Sapphire Foods India Limited

ISIN :INE806T01012 | NSE :SAPPHIRE

Price: 295
Recommendation: Buy
Industry: Restaurants
Sector: Consumer Discretionary
Report Date: 17-Mar-2025

Sapphire Foods India Limited, a prominent player in the food industry, showcased strong Q3 FY25 performance with 14% revenue growth, reaching INR 755 crores. The company expanded by adding 54 new restaurants, totaling 963 outlets. Key strategies include dynamic kitchen planning and marketing investments, particularly for Pizza Hut. Despite challenges like negative SSSG for KFC, Sapphire Foods remains optimistic, focusing on customer experience and innovation to drive future growth.

Sales		Profit & Loss		Profitability Matrix	
Current Year	2394 Cr	Operating Profit(Year)	421 Cr	Operating Profit Margin	17.6 %
Previous Year	1981 Cr	Operating Profit(Quarter)	115 Cr	EBITDA Margin	18.80 %
Current Quarter	638 Cr	PAT (Year)	51.2 Cr	Net Profit Margin	2.29 %
Previous Quarter	591 Cr	PAT (Quarter)	3.46 Cr	EPS	-0.02
Revenue (QYoY)	572 Cr				
Valuation Matrix		**Growth(YoY)**		**Growth(QoQ)**	
Trailing P/E	591	Sales Growth	9.84 %	Sales Growth	7.95 %
PEG Ratio	22.4	PAT Growth	-77.54 %	Sales Growth QYoY	11.54 %
EV/EBITDA	23.4	EPS Growth	-101.26 %	PAT Growth	223.36 %
P/B	7.64	Dividend Yield	0.00	PAT Growth QYoY	-64.07 %
Capital Allocation		**Holdings**		**Leverage**	
RoE	4.30 %	Promoter	26.1 %	Debt/Equity	0.92
RoA	2.05 %	FII	30.7 %	Debt	1142 Cr
RoCE	7.26 %	DII	38.3 %	Market Cap	9465 Cr
RoIC	6.24 %	Public	4.89 %	Enterprise value	10531 Cr
		No of Shares	32.1 Cr	Cash Equivalents	77.0 Cr

source : Company filings

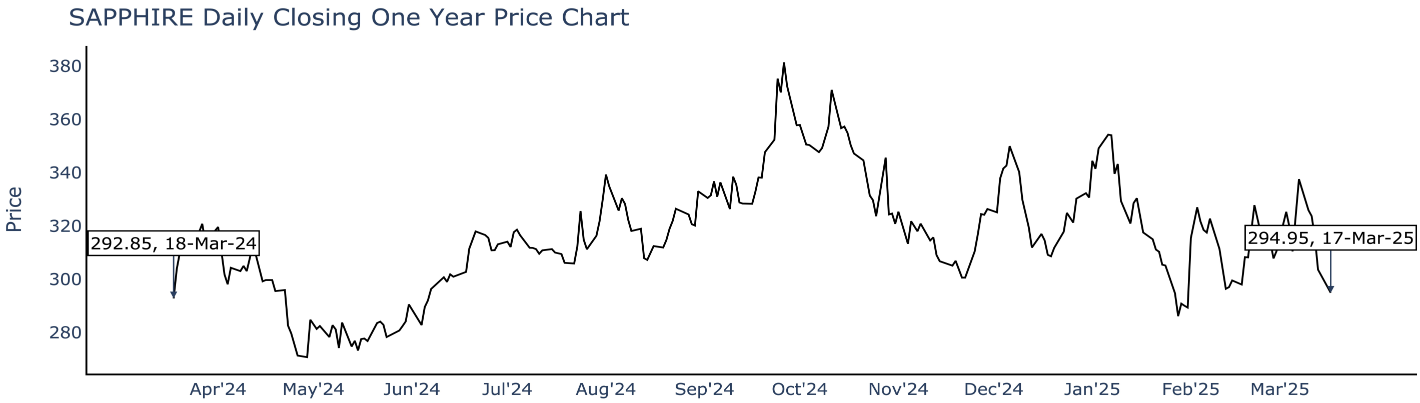
Company's Overview Based on Recent Concall and Performance:

In the recent earnings call, Sapphire Foods India Limited reported a robust performance for Q3 FY25, characterized by double-digit growth across its key verticals: KFC, Pizza Hut, and Sri Lanka. The company achieved a 14% revenue growth, reaching INR 755 crores, and a 12% increase in adjusted EBITDA to INR 81 crores. The consolidated EBITDA rose by 14% to INR 140 crores, with a PAT of INR 12.7 crores. The company expanded its footprint by adding 54 new restaurants, bringing the total to 963, including 35 KFC and 16 Pizza Hut outlets in India, and 5 new stores in Sri Lanka. Despite the closure of all four stores in the Maldives, the company remains optimistic about its growth trajectory.

Sapphire Foods is focusing on several new initiatives and strategies to drive growth. The company is implementing a dynamic kitchen planning tool to enhance product availability and reduce wastage. It plans to continue its expansion at a pace of 70-80 stores per year, leveraging its strong brand presence and operational excellence. The company is also investing in marketing to boost brand visibility and consumer engagement, particularly for Pizza Hut, which has shown a positive SSSG of 5% after eight quarters. The focus on taste superiority, differentiated dine-in experiences, and improved delivery services are central to its strategy.

Looking ahead, Sapphire Foods is optimistic about its future growth and scaling prospects. The company aims to maintain its current expansion rate and improve its store-level EBITDA. In Sri Lanka, the business delivered its best quarter in ten quarters, with a 14% SSSG and a 30% revenue growth in INR. The company believes that by focusing on customer experience, product innovation, and value strategy, it can capture a significant share of the market once the demand environment improves. The management is confident that its strategic initiatives will position the company well for sustained growth.

While the company has demonstrated strong performance, there are areas for improvement. The SSSG for KFC remains negative, and the company acknowledges the need to enhance the relevance of its Fried Chicken category to increase its consumer base. The company is also cautious about store expansion for Pizza Hut until it achieves double-digit store-level EBITDA. The management recognizes the importance of maintaining operational excellence and adapting to changing consumer preferences to ensure long-term success. Overall, Sapphire Foods is well-positioned to capitalize on growth opportunities, but it must continue to innovate and adapt to maintain its competitive edge.



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Sapphire Foods	9465.41	590.89	4.30%	8.06%	11.51%	223.36%	-64.07%
Coffee Day Enter	493.92	13.00	3.36%	4.11%	9.15%	-212.46%	-114.86%
Jubilant Food.	40857.64	178.23	12.98%	10.03%	56.06%	-25.52%	-21.96%
Restaurant Brand	2971.97		-29.99%	1.05%	5.76%	16.24%	-39.30%
Devyani Intl.	17967.38	1339.83	4.92%	5.91%	53.52%	53.77%	-109.66%

Aspect	Commentary
Revenue	The company experienced a notable increase in revenue, with a year-over-year growth of 9.84% and a quarter-over-quarter growth of 7.95%. This indicates a positive trend in sales performance, reflecting effective strategies in market expansion and customer engagement.
Profit & Loss	Despite a strong operating profit margin of 17.6%, the net profit margin is low at 2.29%, indicating high operational costs or other expenses impacting profitability. The PAT growth shows a significant decline year-over-year, suggesting challenges in maintaining net income.
Profitability Matrix	The operating profit margin and EBITDA margin are healthy, indicating efficient cost management. However, the net profit margin is low, suggesting that non-operational expenses or taxes are affecting overall profitability. EPS is negative, highlighting potential earnings challenges.
Valuation Matrix	The high trailing P/E ratio suggests the stock might be overvalued relative to earnings. The PEG ratio indicates growth expectations are not aligned with earnings, while the EV/EBITDA ratio suggests the company is valued highly compared to its earnings before interest, taxes, depreciation, and amortization.
Growth (YoY)	Year-over-year sales growth is positive, but PAT and EPS growth are negative, indicating profitability issues despite increased sales. The lack of dividend yield suggests the company is not returning profits to shareholders, possibly reinvesting in growth or managing cash flow.
Growth (QoQ)	Quarter-over-quarter sales growth is strong, but PAT growth is inconsistent, with a significant decline in QYoY. This suggests volatility in earnings, possibly due to seasonal factors or operational challenges. The company needs to stabilize its profit growth to ensure sustainable performance.
Capital Allocation	The return on equity and assets are modest, indicating average efficiency in using shareholder funds and assets to generate profits. The return on capital employed and invested capital are higher, suggesting better performance in utilizing capital for operational purposes.
Holdings	The promoter holding is relatively low, while institutional investors hold a significant portion, indicating confidence from financial institutions. Public holding is minimal, suggesting limited retail investor participation. The number of shares is substantial, impacting market liquidity.
Leverage	The debt-to-equity ratio is below 1, indicating a balanced approach to leveraging debt. However, the total debt is significant, which could pose risks if not managed properly. The market cap and enterprise value suggest a strong market position, but cash equivalents are low, impacting liquidity.

Analyst viewpoint: Sapphire Foods India Limited continues to demonstrate remarkable resilience and growth potential, making it an attractive investment opportunity in the short to mid-term landscape. The company posted an impressive 14% revenue growth in Q3 FY25, reflecting their strategic expansions, including 54 new outlets. This growth trajectory is propelled by dynamic kitchen planning and substantial marketing investments, particularly for Pizza Hut, achieving a positive SSSG of 5% after a prolonged period. The management's focus on taste superiority, customer-centric experiences, and streamlined delivery services underscores a robust operational strategy that enhances market penetration. With a commitment to maintaining an expansion rate of 70-80 stores annually, the company is poised to leverage its strong brand presence to capture a larger market share.

In terms of financial metrics, Sapphire Foods boasts a 7.95% QoQ sales growth, auguring well for sustainability. Their PEG and EV/EBITDA ratio suggest prudent expectations around growth and operational profitability. Although the SSSG for KFC remains in the negative domain, the company is actively addressing this by refining its Fried Chicken offerings to widen its consumer appeal. The debt-to-equity ratio underlines balanced financial leveraging, yet it’s noteworthy that high debt levels can pose future risks. However, the management’s strategic foresight and executed plans promise sustained growth, provided continuous adaptation to ever-evolving market trends and consumer preferences.

Please read detailed disclosure on next page.

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Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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