



INDIAN QUICK SERVICE RESTAURANT INDUSTRY

Expansion spree to spice up the QSR
sector

MARCH 2023



Demand is set to be driven by favourable demographics, rapid urbanisation and increasing purchasing power.

Accordingly, domestic QSR players are aggressively looking at expanding their store network.

ICRA expects capex of ~Rs.5,800 crore (excluding refurbishments) in FY2023-FY2025, almost twice the level seen in the last three years ending FY2022.

The capex is to be funded through internal accruals and healthy cash balances with minimal reliance on external debt.



- The domestic quick service restaurant (QSR) industry* had witnessed a sharp downturn due to Covid-19 disruptions, wherein the dine-in segment of the business was highly impacted following restricted social norms amid the pandemic. The industry's revenue fell by 24% in FY2021 compared to FY2020, largely driven by dip in Average daily sales (ADS) to Rs. 67,479 in FY2021 from Rs. 89,162 in FY2020 but was somewhat protected by the delivery sales.
- However, with the waning effect of the pandemic and the increased coverage of vaccination, the industry witnessed a strong growth momentum with notable recovery seen in ADS level to Rs. 85,789 in FY2022 compared to Rs. 67,479 in FY2021. The ADS has further risen to Rs. 97,696 in 9M FY2023 compared to Rs. 85,355 in 9M FY2022.
- The sharp recovery in ADS and revenues is supported by strong demand drivers like changing food habits, favourable demographics, rapid urbanisation and new store additions. Also, wide adoption of user-friendly delivery applications and tech-enabled delivery networks aided growth.
- With the backdrop of favourable demand dynamics, the domestic QSR industry is looking at aggressive store capex over the medium term. ICRA estimates, that key players are likely to add ~2,300+ stores between FY2023-FY2025 with the magnitude of capex at around ~Rs. 5,800 crore (excluding refurbishment) for this period. This will be twice that of the levels seen during the pre-Covid era. Majority of the capex is expected to be funded through internal accruals and the cash balances on the books of the players.
- The industry revenue is likely to expand by ~30-35% in YoY terms in FY2023, albeit on a truncated base, and then in the range of 20-25% in FY2024 on account of demand uptick and increasing penetration driven by rapid expansion of stores. The operating margin in FY2023 is expected to be under check in the range of 20%-22% compared to 20% in FY2022, given the inflationary cost regime.

*Industry data is aggregate of five major domestic QSR players who cater to the formal sector.



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