets and a large unorganized market. Food Services is emerging as a key contributor for the Indian economy, including employment generation, skill development, growth in the allied industries, entrepreneurship, and tourism and creating experiences for the Indian consumer.

Efforts have to be made to remove the various factors that are impediments to the growth of the industry and impacting the smooth functioning of business operations.

Key areas that may help Food Services Industry in achieving its true potential are being discussed in this section.

Policies formulated by government plays a vital role in growth of any industry. In case of Food Services industry in India, the industry feels that policy formulation by government should have more active involvement of industry bodies (for example NRAI, National Restaurant Association of India). By actively involving stakeholders in policy making, transparency in decision making can be achieved and a realistic and effective policy can be formulated. With involvement of stakeholders in policy making, implementation becomes easier and conflict is minimized.

Food Services sector has still not got an industry status from the government which further makes it difficult to attract the desired levels of investments. For the rapid growth of the sector, government should grant industry recognition to the Food Services sector and facilitate easy availability of working capital loan to the players through policy formulation.

A high level empowered secretarial group should be appointed focussed on ease of doing business for the restaurant industry and moving towards a single window clearance system. Current system and its complexities discourage entrepreneurs to open up their own restaurants. Single Window Clearance system will simplify the process and will encourage Indian Youth in becoming self-employed.

There is a dearth of skilled manpower in Food Services Industry. To address this, few players have set up in-house training centres. Initiative from Government to establish (certified) training centres, especially in geographical clusters where manpower supply is higher such as Tier II cities and North Eastern region; it will encourage youngsters to enrol for training and will increase their employability.

Also, some sort of certification, whereby the current workforce can register and get certification will help current employees as well as employers. There may be multiple level certifications starting from basic qualification to advanced qualifications that indicates degree of skill of the employee.

Collaboration among Industry Association, Food Brands and Government agencies will facilitate in creating robust training program, and providing employment to Indian Youth as well as helping Industry address one of its key constraint.

The road ahead for the Indian Food Services Industry is promising and it is imperative for the Indian government to facilitate faster growth of this sector.

The rising number of restaurants, a consequence of the changing culinary preferences in India, is a harbinger of business for the manufacturers of commercial kitchen equipments – commercial fryers, char broilers, ovens, cooking ranges, microwaves, toasters and food warming equipment, etc. The average equipment cost involved in setting up Food Services business range from INR 1 lac to a few crore depending on the format type, product range, brand, etc. Currently, most of the brands import kitchen equipment and it comprise of significant cost of setting up restaurant.

Encouraging domestic kitchen equipment industry will not only help restaurants in reducing their capex, it will also provide employment opportunities in India. Encouragement from Government in forms of incentives in setting up Kitchen Equipment industry will help Food Services Industry in cutting cost. It will also help entrepreneurs in being able to set up restaurants with lower cost.

The road ahead for the Indian Food Services Industry is promising and it is imperative for the Indian government to facilitate faster growth of this sector.