

Taking a bite out of the Indian pie



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tabla!

Birizza (a combination of dum biryani and pizza), Shahi Chicken McCurry Pan, Brute Tough Guy Veg Burger, spicy green banana toppings on pizza, Veg Chilli Cheese Melt.... these are some of the items you will find today on the menus of Pizza Hut, McDonald's, Dunkin' Donuts, Domino's and Burger King in India.

They are indications of the extent to which global fast-food chains are adapting their menus to court Indian consumers. Some believe India is probably the last frontier left for these global brands to conquer.

With the Indian food services market expected to be worth over US\$100 billion (S\$141 b) in the next three years, (based on an estimate by Technopak Advisors), smart money from Singapore is already finding its way to India.

Temasek Holdings reportedly invested over US\$108 million last year to buy a stake in India's Devyani International which operates Pizza Hut, KFC, Costa Coffee and Swensen's, along with local chains like Vaango, Food Street and Foodie's Bar.

Among the cafes, fast-food chains, casual-fast-dining, casual dining and fine dining, which has the best growth prospects in the next five to 10 years in India?

Said Mr Rohit Sipahimalani, co-head, investment group and head, India, Temasek: "Sub-sectors across the quick service restaurant sector in India will also benefit from overall consumption-driven growth, so there will be opportunities in the segments you have mentioned.

The challenge is in picking the winners in the different sub-sectors. For us, investment opportunities are evaluated from a bottom-up basis, based on our intrinsic value test."

Not just the big funds

Singapore-based Everstone Capital and its food and beverage arm F&B Asia Ventures took over Singapore-listed Harry's Holdings and launched Harry's Bars in New Delhi and Mumbai in 2013. The private equity group also launched Burger King in India last year.

Also in 2013, Singapore-based Arisaig Partners invested a reported US\$40 million for a 3.5 per cent stake in Westlife Development in India which has the franchise to operate McDonald's chain of restaurants in western and southern India.

It is not only the big funds from Singapore that are investing in this sector in India. Singaporean entrepreneur Lokesh Bharwani started Mad Over Donuts in India in 2008 together with his friend Hitesh Bharwani, with one store in Delhi.

Now it has grown to more than 50 stores across four Indian cities Delhi, Mumbai, Bengaluru and Pune. Along the way he partnered Mirah Hospitality, which manages restaurant brands such as Khandani Rajdhani, The United Sports Bar & Grill and Falafel's.

He plans to open another 150 outlets across India in the next two years.

India is still a young society with about 65 per cent of Indians below the age of 35. With more people having higher education, getting jobs at a young age in big cities and migrating there, the opportunity to eat out with colleagues and friends, rather than with families, has increased.

Growth in middle-income population

Said Mr Sipahimalani: "The change in consumer behavioural trends could certainly stem from broader trends such as the growth in its middle income population and increasing urbanisation."

This urban generation has grown up socialising with friends in cafeterias and restaurants. Accelerating these effects are rising income levels, increased disposable incomes and nuclear families with both partners fully employed.

As limited time is available to prepare an Indian meal, for them, the convenience of eating out or ordering from restaurants is very valuable. Moreover, with growing urbanisation across India, malls and office complexes are opening up in newly-urbanised centres near big metros as well as in tier 2 cities, taking the trend beyond the metros.

According to one estimate, 90 per cent of Indians who eat out are below the age of 40. Television, movies, Internet as well as international travel have all exposed this group of urbanised Indians to international brands and lifestyle and made them more acceptable.

Echoing this sentiment, Mr Vicky Ratnani, director of culinary strategy and development, F&B Asia, says: "The new menu at Harry's India which we will launch in September/October this year is a hearty mix of European Comfort bar food, modern Indian and regional dishes with a quirk in terms of presentation and flavour combinations.

"People going out like the interactive aspect of service.

Foods with Asian influences like Korean, Vietnamese and Japanese are gaining popularity. We are trying to capture a plethora of dishes which look trendy and at the same time are easy to eat and well paired to go down with our drinks and cocktail menus."

Mr Ratnani tells tabla: "The Indian food scene is not just about curries any more. A lot of regional influences and coastal cuisine are emerging on menus with a twist, and innovative preparations from the grill and tandoor are gaining popularity."

Mr Kartik Maheshwari, senior associate at Nishith Desai Associates in Mumbai, spoke of the aspirational nature of Indian urban consumers. He said: "Like with other aspects of the market, even with eating out we have noticed that there are some brands that are considered aspirational where people look forward to being seen."

The well-known Indian law firm had advised Goldman Sachs in its US\$10 million investment in Azure Hospitality, which runs the pan-Asian restaurant chain Mamagoto and mid-market chains Speedy Chow and Rollmaal.

It is no wonder that there are about 57 foreign restaurant brands in India, operating over 3,460 outlets.

These are the positive trends that have encouraged global investors to back local and global restaurant chains in India. Five years ago global blue-chip private equity funds KKR, New Silk Route and Standard Chartered Private Equity invested about US\$200 million for an estimated 20 per cent share in India's home-grown coffee chain Cafe Coffee Day.

According to Euromonitor, it is the dominant player in India's specialist coffee chain sector with a 64 per cent market share. Over the last five years, the chain has nearly doubled in size, with about 1,650 stores and 600 kiosks across 200 cities in India. It has now filed for an initial public offering (IPO) to raise \$250 million that will give a partial exit to its investors.

Also more than five years ago, the company that manages the Domino's Pizza and Dunkin' Donuts chains in India, Jubilant FoodWorks, filed for an IPO.

According to some estimates Jubilant's returns since that IPO have been over 1,150 per cent. Investments from Singapore and elsewhere that are flowing into this sector in India are probably hoping to replicate such successes.

Investing in India in this sector is not without its fair share of challenges. Good quality locations are essential for this sector. Since they are limited, real estate costs are high in India. Even a tourist to India has experience with erratic power and water supply and congested roads.

Doing business in this sector brings a firm face to face with challenges in cold storage, supply chain, logistics, food and service standards, shortage of quality manpower and high attrition, a dozen licences and high taxes, just to name a few.

In a price-sensitive market where raw materials account for a third of revenue, high food inflation has caused havoc in the industry over the years.

Opportunity despite the challenges

Mr Vivek Kathpalia, partner at Nishith Desai Associates, Singapore, however sees an opportunity despite the challenges. "One of the biggest grouses that we have seen in this space is the non-reliability of delivery of quality produce due to an inadequate supply chain. This also has a direct bearing on those looking to standardise their recipes.

"However, we foresee an opportunity for Singaporean companies who can come and address the supply chain issue as well as succeed in ensuring regular delivery of quality produce."

A cold chain in India with a Singapore connection is doing that exactly. Gateway Distriparks was started nearly 20 years ago as a Singapore-India joint venture. Its subsidiary was Snowman Logistics, India's first cold supply chain company. Snowman has grown to be the largest player in this domain and had its IPO last year. Early this year, The Economic Times reported that Snowman Logistics was looking to "acquire two Bengaluru-based start-ups specialising in chopping vegetables and assembling sandwiches and burgers before sending them off to quick service restaurants".

Where do we go from here?

According to a study published by ASSOCHAM, a chamber of commerce in India, Indians are eating out more often now, as many as eight times a month, just behind the Chinese at nine and the Thais at 10 and significantly behind the Americans who do it 14 times.

To win them over, do international fast-food chains have to serve Birizzas and Shahi Chicken McCurry Pan?

Well, according to a report in The Hindustan Times, Birizza "now accounts for 10 per cent of sales and has been so successful that Pizza Hut UK and Australia are interested in including the Birizza on their menus".

Be it Birizzas, or beer, chopped vegetables or doughnuts, Singapore investments are finding their way into this sector in India.

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The Indian food services market in numbers

The Indian food services sector is expected to be worth over \$106 billion in 2018

Current size is \$66-68 billion.

Indians in metros eat out as many as eight times a month, comparable to the Chinese at nine times.

By 2020, 530 million Indians are expected to live in urban centres.

65 per cent of Indians are under the age of 35 and 90 per cent of those who eat out are below 40 years.

The annual average spending of each middle class household in India's tier 1 cities have increased by more than 35 per cent and by 108 per cent in tier 2 and 3 cities in the last two years.

About 20,000 new employment opportunities generated every quarter in Bengaluru.

1,400 restaurants have opened in Bengaluru alone in the last six years.

The giant is Cafe Coffee Day with 1,530 stores and 600 kiosks across India and an estimated pre-IPO valuation of \$1.37 billion. It has 64 per cent market share in its category.

An estimated 57 foreign restaurant brands are in India, operating 3,460 outlets.

YUM! Brands, which owns KFC, Pizza Hut and Taco Bell brands of fast-food chains, plans to have 2,000 restaurants in India by 2020 compared to about 800 now.

There are 844 Domino's Pizza outlets and 50 Dunkin' Donuts restaurants across India.

McDonald's has 370 outlets across India.

Subway Systems India has 403 restaurants in 68 cities across India.

Baskin Robbins has over 550 stores in 150 Indian cities

Sources: ASSOCHAM, Bloomberg, Reuters, Technopak Advisors, USDA