September 30, 2026

Sapphire Foods India Limited: Ratings upgraded and continue on Watch with Developing Implications

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action	Financial Sector Regulator#
Long-term – Fund-based – Term loan	11.00	102.02	[ICRA]A+; upgraded from [ICRA]A and continues on Watch with Developing Implications	RBI
Long-term – Non-fund based limits	19.00	19.00	[ICRA]A+; upgraded from [ICRA]A and continues on Watch with Developing Implications	RBI
Long-term/Short-term - Fund-based/Non-fund based – Working capital facilities	42.00	42.00	[ICRA]A+; upgraded from [ICRA]A and continues on Watch with Developing Implications/ [ICRA]A1; upgraded from [ICRA]A2+ and continues on Watch with Developing Implications	RBI
Short-term – Fund-based – Interchangeable limits	(35.00)	(35.00)	[ICRA]A1; upgraded from [ICRA]A2+ and continues on Watch with Developing Implications	RBI
Long-term – Non-fund based – Interchangeable limits	(42.00)	(42.00)	[ICRA]A+; upgraded from [ICRA]A and continues on Watch with Developing Implications	RBI
Long-term/Short-term – Unallocated limits	128.00	36.98	[ICRA]A+; upgraded from [ICRA]A and continues on Watch with Developing Implications/ [ICRA]A1; upgraded from [ICRA]A2+ and continues on Watch with Developing Implications	RBI
Total	**200.00**	**200.00**		

**Instrument details are provided in Annexure I*

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Rationale

The ratings upgrade considers the improvement in Sapphire Foods India Limited's (SFIL) scale of operations, backed by better same-store-sales-growth (SSSG) and continued store additions, along with expectations that the enhanced performance will sustain, going forward. As on June 30, 2026, SFIL operated 591 KFC and 346 Pizza Hut (PH) restaurants in India and 137 PH and Taco Bell restaurants in Sri Lanka. Its revenue grew by 8.4% in FY2026 on the back of store additions and SSSG improvement in H2 FY2026. After moderating in FY2025 and H1 FY2026 owing to subdued operating performance, margins rose in H2 FY2026 and Q1 FY2027, supported by better SSSG, targeted promotional initiatives, product launches and favourable macroeconomic conditions. KFC's SSSG improved to 1% in Q3 FY2026 to 4% in Q4 FY2026 and further to 5% in Q1 FY2027 from negative 3% in Q2 FY2026, supporting robust growth in revenues and rise in margins. ICRA expects the company to record a healthy revenue growth in FY2027 and sustain the enhancement in margins witnessed in the last three quarters, aided by continued store additions, transaction growth, value-led customer acquisition and operating leverage. However, sustained losses in PH remain a drag on margins. A gradual reduction in PH India's losses and moderation in cost pressures in Sri Lanka would provide further upside to the consolidated margins.

The ratings remain on Watch with Developing Implications, given the proposed merger of SFIL with Devyani International Limited (DIL), which was approved by the respective Boards on January 1, 2026 and amended on August 26, 2026. The exchange ratio continues to be 177 DIL shares for every 100 SFIL shares. DIL is one of India's largest quick-service restaurant (QSR) operators and the largest franchisee of Yum! Brands in India. The proposed merger with SFIL will create a unified franchise platform for KFC and PH in India, with a combined network of over 3,000 restaurants in India. The companies have received the stock exchange approvals and filed a joint application with the Competition Commission of India. The scheme

remains subject to the requisite regulatory, shareholder, creditor and National Company Law Tribunal approvals. Post merger, the combined entity is expected to become one of the largest QSR operators in India and is likely to benefit from economies of scale and united strategy for growth and expansion upon successful integration. ICRA will continue to monitor developments regarding the aforesaid transaction and will take appropriate rating action as required.

The ratings also factor in the strong business position of the company as a leading franchisee of KFC and PH in India and PH and Taco Bell in Sri Lanka. It benefits from the established brand equity of these restaurant brands, its growing network and experienced professional management. Revenue from operations increased at a compound annual growth rate (CAGR) of around 16% during FY2022-FY2026, supported by store additions, product innovation and growth in the Sri Lankan operations, notwithstanding the moderation in consumer demand over the past few years.

The ratings continue to factor in SFIL's comfortable capital structure and adequate liquidity. Consolidated borrowings, excluding lease liabilities, remained low at Rs. 5.6 crore as on March 31, 2026, while cash and bank balances stood at around Rs. 138 crore. Despite the planned capital expenditure (capex) towards store additions, external debt is expected to stay modest, supported by available liquidity and retained cash flows.

ICRA notes that Yum! Brands completed the sale of PH outside mainland China to LongRange Capital in September 2026 for a consideration of around USD 1.5 billion. While SFIL's existing franchise and development agreements are still valid; however, any changes in franchise terms, development commitments or brand support under the new ownership will remain monitorable. Accordingly, compliance with the franchise and development agreements with Yum! Brands for KFC and LongRange Capital for PH, including adherence to operating standards and calibrated execution of store additions, continues to be a key monitorable. While the annual store-opening targets may be renegotiated based on market conditions and brand performance, shortfalls may result in the loss of related fee waivers and incentives. SFIL also remains exposed to industry risks, including intense competition, changes in discretionary consumer spending, food safety and regulatory requirements and poultry disease outbreaks that could affect the availability and consumption of chicken products.

Key rating drivers and their description

Credit strengths

Established brand presence in local and global markets and geographically diversified footprint in India – The Group (SFIL and subsidiaries) is one of the two largest franchisees of the KFC and PH brands (owned by Yum! And LongRange Capital, respectively) in India and is also a leading player in Sri Lanka. Yum! Brands Inc. has established around 44,000 restaurants in more than 151 countries and territories, with around 98% of outlets owned and operated by franchisees, licensees and affiliates. As on June 30, 2026, SFIL operated 591 KFC stores across western, northern, southern and central India and 346 PH outlets across western, southern and central India. The company also operated 137 PH and Taco Bell outlets in Sri Lanka. It earlier had four outlets (two each of PH and KFC) in the Maldives through its subsidiaries/group; however, it exited Maldives operations in FY2025.

Demonstrated support from promoter towards capital requirements over the years and experienced management team – SFIL has historically benefited from strong promoter support for its capital requirements over the years. The company is promoted by Sapphire Foods Mauritius and QSR Management Trust, with a notable investor base that includes Samara Capital, Creador and other prominent foreign and domestic institutional investors. Some investors, including the promoters, partially exited through the initial public offering (IPO) in November 2021, followed by a series of subsequent open-market sales. The company is managed by experienced professional management, who have proven industry expertise and steered SFIL to its present scale and size.

Financial profile characterised by healthy revenue growth, comfortable capitalisation and coverage indicators – Over the years, the company has witnessed an uptick in sales, with operating income rising to Rs. 3,125.2 crore from Rs. 1721.6 crore in FY2022, representing a CAGR of 16%, driven by healthy store expansions over the years. While margins moderated in FY2026 owing to pressure on SSSG amid subdued demand in H1 FY2026, SSSG and margins improved over the past three quarters, supported by targeted promotional and product initiatives, higher dine-in and takeaway transactions, pricing actions and

better operating leverage. The momentum is expected to sustain over the near term, aided by continued store additions and a gradual recovery in consumer demand. The company's capital structure remained healthy, supported by consistent equity infusions along with its IPO in FY2022. The subsequent profits have strengthened its net worth, with minimal reliance on debt for capex and a comfortable working capital cycle. SFIL operates with a negative working capital cycle, as sales are made on a cash basis and its inventory holding is moderate. ICRA expects that the capital structure will remain strong. Further, debt protection metrics continue to be healthy, with interest cover of 3.9 times and debt service coverage ratio (DSCR) of 1.9 times as of FY2026 and are likely to remain comfortable over the near-to-medium term.

Credit challenges

Return on capital employed (RoCE) continues to be subdued, given sustained store expansion – The consolidated operating margin moderated to 15.2% in FY2026 from 16.5% in FY2025, primarily due to weak SSSG for KFC in H1 FY2026, operating losses in PH India and higher promotional and operating costs. However, the operating performance improved in H2 FY2026 and continued into Q1 FY2027, with the margin increasing to 15.7% from 14.5% in Q1 FY2026, supported by positive SSSG across all three businesses, better gross margins and operating leverage. Sustenance of KFC's operating momentum, along with a gradual reduction in PH India's losses and moderation in cost pressures in Sri Lanka, is expected to support further margin improvement. The consolidated RoCE moderated to 3.2%[1] in FY2026 from 5.3%[1] in FY2025, largely due to moderation in the operating margins and the company's aggressive store expansion. The expansion is expected to continue in the medium term, and any RoCE improvement is likely to be gradual and will depend on SFIL's ability to profitably scale up its new stores while sustaining growth momentum in its existing outlets.

Compliance with development agreement with master franchisor and timely execution of future capex remains critical – SFIL is required to open a predetermined number of KFC and PH stores under its development agreements, with targets periodically revised based on market conditions. In September 2026, Yum! Brands completed the sale of PH outside mainland China to LongRange Capital for around USD 1.5 billion. SFIL's existing agreements with respect to PH remain valid. Adherence to the developmental agreement for both PH and KFC will be an ongoing monitorable parameter and will be a key rating sensitivity.

Increasing competition from organised and unorganised markets; exposed to inherent industry risk of disease outbreak – SFIL encounters intense competition from unorganised as well as organised QSR players like Domino's, McDonald's and Burger King. The company's ability to sustain its growth and improve its profit margin amid intense competition will remain critical. As SFIL generates most of its revenues from KFC, its sales are exposed to uncontrollable factors like outbreak of diseases such as bird flu, which may impact both supply and chicken consumption and related products.

Environmental and social risks

Environmental considerations – The QSR industry is exposed to environmental risk with respect to appropriate usage and disposal of plastics in packaging, waste management, etc. Non-compliance with continuously evolving laws and regulations related to environmental protection could result in disruptions in business operations, increased costs, reputational damage and potential loss of customer goodwill.

Social considerations – Being a manpower-intensive segment, shortage of skilled staff and high attrition can impact the operations and services of the company, which can damage its reputation and customer base. The industry is also exposed to significant risk related to health and safety of customers. SFIL conducts in-house training on food and safety and career enhancement for its employees. It also motivates and retains employees with recognition and performance-based rewards. According to the company's disclosures, fair employment terms, a value-based culture, employee training and employee engagement initiatives for talent development and growth, customer satisfaction surveys, a grievance redressal system and corporate social responsibility (CSR) initiatives are among the steps that company takes to mitigate its social risks.

[1] *As per ICRA calculations*

Liquidity position: Adequate

SFIL's liquidity position is Adequate. The company had cash and bank balances of Rs. 138 crore as on March 31, 2026.The same is expected to be used to fund store expansion, going forward. SFIL plans to incur sizeable capex over the medium term, which is likely to be funded through a mix of available cash balances, anticipated retained cash flows and debt, if required. The cash flows are expected to remain healthy. It has limited repayment obligations of Rs. 3 crore in FY2027, apart from lease liabilities.

Rating sensitivities

Positive factors – ICRA could upgrade SFIL's ratings if sustained scale expansion, supported by store additions and healthy same-store sales growth, leads to a meaningful improvement in operating margins through better operating leverage and cost efficiencies.

Negative factors – A sustained moderation in revenue growth due to heightened competition or subdued discretionary spending, resulting in weaker profitability and return indicators, could cause a ratings downgrade. Unanticipated debt-funded capex that materially weakens the credit metrics or liquidity profile could also trigger a downgrade.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of SFIL. The subsidiaries of SFIL as on March 31, 2026 are enlisted in Annexure-2.

About the company

Incorporated in November 2009 as Samarjit Advisors Private Limited, the entity was renamed as Sapphire Foods India Private Limited in 2015. SFIL operates KFC and PH restaurants under franchise arrangements with Yum! Brands and LongRange Capital, respectively. It was promoted by QSR Management Trust (QMT), which is owned by Samara Capital. In FY2016, QMT's stake was diluted to 7.24%, pursuant to fresh investment by Sapphire Foods Mauritius Limited, Goldman Sachs and CX Partners. The Edelweiss Group subscribed to compulsorily convertible preference shares (CCPS) and joined as an investor in FY2019. The company's IPO was consummated in November 2021, whereby promoters and certain set of investors had a partial exit through an offer for sale. It is promoted by Sapphire Foods Mauritius and QSR Management Trust. The current investor profile includes Samara Capital, Creador and other high-marquee foreign and domestic institutional investors.

Key financial indicators (audited)

SFIL (consolidated)	FY2025	FY2026	Q1FY2027*
Operating income (OI)	2881.9	3125.2	891.0
PAT	16.7	-32.0	14.0
OPBDIT/OI	16.5%	15.2%	15.7%
PAT/OI	0.6%	-1.0%	1.6%
Total outside liabilities/Tangible net worth (times)	1.1	1.3	NA
Total debt/OPBDIT (times)	2.7	3.0	NA
Interest coverage (times)	4.3	3.9	4.4

*Source: Company, ICRA Research; * Result; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; NA – Not applicable*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2027)				Chronology of rating history for the past 3 years					
				FY2026		FY2025		FY2024	
Instrument	Type	Amount rated (Rs. crore)	Sep 30, 2026	Date	Rating	Date	Rating	Date	Rating
Fund-based – Term loan	Long-term	102.02	[ICRA]A+; Rating watch with developing implications	Apr 11, 2025	[ICRA]A (Stable)	Oct 07, 2024	[ICRA]A (Stable)	Aug 11, 2023	[ICRA]A (Stable)
				Oct 01, 2025	[ICRA]A (Stable)				
				Jan 12, 2026	[ICRA]A; Rating watch with developing implications				
Non-fund based limits	Long-term	19.00	[ICRA]A+; Rating watch with developing implications	Apr 11, 2025	[ICRA]A (Stable)	Oct 07, 2024	[ICRA]A (Stable)	Aug 11, 2023	[ICRA]A (Stable)
				Oct 01, 2025	[ICRA]A (Stable)				
				Jan 12, 2026	[ICRA]A; Rating watch with developing implications				
Fund-based/Non-fund based – Working capital facilities	Long-term/ Short-term	42.00	[ICRA]A+; Rating watch with developing implications / [ICRA]A1; Rating watch with developing implications	Apr 11, 2025	[ICRA]A (Stable)/ [ICRA]A2+				
				Oct 01, 2025	[ICRA]A (Stable)/ [ICRA]A2+				
				Jan 12, 2026	[ICRA]A; Rating watch with developing implications / [ICRA]A2+; Rating watch with developing implications				
Fund-based – Interchangeable limits	Short-term	(35.00)	[ICRA]A1; Rating watch with	Apr 11, 2025	[ICRA]A2+				

Current (FY2027)				Chronology of rating history for the past 3 years					
				FY2026		FY2025		FY2024	
Instrument	Type	Amount rated (Rs. crore)	Sep 30, 2026	Date	Rating	Date	Rating	Date	Rating
			developing implications						
				Oct 01, 2025	[ICRA]A2+				
				Jan 12, 2026	[ICRA]A2+; Rating watch with developing implications				
Non-fund based – Interchangeable limits	Long-term	(42.00)	[ICRA]A+; Rating watch with developing implications	Apr 11, 2025	[ICRA]A (Stable)				
				Oct 01, 2025	[ICRA]A (Stable)				
				Jan 12, 2026	[ICRA]A; Rating watch with developing implications				
Unallocated limits	Long-term/ Short-term	36.98	[ICRA]A+; Rating watch with developing implications / [ICRA]A1; Rating watch with developing implications	Apr 11, 2025	[ICRA]A (Stable)/ [ICRA]A2+	Oct 07, 2024	[ICRA]A (Stable)/ [ICRA]A2+	Aug 11, 2023	[ICRA]A (Stable)/ [ICRA]A2+
				Oct 01, 2025	[ICRA]A (Stable)/ [ICRA]A2+				
				Jan 12, 2026	[ICRA]A; Rating watch with developing implications / [ICRA]A2+; Rating watch with developing implications				

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Non-fund based limits	Simple
Long-term/Short-term - Fund-based/Non-fund based – Working capital facilities	Simple
Short-term – Fund-based – Interchangeable limits	Simple
Long-term – Non-fund based – Interchangeable limits	Simple
Long-term/Short-term – Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook	Financial Sector Regulator#
NA	**Fund-based – Term loan**	NA	NA	FY2033	102.02	[ICRA]A+; Rating Watch with Developing Implications	RBI
NA	**Non-fund based limits**	NA	NA	NA	19.00	[ICRA]A+; Rating Watch with Developing Implications	RBI
NA	**Fund-based /Non-fund based – Working capital facilities**	NA	NA	NA	42.00	[ICRA]A+; Rating Watch with Developing Implications / [ICRA]A1; Rating Watch with Developing Implications	RBI
NA	**Fund-based – Interchangeable limits**	NA	NA	NA	(35.00)	[ICRA]A1; Rating Watch with Developing Implications	RBI
NA	**Non-fund based – Interchangeable limits**	NA	NA	NA	(42.00)	[ICRA]A+; Rating Watch with Developing Implications	RBI
NA	**Unallocated limits**	NA	NA	NA	36.98	[ICRA]A+; Rating Watch with Developing Implications / [ICRA]A1; Rating Watch with Developing Implications	RBI

Source: Company

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Annexure II: List of entities considered for consolidated analysis

Company name	SFIL ownership	Consolidation approach
Gamma Pizzakraft (Lanka) Private Limited	100%	Full consolidation
French Restaurants Private Limited	100%	Full consolidation
Gamma Island Food Private Limited	74.74%	Full consolidation

Source: Company

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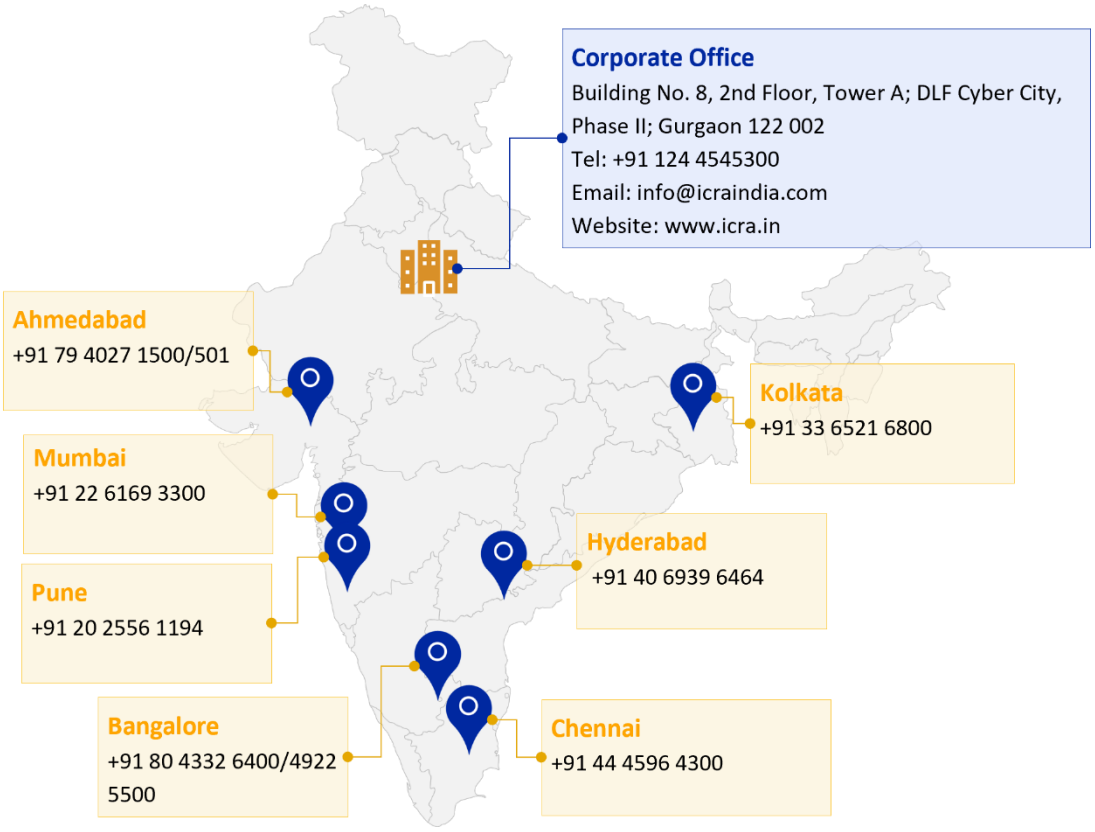
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