

The changing landscape of the retail food service industry

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pwc

FICCI

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Foreword

The Indian economy has entered the second half of this decade with a renewed sense of optimism. Trends such as rising income levels, increasing urbanization and a greater penetration of technology are driving consumption and fueling the growth of Retail and e commerce sectors in India. The Indian Food and Beverage (F&B) service retail Industry is one of the most vibrant industries that has seen unprecedented growth in the recent past and continues to expand rapidly.

While traditionally this sector has been dominated by unorganized players; however, the entry of foreign and organized Indian restaurant chains in the past few years has helped in faster evolution and expansion of the entire industry. While International and national chains have introduced global best practices, consistency in taste of food, optimized operational capabilities, still there are number of regulatory concerns surfacing the industry including license clearance, taxation issues, and absence of clear regulatory framework. In view of this FICCI Foodzania is an attempt at getting onboard all the concerned stakeholders associated with the Food & Beverage Service Retail Industry under a single platform to have a wider deliberation pertaining to the sector.

The FICCI-PWC Report that has the underlying theme of "**Changing Landscape of the Food Service Retail Industry**'' is an attempt at understanding what has transpired in the Food Service Industry. Further, the report also tries at exploring some of the trends that could shape the future of the Industry.

I am confident that the deliberations of the conference and the recommendations of the report would provide a roadmap for the Industry to grow and achieve its true potential. I am hopeful that the study would give us some critical insights along with pertinent answers and would establish itself as a work pioneered for the sector.



Mr Dilip Chenoy

PwC

Foreword

The Indian food service sector has seen exceptional growth during the past decade and continues to expand at a fast pace. It is projected to grow at more than 10% over the next five years (2018–23). This can be attributed to a high percentage of young and working population with rising disposable incomes. Availability of organised retail space has also helped the industry to encourage the growth of local and international brands across different formats. Furthermore, the impact of the market on the entire ecosystem—from the right placement of a restaurant to kitchen equipment to supply chain and employment—is significant.

Over the last five years, we have witnessed the India food services sector evolve with the changing consumer landscape. Increased organised presence of ethnic cuisine restaurants, rise of various food tech models, enhanced use of technology to improve consumer experience and continued use of social media for consumer engagement are some of the key trends that will continue to shape the Indian food service sector.

The sector is also attracting significant interest from domestic and international private equity and venture capital funds. Several renowned Indian and international investors such as CX Capital, Goldman Sachs, Mayfield, Eight Roads Ventures, DSG Partners and Everstone Capital have been active in the food services space in India. Attractive macroeconomic factors, greater ease of doing business and a changing consumer mindset have made the Indian food services sector an attractive destination for investors.

However, certain challenges continue to act as a headwind against growth in the sector. Availability of quality manpower, high attrition rate and administration costs, inadequate supply chain, infrastructure, over-licensing, etc., are some of the key challenges faced by various players. It is, therefore, imperative for companies to focus on improving operational efficiencies, getting their unit economics right and ensuring scalability of the business.

The Indian food service sector is at an inflexion point where on one hand it has been served with a feast of growth opportunities and on the other, there are challenges that are acting as a headwind for growth. Establishments that will prove more successful than others will be those that see these challenges not just as a burden or cost, but as an opportunity to capture growth by becoming more relevant to the market as the trustworthy food providers their consumers want them to be.



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Introduction

India continues to be the ‘land of promise’ for the food service market. The industry is one of the most vibrant service industries. Although predominantly unorganised, with the advent of foreign and Indian restaurant chains, the organised market is likely to expand quite rapidly.

In a largely mixed environment of growth in retail markets across the world, India continues to be a bright spot. However, with an obvious potential and promise held by the sector, the last two years have been inspiring, with growth reaching double digits.

FY2017 began on an optimistic note for consumer markets, with the Government announcing implementation of the Seventh Pay Commission and the ‘One Rank One Pension’ (OROP) scheme for the Armed Forces. Both these announcements are expected to boost disposable incomes for more than 12 million middle class Indian consumers, resulting in a significant increase in consumption rates.

Moreover, expectations of a revival in rural demand and the passing of the GST Bill, which simplified the tax regime and brought about a seamless credit mechanism, provided a further boost to the market. Therefore, rapid macroeconomic development and demographic and lifestyle shifts in the country clearly point towards exponential growth in the packaged food service industry. These shifts, bolstered by policy and regulatory changes, have strong potential to take India towards its goal to become one of the largest food service industries over the next decade. The country’s robust economic growth and rising household incomes are expected to increase consumer spending to US$3.6 trillion by 2020, with the maximum consumer spend likely to occur in the food, household and transport and communication segments. India’s share of global consumption is also forecast to increase to more than twice its current levels by 2020. Over the next five years, India’s retail market is expected to reach US$1 trillion. The e-commerce market is expected to reach US$125 billion in terms of gross merchandise value (GMV), growing at the rate of 31%, and it is estimated that the food service industry will grow at a pace of 10.8% and cross the US$161 billion mark by 2020.[1]

In the last few years, we have seen several small players take advantage of these trends and create new categories such as cold pressed juices, food tech start-ups (e.g., Zomato), and pubs (e.g., Beer Café). These new entrants are challenging the dominance and growth of leading market players. Market leaders are taking cognisance of this changing environment and trying to push their companies out of their comfort zones to capitalise on these opportunities with agility.

This report aims to look at some key aspects that are pertinent for the Indian consumer business to drive growth in the changing environmental context. These include:

- Key consumer trends that a business needs to acknowledge and realign with
- Investment scenarios
- Understanding of the regulatory support available in India
- Operational challenges of doing business in India

[1] PwC Analysis

1

India's food service industry is set up for robust growth

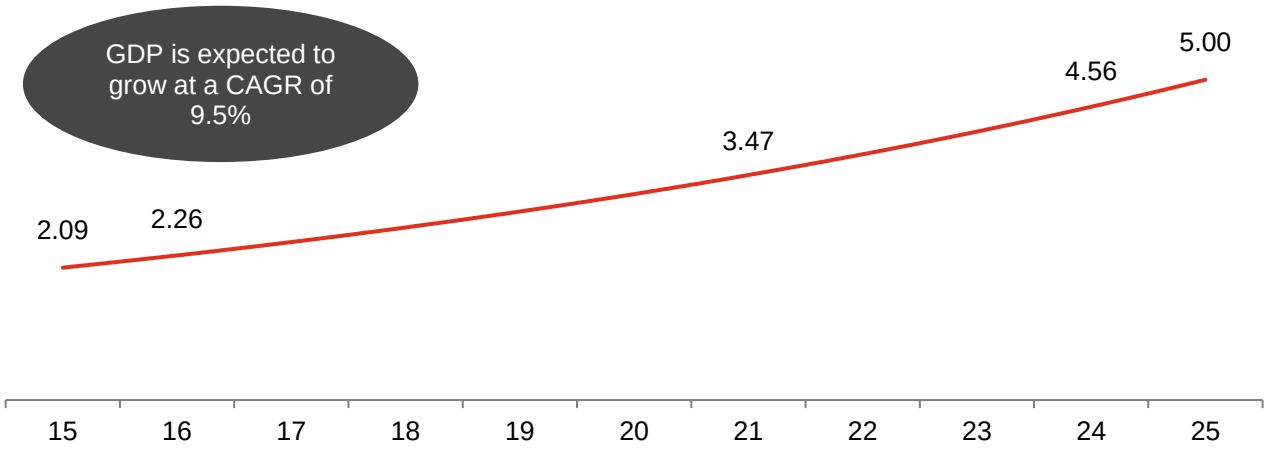
- Macroconomic environment – GDP, population, other socio-economic parameters
- Industry characteristics (Present day) – Size, Growth, Categories, Players
- Growth Drivers – Demand and Supply side factors
- Future Predictions & Growth promise



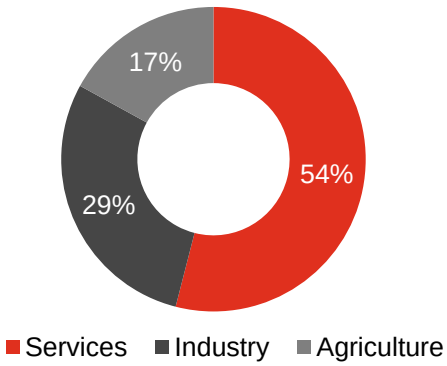
Country profile

The OECD and the IMF estimates that India is on its way to becoming one of the **fastest growing** economies

Fundamentals of the Indian economy (growth)	
Real -GDP	US$ 2.26 trillion (8%)
Nominal-GDP	US$ 2.80 trillion (12%)
GDP Deflator	124 index pts. (4%)
Inflation	4.5% (-8%)



GDP composition by **three main sectors** (2016)

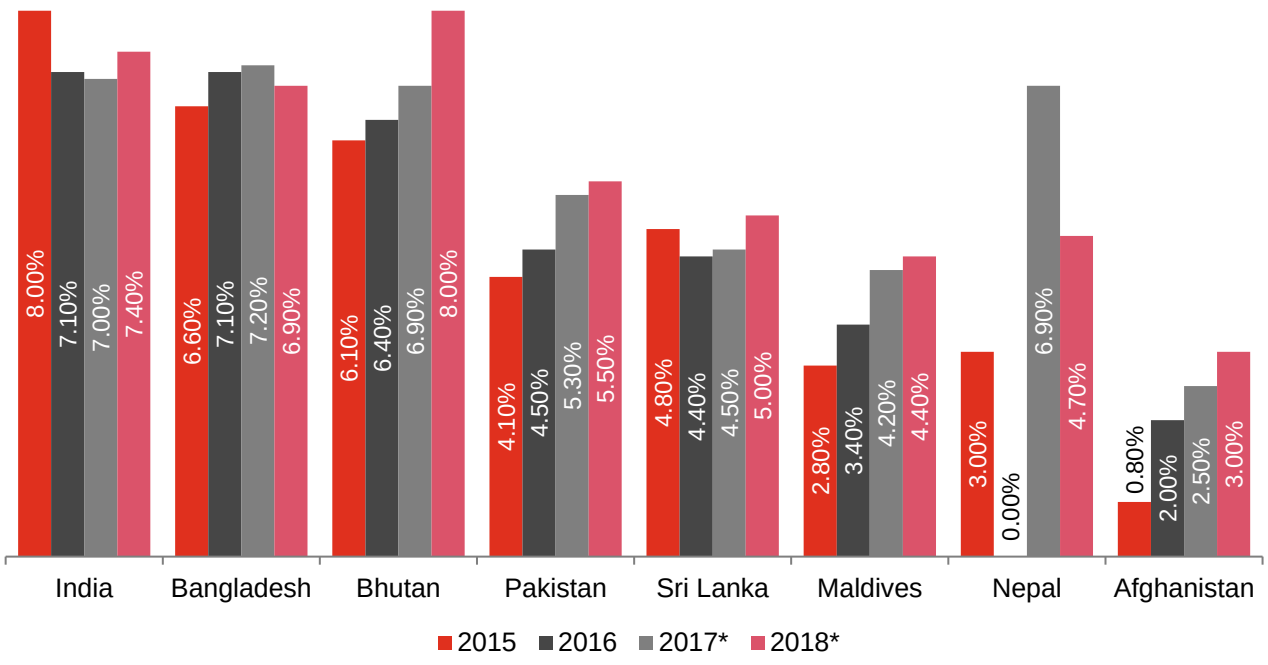


- India’s Index of Industrial Production (IIP) grew by **5.5%** in January 2018 compared to **1.9%** in **April 2017**
- India continued to remain at the top of Nielsen's global consumer confidence index for the fifth quarter in a **row.**
- Consumer Price Index CPI in India decreased to 136.40 **index points** in February from 136.90 **index points** in January 2018, led by a fall in food and beverages price **index.**
- India’s **unemployment** rate has fallen to **3.36% in 2016.**
- Cost of food in India increased 3.26% in February of 2018 over the same month in the previous year
- Export prices in India increased to 372 **index points** in 2016 from 300 **index points** in 2015. While the **import** prices has remained same at **518 index point.**
- Private equity investment touched all-time high of **US$21 billion** in 2017.

Source: Ibef.org, news reports, World Bank, Trade Economics, DIPP, ADB

GDP growth has been among the highest across markets in South Asia

Asian Development Banks (ADB) forecasts that South Asia has been again growing rapidly after a brief pause - **India** contributing **the highest to the growth,** followed by Bangladesh.

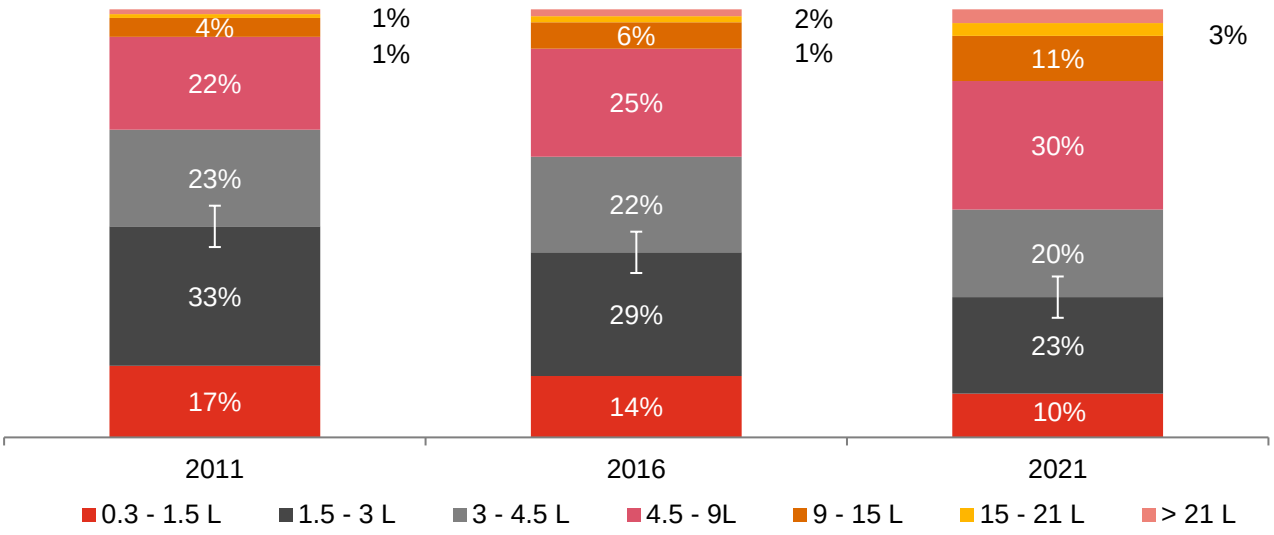


- **Sub-regional** growth dropped by 0.5 percentage points to 6.7% in 2016 on account of slowing growth in India.
- Despite **strong** government consumption and external demand, growth in India **declined** to 7.1% from 7.9% in 2015 as fixed investment languished and **demonetisation** temporarily **hindered** commerce.
- Growth in South Asia is forecasted to pick up further to 7.2% in 2018.
- India **is expected** to see growth reaccelerate to 7.4% in fiscal 2017 and 7.6% in 2018 despite **the difficulty caused** by excessive corporate investment in the past and bank lending currently constrained by a heavy load of stressed assets.
- Inflation in South Asia was **low** in recent years, easing to 4.6% in 2016 as buyers benefited from low prices of oil and other commodities. With these prices turning upward over the forecast period, inflation is projected **to go up to 5.2%** in 2017 and 5.4% in 2018.

Source: DIPP, ADB

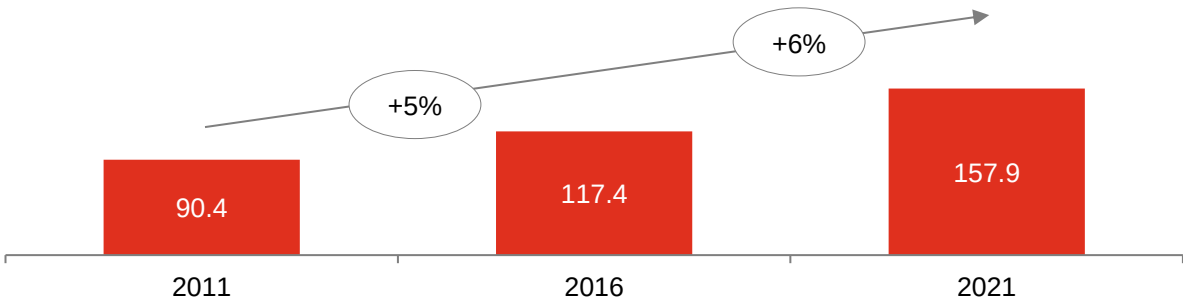
An 8% rise in high income households and 6% in both GDP and disposable income per capita expected to drive growth…

Shift of 8% from 53% to 61% in HH between 3-15L brackets



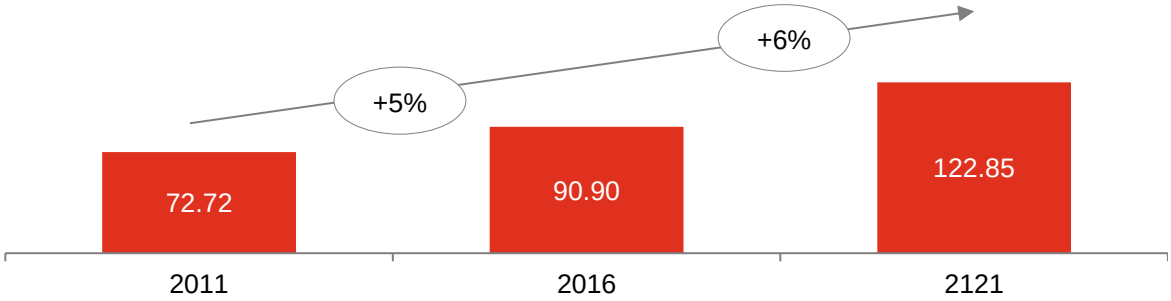
Real GDP per capita

(INR '000 at constant 2016 prices)



Disposable income per capita

(INR '000 at constant 2016 prices)



Source: Planning Commission, News articles, World Bank, ADB

Economic growth and rising household incomes in India are expected to raise consumer spending to US$3.6 trillion by 2020, with the maximum consumer spend likely to occur in the food, household, and transport and communication segments.

Over the next five years, the retail market is expected to reach US$1 trillion aided by significant growth in the organised brick-and-mortar retail and e-commerce segments. The e-commerce segment, in particular, is expected to reach US$125 billion in terms of its gross merchandise value (GMV), growing at the rate of 31%. It is estimated that the fashion sector will grow at a compounded annual growth rate (CAGR) of 14% and cross the US$125 billion mark by 2020.[2]

The Indian consumer market is broadly segregated into urban and rural markets, which are attracting brands from around the world. On account of increasing urbanisation, rising incomes and deeper penetration of the media in the country, the Indian consumer is becoming increasingly conscious of eating food at high-quality outlets across socioeconomic segments. The food service industry is blessed with a young, dynamic and diverse food-loving consumer with a high disposable income. This is leading to a growing preference to 'eat out' along with a changing lifestyle. The growing participation of women in the workforce and double-income families' preference for eating out or ready-to-eat meals are creating new opportunities in the industry.

Today, a large number of domestic and international brands are present in the Indian market, catering to every desire of new-age consumers.

According to Anurag Mathur, Leader, Retail and Consumer, PwC India, "The food service industry also vouches for the higher demands in Tier II and Tier III cities. The rise in the number of transactions via mobile platforms has prompted retailers and e-com players to focus their growth efforts beyond the metros in India".

[2] PwC Analysis

Characteristics of India's food service industry

The Indian food service industry had total revenues of INR 3,37,500 crore in 2017, representing a CAGR of 8% between 2013 and 2017. In comparison, the South Korean and Chinese industries grew at CAGRs of 3.6% and 6.1% respectively over the same period in 2017.[3]

Indian foodservice market data, October 2018

Year	INR '00 Crore	% growth
2013	2,478	-
2014	2,665	7%
2015	2,865	7%
2016	3,090	7%
2017	3,375	7%
CAGR: 2013–17		8%

Source: FICCI

The Indian food service industry has experienced growth consistently over the last five years. This growth has largely been due to changing consumer lifestyles and consumption habits, as well as rising disposable incomes.

The consumption volume in the industry increased at a CAGR of 5.2% between 2013 and 2017, to reach a total of 59.9 billion transactions in 2017.[4]

Indian foodservice market data, October 2018

Year	billion transactions	% Growth
2013	48.8	
2014	51.4	5.2%
2015	54.1	5.3%
2016	56.9	5.2%
2017	59.9	5.3%
CAGR: 2013–17		5.2%

Source: MARKETLINE

[3] MarketLine database- India - Foodservice, October 2018
[4] MarketLine database- India - Foodservice, October 2018

In 2017, the Casual dining segment was the industry's most lucrative, with total revenues of INR 581,000 crores, equivalent to 55% of the industry's overall value. The quick service restaurant and fast food segment contributed revenues of INR 215,000 crore in 2017, accounting for 20% of the industry's aggregate value.

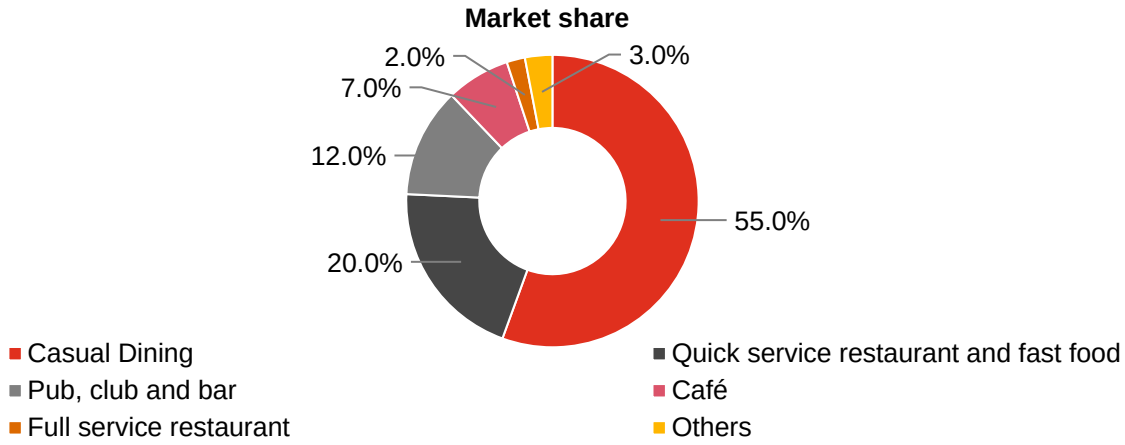
The alcoholic beverage segment has contributed significantly to jobs and revenues in the food services industry. Sale of alcoholic beverages manufactured by an MNC contributes to around 374,000 jobs (i.e., around 5% of total jobs in the industry) and around INR4,000 crores in gross value add (GVA) to the retailing industry.[5]

These consumer trends can be attributed to the need for a space for socialising, which pubs and bars offer at a cheap price. Similarly, quick service and fast food businesses are attractive for young, time-constrained consumers.[6]

Indian foodservice market segmentation, October 2018

Category	2017	%
Casual Dining	581	55%
Quick service restaurant and fast food	215	20%
Pub, club and bar	127	12%
Café	77	7%
Full service restaurant	24	2%
Others	31	3%
Total	1055	100%

India foodservice industry category segmentation: % share, by value, 2017



5 Oxford Study
6 Market Line data base- India - Foodservice, October 2018

Factors driving the food service industry

The Indian consumers are changing at a pace far greater than any estimate. This has been the result of several drivers, whose impact has strengthened over the years:

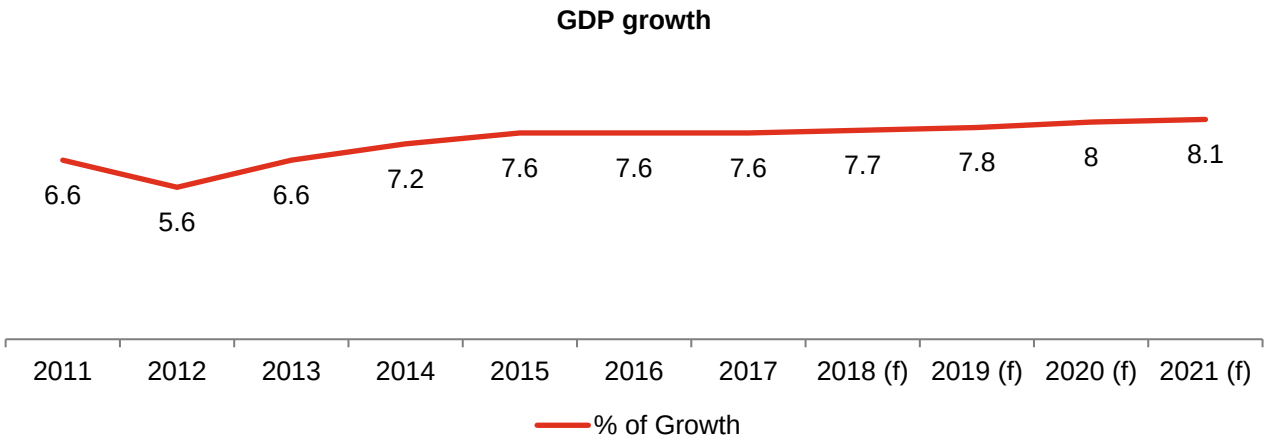
1. Robust economic growth
2. Changing income and demographic profile
3. Increasing internet penetration
4. Increasing focus on health and wellness
5. Technological innovations

Robust economic growth

India has emerged as the fastest growing economy in the world, with a remarkable growth rate of 7.6% in 2016.[7] Strong GDP growth, increase in disposable income, declining unemployment and steady inflation have all contributed to the country's growth over the past few years. The Government's efforts at ramping up infrastructure and amending policies to favour business and stimulate growth have also contributed to growth in the economy and in turn improved consumer confidence. Furthermore, an improvement in employment rate, resulting in increasing disposable income, and rapid urbanisation, which in turn is driving the growth of the retail sector. The country's growth in the next few years will offer ample opportunities for growth of retail in the country.

GDP Growth: India GDP Growth 2011-2021

All figures are percentage



Source- International Monetary Fund-IMF[8]

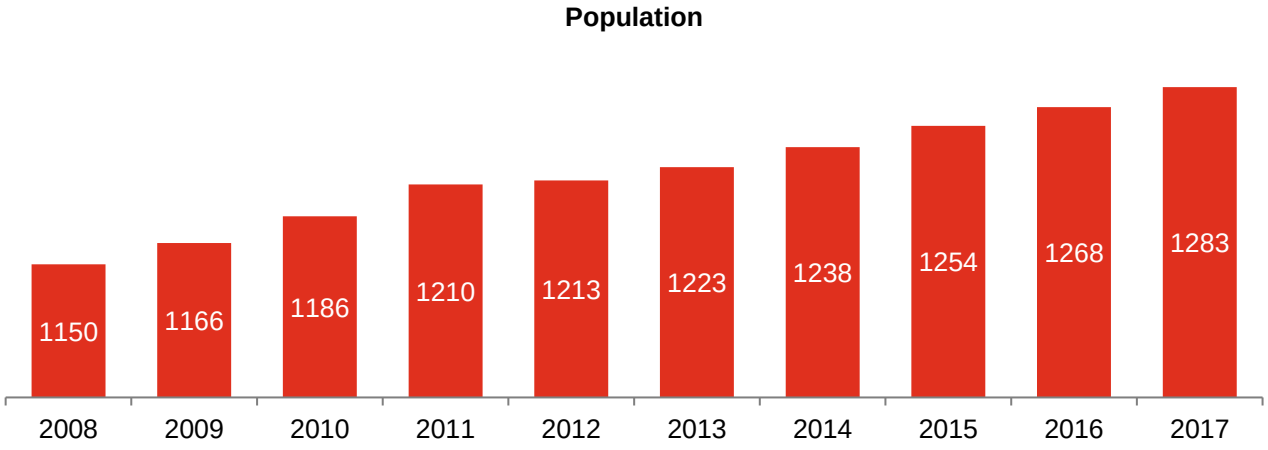
- The country's GDP has been registering robust growth over the past few years. Weathering the turmoil during the global economic meltdown in 2008, the country registered a growth of 6.6% in 2011.
- The GDP accelerated to 7.6% in 2016, backed by favourable global economic conditions and increased economic activity.
- Against the backdrop of a strong labour market, stable political environment, investor-friendly policies and improvement on implementation of reforms, the GDP is expected to register an 8.1% growth in 2021.

7 https://consumer.globaldata.com/Analysis/details/food-grocery-retailing-in-india-market-shares-summary-and-forecasts- to-2021

8 https://consumer.globaldata.com/Analysis/details/food-grocery-retailing-in-india-market-shares-summary- and-forecasts-to-2021

Changing income and demographic profile

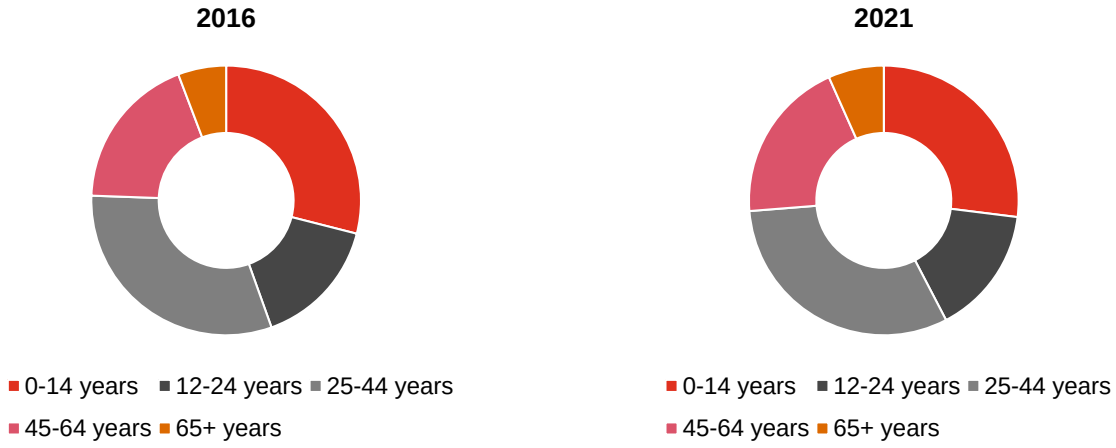
According to the latest census figures, the total population of India was estimated to be 1,283 million and is continuing to grow at an average rate of 15-20%.[9]



Source- Trade economics

Today, almost one-third of the population is below 25 years and half of the population is below the age of 35 years. While this means that consumer demand will keep growing in the future, thereby propelling India's GDP via internal consumption, it also means that the types of products, services and experiences will undergo a big change to keep pace with the outlook of this young population.

Population Age Split 2016 & 2011



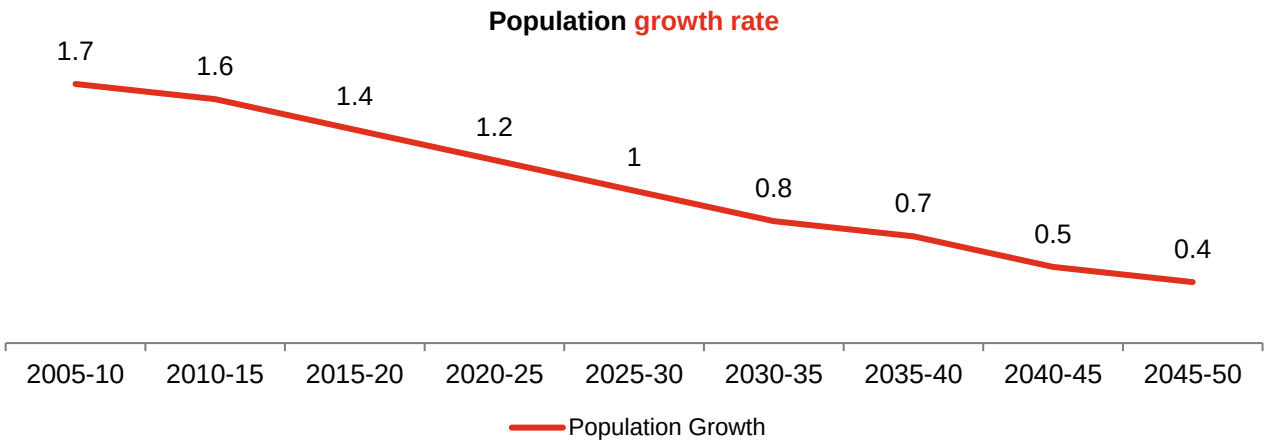
Source- Organization for Economic & Co-operation Development-OECD[10]

With rising incomes, the propensity to spend is now expanding beyond metros to Tier II and Tier III cities, which are turning into new demand centres. However, the products, price points and consumption experience expectations of these consumers are very different from those of consumers in metros. The model of serving consumer demand that works in metros may not work in Tier II and Tier III cities.

9 https://tradingeconomics.com/india/population
10 https://consumer.globaldata.com/Analysis/details/food-grocery-retailing-in-india-market-shares-summary-and-forecasts-to-2021

Popluation: Growth Rates 2005-2050

All figures are percentages



- India is the second-most populous country in the world and the population growth has been steady over the past few decades.
- However, the growth rates are expected to decline and forecast to be 1.4% over the 2015–2020 period and reduce to 0.4% by 2045–2050.

Increasing internet penetration

India has seen exponential growth in number of mobile phone users. Equally impressive has been the growth in internet access. Although mobile phones allow us to stay connected, it is the convergence of internet access and smartphones that has caused significant shifts in consumer awareness, outlook and behaviour. Smartphones have quickly transformed from just a hand-held telecommunication device to a window to the world. They are now a means of expressing one's opinion and individuality.

Internet users and their penetration in India

	2014	2016	2018
Users (in million)	226.3	321.8	411.1
Penetration (%)	18.3%	25.4%	31.7%

Source: eMarketer, July 2015; Individuals of any age who use the internet from any location via any device at least once a month

Smartphone users and their penetration in India

	2014	2016	2018
Users (in million)	123.3	204.1	279.2
Penetration (%)	21.2%	29.8%	36.0%

Source: eMarketer, July 2015

Increasing focus on health and wellness

Climate change is occurring due to natural causes as well activities such as deforestation and emissions from industry and transportation. As a result, gases and aerosols are being stored in the atmosphere. Although most of these activities have been going on for years, the concern and outcry over climate change has become prominent only recently, with the impact becoming far more visible and perceptible. For one, weather patterns have changed. Smog has also become more common in most big cities. Health issues, such as respiratory disorders, skin diseases, food - and water-borne diseases are on the rise as a result of growing air pollution and the quality food and water we consume. Poor lifestyle choices and inadequate access to proper nutrition are leading to heart disease or diabetes.

Recent studies have shown that prevalence of diabetes in India is as high as 12–18% of the adult population, especially in urban areas. Every year, around 5.8 million Indians die from non-communicable diseases including heart diseases, lung diseases, stroke, cancer and diabetes. Moreover, diabetes occurs at a younger age in India compared to other countries.[11]

This is driving consumers to become more conscious of what they eat. In the past, checking the ingredients written in fine print on packages was not a common practice. Now, more and more consumers along with looking at the taste of food, have begun to give equal importance to the quality and source of ingredients used in the food.

Technological innovations

Businesses have started using technology in almost every sphere. However, most perceive technology as back-end support or at best an enabling platform. As such, most business managers have not proactively devoted time to developing even a basic appreciation of how emerging technology can solve some of their customers' problems. That is set to change. With the market cap of new age companies having surpassed that of several large traditional players, technology's new role is now being acknowledged. It is a disruptive force that can pivot business models to serve customers in a manner unthinkable before. From mobile usage to internet of things to artificial intelligence, technology is causing major changes in how consumers order their food.

Several drivers are reshaping consumer demand in innumerable ways.

Future predictions and growth promise

The performance of the foodservice industry is forecast to accelerate, with an anticipated CAGR of 10% for the five-year period 2017–2022. This is expected to drive the industry to a value of INR 5,52,000 crore by the end of 2022.

Comparatively, the South Korean and Chinese industries will grow at CAGRs of 3.6% and 4.4% respectively over the same period in 2022.[12]

[11] http://mdiabetes.nhp.gov.in/display.php/OverviewOfDiabetesBurden
[12] MarketLine database- India - Foodservice, October 2018

Indian foodservice market outlook, October 2018

Year	INR '00 Crore	% growth
2017	3,375	8%
2018	3,710	9%
2019	4,090	9%
2020	4,505	9%
2021	4,985	10%
2022	5,520	10%
CAGR: 2017–22		10%

Source: FICCI

In 2022, the Indian food service industry is forecast to have a volume of 77 billion transactions, an increase of 28.5% since 2017. The CAGR of the industry in the period 2017–22 is predicted to be 5.1%.

Indian foodservice market outlook, October 2018

Year	billion transactions	% growth
2017	59.9	5.3%
2018	63.1	5.3%
2019	66.4	5.2%
2020	69.8	5.1%
2021	73.3	5.1%
2022	77.0	5.1%
CAGR: 2017–22		5.1%

Source: MARKETLINE

Evolution of food is happening, thanks to the innovation in traditional menus. Fusion food, with extensive use of foreign ingredients in traditional Indian dishes, is attracting the experimental consumer. Indian food continues to grow strongly along with growth of ethnic and regional cuisines. Foreign players are adapting to the local palate, whereas locals are introducing foreign flavours in their food.

Health- and hygiene-conscious consumers tend to adopt healthy eating options. Food operators have been forced to add healthy eating options to their food menus. Some restaurants have also started serving health food and organic food as their core offerings.

Internet penetration and smartphone usage will increase the demand for specialised food and gourmet. Food preferences of consumers are also being influenced by reviews of food bloggers.

Technology is disrupting the market with the advent of web-based ordering and use of AI and IoT in ordering. These developments are set to revolutionise home delivery with faster availability of food at home or office.

This changing landscape, in tandem with the upcoming trends and the growth trajectory that India is experiencing, is fast-tracking the growth of the food service industry. This pace of growth is expected to continue in the foreseeable future, driven primarily by the consumer and food service operators.



2

Key trends that will shape the Indian food services industry

- Ethnic cuisine will increasingly be present in organised and hygienic set-ups
- Food tech will continue to “Organise the Unorganised”– driving increased focus on consumers, food innovation and efficiency Restaurants will increasingly focus on consumer engagement using technology
- Social media will continue to transform relationships with consumers
- Health and wellness will continue to ride high on consumer preferences
- Traditional packaging will make way for innovative food packaging



Key trends shaping the Indian food service industry

Trend #1: Ethnic cuisine will increasingly be present in organised and hygienic set-ups

Haldiram and Bikanervala are a case study for the marketing of ethnic food to customers in an organised set-up. Both have successfully transitioned form being small-time sweet shops to full-fledged quick service restaurants (QSRs). Their success has inspired others to expand and increase penetration across Indian cities. Goli Vada Pav is a classic example. It started in 2004 with a single store in Kalyan, Mumbai. From that humble beginning, Goli Vada Pav has now become the largest chain of ethnic QSRs with 300+ stores in 100 cities and 20 states in India.

In the fine or casual dining space as well, regional cuisine restaurants are slated to come up. It is expected that food from states such as Kerala, Tamil Nadu and Kashmir will flood the Indian restaurant market. More and more restaurants will come up focusing on cuisines from the North East, Odisha, Chhattisgarh and Himachal Pradesh. Yeti, a restaurant in New Delhi, which serves authentic Himalayan cuisine, is the perfect example of this category. Another example is Mahabelly, again in New Delhi, which serves cuisine from Kerala.

Over the last few years, as food delivery apps, quick-service restaurants (QSRs) and take-away outlets have begun to dominate, biryani has emerged as an unlikely champion of India's fast food scene, unseating pizzas and burgers, which used to dominate standardised fast food kitchens. According to food delivery apps, it is among the most popular dish ordered and its demand far surpasses that of Western imports. Online delivery app Swiggy observed that while pizza was the most searched item around the country in 2017, biryani was the most ordered. [13]Uber Eats found biryani to be the dish that everyone wanted to start their New Year with. It was the most ordered dish on 1 January.[14]The trend has caught on so much that industry estimates value the organised biryani delivery industry at around INR2,500 crore. Paradise, Behrouz Biryani, Charcoal Biryani, Biryani Blues, Biryani by Kilo and the Biryani Project are among the ventures which are trying to cash in on this craving.

The rise of ethnic cuisine has not been limited to QSRs or dine-in restaurants. It is also evident in the café space with the rise of a multitude of chai cafes. Tea chains around the country are looking to break free from their traditional outlook and that of their older and more established counterparts—coffee retail chains such as Café Coffee Day and Starbucks. By focusing on the tea drinking experience, labelling tea as a wellness brew and creating novelty around a familiar product, tea cafes such as Chaayos and Chai Point are wooing students and young officegoers. This makes sense as India has traditionally been a tea-drinking nation. For every cup of coffee, an Indian drinks around 30 cups of tea.[15]

Trend #2: Food tech will continue to 'organise the unorganised', driving increased focus on consumers, food innovation and efficiency

The entry of food tech start-ups has led to a massive transformation of the operations of the Indian food industry. Growing disposable income and busy lifestyles of the young and working population, coupled with increasing internet penetration and rising smartphone users, will continue to drive India's food tech market through 2021.

In 2015, the food-tech sector in India went through a period of turmoil when several start-ups had to shut down. This was followed by a period of consolidation and correction. The situation turned for the better in 2017 as food-tech companies fine-tuned their business models and improved their unit economics. This consolidation wave in the food-tech space saw as many as 24 mergers and acquisitions between 2015 and 2016.[16]In 2017, two predominant models—restaurant marketplaces and cloud kitchens—evolved following the upheaval. The recovery was led by a reduction in delivery costs and increased penetration in existing markets.

13 https://yourstory.com/2017/12/2017-biryani-most-ordered-food-item-pizza-most-searched-on-swiggy/
14 https://economictimes.indiatimes.com/industry/cons-products/food/biryani-now-rules-indias-fast-food-landscape-and-heres-how-it-helped-emerge-a-lot-of-start-ups/articleshow/65273024.cms
15 https://retail.economictimes.indiatimes.com/news/food-entertainment/grocery/every-time-is-a-tea-time-in-india/58558066
16 https://www.vccircle.com/flashback-2017-food-tech-on-course-for-revival-in-india/

The food tech space saw investment worth US$370 million in 2017–18, up from US$70 million in 2016–17, which is more than 400% growth. With more than 900 food delivery start-ups in the country, the focus now is on expansion and introducing food and experience innovations.[17] Companies such as Zomato, FreshMenu and Swiggy are trying to drive consumer engagement by creating new products and experiences such as membership clubs or loyalty programmes. The idea behind offering such experiences is to raise more business from existing clients, turn them into brand ambassadors and obtain new customers.

Keeping the focus on consumers, smart curation and personalisation will rule the roost over the next 18 months. The success of a food delivery platform is a function of convenience, reliability and selection. However, as more and more restaurants come onto food delivery platforms, balancing choice with ease of using the app and placing an order can be a challenge.

While most food delivery platforms have carousels with collections of restaurants, in the coming years, customising this function will help in reducing the overall time taken by consumers to make a choice and place an order. Just like when you open up Netflix and get recommendations on movies, getting food recommendations based on past orders and preferences will increase ease of use.

Some of the food tech start-ups are also working with restaurants to improve and expand kitchens. For instance, Zomato, in its push towards a cloud-based kitchen, has now committed to investing US$15 million in Bengaluru-based Loyal Hospitality. Loyal Hospitality aims to bridge the gap between organised and unorganised sectors in the Indian food industry. It offers a platform to restaurant partners for planned exponential expansions without investments. Its shadow kitchen model is based on the concept of bringing all the best brands of the country together to serve customers through home delivery and takeaway.

Trend #3 - Restaurants will increasingly focus on consumer engagement using technology

Nowadays, technology has become a basic prerequisite to ensure that operations are carried on seamlessly, and the restaurant industry is no different. This sector too has impacted by the wave of technological innovations, which have taken restaurant operations to a new height. This overwhelming presence of technology will not decline; on the contrary, we will continue to see new equipment, improved methods to spread awareness and increasing the use of restaurant technology. Some of the key technological interventions expected from restaurants in the immediate future are:

- **Point of sale (PoS) systems:** Restaurant PoS systems are already popular, and a majority of restaurants are using the restaurant management system to their advantage. Till now, restaurant management systems were more geared towards automating and optimising restaurant operations with little emphasis on customer management. A major trend in future will be delivering a more customised and personalised guest experience. And this will be done by leveraging technology. By gathering customer data, restaurants can analyse a customer's history and behaviour and use it to deliver personalised service. For example, from the information gathered, a restaurant can very effectively send personal messages and emails on customers' birthdays or anniversaries and offer them special concessions. The previous order history that gets stored in the POS system can also help waiters suggest similar food options or up-sell menu items.

- **Automated marketing:** Restaurants are now increasingly focusing on customer retention and engagement. The year 2018 saw an upsurge in personalised offers and discounts being offered to customers. While offers and discounts have always been common, running specific offers according to area and demography has been a challenge for large restaurant chains. With the help of the enterprise marketing module, restaurants are now able to run special marketing campaigns at the outlet level. They can run specific offers at different restaurants, and tweak campaigns based on their performance. This high level of customisation allows restaurants to optimise their marketing campaigns and generate better results.

[17] PwC Analysis

- **Social media:** Before the revolution of the internet, Facebook, YouTube vlogs and 'live videos,' chefs and restaurateurs made it big through books and TV. Now thanks to social media, they have better and more approachable ways to reach a home audience. Owing to lack of time and fast-paced lifestyles, people began to turn to YouTube instead of cookbooks to learn cooking or to watch a celebrity chef's live videos or vlogs instead of TV shows. As the popularity of this medium increased, a new breed of online chefs appeared. Social media presence for restaurants will also define how popular they are. Use of digital marketing in the restaurant space is expected to be the new trend in the food and restaurant segment in India.

- **Use of tablets:** Another innovation in recent times has been physically bringing technology to the customer's table. Diners can now sit down and pick up a tablet rather than a menu and order online rather than depending on the waiter or waitress. Extra features such as games can be added to entertain children. Similarly, in a sports-themed restaurant, customers can use the tablet to decide which game they want to watch. The tablets can also be linked to the restaurant's entire POS and CRM system and the kitchen to provide a seamless and efficient service.

- **Bill split option at table:** Enabling customers to view, split and pay their bills at the table using their smartphones saves them time and improves table turns and productivity. Additional features can be on-the-spot satisfaction surveys, text messaging and more.

Trend #4: Social media will continue to transform relationships with consumers

Social media has become a powerful asset for marketing within the food services industry. As sharing food through social media becomes increasingly important, particularly for millennials, stand-out food concepts are thriving. Food is becoming clickbait of sorts for restaurants and 'Instagrammable' food is becoming increasingly vital to millennials.

Since its inception in 2010, Instagram has been the prime platform for sharing photos of food. There are over 14 million pictures tagged with #foodporn, over 10 million with #Instafood and several millions more with just #food.[18] Nonetheless, the dynamic between food and social media has changed. Instagrammers have moved away from sharing lunchtime photos as a competitive sport to purposefully documenting the must-eat meals of the moment. The app is still heavily populated with attractive meals, but they're now aimed at influencing, even transforming, how we cook and eat. In version 2.0 of social media's relationship with food, the world has shrunk and a new demographic of home cooks, food bloggers, farmers and other culinary aspirants has emerged, spawning trends and changing things, one aesthetically staged photo at a time.

- **Influencing and educating:** In October 2017, Mumbai got a taste of babka, a traditional Polish yeast cake typically served at Easter. On her Instagram account, Mumbai's popular pastry chef Pooja Dhingra announced that she would serve the cake only for a week at her café. She got such an overwhelming response that it was added to the daily menu. If online interaction with consumers directs menus, it also impacts sales. An ardent foodie, Ronak Rajani, set up his Instagram handle as a way to clear his phone of his food photos. In 45 days, he gained 10,000 followers and soon, Instagram India tagged his as one of its top accounts to follow. Within six months, Rajani, who posts about new and trending restaurants, new dishes, favourites and bucket list meals, had enough followers to start charging a fee to promote food businesses. Currently, he has 297,000 followers and also manages The Pune Foodie Instagram handle that has close to 100,000 followers.

- **Home chefs are the new stars:** Professionally trained chefs are no longer the sole ambassadors of unique culinary experiences. Social media has made the world smaller and more connected, giving home cooks parity with established ones. The forerunners of the home chef movement have carved a niche for a variety of regional cuisines and made the home cooking model a profitable one. They have thus paved the way for other cooks to use social media to a similar advantage. In Mumbai, recent pop-ups such as Meraki Bombay, focused on the cuisine of Kumaon and Shillong, and the Danda Food Project, an experimental dining series with themes such as nose-to-tail eating and the flora of a city, are notably changing our palate and broadening our horizons.

[18] https://www.cntraveller.in/story/social-media-changing-way-eat/

- **Spawning trends:** Itis not just plated dishes; Instagram has also catapulted certain fruit and vegetables into prominence. The avocado is a prime example. The fruit, promoted by health and fitness gurus as a superfood, is now being cultivated and resulted in a booming agro-industry. Several farmers in Maharashtra and Karnataka are growing the fruit in place of more traditional crops to meet the increased demand. Another result of this social media wave is that restaurants are taking pains to get their architecture and interiors Instagram ready. The décor is now a reflection of an overall concept, be it the neighbourhood, the city or even the country the food is inspired by. So, while stepping into the Bombay Canteen brings to mind the city's old, iconic bungalows, the Olive Group's restaurant TheFatty Bao and the Delhi-based restaurant Guppy have incorporated playful Asian pop art and Japanese kitsch. Similarly, the multi-city restaurant chain SodaBottleOpenerWala is a modern reimagination of Mumbai's traditional Irani cafés.

Trend #5: Health and wellness will continue to ride high on consumer preferences

Overall, the health and wellness food service industry will continue to grow as consumers become more conscious about their diet by trying to eat healthy, going for farm-to-table lunches, growing their own garden herbs, buying as much organic produce as they can afford, trying new millets and consciously avoiding junk as much as possible.

- **Neuro nutrition will lead the way:** A concept which is gaining popularity along with the rise of healthy eating is that of neuro nutrition, which has healthy eating at its core. We know what we eat has a far-reaching effect that goes beyond just satiating our taste buds. A brain that is fed the right food can go a long way in helping an individual manage mood swings, handle stress, take on the physical and emotional ups and downs of a modern lifestyle, and even sleep better. There is growing recognition around this, and as mental health issues become important globally, eating well for the mind will become popular too.

- **Consumers will go back to flavour roots:** 'Eat what your grandmother ate' is something propagated by some of the country's top nutritionists. It is expected that over the next few years, many more will follow this trend. Heritage millets and old-world recipes are being appreciated and making their way back into kitchens. Whether it is the rise of lifestyle diseases or our love for everything traditional, millets such as jowar and bajra are increasingly being used in cakes, cookies, muffins and crackers extensively 2018. Home chefs, another growing trend, are likely to drive this as they run small kitchens where the recipe for success is a mix of experimentation and quality control.

As a result, over the past five years, three key segments have emerged in health foods:

- **Online health food ordering and subscription:** This is driven by names such as eat.fit, the food brand of healthcare and fitness company CureFit Healthcare Pvt. Ltd., FreshMenu (Foodvista India Pvt. Ltd.), and Grow Fit (Healthzone Organic Foods Pvt. Ltd.). In just a short span of time, these companies have already evolved to cater to seemingly every single conceivable health food need and fad. Whether it is low-carb, high-protein grains and flours, organic produce, healthy versions of old Indian favourites such as rajma or biryani or internationally popular trends, e.g., dried Tibetan lemon, kale chips, activated charcoal drinks, alfalfa seeds or yogurt parfaits, new-age companies offer them all.

- **Packaged health food**: Snack bar maker Yoga Bar, Greek yogurt brand Epigamia, organic cold-pressed juice label Raw Pressery and smoothie maker Goodness! are among the popular choices in this space.

- **Healthy organic produce:** The big players here are brands such as the country's largest grocery start-up BigBasket (Supermarket Grocery Supplies Pvt. Ltd.), gourmet meat start-up Licious (Delightful Gourmet Pvt. Ltd.), milk brands such as MilkLane and Akshayakalpa, Healthy Buddha and HappyHealthyMe.

Apart from the profusion of start-ups cashing in on this fitness trend, there are, of course, established retailers such as Future Group and Godrej that are catering to the health-conscious consumer through their Foodhall and Nature's Basket stores, respectively. Still, the landscape could see a lot more packaged food companies in future, especially due to the e-commerce channel. Health food is still largely an urban, metro phenomenon. Awareness has not yet trickled down to other cities. Premium pricing of such products and a nascent supply chain also put most products out of reach for consumers in non-metro areas. However, with growing consumer preference, it is only a matter of time before the health and wellness food service industry expands its base and becomes a prominent part of the overall food service industry.

Trend #6 – Traditional packaging will make way for innovative food packaging

With millennial spending still ramping up, food manufacturers and retailers have already begun to reshape their marketing strategies in order to cater to millennials.

Millennials are estimated to be around 70–80% less loyal to brands than previous generations; thus, in order to target them effectively, brands need to focus on their global, digital, and social presence rather than their on-shelf presence. This essentially means that a product needs to trend globally (as millennials are globally connected) and be digitally accessible and unique (as millennials increasingly shop online) and 'socially sexy' (have an 'Instagram appeal' that offers the purchaser social status). Due to an increasing importance of these factors and the fact that prices across brands and retailers are mostly at par, creating a unique brand that targets core beliefs and behaviours of millennials is vital. To achieve this, retailers first need to understand the millennials' core beliefs and then design a brand around them.

What do we already know about the ways in which millennials eat and purchase food? How could these characteristics change things like packaging?

Take away concept

The busy millennial lifestyle calls for more meals on the road. An Alphawise study of millennial eating habits found that Gen Y frequents restaurants more often than other generations. However, claims about healthy dining habits are not always true. Whether it is a casual lunch at a vegan ramen house or bacon double cheeseburgers from the nearest fast food joint, millennials eat out more at all venues across the board.

Food manufacturers and retailers e.g., supermarkets with in-store menus could offer competitive services, so long as they offer mobile packaging options that allow millennials to eat wherever their hearts and short attention spans take them.

Cementing the social experience

Millennials usually have multiple social media accounts. Gen Y-ers are not only on sites such as Facebook, Twitter and Instagram, but they have certainly perfected the art of balancing multiple online personalities. Mobile technology such as smartphones and tablets gives them an even enhanced edge in this regard. As such, food companies should constantly be considering new ways to incorporate customer interaction by way of mobility and social media.

Merchandisers lacking millennial-level creativity do not necessarily have to reinvent the wheel. For example, if a company's traditional packaging includes redeemable coupons, they may consider replacing the printed coupons for a QR code accessible via the web. Businesses can save money on printing costs and engage younger audiences by encouraging them to participate electronically. Furthermore, image-driven content created through apps such as Instagram, Pinterest and Vine gives food companies an opportunity to showcase their product's unique sales proposition with free viral marketing. Never underestimate the power of the hashtag!!

Impressing packaging perusers

Millennials are more concerned about food transparency than any earlier generation. A significant number of millennials are more likely to ask where the ingredients in their food come from, how the ingredients were maintained by suppliers and how their menu options impact the environment.

According to an industry survey, millennials who turn to packaging for their answers are likely to be irritated by what they find. Almost half of all millennials find food labels confusing, and almost 6 out of 10 simply do not trust some of the claims made by manufacturers or produce suppliers.

Increased focus on safety

Changes in preparation and distribution of meals are driving other trends, such as an increased interest in tamper-evident packaging and food safety. Tamper-evident packaging offers a visible solution for food service operators and customers who are concerned about the integrity of their food and beverages.

Environmentally conscious buyer

Environment-friendly, sustainable, recyclable, and compostable packaging is no longer a trendy option. Light-weighting and mineral filler usage is gaining interest, which can help both the environmental and economic goals of companies and consumers alike.

Commercial packaging, therefore, has to step up its game and convince Gen Y that contents are honest and worth buying. This could include printing clearer nutritional and ingredient information right on the box or even directing prospective buyers to online resources such as videos and testimonials that back up marketing claims.



3

Indian food services industry – an investment destination

- Overview of private equity / venture capital investments in India
- Factors that make the India's Food Services industry an attractive market for investors
- Food for thought for PE investors
- Appetisers for PE investors



Overview of Private Equity / Venture Capital investment in India

In 2017, Private Equity (PE) activity hit a record high having witnessed US$24.7 billion of investments across 639 deals. Despite a 23% decline in volume, the year witnessed a nearly 50% increase in deal value over 2016, which saw US$16.5 billion invested across 829 deals. Having recorded some of the largest PE investments, 2017 also surpassed 2015 that was the previous high year of investment inflows at US$19.3 billion. 2017 was also a landmark year for PE exits. The year recorded 259 exits valued at US$12.5 billion, which exceeded the previous best year for exits i.e. 2015 by nearly 40% in terms of value.[19]

The Indian food service market witnessed a private equity deal activity of US$114 million in 2017 across 18 deals.[20] Some of the renowned Indian and international investors such as Saama Capital Management, DSG Partners Asia, Powai Lake Ventures, CX Capital Management, Goldman Sachs, Eight Roads Ventures, Mayfield Fund, Carpediem Advisors, Everstone Capital[21]have been active in the food services space in India.

Factors that make the India Food Services industry an attractive market for investors

- **Rising disposable income and improving consumer sentiments:** India is one of the fastest growing economies in the world and is considered as one of the key consumer markets from where future growth is likely to emerge.

- **Attractive demographics:** India has the lowest median age (26 years old)* across key developed and emerging countries of the world. Nearly 65% of the population was below the age of 35 in Fiscal 2012*. These young consumers are indulgent, have higher spending power, and are open to experimentation and exploration in terms of different types of food and cuisine.

- **Rising urbanisation:** Urbanisation is envisaged to improve the standard of living. The Indian urban population share to total residents increased to 31 in 2010 from 28% in 2000. It is expected to reach 37% by 2025*.

- **Food expenditure and dining out:** It is estimated that Indians spend 8% to 10% of their food* expenditure in restaurants, cafeterias and other food establishments. This trend is expected to strengthen in future.

- **Changing mindset:** Indian consumers are dining out more frequently and young Indians are shedding the biases of their elders against international franchises and foreign food items. With over 0.1 million outlets in the organised segment (20 or more seats) in India, there is plenty of room for growth in the industry.*

PwC India: Reflections: Indian Private Equity in 2017

20 VCCEdge

21 Most Active Investors in restaurants sector in last 5 years according to VCCEdge Sector Analysis
*Barbeque Nation DRHP

Food for thought for PE investors

Private equity investors consider the following parameters while evaluating entry into a consumer services business such as the food services industry:

1. Unit level economics
    - Attractive store-level EBITDA, with the ability to translate into good corporate level EBITDA
    - Table turnover, revenue per sq-foot, rent to revenue ratio and employee cost as a percentage of sales
2. Return on Capital employed
    - Pay-back period and effective utilisation of capital
    - Capital expenditure required for expansion or the use of a franchisee model deepening the business model
3. Scalability of the business
    - Strong and established brand appeal in the market
    - Ability to attract a base customer segment and grow into different customer groups
    - Scope for expansion
    - Strong system and processes in place
    - Effective internal controls – MIS, auditors
4. Promoter quality
    - Good understanding of the business and the food services space
    - Ability to execute a projected business plan
    - Strong ethics with a proven track record

Appetisers for PE investors

PE investors invariably ask for the following while considering investment:

1. Exit plan
    - Investment horizon of 5-6 years with an option to exit by secondary sale or IPO or sale to a strategic investor
    - An expectation of specific IRR from the investment, with the option of a claw-back if the business is not able to perform as per the expected business plan
2. Board representation
    - Monitoring the performance and growth of the business through a representation in the board

3. Other key terms to consider

   - **Anti-dilution:** Anti-dilution rights are more common than other preference terms and confer a more limited form of equity preference, providing the investor with basic downside price protection in relation to future investment rounds if shares are issued at a lower price as compared to the investor's price.

   - **Drag and forced sale rights:** For a private equity investor, the success of an investment is usually dependant on a successful exit being achieved within a specified time frame. It is usual for such an investor to seek the ability to force an exit if it has not occurred in the ordinary course within a specified time frame. Such rights usually include drag along rights which will enable the investor to procure the sale of the company as a whole (and which the investor can exercise even as a minority shareholder) and/or rights to force an asset sale or IPO.

   - **Tag and pre-emptive rights:** Unless shares are widely held, there is usually a mutual expectation that pre-emptive rights and tag along rights will apply to proposed share transfers (other than related party transfers). Any negotiation concerning such rights will usually revolve around the percentage sale threshold that triggers tag rights (which is typically anywhere between 20% and a controlling stake). Where the other shareholders will expect tag rights to apply similarly to all shareholders, an investor will need to balance a wish to be able to participate in any sale of significance (eg. 20% or more) initiated by another shareholder.

   - **Reserved matters:** Any shareholders/investment agreement typically contains a requirement that specified key decisions are approved by the Investor. These decisions are typically those that can impact the investment value of the Investor like any significant capital expenditure, acquisitions, dispositions, any new borrowings (or the giving of any security), any alterations to share capital or the company's articles and approval of the annual business plan.

Benefits PE investors bring

Following are the advantages of having a PE investor:

- Provides a platform for business development
- Long-term investment horizon enabling existing promoters or management to run and manage the company
- Enhanced credibility and visibility especially when going for IPO
- Effective control or hands-off approach
- Enhanced corporate governance
- Financial expertise
   - Beneficial for companies in the growth stage
   - Discipline and performance-based accountability

Positioning of the Indian Food Services industry

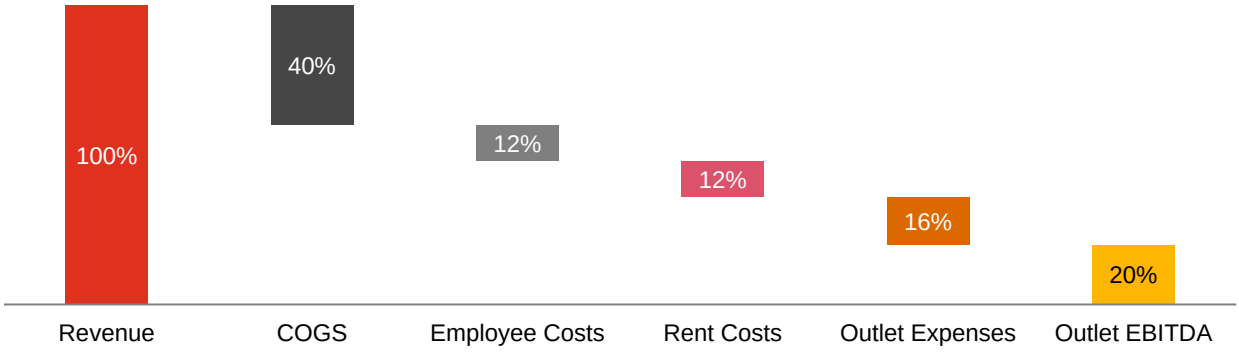
Cafés

Cafés are casual hang-outs with limited menu and focus on either tea or coffee-based beverages. Traditionally cafés operated as coffee focussed outlets, but there has been a change in recent years to tea-focussed beverages.

Café Coffee Day, Barista, Starbucks, Costa Coffee, Chai Point and Chayos[22]are some of the key players in the segment. Beverage contribution to overall sales is ~60-65%[23]; and the food contributes to the remaining part of the sales.

Store economics

Average per Cover	INR 150-200
Table Turnover	1.8-2.2
Average Store Size (Sq Foot)	1,000-1,500
Average Capex per Store (INR Mn)	7-10
Average Sales per day per Store	INR 15,000-20,000



Typical cost structure in cafés

Source: Regulatory filings, Research reports, PwC Analysis

22 Top Brands according to regulatory filings
23 CCD Initiating Coverage Report

Key deals in the Café sector

Date	Company	Brand	Investor	Deal Value (INR Mn)
Apr-18	Sunshine Teahouse Pvt. Ltd.	Chaayos	SAIF Partners, Integrated Asset Management	817
Apr-18	Mountain Trail Foods Pvt. Ltd.	Chai Point	Saama Capital, Eight Roads Ventures, DSG Partners, Paragon Partners	1,315
Sep-16	Mountain Trail Foods Pvt. Ltd.	Chai Point	Saama Capital, Eight Roads Ventures, DSG Partners	598
May-15	Sunshine Teahouse Pvt. Ltd.	Chaayos	Tiger Global, Powai Lake Ventures	333
Aug-14	Barista Coffee Company Ltd.	Barista	Boutonniere Hospitality*	996
Feb-10	Coffee Day Enterprises	Café Coffee Day	KKR, New Silk Route, Standard Chartered PE	9,542
Mar-07	Barista Coffee Company Ltd.	Barista Coffee Company Ltd.	Luigi Lavazza S.P.A.	5,500

* Boutonniere Hospitality was earlier known as Carnation Hospitality

Source: VCCEdge, PwC Analysis

Case study – Chai Point

- Chai Point, along with Chaayos, is creating the brand of “Chai” as cafés across India backed by heavy funding and a growth strategy. It has received funding of more than US$34 million to date.
- Having started operations in 2010, Chai Point has grown into 100+ stores across Bengaluru, Hyderabad, Pune, Mumbai and Delhi.
- With continuous backing by PE players since its inception, Chai Point has grown into around a INR 58 crore+ business in FY17 with an astounding growth rate of 82% in the last three years (from 9.7 crore in FY14).
- With the estimated chai market to be worth INR1.5 lakh crore in India and the average per capita consumption of the beverage increasing at a steady rate of 20-30%, investors see a huge opportunity in the segment.

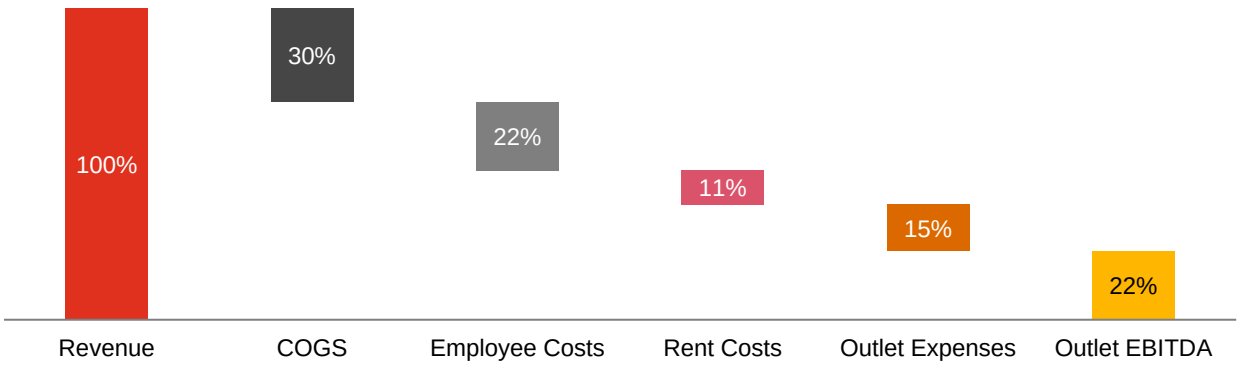
Source: VCCEdge, PwC Analysis and other publically available information

Quick Service Restaurants (QSR)

Quick Service Restaurants (QSRs) are focussed on speed, affordability and convenience. International brands such as Domino's, Subway, McDonalds, Pizza Hut and KFC[24] are some of the key brands in this segment. There has been a recent shift in the QSR segment, where investors have started investing in Indian cuisine QSR.

Store economics

Average per Cover	INR 400-600
Table turnover	1.4-1.6*
Average store size (sq foot)	1,200-1,500
Average capex per store (INR million)	10-15
Average sales per day per store	INR65,000-70,000



Typical cost structure in Pizza Chains

*Delivery Model (more than 50%)

Source: Regulatory filings, Research Reports, PwC Analysis

[24] Top QSR Brands according to Dominos Investor Presentation

Key deals in the QSR sector

Date	Company	Brand	Investor	Deal Value (INR Mn)
Jun-17	WoW Momo Foods	WoW Momos	LightHouse	440
Mar-17	Theobroma Foods Pvt Ltd	Theobroma	India Advantage Fund Series IV	449
Jun-15	Sapphire Foods India Pvt. Ltd.	Pizza Hut, KFC	Goldman Sachs, CX Capital	4,124
Oct-14	Devyani International Ltd.	Pizza Hut, KFC, Vaango, Costa Coffee	Temasek Holdings Advisors India	5,024
Jun-14	Paradise Food Court	Paradise	Samara Capital	907
Nov-13	Burger King India Pvt. Ltd.*	Burger King	Everstone Capital	6,289
Jul-13	Westlife Development Ltd.	Arisaig Asia Consumer Fund	Arisaig Asia Consumer Fund	1,798
Jun-11	Sagar Ratna Restaurants	Sagar Ratna	India Equity Partners	1,384
May-11	Devyani International Ltd.	Pizza Hut, KFC, Vaango, Costa Coffee	India Advantage Fund Series III	1,364
Dec-10	Om Pizzas and Eats India	Papa John's	TVS Capital Funds	509
Oct-99	Jubilant Foodworks Ltd	Dominos	JP Morgan Partners, India PE fund	384

*Not an upfront payment; total investment in tranches

Source: VCCEdge, PwC Analysis

Case study – Devyani International

- **Round-1** India Advantage Fund Series III (IAF), a fund managed by ICICI Venture Funds Management Company Ltd., invested INR 1.4 billion in New Delhi-based Devyani International Ltd. for 10.53% stake through a combination of fresh issue secondary share purchase from the promoter. The fund was used for expansion of food business in India and in global markets and also to support expansion of RJ Crop-run KFC stores in Africa.

- **Round-2** Temasek Holdings Advisors India Pvt. Ltd., through its affiliate Dunearn Investment Mauritius Pte. Ltd., invested ~INR 5 billion in Devyani International Ltd. for a 15.4% stake.

- The company has grown by more than 12% in the last 7 years from an ~INR 360 crore business in FY 2011 to an ~INR 810 crore business in FY2017.

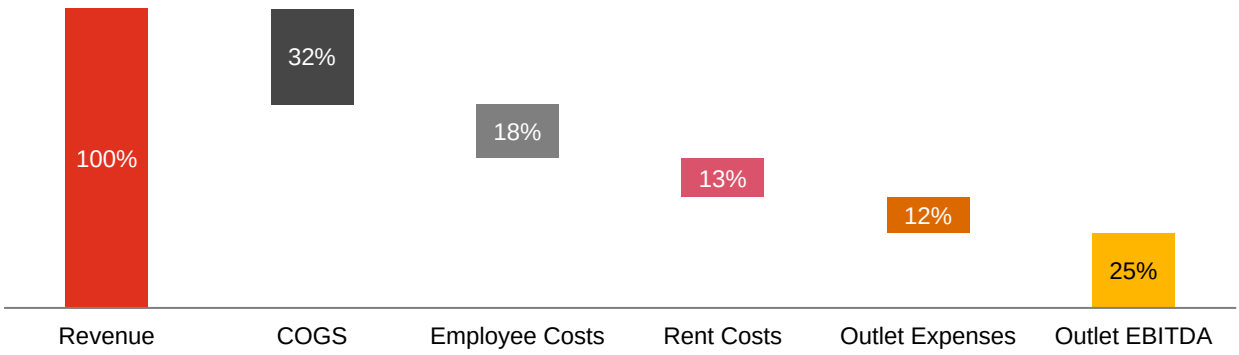
Source: VCCEdge, PwC Analysis

Casual Dining Restaurants

These are restaurants that offer single or multiple cuisines with prices ranging from affordable to premium. The segment is known for its table service, good ambience and an affordable experience for the rising middle class. It has been observed that both single-format players and multi format players have done well in this segment.

Store economics

Average per Cover	INR 600-800
Table Turnover	1.7-2.5
Average Store Size (Sq Foot)	3,000-3,250
Average capex per store (INR million)	30-35



Source: Regulatory filings, Research Reports, PwC Analysis

Typical cost structure in Casual Dining

Key deals in the casual dining sector

Date	Company	Brand	Investor	Deal Value (INR Mn)
Nov-17	Olive Bar and Kitchen Pvt. Ltd.	Olive Bistro, SodaBottleOpenerWala, The Local, The Fatty Bao	Rabo Equity Management	997
Nov-17	Impresario Entertainment and Hospitality	Smoke House Deli	L Catterton Asia	1,560
Sep-17	Speciality Restaurants Ltd.	Mainland China, Mainland China Asia Kitchen, Oh! Calcutta	SAIF Partners	841
Jun-17	Azure Hospitality	Mamagoto, Dhaba	Goldman Sachs, Max Ventures	738
Jul-16	Azure Hospitality	Mamagoto, Dhaba	Goldman Sachs, Max Ventures	670
Jun-15	Degustibus Hospitality	Indigo, Tote on the Trud	True North	1,923
Jun-15	Barbeque Nation Hospitality Ltd.	Barbeque Nation	CX Capital Management Ltd.	1,064
Mar-13	Barbeque Nation Hospitality Ltd.	Barbeque Nation	CX Capital Management Ltd.	1,107
Oct-12	JSM Corporation Pvt Ltd.	Hard Rock Café, Big Khauna	Premji Invest	1,322
Sep-12	Olive Bar and Kitchen Pvt. Ltd.	Olive Bistro, SodaBottleOpenerWala, The Local, The Fatty Bao	Aditya Birla PE	401
Aug-11	Pan India Food Solutions Pvt Ltd.	Copper Chimney, Spaghetti Kitchen, Gelato	Everstone	1,178
Jul-11	Impresario Entertainment and Hospitality	Smoke House Deli	Beacon India PE, Mirah Hospitality	480

Source: VCCEdge, PwC Analysis; Note: Impresario has a mix of Pub and CDR and therefore it is included in both

Case study – Barbeque Nation

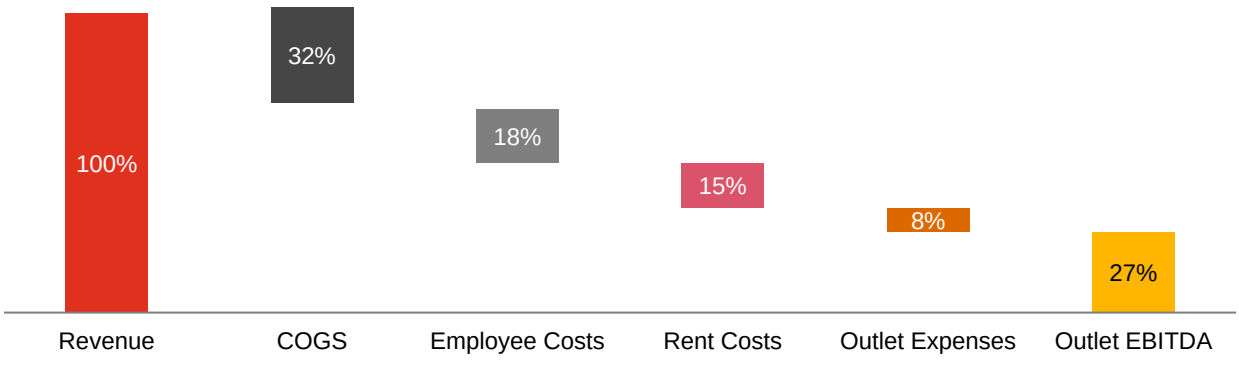
- Barbeque Nation grew from an INR 182 crore business in 2013 to an INR ~600 crore business in 2018 fuelled by investments from CX partners.
- It has grown to more than 110 outlets across India and Dubai.
- It has raised more than US$35 million of funds from CX Partners and has also recently raised funding from Rakesh Jhunjhunwala's family office.
- With a consistent growth in revenue and EBTIDA with positive same store sales growth and superior store economies, Barbeque Nation is one of the biggest success stories in the CDR space.
- The company has filed DRHP in August 2017 and plans to go for an IPO soon.

Fine Dining Restaurants

This segment comprises high-end restaurants (other than 5-star hotels) with a focus on presentation, exceptional service, unique food concepts, quality ingredients and a great dining experience. The pricing is premium to luxury.

Store economics

Average per Cover	INR 1,000+
Table Turnover	1.2-1.8
Average Store Size (Sq Foot)	3,250-3,500
Average Capex per Store (INR Mn)	35-40



Source: Regulatory filings, Research Reports, PwC Analysis

Key deals in the Fine Dining sector

Date	Company	Brand	Investor	Deal Value (INR Mn)
Aug-18	Red Apple Kitchen Private Ltd	Toscano	Samar Retail	NA
Nov-17	Massive Restaurants Pvt. Ltd.	Masala Library, Pa Pa Ya	Gaja Capital Fund II Ltd.	1,598
Jun-15	Massive Restaurants Pvt. Ltd.	Masala Library, Pa Pa Ya	Everstone Capital Asia Pte Ltd.	851

Source: VCCEdge, PwC Analysis

Case study – Massive Restaurants

- Massive Restaurants started by Jiggs and Zorawar Karla operates fine dining chains- Pa Pa Ya, Farzi Café, Masala Library, Made in Punjab. The company has established itself in the Indian market with niche concepts and has raised multiple rounds of PE investment.
- Massive Restaurants has grown from an INR ~ 9 crore business in FY 2014 to an INR ~130 crore business in FY 2017, growing at a CAGR of more than 200%.
- The company has raised more than US$35 million dollars from Gaja, Everstone and Mirah.
- The company is one of the select few restaurant chains that has been able to maintain substantial growth with high EBITDA margins.
- The company has recently raised a second round of funding from Gaja Capital, and is now looking to expand internationally.

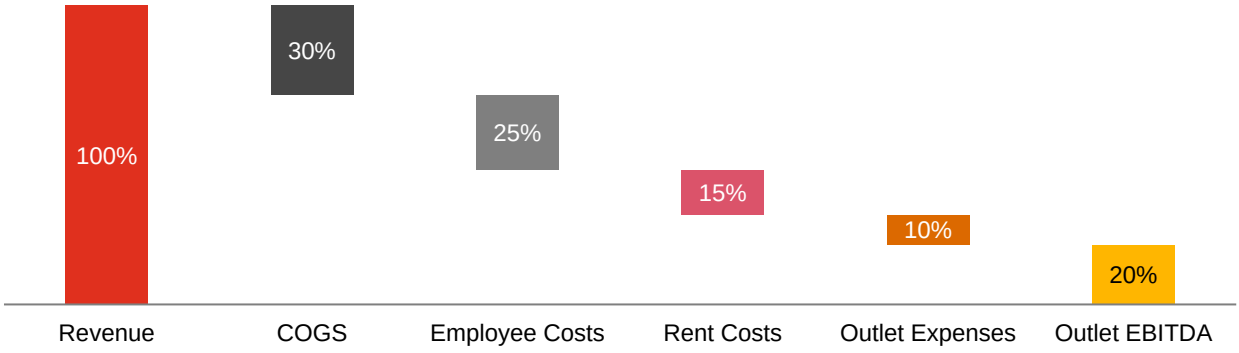
Pubs, Bars & Lounges

This segment comprises alcohol and the experience offered to customers. The experiences offered varies from loud music for party gatherings to social, amiable environments for people to catch-up. Beer Café, Social and Harry's [25]are some of the key brands in this segment.

Store economics

Average per cover	INR 1,000+
Table turnover	1.7-2.0
Average store size (sq foot)	3,250-3,500
Average capex per store (INR Mn)	30-35

[25] Top 3 Pub Brands according to Regulatory Filings



Source: Regulatory filings, PwC Analysis

Key deals in Pubs, Bars & Lounges

Date	Company	Brand	Investor	Deal Value (INR Mn)
Nov-17	Impresario Entertainment and Hospitality	Social	L Catterton Asia	1,560
Dec-14	BTB Marketing Pvt. Ltd.	Beer Café	Mayfield India II Ltd., Granite Hill India Opportunities Fund	382
Apr-13	BTB Marketing Pvt. Ltd.	Beer Café	Mayfield India II Ltd.	249
Nov-12	Harry's International Pte Ltd.	Harry's	Everstone Capital Partners II LLC, Verlinvest SA	1,945

Source: VCCEdge, PwC Analysis

Case study – Beer Café

- Beer Café has achieved continued funding from PE investors since 2013 and has established its strong brand across major metropolitan cities in India.
- It has achieved more than US$13 million funding from Mayfield and RB Investments, and has become the largest, fastest-growing alcohol-beverage service brand in India by expanding to more than 50 outlets across India.
- It was one of the first café chains with an underlying alcohol concept in this segment.
- The company has grown its revenue from INR ~ 13 crore in 2014 to INR ~100 crore in 2018.

Source: VCCEdge, PwC Analysis

Investments made in the food technology industry

After experiencing a brief period of turmoil that led to consolidation and exit of a number of start-ups, the Indian food technology sector is back on a high growth trajectory with the sector's leading lights, Zomato and Swiggy[26], raising huge amounts of capital this year, enabling optimisation of operations and a turnaround in fortunes.

The consolidation frenzy saw as many as 24 mergers and acquisitions in the food technology space during 2015 and 2016 as against ~12 so far in 2017 and 2018. The sector has also raised ~US$950 million in Private Equity capital from ~60 transactions in the last 28 months.[27] The recovery has been led by a reduction in delivery costs and market expansion with order volumes emerging as the primary metric for assessing growth that has increased from ~160,000 in 2016 to ~370,000 in 2017 at 130%.[28]

Key deals in the food technology sector

Date	Company	Investor	Deal Value (INR Mn)
Oct-18	Zomato	Alibaba Group Holding Ltd.	15,441
Aug-18	Faaso's	ru-Net, Lightbox Ventures II, Sistema Asia Fund Pte Ltd., Evolvence India Advisors Inc., Sequoia Capital India Advisors Pvt. Ltd.	1,027
Jun-18	Swiggy	Meituan-Dianping, Coatue Management LLC, DST Global, Naspers Ventures	14,196
Feb-18	Zomato	Alibaba Group Holding Ltd.	12,738
Jan-18	Swiggy	Meituan-Dianping, Naspers Ventures	6,394
Dec-17	Food Panda	Ola	2,008
May-17	Swiggy	Accel India IV LP, Harmony Partners, Norwest Venture Partners VII LP, Bessemer Venture Partners LP, Naspers Ventures, SAIF Partners India V Ltd.	5,190
Sep-16	Box 8	Mayfield, IIFL	500
Apr-16	Fresh Menu	Lightspeed Ventures,Azevo Advisors, Zodius Technology Fund, Lightspeed India Partners	1,100
Feb-15	Tiny Owl	Sequoia Capital, Matrix Partners, Nexus Ventures	721

Source: VCCEdge, PwC Analysis

[26] Biggest Investments in Food Tech according to VCCEdge
[27] VCCEdge
[28] Food Tech ET Article

Case study – Swiggy

- Online food delivery aggregator start-up, Swiggy, is now among the fastest growing food tech start-ups in India.
- The company has raised around US$460 million in private equity funds to date and is expected to raise another round of around US$900 million by the end of this year from South-African investor Naspers, a move that is expected to boost its valuation to around US$2.5 billion.
- The company recently raised a whopping US$210 Mn from Naspers and Meituan at a post money valuation of ~US$1.3 Bn, which marked its entry into India's unicorn start-up club.
- Swiggy's revenue has skyrocketed from a small base of INR 235 Mn in FY2016 to INR 4,683 Mn in FY2018 which is accredited to its successful business model and aggressive expansion.

Analysis of listed F&B companies in India and other defined countries

QSR companies in developed markets

Company	Country	Revenue	EBITDA	EV/EBITDA	EV/Sales
Starbucks Corporation	USA	1,462,194	22.2%	15.1x	3.4x
McDonald's Corporation	USA	1,456,512	42.6%	15.5x	7.2x
YUM! Brands, Inc.	USA	375,163	34.0%	19.3x	6.5x
Restaurant Brands International Inc.	Canada	292,070	45.4%	12.7x	5.5x
Domino's Pizza, Inc.	USA	177,943	19.6%	25.4x	4.8x

Source: CapIQ

Casual Dinning companies in developed markets

Company	Country	Revenue	EBITDA	EV/EBITDA	EV/Sales
Darden Restaurants, Inc.	USA	547,831	13.4%	12.7x	1.7x
Zensho Holdings Co., Ltd.	Japan	354,837	6.5%	11.5x	0.7x
Chipotle Mexican Grill, Inc.	USA	285,707	10.7%	22.0x	2.5x
Bloomin' Brands, Inc.	USA	268,917	9.0%	7.8x	0.7x

Company	Country	Revenue	EBITDA	EV/EBITDA	EV/Sales
Brinker International, Inc.	USA	215,701	13.1%	8.0x	1.1x

Source: CapIQ

QSR companies in developing markets

Company	Country	Revenue	EBITDA	EV/EBITDA	EV/Sales
Yum China Holdings, Inc.	China	455,966	16.4%	8.5x	1.4x
Jollibee Foods Corporation	Philippines	168,025	8.9%	22.1x	1.9x
AmRest Holdings SE	Spain	96,594	11.9%	16.3x	1.9x
PT Fast Food Indonesia Tbk	Indonesia	24,966	6.9%	6.6x	0.5x
Sphera Franchise Group S.A.	Romania	9,411	11.4%	15.3x	1.4x

Source: CapIQ

CDR companies in developing markets

Company	Country	Revenue	EBITDA	EV/EBITDA	EV/Sales
Haidilao International Holding Ltd.	Cayman Islands	104,341	18.4%	35.4x	6.0x
Xiabuxiabu Catering Management	Cayman Islands	36,084	18.2%	11.5x	2.0x
Wowprime Corp.	Taiwan	34,008	11.5%	2.4x	0.2x
TANSH Global Food Group Co., Ltd	Cayman Islands	18,755	14.5%	1.7x	0.2x
S&P Syndicate Public Company Limited	Thailand	15,248	10.2%	13.4x	1.3x

Source: CapIQ

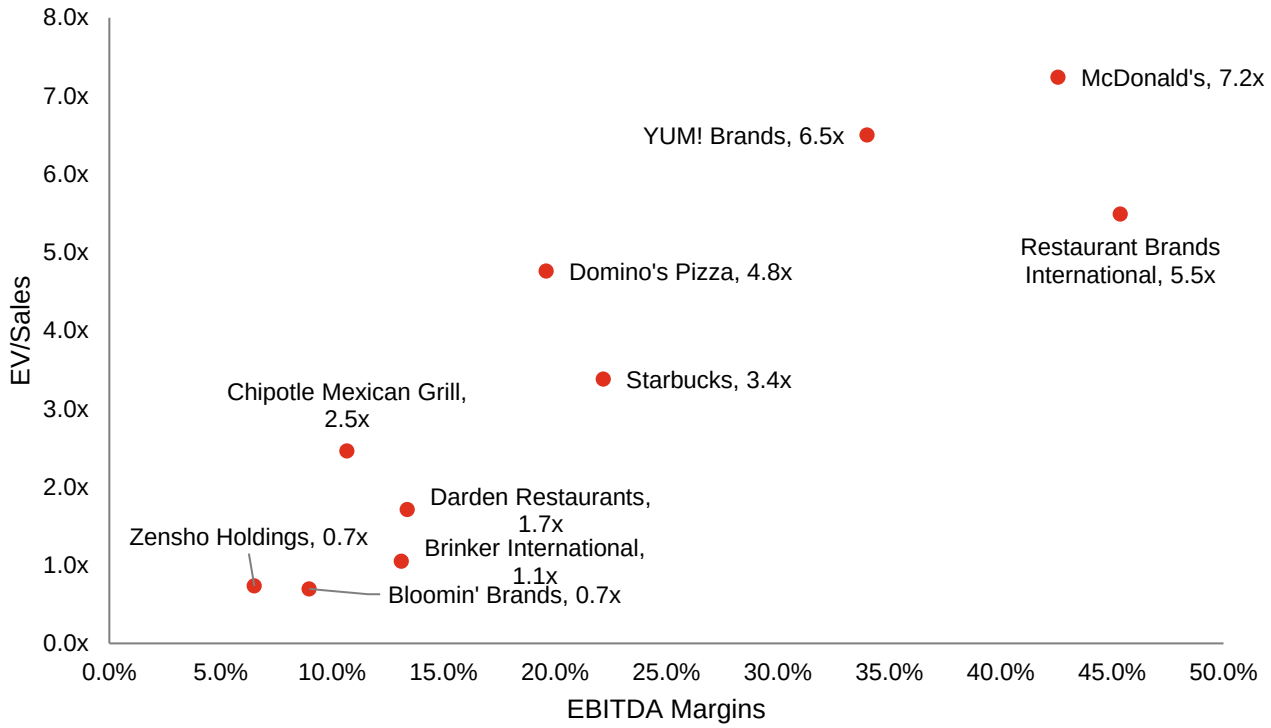
Indian comparables

Company	Country	Revenue	EBITDA	EV/EBITDA	EV/Sales
Coffee Day Enterprises Limited	India	38,406	17.6%	10.6x	2.0x
Jubilant FoodWorks Limited	India	30,184	14.4%	34.8x	5.0x
Westlife Development Limited	India	11,349	7.3%	56.8x	4.3x
Speciality Restaurants Limited	India	2,968	0.5%	NM	1.0x

Source: CapIQ

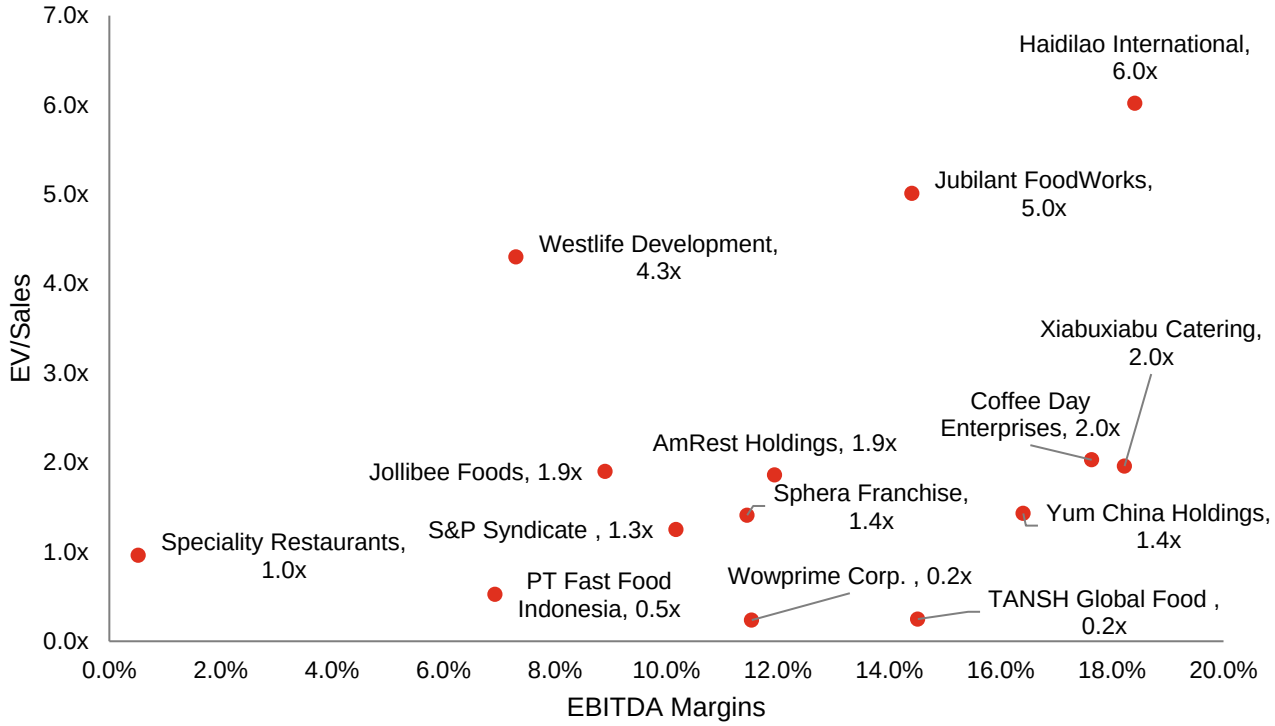
Valuation summary

Developed countries mapping



Source: CapIQ

Developing Countries Mapping



Source: CapIQ

Globally it has been observed that QSR attracts more interest from Private Equity compared to CDR, due to high scalability of the business, lower capital requirements, and its attractiveness to consumers leading a fast life. This may also be seen in the valuation multiples for QSR compared to CDR companies in the listed space in both developed and developing markets.

The same trend has continued in India where QSR companies are valued at higher multiple (typically 3x to 4 x of sales) compared to CDR companies that are typically valued between 2x to 2.5x.[29]

Deals in the segment in India are expected to pick up with consolidations expected in the near future. Going forward, investors will be looking at valuations based on EBITDA multiples rather than Sale multiples as was the trend earlier.

[29] CapIQ/VCCEdge and PwC Analysis

Appendix

PE investments since June 2016

Date	Company	Brand	Investor	Deal Value (INR Mn)
Dec-17	JSM Corporation Pvt. Ltd.	Hard Rock Café, Big Khauna	Individual Investor	na
Nov-17	Massive Restaurants Pvt. Ltd.	Masala Library / Farzi Café	Gaja Capital	1,598
Nov-17	Olive Bar and Kitchen Pvt. Ltd.	Sodabottleopenerwala, the local	Rabo PE	996
Jun-17	Azure Hospitality Pvt. Ltd.	Mamagoto, Dhaba	Goldman Sachs, Max Ventures	738
Jul-16	Azure Hospitality Pvt. Ltd.	Mamagoto, Dhaba	Goldman Sachs, Max Ventures	667

Source: VCCEdge

Angel investments since June 2016

Date	Company	Brand	Investor	Deal Value (INR Mn)
Sep-18	Chotta Haazri Foods Pvt. Ltd.	Haazri	Artha Singularity Partners LLP	12
Aug-18	Justeafy Food and Beverages	Chai King	The Chennai Angels, Individual investor	20
Mar-18	Sky Gate Hospitality Pvt. Ltd.	Biryani by Kilo	Thriving Farm Builders Pvt. Ltd., Individual investors	65
Dec-17	The Bohri Kitchen	Bohri Kitchen	Individual investors	Na
Sep-17	Sky Gate Hospitality Pvt. Ltd.	Biryani by Kilo	Startup Equity Partners Pvt. Ltd., Indo Nippon Foods Pvt. Ltd., Chandigarh Angels Network, Citadel Ventures LLC, Individual investors	40

Date	Company	Brand	Investor	Deal Value (INR Mn)
Aug-17	Absolute Barbeque Pvt. Ltd.	AB's	General Atlantic Pvt. Ltd.	700
Feb-17	CharcoalEats Foodtech Pvt. Ltd.	Charcoal Biryani	Individual investors	Na
Dec-16	Busabong and Co. Pvt. Ltd.	Busago, Busaba	Greenfield Advisory Pte Ltd., Private Equity	14
Nov-16	Shivanta Agro Foods Pvt. Ltd.	Tpot, Tpot café	Individual investor	Na
Nov-16	Chai Thela Pvt. Ltd.	Chai Thela	Quarizon Consultancy Services LLP, Individual investor	15
Oct-16	Chatar Patar Foods Pvt. Ltd.	Chatar Patar	Individual investors	10
Oct-16	Sky Gate Hospitality Pvt. Ltd.	Biryani by Kilo	Chandigarh Angels Network, Canvas InfoTech Inc., Homeland Buildwell Pvt. Ltd., Citadel Ventures LLC, Individual investors	18
Aug-16	Tipping Mr Pink Pvt. Ltd.	Burger Singh	Individual investors	67
Jun-16	CharcoalEats Foodtech Pvt. Ltd.	Charcoal Biryani	Individual investors	Na
Jun-16	Barcelos India Pvt. Ltd.	Barcelos Flame Grilled Chicken	Na	336

Source: VCCEdge

Venture Capital investments since June 2016

Date	Company	Brand	Investor	Deal Value (INR Mn)
Sep-18	Dolomite Restaurants Pvt. Ltd.	Jamie's Italian	Hunch Ventures and Investment Pvt. Ltd.	Na
Sep-18	Sierra Nevada Restaurants Pvt. Ltd.	Wendy's co	Hunch Ventures and Investment Pvt. Ltd.	Na
Aug-18	Sunshine Teahouse Pvt. Ltd.	Chaayos	SAIF Partners India VI Ltd., Integrated Asset Management Asia Ltd.	817
Jun-18	Wow Momo Foods Pvt. Ltd.	Wow Momo	William Nanda Bissell	30
Apr-18	Mountain Trail Foods Pvt. Ltd.	Chai Point	Saama Capital II Ltd., Eight Roads Ventures India, DSG Consumer Partners I, Paragon Partners Growth Fund I	1,316
Mar-18	BTB Marketing Pvt. Ltd.	Beer Café	Mayfield India II Ltd.	65
Nov-17	Impresario Entertainment and Hospitality Pvt. Ltd.	Smoke House Deli, Social	L Catterton Asia	Na
Sep-17	Ubiquitous Foods Pvt. Ltd.	Ovenfresh, Eatfresh	Kalaari Capital Fund II	20
Aug-17	Sunshine Teahouse Pvt. Ltd.	Chaayos	Tiger Global Management LLC, Powai Lake Ventures, Individual investor	Na
Aug-17	Mountain Trail Foods Pvt. Ltd.	Chai Point	Saama Capital II Ltd., Eight Roads Ventures India, DSG Consumer Partners I	188
Jun-17	Wow Momo Foods Pvt. Ltd.	Wow Momo	Lighthouse Advisors India Pvt. Ltd., Individual investors	440
Apr-17	Muhavra Enterprises Pvt. Ltd.	Blue Tokai Coffee Roasters	Snow Leopard Technology Ventures LLP	Na

Date	Company	Brand	Investor	Deal Value (INR Mn)
Mar-17	Theobroma Foods Pvt. Ltd.	Theobroma	India Advantage Fund Series IV	349
Mar-17	BTB Marketing Pvt. Ltd.	Beer Café	RB Investments Pte Ltd.	100
Jan-17	Thea Kitchen Pvt. Ltd.	Biryani Blues	Carpediem Capital Partners Fund I	135
Oct-16	Sunshine Teahouse Pvt. Ltd.	Chaayos	Powai Lake Ventures, Individual investor	89
Sep-16	BTB Marketing Pvt. Ltd.	Beer Café	Mayfield India II Ltd.	79
Sep-16	HO Food Services Pvt. Ltd.	Mani's Dum Biryani	NA	45
Sep-16	Burrito Restaurants Pvt. Ltd.	California Burrito	Individual investor	Na
Sep-16	Thea Kitchen Pvt. Ltd.	Biryani Blues	Carpediem Capital Partners Fund I	25

Source: VCCEdge

Food Tech investment since June 2016

Date	Brand	Sub Segment	Investor	Deal Value (INR Mn)
Oct-18	Zomato	Restaurant Search and Reservation	Alibaba Group Holding Ltd.	15,441
Oct-18	Innerchef	Cloud Kitchen	Das Capital, M and S Partners Pte. Ltd., Mistletoe Inc.	130

Date	Brand	Sub Segment	Investor	Deal Value (INR Mn)
Aug-18	Faaso's	Cloud Kitchen	ru-Net, Lightbox Ventures II, Sistema Asia Fund Pte Ltd., Evolvence India Advisors Inc., Sequoia Capital India Advisors Pvt. Ltd.	1,027
Aug-18	Eazy Diner	Restaurant Search and Reservation	Beenext Pte. Ltd.	401
Jun-18	Swiggy	Food Delivery Aggregator	Meituan-Dianping, Coatue Management LLC, DST Global, Naspers Ventures	14,196
Feb-18	Zomato	Restaurant Search and Reservation	Alibaba Group Holding Ltd.	12,738
Jan-18	Swiggy	Food Delivery Aggregator	Meituan-Dianping, Naspers Ventures	6,394
Oct-17	Eazy Diner	Restaurant Search and Reservation	DSG Consumer Partners I, Saama Capital Management Ltd., Beenext Pte. Ltd.	707
Sep-17	Freshmenu	Cloud Kitchen	Bennett Coleman and Co. Ltd.	16
May-17	Swiggy	Food Delivery Aggregator	Accel India IV LP, Harmony Partners, Norwest Venture Partners VII LP, Bessemer Venture Partners LP, Naspers Ventures, SAIF Partners India V Ltd.	5,190
Mar-17	Faaso's	Cloud Kitchen	ru-Net, RB Investments Pte Ltd., Lightbox Ventures II, Sequoia Capital India III LP	736
Feb-17	Faaso's	Cloud Kitchen	Bennett Coleman and Co. Ltd.	161

Date	Brand	Sub Segment	Investor	Deal Value (INR Mn)
Sep-16	Box 8	Cloud Kitchen	Mayfield India II Ltd., IIFL Seed Ventures Fund I	499
Sep-16	Holachef	Cloud Kitchen	Kalaari Capital Partners III LLC, SIDBI Maharashtra State Social Venture Fund, Ashok Haribhai Gajera	244
Aug-16	Swiggy	Food Delivery Aggregator	DST Global, Bessemer Venture Partners LP, Accel India IV LP, Norwest Venture Partners VII LP, SAIF Partners India V Ltd.	1,007
Aug-16	Inner Chef	Cloud Kitchen	M and S Partners Pte. Ltd., Mistletoe Inc., Aarti Gupta	148
Aug-16	Runnr	Delivery and Logistics	Nexus Ventures III Ltd., Sequoia Capital India IV Ltd., Matrix Partners India II LLC, Blume Ventures India Fund II, Sandeep Tandon, Deap Ubhi, Kunal Bahl, Rohit Kumar Bansal	305

Source: VCCEdge

4

Regulatory landscape to drive the industry's global competence

- Background
- Regulatory scenario in India
- FSSAI
- Other bodies
- Applicability on companies
- Current challenges
- Way forward



"In the past it may have been enough to produce affordable food but now only those companies that earn the trust of consumers will survive. It's building this outcome of trust we're striving to achieve as we help improve the safety and quality of the world's food."

Craig Armitage | Global Leader, Food Supply and Integrity Services, PwC

Background

In food services, customers' trust and confidence is of paramount importance. A crisis can threaten the viability of a business and prevent it from pursuing its strategic growth path, since it may be required to re-allocate almost all its resources from competing in the marketplace to fighting for survival. Companies that have undergone food safety-related incidents have deviated from their long-term strategic plans to re-build their brands. Regulatory changes, scarcity of resources, food fraud and lack of ethics are some of the many concerns that c0nstitute a threat to customers' trust. In these complicated times, where customers' expectations are growing and food supply chains are becoming more and more complex and stressed, it is more important than ever to have in place solid safety and quality processes.

Managing and maintaining the reputation of brands by producing safe and high-quality products is critical for any food-manufacturing company. In the past, it may have been enough to produce affordable food, but now only those companies that earn consumers' confidence survive. The collision of these megatrends and associated consumer demands means that companies must not only deliver on quality and transparency, but also continuously maintain trust.

The food industry is often accused of perpetrating a significant health and economic fraud. This may be in various forms such as substitution, dilution, counterfeiting, tampering or misrepresentation of ingredients, etc. The causes vary from accidental contamination to pure negligence—but public outrage is universal. Globally, the count of food recalls is increasing. Food products recalled by the US Food and Drug Administration skyrocketed to 92.7 % in 2017 from 2012. Even in India, people still talk about the Maggi-related issue where the headline 'Nestlé Withdraws Maggi Noodles in India after Food Scare' were flashed across national and international media. There have been other significant headlines highlighting concerns over high levels of pesticides, mould and bacteria in food imported from India.

In India, the apex food regulator, the Food Safety and Standards Authority of India (FSSAI) implements and enforces food regulations prescribed in the Food Safety and Standards (Licensing and Registration of Food Businesses) Regulation, 2011.

In 2018, FSSAI directed ten online food delivery platforms to de-list their non-FSSAI licensed food business from their platform after receiving consumers' complaints of sub-standard food being served on e-Commerce platforms. According to the FSSAI, adulteration of food in India is growing at an alarming rate. This is primarily due to lack of compliance with requirements specified under these regulations. Provided below are the details:

Year	Number of samples analysed	Number of samples found adulterated	Percentage of adulteration
2016-17	60,671	14,130	23%
2015-16	65,057	14,179	22%
2014-15	49,290	8,469	17%

Source: FSSAI Annual Reports

It is not that food companies are not acknowledging the situation, in fact, most food-manufacturing companies take safety and quality issues very seriously, since these are a fundamental and non-negotiable priority. Moreover, companies hit by recalls, and safety- and quality-related issues know that they need to address issues proactively, and in most cases, try to implement solutions.

Regulatory scenario in India

The Government is increasingly adopting stringent food safety regulations and sanctions to enhance compliance-related requirements across markets. The FSSAI, established in 2008 under the Food Safety and Standards Act, 2006, is responsible for protecting and promoting public health through regulation and supervision of food safety procedures.

In previous years, the FSSAI has taken systematic steps to create a unifying framework. Its objective is to ensure consistent implementation of the law across states and Union Territories in India. The FSSAI has concentrated its efforts in six major areas:

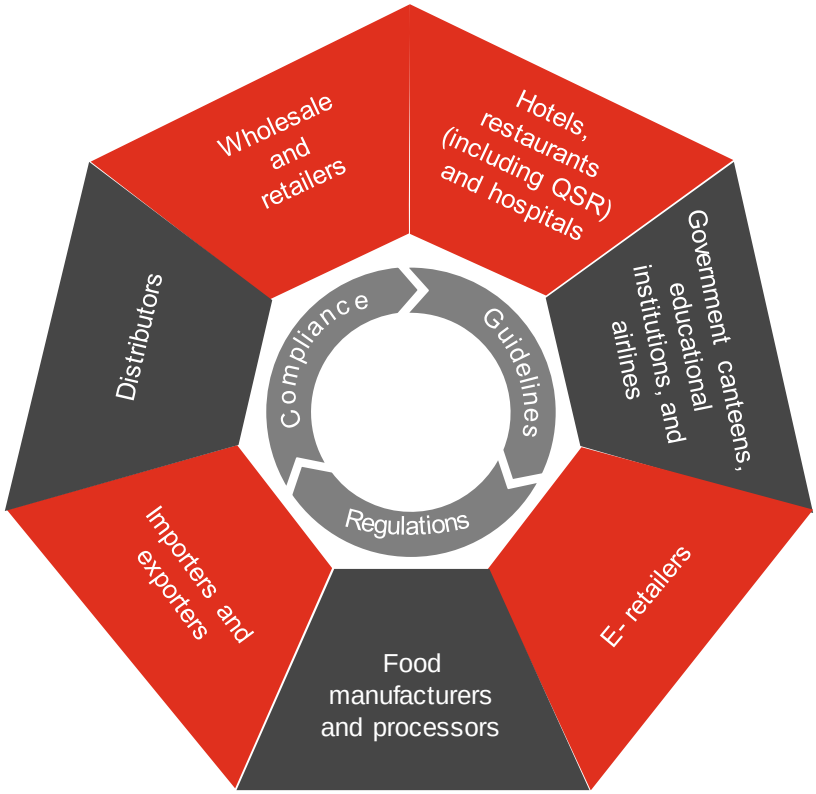
1. Establishment of globally benchmarked food product standards
2. Enforcement of the law consistently across all states and Union Territories
3. Facilitation of problem-free food imports
4. Implementation of credible testing of food through a robust lab network
5. Implementation of globally benchmarked food safety practices and processes
6. Provision of large-scale training and capacity-building in food business
7. Creation of a digital inspection platform to replace manual inspection

Between 2011 and 2017, a great deal of work related to setting up of standards and aligning these with global norms was completed by the FSSAI. Now it implements regular revisions and updates on an ongoing basis.

While the FSSAI is the apex regulatory authority for food products, six other agencies are also involved for specific purposes. To make available a single point of information for all food-related business compliance requirements, the Food Regulatory Portal provides important information and links it with those of other national agencies in the food safety ecosystem such as Legal Metrology, Customs, Plant and Animal Quarantine, Bureau of Indian Standards (BIS) and AGMARK.

Applicability

Food-related fraud requires comprehensive and proactive action to be taken to resolve issues challenging supply chains today. Areas in which companies need to be watchful include their use of third-party manufacturers or co-packers, sourcing of alternative raw material, ensuring usage of food grade primary packing material, changes in vendors or use of one-time vendors in line with existing and upcoming regulations or legislation, compliance with product shelf life-related requirements, hygiene- and storage-elated norms across the value chain, management of crisis and product recalls. Food safety regulations apply not only at the time of processing or manufacturing of food, but during its entire lifecycle, i.e., form the farm to the fork. This means that importers, manufacturers, transporters and retailers, including e-Commerce-related requirements, are covered under these regulations. The figure below provides a pictorial representation of this:



Challenges being faced in implementation

Despite India having a legal framework in place, it still struggles with enforcing food safety standards throughout the country, primarily due to the following reasons:

1. The complexity in understanding regulatory requirements results in a gap in effective implementation of standards.

2. There is inadequate infrastructure in laboratories or fewer laboratories then required. Even today, the number of laboratories per million people in the country is far below their number in countries such as China and the US.

3. Furthermore, one of the requirements under food safety is the need for implementation of ‘farm to fork’ traceability, which facilitates preventive and remedial measures that need to be undertaken in food safety regimes, as mandated by the Food Recall Procedure Regulation 2017 for food businesses in India.

4. According to the findings of the GS1 India survey, the majority of businesses do not have effective traceability systems across their food supply chains. Currently, most Food and Beverage Organisations have implemented a track and trace system up to ‘one-level down’ in their supply chains, i.e., up to the distributor level. Many developed and fast-developing countries have implemented legal traceability-related norms, e.g., the European Union (EU) 1169/2011, EU 178/2002 regulations, to ensure food safety, and exporting countries are under pressure to comply with these.

The way forward

Today, companies need to move beyond their traditional programmes, based on food science, to develop effective strategies that focus on implementation of a preventative and risk-based approach to food fraud and effective crisis management. Viewing food trust strategies through risk-based, preventive lens, with a focus on quality management, product integrity and traceability, will help to build and sustain trust in the domain.

The regulatory environment is set to become even more stringent and all food companies will be subject to increased scrutiny and monitoring. To strengthen the food safety surveillance system further, the FSSAI envisages audits of food business operators through third-party private auditing agencies. Based on audit reports submitted by these agencies, the frequency of inspections by regulatory officials will be reduced or increased. And apart from carrying out mandatory audits, these agencies can also be used by the FSSAI to conduct audits for Central Government institutions including government agencies, e.g., the Railways, Defence, etc.

This raises an important question, “So what can food companies do to increase their share of the market while complying with tightened regulations?” The following are some of the things they can do:

1. Get food-related trust on the leadership table: While food manufacturers usually cite issues pertaining to food safety among their top three threats, the responsibility for addressing risks is usually delegated too far down in their organisations’ supply chains.

2. See this as an evolution: Implementation of the regulations needs a strategic response, and not just as a compliance-related matter. Get the right people, from compliance to customers, supply chain to strategy and PR to HR, to the table.

3. View your food safety strategy through a risk-based, preventive lens: Focus on your quality management, integrity of products, food defence and traceability standards.

4. Review supply chain risks regularly and benchmark these against best practices.

5. Instil a positive culture of safety and quality from the farm to the shop floor: Leading organisations adopt innovative practices that extend to creating awareness among their employees and training them across their supply chains.

The food industry has never faced such a large range of challenges before, and the need to comply with stringent regulations will only add to the complexity. However, never has the industry been served such a feast of growth opportunities either. Organisations that prove their resilience are those that see these compliance-related requirements not just as a burden or cost, but as an opportunity to capture growth by becoming more relevant in the market as the trustworthy food providers their consumers want them to be.

5

Challenges that need to be addressed to continue on the growth path

- Economic factors
- Operational factors
- Government and regulatory factors



Economic factors

Rising food costs

Inflation in food prices is a key challenge facing the food service industry in India, which is affected by delayed monsoons, the economic slowdown, and unfavourable demand-supply conditions. It keeps fluctuating and reached a peak in 2010. And while inflation affects consumers across all formats, it also hits the margins of market players.

Food costs (of raw material) account for around 30-35% of revenue across all food service formats. The continual rise in food costs narrows players' margins and compels them to increase prices on their menus. This increases the challenge they face in retaining customers who are already value-conscious and tend to evaluate all available eating-out options carefully.

Fragmented market and increasing competition

The Indian food service market has many small and mid-size unorganised players competing with large chain players. This market faces several challenges, including unclear segmentation of formats, varied consumer options for eating out and best practices frequently not being followed by food service outlets.

There are several players that offer products, which are similar, at competitive prices. No single player leads the market, and consumer loyalty is therefore also low. This makes it challenging for players to engage with and retain consumers, and heightens their performance-related uncertainty. Since a one-size-fits-all approach will not satisfy different consumers, it is therefore imperative that food service players upgrade their offerings from time to time—be it their menus, formats or concepts— to implement unique business propositions and attract diverse consumer segments.

Operational factors

Manpower-related issues: shortage of high-quality staff and high attrition

The Indian hospitality industry is highly labour-intensive, but availability of trained chefs, managerial personnel and other support staff is low. According to a study conducted by the Ministry of Tourism, the current supply of skilled or professionally trained personnel is estimated to be around 9% of the total requirement. In view of this shortfall and the industry's high attrition rate of 20-25%, cost of labour is high in it. To bridge the demand and supply gap, players have begun hiring in huge numbers and increasingly investing in in-house training programmes.

High real estate and labour costs affecting profitability of stores

For more than a decade, India has been seeing an escalation in real estate prices, which is amplified by increasing demand and availability of easy credit. In the case of food service outlets, real estate (rentals) is the second major cost component after raw material and accounts for around 12-15% (and sometimes even 20%) of total revenues.. People are paid inadequate salaries therefore productivity is low, and consequently, there is an increasing need for manpower raising costs. Moreover, high labour and real estate costs, coupled with the high Service Tax on property, are putting pressure on the profitability of stores and deterring the growth of food service outlets.

To add to the woes of exorbitant costs, the food service market is constantly buffeted by reforms relating to availability of land, land ceilings and the Floor Space Index (FSI), and also suffers due to delays in granting of approvals. Moreover, the permissible FSI in India varies across cities—on an average in the range of 1 to 4. (In comparison, the global FSI average is 10.) This is because of consistent discouragement of high population density in urban areas, which results in increased density in slums and unauthorised constructions. For example, in Mumbai, where space shortage is an issue, the FSI (including transfer of development rights) is 2.

Fragmented supply chain

The industry's supply chain is fragmented and marked by the presence of multiple intermediaries. Lack of appropriate infrastructure, inadequate technologies and non-integration of the food value chain are the key factors leading to nearly 30-40% food wastage across supply chains. It is therefore essential for food service players to address their supply chain-related issues and implement suitable measures to counter these.

Warehousing

There is a shortage of good quality warehousing space in India. Warehouses lack the required size, design and storage systems. Furthermore, currently available warehousing space is inadequate to meet the growing demand. According to industry sources, the total warehousing space in India is estimated at 80-100 million metric tons (MTs), whereas the demand is much higher.

Cold chain

Currently, cold chain facilities are inadequate to meet the prevailing demand in India. The cold chain infrastructure is highly fragmented in the country, with an estimated 85% of the market (by value) being dedicated to storage and 15% to transportation.

There are around 5,300-5,400 cold storages in India with a total installed capacity of around 23 million MT. Around 25% of these are multi-purpose and the rest are used to store potatoes (around 55%), fruits and other vegetables, dairy products, meat and fish. In terms of capacity, around 80% are used to store potatoes and the remaining 20% for other commodities. Across the entire supply chain, therefore, the need for cold infrastructure and advanced solutions is critical, to minimise wastage of fresh produce, extend the lives of perishables and enhance the quality of food.

The need of the hour is to establish an end-to-end supply chain, making use of modern facilities such as logistics parks, integrated cold chain solutions and last mile connectivity; adopting technology such as barcoding and RFIDs, and assuring the Government's support by providing incentives to private enterprises.

Sourcing of alcoholic beverage

India is caught in a maze of archaic and complex regulations at the Central and state levels when it comes to sourcing alchoholic beverage. Every player offering alcoholic beverages has to apply for and be granted several licenses to sell alcohol, and also comply with the prescribed norms pertaining to permitted hours, eligible age limits, etc. This situation is further intensified by the following challenges:

- Long gestation period: It takes anywhere between a month to a year to be granted a alchoholic beverage licence, with humungous paperwork and the need for approvals from multiple departments adding to the challenge.

- Anti- alcoholic beverage mindset: Procurement of alcoholic beverage is discouraged in some states by their levying high tax rates and charges on distribution, and monopolising procurement.

- Substantial and recurring licensing fees: An estimated INR0.5-0.6 crore (US$0.10-0.12 million) is required to fulfil all licensing requirements, which is a significant impediment for growth in view of most restaurants' finances, e.g., the annual licence fee to sell imported alcoholic beverages is as high as INR10 lakhs (US$19,230) in New Delhi. Processing charges are additional expenses.

- High tax burden: Moreover, several indirect taxes such as Customs duties, Excise permits and Education Tax are levied on imports, especially on import of alcohol. In addition, interest is also payable. For example, a 150% tariff levied on imported wine, on which the Central Government imposes an extra additional duty (EAD) of 4%. In addition, each of India's 29 states levy their own taxes, which range from 30% to over 100%, on alcohol.

Government and regulatory factors

Over-licensing

In India, obtaining the requisite licences, e.g., a health licence, food safety licence, police licence, no objection certificate (NOC) from the fire department and the state pollution control board, is a major stumbling block hindering the smooth operation of a restaurant. The process is not centralised yet and requires applications being filed with individual stakeholders, all of which involves a significant amount of paperwork and is a time-consuming activity. Licenses required to start a restaurant are the same throughout India, except in some states such as Maharashtra. A player needs around 12 to 15 licences from every government just to open a restaurant! In comparison, global licencing requirements are not as intricate.

List of restaurant licences: international

Country	No. of licences	Nature of licence
Thailand	5	Sanitation (food) licence
		Fire licence
		Sales (tax) licence
		Work permit licence
		Local municipal licence
China	4	Sanitation licence
		Environment licence
		Fire licence
		Sales (tax) licence
Singapore	4	Food or health licence
		Fire licence
		Sales licence
		Waste licence
Turkey	2	Municipality licence
		Fire department licence

In India brands usually prefer to form separate departments or hire external liaison consultants to handle restaurant licensing and other legal compliance-related requirements because of the complex nature of the work, and the time and effort expended. In addition, laws are not uniform and differ from state to state, and moreover, are open to interpretation.

List of restaurant licences across India

Nature of the licence	Issuing authority	Mandatory/ Optional
Food safety licence	FSSAI	Mandatory
Health or trade licence	Municipal Corporation or Health Department of the concerned state	Mandatory
Eating house licence	Police Commissioner- licencing	Mandatory
Beverage Alcohol licence L-4 (L-17 as per new excise Rule)	Excise Commissioner	Mandatory for serving alcoholic beverages in restaurants; otherwise not
Approval and re-approval of restaurants	Department of Tourism of Government of India in the state concerned or the Delhi Government	Optional
Licence to play music in restaurants	Phonographic Performance Limited or Indian Performing Right Society	Mandatory if recorded or live music of two copyright- holders are played in the restaurant
Environment clearance for grease trap/ETP (Water Pollution Act)	State Pollution Control Board	Mandatory
Environment clearance for generator sets (Air Pollution Act)	State Pollution Control Board	Mandatory for operating gensets
NOC from fire department	Fire Department of the concerned state	Mandatory
Weights and measures	Legal Metrology Department	Mandatory
Lift licence	Concerned authority—electrical inspector and Office of the Labour Commissioner	Optional—if lift is to be installed
Insurance required to be taken—Public Liability, Product Liability, Fire Policy for buildings and assets, as well as other insurance policies that are not mandatory but useful	Any insurance company (Consult your insurance advisor.)	Mandatory

Nature of the licence	Issuing authority	Mandatory/ Optional
Shop and Establishment Act	As prescribed in the Act and applicable to the state	Mandatory
Signage Licence	Municipal Committee or Corporation of the city	Mandatory in some states

The process of obtaining these licences is cumbersome and expensive, and imposes a high and avoidable 'cost of compliance', which benefits neither the industry nor the public.

To achieve its full potential, the restaurant industry needs to ensure initiation of a solution to the licensing conundrum. This could be achieved by the implementation of a single window licence-clearance system.



6

Conclusion



Conclusion

Over the last decade, India's food service sector has seen sweeping changes—from changing regulations and tax regimes to evolving consumer preferences, and the emergence of new trends and business models. In this report, we have evaluated these changes and uncovered important lessons that can help establishments in this sector reshape their future.

1. **Think big:** A phase of ups and downs, where business models went through several rounds of iterations and their profitability was challenged, has made an impact on the way organisations think and plan their future. Today, conservatism and tentativeness find a natural place in all bottom-up and top-down plans. Industry players need to start thinking about how they can minimise their losses rather than about how they can maximise opportunities. Building awareness of this is of great importance—otherwise organisations can remain trapped in a low-growth orbit. They need to use lessons from the past to catapult into the next level of growth by encouraging people to think big. In doing this, people tend to break traditional barriers and ties to the past.

2. **Recognise key trends and invest in these early:** Coming out of a phase of troubled growth tends to make organisations focus inward, where they spend most of the time fixing problems rather than identifying future trends. They work on problems of the past rather than on opportunities in the future. This is trap food service retailers need to avoid when they re-plan their future, and has a direct implication on their allocation of management time and capital. Industry players need to identify trends that are shaping their customers and ways in which they can satisfy their needs. And most importantly, they should invest in revolutionising the way their restaurants serve customers—be it in the form of innovations in their menus or in their rethinking of their billing processes.

3. **Strengthen your brand franchise:** In defining or refining what your establishment stands for, it is important for you to ensure that your value proposition helps to create a differentiated and strong brand franchise. Most food service retailers have done well so far, not because they offer something distinctive and strong, but because they operate in a region where competition does not exist or is weak. Several of them have suffered as companies using food technology gathered momentum, primarily because they did not invest in areas that would promote a strong franchise for their brands. Their relation with customers was also very transactional. Today, it is important for food service retailers to reassess their allocation of resources to strengthen their value proposition over the long term. This will result in their understanding their customers' needs better. Innovations will follow as a result of this and strengthen their brand franchise.

4. **Create a lasting change in customers' behaviour:** Another aspect that differentiates those who lead from the runner-ups is how their value proposition results in a tectonic shift in consumers' behaviour. Such food service retailers not only study and learn from changing consumer behaviour, but they also lead the change. By constantly innovating on how they deliver their value propositions, they change what, how and when consumers buy. This keeps them ahead of their competitors, and results in growth that is not only fast-paced but also profitable.

5. **Rethink execution:** Most organisations think of improving their execution of their plans along three dimensions—people (capability), processes and systems. However, some of the best in class achieve excellence in their execution by focusing on the following five core principles:

    a. Putting in place simple management principles for enhanced and consistent decision-making

    b. Translating their vision into tangible and controllable performance metrics

    c. Building organisational structures that drive ownership

    d. Creating a culture of continuous improvement

    e. Staying lean

6. **Establish linkages with all relevant industries" –**The growth in food services industry is dependent on other sectors such as alcoholic beverage, and tourism amonf others. During the ban on serving alchoholic beverages within 500 m of a highway, the food services industry was also impacted significantly. Hence, it is important for the Government to adopt holistic policy lens while planning to improve ease of doing business for this sector.



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Notes

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