

Food Services Industry

The industry comprises of businesses, institutions, and companies responsible for any meal prepared outside the home - restaurants (Fine dine, QSRs, Pubs and Lounges, etc.), school and hospital cafeterias, catering operations, and many other formats

Trends Shaping the Industry

Presence of Ethnic cuisine in organized and hygienic set-ups to drive consumer adoption

Food tech (cloud kitchens and food delivery apps) organizing the unorganized sector, driving increased consumers focus, food delivery and efficiency



Technology (CRM softwares) will be leveraged by restaurants to increase consumer engagement

Health & wellness and Innovative food packaging to drive consumer preferences

25%

Share of Online Food Delivery

7.3

Million employees

2%

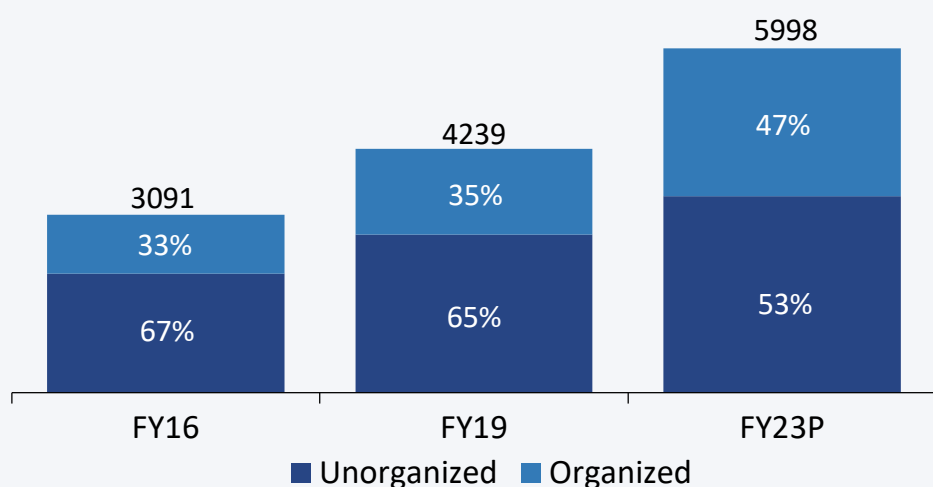
Contribution to GDP

\$2.4 bn

Investment in Restaurant industry since 2013

Source : NRAI

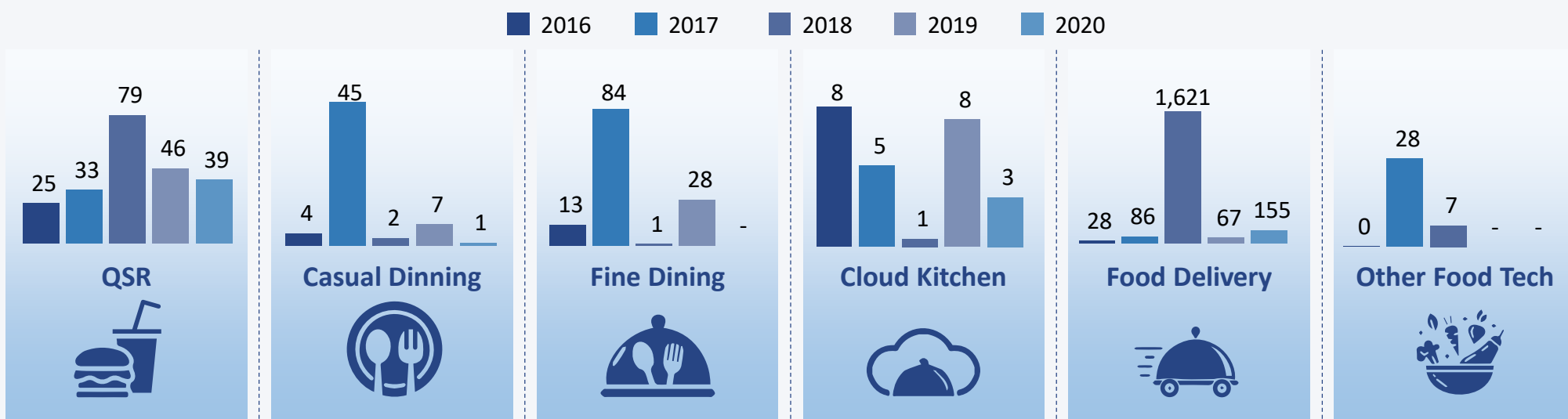
Market Size (INR Bn)



Market Segmentation



Deals Overview (USD Mn)

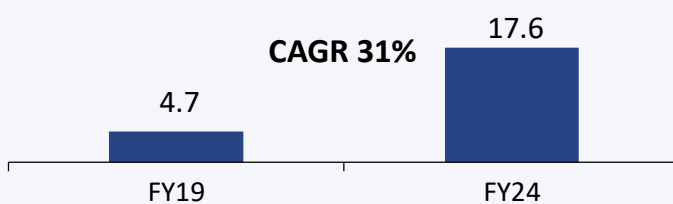


Source : VCCEdge

Potential Areas of Growth

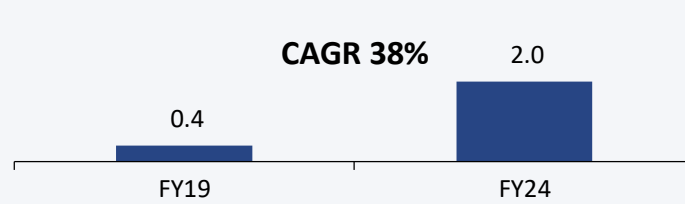
Due to the recent pandemic outburst and social distancing becoming the new normal, online food delivery and cloud kitchens will likely boom.

Online Food Delivery Market (USD Bn)



Source : MarketsandResearch

Cloud Kitchen (USD Bn)



Source : RedSeers

Drivers

Rapid rise of smartphone users and cheaper internet data

Growing number of women joining workplaces

Lower costs – real estate, interiors, and manpower

Multiple brands from same kitchen – giving more food options





Delivery platforms offering incentives such as discounts and membership



Growing number of busy white-collar workers, who look for convenient and quick meals


Significant focus on food, hence driving taste and quality

Increasing demand from Tier 2 and 3 cities

Impact of COVID'19



 Restaurants  Cloud Kitchen and Online Delivery  High Impact  Medium Impact


 **Revenue**
 Investors are least likely to invest in physical restaurants, unless they pivot to online food delivery; cloud kitchen and online food delivery will be the focus as lower investment can ensure significant business growth



 **Operating Margins**
 High operating costs for restaurants including Real estate, interiors, and manpower, whereas cloud kitchens operate at significantly lower costs






 **Labour Exodus**
 Labours shortage in terms of chefs, waiters, and delivery staff are likely to impact the business




 **Supply Chain**
 Right from raw material sourcing to delivery of food to consumer, the entire supply chain is likely to take a stornig hit



 **Road to Recovery**
 Restaurants are expected to operate at less than 40% capacity over the coming year, whereas online food delivery and cloud kitchen will recover to normalcy much sooner



 **Investors' Interest**
 Investors are least likely to invest in physical restaurants, unless they pivot to online food delivery; cloud kitchen and online food delivery will be the focus as lower investment can ensure significant business growth



Drivers

One of the highest millenial population and high percentage of young and working population – 50% below the age of 35

Rising disposable incomes – INR 1.3 lacs per capita

Rising Urbanisation – 37% of the total residents is expected to be urban by 2025

Availability of organized retail space to attract International brands

Challenges

Availability of quality manpower and high attrition rate

High administration costs and removal of Input Tax Credit

Inadequate supply chain, infrastructure, and over-licensing

Our Recommendation

With the Covid-19 crisis, restaurants have remained largely shut for over 100 days, while the cloud kitchens have witnessed 50-75% hit on their sales. However, what's interesting to note is that the average order value has witnessed a significant jump because a large number of customers have started ordering for families.

With the larger dine-in restaurants, including the likes of Marriott and Taj, having started home delivery, the cloud kitchen brands are expected to face tough competition, due to the formers' brand value and loyal customer base. However, with the cloud kitchen having operated on a leaner business model with limited staff and other cost overheads (real estate, asset utilization), they are likely to keep their prices affordable and attract customers' and investors' attention alike.

While there is no certainty around the restaurant industry's recovery, we expect cloud-kitchens are expected to return to Pre-COVID numbers over the next 2-3 quarters. We believe the success mantra will possibly be to build customer trust by maintaining high levels of hygiene and becoming a Direct-to-Consumer brand, and operating at frugal economics through asset light business model (FOCO model, etc), increasing revenue per sq ft. of the kitchen space and reducing wastage.