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Retail and Consumer Quarterly Newsletter

Q3 FY 2017

March 2017







Introduction

PwC's Retail and Consumer practice takes immense pleasure in presenting its third newsletter. This quarter, we have highlighted how the quick service restaurant (QSR) industry has been growing in India and how it will be among the biggest beneficiaries of India's consumer story. The newsletter also focuses on how low penetration levels and changing demographics are presenting a huge opportunity for the industry. The second part of the newsletter highlights the deal activity in this quarter compared to previous quarters, along with our insights into the future of consumer and retail transactions.

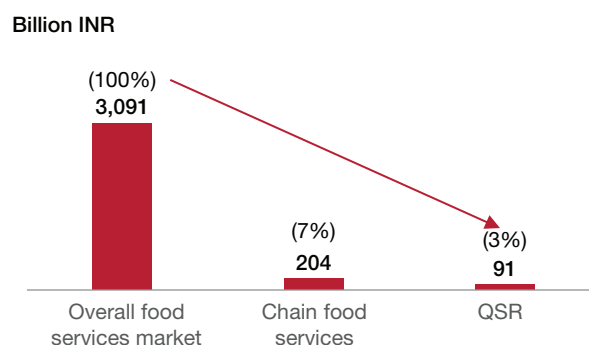
Thought leadership for the quarter

Quick service restaurants (QSRs): Scaling revenues, failing profits

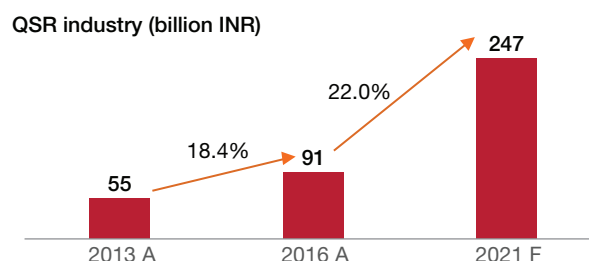
Once conservative and home-driven consumers, Indians have now become more flamboyant in their lifestyle, thereby giving rise to the eating out culture. Food services present a large opportunity in India; however, it is dominated by independent outlets. With rising urbanisation and the need for convenience and hygiene, chain outlets are set to expand rapidly and capture the market share from independent outlets.

Among chain outlets, QSRs present an opportunity for rapid growth and adoption in the coming decades, buoyed by several factors. It is, therefore, imperative to understand how the industry will continue to be shaped by the entry of several global QSR brands and investments by private equity (PE) funds.

Currently, QSR dominates the chain food services market in India (comprising approximately 45% of the market); however, it is a minuscule portion of the overall food services market (around 3%) in India. This share is expected to improve to about 5% by 2021 as innovations and trends in the industry lead people to shift to organised food outlets.

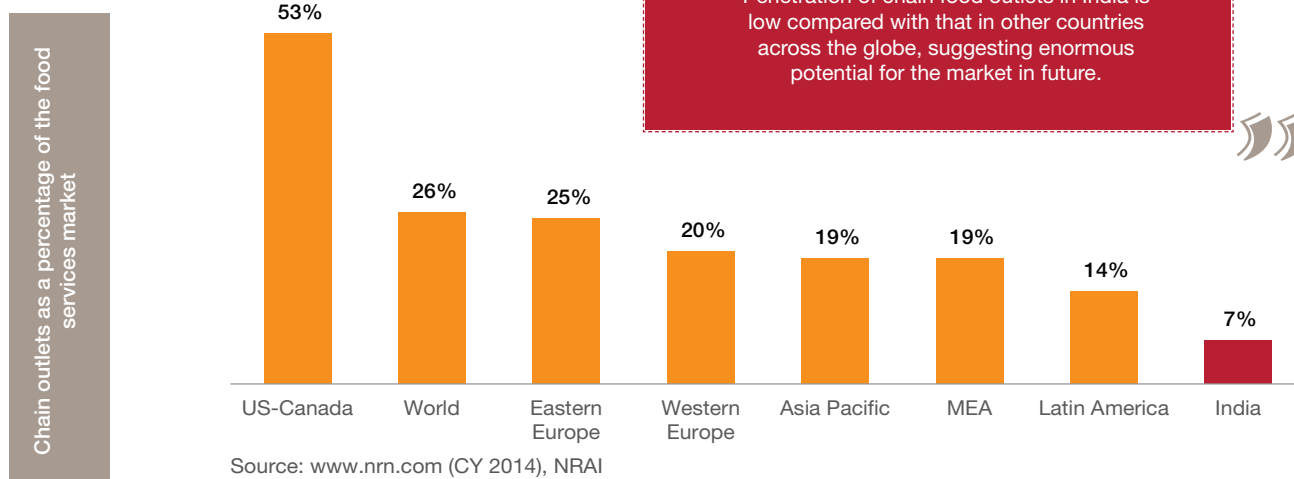
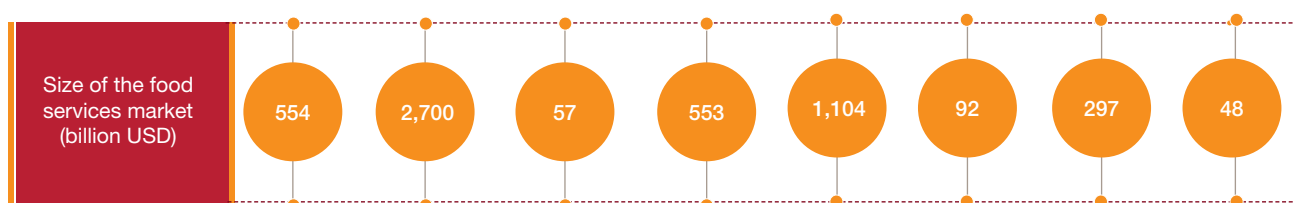


Source: NRAI



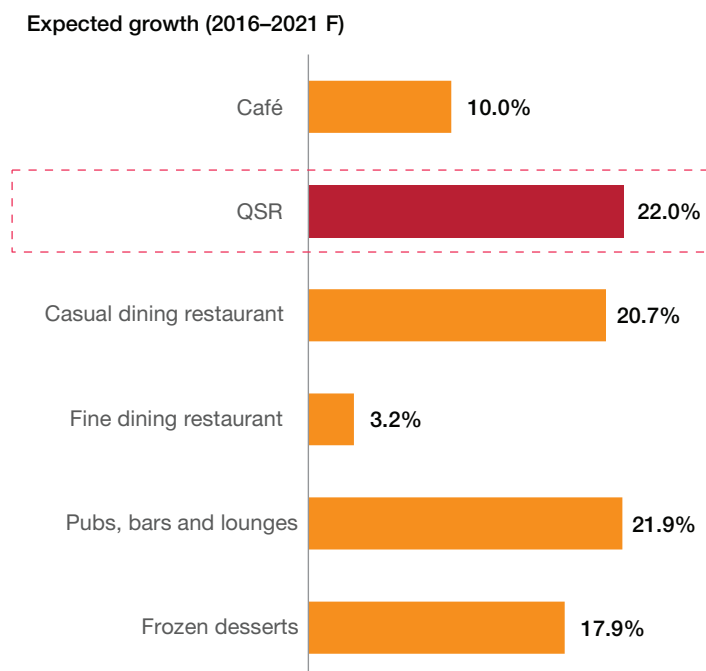
A - Actual, F - Forecast

Source: NRAI



Source: www.nrn.com (CY 2014), NRAI

QSR is well positioned to grow among other chain segments.



An analysis of various factors indicates that QSR is among the most scalable segments (about 3,400 to 3,600 outlets and 100–110 brands in India currently), with the potential to capture a larger market due to affordable pricing and a ubiquitous presence. Low barriers of entry into the industry have led to fierce competition among QSR players who are now battling for growth in footfalls and revenue. Players have thus taken steps in order to improve their situation by offering discounts, introducing home delivery, revamping menus and running promotional campaigns.

For example, after struggling with falling same store sales growth (SSSG) in FY14 and FY15, McDonald's introduced a revamped home delivery (McDelivery) menu to offer Lebanese and Mexican cuisines. It also entered the café space with McCafé—serving a range of coffees, pastries and muffins. These efforts cumulatively helped the QSR chain in reviving its SSSG in FY16 and consistently reported positive same store sales growth.


Source: NRAI

The QSR segment is highly scalable with moderate margins and high competition.

Type	Positioning	Scalability	Margins	Competition
Cafés	Beverage-focused, convenience driven	High (2,800–3,000 outlets)	Low (APC: 50–250 INR)	High (~100 brand)
QSR	Specific product offerings or cuisines with a focus on convenience food	High (3,400–3,600 outlets)	Low to moderate (APC: 75–250 INR)	High (~100–110 brands)
Casual dining	Focused on quality food and table service	Moderate to high (1,200–1,400 outlets)	Moderate to high (APC: 250–1,000 INR)	Moderate to high (NA)
Fine dining	Multi-cuisine/specialty restaurants with a focus on quality, ingredients, presentation and service	Low (80–100 outlets)	High (APC: > 1,000 INR)	Low (~20–25 brands)
Pubs, bars, lounges	Focus on alcohol and customer experience	Moderate (250–275 outlets)	High (APC: 750–1,500 INR)	Moderate (~40–50 brands)


Source: NRAI

QSR in India comprises various cuisines.



Global/international cuisine

Burgers	McDonald's, Burger King, Wendy's, Carl's Jr
Pizza	Domino's, Pizza Hut, Sbarro
Sandwiches	Subway
Mexican	Taco Bell, California Burrito



Indian cuisines

North Indian	Tadka Singh, Mast Kalandar
South Indian	Vasudev Adigas, Sagar Ratna
Fusion	Burger Singh, Wow! Momo
Rolls	Faasos, Kaati Zone, Tibb's Frankie
Biryani	Ammi's Biryani, Paradise Food Court

However, international brands and cuisines lead the QSR market in India.

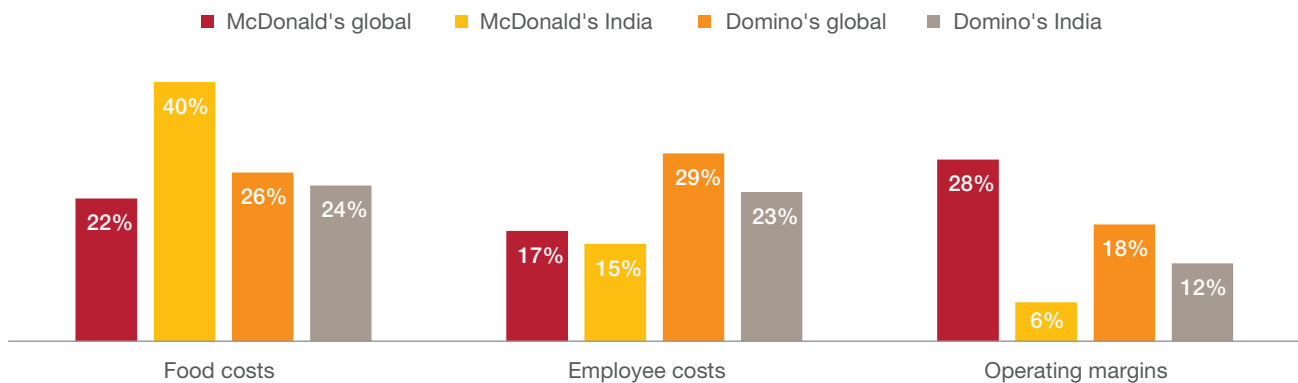
Brand	Cuisine	Number of outlets	Market share (2012)	Market share (2015)	Gain loss	Revenue CAGR (2012–15)
Domino's	Pizza	1,097	10.2%	16.0%	↑	35.3%
McDonald's	Burgers	386	10.9%	7.4%	↓	2.5%
KFC	Burgers	372	7.0%	6.7%	↓	14.7%
Pizza Hut	Pizza	432	3.2%	4.4%	↑	29.7%
Subway	Sandwiches	476	2.2%	2.8%	↑	26.6%

Source: Domino's Investor Presentation

International brands have made a wide range of innovations to cater to the Indian consumer's palate.

Innovation	Example
Localisation	<ul style="list-style-type: none"> McDonald's introduced the 'masala dosa burger', Maharaja Mac (alternative to Big Mac), Aloo Tikki Burger, etc. Domino's introduced vegetarian pizza options and decided not to offer beef toppings for non-vegetarian pizzas, which are available globally. Dunkin' Donuts introduced the Paneer Mania range of burgers.
Revamping of menu	<ul style="list-style-type: none"> McDonald's recently introduced Lebanese and Mexican cuisines as these cuisines have been gaining traction among consumers. Dominos introduced the Burger Pizza, oven-baked sandwiches, Pizza Mania, etc.
Sweating of assets	<ul style="list-style-type: none"> McDonald's entered the café segment and introduced a breakfast menu in order to attract more customers and attain higher utilisation of assets.
Delivery	<ul style="list-style-type: none"> Although Domino's has been offering delivery for a decade now, other players such as McDonald's, Pizza Hut and Subway have recently started offering mobile ordering and delivery options to entice customers and avoid losing market share to delivery outfits.
Point of sales	<ul style="list-style-type: none"> McDonald's and Pizza Hut introduced express formats to cater to customers for takeaway and delivery orders.

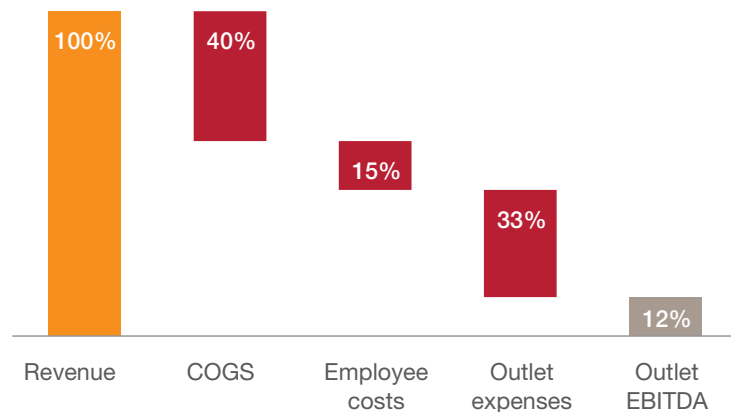
Profitability in the Indian QSR segment has been low compared to that of global QSR players.



Sample store economics in QSR

Burger outlet dynamics

Store area (sq. ft.)	3,000–3,500
Store CAPEX (million INR)	23
Average order value (INR)	46
Footfalls per store (million)	0.8
Revenue per outlet (million INR)	36
Outlet EBITDA (million INR)	4
Payback (years)	5.4



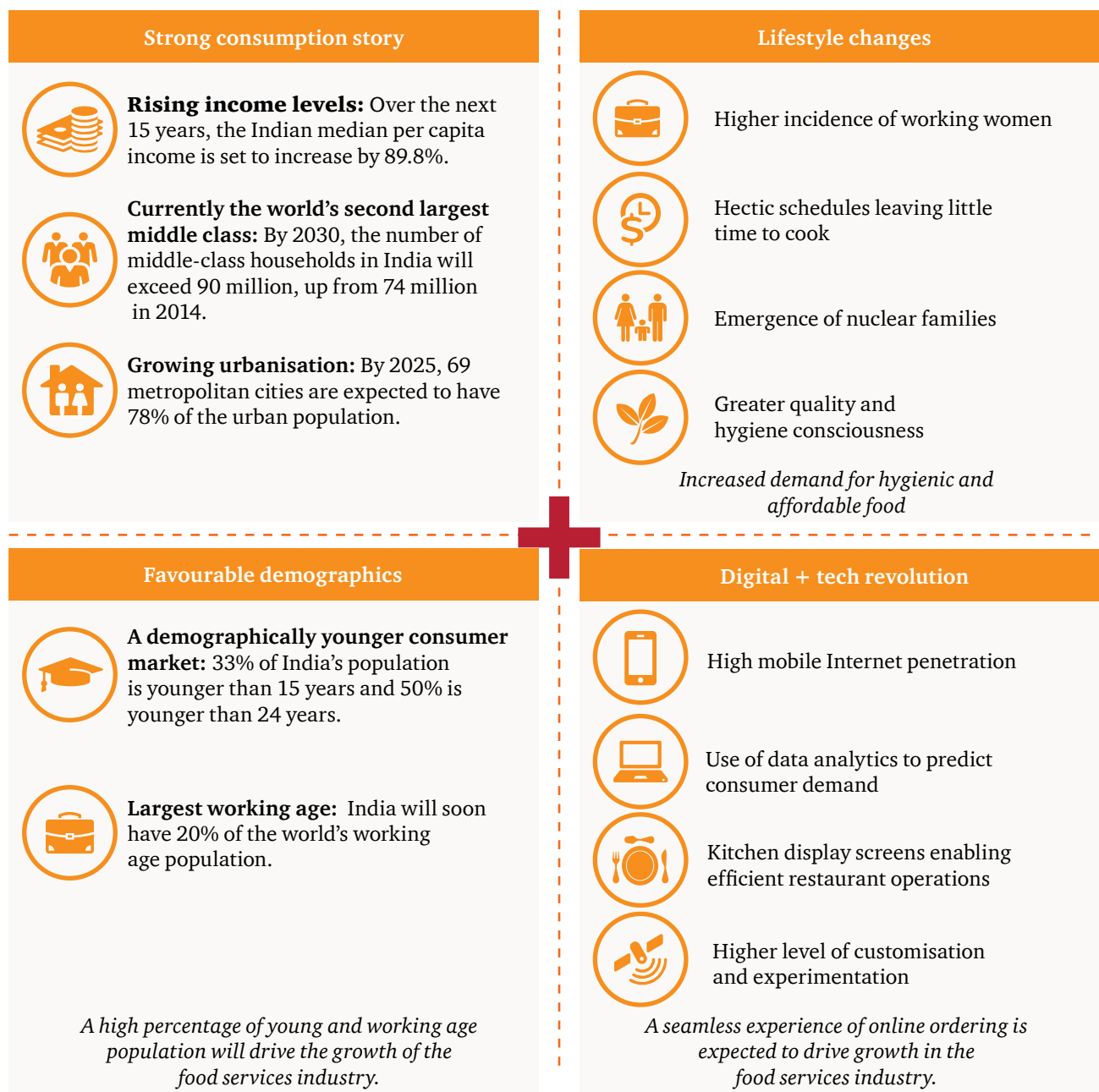
Source: Regulatory filings

To match the affordability of customers in India, global QSR players had to significantly reduce prices. This had a detrimental impact on the food margins as well as the overall operating margin. The low margins in turn became a risk as payback periods increased and overall returns diminished.

However, with rising workforce participation and an increase in per capita income, it is expected that average realisations and footfalls at QSR outlets will improve, thereby providing a significant boost to the industry. That being said, players need to grapple with the constantly changing tastes and preferences of the Indian consumer.



Various factors will ensure healthy growth of the industry...



Source: Domino's Investor Presentation

However, some factors may act as roadblocks. They are:



Deal making in the QSR space

QSR continues to attract high interest from PE and venture capital investors.

	Date	Target	Investor	Deal value (million USD)
Investment in global QSR franchises	2015	Sapphire Foods Limited (Pizza Hut)	Goldman Sachs, CX Partners, Samara Capital	64.3
	2014	Devyani International (Pizza Hut and KFC)	Temasek	81.9
	2013	Burger King India Private Limited	Everstone	100.0
	2010	Om Pizza and Eats (Papa Johns)	TVS Capital	11.1
Indian theme	Date	Target	Investor	Deal value (million USD)
North Indian	2015	Spring Leaf Retail Pvt Ltd (Mast Kalandar)	Footprint Ventures	6.6
	2013	Vrinda Hospitality Pvt Ltd (Dana Choga's Kitchen)	SAIF Partners	1.9
	2014	Hello Curry	Sashi Reddy Investment	0.5
South Indian	2012	Vasudev Adigas	New Silk Route	38.0
	2011	Sagar Ratna Restaurants	India Equity Partners	30.4
Biryani	2016	HO Food Services Pvt Ltd (Mani's Dum Biryani)	NA	0.67
	2016	Thea Kitchen (Biryani Blues)	Carpediem Capital	0.37
	2014	Paradise Food Court	Samara Capital	11.1
	2012	TMA Hospitality Pvt Ltd (Ammi's Biryani)	SAIF Partners	12.5
Ethnic	2012	Goli Vada Pav	Ventureast	4.8
	Date	Target	Investor	Deal value (million USD)
Others	2016	Tipping Mr Pink Pvt Ltd (Burger Singh)	Multiple investors	1.0
	2015	Wow! Momo Foods Pvt Ltd	Multiple Angel Investors	1.6
	2013	Burrito Restaurants Pvt Ltd	Adhvith Dhuddu	0.8

Source: VCCEdge

Transactions in Q2 FY17 in the retail and consumer space

Deal round-up

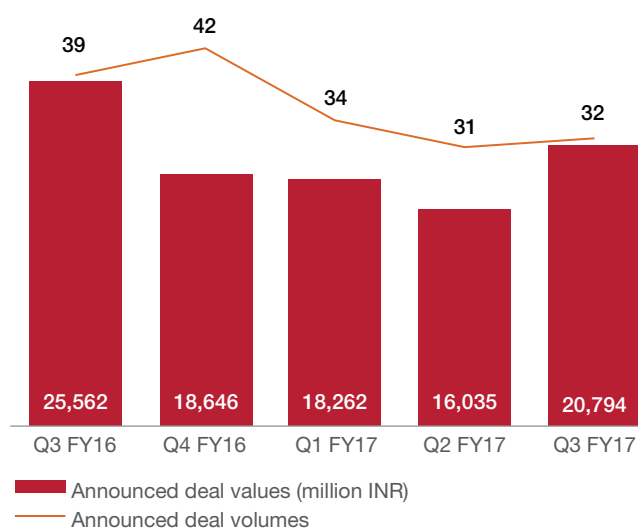
Deals in the retail and consumer sector witnessed an uptick, with both deal value and volume showing signs of recovery.

The decline in deal activity from Q3 FY16 can mainly be attributed to a decline in the outbound M&A market and a decline in PE funding. However, there has been a revival in deal making from Q2 FY17 as domestic M&A deals gained traction. The largest domestic M&A deal this quarter was the acquisition of Titawi Sugar Complex (part of Mawana Sugar Limited) by Indian Potash Limited for 3,750 million INR.

The largest deal in the quarter was the investment of 7,400 million INR in Arvind Fashion Limited by Multiples PE.

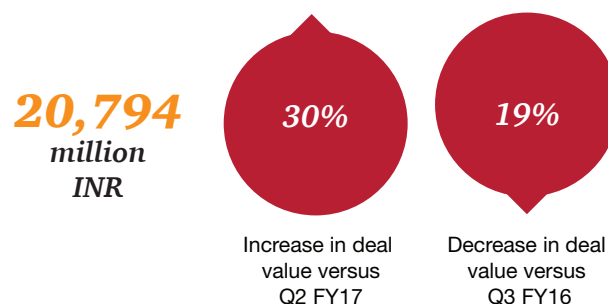
Several trends such as rising per capita incomes and changing consumer lifestyles continue to shape deal making in India. Packaged foods, dairy, apparel and retail continue to receive high interest from investors betting on the India consumer story.

Retail and consumer deal value and volume

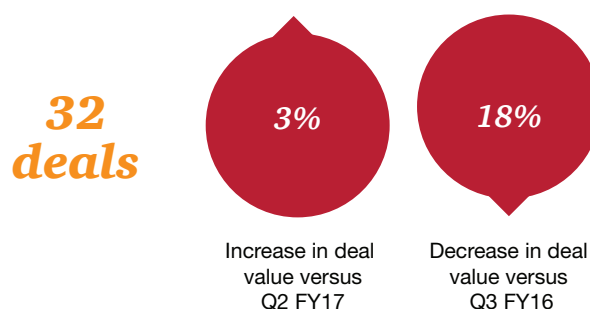


Source: VCCEdge

Deal value: The numbers (Q3 FY17)



Deal volume: The numbers (Q2 FY17)



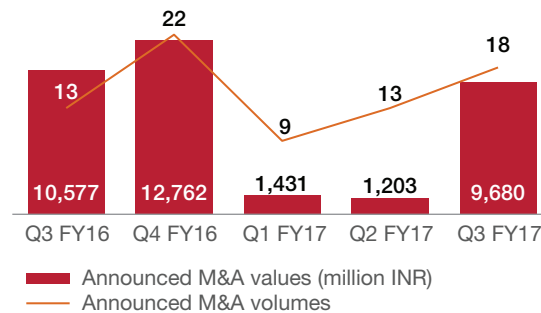
Source: VCCEdge

Key trends and highlights

- There were 32 retail and consumer deals announced in Q2 FY17, amounting to 20,794 million INR.
- PE deals slowed down this quarter both in terms of deal volume and deal value.
- Food and beverages deals led the market in terms of value and volume, followed by apparel and retail and consumer services.
- This quarter saw a revival in domestic M&A in terms of deal value.

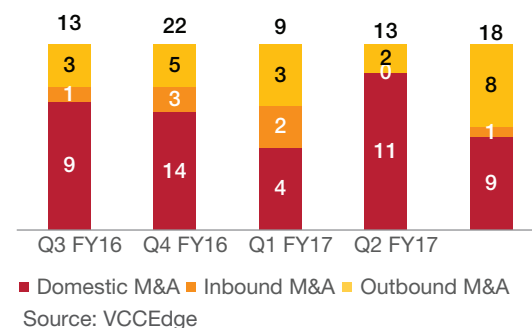
M&A market records strong activity

Q3 FY17 witnessed a sharp revival in deal activity compared to previous quarters, with both deal value and volume on an uptick. The major reason for the uptick was a strong performance in the outbound M&A market in terms of the number of deals. The domestic M&A market also recorded improved activity in terms of deal value.



Emergence of outbound deals

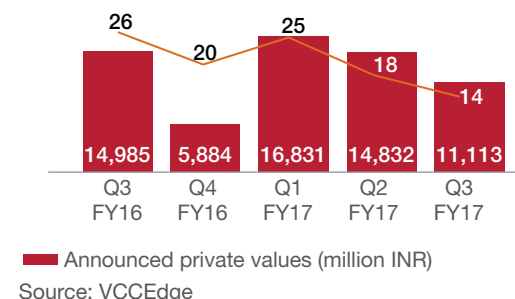
An emerging trend observed over the quarters has been the rise of outbound M&A deals. Indian companies have realised potentially big markets outside their home country where they can score big gains and use India's cost advantage. Some of the deals this quarter were the acquisition of a Sri Lanka-based dairy firm, **Paras Industries Limited** by **Anik Industries**, and the acquisition of a Netherlands-based fruit distribution company, **OFD Holdings BV**, by **Mahindra Agri Solutions**.



PE remains the driver

Deals in the market are being increasingly driven by PE players. PE deals formed 53% of the total deal value and 44% of the total deal volume this quarter.

Total PE deal volumes have shown a declining trend over the previous quarters; however, the deal values have been steady this quarter. As PE and venture capitalist players increasingly become interested in the India consumer story, the share of PE deals as a percentage of total deals is expected to rise.



IPO activity

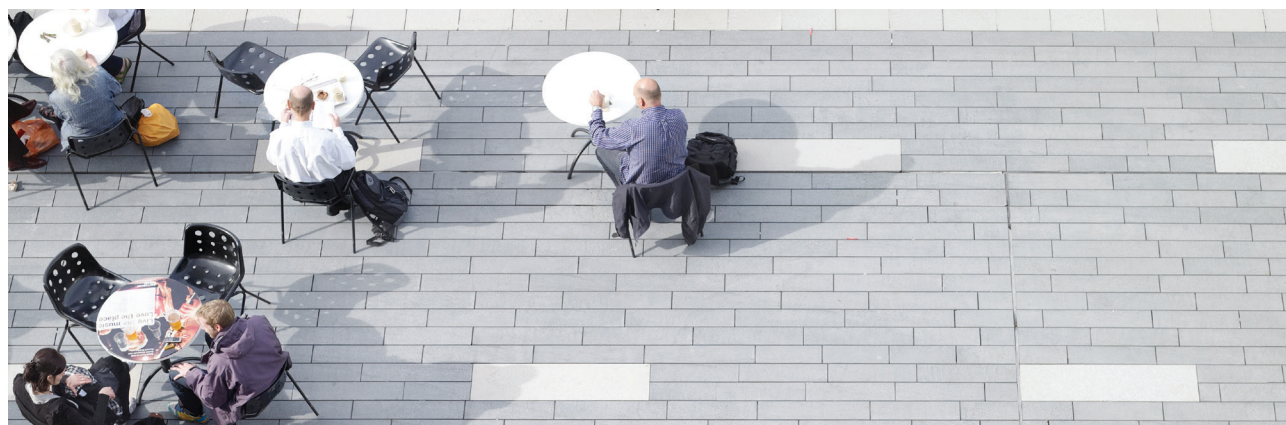
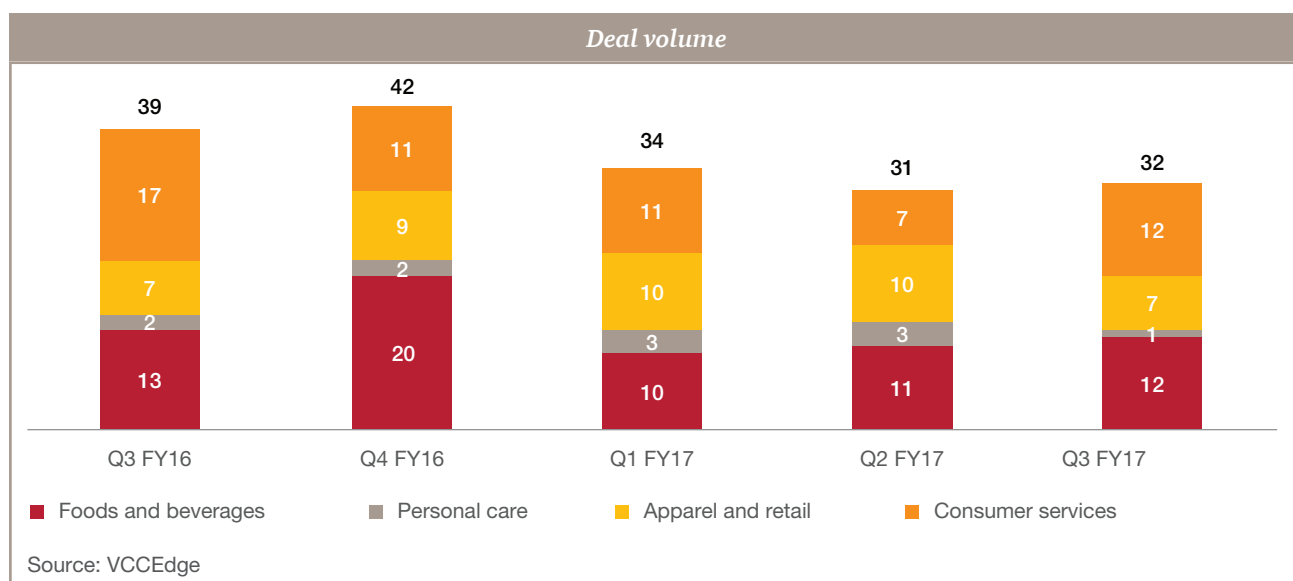
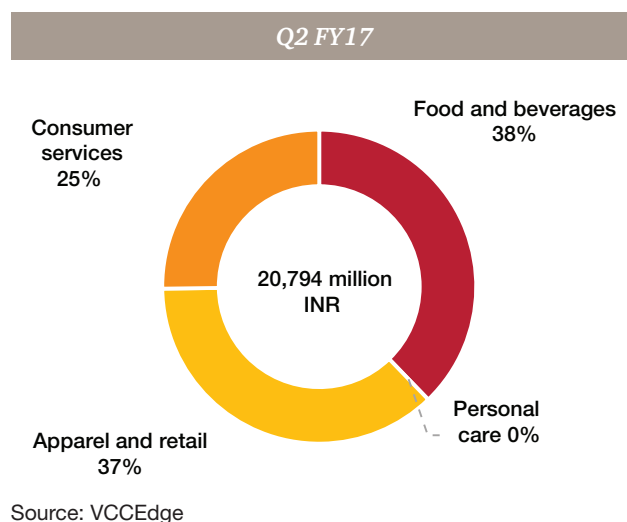
This quarter witnessed the 5,100 million INR IPO of **Sheela Foam Limited**—the manufacturer and distributor of mattresses and bedding accessories in India under the brand name Sleepwell. Sheela Foam Limited is the leading mattress manufacturer in India with a market share of around 23% in the 30 billion INR organised mattress industry. The shares were allotted at an offer price of 730 INR, implying a price to earnings multiple of 27.0x as per annualised H1 FY17 earnings.



Sector round-up

Sector snapshot

- Deals in the consumer and retail sector were largely driven by the food and beverages and apparel and retail transactions, which accounted for 75% of the total transactions in Q3 FY17 by value, followed by consumer services, which accounted for 25% of the transactions by value.
- Personal care deals have fallen significantly this quarter, with the signing of just one deal—namely the acquisition of Charm Industries by Godrej Consumer Products Limited.
- The largest transaction in Q3 FY17 was the investment of 7,400 INR in Arvind Fashions Limited by Multiples PE.
- The consumer services sector also recorded improved deal making, with education becoming a key theme in deals. This quarter, the largest deal in the consumer services sector was Verlinvest's investment in Xseed Education.



Key announced transactions

Top M&A deals in the quarter

Target	Acquirer	Target industry	Deal value (million INR)	Stake
Titawi Sugar Complex	Indian Potash Limited	Food and beverages	3,750	100%
King Maker Marketing Inc. (ITC's cigarette business in the USA)	Premier Manufacturing Inc.	Tobacco	1,614	100%

Top PE deals in the quarter

Target	Acquirer	Target industry	Deal value (million INR)	Stake
Arvind Fashion Limited	Multiples PE	Apparel and retail	7,400	10.3%
Xseed Education	Verlinvest SA	Education	2,000	12.8%
Gho Agro Private Limited	ASK Pravi	Dairy	499	NA
HR Food Processing Pvt Ltd	Aavishkaar India, Lok Capital	Dairy	448	NA

Source: VCCEdge

Trading multiples for public companies

Company name	Price (million INR)	% of 52 week high	% of 52 week low	Market cap (million INR)	Enterprise value (million INR)	EV/ sales	EV/ EBITDA	P/E	EBITDA %	PAT %
Foods and beverages										
ITC Limited	264.8	90.6%	129.8%	3,213,474	3,080,910	7.8x	20.5x	32.3x	38.1%	25.1%
Nestlé India Limited	6,197.60	84.1%	123.8%	596,023	574,804	6.2x	30.7x	64.5x	20.3%	10.0%
Dabur India Limited	276.6	86.4%	114.7%	487,148	488,011	5.8x	32.0x	38.4x	18.2%	15.3%
Britannia Industries Limited	3,114.20	86.9%	124.3%	373,245	368,746	4.0x	29.4x	43.8x	13.7%	9.3%
Tata Global Beverages Limited	141.1	89.5%	130.7%	89,116	95,856	1.2x	12.4x	18.8x	9.4%	5.8%
Manpasand Beverages Limited	739.5	95.2%	179.5%	42,383	41,751	6.1x	27.8x	57.2x	22.1%	9.8%
DFM Foods Limited	1,834.70	75.4%	169.7%	18,350	18,479	4.9x	41.5x	77.1x	11.9%	6.4%
Mean						5.2x	27.8x	47.4x	19.1%	11.7%
Median						5.8x	29.4x	43.8x	18.2%	9.8%
Personal care										
Hindustan Unilever Limited	877.5	92.0%	112.2%	1,899,259	1,847,555	5.6x	31.0x	46.5x	18.0%	12.3%
Godrej Consumer Products Limited	1,608.30	91.8%	130.4%	547,771	573,141	6.0x	32.2x	41.2x	18.6%	13.9%
Colgate-Palmolive (India) Limited	892.2	86.4%	113.3%	242,394	238,042	5.6x	24.8x	42.3x	22.5%	13.5%
Emami Limited	1,032.70	82.0%	114.6%	234,276	240,024	8.6x	27.7x	70.0x	31.1%	12.0%
Procter & Gamble Hygiene and Health Care Limited	7,073.60	97.5%	120.8%	230,142	217,715	8.6x	31.9x	49.7x	27.0%	18.3%
Gillette India Limited	4,087.80	83.5%	101.6%	132,869	127,714	6.6x	37.7x	56.2x	17.5%	12.2%
Jyothy Laboratories Limited	366.3	95.7%	135.9%	66,533	65,427	3.8x	25.7x	35.1x	14.8%	11.1%
Bajaj Corp Limited	364.7	83.2%	112.4%	53,867	50,682	5.8x	18.5x	27.4x	31.2%	22.4%
Marico Limited	281.8	91.8%	120.2%	363,562	355,007	5.9x	29.9x	46.9x	19.8%	12.90%
Mean						6.3x	28.8x	46.1x	22.3%	14.3%
Median						5.9x	29.9x	46.5x	19.8%	12.9%
Dairy										
Hatsun Agro Product Limited	464.9	97.9%	163.5%	70,713	74,982	1.9x	22.6x	nm	8.60%	1.90%
Kwality Limited	160.3	98.1%	166.0%	38,012	52,361	0.8x	13.5x	20.7x	6.10%	2.70%
Parag Milk Foods Limited	222.6	62.4%	110.2%	18,673	19,810	1.2x	20.4x	nm	5.60%	0.20%
Heritage Foods Limited	1,106.20	94.2%	227.8%	25,663	26,101	1.1x	18.0x	36.6x	6.00%	2.90%
Prabhat Dairy Limited	131.3	87.0%	177.4%	12,742	14,856	1.1x	11.7x	23.0x	9.50%	4.20%
Mean						1.2x	17.2x	26.8x	7.20%	2.40%
Median						1.1x	18.0x	23.0x	6.10%	2.70%

Source: Capital IQ as of 2 March 2017

Note: nm indicates non-meaningful

Company name	Price (million INR)	% of 52 week high	% of 52 week low	Market cap (million INR)	Enterprise value (million INR)	EV/ sales	EV/ EBITDA	P/E	EBITDA %	PAT %
Apparel and retail										
Page Industries Limited	14,390.00	82.7%	140.5%	159,703	158,834	7.7x	38.1x	62.4x	20.2%	12.5%
Aditya Birla Fashion and Retail Limited	155.6	87.6%	126.6%	119,371	138,440	2.1x	26.2x	nm	8.2%	-1.1%
Trent Limited	238.1	88.2%	170.5%	79,108	82,239	3.4x	57.8x	nm	5.9%	2.6%
Shoppers Stop Limited	322.9	76.9%	120.5%	27,101	35,586	0.7x	18.0x	nm	3.9%	-0.4%
Kewal Kiran Clothing Limited	1,766.90	89.9%	109.7%	21,877	20,922	4.6x	20.1x	32.1x	22.7%	14.9%
Indian Terrain Fashions Limited	166.2	88.9%	146.4%	6,274	6,191	1.6x	14.3x	25.2x	11.5%	6.4%
Mean						3.4x	29.1x	39.9x	12.1%	5.8%
Median						2.8x	23.2x	32.1x	9.8%	4.5%
Consumer services										
Jubilant FoodWorks Limited	1,031.10	76.4%	135.6%	68,307	67,085	2.8x	24.3x	64.8x	11.3%	4.3%
Westlife Development Limited	214.8	82.6%	141.3%	33,409	33,757	3.7x	63.7x	nm	5.8%	-1.6%
Talwalkars Better Value Fitness Limited	227.8	75.2%	125.8%	6,739	9,005	3.3x	5.4x	11.1x	60.8%	22.5%
Speciality Restaurants Limited	74.6	72.4%	106.5%	3,489	2,719	0.9x	nm	nm	0.6%	-5.3%
Mean						2.7x	31.2x	38.0x	19.6%	5.0%
Median						3.0x	24.3x	38.0x	8.6%	1.4%
Other speciality retail										
Titan Company Limited	430.2	93.7%	145.2%	381,881	381,696	3.4x	40.8x	55.4x	8.3%	6.1%
PC Jeweller Limited	374.8	70.6%	130.2%	67,132	73,395	1.0x	10.1x	16.8x	9.90%	5.5%
Bata India Limited	495.7	80.8%	124.2%	63,698	60,260	2.5x	22.0x	29.1x	11.3%	9.0%
Relaxo Footwears Limited	441.4	83.9%	126.1%	52,713	54,346	3.1x	22.1x	43.7x	14.2%	7.0%
Mirza International Limited	90	78.7%	132.2%	10,828	12,206	1.3x	7.1x	14.1x	18.4%	8.8%
Gitanjali Gems Limited	66.8	71.3%	212.9%	7,900	85,036	0.6x	11.3x	4.4x	4.9%	1.1%
Liberty Shoes Limited	163.2	77.9%	126.9%	2,772	4,046	0.9x	9.7x	27.6x	9.2%	2.2%
Mean						1.8x	17.6x	27.3x	11%	6%
Median						1.3x	11.3x	27.6x	10%	6%

Source: Capital IQ as of 2 March 2017

Note: nm indicates non-meaningful



HOT DOGS CONCRETES

C-LINE
EXPRESS LINE
→

SHAKE SHACK

Cool Beans!

Shrimp Cold Brew Coffee

Custard Calandar

Maple Caramel

Chocolate Caramel Pie

Hot Sauce

Notes

Notes

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