25 July 2026

Sapphire Foods

All-round performance, Pizza Hut growth recovers; maintain BUY

Rating: **BUY**
Target Price (12-mth): Rs.260
Share Price: Rs.179

Sapphire Foods reported an all-round performance in Q1FY27, with consolidated revenue growing 15% y/y, aided by strong SSSG across brands. KFC India posted 5% SSSG, while Sri Lanka delivered a robust 9% SSSG. Pizza Hut reported 1% SSSG and company added 22 net stores in Q1FY27. The management attributed the growth mainly to internal execution and value-led initiatives, particularly the Chicken Krisper Meal, while continuing to prioritise transaction growth. The company implemented modest price hikes (~2%) across KFC and Pizza Hut, focused on relatively inelastic menu items. The management remains cautiously optimistic on KFC's momentum, While Pizza Hut is likely to benefit from franchise alignment (post-merger with Devyani), continued brand investments and new global parent (providing refreshed strategy). Thus, we remain optimistic of sustained growth momentum and have slightly increased our revenue/EBITDA estimates for FY27/28e. We maintain BUY rating on the stock with a lower TP of Rs260 (from Rs308 earlier), valuing it at 12x FY28e EV/E (vs. 15x FY28E earlier).

Key Quarterly Highlights: Standalone revenue grew 15% y/y to Rs7.5bn. KFC revenue grew 17% y/y to Rs6.2bn, while SSSG stood at 5% (vs. 0% Q1FY26) with net addition of 16 stores. PH revenue grew 3% y/y to Rs1.4bn, while SSSG stood at 1% (vs. -8% Q1FY26) with net addition of 5 stores. Sri Lanka (PH) revenue grew 16% y/y to Rs1.3bn, led by strong transaction growth. We expect its revenue to clock ~14% CAGR over FY26-28e, led by improved KFC/PH performance and sustained strong growth in Sri Lankan business.

Operating Performance: EBITDA margin grew by 115bps to 15.7%, aided by 140bps expansion in gross margin and 20bps lower employee cost, partially offset by 45bps rise in other expenses. With a sustained >3% SSSG growth in KFC, Sri Lankan operation is expected to aid the company's EBITDA margin. This along with price hike and cost saving initiatives are expected to drive 150bps expansion in EBITDA margin over FY26-FY28e to 16.6%.

Concall Highlights: (a) Contribution of dine-in and takeaway improved to 59% from 57% last year for KFC, reflecting the success of channel-specific value campaigns; (b) long-term aspiration remains to double KFC store count over the next five years and the management reiterated guidance of 60-80 KFC store addition annually; (c) any potential sale of Pizza Hut global business is not expected to impact Sapphire's franchise agreement; (d) sustaining positive SSSG remains the management's immediate priority, with margin expansion expected to follow through operating leverage rather than aggressive pricing.

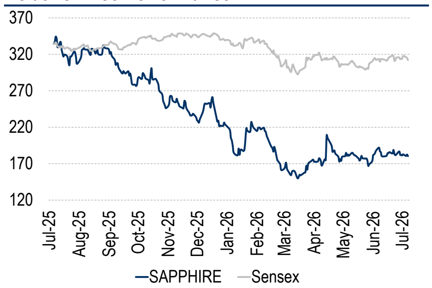
Outlook and Valuation: At CMP, the stock trades at 9.9/8.3x FY27/28e EV/EBITDA. We maintain BUY rating on the stock with a downwardly revised 12-month TP of Rs260 (from Rs308 earlier), valuing it at 12x FY28e EV/E (vs. 15x FY28e EV/E previously). **Key Risks:** (a) Weak SSSG due to slowdown in discretionary spending; (b) any adverse change/termination of franchisee agreement with Yum! Brands; (c) higher competitive intensity; and (d) rising aggregator fees.

Key Data	SAPPHIRE IN
52-week high / low	Rs357 / 140
Sensex / Nifty	76,060 / 23,767
Market cap	Rs58bn
Shares outstanding	321m

Shareholding Pattern (%)	Jun'26	Mar'26	Dec'25
Promoters	26.1	26.1	26.1
- of which, Pledged	*0*	*0*	*0*
Free Float	73.9	73.9	73.9
- Foreign Institutions	25.2	29.0	29.2
- Domestic Institutions	41.9	37.5	37.5
- Public	6.8	7.4	7.2

Estimates Revision (%)	FY27e	FY28e
Sales	2.5	4.4
EBITDA	2.0	2.8
PAT	56.3	32.1

Relative Price Performance



Source: Bloomberg

Ajay Thakur
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income Statement (Rs m)

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
Net revenue	25,943	28,819	31,253	35,715	40,735
Growth (%)	14.5	11.1	8.4	14.3	14.1
Direct cost	8,109	9,068	9,951	11,222	12,708
Gross profit	17,834	19,750	21,302	24,493	28,027
Gross margin (%)	68.7	68.5	68.2	68.6	68.8
Other expenses	13,221	14,983	16,566	18,811	21,254
EBITDA	**4,613**	**4,768**	**4,736**	**5,681**	**6,773**
EBITDA margin (%)	17.8	16.5	15.2	15.9	16.6
- Depreciation	3,239	3,639	3,921	4,201	4,513
Other income	334	372	280	300	340
Interest expenses	1,009	1,116	1,228	1,362	1,451
PBT	699	384	-133	418	1,148
Effective tax rates (%)	26	17	40	23	25
+ Associates / (Minorities)	-9	-25	0	-	-
Net Income	520	320	-80	322	859
WANS	321	321	321	321	321
FDEPS (Rs)	2	1	-0.2	1	3

Fig 2 – Balance Sheet (Rs m)

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
Share capital	637	642	643	643	643
Net worth	13,391	13,981	13,906	14,228	15,087
Debt	276	198	56	56	56
Minority interest	7	-19	-21	-21	-21
TL / (Assets)	-1,094	-1,098	-1,259	-1,259	-1,259
Capital employed	**12,580**	**13,062**	**12,682**	**13,004**	**13,863**
Net tangible assets	19,701	21,307	23,615	25,487	27,813
Net intangible assets	455	455	455	455	455
Goodwill	1,622	1,622	1,622	1,622	1,622
CWIP (tang. & intang.)	681	567	603	500	500
Investments (strategic)	-	-	-	-	-
Investments (financial)	-	1,437	31	31	31
Current assets (excl. cash)	3,139	3,126	4,280	3,914	4,213
Cash	1,676	783	681	1,045	1,131
Current liabilities	14,692	16,233	18,604	20,049	21,902
Working capital	-11,553	-13,108	-14,325	-16,135	-17,688
Capital deployed	**12,580**	**13,062**	**12,682**	**13,004**	**13,863**

Fig 3 – Cash-flow Statement (Rs m)

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
PBT	699	231	-373	418	1,148
+ Non-cash items	-4,126	-4,704	-5,282	-5,263	-5,625
Oper. prof. before WC	4,825	4,936	4,909	5,681	6,773
- Incr./ (decr.) in WC	-317	187	229	1,810	1,554
Others incl. taxes	20	42	67	96	289
Operating cash-flow	4,488	5,080	5,070	7,395	8,037
- Capex (tang. + intang.)	-3,850	-2,631	-3,183	-5,970	-6,839
Free cash-flow	638	2,449	1,887	1,425	1,198
Acquisitions					
- Div. (incl. buyback & taxes)	-	-	-	-	-
+ Equity raised	83	227	-	-	-
+ Debt raised	-209	-79	-102	-	-
- Fin investments	-1,829	833	-803	-	-
- Misc. (CFI + CFF)	1,847	2,157	2,450	1,062	1,111
Net cash-flow	493	-394	139	364	87

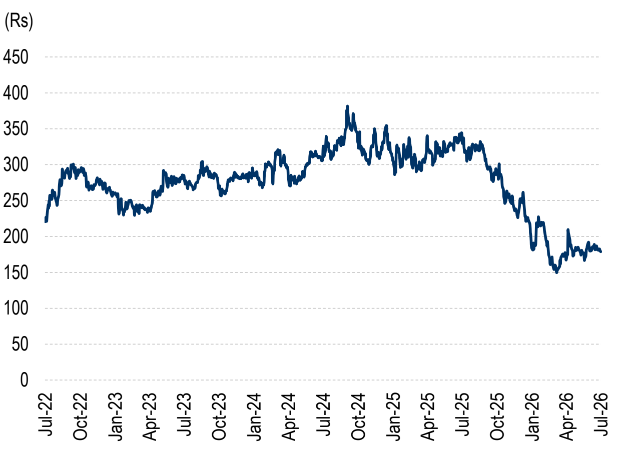
Source: Company, Anand Rathi Research

Fig 4 – Ratio Analysis

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
P/E (x)	110.6	179.7	-719.3	178.6	67.0
EV / EBITDA (x)	12.2	11.6	12.0	9.9	8.3
EV / Sales (x)	2.2	1.9	1.8	1.6	1.4
P/B (x)	4.3	4.1	4.1	4.0	3.8
RoE (%)	3.9	2.3	-0.6	2.3	5.7
RoCE (%) - after tax	10.4	9.7	5.11	10.7	14.5
RoIC (%) - after tax	12.8	11.5	5.8	11.5	15.8
DPS (Rs)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Dividend payout (%) - incl. DDT	-	-	-	-	-
Net debt / equity (x)	-0.1	-0.0	-0.0	-0.1	-0.1
Receivables (days)	4.8	4.6	4.1	4.3	4.0
Inventory (days)	13.6	12.1	13.1	12.0	11.8
Payables (days)	32.5	30.7	33.1	34.0	33.7
CFO : PAT (%)	863.7	1,587.6	-6,341.9	2,296.7	935.9

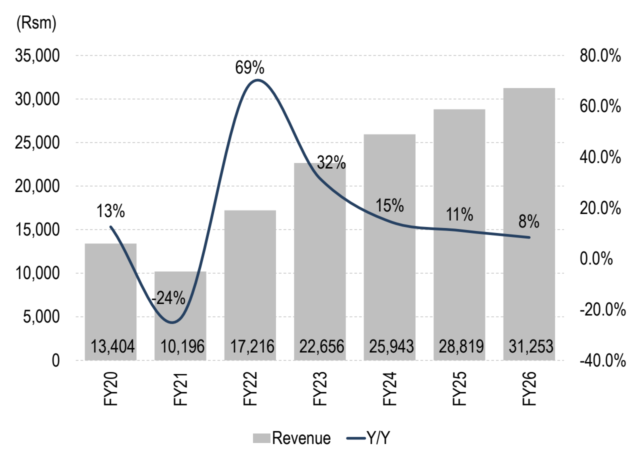
Source: Company, Anand Rathi Research

Fig 5 – Price Movement



Source: Bloomberg

Fig 6 – Revenue Trend



Source: Company

Earnings Concall – Key Highlights

Business Performance

- Revenue grew by 15% y/y to Rs8.88bn, the highest quarterly revenue growth in the last 11 quarters.
- Despite a largely unchanged demand environment, positive SSSG across KFC India, Pizza Hut India and Sri Lanka drove quarterly performance, mainly led by company-specific initiatives, while consumer demand remained broadly stable.
- The restaurant network expanded by 22 stores during the quarter, comprising of 16 KFC outlets, 5 Pizza Hut India outlets and 1 Pizza Hut Sri Lanka outlet, taking the total store count to 1,074.

Brand-wise performance

- **KFC**
  - SSSG grew by 5%, while overall revenue rose 17% y/y, aided by two-pronged consumer recruitment strategy: (a) aided by advertising. Rs99 Chicken Krisper Meal continued to attract first-time consumers and expand KFC's customer base; (b) disruptive value campaigns (BOGO offer on Hot & Crispy buckets) in mature chicken markets drove incremental dine-in and takeaway traffic through localized marketing.
  - Dine-in and takeaway channels continued to outperform, with channel mix improving from 57% to 59%, aided by value campaign.
  - Innovation remained a key growth driver with the launch of KFC Shawarma and Double Chicken Dynamite, while self-order kiosks have now been rolled out across ~75% of stores.
  - The management highlighted that KFC has now delivered three consecutive quarters of improving performance, indicating sustained recovery momentum.
  - Gross margin expanded by 160bps y/y, driven by lower discounting and ~2% price hike in Q1FY27. Restaurant EBITDA margin improved 120bps y/y to 16.9%, aided by improved operating leverage, higher dine-in/takeaway mix and gross margin expansion.
  - Margin improvement was achieved despite elevated LPG and energy cost.
- **Pizza Hut**
  - SSSG turned positive at 1%, ending five quarters of negative comparable sales, while 3% revenue y/y growth, aided by stable performance across dine-in and delivery channels and innovation-led launches including Crafted Flats, Baked Chicken Wings and Masala beverage range.
  - Tamil Nadu continued to outperform the rest of India, driven by strong dine-in focused omnichannel execution, superior customer experience, product innovation, and higher advertising investments.
  - The management reiterated that Tamil Nadu continues to serve as the blueprint for Pizza Hut's long-term turnaround.
  - Store expansion remains measured until a unified brand strategy is finalised following regulatory approvals.
  - Gross margin grew by 80bps y/y, aided by lower discounting and ~2% price hike in phases. Restaurant EBITDA margin remained negative at 3.6% (down 110bps y/y due to higher energy cost.

- **Sri Lanka**
  - Delivered another quarter of strong demand with 9% SSSG and 16% revenue growth.
  - Dine-in and takeaway mix remained stable at 60%. Business continued to demonstrate resilience despite macroeconomic and geopolitical headwinds.
  - The management remains confident about long-term growth despite temporary profitability pressures.
  - Gross margin expanded by 220bps y/y, while restaurant EBITDA margin stood at 12%, impacted by Sri Lankan rupee depreciation, wage inflation and higher fuel and utility cost arising from geopolitical developments. The management expects these pressures to remain temporary and believes profitability will recover over the period.

Pricing & Overall Margin trend

- Price hikes remained modest (~2% each for KFC and Pizza Hut, with the latter implemented in two phases) and were selectively taken across menu items with relatively inelastic demand.
- The management indicated that recent price increases have not adversely impacted customer demand or SSSG.
- Customer bills (APC) remained broadly stable, as consumers adjusted basket composition. LPG and energy inflation continued to remain the primary margin headwind across businesses.
- Restaurant operating leverage typically begins to improve at ~3-5% SSSG, which is sufficient to absorb annual wage inflation. Additional margin expansion is supported by productivity improvements, lower discounting and efficiency across other operating cost lines.
- The management reiterated its pricing philosophy of passing through only 50-60% of inflation, with the balance absorbed through supply-chain efficiency and productivity improvement.

Outlook & other highlights

- The management believes the broader demand environment has not materially improved, with current growth primarily driven by internal execution and value initiatives.
- Monthly demand trends remained mixed, with healthy demand in April and May, a softer June, and July benefiting from favourable festive calendar timing.
- The management remains focused on sustaining transaction growth rather than maximising near-term margin.
- Long-term ambition remains to double KFC store count over the next five years, while the management continues to view India's QSR opportunity as a multi-decade growth story.
- The management reiterated guidance of 60-80 KFC store addition annually. Pizza Hut expansion will remain conservative until brand recovery strengthens.
- Normalisation in Sri Lanka profitability is expected to take at least a couple of quarters, although the management remains confident about the business's long-term fundamentals.

Result Highlights

Fig 7 – Quarterly Results (Consolidated)

(Rs m)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27
Net sales	**6,544**	**6,426**	**6,656**	**6,317**	**7,183**	**6,957**	**7,565**	**7,113**	**7,768**	**7,424**	**8,138**	**7,922**	**8,910**
y/y *(%)*	19.8	14.2	11.6	12.7	9.8	8.3	13.7	12.6	8.1	6.7	7.6	11.4	14.7
Gross Profit	4,483	4,417	4,583	4,351	4,927	4,786	5,189	4,848	5,235	5,031	5,589	5,448	6,129
Gross margins (%)	68.5	68.7	68.9	68.9	68.6	68.8	68.6	68.2	67.4	67.8	68.7	68.8	68.8
Staff cost	850	875	874	857	949	954	984	977	1,023	1,058	1,090	1,109	1,153
Other expenses	2,418	2,391	2,492	2,464	2,736	2,712	2,807	2,808	3,083	2,952	3,156	3,095	3,578
EBITDA	**1,214**	**1,151**	**1,217**	**1,029**	**1,242**	**1,120**	**1,398**	**1,062**	**1,129**	**1,021**	**1,342**	**1,245**	**1,398**
y/y *(%)*	10.0	11.6	4.3	4.9	2.3	-2.7	14.9	3.2	-9.1	-8.9	-4.0	17.2	23.9
EBITDA margin *(%)*	18.6	17.9	18.3	16.3	17.3	16.1	18.5	14.9	14.5	13.8	16.5	15.7	15.7
PBT	336	214	140	8	118	53	168	45	(18)	(166)	78	(27)	162
PAT	**249**	**153**	**101**	**24**	**85**	**(30)**	**120**	**18**	**(18)**	**(128)**	**(48)**	**(126)**	**140**
Staff cost (% of sales)	13.0	13.6	13.1	13.6	13.2	13.7	13.0	13.7	13.2	14.2	13.4	14.0	12.9
Other expenses (% of sales)	37.0	37.2	37.4	39.0	38.1	39.0	37.1	39.5	39.7	39.8	38.8	39.1	40.2

Source: Company

Fig 8 – Segment Performance

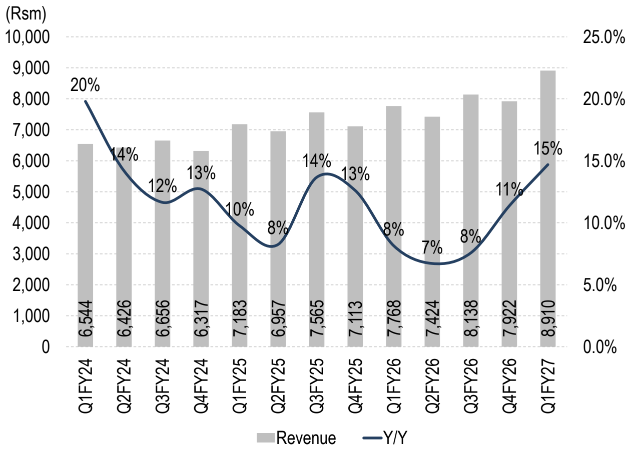
KFC	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q4FY26
Revenue (m)	4286	4165	4421	4285	4770	4527	4948	4793	5275	4856	5509	5495	6183
y/y *(%)*	21	19	16	16	11	9	12	12	11	7	11	15	17
Dine in *(%)*	64	62	62	61	60	58	59	57	57	55	56	57	59
Delivery *(%)*	38	38	39	40	42	41	43	43	45	54	43	41	0
SSSG *(%)*	0	0	-2	-3	-6	-8	-3	-1	0	-3	1	4	5
No of stores	358	381	406	429	442	461	496	502	510	529	556	575	591
ADS'000	138	125	125	114	122	111	115	108	116	103	112	109	118
Brand margin *(%)*	20.8	19.2	20.1	18.7	18.8	16.5	18.2	15.7	15.7	13.8	18.8	16.8	16.9

Pizza Hut	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27
Revenue(m)	1362	1330	1305	1188	1397	1376	1430	1248	1320	1296	1275	1174	1360
y/y *(%)*	12	-6	-4	-3	3	3	10	5	-6	-6	-11	-6	3
Dine in *(%)*	50	51	51	50	50	48	49	48	50	50	53	49	50
Delivery *(%)*	50	49	49	50	50	52	51	52	50	50	47	51	50
SSSG *(%)*	-9	-20	-19	-15	-7	-3	0	1	-8	-8	-12	-7	1
No of stores	302	311	319	319	320	323	339	334	336	338	339	341	346
ADS'000	52	48	45	41	48	47	48	42	44	42	41	39	44
Brand margin *(%)*	9.0	7.6	4.6	-2.7	4.6	4.1	4.7	-4.6	-2.5	-1.8	-3.1	-6.0	-3.6

International (Sri Lanka)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27
Revenue(m)	825	864	892	816	978	1024	1159	1066	1164	1264	1342	1237	1349
y/y *(%)*	27	29	22	22	19	19	30	31	19	23	16	16	16
Dine in *(%)*	64	63	63	62	62	63	62	61	62	61	61	62	60
Delivery *(%)*	36	37	37	38	38	37	38	39	38	39	39	38	40
SSSG *(%)*	0	1	1	4	11	9	14	16	12	14	11	11	9
No of stores	114	118	121	120	120	121	126	127	128	130	133	136	137
ADS'000	81	81	81	75	89	93	103	95	103	109	114	104	112
Brand margin *(%)*	13.0	15.3	14.2	12.3	13.2	15.5	17.8	14.8	12.7	15.4	16.7	14.6	12.0

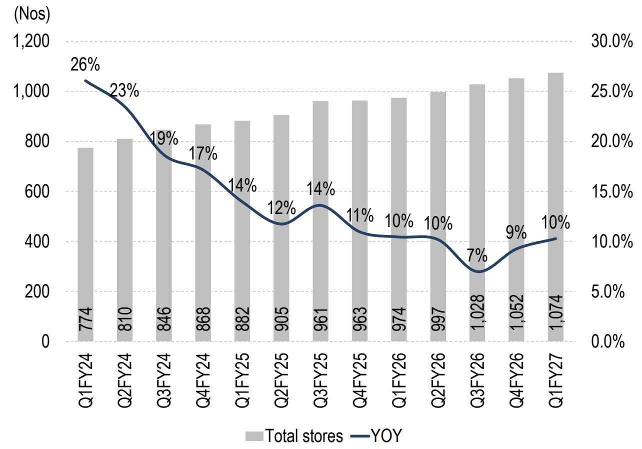
Source: Company

Fig 9 – Revenue Growth Trend



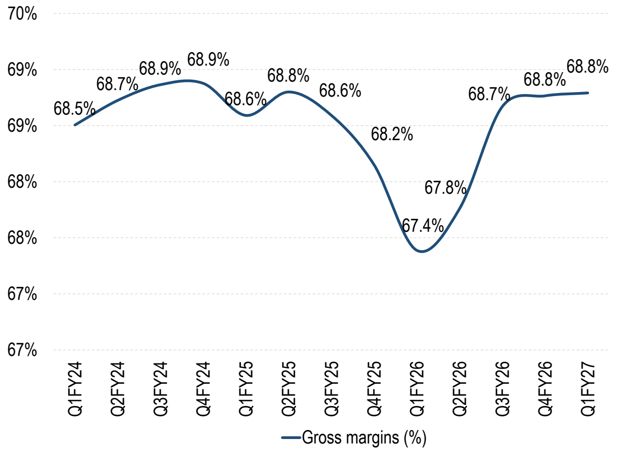
Source: Company, Anand Rathi Research

Fig 10 – Store Growth Trend



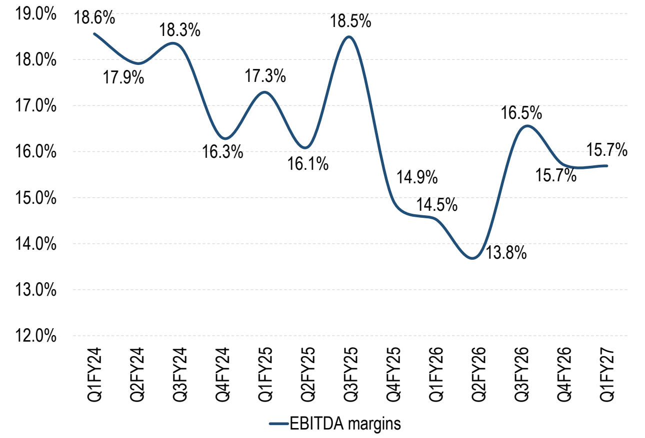
Source: Company, Anand Rathi Research

Fig 11 – Gross Margin Trend



Source: Company, Anand Rathi Research

Fig 12 – EBITDA Margin Trend



Source: Company, Anand Rathi Research

Outlook and Valuations

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The management remains cautiously optimistic on KFC's momentum, While Pizza Hut is expected to benefit from franchise alignment (post-merger with Devyani), continued brand investments and new global parent (providing refreshed strategy). Thus, we remain optimistic of sustained growth momentum and have slightly increased our revenue/EBITDA estimates for FY27/28e.

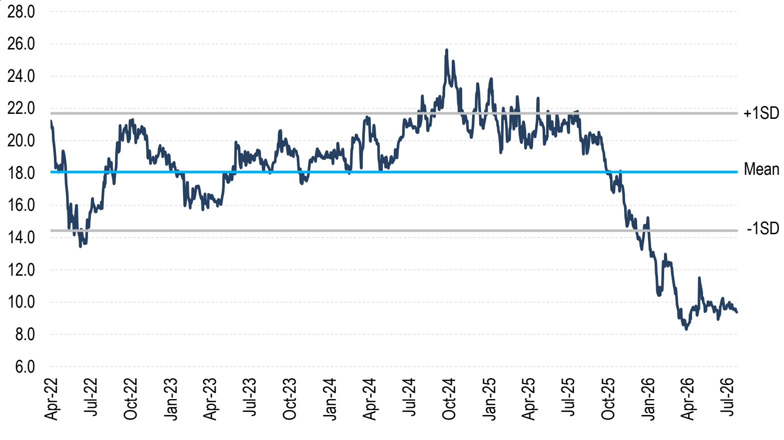
At CMP, the stock trades at 9.9/8.3x FY27/28e EV/EBITDA. We maintain BUY rating on the stock with a downwardly revised 12-month TP of Rs260 (from Rs308 earlier), valuing it at 12x FY28e EV/E (vs. 15x FY28e EV/E previously).

Fig 13 – Change in Estimates

(Rs m)	Old Estimates		Revised Estimate		Change (%)	
	FY27e	FY28e	FY27e	FY28e	FY27e	FY28e
Sales	34,832	39,024	35,715	40,735	2.5	4.4
EBITDA	5,568	6,589	5,681	6,773	2.0	2.8
PAT	206	650	322	859	56.3	32.1

Source: Anand Rathi Research

Fig 14 – 1-Year Fwd. EV/E



Source: BSE, Bloomberg, Anand Rathi Research

Key Risks

- Weak SSSG due to slowdown in discretionary spending.
- Any change/termination of franchisee agreement with Yum! Brands.
- Higher competitive intensity.
- Rising aggregator fees.

Appendix

Analyst Certification

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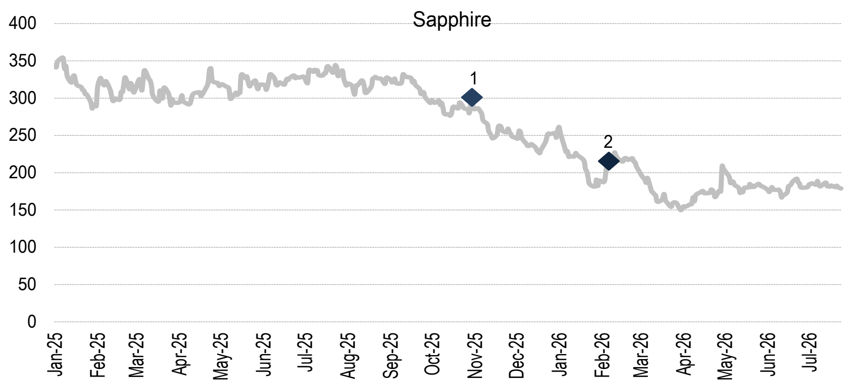
Important Disclosures on subject companies

Rating and Target Price History (as of 25 July 2026)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	30-Oct-25	Buy	370	280
2	08-Feb-26	Buy	308	215

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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