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INDIAN QUICK-SERVICE RESTAURANT INDUSTRY

Subdued demand conditions and inflationary cost regime to challenge the QSR sector in the near term

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Highlights

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Given the soft demand conditions and inflationary cost regime, the operating margins are expected to be under pressure in the current fiscal and improve thereon.

The domestic QSR players to continue to expand their store network, at a healthy pace over the next two fiscals.

The credit metrics are likely to be under check in the current fiscal and improve from FY2025.

- The aggregate revenues of domestic quick-service restaurant (QSR) industry witnessed healthy growth of 54% in FY2022 and 33% in FY2023, supported by strong pent-up demand post-Covid as well as wide adoption of user-friendly delivery applications and tech-enabled delivery channels. Consequently, the average daily sales (ADS) improved to ~Rs. 95,000 in FY2023 from ~Rs. 88,000 during FY2022.
- With demand stabilising in the current fiscal, the ADS moderated in H1 FY2024 to ~Rs. 91,000 in comparison to ~Rs. 97,000 in H1 FY2023, also led by the aggressive store expansions undertaken in the past two fiscals, as the new stores take time to mature.
- The sector carried out aggressive store expansions over the past couple of years with about ~1400 stores added compared to only 400 stores added during FY2020-21. The pace of store addition is likely to remain healthy, estimated at ~2,000 stores between FY2024-26. ICRA expects the majority of the capex to be funded through internal accruals and cash reserves by companies.
- Inflationary pressures over the recent year have impacted customer sentiments, affecting mostly the discretionary spends, resulting in softening of demand, impacting key operating metrics. Accordingly, the industry's operating margins dropped to ~18.6% in H1 FY2024 from 20.6% in H1 FY2023. ICRA expects the operating margin to be in the range of 16-18% in FY2024 and thereafter improve to 18-20% in FY2025, as new stores added in the last two fiscals gain optimum sales trajectory.
- The industry revenue growth is expected to moderate to ~15-18% in the current fiscal and improve then on to remain at around ~18-21% in FY2025-26, considering the benefits of rapid expansion of stores. The credit metrics may marginally weaken in FY2024, due to the impact on margins, but will still remain at healthy levels.

Industry data is aggregate of five major domestic QSR players viz.Jubilant Foodworks Limited, Devyani International Limited, Sapphire Foods India Limited, Restaurant Brands Asia Limited and Westlife Foodworld Limited who cater to the formal sector.

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