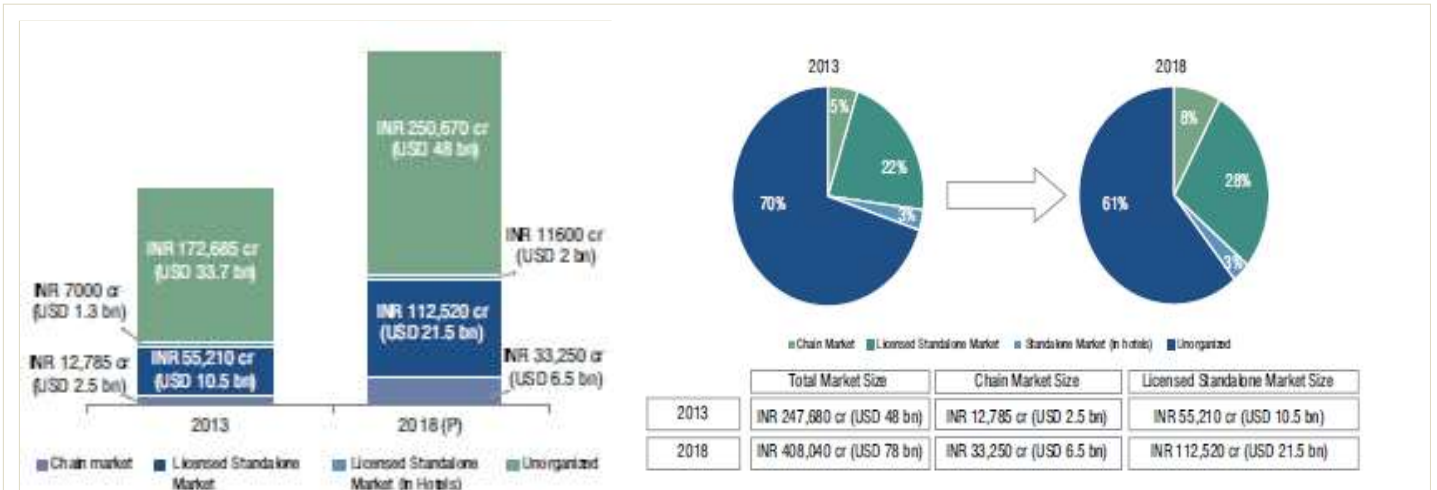


THE RISE OF THE QUICK BITE

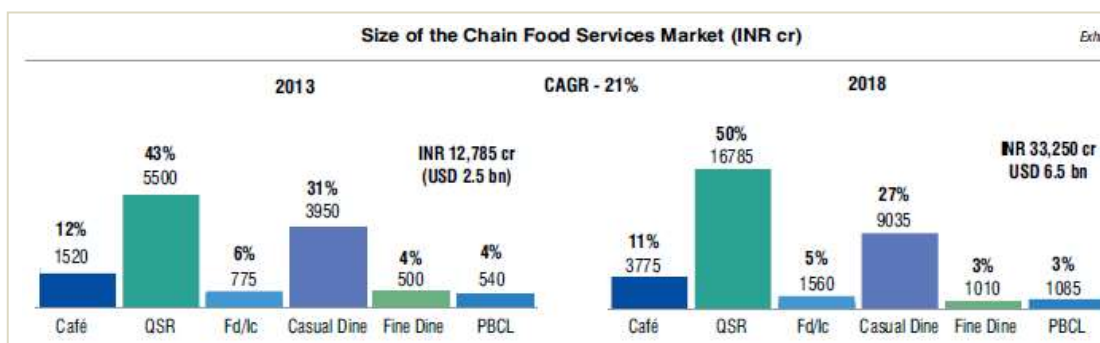
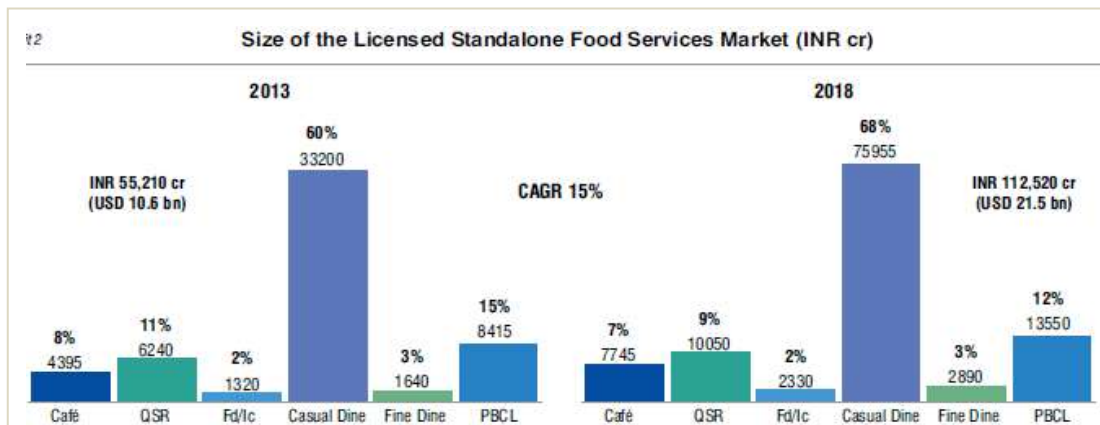
Once an introverted, home-driven consumer, the indulgent Indian is today waking up to a nascent yet formidable “Eating Out” culture, making food services one of the most promising business sectors in India.

Even with a contribution of just ~2.3% to India's GDP, the Food Services market is worth INR 247,680 crore (USD 48 billion). It comprises food services in the organized sector (i.e. chain and licensed standalone players across quick service restaurants, full-service casual and fine dining restaurants, hotels, bars and lounges, cafés, and frozen dessert formats) as well as the unorganized sector (dhabas, street stalls, halwais (sweet shops), roadside vendors, food carts, etc.). Further, the market is projected to grow to INR 408,040 crore (USD 78 billion) in the next 5 years, i.e. by 2018.



- Technopak Analysis Based on Trade & Corporate Research in Chain and Standalone Outlet count and Benchmarks of average sales across different formats
- Market represents 784 urban cities
- FS In Hotels – Size of Food Service Outlets in 5/4/3 Star Hotels
- Chain Market – More than 3 outlets considered as Chain
- Licensed Standalone : Single Licensed outlets paying taxes and has all required licenses by the government authorities

The industry can be divided into six formats, viz. Frozen dessert (including Ice Cream and frozen yogurt), Café (including Bakery), QSR (quick service restaurants), CDR (casual dine restaurants), FDR (fine dine restaurants) and PBCL (pub, bar, club, and lounge). The split of the organized (chain and licensed standalone) market into these six segments is illustrated as under, along with the projections by 2018.



Across the organized segment, the two sub-segments driving the sector's growth are QSR and CDR, accounting for ~70% growth in licensed standalone outlets and ~75% expansion in chain restaurants. Among the two, QSR has been outpacing the market's projected growth by ~25%, making it one of the segments to watch.

QSR MARKET CONSTRUCT

I. Market Overview

Quick Service Restaurants (QSRs) have been a key segment for the Indian Food Services market and have grown over the years thanks to their focus on affordable and competitive pricing clubbed with catering to such growing consumer need as convenience, increased appetite, and craving for international food. A number of international QSR chains have flocked to India over the past few years, with specific cuisines and product offerings, fuelling the market's growth.

The entry of a number of players into the QSR space has widened the chain market to an estimated size of INR 5,500 crore (USD 1,060 million) in 2013. Further, this is projected to grow at a CAGR of 25% to reach INR 16,785 crore (USD 3,230 million) by 2018. This segment is expected to witness increased activity via market expansion and entry by various players.

At the city level, a large share of the QSR market rests in metros and mini metros due to higher consumption, heightened consumer awareness, and exposure in key cities such as Delhi, Mumbai, and Bangalore. Slowly, QSRs have established their foothold in the major cities and are now expanding into smaller cities with smaller formats.

II. Market Players

The concept of QSRs has gained in prominence in India, with the entry of Indian and international brands into the space encouraging affordable eating and enabling the indulgence of even customers with smaller pockets. The market is quite competitive in nature with players operating via core menu offerings and introducing variations in Indian and international foods.

The established international brands offer such specialties as burgers, pizzas, wraps, sandwiches, etc. The likes of Taco Bell have introduced cuisine options like nachos and falafel to the Indian platter. Interestingly, another cluster consists of several entrants who are mostly confined to specific regions (e.g. Jumbo King, Fast Trax, etc.); these focus on providing customized Indian or international cuisines to suit the Indian consumer.

A noteworthy aspect is the focus of Indian players on multiple cuisines, which contrasts the international players' focusing on a single cuisine or product category. In terms of menu, Indian QSRs like Haldiram's, Bikanervala, etc. have a skew towards vegetarian food in contrast to which international players like McDonalds, Dominos, KFC, Subway, etc. offer a mix of both vegetarian and non-vegetarian offerings.

The chain space is marked by the presence of 90-100 brands with ~2900-3000 outlets spread across various cities in India. To withstand competition, most of the players are tailoring their offerings in terms of flavors, pricing, services, etc. to meet Indian consumers' inclinations. Some efforts reflecting this include the opening of pure vegetarian restaurants in certain parts of the country, offering no beef-based products, establishing separate cooking areas for vegetarian and non-vegetarian food, introducing local flavors in the menu, offering home delivery services, opening smaller-sized formats in high density areas with higher rentals (like malls, office complexes), etc. Additionally, players are also expanding their presence at various destinations, viz. malls, high streets, office complexes, airports, hospitals, highways, etc. through different formats like in-line/mall, drive-through, and express formats.

III. Challenges

- Food price inflation is a key factor affecting the consumer food services market, and is impacted by delayed monsoons, the economic slowdown, and unfavorable demand-supply conditions. It keeps fluctuating and reached a peak of 18% in 2010.
- The QSR market has many small and mid-size unorganized players competing with large chain players. This fragmented market reflects a number of challenges, including unclear format segmentation, varied consumer options for eating out, and the lack of best practices for food services outlets.
- Manpower is a big challenge in the food services market, with an attrition rate of 25-30%.
- High real estate and labor costs tend to impact store profitability.
- The industry's supply chain is fragmented in nature and marked by the presence of multiple intermediaries. The lack of appropriate infrastructure, inadequate technologies, and the non-integration of the food value chain are factors key to the wastage of nearly 30-40% of prepared food across the supply chain.
- In India, obtaining the requisite licenses, e.g. health license, food safety license, police license, No Objection Certificate (or NOC, from the fire department and the state pollution control board), etc. is a major obstacle hindering the smooth operation 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.
- The Indian restaurant industry is burdened with multiple taxes like VAT, excise, and service tax, besides different state taxes, which add up to 20- 25% of the bill value.

Despite these issues, the organized food services market is slated to witness a double-digit growth (~16%) in the next five years, spurred by the changing consumption habits of the Indian consumer and the emergence of new players in the space. Many Private Equity (PE) firms, Venture Capitalists (VCs), and angel investors have also made investments in the sector. These include Premji Invest, Sequoia Capital, Everstone Capital, IDFC, and Deepak Shahdadpuri (an angel investor in food services).

In summary, the market represents a vast untapped potential with eating out becoming a regular form of entertainment for consumers today. It is also a major contributor to the exchequer in terms of tax revenues. Therefore, it is important that the role of the food services market is acknowledged by the government, and the key concerns of restaurateurs are addressed in order to catalyze the growth to optimum levels.

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